

PRISM INSIGHTS

TRENDS IN OPERATIONAL DUE DILIGENCE



The ODD process, and how it is broken down.

Due Diligence

1. Offering memorandum review
2. Marketing material review
3. DDQ/FAQ review
4. Policies and procedures review
5. Financial statement review
6. Personnel review: biographies and organization chart
7. IT infrastructure and cybersecurity review
8. Software application review
9. Confirmation of services with vendors
10. Site visit or virtual site visit with investment manager
11. System demonstration (e.g. trading, accounting)
12. Testing (e.g. view reconciliations, committee minutes)
10. Regulator assessment (prior investigations and/or violations, regulatory exam findings)
11. Legal (corporate, employee, and fund litigation)
12. Insurance (E&O coverage and insurance claims)
13. Safe-guarding of assets (counterparty risk management, selection of custodians, and liquidity)
14. Cash movements (cash wiring controls)
15. Portfolio valuation (liquidity, valuation ownership, and independence)
16. Accounting (process, oversight, history of errors)
17. Expense allocations (allocation policy, level of costs)
18. Service provider capability
19. Service provider coverage
20. Ability to rely on experts and independent parties
21. Investment manager and service provider transparency
22. Mitigation of risks
23. Benchmarking to peers
24. Comparison to current industry best practices
25. Overall operational risk assessment

Analysis

1. Soundness of investment manager internal controls
2. Financial condition of investment manager
3. Reputational issues (media, affiliations)
4. Corporate culture
5. Accuracy and depth of interview responses
6. Adequacy of human resources (qualifications, experience, turnover, and headcount)
7. Diversity and independence of team
8. Infrastructure (IT network, data hosting and backup, communications, and offices)
9. Regulatory compliance framework (regulator oversight, appropriateness and effectiveness of policies and monitoring)

10 Sub-risks of Operational Risk

1. Business Risk
2. Reputational Risk
3. Financial Risk
4. Regulatory Risk
5. Cybersecurity Risk
6. Operations Risk
7. Counterparty Risk
8. Valuation Risk
9. Accounting Risk
10. Fraud Risk

Hedge fund and private equity operational due diligence since 2009.

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