

The Anatomy of a DDQ



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(ILPA)

WEBINAR TAKEAWAYS

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01

The role of a DDQ is to build transparency and confidence in your investment decision making process

- The DDQ is sent after identifying a potential investment opportunity, to further build trust and investment case.
- A DDQ can be used to review structure, strategy, risk process, key terms and compliance best practices.
- Having a standardized process/DDQ document creates more efficiency, eliminating unnecessary friction when submitting data to LPs.
- Investors and LPs are using the DDQ as their standard document. It isn't a zero-sum game. Investors have unique information requests that are a part of each process.
- Experienced investment staff are aware of nuances around public and private investments and serve as valuable resources in constructing and reviewing the questionnaires.

02

Industry research, length, and functional areas of focus are key considerations in constructing an industry DDQ

- Industry organizations such as AIMA, and ILPA have created DDQs for private markets, private debt, hedge funds and other investment structures.
- The goal of industry DDQs, and ILPA in particular, is to deliver on transparency, governance and ensure alignment of interest objectives.
- Organizations such as ILPA solicit feedback from the experts across LPs and GPs to ensure both sides of the industry are being represented. ILPA leverages industry affairs committee, peer research to stay connected with the industry needs. This collaborative process results in evolution of the DDQ.
- The structure of the DDQ is a combination of objective and detailed questions. There needs to be a balance between length of the DDQ and its purpose.
- It's important to update industry DDQs to reflect market trends. Areas on KYC/AML, cyber security, ESG and DEI are new areas that are relevant for both LPs and GPs.

03

Quality of responses and responsiveness of asset managers is critical

- Arizona PSPRS has a high completion rate of close to 100%. This responsiveness is also a function of the LP's relationship with the asset manager.
- The DDQs span multiple phases from an investment/diligence process and information needed differs for each phase.
- Building a questionnaire based on industry standards also helps with adoption. Each investor needs to figure out which questions are most important for their firm, and how are you choosing to interact with the GP to get those answers in a timely manner.
- Leveraging easy to use technology is also a key contributor to success in getting asset manager's information in a timely fashion.

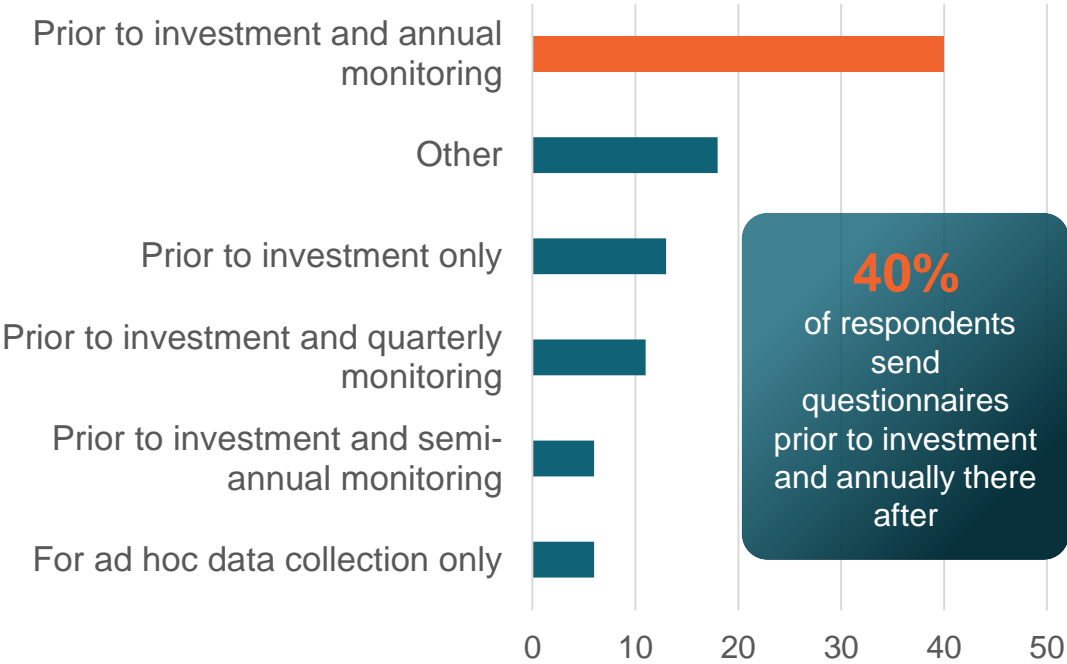
04

DDQ process management from a practitioner's perspective

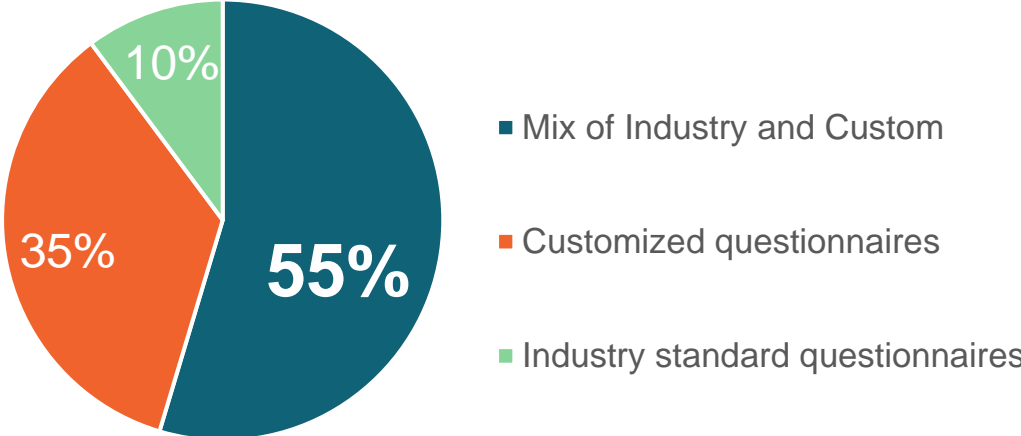
- Arizona PSPRS works with DiligenceVault to prepare, distribute and host their DDQs and to automate workflows and monitor research activities.
- Once the manager responses are received, they are distributed to key members that cover that specific asset class. The team reviews the DDQ, flag items that are not standard or industry norms, as well as decide if the responses are in line with best practices. It's also important to review not available/blank and follow-up diligently for a comprehensive response.
- The DDQs has a diverse set of information requests, from documents, to Yes/No questions as well as multiple choice and text-based free form responses. Adding objective structure saves asset manager time and gets the point across quickly to the investors. The objective structure also helps with comparability - across multiple managers, as well as quickly from year to year.
- A properly constructed DDQ should not require significant changes. Those questions should not change every 12 or 18 months, unless new risks emerge.
- Arizona PSPRS also works with investment consultants in identifying new risk areas such as AML/KYC as well as Cyber risks.

05

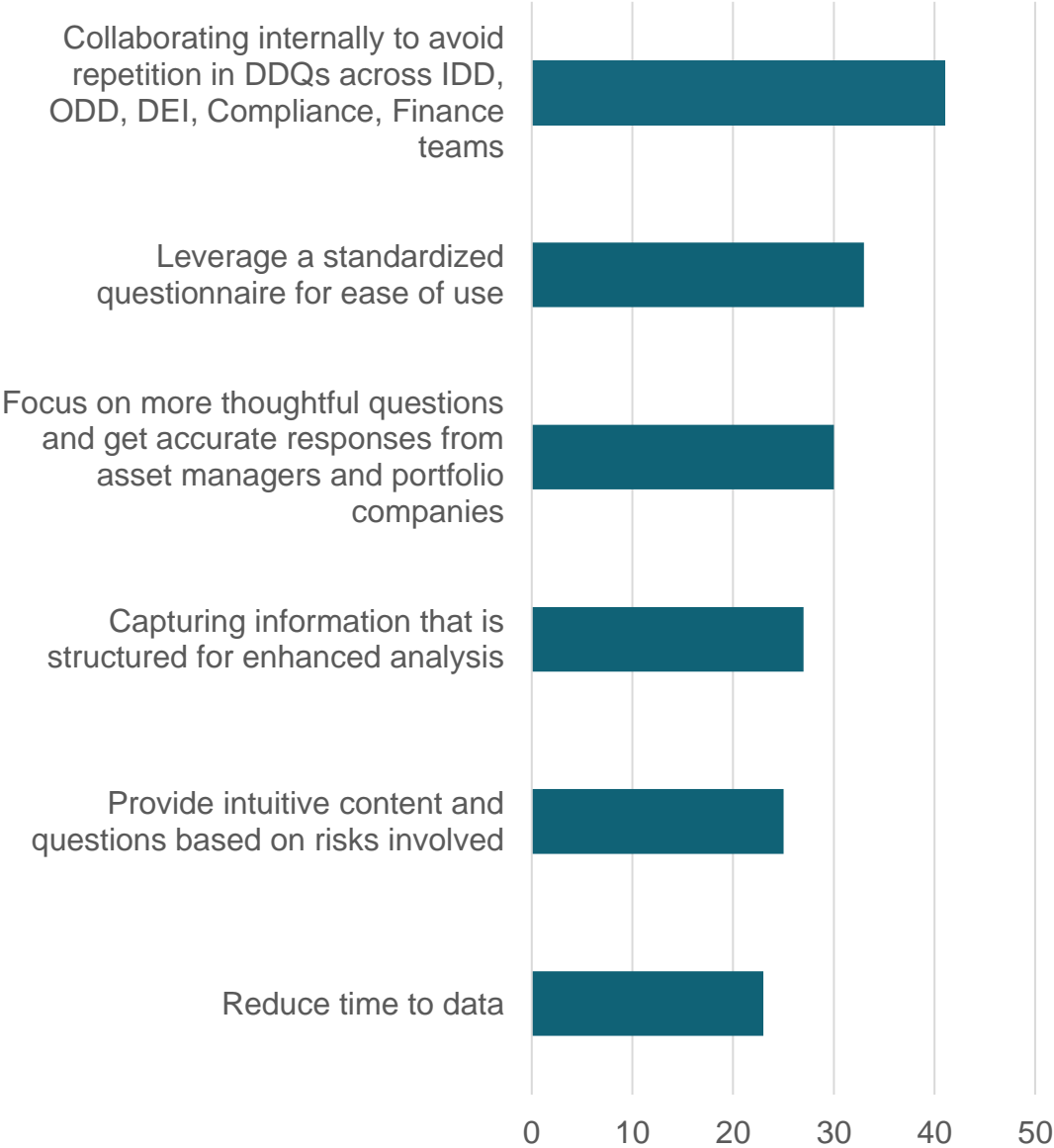
Poll: What is the frequency of your questionnaire distribution?



Poll: What types of questionnaires do you use?



Poll: What would you like DDQs to do better in terms of seeking value?



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