



Analyzing Your Financial Advisor's Due Diligence Process: Ten Questions Every Investor Should Ask

Many hedge fund investors including high-net-worth individuals, pension funds, family offices, endowments and foundations, often do not have the requisite expertise or resources necessary to perform their own due diligence. This is one of the reasons they rely on financial advisors, hedge fund consultants and professional hedge fund allocators, such as funds of hedge funds. With the recent flurry of hedge fund Ponzi schemes allegedly perpetrated by money managers such as Bernard Madoff and Arthur Nadel, it is now more important than ever for investors to be able to evaluate the quality of the due diligence being performed by their advisors. How is an investor supposed to objectively and independently evaluate the quality and effectiveness of the due diligence performed on their behalf?

The Top 10 Questions Every Investor Should Ask

- **1. Appropriate Resources** – Are sufficient resources (i.e., staffing levels, budget, etc.) committed to due diligence as compared to other functions such as client service or investment management?
- **2. Intensity** – What exactly does your advisor's due diligence process entail (i.e., documentation collection, on-site visits, etc.)?
- **3. Documentation** – How does your advisor document the due diligence process?
- **4. Scope** – Is separate operational due diligence performed on operational risk, or is all due diligence – investment and operational – lumped together?
- **5. Qualifications** – What makes the individuals performing due diligence particularly suited to vet a hedge fund's investment and/or operational risks?
- **6. Diverse Skill Sets** – Is there diversity of skill sets among due diligence analysts to ensure a variety of risks are vetted, or do they all have the same general background (i.e., all former hedge fund accountants)?
- **7. On-Going Monitoring** – After the initial due diligence process is complete, does your advisor perform any on-going due diligence?
- **8. In-house or Outsourced** – Does your advisor outsource any part of the due diligence process, such as background investigations, to other firms or is all due diligence performed in-house?
- **9. Service Providers** – Is due diligence performed on a hedge fund's service providers (i.e., auditors, administrators, etc.)?
- **10. Previous Examples** – Can your advisor cite recent examples of hedge fund managers they have ever not hired (or fired) because of items uncovered during the due diligence process?

For More Information

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