

KEY POINTS

USS Investment Management uses a digitised due diligence platform for some manager selection

DiligenceVault enables investors to receive data and due diligence information in a standardised digital format

The platform allows easier comparisons, saving time and helping achieve more accurate investment decisions

Asset manager due diligence, particularly operational due diligence (ODD), has always been important to USS Investment Management (USSIM), the wholly-owned principal investment manager and adviser to the Universities Superannuation Scheme (USS), the UK's largest private pension fund.

More than two-thirds of USS's £80bn (€93bn) portfolio is invested internally, the rest being placed with complementary external managers. The fund maintains over 100 external-manager relationships across its portfolio, whose main components include private equity, infrastructure, property, credit, hedge funds, long-only and credit.

USSIM has been carrying out ODD for about 12 years, starting with hedge funds then, shortly afterwards, private equity funds.

Since then, it has adopted a consistent approach to external-manager due diligence across asset classes, driven by a number of risk criteria, not least the increasing importance of environmental, social and governance (ESG) concerns. The breadth of its investments makes it crucial to have a structured and thorough due-diligence methodology to monitor and protect members' assets.

For several years, USSIM had been looking for a digitised due-diligence platform to help select managers for its internally-managed portfolio.

"We realised that we wanted to

Digital platform eases process of due diligence

USS & DILIGENCEVAULT

GAIL MOSS

USSIM reports positive experience using DiligenceVault's platform to carry out due diligence of asset managers

focus on the analysis of information and reduce our manual tasks," says Scott Palmer, head of operations due diligence at USSIM. "The sending,

receiving and transcribing of questionnaires and other data and documents manually was ripe for an overhaul."



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Guillaume Rouault

But USSIM wanted a solution that fitted its processes and the way it invests. After considering several providers, as well as the possibility of developing its own bespoke tool internally, USSIM chose the due-diligence platform from DiligenceVault.

"By 2019, we felt the market had matured, so we were confident we could use an off-the-shelf product, rather than build our own," he says.

DiligenceVault is a cloud-based centralised platform for investors and asset managers that provides a seamless and efficient digital information exchange experience.

"The due-diligence challenge for investors is collecting consistent and usable data in a timely fashion," says Guillaume Rouault, EMEA director, business development, DiligenceVault. "Both investors and asset managers have approached us because the need for transparency, combined with investment complexity and the drastic increase in asset manager interactions, have made it difficult to maintain with manual processes."

But the wealth of data is not the only potential problem. Rouault says: "Asset managers send data in different formats, including e-mail, PDF, Word, Excel, which is time-consuming to centralise and convert to the investor's preferred format, let alone to allow comparisons between different managers and investment products."

DiligenceVault's platform enables investors to easily send out data and due diligence requests to many external managers, who then respond with information in a standardised digital format, facilitating analysis and comparisons, both qualitative and quantitative.

DiligenceVault is also the first two-sided service of its kind. The platform differs from screening databases in a way that allows managers to share information with specific investors without allowing access to any unauthorised persons or peers.

In addition, asset managers can reuse information across multiple investor requests, and also maintain a collaborative audit trail of all interactions.

Furthermore, members of the investor's due diligence team, as well

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as other colleagues, can get instant access to the same information.

“The platform enables investor clients to compare metrics and qualitative data, such as sustainability and diversity, equity and inclusion (DEI) criteria, more accurately, cutting down on unproductive time, saving money and allowing teams to spend more time on the job that results in the highest investment impact,” says Rouault. “This creates a data and technology foundation for faster and improved investment decisions.”

Palmer says that USSIM chose DiligenceVault because it offered most of the functionality required at a reasonable price and was ready “off-the-shelf”.

He says: “It had the right balance of open architecture but sufficient standard functionality so that we didn’t have to spend too long customising the application. We were also positive on the commitment by DiligenceVault to consider adding workflow functionality to the tool, which we think would make our internal processes even more efficient.”

Palmer says that preparation to

use the platform took some time.

“DiligenceVault is a hosted solution,” he says. “We had to decide on our manager and fund hierarchy and then format our questionnaires. However, it gave us an opportunity to reflect on the nature and content of our questions.”

Implementation was reasonably straightforward, given the set templates. However, Palmer says: “We had challenges to ensure the information was organised usefully within the system covering all of our due-diligence requirements, including our investment oversight, operational due diligence and, of course, our ESG-focussed responsible investment team.”

Palmer says there has been a “positive uptake” of the digital platform. “Manager receptiveness to, and acceptance of DiligenceVault was higher than expected,” he says. “Whilst we haven’t quantified savings yet, it seems to be a more efficient process of manager communication and frees people from more mundane tasks to focus on risk analysis, as opposed to information compilation.”

He adds: “The tool was also more professional in feel and function than

expected, given some of the experience we’ve had over the years looking at a number of less mature tools.”

In terms of after-sales care, Palmer says: “DiligenceVault has been attentive and hands-on. It has provided a number of training sessions for our teams and asked us for feedback on a regular basis.”

For clients, DiligenceVault has a dedicated team that provides ongoing training, and a monthly newsletter with information on product enhancements, as well as webinars for all users. And as part of its emphasis on feedback, the company is about to launch an initiative to enable sophisticated clients to propose and recommend product developments.

All in all, once USSIM had decided to buy-in rather than build its own solution, Palmer estimates that it took about nine months to a year to perform final review and vendor due diligence. It also had to get internal approvals, negotiate the contracts, and finally work with a project delivery team and DiligenceVault to implement the solution. The pandemic had little effect on the process. “We had already progressed

the project significantly and we are able to finalise everything remotely”, says Palmer.

Meanwhile, Rouault says the pandemic has demonstrated the usefulness of the DiligenceVault platform.

“In-person meetings have not happened for a year, so the ability to enhance monitoring via information collection and readily accessible data has become more pertinent,” he says.

However, other factors, including increased scrutiny of DEI, ESG and more focus on investment in opaque private markets have heightened the need for such a platform, he adds.

Launched in 2014 in the US, the platform now includes 6,000 institutions, including end-investors and asset managers, and 21,000 individual users, with a number of corporate and public pension funds, insurance companies, and sovereign wealth funds as clients.

Within Europe, the DiligenceVault platform is also used by a Dutch pension fund, while the company is talking to sophisticated pension funds in the UK, the Netherlands, Denmark, Sweden and Germany, among others.