Vidrio
Take Control

Vidrio Views

Due Diligence and Alternatives Allocations:
The New Not-so-Normal

Data integrity in the due diligence and allocation process has never been so important, as evidenced in the August publication of Vidrio Views, our monthly market survey of global allocators and LPs representing more than $100 billion in alternatives assets under management released this week.

Following on from our **inaugural Vidrio Views** survey published in July that found inflation expectations leading to higher allocations to alternatives, we wanted to dig deeper on two key trends that have evolved among allocators and LPs over the past 15-plus months in response to the Covid-19 crisis and related market volatility.

Specifically, we wanted to understand the rapid adoption of virtual manager meetings as allocators began to benefit from the cost and time efficiencies of reduced meetings and related travel expenses; and also, an entirely new set of data management and reporting challenges that have stemmed from the exponential flow of allocations to private funds managers. We fundamentally wanted to understand the confidence level allocators had in working in a new way while the world has continued to grapple with a health crisis that looks far from being resolved.

What we found was that as the pandemic has dragged on, working practices are fundamentally changing, and with that we expect how data is used and collected will continue to evolve as well. At Vidrio we are in constant dialogue with our clients and potential clients to ensure we remain attuned to their business requirements and always evolving our practices and data systems appropriately.

Mazen Jabban
Founder, CEO Vidrio Financial

About Vidrio Views

Vidrio Views is a series of monthly market surveys and corresponding reports that analyze the sentiment of leading institutional allocators and LPs in relation to the industry's most pressing topics of the day.

Manager Due Diligence – Hybrid is the "New Normal"

On the specific question of whether allocators anticipate a return to in-person due diligence meetings in the coming year, we found that 100% of relevant respondents anticipate a transition to a hybrid mix of virtual and in-person meetings, with one respondent exclusively noting that this will likely not happen until 2022—a point that is underscored as many organizations are delaying their official reopening dates due to the more infectious delta variant of the virus causing Covid-19 spreads throughout the U.S.

Do you anticipate a return to in-person due diligence meetings in the coming year, or is "Zoom Diligence" here to stay?

We do not plan to undertake due diligence meetings in person for foreseeable future.

0%

We will transition to a hybrid mix of virtual and in person meetings.

100%

Our preference is to return 100% to in-person meetings as soon as possible.

0%

Regardless, we've always recommended that allocators try to do as much research, analysis and preparation before any onsite due diligence visit to ensure onsite time is optimized. Vidrio has always enabled this idea, so in our clients' case, the impact on due diligence has been less of an issue. And while respondents were not asked to specifically address some of the nuances we have observed since the onset of the pandemic, we do expect that many allocators will opt for virtual when practical as this represents a much more efficient way to assess managers than had been the case pre-pandemic.

Moreover, while there is certainly great value to kicking the tires on-site and making eye contact in-person with a manager, the trade-off that has come through the forced change to virtual is a more efficient use of time and resources, something that can be a precious commodity and more beneficial for more fiscally-aware investment plans like public pensions.

Apropos, if you consider the amount of planning and organization that must go into site visits, from travel and hotel plans to trying to pack multiple managers into a single trip, one silver lining of Covid-19 has been to encourage the fluidity of remote meetings.

Additionally, agile systems paired with a maturing pandemic environment seem to have created a greater level of assurance with investors as on the specific question of whether allocators have made investments to new managers without meeting in person. Specifically, we found that almost three quarters had done so, while only 29% had generally made allocations only to existing managers during the crisis.

Have you made allocations to new managers without meeting in person during the Covid-19 crisis?

Yes. We have made allocations to managers without meeting in person.

28%

Not really.We have generally made allocations to existing managers.

72%

Not at all. We have not adjusted our guidelines to allow for first time allocations without meeting in person.

0%

These findings were not surprising to us and a tip of the hat to the hybrid working world we now live in. Underscoring this and through the responses, what seems to come across is a level of confidence with allocators able to make selections without meeting in person, which was a far cry from early 2020 when the pandemic hit and many new managers lagged on the fundraising front for the good part of the year as allocators were reticent to pull the trigger or review their investment guidelines and allow for new manager selections virtually. Anecdotally, we have found as the pandemic has progressed, allocators have become more comfortable making these decisions, especially when it is based on sound data.

Confidence in the hybrid process was also evident when we asked allocators in our survey whether they had become more risk averse in their decision-making process. On the specific question of whether allocators, when allocating to new fund managers, had changed the pace and speed of that process relative to pre-pandemic levels, 62.5% said they had ”not really” changed the pace and speed of their allocations to new managers despite Covid-19, while 37.5% have seen “no” difference in the pace and speed of their allocation programs pre or post Covid-19. Further underscoring that allocators are now quite comfortable working and living in a hybrid world.

When allocating to new fund managers have you changed the pace and speed of that process relative to pre Covid-19?

Yes. We have notably slowed our allocations.

0%

Not really. We have generally made allocations to managers through the Covid-19 crisis.

62%

Not at all. We have seen no difference in the pace and speed of our allocation programs.

38%

Private Markets Allocations Accelerate, Though Industry Standards Still Lag

Lastly, we wanted to get a fix on where allocators fell on one of the fastest areas of allocation trends during the pandemic: Allocating to private strategies. As we continue to work in this hybrid world, we wanted to better understand how investors are looking at the idea of best practices as it relates to data collection and reporting standards for Private Capital Markets, relative to the somewhat more mature processes of hedge funds.

Relative to hedge funds, do you think that data collection processes and reporting standards are high enough when it comes specifically to reporting private markets performance (e.g., Private Equity, VC, Real Estate, Private Credit)?

Not at all. Overall reporting standards should be higher.

13%

Not really. Though we are working with our portfolio managers to improve this data reporting.

63%

Yes. We are happy with the current levels of transparency our managers provide.

25%

On the specific question, "Relative to hedge funds, do you think that data collection processes and reporting standards are high enough when it comes specifically to reporting private markets performance," 25% of allocators said they are happy with the current levels of transparency their managers provide, though the majority at 63% believe that overall reporting standards should be higher for private markets funds that include private equity, venture capital, real estate and private credit. Additionally, 13% have indicated that standards are "not really" high enough, but they are working with their managers to improve their data and reporting processes.

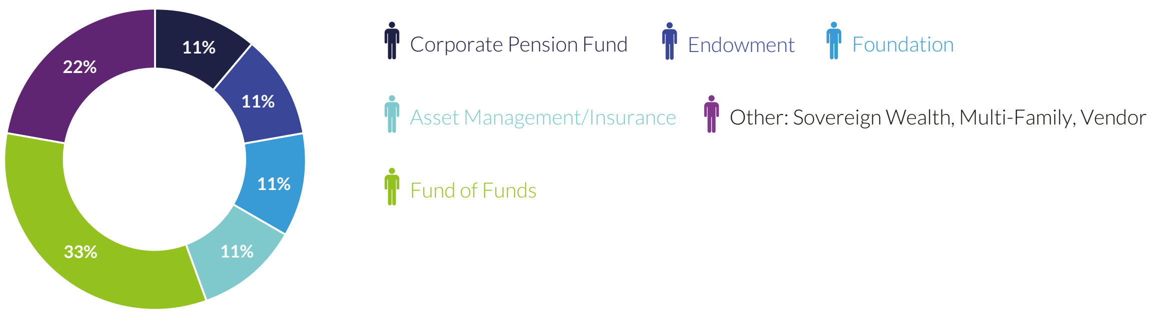
Taking Control of the Data

We have found that confidence in decision making goes back to confidence in data and having a level of transparency in that data to make informed decisions. While the industry looks to address ongoing gaps in industry standards across the private markets, many of the allocators who have come to Vidrio since the onset of the pandemic have been struggling to scale their data collection/extraction processes and are looking for best practices to ensure they are getting the highest levels of transparency from their hedge fund and private markets managers in the absence of any meaningful industry standards.

We continue to develop a state of the art and holistic investment management platform that can provide peace of mind in these uncertain times - taking care of the nuanced and tedious process of data collection and monitoring, so our clients can focus their energy on high value tasks and investment decision-making.

About the Respondents

Which of the following best describes your organization?



What is your current role?

What is your geographic location?

About Vidrio Financial

Vidrio Financial is the first Technology Enabled Service for allocators — providing software and data services to institutional investors globally. Vidrio's data aggregation, analytics and applications help solve complex fund management problems, improve operational efficiency and reduce risk for multi-asset-class portfolio investors. Our clients are the world's premier allocators to external managers.

Contact info@vidrio.com to learn more.