

“BETTER” BEST PRACTICES

ODD: Optimized, Dedicated, and Deliberate

Nearly every aspect of conducting business has been called into question this year, and Operational Due Diligence (ODD) has completely transformed. The “BETTER” BEST PRACTICES series aimed to uncover what procedures and protocols have adjusted, with predictions on how these changes may influence the industry going forward. As we venture into 2021, what does the future hold for Operational Due Diligence?

Deep Dive into Operational Due Diligence

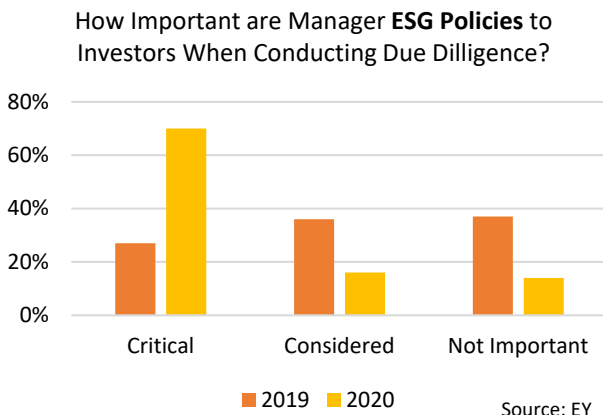
Key Practices Observed in 2020: Where there’s a Will, there’s a Way

Short is Sweet....	A “Rolling Process” has become increasingly adopted. Instead of a 4 hour on-site – many have been breaking up meetings over the period of a week to better get to know different members of the team and avoid “Zoom fatigue.”
Travel Down, Tech Up	When the travel expense budget went down, technology went up. Firms began to leverage technology such as Zoom, Intralinks, and Box on the ODD side for communicating and sharing sensitive information.
Investing in New Managers...is Happening	When the industry shifted to remote set-ups, many thought ODD would come to a full stop until the world reopened. However, market participants were more resilient than expected.
What’s up, docs?	‘Pandemic language’ has been added to fund documents and material adverse effects have been adjusted in contracts.
Living in a Digital World...	Driven largely by efficiency; this need was created due to missing the ability to walk over to someone’s desk and get them to sign on the spot

Case in point: *One investor group which claimed in-person on-sites were non-negotiable made **over fifteen allocations this year** – through a mix of completely new relationships and some ongoing discussions*

ESG Policies and Hiring Practices Ingrained in the Due Diligence Process

The number of investors who noted that manager ESG policies were important to the decision process when making an investment more than doubled from 2019 to 2020.¹

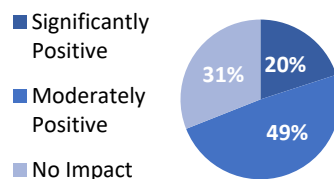


“Constituents asking for more transparency across asset classes translates to investing in managers that have an ESG framework”

- Director, Endowment

The due diligence process for investors has emphasized the D&I practices of managers. Investors are increasingly sharing the belief that diversity in the front office leads to good societal and governance behavior, and **delivers stronger returns.**

What Impact do Investors Believe Diversity has on Managers' Returns?



57%

A majority of Investors surveyed for EY’s 2020 piece on Global Alternative Funds stated that they review the actual D&I composition of managers.¹

Operational Continuity... Underpinning the Success of Firms this Year

This year prompted managers to take a close look at their infrastructure and the service providers they partner with across their organizations. It also prompted ODD teams to focus on **ensuring their managers had operational continuity and mitigate any potential “key person” risk on the non-investment side of the business.**

What have been some of the key impacts of this trend?

- Increase in leveraging **Outsourced Trading desks** for back-up
- Increase in leveraging **Outsourced COO/CFO firms** to achieve redundancy on operational workflow
- Managers **re-underwriting existing service providers** to ensure partnerships are strong and there are no gaps
- Increase in ODD teams leveraging service provider community for **reference checking** in a virtual environment

 LISTEN HERE



This episode of Connecting the Dots features **Paul Covello, Jefferies’ Global Head of Outsourced Trading and Leor Shapiro, Global Head of Capital Intelligence** discussing:

- The **resurgence of active management**
- **Operational continuity** as an enabling force behind that movement

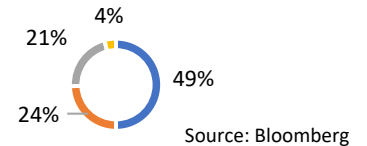
When the Pandemic is in Our Rearview Mirror, What Will ODD Look Like?

Top 5 Predictions...

- 1 Hybrid Format:** An in-person AND virtual ODD model is the most likely outcome of 2020
- 2 From commoditized to customized.** Increased customization and calibration of the process versus a more uniform approach.
- 3 Follow-ups don’t warrant a 5-hour plane ride.** Expect to see a more efficient and less travel-intensive process.
- 4 Data Management.** Full adoption of public cloud, even for the laggards...
- 5 FaceTime is the New “Face Time”.** Continued reliance on video conferencing applications as part of the ODD process and more frequent, informal interactions between managers and ODD teams.

Is Virtual ODD/IDD a Legitimate Alternative to In-Person Meetings?

■ Yes, Temporarily ■ Yes, Permanently
 ■ Prefer In-Person ■ Indifferent



As of Q4 2020, Bloomberg noted that nearly **75% of investors surveyed stated virtual ODD/IDD** is a legitimate alternative to in-person meetings, at least temporarily

Survey Says...

The Jefferies Capital Intelligence team recently released a client survey to poll the manager community on a few key areas in 2020 – **Data, Client Engagement, and Operational Due Diligence.**

Click here
to
participate

Please click the link to participate (all responses completely anonymous) if you have not done so already, and stay tuned for results in early 2021!

Wishing everyone a healthy and safe holiday season.

Footnotes

¹ EY 2020 Global Alternative Fund Survey. 2020. Available At: https://www.ey.com/en_gl/wealth-asset-management/does-accelerating-adaptation-present-obstacles-or-increase-opportunities

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