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The dangers of generic canned operational due diligence reports

Mimicking the outgrowth of generic boiler-plate hedge fund background investigations, certain operational risk providers may seek to sell hedge fund investors canned operational risk reports. While informative and useful for establishing a minimum baseline level of operational knowledge, such reports can perform a disservice to investors across multiple fronts. Below is an outline of several factors investors may want to consider before utilizing such cookie-cutter reports:

Investors different operational sensitivities

Different hedge fund investors may have different sensitivities and priorities in regards to the operational riskiness of a hedge fund. So for example, one investor may only place minimal importance on a hedge fund manager's business continuity and disaster recovery plan, while this may be of high importance to another investor. Depending on the perspectives and methodology of the report writer, as well as of the operational sensitivities of the investor the original report was written for generic research reports may not address a different investors concerns.

Operational risk factor weights vary among managers

These operational risk concerns may also vary among different managers. Continuing our example, business continuity and disaster recovery may be of increased importance to a high frequency trading manager than a hedge fund which only executes a few trades a month. Generic operational due diligence reports often ignore the nuances of different investor operational risk thresholds and the potential increased weight of certain operational risk factors for different managers.

Information overload can dampen operational sensitivities

Canned operational due diligence reports often contain reams of irrelevant information as a result of their boiler-plate check the box approach to operational due diligence. Overloading investors with volumes of such information can result in an overload where important details and risk considerations become lost. This leaves investors with the problem of searching for an operational risk needle in a haystack of immaterial information.

Conclusion

Generic, boiler-plate (aka: canned) operational due diligence reports are useful to minimally bring investors up to speed regarding a hedge fund's operational risk exposure however, these reports often perform a disservice to investors because of a number of factors including: inflexible methodology, lack of customization for different investors and hedge funds, often inflated price based on previously completed work and lack of comprehensiveness of multiple operational risk exposures. To combat these problems, Corgentum's operational due diligence reviews are specifically customized to meet the needs of each client and are uniquely tailored to address the style specific risks of each hedge fund manager under consideration.

For More Information

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