DiligenceVault

Moving at the Speed Of Light: Operational Due Diligence in 2021 and Beyond

Igor Evangelij
Senior Consultant
Mercer

Angela Brown
Director, Operational Due Diligence
Willis Towers Watson

Andre Boreas
VP - Head of Marketing
DiligenceVault

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WEBINAR TAKEAWAYS

01 A number of factors will drive the continued use of virtual due diligence meetings going forward for ODD professionals including cost savings, the disruption from being out of the office and a general acceptance of remote working models. Driving the determination of onsite vs virtual due diligence includes asset owner preference, current familiarity with firm, size, geographic location, and asset class.

02 There are distinct differences in due diligence between private market-focused managers and those who invest in listed securities. Even between private market strategies, due diligence varies considerably across venture, private equity, real estate and infrastructure strategies. Regional differences and associated regulations in those geographies also play a part in how ODD is conducted. As an example, personal account dealing is much more regulated in Europe than in Asia and therefore, those considerations must be taken into account.

03 Lines of credit by private market managers are increasingly coming under scrutiny by both investment and operational due diligence teams. From the ODD perspective, cost and counterparty exposure is of most concern while investment teams are focused on what impact LOCs are having on stated IRRs.

04 **Compliance is often the biggest deficiency when it comes to evaluating a manager's operations. Segregating the compliance function from other functional areas of the firm is of paramount importance including monitoring and testing. (A written compliance policy - on its own - is not considered sufficient given the risks involved.) Outsourcing the compliance function is also not normally deemed an optimal situation. In addition to compliance, fund managers should emphasize better procedures for cash controls (transfer protocols, restrictions, oversight) as well as cybersecurity policies, including training on security best practices.**

05 **Time pressures on manager research teams come from a variety of situations including new opportunities from co-investments, shorter windows from fund closings as well as client demands. Often, the ODD team can focus on product-level research when a new fund is launched as long as the firm itself has already completed and passed an ODD review.**

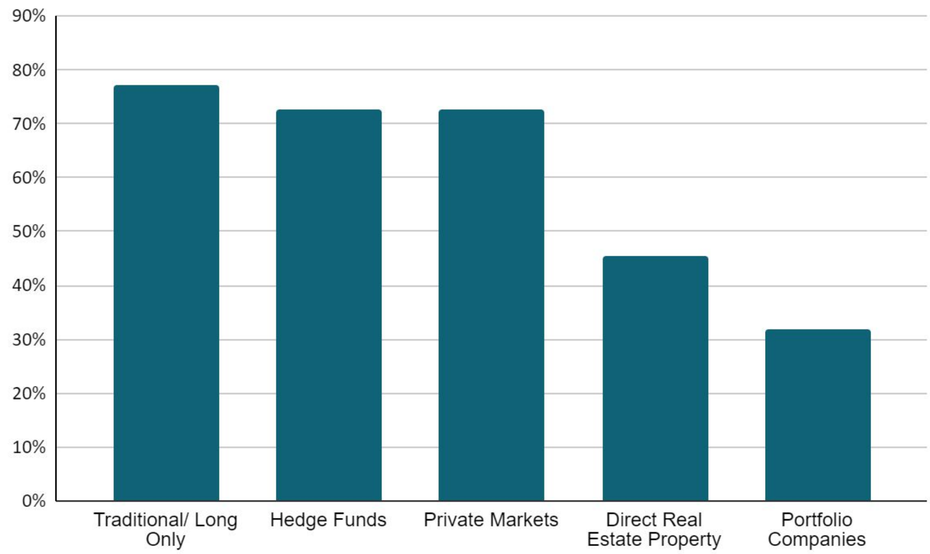
06 New technologies such as dedicated due diligence platforms are enabling ODD teams to be more efficient in how they collect and analyze manager data. Technology has also provided efficient workarounds when it comes to virtual due diligence and sharing confidential information such as manager's policies and proprietary investment strategy description

07 Transparency, honesty and consistency are expected for managers that are about to undergo their initial due diligence with a consultant. It is important to build trust with the manager research team. Managers would do well to ensure the information they are providing is consistent as that usually is the cause for a red flag. Openness to feedback will help the manager in future due diligence processes. Passing an ODD review does not necessarily win mandates, but can very well lose them.

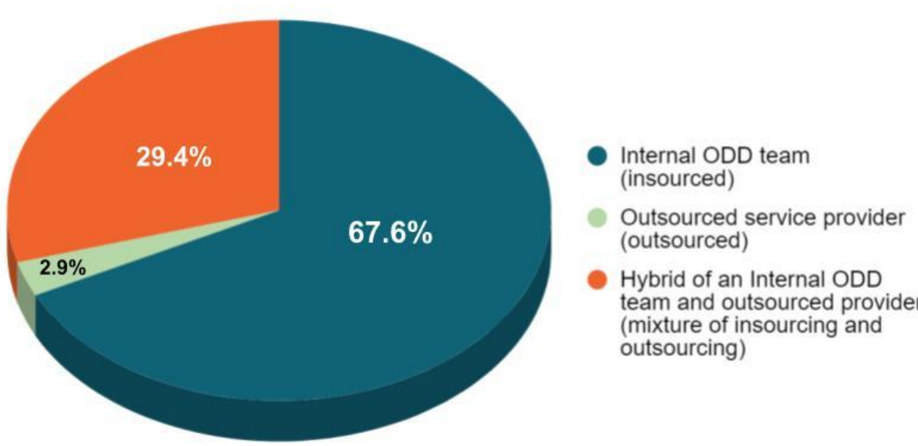
08 When markets experience high degrees of volatility, ODD teams will emphasize knowing about a private capital managers' valuation policies and the governance around those policies.

Poll responses from webinar audience:

1.) Which asset classes and entities do you perform ODD on?



2.) What ODD model is used by your firm?



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WEBINAR TEAM

Andre Boreas- andre@diligencevault.com
Srijani Chaudhuri –srijani@diligencevault.com
Angela Fragale- angela@diligencevault.com

For Other Queries:

Reach out to us at: ask@diligencevault.com
Visit our website: www.diligencevault.com

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