What's Wrong With Hedge Fund Operational Risk Ratings and Certifications?

Major Risks and Concerns

- **Franchise Risk –** Both certified and highly rated hedge funds have failed for primarily operational reasons
- **Conflict of Interest –** Persistent investor concerns from having the hedge fund under evaluation also serve as the paying client
- **Cookie-Cutter Approach –** Lack of customization in most operational rating agencies reviews has led to the creation of "canned" reports
- **Poor Market Perception –** Operational ratings and certifications are primarily seen as a marketing tool by investors and hedge funds
- **Information Decay –** Ratings and certifications are as of a specific point in time and quickly lose relevance during periods of organizational change
- **No on-going monitoring –** Ratings and certification agencies often do not pro-actively monitor hedge fund operational risks in between rating cycles, instead self-reporting is required by the hedge fund
- **No on-going support –** Hedge funds are often left with little real-world guidance on operational risk management and due diligence meeting preparation after a ratings or certification review is completed
- **Limited scope –** Operational ratings and certifications do not incorporate all the major operational risks of concern to hedge fund investors including reputational risks and meta risks
- **Few Actionable Recommendations –** Hedge funds generally are provided with few actionable steps to effectively capitalize on operational strengths and minimize weaknesses

Our Service Offerings

- Operational due diligence meeting preparation
- Mock operational due diligence audits
- Operational efficiency analysis
- Development of investor operational due diligence functions
- Implementation management
- On-call due diligence meeting services
- Operational best practice advisor

For More Information

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