

TRENDS IN OPERATIONAL DUE DILIGENCE

ODD BRIEF #122 – APRIL 1, 2020



Conducting Due Diligence Remotely – and why it works.

How to soundly monitor managers and complete ODD during the Q1-Q2 2020 COVID-10 “Shelter at Home”:

1. Review all manager correspondence timely, including monthly fact sheets, quarterly letters, year end audited financials, and annual ADV filings.
2. Stay in touch with managers on the phone, and take the opportunity to learn more about their team during this crisis.
3. Conduct virtual ODD through phone, video, and email due diligence procedures. The only thing that needs to change is the onsite in-person visit.
4. Take note of managers who are not providing industry standard COVID-19 transparency.
5. Don't take larger operational risks by investing in small un-known managers where a site visit might reveal high levels of fraud or operational risk.

The concept of virtual operational due diligence does not sound ideal, but in reality it can be very efficient, and PRISM has successfully conducted virtual remote ODD on managers around the world for several years. While seeing and interviewing people in person is preferable, in most cases representatives of PRISM's clients have already met with the investment manager on one or more occasions. The client almost always has already visited their offices. With that said, effective due diligence can easily be done remotely and behind the scenes.

Organization and logistics are the keys to achieving comparable levels of assurance during a virtual ODD review. The execution of due diligence procedures and the communication of what procedures need to be performed are key to the success of the ODD review. Lacking a system or a process, and lacking clear communication with the investor and the investment manager, will result in a weak file. In fact, if the logistics are not conducted at a certain level, this can sabotage any ODD review, but more importantly a review where a site visit cannot be conducted due to a rare BCP scenario, such as COVID-19.

“Investment manager operational due diligence is simply ‘due diligence’, which means requesting information, collecting documents, reviewing policies and procedures, and generating professional assessments on the risk of business failure, fraud, or operations inefficiencies”.

Operational due diligence also includes obtaining DDQs, written service provider confirmations, and interviewing the back office staff of the investment manager. All of this is always done remotely; except for the interviews that happen during an onsite visit. Software such as Zoom easily enables the parties to see each other, see parts of their office, screenshare systems, and sit through a half day meeting. While it is ideal to be onsite, as long as the due diligence plan is properly conveyed and agreed upon between the parties; assurance can effectively be obtained. If logistics and communication fail, then there will be less transparency and likely a higher risk of a less than ideal due diligence file.

Hedge fund and private equity operational due diligence since 2009.

PRISM LLC

WWW.PRISMALTERNATIVES.COM

CONTACT: LAURI HAAS • 1-424-302-0165 • INFO@PRISMALTERNATIVES.COM