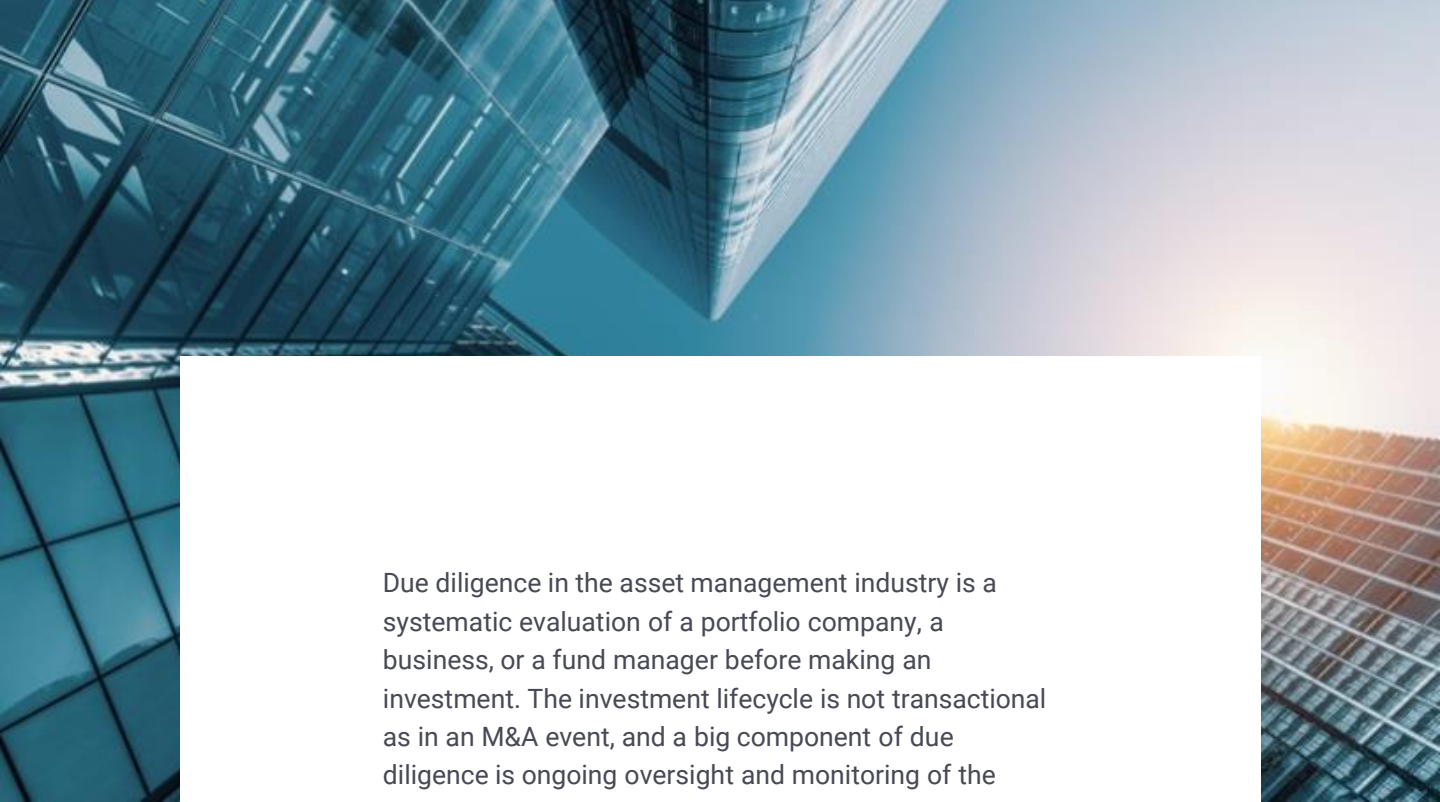


DiligenceVault

The Role of  
**Data Collection** in  
an **Investment Office**

WHITEPAPER



Due diligence in the asset management industry is a systematic evaluation of a portfolio company, a business, or a fund manager before making an investment. The investment lifecycle is not transactional as in an M&A event, and a big component of due diligence is ongoing oversight and monitoring of the investment through its life.

The due diligence process assesses investment, operational, compliance, ESG, accounting, legal and information security risks associated with the investment. The process requires many stakeholders both internal and external to the investor.

When investing in a fund manager, the due diligence framework also requires a significant amount of data collection, including critical documents around legal formation, organizational charts, LPA, PPM, pitch deck, compliance and operational policies, regulatory filings, to name a few.

Who performs due diligence and what are the types of due diligence and data collection needs?

## 01 | Manager Research, Fund Selection and Investment Due Diligence (IDD)

Manager research or also known as investment due diligence focuses on the investment skills of the portfolio manager, their process, the team's pedigree, as well as understanding of the investment strategy. A good investment due diligence focuses on quantitative and analytics aspects such as verification of track record, performance analytics, as well as qualitative factors which involves collecting necessary documentation, investment and risk management framework, as well as portfolio reporting. Some of the data required for investment due diligence is sourced from standard databases such as eVestment, Morningstar, Preqin, but oftentimes a data collection questionnaire is needed.



## 02 | Operational Due Diligence (ODD)

Operational due diligence or ODD focuses reviewing the operational risk associated with the investment. A good ODD program evaluates various business functions, expertise of key operational, finance and compliance team members, as well as a defensible and efficient control environment. Service provider due diligence is also a significant part of an ODD framework. Most of the times this information is available in the form of a standard DDQ, but the majority of institutional investors prefer to send their own operational due diligence questionnaires.

### 03 | Risk and Compliance Due Diligence

Risk and compliance oversight focuses on certifications of compliance with key requirements, limits as well as identifying any adverse developments and red flags during the course of the investment. Compliance attestations are important risk management tool used by investors, and these questionnaires tend to be more objective and are more frequent in nature. Based on the responses to these questionnaires, many compliance teams also create risk scorecards and heat maps based on their assessment of the risks involved with the investment.

There is also a specialized oversight cases based on regulatory requirements, three in particular being:

- a. Subadvisory oversight and 15c annual reviews are associated with US regulatory framework for select fund offerings
- b. Management company (ManCo) oversight is a key area of focus for certain jurisdictions (Ireland, Luxembourg) and fund structures
- c. Distributor oversight is also another form of diligence when maintaining external product distribution partnerships. This is a critical component of financial crime review and suitability assessments.



## 04 | ESG and Responsible Investing Due Diligence

A significant development in the investment world has been an increased focus on responsible investing. This requires extensive data collection directly from the asset managers and portfolio companies as the data and insights requirement to assess this is not readily available in the public domain, especially for private markets strategies. The most popular data collection needs focus on 4 primary areas:

- a. A holistic ESG data collection framework that collects both qualitative policy and integration aspects, as well as quantitative KPIs has become a priority.
- b. Issuance of diversity and inclusion questionnaires, or often called the DEI questionnaires usually follows an annual cycle for data collection.
- c. Climate and carbon footprinting data collection around Scope 1, 2 and sometimes including Scope 3 is a priority for investors who have climate related goals and engagement.
- d. Modern slavery questionnaires are important for supplier risk assessments, and investors in Australia usually integrate this as part of their due diligence framework.





## 05 | Mandate Attestations

For mandates, there's also a periodic data exchange and attestations between the investor and their asset managers on issues limits and exclusion lists which also requires significant back and forth between the two parties.

## 06 | Audit Confirmations

Audit confirmations are a key workflow for investment offices at endowment and foundations, where they seek to confirm finance and tax data required for preparing the annual audits for the pools of assets that the investment office is managing.

## 07 | Tax Questionnaires

Family offices and private capital investors typically need to get tax-related information from their investment holdings. Again, this process is largely dependent on Excel sheets with merged cells and complex formulae and high-volume data.

## 08 | Service Provider Confirmations

Most asset managers outsource certain functions to service providers such as administrators, external counsel, custodians and auditors. As part of operational due diligence, investors may choose to evaluate the service providers. Also, as part of the evaluation of the investment risk itself, certain diligence points need independent verifications from a firm's service providers. Investors typically collect this via questionnaires and emails.

## 09 | Ad Hoc Data Requests

In response to changes in markets, business cycles, and framework of work, investors may want to request certain information from their investment partners. These requests are usually very short and require rapid response, and often take the form of a mass email or even a phone call.

- a. RTO - return to office
- b. Solarwinds breach
- c. Pandemic preparedness
- d. Bank stress test
- e. Generative AI applications

## 10 | IT and Cyber Security Due Diligence

Cyber and information security assessments are key components of ODD frameworks, but for certain investments where the exposure to these areas are higher, investors tend to send customized DDQs in these areas.

## 11 | RFP/RFI

Some investors issue a formal request for information (RFI) or a request for a proposal (RFP) when evaluating new partnerships.

## 12 | Valuation Data Collection

Level 3 assets as well as private assets need special reporting and investors calibrate their portfolios on a quarterly basis or sometimes even monthly basis for any unrealized valuation changes. This data collection exercise is also fairly manual and tends to be high volume.

## 13 | Legal Due Diligence

Legal and corporate documentation, jurisdictional aspects, regulatory registrations, placement documentation, OMs all need to be reviewed by the investors, especially during the initial due diligence for anything out of ordinary. Collecting these documents is often an email heavy process.

## 14 | Onboarding Document Checklist

Many investors need to prepare a formal approval request for their investment committees and need to create a package including all onboarding documents. This is usually a pre-set checklist that the investors have to go through and get information and documents from their investment partners.

## 15 | Holdings Data Collection

Several investors request holdings information from their asset managers on a periodic basis. This typically is a high volume data exchange, which historically has been dependent on Excel spreadsheets and flat files. These holdings are then fed into internal portfolio and risk systems for further analysis. The quality standards associated with such requests are very high as the risk of error and omission is also very high because of the nature and complexity of this dataset.

## 16 | New Pitches

Most of the data exchange we have discussed in this article have been initiated by the investors. However, for new pitches, the asset manager and portfolio companies self select and initiate the pitch. This process is also emails and PDF dependent, high volume, and as a result also very difficult to track for the investors.

## 17 | Internal Compliance Testing and Attestations

CCO's have an important role of carrying out testing of internal controls and self attestations of internal and external stakeholders including the board of directors which require robust audit trail and centralized reporting.

## 18 | Marketing Mapping

From time to time OCIO and consulting firms create a map of the market around specific strategies to get a view of the world in terms of investment capabilities, structures, and more.



## 20 | Background Check Confirmations

Background check is an important component of due diligence. Quite a bit of sensitive information is included as part of this investigative due diligence. Depending on the depth and nature of the background check and based on regulatory jurisdiction of the asset manager and portfolio company, investors have to receive approvals and confirmations to begin the background check process. While several providers have an integrated approval process, many of these are still carried out over emails and attachments.

## 19 | Third Party Diligence

Third Party diligence, also known as KYP framework, is a key risk management framework being leveraged by investment firms as the trends towards outsourcing increases, and also the risks associated with outsourcing continue to evolve. Several regulators including the SEC are looking into creating a formal rule around vendor due diligence that ensures there's proper documentation and adequate controls when creating vendor partnerships and client assets and information is well protected.



## Dependency on a Fragmented, Manual, and Document Heavy Process

The scope, nature, frequency and complexity of due diligence and data exchange between investors and their investment partners is a function of which of the use cases listed above are relevant. Different teams at the investor firm are connecting with different stakeholders at the asset managers and portfolio companies depending on the functional nature. The entire process is fragmented, and often chaotic given the amount and complexity of the information exchange. The information is also housed in lengthy PDFs or complex Excel spreadsheets. Without a single platform, the communication happens in silos and is ad hoc in nature. For asset managers and portfolio companies, they don't have a centralized platform to track all possible data that is being shared with their investors. For investors, there is often duplication of due diligence requests across teams and oftentimes no centralized store of all information received.

## Creating a Data Operating Model

Enter DiligenceVault - a flexible digital diligence platform that captures all of the 15+ requirements with ability to manage data exchange at a firm, strategy, product and vehicle levels as well as support for document collection, qualitative questionnaires, as well as advanced quantitative data collection. The various teams responsible for functional due diligence usually have their own workflows, tagging mechanism, and analysis framework which can be defined. The entire firm can collaborate on a single centralized platform removing the redundancy, enabling transparency, faster access to data and in fact a delightful experience for the asset managers. Rather than comb through emails, and shared drives and PDFs - often a multi-hour exercises, modern investors can be empowered to get to data that is critical for decision in a matter of minutes.

Often synonymous with operational due diligence, now we have seen a digital diligence platform become the centralized platform to all exchange of data. Investors are now able to enjoy a connected experience as they automate basic day-to-day activities and regularly occurring activities. Investors also are able to have a complete picture which is easy to grasp, enabling teams to focus on more "human" domains.



## One DiligenceVault Promise

While this information exchange can definitely happen in a bilateral fashion and still deliver some efficiency if technology is deployed. However, the tax on the entire ecosystem is dramatically reduced if it happens on a single platform, thereby creating a true two-sided and many-to-many relationship between the requester and responder of the diligence requests. The benefit of the network compounds exponentially as the depth of the network increases, eliminating the need to maintain different portals as well as eliminating redundancy of processes, while enabling reusability for both sides.

[www.diligencevault.com](http://www.diligencevault.com)

Contact Us: [bill@diligencevault.com](mailto:bill@diligencevault.com)