

## OPERATIONAL DUE DILIGENCE

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January 2018





## An Effective Due Diligence Process

To obtain full, transparent and true information regarding an investment manager that will enable an investor to make a well informed decision.



## Operational Risk

Risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.

## Sources of Operational Risk

| Sources         | Definition   | Mitigating the risk   |
|-----------------|--|---|
| Errors          | Mistakes made in the process of executing the investment strategy.   | Prevent and detect errors by ensuring well-designed and implemented operational systems.                                    |
| Agency Conflict | Intentional actions of the firm's employees that are contrary to the investor's best interests.            | Controls over conflict of interest (i.e. compensation, outside business activities, personal trading, code of ethics, etc.) |
| Fraud           | Intentional, self-serving and deceptive behavior in the firm's activities that is harmful to the investor. | Segregation of duties between the portfolio management functions from the accounting, performance and valuation processes.  |



Prior to any allocation, investors should mandate a due diligence on all types of investment managers that include:

- Broker-Dealer
- Investment Advisors
- Investment Counsel/Portfolio Managers
- Mutual Funds
- Hedge Funds
- Private Equity



## Our Differentiating Due Diligence Process

- Comprehensive approach into the investment firm
- Evaluation of the investment manager's investment philosophy
- Evaluation of the controls over the performance operations
- Evaluation of the controls over the firm's operations
- Continuous monitoring
- Senior Level staff with over 15 years of experience each
- Customized to client needs

## Enhanced Due Diligence Process

| <b>Investment Due Diligence</b>                          | <b>Operational Due Diligence</b> |
|--|----------------------------------|
| Investment Philosophy and Portfolio Construction Process | Existence of Assets              |
| Products Offering  | Control environment              |
| Performance Appraisal                                    | Governance                       |

## Manager Selection - Due Diligence Process

- Planning- Gathering of data and analysis
- Investment Manager review including on-site meeting
- Review the services of the Service Provider
- Report the results identifying the strengths and weaknesses
- Continued Monitoring



## Due Diligence Planning Process

Gathering of data and analysis:

- Corporate Structure Information
- Organizational Chart
- Offering Memorandum/Prospectus
- Subscription and redemption
- Due Diligence Questionnaire
- Marketing presentation
- Performance reports
- Risk management reports
- Audited Financial Statements
- Service provider agreements
- Manager's policies

## Due Diligence Investment Manager Review

On-site reviews of investment manager's operations with focus on that include:

- Investment Management Company
- Product Offering
- List of Service Providers
- Portfolio Objective and Strategy
- Valuation Controls
- Performance Appraisal and Controls
- Risk Management Controls
- Controls over assets, trading and net asset value
- Information Technology
- Compliance



## Due Diligence Review of Service Provider

Reviews of services provider's services:

- Agreements
- Servicing
- Systems and Staffing
- Control Environment
- Compliance Environment

## Due Diligence – Detailed and Summarized Report

Report will provide the client with:

- Executive summary highlighting the strengths and weaknesses
- Detailed Report providing in-depth analysis of the investment manager's investment philosophy and operations
- Recommendations on any improvements

## Due Diligence – Continued Monitoring

Continued Monitoring throughout the relationship that includes reviewing and identifying operational and business changes to the investment manager's operations. Areas will include:

- Changes to investment manager's corporate structure, staffing, product offering, service providers and control environment
- Performance Appraisal reviews, including marketing material
- Compliance breaches and regulatory sanctions against the investment manager
- Review of audited financial statements



## Phocion has been serving clients since 2010

- Independent and employee-owned
- A team with complete investment industry experience
- Four partners with over 70 years of combined experience
- Modus operandi is to improve client operations



## Management Team

### **Ioannis Segounis, B.Eng, MBA, CFA, CIPM**

Founder and Managing Director

Industry Experience: Performance and Research

Career began: 1999

Founded: 2010

### **David Rowen, CFA, FRM, CIPM**

Managing Director

Industry Experience: Investment Management and Research

Career began: 1994

Joined team: 2015

### **Kosta Segounis, CPA, CA, CFA, CIPM**

Managing Director

Industry Experience: Due Diligence and Investment Compliance

Career began: 1995

Joined team: 2015

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