



## REGULATION AND COMPLIANCE

# Operational and Regulatory Due Diligence

Few things can be more damaging to the reputation of an investor or adviser, especially when it is acting on behalf of others, than hiring or recommending a third party manager that then attracts high profile regulatory censure, or worse, suffers a material fraud or loss. This is particularly true when the causes are operational and regulatory, often with easily identifiable symptoms.

The safety of assets and the reputation of fund of funds and multi-managers is dependent on the integrity of the controls infrastructure of their underlying managers. It is entirely reasonable, and indeed a fiduciary duty, to provide investors with an assessment of a manager's full attributes rather than one limited to the quality of its investment risk.

## Our approach

In our experience operational and regulatory due diligence processes frequently lack the sophistication of investment due diligence. All too often operational and regulatory due diligence appears to have morphed into a vast homogenous and unwieldy information gathering exercise, frequently carried out without a clear objective and not designed to address the risks the firm is trying to mitigate. The results therefore are often immeasurable and unusable.

Our due diligence service has been designed to be flexible and complementary to existing risk management arrangements and enables clear identification of the risks involved when appointing an investment manager. The main criteria for selecting third party managers are typically the quality of their investment skills and investment risk management. These are the main drivers of investment returns and absorb the most time and attention. It is important that operational and regulatory due diligence is not designed to support a predetermined investment decision but rather is an unbiased and independent evaluation of the complete range of potential risks inherent in the manager's operational infrastructure.

## Our due diligence process

Our due diligence process is carried out within a structured framework designed to address specific potential risks and to yield meaningful and measurable results. We have a clear process for evaluation which categorises the results into the following: strengths, weaknesses, issues and threats. These are firm conclusions on which an investment decision can be based.

We believe that effective due diligence arrangements must involve a significant element of corroborative assurance, which will involve onsite interviews with senior management and analysis of underlying processes and controls. We do not believe it is reasonable to rely on questionnaires and self certifications by the manager. Neither does the FSA and neither do the courts.

We have carried out hundreds of due diligence reviews globally, particularly in Europe and the US, and our clients range from some of the world's largest multi-managers and institutional investment businesses, to acquirers of global investment management businesses. We combine a wealth of regulatory and operational knowledge and experience with an intimate understanding of the asset management business.

**For further information on our due diligence service please contact Jon Wilson (jonathan.wilson@theimgroup.co.uk)**