



CORGENTUM

Corgentum – Working with Investors to Evaluate and Monitor Operational Drag[®] in Hedge Funds

Before beginning an operational due diligence engagement with any client, Corgentum takes the time to evaluate not only what, if any, operational due diligence a client may already be performing, but also what an investor's goals may be. Some investors may be primarily focused on detecting, and subsequently avoiding exposure to, fraudulent or illegal activity. Others however, may have goals which go beyond merely the detection of fraud. This is where the concept of Operational Drag[®] comes into play.

Operational Drag[®] is defined as the negative effects of operational risks on the efficiency of an organization. This concept can be analogized to the theory of drag in aviation. The higher the operational riskiness of an organization, the higher the Operational Drag[®]. By lowering the Operational Drag[®] throughout the organization, a hedge fund can increase its operating efficiency and subsequently lower its total operational risk.

If fraud is not present at a hedge fund, does this mean that the fund does not present any operational risks to investors? Of course not. Even a hedge fund manager with the best of intentions may run a firm that is rife with organizational inefficiencies. These deficiencies can hamper the overall profitability and performance of a fund. Operational Drag[®] also has important asset allocation considerations. Based on modern portfolio theory when a risk-averse investor is faced with two hedge funds, all other things being equal, they should allocate more to the hedge fund with the least operational risk.

Putting theories aside, a hedge fund with less Operational Drag[®] is more operationally efficient. Such efficiencies, combined with a complete qualitative operational due diligence review, allow an investor to have more conviction, and therefore potentially allocate more capital, to a hedge fund manager with less Operational Drag[®].

Fraud detection is at the forefront of the Corgentum process, but this is not where our analysis stops. Corgentum's proprietary hedge fund operational due diligence methodology goes beyond fraud, in order to develop an understanding of the operational practices in place at a hedge fund manager. Corgentum works with investors to analyze and monitor Operational Drag[®] in hedge funds in order to reduce our client's exposure to hedge fund operational inefficiencies.

For More Information Jason Scharfman, Managing Partner
Scharfman@corgentum.com
Corgentum.com
20 Fleet Street, Jersey City, NJ 07306
Tel. 201-360-2430