

Convergence Annual 2018 Operational Due Diligence Survey

Convergence releases 2018 ODD survey results, revealing continued regulatory focus and increasing manager operating complexity.

Convergence Inc. has released the annual results of their 2018 survey focused on Operational Due Diligence (ODD) practices and processes with respect to investment allocations by institutional investors to alternative assets. Survey participants included a cross section of institutional investors with respect to type of investor (e.g. funds of funds, pensions, endowments, etc.), amount and number of investment allocations to external managers and amount of new annual allocations to external managers. "We are seeing some consistent trends over the last 3 years," noted Co-President George Evans. "CIOs are clearly recognizing the parallel risk in Operating Risk along with Investment Risk."

Based on survey respondents' observations, Convergence noted the following:

Given continued regulatory focus and increasing manager operating complexity, investors should refresh their evaluation of the level of resources (staff and/or technology) dedicated to Operations Due Diligence, as well as their own current written policies and documentation requirements from managers. Current manager and new manager allocations remain steady versus 2017, but dedicated resources (people and technology) have increased only marginally. Tool sets provided by Convergence lend themselves to small to medium-sized ODD teams challenged by capacity and bandwidth.

Investors should consider reviewing their level of focus and current processes for evaluating managers' assessment and monitoring of service provider relationships, including manager practices of ongoing monitoring of their service providers. Private equity managers will likely continue to increase their level of outsourced service providers, underscoring the need for this review. Service provider 'best fit' is a key consideration.

With the considerable increase in new products and new avenues for product distribution by managers, investors should reevaluate those data points, metrics and sources of information for assessing manager operational complexity and risk. Consideration should be given to appropriate weighting of risk areas for scoring purposes, and scoring processes should be considered by those not presently doing so as part of their ODD process. Complexity and Risk profiling is paramount to active management of an Advisor.

Although 100% of respondents indicate their organization views ODD as a "value adding" activity that can improve returns and manage portfolio risk, this area is one in which investors may slowly continue to build resources, processes and technology. Investors should consider a complete review of dedicated resources and tool sets in the marketplace for varied aspects of initial ODD and ODD monitoring and make spending decisions consistent with their assessment of risk across their portfolio, recognizing that manager risk profiles are in constant change.

Co-President and CEO John Phinney also noted, "We are helping our clients measure and standardize Advisor Regulatory, Compliance and Event Risk. We help them detect material changes in an Advisor's business."



ABOUT CONVERGENCE

Convergence has developed a data, analytics and surveillance platform that provides transparency and easily accessible information relating to the business operations and infrastructure of alternative asset managers. Convergence products include technology-based tools used to facilitate manager and industry research, analytics and surveillance across the universe of registered investment advisors, including assessment of their operating and business risk profile, comparisons to peers and competitors, and analyses of their service providers. The company's platform includes dynamic data and analytics on 35,000 advisors and over 150,000 funds. Also included is the industry's ecosystem of 6,000 service providers. The platform includes more than 4,000 data points from regulatory filings, news sources and a significant amount of derived analytics and proprietary original content – most notably advisor operating model risk ratings and complexity.

Institutional investors use the company's products to research advisors and their business models with a focus on operational, compliance and event risk prior to and throughout investment allocation. Convergence products benefit institutional investors focused on employing a dynamic, data-based on-going process of manager and advisor surveillance. Predictive Analytics enables a forward looking view of the Advisor.

More information can be found at <http://www.convergenceinc.com> or by contacting George Evans at gevens@convergenceinc.com (215-704-7100) for additional inquiries or questions pertaining to Convergence, its products or this ODD survey.



Contact Information

George Evans

Convergence Inc

<http://convergenceinc.com/>

2157047100