



The Spotlight

The Spotlight is a regular Q & A feature that showcases our people, their expertise, and trending topics that are on top of our clients' minds directly from the voices of our business leaders.



Michael Deeks, Partner, Head of Asset Management

Michael Deeks leads McLagan's asset management practice, delivering performance and reward consulting services to traditional and alternative asset managers, as well as asset owners. In particular, Michael advises on broad-based and executive compensation and carried interest arrangements. His work also includes conducting benchmarking and market practice studies. Michael's team recently launched McLagan's Operational Due Diligence IQ Study, which provides asset managers with performance benchmarks on over 150 non-investment risk factors and best practices.

Questions and Answers

How are asset management firms reacting to technology disruption?

There is a huge spectrum of approaches that our clients are taking. While most firms understand that technology is radically changing the industry, only some are seeing its adoption as critical to their business success, rather than just as a business enabler. Many of the most admired firms view technology as a part of their DNA and see it as a huge opportunity to differentiate themselves from the competition in a very crowded space. There are also a broad range of approaches which the best adopters are taking, particularly concerning the part(s) of their business on which they are choosing to focus their technology investment and intention. For example, in investments, firms are applying alternative data sets and behavioral bias analysis to the research and investment decision making process. In sales, firms are using artificial intelligence with big data to make better determinations about how and what to sell to advisors and identify the behaviors of the highest performing sales reps. In the middle and back office, firms are using repetitive process engineering to complete forms and reconciliations in minutes without user error—tasks that previously took humans days. I could go on (and on).

What are the top challenges that firms are currently facing?

Wow, you don't ask questions with short answers! Sub-benchmark performance and higher fees from traditional asset managers have led investors to move cash into cheaper passive products and more expensive, but perceived better performing and all-weather, alternative products. Managers with expensive and poor performing funds therefore continue to suffer outflows. This, combined with the increased costs of doing business, has challenged firms' margins.

That said, asset management margins remain better than those of most other industries. The big question is: what happens if there is a longer-term market correction than the one we saw at the end of last year? For private markets managers, the challenge is still finding enough good targets in which to invest. For hedge funds, poor performance relative to other strategies has led to investor skepticism, which firms are trying to overcome. Fee compression pervades the industry.

What compensation advice do you give to clients in the current market?

Another big question—I will try to be brief. To be honest, the advice is not climate specific. As always, with the ongoing battle for the best talent, it is essential for clients to pay their employees competitively and effectively. Use McLagan's market data to ensure that pay levels are competitive, increasing pay for top performers appropriately. In terms of incentive plan design, include a clear linkage between pay and performance, with an appropriate balance of objectively and subjectively determined metrics based on a mix of short and long-term results. Plans must be clearly communicated as part of a stable and consistent pay philosophy throughout the organization and supported by rigorous performance management and effective expectation management. However, it's difficult to provide one answer in a vacuum since the best pay plans are very context specific.

If you could describe today's asset management industry in three words, what would they be?

Innovating, consolidating, dynamic.