WNS
Extending Your Enterprise

A Leading Asset Management Firm Strengthens Investment Strategy with WNS's Risk Analytics Model

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The Client

A leading global investment management firm. The investment portfolio includes major pension funds, endowments, foundations, governments and other institutions across the world.

The Challenge

The investment management firm had a very large portfolio of securities running into thousands, spread across multiple countries. The size and width of the portfolio made it a challenging proposition for the client to spot frauds and manipulations in the financial statements of investee institutions, and to track negative information relating to those entities.

Onshore analysts were largely focused on designing the investment strategy and execution, which left little room for investigative research. However, pure fundamental research on the investee entities was not generating adequate insights especially in the areas of related party transactions, revenue reporting, and accounting policy changes.

The client thus needed an independent analysis on the investee entities to augment the fundamental research.

Scope

The client chose WNS after a rigorous selection process, and entrusted WNS with a mandate to:

- Conduct investigative research and due diligence on more than 10000 investee entities spanning more than three countries and across more than 50 industry sectors

- Gather insights on entities from respective annual reports and / or 10K equivalent, other annual and quarterly filings, rating reports, news feeds and other publicly available information

- Analyze the content and provide a risk-grade on the entities basis a combination of factors agreed between WNS and the client

- Generate structured due diligence reports based on the template agreed between WNS and the client

Key Features of the WNS Solution

The Risk Grading Model

WNS designed a comprehensive risk grading model that factored in more than 50 parameters under various aspects of business including financial, management, business, legal and regulatory compliance, reputation, and overall governance factors.

The risk-grade segregated the parameters based on their strengths and weaknesses on a 4-point scale with the aim to detect manipulations in financial statements and / or potential frauds.

The model was reviewed every three months to validate its ability to spot red flags in the information related to the investee entities.

In addition, WNS designed a 'Quick Grading Model' to help the client prioritize companies based on key financial and reputation-linked parameters and focus on weaker entities.

The Due Diligence Report

WNS designed a structured due diligence report for the client. This report highlighted the red flags within the parameters in the risk-grading model. This report was enhanced regularly to incorporate deeper analysis and eliminate redundant factors.

Benefits Delivered

WNS's solution helped the client organization with deeper insights on its diverse set of investee entities, thereby strengthening the client's investment strategy. WNS's analysis which delved into areas which were over-looked by fundamental research had a direct impact on the client's business outcomes. Some of the benefits are mentioned below:

- Among a base of over 300 companies that had strong financials and were earlier rated by equity analysts as "buy" or "hold", WNS's analysis identified 40 percent cases that had serious concerns regarding revenue mis-reporting, Company management and / or other fraud / governance indicators

- 'Number' management improved driven by deeper analysis of Company and industry nuances that helped circumvent a false outlook

- Risks and threats on financials and overall business fundamentals were mitigated by adding a new layer of analysis that focused on tracking news and other public information on the Company and its key personnel