

The New ODD: Operational & Data Diligence Considerations for Allocators & Managers

Operational due diligence (ODD) arose to ensure investment managers were taking their fiduciary responsibility to their investors seriously across all aspects of their business - giving the same resources and best practice focus to running their businesses as they do on the investing and research side. Managers conduct ODD when assessing counterparties and vendors, to ensure those they engage with foster the same high standards and serve as a true extension of their firm.

Robust ODD helped to institutionalize the alternative investment industry – and enhancement is ongoing. Cybersecurity, for example, has not only grown from a material section of many managers' disaster recovery plans, but now comprises entire section of their DDQs (due diligence questionnaires). And managers include cybersecurity concerns when vetting their own counterparties and vendors.

Now, given the considerable rise in managers developing data strategies in recent years, as well as related emerging regulation, we are publishing **The New ODD: Operational & Data Diligence**, to help inform allocators and managers as they work to incorporate new data and information paradigms in their ODD processes. Allocators and managers want to understand and feel comfortable with all stages of their information supply chains. Consult with your counsel and compliance personnel for specifics, but we hope The New ODD helps to inform your overall diligence and information gathering processes.

The New ODD - For Allocators

We noted in [Quantifying Intuition](#) and [Quantifying Strategy](#) that alternative investment managers are increasingly building data strategies to take advantage of the abundance of new available information. They're hiring talent, dedicating resources and building infrastructure to source, ingest and leverage data across their organizations. They're also applying the same robust compliance approach as other aspects of the research process.

This has numerous due diligence considerations for allocators.

Allocators should be asking their managers:

1. What is your data strategy?
2. How is your data sourced?
3. Do you conduct web scraping internally? If so, how is it monitored?
4. What is the process for onboarding a new data provider?
 - Request a copy of questionnaire provided to potential new data vendors.
 - What disclosures/attestations are they required to make?
5. Are any of your data sources originating outside the U.S.?
6. Walk us through how your compliance personnel have been involved with sourcing, vetting and onboarding data.
7. Have you ever passed on a data source because of compliance concerns?
8. Are you in scope for GDPR (Global Data Protection Regulation)?
 - How have you responded?
9. Who – if anyone in particular – manages your data effort?
10. Where do you allocate data costs?

As *Quantifying Intuition* and *Quantifying Strategy* report – we remain in the early days of the data build out at alternative investment managers. At this point, answers to many of these questions will vary. What's important, however, is that thought has been given to the issue – and how it impacts the firm from a compliance and process standpoint.

The New ODD for Managers

As managers consider and continue to allocate resources to building a data strategy for the next decade, they are doing so with an eye to longevity. They are building the teams and infrastructure that will help their organizations over the long term, as many expect IoT (internet of things) and voice data to create an additional wave of new information.

As managers increasingly source and bring new data sets on board, they are also mindful of ensuring their counterparties maintain the same level of diligence and compliance. Particularly as regulations like GDPR in Europe go live, managers are working to ensure they – and the organizations in their ecosystem – remain focused on robust, thorough, and compliant handling of information.

Managers may consider asking their data providers:

1. What is the origin of this data?
2. How was it sourced – and where was it sourced from?
3. Do the end owners of the data know it is being used / resold?
4. How many other clients are purchasing this data set (i.e. – exclusive, semi-exclusive, widely available)?
5. Consult with counsel and consider any appropriate reps and warranties, depending on the type of data set being sourced.

We are, as they say, at the beginning of the beginning of the new data era. The information being increasingly sourced by managers is diverse – and there is no one size fits all approach. What is clear, however, is that managers should ensure their legal/compliance personnel are involved in developing clear and appropriate processes for the sourcing, vetting and onboarding of new data.

CONTACTS

Leor Shapiro

Global Head of Capital Intelligence
+1 212.336.6267
lshapiro@jefferies.com

Shannon Murphy

Strategic Content
+1 212.336.1139
shannon.murphy@jefferies.com

Erin Shea

Capital Intelligence
+1 212.323.3337
eshea@jefferies.com

GDPR: General Data Protection Regulation

GDPR, an enhanced set of privacy regulations that focuses on how firms collect, manage and protect data, goes live in Europe on May 25th.

Managers and allocators should determine whether they are in scope for the far-reaching legislation and respond accordingly.

Among GDPR's requirements are mandated breach notification for cyber incidents that involve personal data, and heightened diligence for data protection with counterparties.

It is important for managers to ensure that any third parties and vendors that interact with personal data, as defined in GDPR, have appropriate protections and notification systems in place.

For further information: <https://www.eugdpr.org>

IMPORTANT DISCLAIMER

THIS MESSAGE CONTAINS INSUFFICIENT INFORMATION TO MAKE AN INVESTMENT DECISION.

This is not a product of Jefferies' Research Department, and it should not be regarded as research or a research report. This material is a product of Jefferies Equity Sales and Trading department. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of the individual author and may differ from the views and opinions expressed by the Firm's Research Department or other departments or divisions of the Firm and its affiliates. Jefferies may trade or make markets for its own account on a principal basis in the securities referenced in this communication. Jefferies may engage in securities transactions that are inconsistent with this communication and may have long or short positions in such securities.

The information and any opinions contained herein are as of the date of this material and the Firm does not undertake any obligation to update them. All market prices, data and other information are not warranted as to the completeness or accuracy and are subject to change without notice. In preparing this material, the Firm has relied on information provided by third parties and has not independently verified such information. Past performance is not indicative of future results, and no representation or warranty, express or implied, is made regarding future performance. The Firm is not a registered investment adviser and is not providing investment advice through this material. This material does not take into account individual client circumstances, objectives, or needs and is not intended as a recommendation to particular clients. Securities, financial instruments, products or strategies mentioned in this material may not be suitable for all investors. Jefferies does not provide tax advice. As such, any information contained in Equity Sales and Trading department communications relating to tax matters were neither written nor intended by Jefferies to be used for tax reporting purposes. Recipients should seek tax advice based on their particular circumstances from an independent tax advisor. In reaching a determination as to the appropriateness of any proposed transaction or strategy, clients should undertake a thorough independent review of the legal, regulatory, credit, accounting and economic consequences of such transaction in relation to their particular circumstances and make their own independent decisions.

© 2018 Jefferies LLC