Strengthening Fiduciary Oversight in an AI-Driven Era

The 2025 Autumn Governance Series

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SEP 30, 2025

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Boards of General Partners (GPs), Limited Partners (LPs), and Funds of (FoFs) face a profound shift in their fiduciary environment. Traditionall oversight was anchored in portfolio diversification across vintages, geographies, and asset classes. These tools helped mitigate risks arisin economic cycles, market downturns, and geopolitical shocks. Yet as ar intelligence (AI) becomes more deeply embedded in private markets, a form of systemic risk is emerging—one that cannot be addressed by traditional diversification strategies alone.

This risk is not primarily about asset volatility. It is about **decision convergence**: the tendency for AI-driven models across institutions to the same conclusions at the same time. When multiple managers rely similar datasets, algorithms, and third-party vendors, their investment decisions begin to synchronize. What appears diversified at the portfo may, in fact, be fragile at the decision level.

The **LP/GP Governance Advisor** is designed to help boards confront tl challenge. It reframes oversight from a focus on asset performance to centred on how decisions are made, audited, and governed. This is not risk tool; it is a fiduciary discipline that equips boards to safeguard cap comply with regulatory expectations, and strengthen investor confide an AI-driven financial system. Link Here.

AI & Fiduciary Governance in Private Markets

By Tanya Matanda

✓ Using the creator's recommended model: GPT-5 Thinking

This GPT helps boards and investors see where AI adoption creates hidden risks and how early governance can turn them into credibility and fundraising advantage.

The Problems Boards Already Face

The LP Perspective

For Limited Partners, the core challenge is ensuring that capital alloca across multiple managers achieves true diversification. On paper, a po might appear well-structured: exposure across buyout, venture, infrastructure, and credit; spread across geographies and vintages. Yet beneath this surface lies a hidden fragility. Many managers may pursue overlapping strategies, rely on the same third-party analytics, or base decisions on similar macroeconomic indicators.

The result is that **LP portfolios are less diversified than they appear.** I downturn, performance correlations spike, erasing the expected benef diversification. For LP boards, this raises questions about whether fidu responsibilities to beneficiaries are being met, particularly when concentration risks are obscured.

The GP Perspective

General Partners face a different but related set of problems. They mu balance the adoption of innovative tools with the duty to exercise sou judgment and protect investor capital. AI tools promise efficiency in s deals, monitoring portfolio companies, and timing exits. Yet the very a of these tools creates **new dependencies.**

If a GP relies heavily on a widely used AI vendor, it may inadvertently a strategy with competitors. What should be a source of differentiation becomes a source of convergence. Moreover, boards often lack transp into how these tools generate recommendations. Without visibility, fid oversight becomes compromised, as directors cannot fully evaluate wh investment decisions reflect independent judgment or algorithmic mi

The FoF Perspective

Funds of Funds face an even more complex governance challenge. The boards must evaluate not just individual managers but the interaction them. Diversification across multiple GPs is the traditional defence, ye does not account for systemic vendor overlap.

For example, three different GPs in a FoF portfolio may rely on the sa third-party data provider or risk analytics system. If that vendor prod flawed output, the risk cascades across the entire FoF structure. This **double-layered exposure**: concentration at the manager level compou concentration at the portfolio-of-portfolios level.

The Transparency Gap

Across LPs, GPs, and FoFs, the common thread is a **transparency gap.** I often lack visibility into the underlying data, algorithms, and dependen driving investment decisions. This undermines fiduciary accountabilit Without the ability to explain how key decisions are formed, boards ca demonstrate to beneficiaries, regulators, or investors that risks are bei responsibly managed.

Why AI Exacerbates These Problems

Artificial intelligence amplifies existing challenges in three important v

Decision Monoculture

AI systems are often trained on similar datasets—macroeconomic indi company fundamentals, and aggregated sentiment. As adoption spread creates a **decision monoculture.** Managers who appear independent m fact, be converging on the same decisions. This undermines the very p of diversification.

Liquidity Amplification

In past crises—such as Long-Term Capital Management in 1998 or the Financial Crisis of 2008—herding behaviour worsened outcomes, but decisions were still mediated by human judgment. Today, algorithms a milliseconds. If multiple AI systems issue sell signals at once, liquidity c vanish instantly. This risk is especially acute in private markets, where channels are inherently limited.

Vendor Concentration

A small number of third-party vendors now dominate the AI tools used

private capital. This creates **single points of failure.** If a dominant venc suffers a disruption, security breach, or regulatory intervention, the in could cascade across entire portfolios.

Transparency Deficits

Most AI models are "black boxes." Boards may receive outputs without understanding the inputs, assumptions, or logic. This creates fiduciary spots, as directors cannot evaluate whether decisions align with gover standards or regulatory requirements.

The LP/GP Governance Advisor: Core Framework

The LP/GP Governance Advisor addresses these risks by shifting boar oversight from asset-level metrics to decision-level governance.

New Governance Metrics

Traditional tools like Value-at-Risk (VaR) or beta measure asset volatili miss decision convergence. The Advisor introduces new indicators:

- **Realized Correlation Index (RC_t):** Tracks short-term co-movement strategies, signalling when managers' decisions begin to synchroni
- **Signal Dispersion:** Measures how diverse AI-driven recommendati Low dispersion indicates convergence.
- **Vendor Dependency Index:** Quantifies how much capital is expose specific third-party providers.
- **Network Centrality Mapping:** Identifies nodes of concentration wl failures could cascade across funds or managers.

Together, these metrics provide boards with a clearer picture of decisi level fragility.

The Correlation Exposure Budget

A cornerstone of the Advisor is the **Correlation Exposure Budget**—a governance tool that sets formal limits on how much correlated decisi making risk is acceptable. Just as credit exposure limits constrain borr concentration, correlation budgets constrain reliance on homogenous driven strategies.

When metrics such as RC_t or Signal Dispersion breach thresholds, boa require predefined actions: de-risking, hedging, or throttling AI-driver This transforms correlation risk from a theoretical concern into an act governance constraint.

Case Study: Archegos (2021)

The collapse of Archegos illustrates the danger of hidden concentratio While not AI-driven, it revealed how multiple counterparties relying o similar exposures can produce cascading losses. In an AI-driven envirc such convergence would unfold faster and on a larger scale. The LP/G Governance Advisor ensures that boards have the tools to detect such early.

Embedding Governance into Fiduciary Duty

The LP/GP Governance Advisor translates these concepts into actiona governance requirements.

Data and Model Diversity

Boards should require managers to demonstrate that their AI systems genuinely diverse datasets and models. Vendor diversity alone is insuf all vendors rely on the same inputs.

Explainable AI (XAI) Validation

Explainability techniques—such as SHAP or LIME—should be mandate confirm that vendor models operate with distinct decision logic. This boards can validate independence rather than assume it.

Stress Testing for Endogenous Failures

Traditional stress tests model external shocks. Boards must also dema simulations of failures that originate within AI systems themselves—fo example, simultaneous deleveraging or information cascades triggere flawed signals.

Model Dependency Audits

Boards should require a complete inventory of internal and vendor AI mapping dependencies and testing fallback protocols. Internal audit fu should validate divergence testing and failover readiness.

Regulatory Alignment

Regulators are increasingly treating AI-driven concentration as a syste risk. Boards must anticipate compliance obligations.

Financial Stability Board (FSB)

The FSB has flagged AI adoption and vendor dependency as structural vulnerabilities, calling for enhanced disclosures and global coordinatic

European Union (DORA)

The Digital Operational Resilience Act (DORA), effective in 2025, gives supervisors direct oversight of critical third-party providers. Firms mu diversify reliance and embed resilience into contracts.

U.S. Interagency Guidance

Joint guidance from the Federal Reserve, OCC, and FDIC (2023) require board-level approval for high-risk vendor onboarding and mandates o monitoring of third-party models.

Anticipated Standards

Other bodies such as the OECD and IOSCO are expected to follow, ext oversight across borders. Boards that embed compliance now will be a future requirements.

LP Communication and Competitive Advantage

LPs are demanding greater transparency on AI risk governance. Gener assurances are no longer enough.

Boards should ensure managers provide disclosures that include:

- A **Model Diversity Index** reflecting the heterogeneity of data, mod vendors.
- **Correlation Budget utilization** relative to internal thresholds.

- **Compliance attestations** confirming adherence to DORA, US guida and FSB recommendations.

Robust governance is not only defensive. It becomes a **source of fiduci alpha**: reducing downside risk, enhancing resilience, and differentiatin managers in fundraising.

Strategic Implications for Private Capital

Medium-Term (3–5 Years)

LPs will increase scrutiny of AI governance during due diligence. FoFs pressure to demonstrate that diversification is genuine and not undern by vendor overlap. GPs that cannot prove governance maturity will fac higher fundraising hurdles.

Long-Term (10+ Years)

As AI adoption becomes universal, regulators may treat major AI vendo systemic utilities, subjecting them to bank-like oversight. Boards that h already embedded the LP/GP Governance Advisor will be better positi adapt to these structural changes.

Conclusion

For boards of GPs, LPs, and FoFs, fiduciary oversight is entering a new Traditional diversification tools remain important but are no longer su The real risk lies not in asset classes but in the convergence of decisio making itself.

The **LP/GP Governance Advisor** provides a structured response. By embedding new governance metrics, establishing correlation budgets, aligning with regulatory frameworks, and enhancing LP communicatio boards can protect capital and demonstrate leadership in fiduciary governance.

In a world where AI-driven decisions can synchronize in milliseconds, governance must operate with equal speed and foresight. Institutions now will not only safeguard investor capital but also set themselves ap fiduciary leaders in private markets.

This analysis draws directly on the broader frameworks in my forthcor book, *Shaping the Next Decade: Governance, Sustainability, and Artifici Intelligence, 2026–2036.* The book expands on themes introduced here temporal windows, regulatory convergence, and cultural choices in governance shape long-term competitive positioning. If this article ref the questions your board or investment committee is grappling with, t offers deeper tools, case studies, and practical checklists designed to t governance into a lever for strategy.

Research and Audio Supported by AI Systems

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