

## OPERATIONAL DUE DILIGENCE

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## 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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