Polar Night Capital

PNC RESEARCH NOTE · NOVEMBER 2026

AI-Augmented **Investment Process**

From information processing to decision infrastructure

RESEARCH NOTE FOR DISCUSSION PURPOSES ONLY

CORE THESIS

In 2025 Polar Night Capital (PNC) suggested that AI would be gradually embedded in the institutional investment process, but investment experts retain the responsibility for investment decisions. In the course of the last 12 months, AI capabilities have been advancing rapidly, while integration remained uneven. Repetitive tasks are increasingly suitable for automation, but the development of reliable workflows continues to lag technological progress. As AI assumes a greater share of information processing, the role of investment professionals shifts towards interpretation and independent judgement. **The central challenge is therefore to ensure that greater analytical capacity translates into reliable information and better-informed decisions.**

01 Executive Perspective

In September 2025, PNC published its view on the AI-augmented allocator: AI should extract and structure information, automate repetitive work and surface inconsistencies, while investment professionals interpret, challenge and decide [1]. This note tests that view against the evidence published since.

WHAT HELD	AI in investment management is used mainly for tasks that offer efficiency gains; human authority over investment decisions remains the norm. Scalable diligence workflows have become a focus for major data providers. The risk we highlighted, that AI output may encourage too little scrutiny by investment professionals, is now a documented supervisory finding [2], and the safeguards we recommended are close to what regulators now expect [3].
WHAT HAS BEEN SLOWER	Overall AI capabilities advanced quickly, but institutional adoption remains partial and uneven [4]. Evidence that AI improves investment outcomes is still limited [5].

WHAT HAS GAINED WEIGHT	Protection against manipulated information inputs, dependence on AI vendors, and preservation of professional skills that expert judgement and oversight depend on.
CONCLUSION	The developments observed in 2026 support the AI-augmented investment process envisaged in 2025. Looking ahead, technological progress is likely to remain faster than institutional adoption. The role of investment professionals will also continue to evolve, with greater emphasis on interpreting evidence, identifying limitations and independently challenging AI-generated analysis.

> The central risk is not only that AI may produce inaccurate information, but that increasingly sophisticated outputs encourage **insufficient scrutiny** by the professionals responsible for using them. The long-term value of AI in institutional investment management will therefore depend less on the quantity or speed of analysis produced, and more on the reliability of the underlying evidence and the quality of the decisions it informs.

02 What We Said in 2025

1 Fragmented workflows

Originally allocators worked across fragmented information sources, incl. numerous documents, personal and virtual meetings and disjointed platforms, which may limit analysis more than a lack of information.

2 Efficiency first

PNC expected that AI would primarily deliver value by extracting, structuring and comparing information qualitative and quantitative, reducing duration of manual work.

3 Humans decide

PNC suggested that AI should not independently conduct investment decisions. Machines should extract and structure information, human experts should evaluate, judge and decide.

4 Over-trust major risk

PNC identified a significant risk that investment professionals may trust AI results without checking, as AI-tools may present hallucinated results in a credible way.

5 Traceability as the safeguard

PNC expected that clear source-linked retrieval, citations and references would be required to make AI outputs credible and valid.

6 Better decisions over time

PNC's expectation was that AI would help allocators to ask better questions and make better-informed investment decisions. The actual impact of AI-technologies on quality of investment capabilities and investment decisions is to be observed over the following years.

03 Scorecard: Twelve Months Later

2025 THESIS	EVIDENCE PUBLISHED SINCE	VERDICT
1. Fragmented workflows	56% cite dependence on legacy technology and 72% use >8 platforms across the fund lifecycle and investment operations [6]. 69% of asset managers cite data quality or access as a barrier to wider AI use [5].	Confirmed
2. Efficiency first	69% report efficiency gains and 55% faster or higher-quality insights [5]. Of reported EU use cases, 87% serve internal functions and 77% have low or no autonomy [4].	Confirmed
3. Humans decide	Only 5% of asset managers grant AI autonomous or semi-autonomous authority over investment recommendations or trades [5].	Confirmed
4. Over-trust major risk	The FCA describes a firm where human review became a box-ticking exercise as reviewers accepted AI recommendations without sufficient scrutiny [2].	Confirmed by supervisors
5. Traceability as the safeguard	The FSB final report adds guidance on documentation for auditability and traceability, data governance and third-party risk [3]. The FCA states firms remain accountable for AI they buy from vendors [2].	Supervisory expectation
6a. Transformation underway	MSCI acquired Vantager, an AI platform for pre-investment diligence [7]. Nasdaq completed its acquisition of Dasseti and is integrating it into eVestment [8]. 87% of surveyed firms have deployed or embedded AI [6].	Confirmed in direction
6b. Pace of adoption	In the EU, 45% of 728 surveyed entities reported no AI use case in production or development, with smaller firms behind larger ones [4].	Slower than expected
6c. Better decisions	55% report faster or higher-quality insights, but only 8% report measurable improvement in investment returns [5].	Too early to judge

2026 INDUSTRY SNAPSHOT · INVESTMENT-MANAGEMENT SURVEY

87%	61%	33%
AI deployed or embedded	Reported operational efficiency gains	Enabled new investment capabilities

Source: BlackRock Aladdin / Forrester Consulting, 303 senior decision-makers surveyed May to July 2026. Figures are self-reported and the sample skews toward large institutions. [6]

04 Where Progress Has Been Slower

Adoption moves at institutional speed	Model capability advanced quickly [9]. The constraint is integration: legacy systems, data quality and access, governance, validation, compliance and staff [6, 5, 4]. Large institutions report broad deployment [6], while many smaller firms are still at the start [4]. For allocators, the priority is not speed of adoption but adopting with the right controls.
Outcomes take longer to show	Efficiency gains are well documented; measurable improvements in investment outcomes are not yet [5]. Faster research, wider coverage and earlier issue detection are valuable, and better decisions remain the objective, but the evidence will take more than one year to build.

05 What Has Changed Since 2025

Regulation now reflects these principles	The FSB published 12 sound practices for responsible AI adoption on 15 October 2026 [3], IOSCO published a supervisory toolkit [10], and the FCA set out good and poor practice, with human oversight as a central theme [2]. The EU AI Act applies through a staged, use-case-specific framework, and investment research tools are not automatically high-risk systems [11].
Diligence workflows moved into platforms	AI-supported diligence is now part of larger data providers [7, 8]. This can accelerate implementation, but ESMA notes that reliance on a small number of AI infrastructure providers may warrant monitoring [4]. Data ownership, portability and exit plans become part of system design.
New considerations for inputs and skills	As more documents are processed by machines, text inside a document can be crafted to act as instructions for an AI application [12], and studies of corporate disclosure show firms adapt their language to machine readers [13]; a similar dynamic could affect diligence inputs over time [14]. The FSB also highlights the risk of workforce de-skilling [3]: Firms need to keep building the evaluation and judgement capabilities that oversight depends on.

06 What This Means for Allocators

Evidence lineage and completeness

Every AI-extracted data point should carry specific metadata, such as source, date, vehicle and version. A diligence system should separate manager-stated claims from independently verified facts, and keep explicit registers of missing, inconsistent, stale or unreviewed information [2, 3].

Oversight that provides independent judgement

Useful safeguards include independent sampling of source documents, forming a view before seeing AI results and scores, clear escalation criteria and documented overrides. The FCA cites a firm where reviewers assessed cases without first seeing the AI recommendation [2].

Proportionate governance

A use-case inventory, benchmarking and drift checks, access restrictions, supplier oversight and a workable plan to replace a model or vendor [3, 10].

Questions for managers and vendors

Where an AI claim is made, ask what was measured, against which counterfactual, and who checked it.

07 Outlook: What We Will Test in 2027

Outcomes	Whether credible evidence emerges that AI-augmented processes improve manager selection or portfolio outcomes, not only operational efficiency.
Oversight quality	Whether firms can show that human review is still in charge of investment decisions, for example through documented overrides.
Dependency	Whether platform consolidation in diligence workflows continues, and how allocators manage data ownership and exit.
Bounded agents	Whether agentic systems that assemble information packs, track changes and request missing evidence move into practice, and under which permissions and approvals [3]. As routine work is automated, the value of investment professionals lies more in raising questions, assessing manager credibility and challenging consensus [15].

Our 2025 paper was titled “The AI-Augmented LP Asks Better Questions”.

Twelve months on, AI clearly helps allocators ask more questions, faster. **Showing that they are better questions is the test for the next year.**

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Sources and References

All external citations below link to original research, issuing institutions or first-party corporate releases. References are numbered in order of appearance; survey figures are self-reported unless stated otherwise.

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14	Phalippou, L. *Artificial Intelligence as a Source of Risk in Asset Management.* 2026; SSRN working paper.	Working paper (SSRN)
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