

Post-Pandemic Investment Manager Due Diligence

The COVID-19 pandemic has meaningfully altered many of the ways RVK conducts its business on a day-to-day basis. Conducting manager research is no exception. At the onset of the pandemic, when nearly all the financial services industry shifted to remote work, RVK had no choice but to adapt its manager research practices to a virtual environment. This pivot had the biggest impact on our Investment Manager Research (IMR) group's ability to conduct onsite due diligence. From the onset of the pandemic until Summer 2021, all RVK due diligence was done virtually. After that, in-person meetings started up again as both managers and RVK IMR professionals started to selectively travel again.

As offices continue to re-open to employees and visitors, a question lingers: **how can we combine the research processes from before and during the pandemic to create a post-pandemic research process that is superior to both?** To help answer that question, we surveyed our IMR professionals and summarized their responses below.

Over the past twelve months, what is the mix of in-person versus virtual onsites and in what circumstances, if any, do virtual onsites continue to make sense?

The vast majority of RVK IMR professionals are doing a mix of in-person and virtual onsites, with some doing more of one than the other. There is also broad consensus about the situations in which they will continue to conduct virtual onsites—absent of client direction for in-person meetings. The below quote from Kirby Francis, who leads the RVK research effort in Private Equity, summarizes that consensus nicely.

“Virtual onsites remain compelling when we are highly familiar with the manager but not the strategy, for obviously institutional quality strategies where the investment team being in different locations makes travel inefficient, and for re-underwritings of managers where there is no obvious team or strategy change.”

As you return to in-person onsites, what stands out as something that remains superior to virtual onsites? What do you observe is worse?

As good as virtual meeting technology has become, it still cannot facilitate the same deep and free-flowing conversation that occurs in person. Being able to read body language and observe non-verbal cues is not easily replicated through the screen, nor are demonstrations of systems and tools. All of our IMR colleagues agree these things are important when assessing manager skill and culture, especially for new manager relationships or for managers under heightened scrutiny.

Where virtual due diligence is obviously superior is its efficiency. Virtual meetings are easier to schedule, can be spread across multiple days if necessary, and simply require far less time. Morgan McFadden, who supports our Private Credit research effort, addresses this aspect in the following quote.

“There’s a lot of time spent traveling (from city to city and venue to venue) that eats into the workweek when doing onsite due diligence. I think it is still very important to have due diligence onsite for managers that we haven’t met before, but for those we know well and have visited recently, it seems like a lot of time, resources, and effort to accomplish something that we can do just as well virtually.”

What do you think the future of onsite due diligence will be?

For new managers or when there is a significant development at a well-known manager that requires heightened scrutiny, in-person onsite due diligence will continue to be the standard process at RVK. For periodic or routine updates, virtual due diligence will remain a viable option. However, there seems to be a third way that is beginning to develop that may prove to be the best path forward, the hybrid onsite. Our goal as research professionals should be to incorporate every tool at our disposal to create the most effective research process possible. Taking the best of virtual and in-person does just that. Evan Walker, from the Public Equity research team, provides the following insight on what hybrid onsite due diligence might look like.

“My experience holding a virtual onsite followed by an in-person onsite later has been very good. It allows for a more efficient in-person visit with a focus on culture and follow-ups on more sensitive items rather than specific process details, which have largely been covered virtually.”

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