

Looking for more information?

McLagan's ODD IQ services provide objective, empirical reporting for managers on non-investment business risk in a space that historically relied exclusively on qualitative (and subjective) risk assessments that were opaque to asset managers.

To learn more about this useful product, please [contact our team](#).

McLagan ODD IQ Services: Know Where Your Firm Stands

Introduction

In today's competitive environment, many asset management firms face fundamental challenges, including attracting and maintaining institutional assets. Knowing how your firm stacks-up against your peers when competing for mandates is crucial. To address this need from an operational perspective, McLagan is introducing ODDIQ.

This service benchmarks asset management firms across over 150 risk areas in 8 broad categories, including cyber risk. The use of Aon Investment Consulting's proprietary due diligence database and risk monitoring program allows us to benchmark your firm to the market and against Aon's view of operational best practice. Because firms already submit ODD questionnaires to Aon, we can generate this report without further submissions required. As a part of Aon, McLagan provides clients with a complete operational view, leveraging data from over 300 asset management firms to help you achieve optimal positioning in the market.

Asset management firms are required to complete due diligence questionnaires (DDQ) for evaluation by investment consultants. If you have relatively weaker operational practices, you may not receive a buy rating. ODD IQ helps you avoid this by illuminating the criteria on which you will be assessed prior to the formal evaluation and benchmarking your performance to peers.

What follows are two examples of how ODD IQ helped in what might have otherwise been a negative situation for asset management firms. If these organizations had not participated in ODD IQ, they could have missed blind spots which portray them in a negative light relative to peers.



CASE STUDY #1 | ASSET MANAGEMENT BUSINESS OPERATIONS

McLagan ODD IQ: Unlock Insights into Your Business Operations

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mclagan.aon.com

Asset Management Business Operations

Sample best practices to keep in mind:



Test internal controls on an annual basis



Institute dual authentication protocols for remote access



Conduct regular vulnerability assessment or penetration tests on internal / external systems

Situation

In this particular situation, when completing the questionnaire, the asset management firm (Manager A) lacked awareness of key operational risk areas and did not present material items of risk in the initial DDQ response. Therefore, the firm failed to provide a sufficient amount of information (and in some cases, even delivered incorrect or misleading responses) to accurately portray its operations.

By identifying outliers and indicating where your firm does not match best practice, ODD IQ allows you to put your best foot forward in representing your firm's business operations to institutional investors, especially in the current competitive market landscape where your standing relative to peers is critical.

Challenge

Representing a relatively small firm, Manager A did many things well, but did not accurately portray firm operations in its DDQ responses, failing to highlight positive practices and the relative strengths and superiority of some of its existing processes. This did not represent Manager A's business operations as "strongly" as it should have to institutional investors. Here are some examples to put this into context:

Example 1: Manager A initially responded that no external audit firm tests its internal controls, which is fairly common for small firms. However, Manager A *did* have an external firm test its internal controls on an annual basis, which is viewed positively by institutional investors and considered better than acceptable for a manager of its size. When evaluating a given manager's operations, an ODD assessment includes consideration of firm headcount, AUM, and financials among other factors to assess how well the firm's practices fit its risk profile.

Example 2: Manager A responded that it did not require dual authentication protocols in all cases of remote access to the company's systems—a risk that could be identified as a cyber security limitation. In reality, Manager A had instituted dual authentication protocols in all instances (best practice), but did not represent itself favorably and mistakenly used an "old answer" when responding to the DDQ.

Example 3: Manager A responded that the firm did not have a vulnerability assessment or penetration test conducted on internal or external systems in the last 12 months (a notable risk in cyber security). However, it turns out that the firm had, in fact, conducted tests and incorrectly portrayed its processes. Many asset management firms indicate that cyber is a top-3 risk to consider in today's landscape. Given this focus on cyber in the competitive market, it is critical to correctly represent the strength of your firm's cyber security platform so that institutional investors have an accurate view.



ODD IQ helps you to achieve:

- actionable insight into what institutional investors look for
- a data-driven approach to assess risk to your firm
- custom benchmarking to be competitive when competing for mandates

McLagan Solution

The ODD IQ report spans across your firm's operations, helping managers to zero in on areas for improvement and best practice alignment before a high stakes review for institutional investors. Using aggregated data provided to Aon through DDQs, this fact-based tool serves as a pre-check proxy for how you might perform in a formal evaluation for institutional investors. By demystifying what is, in fact, best practice and providing a benchmark that allows you to see where your firm stacks up in relation to peers, this tool empowers you with the insight needed to know where you stand. Acknowledging what you're doing well, and in the case of Manager A, what needs to be remedied prior to an investment consultant or institutional investor evaluation, allows your firm to prioritize potential improvements and stay ahead of competitors.

Results

Luckily, Manager A in this scenario participated in ODD IQ and therefore had the opportunity to know on what criteria the firm's operational performance would be evaluated. Manager A could then proactively address areas where its submitted questionnaire indicated that it did not meet best practice, which ultimately put the firm's representation versus its peers in a more favorable light. Given the large volume of mandates and RFP requests at any given time, it is often difficult to know what to prioritize in presenting your firm for evaluation. Manager A immediately (within days) implemented multiple changes throughout the firm in response to feedback provided by the ODD IQ report, positively impacting its operational best practice benchmark standing. This curbed a reputational risk that could have occurred with the combination of unfavorable and incorrect answers, which could potentially reflect a lack of knowledge regarding firm operations. Such a scenario would leave a negative impression on the investment consultant and institutional investors.

Without ODD IQ, Manager A could have otherwise been blind to these issues that were brought to the forefront as not meeting business operations best practice. While Manager A may have still received a passing rating, the firm would have been viewed less favorably by institutional investors in evaluating the manager within a competitive field. This is a great example of why ODD IQ is so important—to view where your firm does not conform to best practice, have outliers flagged in order to understand your performance relative to the competitive market, and to consider addressing risk items pinpointed for not aligning to best practice.

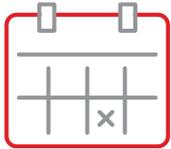
CASE STUDY #2 | ASSET MANAGEMENT BUSINESS OPERATIONS

ODD IQ Benchmark: A Critical Firm Comparison

Learn more at
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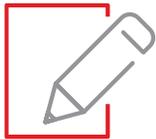
Asset Management Business Operations

ODD IQ Process



Firms submit responses to ODD questionnaire

*If your firm already submitted its data to Aon, there is no need to re-submit, although you can refresh your responses



Responses are processed to create a custom report for identifying risks



McLagan benchmarks your risks and creates custom peer groups

Situation

In today's competitive environment, knowing how your firm compares to peers when competing for mandates is crucial. In this particular situation, a global asset management firm reported that it did not have an Order Management System (OMS) in place. This was indicated by the respondent within the organization (Manager B), who replied to the Operational Due Diligence Questionnaire (DDQ). A response like this raises significant concern, as it is something for which a manager of this type and profile may not be recommended to institutional investors if no suitable alternatives exist.

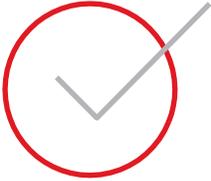
Challenge

Not having an OMS was a significant operational risk concern for a firm implementing the investment strategy under review. If Manager B did not present a well-controlled alternative, this would most likely be the impetus for a non-pass rating and is therefore critical to address prior to investor review. Further, Manager B was the only firm with this response out of the hundreds of data points in the ODD IQ database, indicating that Manager B was situated far below peers in operational performance in this area.

Utilizing a homegrown system instead of an OMS (which can facilitate straight-through-processing and efficiency), can be problematic for several reasons, including:

- Inefficiency to handle large trade volumes
- Manual / human error, including from rounding
- No audit trail; lack of system integration
- Breach of investment guidelines (pre-trade compliance checks)
- Alpha degradation due to slower execution
- Inability to catch a trade error (how often are 'trade blotters' reviewed and reconciled?)

“ODD IQ allows asset management firms to see their performance across operational risk factors that institutional investors care about, as well as view their relative standing vs. peers with whom they compete for highly sought-after mandates.”



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McLagan Solution

Thanks to ODD IQ's flag, it was determined that Manager B did, in fact, operate with an OMS. However, the operational question had been interpreted incorrectly by Manager B's respondent who completed the questionnaire and thus, did not represent the firm's business operations in accordance with best practice. If Manager B had not completed ODDIQ, the flag for this outlier would not have been noticed prior to evaluation. Furthermore, by catching this error, there was no time wasted by Manager B to understand why its operational performance evaluation was less favorable than expected, allowing opportunity for this issue to be remedied.

Results

These efforts resulted in a pass rating for Manager B in this risk area, while reinforcing the importance of submitting quality information about firm operations. This scenario demonstrates how understanding what is truly best practice in the market can impact your firm's business operations and the ultimate assessment your firm receives for institutional investors.

To put this into perspective, if Manager B did not have access to ODD IQ's insight into operational best practice, the ODD evaluation team could have accepted the provided response in the DDQ and potentially failed Manager B. This outcome would have been unnecessarily detrimental to Manager B, particularly given that an OMS was in fact in place.

McLagan ODD IQ: What Makes This Product Unique?

ODD IQ's Value to an Asset Management Firm

Budgeting tool: Identify low hanging fruit to optimize operational improvement with minimal incremental cost. View risks that cost little to nothing to remedy.

Comprehensive firm-wide view: Breadth of coverage ensures visibility across firm departments, confirming that no areas are overlooked, including those that were previously not a priority. Allows you to focus on low quartile exceptions where improvements can be implemented quickly.

Asset owner insights: Benefit from the best practice insights that Aon's ODD team utilizes to advise asset owners. Understand what US institutional investors look for in a manager evaluation.

Risk profile snapshot: Benchmark illustrates your firm's risk profile relative to competitors and allows you to make an informed decision regarding prioritization of resources based on both best practice and market practice. You never know which area could prevent you from winning a specific mandate where your peers outperform you.

Objective perspective: Remove the qualitative human subjectivity inherent in a consultant review.

Pre-audit check: An opportunity to view and correct how your firm's RFP team completes DDQ information before needing to submit the questionnaire for formal evaluation (i.e., the firm may be following best practice, but the question was not answered correctly).

ODD IQ is a McLagan offering that leverages the expertise of two additional areas within Aon.

Aon ODD Team

In 2015, Aon made a significant commitment to expand its operational due diligence program, including hiring a Global Head of Operational Due Diligence. Since then, the Aon ODD team has expanded in size to a global team of 20, 14 of whom are operational due diligence professionals that average more than 15 years in investment operations and operational due diligence roles. Collectively, the group has reviewed hundreds of investment managers across all asset classes and has diversified experience with a range of competencies including compliance, operations, governance, and counterparty risk.

The Aon Centers for Innovation and Analytics (ACIA)

across Dublin, Krakow, and Singapore are a key pillar of Aon's global data and analytics capability with a global team of leading data scientists, actuaries, developers, engineers, and analysts who possess deep industry and technical expertise. The ACIA team develops actionable insights – driven by data and delivered by experts – that reduce risk for clients and help maximize their performance.

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About McLagan

McLagan provides tailored human capital expertise to financial services firms across the globe. Since 1966, we have partnered with the largest and smallest financial services firms to help them make data-driven decisions to hire, retain, and engage the top talent for keeping the global economy running. Our compensation surveys are the most comprehensive, in-depth source of rewards data covering over 150 countries from more than 2,500 clients. Our consultants work with hundreds of firms annually to design total rewards programs and benchmark financial performance for boards of directors, executives, employees, and sales professionals. McLagan is a part of Aon plc (NYSE: AON). For more information, please visit mcclagan.aon.com.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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