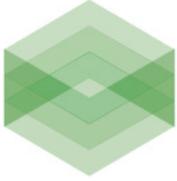


PRISM INSIGHTS

TRENDS IN OPERATIONAL DUE DILIGENCE



Operational due diligence without the site visit: what is needed to close the gap?

Scope Agreement

Prior to beginning an ODD review remotely, now more than ever, the investment manager and the allocator need to both be in agreement on the scope of the ODD review. With COVID-19, when the market place is under stress managing staff who are working from their homes, juggling business and personal responsibilities, some investment managers may look to circumvent the ODD process and not allow certain steps to be performed (e.g. systems demo, certain or all service provider confirmations, or full length ODD meetings). PRISM stresses the importance of making requests up front, coming to an agreement on the requested scope, and ensuring that no shortcuts will be taken, or attempt to be taken, given the current pandemic environment.

HD Video Meetings/Doc Share

A video meeting with the investment manager's back office can provide just about as much comfort as an onsite meeting. Technology and communications are at the forefront of our society today, and screen share and HD video provide almost the same in person experience. If you are worried about the look and style of the office, this is much less of a concern in today's technological and global market. If you are worried whether you can trust the investment manager and you need to see the CFO and Head of Operations face to face, it might be a good time to take a closer look at the staff backgrounds.

Detailed Biographies

In performing ODD, part of the role is to assess the qualifications of staff. In a remote due diligence environment, it is even more important that investment managers provide detailed biographies of staff to the consultant or allocating firm. The biographies should have dates for each employer and educational degree. Without the dates and without titles and names of prior firms, it is not easy to assess qualifications and depth of experience. The ODD process becomes longer, and may result in a "fail", as it may appear that the lack of data signals the wrong experience. Generally speaking, due diligence can move much smoother, if the relevant data is provided upfront in writing. The old way of doing things is to interview the people onsite, and assess their responses and behavior using judgment. However, with the latest advancements in ODD and operational benchmarking, and strong and clearly articulated biographies, personal judgment on a CFO's know-how is not as relevant; unless the biographies show a lack of experience in the functional area. Either way, a video meeting with that person should reveal any concerns over knowledge and functional ownership.

Background Checks

Verifying credentials is key. Conducting formal background checks on PMs, CIOs, CFOs, and CCOs, and also obtaining attestations that the investment manager conducts at least pre-employment formal background checks on all of their staff, can provide the necessary assurance that the people have the experience and credentials they claim to have.

Hedge fund and private equity operational due diligence since 2009.

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