

## WHITEPAPER

# Looking to the Future of Due Diligence: Technology Implementation



**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](https://oncentrl.com/due-diligence) or visit us at [oncentrl.com/demo-request/](https://oncentrl.com/demo-request/) to schedule a demo.

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## EXECUTIVE SUMMARY

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Today, many companies manage their due diligence process manually. Most companies send out email attachments of documents, request lists or long questionnaires in Word or Excel files. The use of email and ad-hoc methods to request documents makes the process painful for both parties - the sender and the recipient.

The good news is that manual due diligence is no longer the only option. Advancements in cloud storage, software-as-a-service, and predictive analytics make this the perfect time for a due diligence automation solution.

Automating due diligence processes offers tangible benefits for senders and recipients while raising the level of due diligence management from arduous to analytical. By digitizing requests, eliminating multiple emails, enabling accountability and automating scoring, senders and recipients can both dramatically streamline due diligence processes and provide greater insight to those tasked with analyzing the data.

COVID-19 has undoubtedly changed the way operational due diligence is conducted. Coming out of a fully remote world, operational due diligence professionals are finding it difficult to mix the previous practices with a new reality. The answer? A hybrid model that combines onsite practices with technology can lead to greater efficiencies.

At CENTRL we serve investors, consultants, and fund managers every day. Over time we've observed what works and what doesn't. This whitepaper will expand on some of the best practices for operational due diligence as they relate to technology implementation.

# ▶ THE NEED FOR DUE DILIGENCE TECHNOLOGY

The world of enterprise applications has been transformed by collaboration software. Tools like Slack and Jira have changed the way teams work and collaborate. The same applies for the next generation of Due Diligence platforms. The ability to collaborate within Due Diligence 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.

## A CASE STUDY IN OPERATIONAL DUE DILIGENCE TECHNOLOGY

Like many ODD teams, a leading multi-asset manager business client of CENTRL's had a small team of three people to manage and oversee due diligence efforts for a large number of investment managers.

Struggling to keep up with the ever-growing and changing oversight expectations and legacy manual ODD processes, they turned to a consulting provider to help manage these efforts on their behalf. However, they quickly realized that wasn't the solution they were looking for. The consultants didn't scale, added additional costs for every manager, and could not provide the granular insight they needed. Our client also realized that their ODD process could be more robust and accurate if they directly engaged with the investment manager rather than relying on secondary data.

All of these difficulties and limitations led our client to search for a better way to structure their ODD processes. The client's Head of ODD began to ask around the investment community. After speaking to other Heads of ODD and leaders in the industry, they suggested she check out an ODD platform.

With DD360, CENTRL's ODD platform, in place our client had...

**All ODD data in one place and flexible to accommodate their workflows:** From the very start of the process, CENTRL's ability to go back and import all their historical records made it stand out. As our client said: "We really liked how configurable it was. Because the product could really work for us, instead of us working for the product." The business was also able to configure the software to their workflows and scoring processes.

**Reduced risk and improved manager relationships:** With DD360, all interactions are located within a single platform, making communication direct and seamless, assuring that nothing gets lost between emails and questionnaires. The platform allows benchmarking across managers with the same strategy, helping with their decision process to invest or disinvest with certain managers based on key data points like the quality of their processes and controls and potential operational risks. They also find the comparative data is extremely helpful when they need to explain their decisions to the investment committees.

**Efficiency with reporting:** "We are often asked questions by our investment committee, such as how many managers encountered a particular issue. Previously, we used to struggle and spend cycles searching through different questionnaires to try to find this information," shared the Head of ODD. "Now, we can quickly narrow down through the searchable interface, slice and dice, and quickly get answers back to the committee the way we want".

**Effectiveness with audits:** Last year, our client was audited and able to pass because of the system's detailed history and audit trail, including details behind actions taken, all in one place. These days, they operate five times more efficiently, and have reduced tasks that used to take an hour down to only ten minutes.

[Read the full case study here.](#)

## ▶ HAVE A CENTRALIZED DATA HUB

Keeping everything in one place and being prepared with an audit trail is an incredibly important aspect of Due Diligence. Scaling provides a whole other set of challenges that can become more complicated without a central location to provide a single source of data, especially when working with a small team.

**TIP**

*For a better user experience, make sure respondents have their best answers prepared. Education to understand the reasoning behind the questions can make a large impact. While past processes have relied on spreadsheets in various places, modern technology can make all of these accessible in one single location, where every individual has access to unified data.*

## ▶ THE RIGHT DDQ

Virtually all due diligence processes involve inefficiencies around completing a questionnaire or a list of requested documents. The size and length of these questionnaires or lists can differ by situation, but management of the process often consists of dozens to hundreds of questions, supporting content, and communications when questions and issues arise. Selecting a due diligence questionnaire (DDQ) can be difficult when there are so many options available. There is no one-size-fits-all solution, so it's essential that a DDQ is chosen with care. The sections below outline some of the most popular DDQs in the industry and the topics they cover.

**TIP**

*Create a customized DDQ that pulls on questions from relevant DDQs to fully address all areas of needed information.*

### ILPA

The Institutional Limited Partner Association (ILPA) has created a DDQ that covers many topics related to fund diligence, including:

- General firm information
- General fund information
- Investment strategy
- Investment process
- Team
- Alignment of interest
- Market environment
- Fund terms

- Firm governance/risk/compliance
- ESG
- Track record
- Accounting/valuation/reporting
- Legal/administration
- Diversity and inclusion

According to the ILPA, “These topics are covered in a series of short form and long form questions that are designed to help shape the direction of an LP’s diligence process. The ILPA DDQ also provides a list of requested documents and data points that would ideally be provided in any GP’s diligence package.”

## SBAI

The Standards Board for Alternative Investments (SBAI) Alternative Risk Premia DDQ includes 70 questions covering many areas. These include:

- Boker-dealers' research and development capabilities
- Governance
- Operational aspects
- Trading set-up
- Team set-up
- Investment process
- Index design
- Cost analysis

## AIMA

The Alternative Investment Management Association (AIMA) DDQ is used by investors assessing hedge fund, private credit, and private equity managers. This DDQ covers:

- Governance
- Operations and Risk Management
- Responsible investment
- Strategy
- Fund of funds
- Private equity
- Models and systematic training
- Illiquid credit

Even when crafting your own DDQ, an existing questionnaire is a great place to start. A better user experience emerges when the respondents are addressing questions with which they are familiar.

# ▶ CONDUCTING DUE DILIGENCE WITH AUTOMATION AND TECHNOLOGY

Due Diligence teams can be relatively small, especially in comparison to the relatively large number of funds they are expected to manage, making it difficult to scale with manual processes. This necessitates the consideration of new approaches, such as technology, to scale to all the investments needing coverage.

From the asset manager side of the process, dealing with complex DDQs can be cumbersome and time-consuming. The fact that less than 14% of investors say they use an industry-standard DDQ form means that asset managers will be spending time answering questions that are at least partially customized for each investor. This effort is not in vain, though, as over 70% of the investors view DDQ responses as very important or extremely important to the due diligence process.<sup>1</sup>

## *Creation, Distribution of DDQs and Data Collection*

By giving users the ability to seamlessly digitize any DDQ regardless of complexity, we move from analog to digital. Digitization makes the editing process of a DDQ extremely flexible and more in control. For instance, you can deliver one or more DDQs to fund managers with just a few clicks. This offers great flexibility in defining one or more recipients per DDQ and gives the fund manager the ability to add/remove collaborators on their end to help answer DDQs.



TIP

*Prefill DDQs with previous year data or with data in a digital fund manager profile in the application. This saves the fund manager a considerable amount of time, allowing both you and the fund manager to focus exclusively on what has changed from the previous year. Then, you can schedule delivery of DDQs in the future, based on a specific risk metric. Deliver a DDQ every year for higher-risk engagement, or once every two to three years for lower risk cases.*

With this in mind, not all DDQs can be digitized easily. They therefore require a powerfully built engine to enable the process.

Moreover, Due Diligence is not just one and done. You have a relationship with fund managers and need to have periodic updates, whether those be quarterly, semi-annually, or annually to ensure situations have not dramatically changed. In many instances, these answers have not changed much, so a feature such as auto-population helps to dramatically reduce the time and effort required. However, you can still ensure you are capturing the cases where situations and risk profiles have changed by sending your DDQ to higher-risk areas more often to keep an eye on progress and measure risk over time.



## Efficient Reporting

Reporting is usually very manual, which comes with the risk of human error. Executive summaries have been incredibly time-intensive when manually created. And, if any changes are implemented, Due Diligence professionals need to go back in and manually update everything.

With a technology platform, Due Diligence professionals can solve these issues with the click of a button to harvest reports and share. With all data in one platform, a new executive summary can be auto-generated in the platform when something changes.

**TIP**

*Need an executive summary in an easily digestible format for sharing? Digitize the report in Word, Excel, PPT or PDF or use an out-of-the-box one.*

## The Power of Analytics

With the way Due Diligence has been done in the past, accessing all the relevant data was challenging to impossible. When the data for all your fund managers is in one place, you can slice and dice data as needed and run detailed analyses across managers or funds to expose overall risks or specific risks. The result is more up-to-date, complete, and insightful data.

## ▶ BEST OF BOTH WORLDS

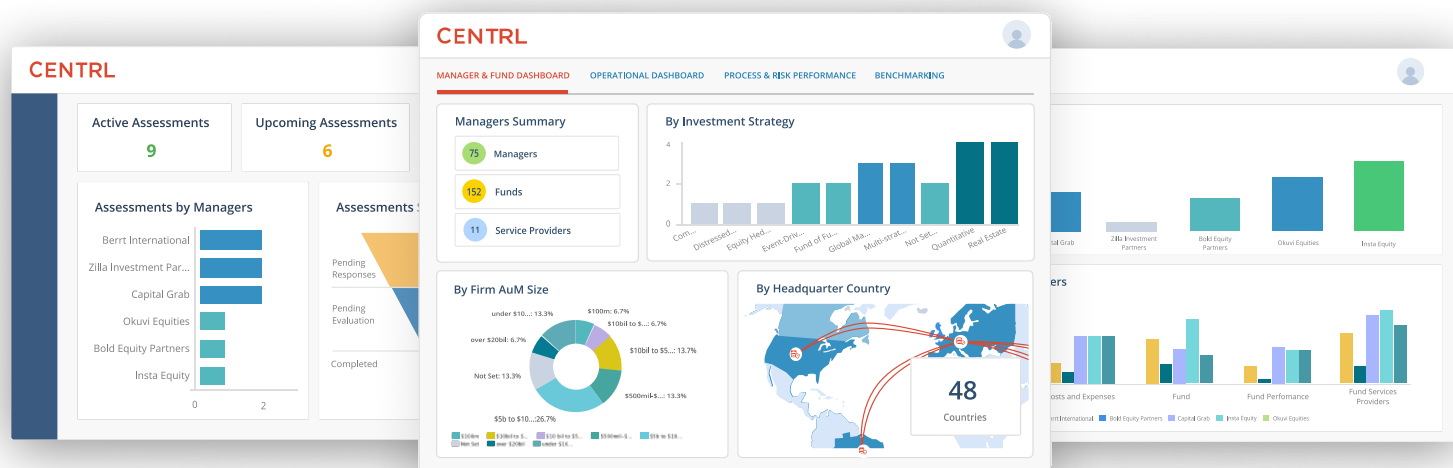
Like most business processes, COVID-19 changed the way that Due Diligence professionals needed to conduct their Due Diligence processes. When forced to transition to conducting processes remotely, an opportunity emerged to assess the efficiencies that could be achieved through the use of technology. This has led to a hybrid model trend emerging — a mix of onsite visits and technology. The future is leveraging your unique approach, but supplemented with technology to improve the process and gain greater effectiveness. A technology solution cannot completely replace certain aspects that are best captured onsite, but can create more meaningful dialogue with investment managers and analytics around the process.

Of course, this isn't necessarily a massive switch that will take place right away. Instead, post-COVID Due Diligence includes inserting technology where it makes innate sense. Examples include configuring workflows to a customized scoring model and scaling to all investment managers. Ultimately, this technology reduces manual labor so more time can be spent on the things that matter.



# 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

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