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How dedicated and independent operational due diligence consultants add value

Investors are increasingly accepting of the fact that operational due diligence is here to stay. No longer is it simply acceptable for investors to simply believe that they do not need to be concerned about operational risks at hedge funds and private equity funds. It is no longer, "the next guy's problem" or, "something the government will take care of." With this increased acceptance of operational due diligence many investors are facing the question of how to best perform these operational risk reviews.

Some investors may seek to perform such reviews themselves. A common problem with this DIY approach is that investors do not have the same level of familiarity with fund operational procedures as they might with investment processes. Additionally, even if an investor understands the basics of fund operations they may not have the experience and/or training to fully evaluate a fund's different operational risks. Finally, do it yourself approaches also suffer from the fact that they lack independence. So for example, if an investor has a certain amount of investment conviction in a manager they may be swayed one way or the other in drawing a conclusion with regards to an operational due diligence review.

Other investors such as public funds, may lean on traditional investment consultants to perform such reviews. As investors have increasingly demanded such operational risk reviews, these investment consultants have begun to offer operational due diligence services as part of their overall consulting services. Such operational due diligence departments are typically constructed as an afterthought, to what most consultants deem as the, "more important" investment consulting process. Additionally, there is an inherent conflict of interest to the investment consultant being compensated based on their investment advice and at the same time conducting a supposedly independent operational due diligence review of a fund. The potential for the investment side of the consulting business influencing the operational side of the business is too great.

Still other investors may seek to seemingly skirt the issue altogether by allocating to hedge funds and private equity funds through fund of funds. In these cases, investors should be cautious that the fund of funds is not suffering from the same DIY and investment consultant pitfalls outlined above.

Corgentum Consulting adds value to the operational due diligence process. Our firm's independence offers investors and fund of funds a third-party neutral independent evaluation of a fund's operational risk exposures. Due to the fact that Corgentum is not compensated in any way by the fund's we review we avoid a conflict of interest which may be in place with other consultants. Additionally, our years of industry experience in conducting operational due diligence as well as ongoing proprietary research in this field, ensure that our client's avoid unnecessary operational risks.

For More info@corgentum.com
Information Corgentum.com | [Blog](#) | [Twitter Feed](#)
Tel. 201-360-2430