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WEBINAR TAKEAWAYS

Operational Due Diligence:

Insights and Best Practices for 2022 and Beyond

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01 The world may have opened up in 2022, but in person meetings for operational due diligence (ODD) teams remain limited. This is a result of the general adoption of a remote or hybrid model of work everywhere and creates challenges aligning schedules of both asset allocators and asset manager. The uncertainty around changes in travel regulations and restrictions varying from one country to another is also a reason why onsite due diligence meetings are currently taking place on a limited basis. (See Poll Response 1)

02 The three areas of the ODD process that have changed the most as a result of limited onsite meetings are:

- Narrow ability to interview C-suite executives face to face, which results in the lack of proper understanding of their body language and mannerisms
- Access to confidential and proprietary information that is typically shared in person but now needs to be shared in a limited capacity through video conferencing platforms
- Inability to assess the office environment, resulting in the lack of information around the day-to-day activities, work culture, and overall security levels

03 **Our poll indicates that it takes one to three months to complete an ODD review on a new manager. As risks continue to evolve, there are more areas for ODD teams to review and more subject matter experts are getting involved across cyber, ESG/DEI, compliance and other functional areas. This increase in the scope of the review, and the necessary data required to complete the review, places a burden on both asset allocators and asset managers. Often performing an ODD review on a smaller manager can be more efficient because roles and responsibilities are less segregated, compared to larger managers, and these subject matter experts can cover multiple areas. (See Poll Response 2)**

04 **The most prominent potential areas of improvement by asset managers identified during an ODD review process:**

- **Improper segregation of responsibilities by teams at smaller asset managers where responsibilities are shared. Examples includes teams where one person serves as both the CTO and COO, or a trader has risk compliance oversight too. As assets grow and the business scales, there should be a proper separation of those responsibilities**

- **Lack of monitoring of expert networks, and inconsistent personal trading policies**

- **Vendor due diligence processes conducted by asset managers are not overly robust or formalized**

- **Cybersecurity practices are inconsistent. Managers are expected to conduct network maintenance, vulnerability scans, penetration testing and phishing exercises on a regular basis but there is a disparity between managers in both policy and action taken.. Therefore, there is a certain lack of uniform cybersecurity practices across managers**

05 **ESG and DEI are emerging and leading areas of focus for both asset allocators on their asset managers, as well as asset managers on their portfolio companies. Previously there were limited standards around ESG and DEI, but in the last few years the number of these standards have proliferated, but no standard has led the way in adoption yet. Showing progress towards improving ESG related areas has become important in not just ODD but also across investment, compliance and risk teams.**

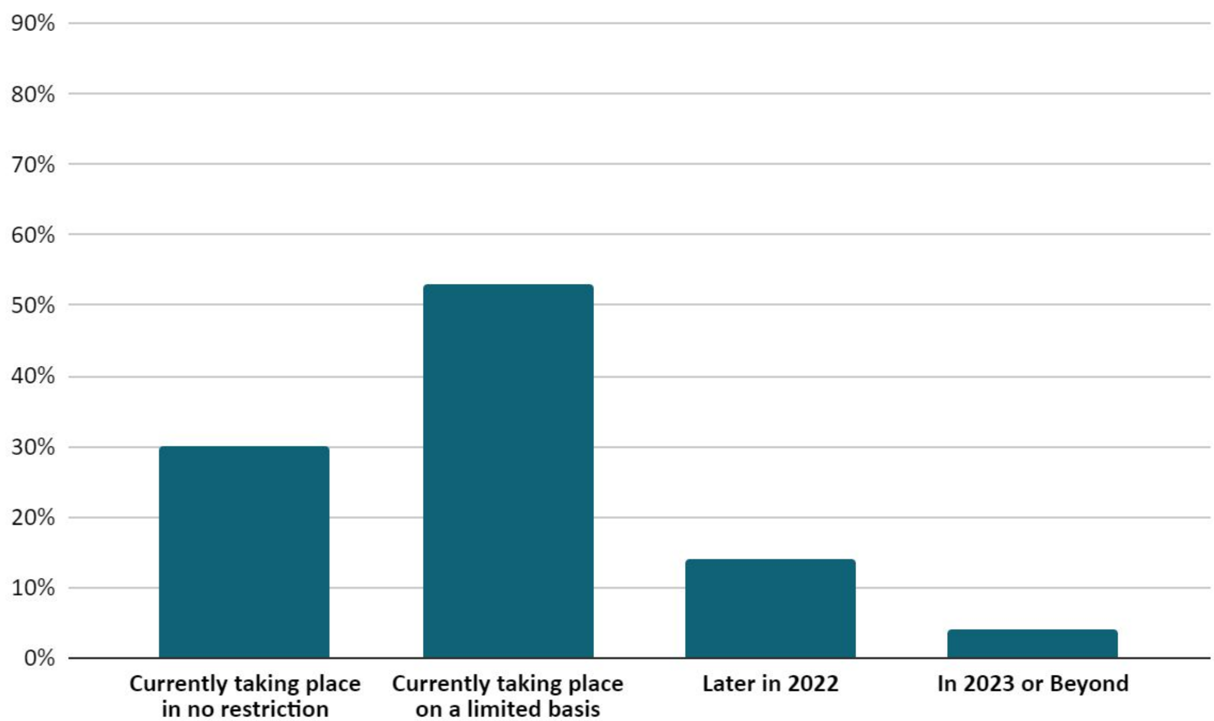
06 **There has been mixed adoption of industry standard due diligence questionnaires. From teams that use their own questionnaire template to teams that solely use an industry standard questionnaire template, the most common practice is a modified questionnaire that has a combination of bespoke questions and industry standard questions. (See Poll Response 3)**

07 **Technology has greatly impacted due diligence processes over the past few years. Technology has shifted a process that was driven by Word/Excel/Email to one that is less manually intensive and tedious, allowing ODD teams to focus more on the analysis of information and the *why*, rather than the data collection process. From a cost benefit standpoint also, technology is helpful for big and small ODD teams alike. Asset managers today are also relying on technology to help them deal with the increased investor requests they receive. Going forward, many see technology, such as DiligenceVault, playing a bigger role in the due diligence process as it will continue to foster efficiency, collaboration and formalization of processes. The mindset is shifting from technology vs. headcount to technology complementing headcount.**

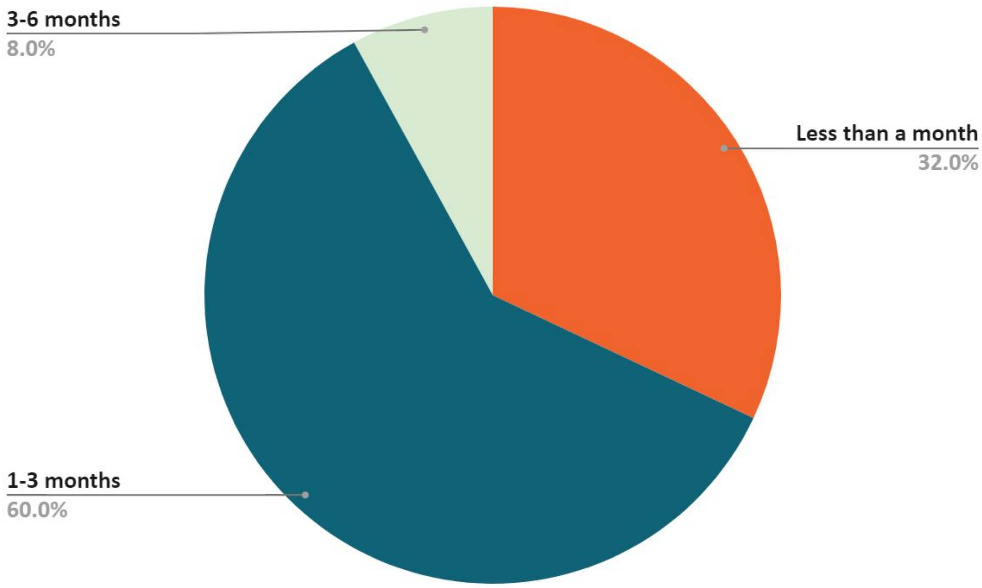
08 **The future of ODD will evolve as it continues to become a priority for organizations across asset classes. The number of ODD professionals continues to increase and it is a highly competitive job market. The ever changing geopolitical landscape, cyber risks and growing complexity of investment options will require more dedicated ODD resources. In terms of ODD reviews, the process will continue to change with the potential rise of the virtual asset manager, and limited onsite meetings and hybrid work environments will lead to smaller more focused ODD reviews, rather than one long session. Ultimately in our data driven world, data will play a key role in the ODD process.**

Poll responses from webinar audience:

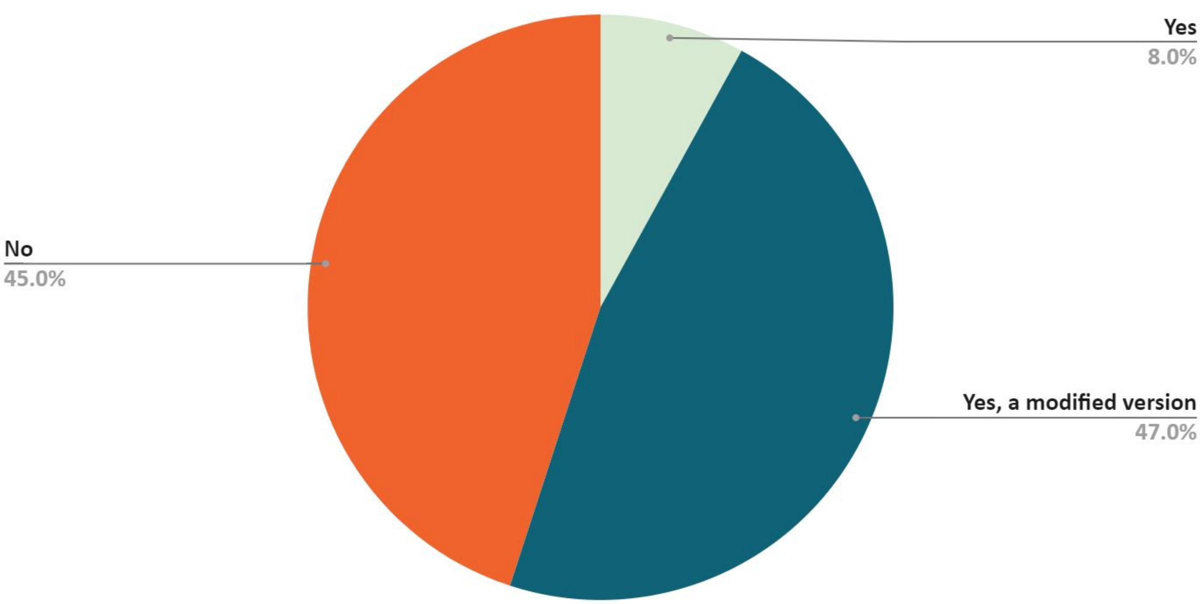
1.) When will your firm start performing/allowing due diligence meetings to take place on site?



2.) How long, on average, does it take you to complete a full ODD review on a new manager?



3.) Do you use any industry-standard due diligence questionnaires, such as ILPA, AIMA, or UNPRI, as part of your due diligence process?



Interested in knowing more about us?
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