



Digitizing the ODD Process

2023 Best Practice Guide

Contents

- 03 ODD is increasingly important
- 03 Fund manager ODD is critical in managing risk
- 04 The fund manager ODD framework
- 05 The manual approach to fund manager ODD
- 06 Why digitize the fund manager ODD process?
- 07 How to digitize the fund manager ODD Process
- 07 **Step 1** Work backwards
- 08 **Step 2** Utilize what you have
- 09 **Step 3** Think beyond the manager or GP
- 10 **Step 4** Enjoy closer relationships with your manager
- 11 **Step 5** Prove the value of a digital platform with a proof of concept
- 12 Why Dasseti?
- 13 Checklist





ODD is increasingly important

Fund manager operational due diligence (ODD) has never been more important. A series of high-profile fund failures and scandals, combined with increasing regulation and compliance mandates since the global financial crisis has placed ODD firmly at the top of the agenda for many institutional investors.

The investment sector has fared well over the past few years, outperforming in many areas despite market volatility caused by the pandemic. The alternative investment sector has seen greater capital inflows, and positive investor sentiment. This success means there is an influx of investment opportunities for allocators, in flourishing areas like cryptocurrency, emerging markets (especially China), VC and ESG investments. Emerging managers across all asset classes are also attracting significant investment from institutional investors.

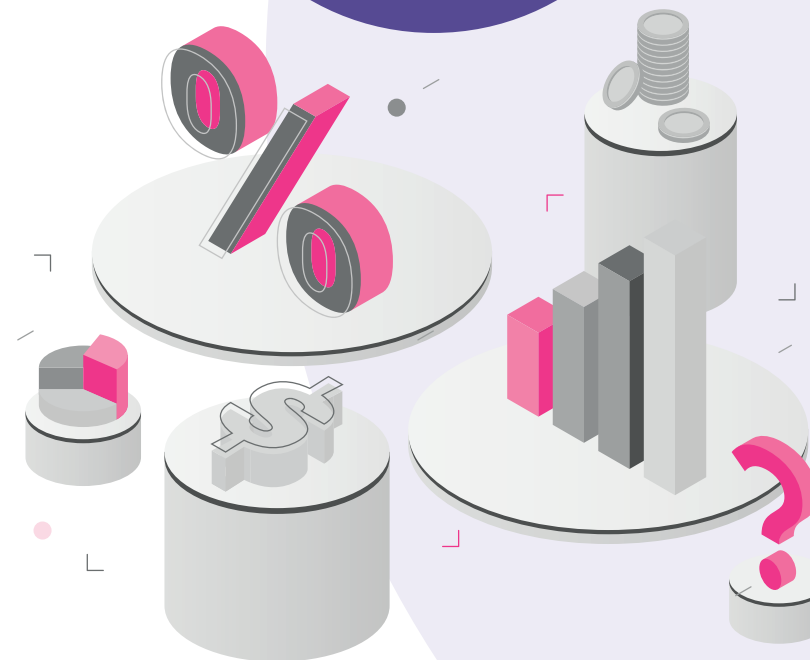
But with opportunity comes risk.

Fund manager ODD is critical in managing risk

Investors require transparency and although neither investment nor operational risk can fully be mitigated, it is crucial that allocators understand the operational strengths and weaknesses of a manager, pre-investment, if they are to make a sound, risk-based investment decision.

Likewise, regular and ad-hoc enhanced monitoring through ODD investigations is critical to an allocators' governance and risk management strategy.

Over 20,000 due diligence questionnaires have been delivered using Dasseti's platform, by its 5,000 monthly users.



The fund manager ODD framework

ODD is as crucial as investment due diligence (IDD) and is typically performed independently of investment teams by a skilled individual or team of ODD professionals.

For many allocators, the ODD framework covers a broadly similar set of assessment areas and includes:

- Governance
- Legal and Compliance
- Administration
- Risk Management
- Team
- Remuneration
- Structure
- Tax function
- Trading
- Valuation and pricing
- Cash controls
- IT, business continuity planning and cybersecurity
- Third-party service providers
- Financial management
- Reporting
- ESG and sustainability
- Diversity, equality and inclusion

Some asset classes have additional areas of focus and may require deeper investigations. Crypto funds for example may require additional scrutiny of custody, trade processes, valuation and asset verification, conflicts of interest and regulatory risk.

(See SBAI Alternative Investment Standards Toolbox for more information)



The ODD framework can be adapted to meet the specific risk requirements of new asset classes or emerging managers.





Data management is an ongoing issue for due diligence teams, who are all seeking the “single source of truth”.

The manual approach to fund manager ODD

Traditional ODD investigations combine a variety of activities and include questionnaires, meetings, background research and sourcing data from published sources, reference checks and policy reviews. Data is collated and managers are rated accordingly.

Whilst many allocators manage the ODD process using existing tools, systems and processes, there are some key points to consider when reviewing the ODD framework.



With a lot of data coming into the ODD team in different formats and from different sources, it can be hard to keep track.



Without flagging and alerts, data collection may be incomplete, the data might be formatted incorrectly, and important disclosures can be missed.



The process can be lengthy and complex, multiplied as the number of managers to be assessed increases, this can take a toll on individual team members.



The manual parts of data collection and processing may not be as accurate as liked or required.



It can be difficult to maintain a clear audit trail of ODD activity in the event of a review or investigation.



Over time, the ODD processes become heavily dependent on specific individuals in the ODD team, which poses a risk of key man dependency.



As allocator portfolios grow and become more complex, the effort it takes to initially review and then continuously monitor managers grows at an ever increasing pace.

Why digitize the fundmanager ODD process?

Digitizing the ODD process is an exercise that can address some traditional ODD challenges and ensure due diligence is an integral part of the investment portfolio management process.

A digital ODD process can:

- **Elevate the value of due diligence.**
Take the due diligence function from reactive to proactive by quickly digitizing best practice templates as soon they are released. When both qualitative and quantitative information is turned into digital data, analytics can be used to find patterns and create benchmarks.
- **Improve fund manager communication and collaboration.**
Allocators and fund managers are both working towards a similar goal; to achieve a frictionless exchange of critical data that will allow the relationship to prosper. By digitizing the process and providing user friendly platforms that make it easy to request and provide data, allocators will foster greater collaboration with the fund manager ecosystem.
- **Drive huge productivity gains.**
ODD teams report improvements of around 5x in productivity levels following the move to a digitized ODD process. An entire quarter's worth of work can be reduced to 3 weeks. The efficiencies gained by requesting, gathering, flagging and analysing data automatically and at scale, allow ODD teams to focus on other more meaningful tasks.
- **Build happier, more engaged ODD teams.**
It is no secret that teams that are given high quality digital tools that are easy to use and allow them to work smarter, not harder, can enjoy lower levels of stress and better staff retention.
- **Reduce risk.**
People are an organization's biggest asset, but also, its greatest risk. Automation removes or significantly reduces the human element from data collection and classification tasks and reduces the risk posed by human error.



Dasseti is designed for investment management professionals and transforms due diligence.





Before digitizing any process, identify the desired output and work backwards.

How to digitize the fund manager ODD Process

Work backwards

Visualizing the end result and working backwards ensures the correct outcome. What reports do the key stakeholders need and in what format? Summary data, manager fact sheet, in-depth reports, qualitative data, quantitative data?

What is the primary purpose of the ODD investigations?

- Inform pre-investment decision making
- Monitor managers on a regular ongoing basis
- Troubleshoot or deep dive into poor performance issues or significant changes to a manager's operations

How will the results be analyzed?

- A digital due diligence platform with business intelligence capabilities can identify issues, trends and recommendations.
- Results are presented via dashboards using charts and graphs to allow for speedy identification of red flags or areas of concern.
- Report templates can be built to suit any requirement; board requests, compliance and regulation requirements, internal reviews, client communications.

How to digitize the fund manager ODD Process

Step 2

Utilize what you have

There are a plethora of best practice DDQ templates that have been designed to meet the needs of allocators and make it easier for fund managers to provide the right information. AIMA, ILPA, PRI and SBAI are among the most downloaded and freely available DDQ resources. As fund managers complete the DDQs and share them with allocators, they create a host of manual work and add opportunities for data transcription errors.

Many allocators will be looking for ways to digitise the data held within completed DDQs and to start making sense of it quickly. A digital platform should:

- Automatically ingest completed DDQs from managers
- Standardize response data across the fund manager portfolio
- Analyze large amounts of data to identify trends and red flags
- Present data in a user-friendly dashboard

If ODD teams could reduce ingestion time to a few minutes per response, the time savings and accuracy gains brought about could be transformative.



Best practice DDQs are freely available. Adapt standard templates to suit specific due diligence needs.





Make sense of qualitative data from multiple sources for a richer view.

How to digitize the fund manager ODD Process

Step 3

Think beyond the manager or GP

To achieve the full benefits digital transformation can bring, firms should now consider moving beyond the traditional due diligence questionnaire data, to include qualitative data from varied sources. However, collecting and analysing data and documents can be challenging and cumbersome via traditional methods.

- By digitizing the process, standard due diligence investigations can be enriched with additional one to one data provided by the manager, using questionnaire templates, or bespoke requests.
 - Add emails, research notes and findings stored in Outlook or SharePoint and present the full manager picture.
 - Include data from government sources, such as the SEC Form ADV.
 - Draw in additional findings from the research or investment teams, or third party data from external data providers such as Prequin or eVestment and view it through a single pane of glass.
- By digitally transforming the fund manager ODD process, data ingestion processes can be automated to reduce administration time, improve data accuracy and minimize unnecessary risks and complexity.



Dasseti is used by over 3000 fund managers. It's the platform they actually enjoy using.

How to digitize the fund manager ODD Process

Step 4

Enjoy closer relationships with your managers

The ODD process provides assurances to allocators that their fund manager portfolio is robust and within acceptable risk parameters. It involves a necessary exchange of data between two parties, which has traditionally been seen as an administrative burden for managers.

By digitizing the process, allocators can transform the experience for managers, reduce the time spent completing repetitive tasks and improve the accuracy and return rate.

- Invite fund managers to respond via a simple, web-based interface.
- Manage the questionnaire process by setting automatic reminders and follow up requests for missing or incomplete responses.
- Draw on existing data held on fund managers from previous questionnaires or other data sources to pre-populate questionnaire responses before sending. Fund managers can accept or edit responses quickly and easily.
- Work with what the managers have already, ILPA and AIMA questionnaires for example can be uploaded, the data can be pulled from them via AI, so managers don't need to answer the same questions over and over again.
- Use one to one data requests to gather essential data only, enriching the results with data from other sources.
- Enjoy frictionless, direct communication with fund managers, with a full audit trail for both parties.



How to digitize the fund manager ODD Process

Step 5

Prove the value of a digital platform with a proof of concept

Time is scarce and an evaluation process can seem daunting. A proof of concept offers a quick way to fully understand the benefits of a digital platform.

As each client and every ODD process is unique, for a new digital platform to be effective and adopted by the team it must account for existing processes. A customized POC will show how easily the platform can be configured to meet the changing needs of ODD teams, and demonstrate the ways it can improve the investment process.

Don't waste time on generic trials, insist on a personalized POC.



Experience a tailored proof of concept in just two weeks, with one of your own questionnaires.





Why Dasseti?

Some of the world's largest allocators are using Dasseti to gather and make sense of their manager data. Why?

- **We understand the challenges faced by institutional investors:**
 - We have completed over 30 due diligence transformations
 - Dasseti is accessed by around 5,000 users on a monthly basis
 - Dasseti clients have delivered 20,000 questionnaires
 - 60,000 tasks/notes and risk findings have been documented and 100,000 data fields are maintained
- **Dasseti uses proven technology, machine learning capabilities and natural language processing, to automate data ingestion and comparison features.**
- **Dasseti is web-based, simple to use and speedy to implement.**
 - Dasseti provides greater visibility of fund manager data, enriching traditional DDQ responses with data from multiple sources and presenting it via a single pane of glass.
 - Dasseti clients report productivity improvements of up to 5x
 - Dasseti uses APIs to integrate with leading data provider platforms
 - Dasseti provides a frictionless way for managers to provide essential data to allocators.
 - Dasseti allows ODD teams to be proactive not reactive, staying on top of industry best practice.
 - Managers prefer the Dasseti platform more than any other alternative.

Dasseti is the most flexible, enterprise-grade due diligence platform, that has been designed specifically for the investment management sector.

Checklist

- Compile a list of reports required, by whom and in what format
- Identify the questions and answers sought
- Calculate time spent on different tasks; data ingestion, questionnaire creation, fund manager communication, flagging, chasing responses, comparing data from different sources
- Identify other data sources; notes, emails and files provided by fund managers, Government data, internal research data, external research data
- Gather existing questionnaires to be ingested
- List new questionnaires to be created
- Understand compliance and audit requirements
- Identify your review process and how you identify these risks
- Book a platform demo
- Consider a free proof of concept
- Share some data and evaluate a platform with a single or few questionnaire



One platform that cuts due diligence time, achieves better results and reduces investment risk.

Talk to us today, book a demo or let us create a proof of concept based around your workflows.