

Continued Challenges for Hedge Fund Investors

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With the COVID-19 vaccine rollout underway, it is possible that life could begin returning to “normal” in 2021. However, hedge fund investors do not expect a return to pre-pandemic operations for due diligence just yet. We took a look at the continued challenges and possible opportunities investors see related to virtual due diligence.

Ongoing COVID-19 Challenges

Face-to-face meetings have been a crucial part of investor due diligence for selecting hedge funds. It’s a chance for investors to really get to know the manager while seeing the fund’s operations and team dynamics live and in real time. COVID-19 has made these in-person visits difficult, if not impossible, during 2020 and into 2021.

While funds have done their best to present the same information virtually, it didn’t quite translate. 74% of investors said their biggest challenges from virtual due diligence were ensuring sufficient data access and fund transparency, according to a December survey from Corgentum Consulting. As everyone knows, it’s just harder to get the same level and quality of information on a Zoom call as from a full-day visit.

In addition, investors also need to evaluate whether a fund has successfully adjusted to a remote work environment, including whether they have the appropriate

cybersecurity safeguards and the right vendors to meet virtual operational challenges.

Tempered Expectations for Vaccine Results

Just a few weeks into the vaccine rollout, millions of Americans have already received the COVID-19 vaccine with more joining the group each day. In a December NPR interview, Dr. Fauci stated that he thought the country could start seeing signs of herd immunity by the late spring or summer, making it possible for many parts of the economy to reopen.

Even with this hopeful news, hedge fund investors have limited expectations for change in the short-term. 84% still expect to complete their due diligence almost exclusively off-site during 2021, and another 16% said that if they do attend in-person meetings, they will focus on local funds to minimize travel. Investors seem prepared to play it safe, even if it means holding back on in-person due diligence for another year.

A New Approach to Investor Due Diligence?

Given the challenges to investors with virtual due diligence, it's a little surprising that many aren't more eager to rush back to the old ways of pre-COVID. However, one reason could be that they've also seen some benefits from this new approach: 72% of investors said they were reevaluating their due diligence policies to consider keeping some of the process virtual even after things return to normal. They cited travel cost savings, more scheduling flexibility, and the option to conduct shorter but more frequent due diligence visits as advantages of keeping things virtual.

As a result, hedge fund managers should expect that virtual due diligence should continue in some way beyond 2021. Proactively highlighting a fund's operations and employees online, while maintaining quality cybersecurity to ease the concerns of investors, will remain important in the future.

The pandemic has been a long and tough road for investors and managers alike. Fortunately, it could be over soon, with the silver lining being that the hedge fund industry may have learned some new strategies to better handle due diligence.

For more information on how to best plan for the 2021 due diligence challenges, please contact [Jeffrey Rosenthal](#) or your Anchin Relationship Partner.