Investor Relations 4.0

Transforming Investor Relations for the Digital Age
Introduction

What is Investor Relations 4.0? It is a business state where the entire investor communication function effectively leverages technology to better compete for assets, meets the information needs of current and prospective investors and is able to do so in an efficient, cost-effective manner. In this paper, we look at the evolution of technology for Investor Relations, current challenges being presented by the allocator community and what the path looks like to achieve 4.0 status.

Technological Evolution of Investor Relations

Investor relations (IR) has long been a critical (if not an underappreciated) part of the fund manager complex. And while the core principles of investor relations have not changed much over the past 30 years or so, IR teams have come a long way when it comes to the business practices and methods used to interact with investors. As technology continues to reshape and disrupt the investment world, it is no surprise that the function of IR also needs to reinvent itself in order to keep up. In Figure 1 below, we summarize key technological developments over the past decades that have helped raise IR’s sophistication level and capabilities over time.
Investor Relations 1.0

**Paper**

From the 1960s to 1980s, business professionals relied on the telephone, snail-mail, and paper directories as their main forms of communication and for organizing client information. It wasn’t uncommon to see offices scattered with directories full of client names and addresses. It wasn’t until the 1970s that the Rolodex emerged as a revolutionary organizational tool that quickly became an office staple. In fact, it became so indispensable that people would often steal their Rolodexes from their companies when they left.

Investor Relations 2.0

**Internet Age**

Soon after the start of the internet boom in the 1990s, IR professionals began moving away from paper-based storage and communication and made the leap into online formats. Snail-mail was replaced with email, for instance, a development that simplified the process of distributing information. Customer relations management (CRM) software became a popular sales and marketing tool, and online databases such as Morningstar gained traction. But the handling and distribution of due diligence responses, such as requests for proposals (RFPs), for the most part, remained stuck in paper format: the information was printed, bound, and snail-mailed to investors.
Investor Relations 3.0
Moving to the Cloud

By the mid 2000s business software began moving to the cloud, allowing people to access data via various devices regardless of their location. Browser-based applications such as Salesforce were born, as were alternative investment databases such as HFR and Preqin. IR professionals upgraded their communications strategy during this period and began using virtual data rooms (VDR) to give investors access to fundraising information, performance reports and other pertinent information all in one place. RFPs also finally began migrating to Microsoft Word, Excel, and PDF formats, which meant due diligence questionnaires could be emailed to and from investors.

Investor Relations 4.0
Digital Transformation Age

That brings us to 2020 and beyond. We believe we are currently in the heart of a “digital transformation age” in which many fund managers, both large and small, are taking a hard look at growing their technological capabilities in order to keep up with their investors’ data demands. In this new era, some IR teams have already started to lean into more digital technology to help them scale their business, to minimize onerous diligence tasks, to leverage structured and accessible data, and to improve their data analytics and data security. In the next section, we review several key challenges that have served as catalysts for IR teams to embark on their next leap forward.
Current Challenges Spurring More Technological Adoption

Over the past several years, the alternative and private equity / investor-engagement model has been changing rapidly. The rise of new and shifting regulations, ESG reporting requirements and a general request for more transparency from investors, has shone a spotlight on GPs’ information service model. In addition, as private assets have risen in popularity, managers have seen their investor base expand and become more diverse in terms of both geographic location and sophistication.

All of these factors have contributed to a sharp increase in the volume and complexity of data being requested by investors. And this, in turn, has led to a stronger need for increased collaboration between IR and multiple internal business units — the back office, compliance, and investment teams — in order to ensure prospects and current investors are sufficiently served.

IR professionals must manage and overcome several key data challenges in order to satisfy the needs of their investors, both from a pre-investment/due diligence stage to a post-investment/monitoring one:

01 Demand for Transparency

Institutional investors have moved way beyond just crunching the performance numbers. Operational due diligence has now become an important part of allocator’s investigative process with myriad data points now requested from fund managers. ESG data, for its part, has also become a standard request, particularly with private capital managers.

02 Demand for Consistency

Investors want greater data standardization so they can more easily glean insights from the information received. Currently, most data arrives in a wide variety of formats: PDFs, Excel spreadsheets, and so on. And different data sets may not all use the same calculation methodology or definition. As a result, investors are obliged to spend huge amounts of manual effort to extract, scrub, and standardize the data.
While the industry has taken steps to help promote more data exchange transparency and consistency, these efforts have come up short in many ways; much more remains to be done. For example, the Institutional Limited Partners Association (ILPA) currently provides industry-standard templates to encourage more uniformity and shared-reporting standards, yet participants have inconsistently applied and adopted these templates. Investor communication has consequently become one of the biggest pain points for many managers, as they are forced to dedicate substantial resources to filling the data gap — for instance, by adding more IR and marketing personnel.

But is hiring more personnel the best solution?

Often, increasing headcount without the use of technology has not helped margins. In fact, increasing labor costs and human error could negatively impact revenue and sales goals, as well as prove costly to fund managers. Beyond that, data requests will only continue accelerating; investing solely in human capital will not be a sustainable long-term solution. Many asset managers, therefore, are rightly looking at technology to help scale their business and raise the bar in their IR function.
Investor Relations 4.0 — Unlocking a Digital Edge to Transform the IR Function

IR departments have historically lagged other core business teams in their adoption of new technologies to automate labor-intensive manual processes, as seen in Figure 2. Fortunately, however, asset managers are now seeing the value of bringing the IR function into the digital era in service of elevating the overall investor experience.

**Figure 2: Automation Levels of Different Functions within Private Equity and Hedge Funds**

Using the following scale, which of the following best describes the level of automation for processes that are currently conducted in-house in each of the following functional areas?

- **Fund accounting**
  - X
- **Middle office (including treasury)**
  - X
- **Marketing/investor relations**
  - X

**Total**
- Private equity
- Hedge funds

**Source:** EY

Some may believe COVID-19 has played an integral role in ushering in the digital-transformation movement, and that the phenomenon may perhaps be temporary. But we believe the pandemic has merely accelerated a digital communication trend that was already well underway. In fact, investors themselves have already accelerated their own digital uptake. And as investors continue to expand their fiduciary responsibilities beyond just performance, due diligence questionnaires and data requests will only become increasingly intricate and complex.
Managers who wish to keep up and provide their stakeholders with that “next-generation” investor experience will need to transition their IR function from reactive in nature to one that harnesses a more proactive communication style. In fact, in our recent survey, 2021 Manager Survey Whitepaper: How RFPs and DDQs Get Done, we found that as managers grow in size, they tend to adopt a dedicated platform with which to manage and distribute their RFP and DDQ responses to investors.

Managers who proactively seek to leverage technology to help them unlock a digital edge will be best positioned to earn and maintain the goodwill of their investors, to grow their asset bases, and to raise capital faster. In order to make this leap into the digital era, we think IR teams should consider revamping a few key components of the IR process.
First, managers need to place a stronger emphasis on good data governance and management. This can mean increased adoption of best-of-breed software, such as industry-specific CRM tools, as well as fully integrating APIs in order to ensure more data fluidity across best-of-breed applications.

Secondly, although many IR teams today are already using some of the software and systems tools mentioned above, we believe the real struggle centers around information management and the ability of different business functions – IR, compliance, investment - to collaboratively and effectively leverage data in order to communicate it out to investors.

For example, unstructured quantitative and qualitative data kept in a Word or Excel format often creates a barrier for investors: They’re unable to extract that data in the format they need, so they or IR teams may need to spend a great deal of time reorganizing it – by both requestor (investor) and responder (manager). Data sharing via emails, VDRs, and PDFs creates a similar obstacle by making the data-collection process a clunky endeavor for due diligence teams when data is locked in a PDF. Managers, therefore, need to rethink the best way to share data so that actionable insights can be efficiently gleaned internally and for external stakeholders, prospects, and investors. We think the answer is adopting innovative digital solutions, such as specialized RFP and due diligence digital platforms like DiligenceVault.

With the right technology, adapting investor relations to the age of digital acceleration doesn’t have to be a painful experience. DiligenceVault can help bridge this gap and make the process more efficient and scalable by providing the following:

01 - Digital Portal Experience

Enables transparency for the entire team on a centralized platform that tracks progress on investor requests, enables IR teams to collaborate effectively, allows managers to establish an institutional review process, and avoids costly errors associated with offline version control needs and lengthy email chains.

02 - Automate and Digitize Investor Data and Requests

Eliminate the need to copy and paste from multiple data sources by centralizing your content. Automate the tracking and completion of these requests using advanced search and intelligence search capabilities, add consistency while increasing responsiveness in your IR function.

03 – Stakeholder Reporting

Maintain common content for ad hoc investor requests, standard DDQs as well as database templates on a single platform. Leverage technology to maintain version control across periodic requests. Provide a digital interface for prospective investors to consume your standard DDQs.
In sum, technology will continue disrupting the asset management business in many ways. As investors up their own technology game and push for more data consistency and transparency, managers will continue to feel the strain and pressure to keep up technologically — or be left behind. Technology, if utilized correctly, can serve as a great equalizer (and provide a high ROI) for small firms competing against larger ones, and it can become a key competitive advantage in winning mandates. Managers who leverage technology to maintain an intense focus on delivering value-added solutions, and to facilitate positive interactions with their clients, will be able to successfully grow their assets from both current and new investors.
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 40,000 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