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AI's impact on investment management:
From operations
to opportunities

JULY 2025

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Overview

Overview

AI's potential to forge a new path for investment management

The age of artificial intelligence (AI) has clearly arrived. And organizations across every industry are working to harness AI, including Generative AI (GenAI), and reimagine their businesses.[1] While society continues to weigh AI's long-term uses and implications, some organizations are already reporting initial successes. According to The State of Generative AI in the Enterprise, a series of quarterly pulse surveys by the Deloitte AI Institute™, two-thirds (67%) of surveyed organizations said they are increasing their investments in GenAI because they have seen strong early value.[2]

AI has the potential to transform entire businesses, and investment management (IM) organizations are no exception.[3] IM has long relied on proprietary algorithms to help drive returns; AI represents the next chapter in automating and delegating select tasks so people can focus on solving more strategic business issues.

This is particularly true of GenAI, through its abilities to aggregate data, synthesize information, and produce new content. GenAI may well be the invaluable tool that helps investment managers run their businesses, from supporting operations to shoring up investment decisions.

Whether your organization is beginning to navigate the complex waters of AI or is already prepared to take the plunge, consider the suggestions and guidance offered here as a "jumping-off point" for implementing your own AI plan. Remember, there is no one-size-fits-all solution, and effective implementation of this technology requires diligent human oversight. But with the appropriate vision and technical experience, you can apply AI's vast capabilities while protecting your business.

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AI and investment decision-making

AI and investment decision-making

One of this technology's core strengths is its ability to aggregate data and generate reports that help analysts formulate strategies and make decisions. Today, for instance, a typical manager may spend hours reading analyst reports and listening to earnings calls for the companies they track. Soon, with an integrated dashboard, they could summarize all available reports and compare earnings results for specific competitors and time periods. Such a tool could be a major competitive advantage, providing increased efficiency as well as helping with a more rigorous investment analysis.

The following use cases show different ways IM organizations are already harnessing AI to inform their investment strategies.

AI and investment decision-making

Investment due diligence

In evaluating potential investments, fund managers often spend significant time digesting and compiling information to inform their investment decisions. AI can reduce that time and effort by more efficiently and purposefully synthesizing the data used in investment due diligence. Consider the example below:

- In performing daily investment monitoring, an analyst may start by scanning the top publications for financial news about a given industry and company, such as an auto manufacturer. This news could include competitor moves, economic indicators, and any overnight global market events or industry developments.

- The analyst might also sift through the earnings call transcripts of the auto company and its competitors to assess management

and market outlook. Now, instead of combing through all this information, an analyst can utilize an AI tool to streamline the process by gathering data from multiple specified sources, highlighting relevant keywords, and ultimately compiling a concise summary.

- In this way, AI can help the analyst gauge market sentiment and make informed decisions by quickly identifying emerging events and trends that might affect the covered company and the broader industry landscape.

Risk management

By nature, investment decisions carry varied levels of risk. Investment organizations can leverage AI to analyze a wide range of data, which can lead to a more comprehensive view of risk and better assessments. While AI alone

cannot forge a foolproof risk evaluation, it can assist with decisions by enhancing the risk models that already exist in the organization.

For example, AI can more quickly compile data such as:

- Earnings and other financial metrics.

- Industry or market factors over time.

Investment professionals can then use AI to:

- Aggregate trading data.

- Create data and trend visualizations.

- Highlight correlations between earnings and other relevant factors, including risk tolerance, investment duration, and even industry norms.

AI and investment decision-making

Forecasting

AI's ability to aggregate and interpret vast amounts of information in a fraction of the time required by a human, enables users to extrapolate data sets for additional insights and can provide valuable perspectives into the financial future of an organization. For instance, a private equity (PE) firm might approach this in the following way:

- AI can analyze a portfolio company's historical data to help predict future trends and plot this information against data from comparable companies to determine the most probable future income from this investment.

- AI can also assist in building out the investment portfolio by identifying other companies with results similar to those of portfolio companies that have proven to be successful investments.

Looking ahead: AI investment evaluation

Investment professionals have used quantitative trading, or quant trading, for some time to identify and execute trades. By analyzing vast amounts of data, quant traders develop strategies that can predict market movements and optimize trade execution. This approach minimizes human biases and allows for high-frequency trading. That makes it a popular choice among hedge funds and investment firms seeking to maximize returns through data-driven insights.

AI, integrated with quant trading, may also assist with additional investment decisions. While the criteria triggering a trade action are currently determined by the quant trader, AI may be able to further optimize execution by determining the criteria itself. It may also assist in summarizing the code to allow for a streamlined explanation of strategy.

Further, some firms may decide to supplement their investment committees with AI investment bots that would provide a more objective reference point. This could help committee members "gut check" decisions that are subject to human biases.

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AI and operational efficiencies

AI and operational efficiencies

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One of the areas where AI really shines is streamlining operational efficiencies. As investment data grows exponentially and presents fascinating possibilities, managing and mining it for relevant insights can seem overwhelming, especially in an environment of rising costs. Smart, resilient organizations can sharpen their competitive edge by relying on process automation to enhance speed, accuracy, and stability, all the while minimizing operational costs.

It's easy for today's professionals to feel overwhelmed, with data and information flooding the human brain at a record pace. With AI, we have an opportunity to render that data understandable and useful without over-taxing our mental capacity. Faster, easier data synthesis can allow professionals to focus more on identifying key risks and creating robust analyses.

AI and operational efficiencies

Financial reporting

Due to ever-evolving regulatory and market environments, IM professionals face increasingly complex financial reporting challenges that demand precious time and resources. By leveraging AI models, organizations can free up time spent on these critical operational tasks and allow professionals to work on other business priorities. For example, GenAI can sift through lengthy reports and extract relevant data to include in management reporting and investor reporting, along with mandatory regulatory filings.

Investee financial information	Earned income	Key contract terms	Covenant terms and relevant financial metrics
Using a fund of funds as an example, AI can read investee capital statements and underlying financial statements to aid in financial reporting, whether by extracting the reported net asset value per share (NAVPS) for period-end valuation or by summarizing and reconciling capital activity with the fund's books and records.	AI can quickly read account and/or broker statements to isolate the income earned in that period and subsequently record the amounts in the proper accounts, with appropriate foreign/domestic classification. Professionals can redirect time previously spent performing these tasks manually toward more complex activities.	AI can also read the underlying fund agreements (i.e., limited partnership agreements, offering memoranda, etc.) and extract key terms (management fee rates, carried interest terms, etc.). By using AI to track these contract aspects, organizations can more effectively monitor compliance, undertake contract negotiation and drafting, and identify unique clauses.	AI can read, track, and design models to manage relevant financial metrics on which covenants and other important compliance terms are based.

AI and operational efficiencies

Once GenAI assists in aggregating the key financial information, it can also populate initial drafts of investor reports and help draft disclosures and address questions from the reporting team. The value of this support bears repeating, as it saves team members significant time aggregating and preparing information—time that they can now spend reviewing the information and analyzing relevant trends and insights.

The AI use case for environmental impact

An ever-growing number of stakeholders, regulators, and investors have taken an interest in sustainability and climate change issues, which are becoming more pressing every day. Global regulatory developments require new levels of reporting and monitoring of environmental impact. Stakeholders are aligning investment dollars with their values and priorities. In response to this pressure, organizations are tracking increasing amounts of data and metrics on environmental impacts. That's where AI comes in.

AI can help investment managers track socially conscious investments (e.g., impact funds, green and social bonds, etc.) and perform due diligence when considering various investments with a

sustainability focus to make sure they meet regulatory standards or organizational criteria for sustainable investing.

While some IM organizations may opt to track the sustainability compliance of companies that make up their portfolio of funds, they may also want a better understanding of sustainability impact within their own enterprise. For example, you can track sustainability targets by training AI to identify environmentally related terms in internal documents. AI can flag data indicating that the firm is meeting its own sustainability investment objectives or perform market research to identify how investors make sustainability investment strategy decisions.

AI and operational efficiencies

Portfolio management

Not only can AI make financial reporting easier, but it can also enhance efficiency in the investment acquisition and disposition process by streamlining reviews of critical documents, swiftly aggregating both internal and external data, and modeling various scenarios. Organizations can redirect the extensive hours spent compiling information toward analyzing data and related insights.

AI's abilities to read and process agreements enable multiple use cases within data-driven IM organizations. With human assistance, AI models can support:

- **Scenario forecasting** by building models to calculate the amounts from investment management and partnership agreements. Managers can then quickly analyze how different management fees and carried interest arrangements would affect compensation earned.

- **Due diligence** by scanning and summarizing large volumes of data from agreements, financial statements, disclosures, and more. These summaries may include trends in key financial metrics, risks, or notable aspects of the investment strategy (e.g., industry affiliation or sustainable investing) that are identified using key phrases.

- **Strategy research** especially in quant-driven funds, where hedge fund analysts must contend with large volumes of data in executing strategy. AI can analyze and help predict trading patterns or forecast different outcomes and scenarios. AI can read dense legal documents, like International Swaps and Derivatives Association (ISDA) Agreements, Line of Credit Agreements, and swap contracts or summarize broker statements.

AI and operational efficiencies

Spotlight on developing future AI solutions

GenAI may be a key factor in the "democratization" of AI. Simply put, GenAI's abilities to write, summarize, and monitor existing code can help organizations efficiently develop future AI models and implement oversight with flexibility and efficiency.

Continuous integration and continuous delivery (CICD) pipelines

Organizations may leverage GenAI capabilities to partially automate aspects of code reviews (e.g., identify coding errors, security vulnerabilities, and adherence to coding standards) to help reduce manual effort, speed up delivery times, and improve the overall quality of the code.

Code translation

Organizations may use GenAI to translate code from legacy programming languages to newer ones. This can help organizations keep their AI solutions compatible with this rapidly evolving technology and its supporting architecture and save time and effort compared to manually rewriting code.

Documentation:

As AI applications increasingly assist IM personnel in areas that require human judgment, organizations must provide guidance on AI development, functionality, and operation. These materials will be critical to understanding, monitoring, and maintaining AI applications. GenAI can assist with drafting AI guidance by reading code, identifying functions and procedures, and generating descriptive summaries for models so that personnel can focus on reviewing and enhancing the guidance.

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AI governance and data management practices

AI governance and data management practices

As we've demonstrated in the above use cases, AI can provide valuable insights for investment decision-makers and save substantial time with administrative functions that are crucial for the success of an IM organization. However, the adoption of this technology requires careful human oversight and appropriate guardrails to mitigate emerging risks across several areas. Before widely adopting this new technology, organizations should consider the following:

- **Hallucination/accuracy:** AI can create incorrect, misleading, or illogical information—especially in cases of poor data quality or when tasks require subject matter expertise.

- **Amplification of biases:** Inherent biases in the underlying data can be amplified when AI models are trained on them.

- **Transparency:** AI models can be complex and opaque, making it difficult to understand their decision-making processes (often referred to as the "black-box" problem). In cases where organizations are using a vendor, certain components of the AI application may be proprietary.

- **Responsible use:** Organizations need to consider both where and how AI is used, especially when use cases incorporate AI models operating with increasing levels of autonomy.

- **Data privacy and sovereignty:** AI models trained on certain data sets may be subject to certain privacy and sovereignty regulations (e.g., permission to run models only on data centers within a certain jurisdiction).

Fortunately, organizations can implement governance practices and safeguards to help address and mitigate emerging risks related to AI. To start, they may consider the following approaches.

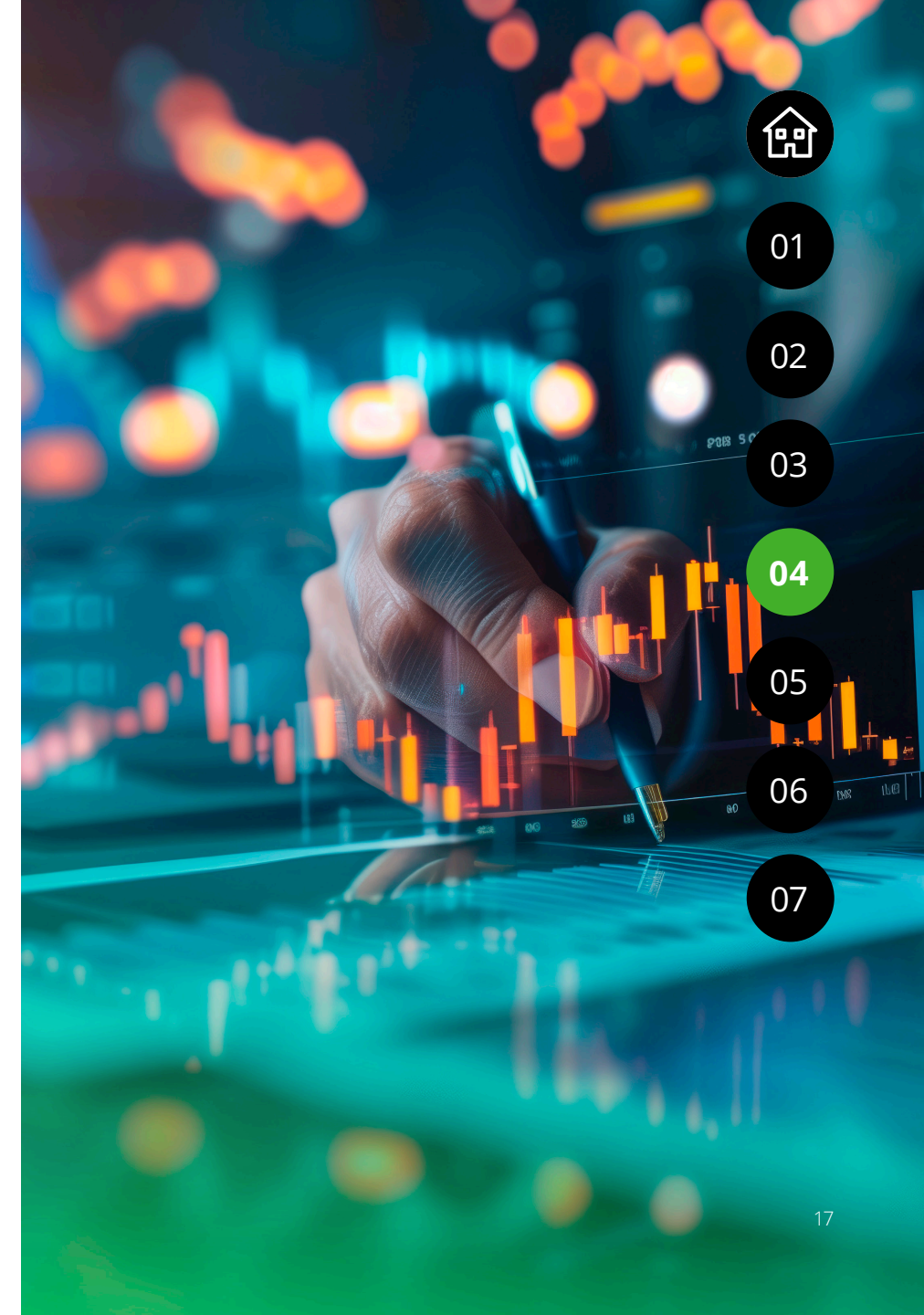# AI governance and data management practices

Purpose and strategy

As a first step, organizations may consider focusing on clearly defining their AI strategy and how that aligns with their purpose and responsible use within the organization. The way AI is integrated or the tools that an organization uses can vary significantly depending on the organization's particular strategy, objectives, and differentiators. For instance, consider the case of a private equity investor with a knack for identifying potential portfolio companies at the desired stage in the business life cycle and with the precise characteristics that fit their investment strategy.

- This investor may use AI to compile data on companies that meet parameters set by investment analysts.

- In turn, analysts can spend more of their day digging deeper into that data and aligning their work more closely with the organization's ROI.

- On the other hand, a hedge fund that already employs quant trading strategies may deploy AI to assist in writing code leveraged by the quant models, thereby creating savings in IT costs.

Regardless of how they integrate AI, IM organizations should carefully consider how they maintain appropriate oversight, especially in cases where AI applications assist with human judgment. There is no one-size-fits-all solution, so organizations will need to tailor governance and data management practices to prepare their workforce to address the risks and challenges related to AI.

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AI governance and data management practices

Risk and data management and controls

As AI is dependent on data, IM organizations must adhere to foundational data management practices when establishing AI guardrails and should consider implementing the following leading practices.

- **Secure, centralized environment:** IM organizations should manage data in a secure environment and in a predictable, centralized format to reduce the risk of information leaks and to better maintain high data quality.

- **Data monitoring:** As many jurisdictions consider or enforce regulations around investor data, IM organizations will need to carefully monitor new requirements and maintain an audit trail. That way they can effectively trace the data and map the lineage of data used in AI applications.

- **Internal data sets:** Using enterprise data sets (i.e., data sets that are generated within the organization as opposed to the internet at large) can help organizations decide what data an AI model should use. While certain use cases require external data, when possible, organizations can use selected internal data that is already subject to their existing control environment. This option can reduce the risk of inaccuracies and hallucinations as well as limit external underlying bias.

- **Internal controls:** Adapting internal controls for AI sets the tone at the top on the appropriate use of AI, builds trust among stakeholders in the quality of AI's output, and reassures the workforce that AI will enhance—rather than replace—their jobs. As an evolving technology, AI requires a different approach to controls. Professionals who verify AI outputs need to understand what data the model(s) are using and how AI can produce inaccurate or inappropriate outputs.

- **Multidisciplinary teams:** Information technology specialists, data scientists, internal audit, etc. can work together to enable proper setup, configuration, validation, monitoring, and maintenance as part of an effective governance program.

AI governance and data management practices

Human resources and training

When it comes to AI maturity, it's important to know where you are on the spectrum. Some organizations are only starting to educate themselves on the possibilities, related risks, and possible guardrails, while others have already implemented a wide variety of AI-supported use cases. Regardless of where your organization is on its AI journey, successful long-term talent strategies may consider the following implications.

- IM organizations will likely compete to attract and retain specialized talent as well as focus on upskilling and reskilling teams.

- Holistic training on AI topics can help employees use the technology more efficiently and encourage them to apply "human-in-the-loop"[4] principles when evaluating outputs.

- In this way, organizations can build a self-reinforcing cycle that supports dynamic AI development and governance.

Conclusion

AI can open plenty of new opportunities for investment management firms, from driving operational efficiencies to transforming IM organization business models—a process that leaders can begin through incremental operational changes. Given the ever-increasing number of AI use cases, the pace at which the technology is advancing, and the pressure to implement AI across all industries, it can be difficult to know where to begin. While much is uncertain, we know one thing for sure: collaboration is key.

Successful wide-scale adoption of AI will likely require IM organizations to work in tandem with industry stakeholders, industry associations, and regulators. In turn, this approach may give IM organizations the opportunity to present their perspective when it comes to setting industry standards and regulations.

Joining forces with Deloitte's subject matter and industry specialists can help you stay up to date on leading practices, strategize AI deployment within your organization, and apply industry leading practices. No matter how familiar your teams and leaders are with this complex technology, external professional services and industry organizations can help you tailor AI to the requirements of your internal audit teams and advance implementation.

At the heart of innovation—and AI—are repeated efforts. Let the thrill of discovery and the chance to position your organization for success inspire you to push forward.

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Endnotes

[1] Artificial intelligence (AI) is a broad field of computer science that focuses on machines or systems that can perform tasks requiring human intelligence. AI includes various approaches like machine learning, natural language processing, computer vision, and more. Generative AI (GenAI) is a specific subset or technique within AI. It refers to models that are capable of generating content. These models use complex algorithms and neural networks to learn patterns from existing data and then produce new content based on new inputs or prompts. In this document, we refer to AI in a broad sense, one that includes the capabilities that are specific to GenAI. When necessary and for reasons of clarity, on occasion, we specify that certain functions or processes are performed by GenAI.

[2] Statistics are drawn from the Q3 2024 report, in which the survey was fielded to 2,770 respondents across six industries and 14 countries, between May and June 2024.

[3] By "IM organizations," we refer to the broad umbrella of private IM-related companies including private equity firms, wealth management firms, credit, hedge, and traditional asset managers. Though they have different investment strategies and customers, this piece addresses their common needs and interests. Please note that this article does not cover applications for registered investment companies (RICs).

[4] "Human in the loop" refers to the role of human oversight in reviewing and verifying outputs generated by AI or using AI. Effective human oversight over AI outputs is an important safeguard for identifying and correcting potential errors.

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