

WHITEPAPER

Automation: How to Scale Due Diligence and Reduce Risk



CENTRL

DUE DILIGENCE PLATFORM

CENTRL is a leading third party risk and diligence platform for financial institutions worldwide. CENTRL's DD360 delivers significant efficiency improvements and enhanced risk oversight to asset owners, consultants and investment groups.

The CENTRL platform is used by the largest allocators, banks and investors across the Americas, Europe and APAC. For more information, please visit oncentrl.com/due-diligence or visit us at oncentrl.com/demo-request/ to schedule a demo.

US/Global +1 415 780 9667

UK/Europe +44 020 3037 8609



@oncentrl



/company/centrl/

Ver. 2022.06

TABLE OF CONTENTS

Reasons to Perform Due Diligence	4
• Why Skipping Due Diligence is Not An Option	4
• Making Efficient Due Diligence Possible for Investment Teams	5
• Automation Provides Analysis and Transparency	5
The “How” of Due Diligence	6
A Framework For the Next Gen Platform	7
The Automated Due Diligence Framework	8
• Deep and Radical Workflow Automation	8
• Automated Analytics and Flexible Reporting	9
• A Shared Network Platform	10
Build vs Buy	10
Finding a Software Platform	11
• DD360	12

EXECUTIVE SUMMARY

If you're an allocator of capital to alternative investments, then you're probably already familiar with the due diligence process and know that it's a process geared towards a thorough review and reporting of an investment target's internal operations. That it gives you a big picture as well as a granular assessment of the target company, and allows you to create a strategy accordingly.

You might be feeling jaded about the importance of your due diligence knowing that most of the time, not having a thorough due diligence strategy in place isn't a cause for alarm up the chain of command. Or you may be feeling overwhelmed by the process: the sheer volume of documents obtained through a Due Diligence Questionnaire is enough to have you questioning the place of due diligence in a businesses' overall strategy. After all, how can any one company effectively collate and process that much information and produce insightful analysis and recommendations in a timely fashion to impact investment decisions.

Here at CENTRL, we believe that a thorough and streamlined due diligence process is a critical process to mitigating the operational risk associated with your investment. What's more, we believe that this process—can be streamlined — resulting in timely and insightful results and fewer pain points along the way. That's why we created an due diligence software that can provide all of the benefits of a robust system without the time-intensive burden of a manual due diligence process. We believe that the automation of due diligence can better serve allocators.

We hope this whitepaper will convince you and your investment team of the importance of the process, and help gain a better appreciation for it along the way. So, read on as we outline some of the strengths of the process, and the weaknesses you leave yourself open to without it.

► REASONS TO PERFORM DUE DILIGENCE

Due diligence is a critical process for investors to assess a potential investment, and make informed decisions about the risks associated with that investment.

With successful due diligence in place, you can assess the operations of the target company in terms of control infrastructure, compliance, valuation process, and of course, potential for asset growth. Think of it as a roadmap to understanding the operational footprint of the target company. Due Diligence allows you to see their business laid out, from their organizational structure to potential conflicts of interests and the competency of its talent pool. Without this process, an investor may be in the dark about potential operational risks that could have a material impact on their investment.

Of course, this identification of potential risks is a huge part of what makes the due diligence process so important. It would simply be bad business to enter into a private investment without thoroughly understanding what you're getting into — or one which lacks depth of management or C-suite direction with no plans on changing their operations. Vetting a company through operational due diligence gives you the best chance of understanding operational risks, and gives you a way to strategize about heading them off before they become a material risk to your investment.

By the same token, due diligence can expose hidden strengths in the target company, whether that be previously unknown assets, lower than anticipated redemptions, a strong liquidity profile, or other factors. The point of operational due diligence is to give you the clearest possible picture of a company's operations; the good and the bad together.

WHY SKIPPING DUE DILIGENCE IS NOT AN OPTION

We've all heard the horror stories: the hedge fund failure nightmares, the Madoff scandal the business practices that were decidedly not above-board and caused considerable issues up and down the business chain. Hedge fund failures which have amounted to almost \$100 billion dollars in losses are often caused by a combination of factors, from unauthorized trading (which comprises 5% of failures) or misrepresentation of investments from valuation to existence (which makes up 18% of failures), to plain old operational issues, including quality staff and poor resiliency (resulting in a whopping 56% of failures).

These stats are worrying, yes, but we're bringing them into the conversation for an important reason: they all can be mitigated with a robust operational due diligence process in place. That's because in-depth ODD works with the explicit aim of articulating these potential problems ahead of time, taking a deep dive into the operational practices of a target company and making sure that everything is above board and not at risk for failure.

Making Efficient Due Diligence Possible for Investment Teams

Clearly, due diligence is a process that can't be overlooked. Yet, given the plethora of information that can come out of a due diligence review, it's understandable if you don't think your team has the time to manage a thorough due diligence process, or analyze the data necessary to properly understand the target company's operational practices.

An automated system not only helps streamline the gathering of information, but can also simplify the creation of analytics to give you a valuable and nuanced view of the target company that can improve your investment decisions. Critically, an automated system can streamline and enhance your current process without adding to its burden.

Automation Provides Analysis and Transparency

An automated solution allows questionnaire documents to be centralized and streamlined. But how does that help with the big-picture view of the target company? DD360, CENTRL's Due Diligence Platform, takes specific steps to help investment managers understand the consolidated view of the target company by: automatically running benchmarks across all managers at a detailed level, utilizing dynamic dashboards to track progress and provide transparency for management, and preparing detailed analytics and reports to gain insights and highlight risks and exceptions where necessary.

This process can also help manage issues and findings within the platform by both documenting an issue's status, severity, and recommendation, and creating an action plan to combat the issue. ODD360 also manages progress on issues from start to finish, so you aren't left worrying about ongoing issues or worrying that you've missed something along the way.

These are just some of the key features of an automated due diligence process utilizing DD360. A robust due diligence process is designed to be as specific as possible, creating a deep well of information that a company can leverage for informed decision-making.

Another benefit of automation that often goes overlooked is the ability to bring in more funds. There is immense value in being able to show that systems are in place. On the target company side, automation can: place emphasis on the manager experience, reduce burden on the team, and use responses again and answer new questionnaires without repetition.



TIP

Benchmarking allows you to measure every aspect of due diligence, both historically and in real time. Automating the benchmarking process can create immense efficiencies in assessing your investment portfolio holistically to assess key factors, such as which of your investment managers is falling below industry standard.

A due diligence technology solution allows you to easily benchmark each individual investment manager over time to assess how their business has evolved and whether or not there has been a corresponding operational improvement or decline. This can prove extremely valuable in assessing changes in operational risk that could have a significant impact on your investment.



► THE “HOW” OF DUE DILIGENCE

To make this process adequately robust, detailed, and exhaustive, there simply isn't enough of a workforce on staff at your organization to synthesize and collate it. So how can we revitalize this process so investment managers are able to concentrate on the aspects of the target company that are most important? A manual process is highly resource constrained, and makes it difficult to perform comprehensive and effective due diligence.

To that end, many companies try to attain comprehensive due diligence through a hybrid of manual and systems resources, while others turn to third-party or outside consultants. CENTRL believes that the true answer to a smooth due diligence process lies in its automation — which is why our automated operational due diligence software exists. We've created a quick and streamlined solution that will minimize the hassle, uncertainty, and amount of time consumed in the due diligence process, while still providing a robust, thorough, and granular look at the target company's operations.

The automated approach used by DD360 allows the investor to quickly gather all of the necessary evidence for the due diligence process to run smoothly and comprehensively. The more flexible and automated, the more time you can spend analyzing, performing risk management, and communicating with senior management — and, the more trouble you can potentially save yourself down the road.



► A FRAMEWORK FOR THE NEXT GEN PLATFORM

In our current business climate, the due diligence process seems largely dominated by manual Excel and Word assessments, back-and-forth email communications, and offline scoring and reporting. And that's just on the investor side. The burden is even greater for managers who have to answer hundreds of questionnaires that are a part of any due diligence process—in multiple disparate formats with similar but custom questions.

This process is both tedious and prone to inconsistencies. Not only that, the use of out-of-date technology can make it worse. The due diligence process should mirror the technological progress of our companies and our world.

▶ THE AUTOMATED DUE DILIGENCE FRAMEWORK

How can a company create software that innovates in a critical area where the current processes have been overtaken by growing complexity and pressure? By thinking forward, of course. At CENTRL, we believe that the future of due diligence automation will be driven by three key themes:

- 1 Deep and Radical Workflow Automation
- 2 Automated Analytics and Flexible Reporting
- 3 Shared Network Platform

Deep and Radical Workflow Automation

The due diligence process is complicated and multi-step, which spans the workflows of both investors and managers. For the investor, the due diligence process consists of several steps: design, execution, evaluation of assessments, and management of issues and risks. When done at scale and without the use of proper tools, this end-to-end process can be highly tedious and prone to errors. In addition, it can drain time and energy away from assessing and managing risk, which is the true purpose of the process.

We at CENTRL believe that transforming the due diligence process requires deep and radical workflow automation. We use the words “deep and radical” carefully—to differentiate the right solution from semi-automated tools that fall in the category of “paving the cowpaths.” That partial automation of legacy processes yields, at best, incremental benefits. At worst? It makes a mess of the entire process by creating a patchwork solution. In our view, radical and deep workflow automation can prevent this. This type of automation consists of the following components:

Configurable and flexible workflows for investors and managers. On the investor side, this involves flexible workflows for DDQ template creation. This should leverage a comprehensive question data bank, automated distribution of questionnaires to managers with rules-based events (both on-demand and for future dates), and automated scoring and evaluation. For enterprise-level implementations, automated assignment and delegation workflows for investors work best. And for managers? This automation can bring great efficiency for the IR team.

A focus on “what has changed.” Targeted workflows aimed at eliminating repetitive question answering are key to transforming due diligence—for both managers and investors. A smart tool must never require the repetition of work from one assessment to the next. By pre-populating a DDQ with responses from the last time, you automatically eliminate well over 50% of work for the manager to answer repetitive questions. Likewise, for the investor, the ability to focus on “what has changed” and see the changes side-by-side is not just an efficiency booster, but a sharp tool for risk analyses.

Automated DDQ data extraction for risk analyses and comparisons. Ultimately, the DDQ is an artifact which contains an enormous amount of data. A powerful due diligence tool should automatically extract data from DDQs for risk reporting and comparisons. This capability transforms the DDQ process from a static event to a true data-gathering process, which enables big data analytics at a manager or fund level.

**EXAMPLE**

A key service provider is shutting down and you need a way to quickly assess how many of your investment managers this will impact. If you have a manual due diligence process, imagine how tedious it would be to go through every due diligence report in Word and figure out which investment managers are using this service provider. But with a due diligence technology solution, you could easily have this information at your fingertips with the click of a button.

Internal and external collaboration in context and in app. The world of enterprise applications has been transformed by collaboration software. Tools like Slack and Jira have changed the way teams work and collaborate. We believe the same applies for the next generation of ODD platforms. The ability to collaborate within the ODD teams and with the manager — all within the app and in context of the DDQ process — can be powerful drivers of efficiency and increasing control and oversight. Nothing is more exasperating than wasting time searching for critical information lost in disparate email threads.

In our view, these updated processes are some of the key features that will define the future of due diligence. This type of deep workflow automation has been yielding 60%+ efficiency improvements for due diligence groups, according to our reporting. And it's just the beginning of the changes that we are proposing.

Automated Analytics and Flexible Reporting

When working with a small team with limited time and resources, you need clean data to guide management moving forward. Analytics and reporting provide transparency to risk posture of different managers and funds. Having an overview of your portfolio makes it easy to pull together an audit trail and show what has changed over time, creating massive time and resource savings.

With automated analytics, you can keep the data from all your fund managers in one place, slice and dice data in any way you want, and run detailed analyses across managers or funds to expose overall risks (or specific ones). The technology platform should allow you to easily work with a reporting team to create any dashboard or widget in their business intelligence tool for periodic review in the platform.

**TIP**

With flexible reporting, you may be able to digitize your own executive summary report in Word, Excel, PPT, or PDF, or use an out-of-the-box one. An executive summary report should be able to harvest data from the DDQs, fund manager profile, or risk scoring of a fund manager.

A Shared Network Platform

A shared network platform is a two-way communication network between a due diligence analyst and respondents. A very robust portal should have everything needed to respond effectively and assign questions. A focus on the manager experience, where they can easily respond to issues or clarify answers, becomes more powerful as more managers join. An overlap of questionnaires for managers and funds creates a more consistent experience.

► BUILD VS BUY

Build

One of the most obvious reasons to build a solution is to maintain a high level of control over the process. If you build your platform, you can customize every aspect, ensuring the specific features you need are included.

Yet, the build process can also be lengthy and costly. If time to market is of great importance, a team needs to take this into account. If you're relying on internal resources, there is also a learning process to consider. The IT team overseeing the project will need to research and test while building. This can add months (or potentially even years) to the process — if it succeeds at all. According to Nick Heudecker, VP analyst at Gartner, "85%¹ of internally developed Big Data projects fail." Thus, building your own solution often comes with the risks of lower reliability, fewer features, and fewer integrations with other platforms and data sources.

Buy

Choosing to buy means more time can be dedicated internally to what matters most: value added services. Of course, there is an upfront acquisition cost for software. But, the overall cost is lower than building, as spend on resources is not a factor. From our internal benchmark data, we've discovered that there can be major cost savings with up to a 50% improvement in efficiency.

Another factor to consider is that a platform with dedicated external resources is always enhanced through ongoing work. A preexisting platform has more features, fewer software bugs, higher reliability, and integration capabilities. A next-generation platform has a lot of value that simply can't be achieved otherwise. A high level of automation and analytics means time is not wasted on manual hours, and you get concrete data on which to base decisions.

As a general recommendation: If the requirement fit of commercial software is 60% or more, buy is the way to go.

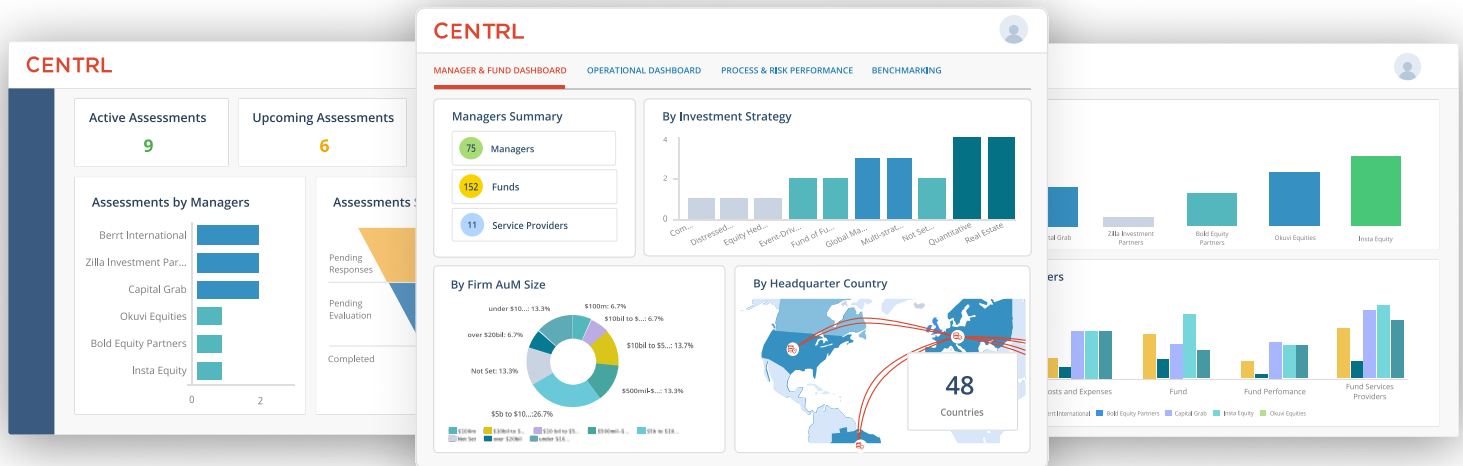
► FINDING A SOFTWARE PLATFORM

As there are several platform providers available, it's important to make sure you're selecting the vendor that will be the best fit for your organization's needs. Select a software provider based on the following checklist:

- ☐ Has fully automated DDQ and RFI workflows
- ☐ Can pre-populate answers and only evaluate "what has changed"
- ☐ Ability to extract answers from DDQs and use for analytics
- ☐ Can automatically generate reports
- ☐ Has a single document repository with all data in one place
- ☐ Offers a module for client publishing
- ☐ Can publish manager reports to clients with great control
- ☐ Manage central repository of all reports and control distribution to clients
- ☐ Collaboration with clients in application and with investors at the report or document level
- ☐ Ability to track report usage by clients
- ☐ Intuitive user experience to respond to Investor DDQs
- ☐ Document library to control frequent uploads and versioning

DD360

DD360 is the most advanced and comprehensive software platform for automating the due diligence process for investors, allocators, and consultants. In addition to automated and configurable workflows for the DDQ & RFI process, the platform provides a centralized manager and fund database, document repository, sophisticated analytical dashboards, issue management and an easy-to-use portal for managers.



Now, it's all there on the system, we can see where everything is and where it is at in the process... Process is far smoother. It saves our team a couple of months each year now. And, given the reduced back-and-forth over email and excel spreadsheets, it generally reduces the time it takes us to do our weekly, monthly, quarterly, and annual reporting activities by about 50%.

- Global Fund of Funds

We looked at all the due diligence solutions in the market and chose CENTRL because it was the most complete solution. It is very easy to use, has the greatest depth of functionality and analytics and provides flexibility to adapt it to our process

- Leading Due Diligence Consultant

CENTRL

DUE DILIGENCE PLATFORM



Learn More: oncentrl.com/due-diligence

Get a 1:1 Demo: oncentrl.com/demo-request



US/Global: +1 415 780 9667

UK/Europe: +44 020 3037 8609



dd360@oncentrl.com



[/company/centrl](https://company/centrl)



[@oncentrl](https://twitter.com/oncentrl)

More Resources

Enjoy this guide?

Visit <https://oncentrl.com/resources> for more best practice guides, blogs, and ebooks on global bank network management.

LEGAL DISCLAIMER

This document and the information provided therein were prepared by CENTRL, Inc. for informational purposes only and not for the purpose of providing legal advice. You should obtain independent advice regarding any of the information covered in this document and its applicability to your business.

CENTRL

DUE DILIGENCE PLATFORM

CENTRL is a leading third party risk and diligence platform for financial institutions worldwide. CENTRL's DD360 delivers significant efficiency improvements and enhanced risk oversight to asset owners, consultants and investment groups.

The CENTRL platform is used by the largest allocators, banks and investors across the Americas, Europe and APAC. For more information, please visit oncentrl.com/due-diligence or visit us at oncentrl.com/demo-request/ to schedule a demo.

US/Global +1 415 780 9667

UK/Europe +44 020 3037 8609



[@oncentrl](https://twitter.com/oncentrl)



[/company/centrl](https://company/centrl)

Ver. 2022.06