

GLOBAL DILIGENCE VIEWS



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WEBINAR TAKEAWAYS

01

ODD has seen tremendous growth in the last decade

- Operational due diligence is constantly evolving and has seen great growth in the last ten years starting from the global financial crisis. 2020 has forced significant changes because on-sites have had to morph. Over the last few years, the ODD process focused on DDQs and then on-site visits to assess a manager.
- The scope of ODD has also shifted over the years. Initially about cybersecurity and trade execution (based on regulatory needs), now ODD has expanded its reach due to a variety of factors (financial crisis and most recently, COVID), delegating ODD professionals with veto rights and veto power throughout the process.

02

Radical, incremental and disruptive innovation have shifted the industry at different adoption rates

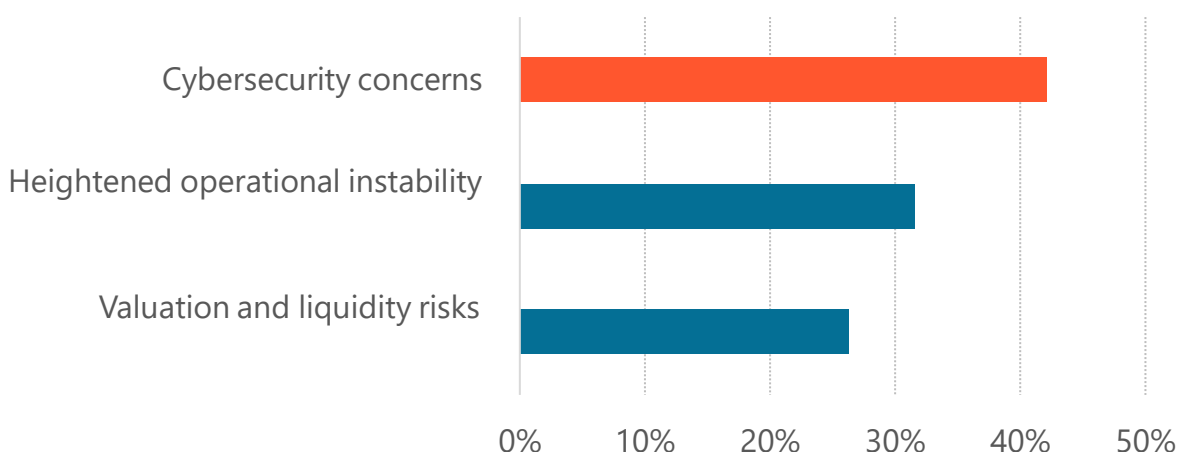
There are 3 types of innovation in asset management and the pace of adoption varies.

- **Radical innovation:** Examples include cloud adoption, cryptocurrencies, blockchain, and tokenization. This is rather limited in asset management and radical innovation is only happening in waves over the course of many years -- not so "radical", some might say. Budget constraints and business models are seen to be a cause of this, for instance these business lines often do not have the innovation labs.
- **Incremental innovation:** This is the most well adopted innovation by the asset management industry. It is happening in the form of continuous improvement and change management. It has a longer cycle because it requires planning multiple years out and a deliberate roadmap of improving overall tech stack.
- **Disruptive innovation:** This is rather recent and as the open ecosystem emerged this has created value along the investment value chain. Examples of this would be firms partnering with FinTechs such as in the due diligence space (DiligenceVault being an example), operations, distributions, etc.

- Innovation requires planning and the right infrastructure in place to take advantage of new technologies and innovations. Partnering with third party technologies has been an easy way to innovate at scale.

03

POLL: What is the biggest fund research risk factor that has surfaced in 2020?



04

Staying flexible and agile during COVID: Virtual ODD requires creative workarounds

- The new norm has been “virtual onsite” visits. Certain investors have been skeptical of the process and thus it has become more difficult to assess and onboard new managers. Other investors have adapted new ODD policies to deal with this evolving landscape. As a positive, the advantages for assessing managers virtually include having more time with managers, more transparency and documentation, and access to online systems. Ancillary benefits include saving time and money on travel.
- A few tips and tricks to ensure rigor in the diligence process entails enhancing the questions being asked in DDQs to be more descriptive prompts capturing the answers/data needed which cannot be assessed in-person. Another is the expansion of reference checks by other investors who have had a recent visit or even leveraging the board of directors who have knowledge of business operations of an asset manager.

What's next for due diligence?

- The future state of ODD will likely be a hybrid approach with in-person and virtual meetings, and the due diligence areas of focus continuing will evolve as well. Onsite meetings will not go away but the frequency and regularity of the meetings may not stay the same as the pre-COVID era. Virtual meetings will benefit firms from a cost standpoint, lowered carbon emissions and environmental (ESG) impacts, and adopting new technologies.
- For smaller managers, in-person meetings will likely still be required because of the importance of a personal touch and because there is efficiency in addressing specific issues. Larger managers may benefit more from virtual meetings as they are already well-established, may have an existing relationship, and have standardized diligence processes.
- The actual due diligence continues to evolve. The scope of business continuity plans (BCPs) now encompass more remote-work processes and digital-readiness from an infrastructure and management skills lens. Driving cultural changes with management skills in a virtual workplace means more attention is dedicated on employee wellbeing.
- The pace of innovation in due diligence is not slowing down and only accelerated due to COVID. Staying nimble and flexible propels the industry forward. Leveraging core technology and competencies and pairing it with new technologies helps firms stay agile in an environment of rapid change.

Poll: How are the asset managers preparing for 2021?



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