DiligenceVault

# 2021 Manager Survey Whitepaper:

## How RFPs and DDQs Get Done

WHITEPAPER

Having started DiligenceVault over seven years ago, we have had a unique vantage point into how asset owners, consultants, allocators and fund managers share information and communicate as part of the manager due diligence process. Historically, this has been an endeavor that has been excessively time consuming, fraught with errors, and leads to unwanted risk - by both parties. Solving these challenges by developing a single platform that simplifies the flow of information – both quantitative and qualitative – is why we started DiligenceVault in the first place.

In conducting this survey, we wanted to better understand the managers' point of view as part of the due diligence process - how managers are responding to RFPs, what technologies and databases do they use, and what the workload looks like for the teams responsible for getting this critical work done. There are dramatic shifts occurring in the investment management industry as investors re-prioritize their mandates given a world with low interest rates, hunt for alpha and increasing considerations around ESG and diversity issues. Competition across asset classes to win new business is only increasing. How managers adapt to this changing landscape will be a important decision point for firms to grow their asset base.

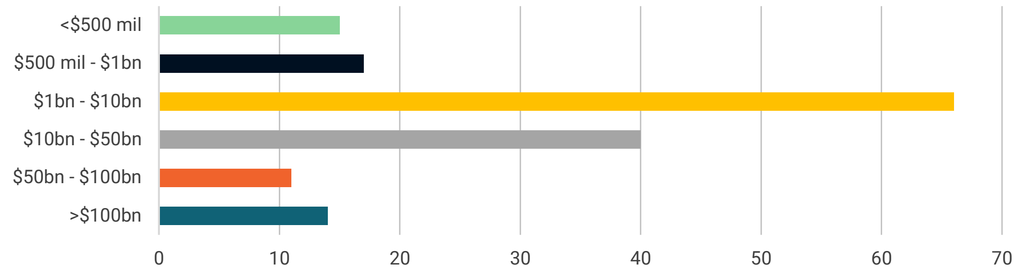
We are grateful to all the managers who responded to the survey and shared their insights and experiences as part of the due diligence process and how they manage this critical part of the investment process.

**Monel Amin**
Founder and CEO, DiligenceVault

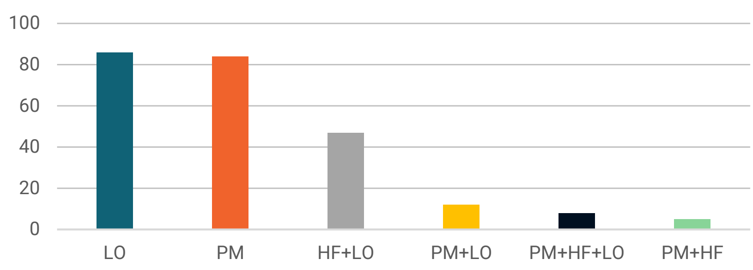
## Survey Demographics

173 fund managers, representing a wide range of sizes, geographies, asset classes and strategies, responded to the survey.  This cross section of managers allows for a series of unique perspectives in how different managers are responding to and addressing incoming information requests from investors.

**AUM of Respondents** (US dollar)




**Count of Strategies Managed by Survey Respondents**



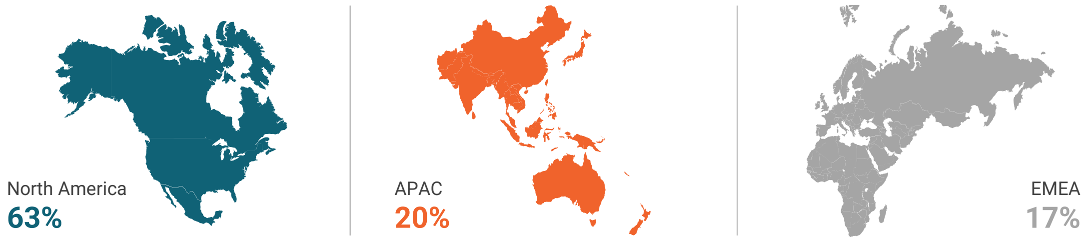

**Abbreviations**

**LO** Long-only

**PM** Private Markets (Private equity, venture capital, real estate, infrastructure, private credit)

**HF** Hedge funds

**Respondents by Geography**



## Key Findings

### Investor Requests and Team Sizes

RFPs, RFIs, and DDQs are a fact of life in the investment business. There is no getting around it. It is the primary tool by allocators to get the manager on record to explain who they are, what they do and why they should let you manage capital on their behalf. Who gets invited to the party, though, is another question.

A manager's AUM continues to be a primary factor into investors' first screen, particularly by larger institutional investors. When looking at the number of RFPs and DDQs a manager receives in a given a year, it's no surprise to see the largest managers fielding the most requests. In fact, some managers cited that they receive over 3,000 DDQs a year. Larger managers, of course, will have more funds and products which they market to investors, and, in turn, need to respond to more information requests on.

This is especially true of long-only or 'traditional' managers which will offer products across numerous equity and fixed income strategies. Other factors will certainly include attributes such as manager performance, how in favor the strategy is at any point in time, market conditions, and changes in allocators' priorities such as ESG and other socio-economic considerations.

Looking at the survey data, there appears to be a distinct inflection point, though, as a manager crosses over the $10bn AUM market as the number of information requests from investors jumps dramatically. 12% of managers with AUM between $1bn to $10bn receive between 100-500 RFP/DDQs requests a year.  That number jumps significantly though to 40% for managers in the $10bn to $50bn range.

| | % of firms broken out by number of RFPs/DDQs completed per year | | | |
|---|---|---|---|---|
| **Size** | **Less than 50** RFPs/DDQs per year | **Between 50-100** RFPs/DDQs per year | **Between 100-500** RFPs/DDQs per year | **More than 500** RFPs/DDQs per year |
| **<$500 mil** | 80% | 20% | 0% | 0% |
| **$500 mil - $1bn** | 100% | 0% | 0% | 0% |
| **$1bn - $10bn** | 65% | 23% | 12% | 0% |
| **$10bn - $50bn** | 15% | 43% | 40% | 2% |
| **$50bn - $100bn** | 18% | 9% | 64% | 9% |
| **>$100bn** | 0% | 8% | 33% | 58% |

## Team Size

When looking at the number of people directly involved in responding to investors' information requests, again we see a strong correlation between AUM and size of team, with the $10bn AUM cutoff driving managers to hire more staff to address the greater number of RFPs and DDQs as described previously.

There are a number of managers, though, who are able to drive efficiencies in their processes where they are able to manage a large number of RFPs/DDQs with a smaller team. In fact, 8% of survey respondents actually answer over 500 questionnaires a year while maintaining an RFP team with less than 5 members.

Given the need for tight collaboration between marketing, investor relations, compliance and other subject matter expects (SMEs) it is an impressive feat for any type or size of manager to be able to manage such a workload with that size of team. One trend we have observed with high performing marketing and RFP teams is their embrace of technology to drive efficiencies in their processes, communication (both internally and with investors) and management.

**RFP Team Sizes - by AUM**

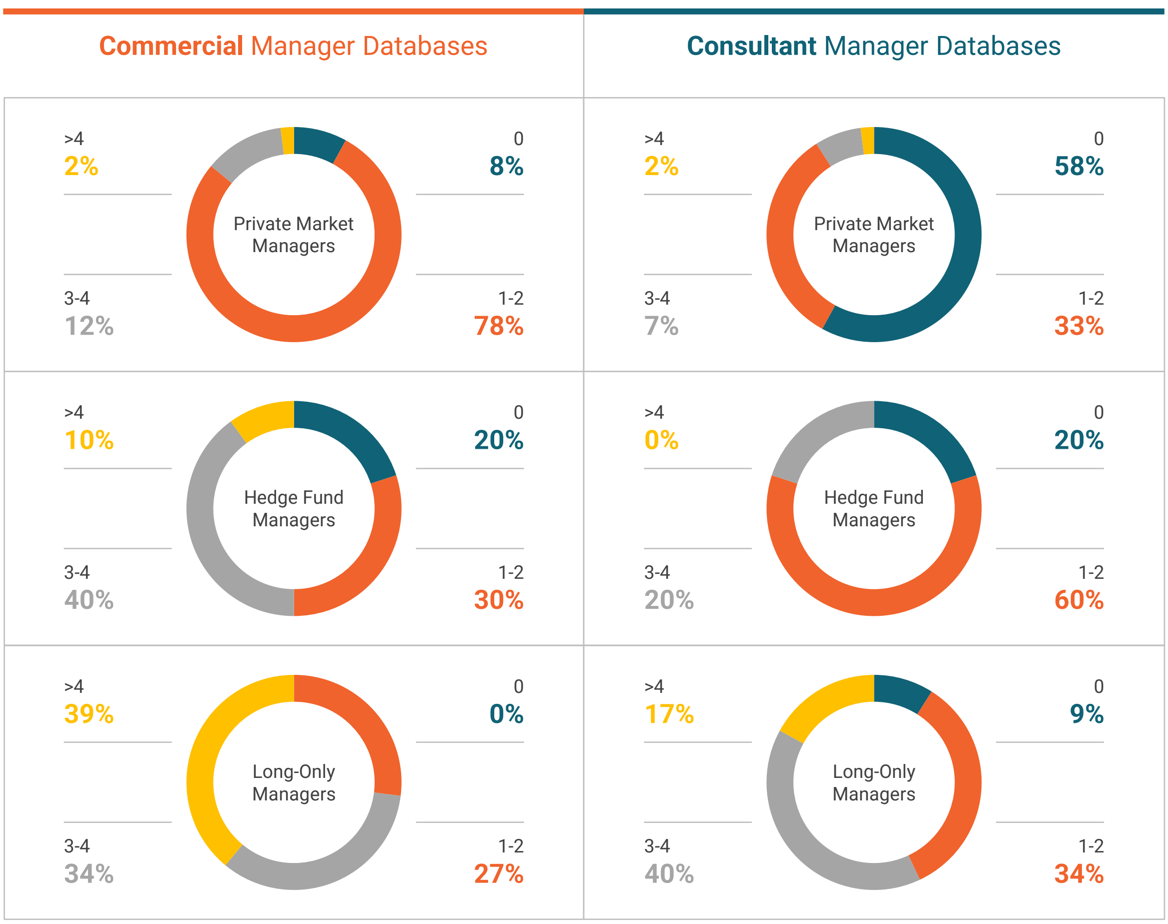
| | % of firms broken out by size of RFP team | | |
|---|---|---|---|
| **Size** | **Less than 5** people | **Between 5-10** people | **More than 10** people |
| **<$500 mil** | 87% | 13% | 0% |
| **$500 mil - $1bn** | 70% | 24% | 6% |
| **$1bn - $10bn** | 73% | 20% | 7% |
| **$10bn - $50bn** | 38% | 55% | 7% |
| **$50bn - $100bn** | 27% | 64% | 9% |
| **>$100bn** | 29% | 50% | 21% |

## Manager Databases

At one time, third-party and consultant database were the sole domain of the long-only world.  That has changed, though, through the institutionalization of alternative investments, as more pension funds, SWFs and their advisors continue to expand their allocations to hedge fund and private market managers.  This has spurred consultants to start collecting information from alternative managers as well the formation of a number of third-party data providers who specialize in alternatives.

However, as much as the alternatives world has institutionalized over the past few years, alternative managers, particularly private market managers, noticeably still lag their long-only counterparts in submitting their information to external databases. In fact, over half of private market managers do not populate any consultant databases, while 78% populate only 1-2 commercial databases. Hedge fund managers, for their part, appear more willing to share information via external databases, as over 60% of them populate at least 1 or 2 consultant databases, with 50% populating 3 or more commercial databases.

**# of Databases Fund Information is Submitted To – Commercial and Consultant DBs**



| | Private Markets | | Hedge Funds | | Long-Only | |
|---|---|---|---|---|---|---|
| **No of DBs** | **Commercial** DBs | **Consultant** DBs | **Commercial** DBs | **Consultant** DBs | **Commercial** DBs | **Consultant** DBs |
| **0** | 8% | 58% | 20% | 20% | 0% | 9% |
| **1-2** | 78% | 33% | 30% | 60% | 27% | 34% |
| **3-4** | 12% | 7% | 40% | 20% | 34% | 40% |
| **>4** | 2% | 2% | 10% | 0% | 39% | 17% |

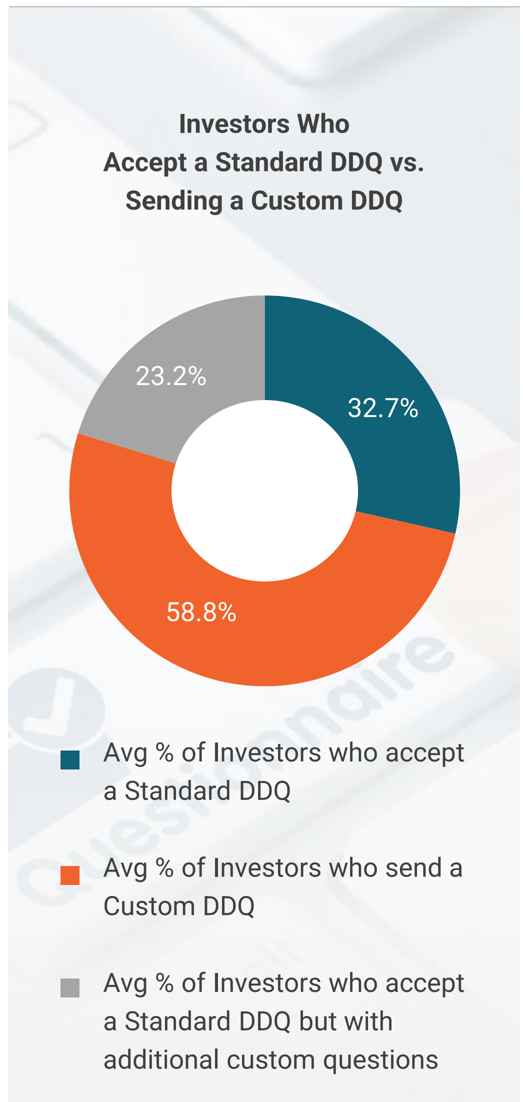
## Industry Standard and Custom Questionnaires

There has been considerable effort by a number of industry associations to develop standardized methodologies around governance and oversight of external managers, with the goal of streamlining the communication between investor and manager. Industry standard DDQs have been developed to facilitate this exchange of information across a variety of asset classes and investment strategies. These DDQs include:

- **ILPA** Due Diligence Questionnaire
- **AIMA** Due Diligence Questionnaires (multiple for various use cases)
- **INREV** Due Diligence Questionnaire
- **Investment Company Institute** (ICI) Distributor Due Diligence Questionnaire
- **InvestEurope** - ESG Due Diligence Questionnaire
- **The Standards Board for Alternative Investments** (SBAI) Due Diligence Questionnaire
- **PRI** LP Responsible Investment Due Diligence Questionnaire

Both investors and managers have taken various approaches in their use of these industry standard DDQs. The survey highlights these differentials with managers stating that approximately 33% of their investors are willing to accept an industry standard DDQ as part of their due diligence process while, on average, 59% of their investors require the manager to complete a custom DDQ. 23% of their investors are willing to accept an industry standard DDQ with some modifications.

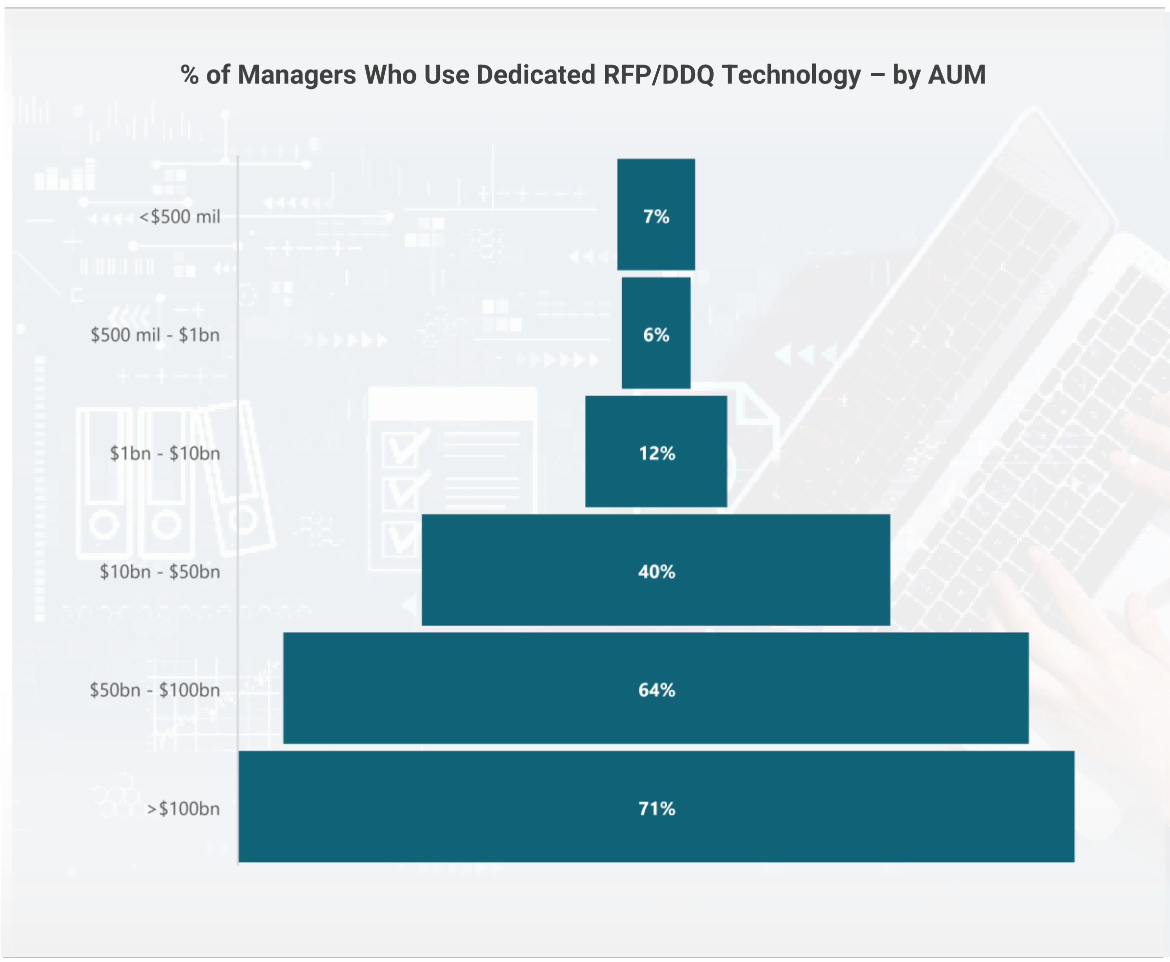
In addition, 97% of managers state they get at least one custom DDQs from investors while 91% of managers state they have at least one investor willing to accept an industry standard DDQ. 60% of respondents mentioned the Limited Partners' Responsible Investment Due Diligence questionnaire is an industry standard DDQ that they are asked to submit.



## RFP/DDQ Technology

Completing RFPs and DDQs has historically been an arduous and time-consuming process for fund managers, where typically the RFP or IR team will maintain some kind of Q&A master file or template in a document and/or spreadsheet. Questionnaires come in and the cutting and pasting begins.

However, as investors begin to embrace dedicated, due diligence platforms as part of their manager research processes, fund managers are being presented an opportunity to improve how they engage with investors and make some much needed improvements in how they scale this part of their business. Again, looking at survey respondents by AUM, it's clear that larger managers are adopting new technologies to facilitate answering the hundreds or even thousands of RFPs and DDQs they receive every year.



## Conclusion

People, Process and Performance – these three concepts have anchored the manager due diligence process as long as there has been an investment management business. Add in ESG and D&I factors, and the depth of research that allocators now do on external managers is quite remarkable, with an enormous amount of information being asked for and reviewed by investors.

For both investors and managers, mitigating risk – legal, reputation, regulatory – as part of the due diligence process is being looked at as the next area where technology can add value. Collaboration tools, audit trails, data consolidation and AI can significantly improve how information is created, shared and controlled.

## About DiligenceVault

DiligenceVault believes in making due diligence possible for all by creating a new data-driven standard for due diligence in the investment management industry. Today, over 21,000 users leverage the platform in digitalizing and streamlining their due diligence framework, moving away from previously manually intensive, error-prone, and expensive diligence processes.

DiligenceVault is trusted by leading global asset allocators including Goldman Sachs Asset Management, NEPC, Frontier, Universities Superannuation Scheme, UTIMCO and Wells Fargo. Founded in 2014, DiligenceVault is backed by Goldman Sachs, and delivers a global support promise with teams in New York, London, Singapore, and India. For more information about DiligenceVault, please visit:

**www.diligencevault.com**