

Operational Due Diligence service

DWA's bespoke approach has helped clients identify operational weaknesses potentially detrimental to the success of their investments.



Dean Wetton Advisory offer a broad range of Operational Due Diligence services on traditional asset managers as well as on illiquid investments, including in Emerging Markets.

Why the need for an Operational Due Diligence?

Following the stream of bad news on cases of fraud starting with Madoff in the US in 2008 and most recently Abraaj in the Emirates, as well as liquidity issues with Neil Woodford's funds in the UK, the spotlight has fallen on the role and effectiveness of the due diligence process.

Pension funds, other investors and M&A managers often rely on Investment Due Diligence (IDD) to support their decisions to invest in or acquire a fund. However, this has been proven insufficient as there are risks that the IDD does not capture. History shows that the first leading cause of hedge fund failure can be traced back to weak governance and operational management which were not unveiled during the IDD process.

Investors in liquid regulated funds are protected by the Financial Services Compensation Scheme ("FSCS"), which limits the need for a thorough Operational Due Diligence ("ODD") process on these funds. For illiquid funds, however, this is not the case: a problem exacerbated by a lack of specialist firms who have demonstrable experience performing ODD for illiquid managers.



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Experience matters

DWA has years of experience conducting ODD research on illiquid managers. Recent projects include ODD on an African-based private credit manager on behalf of a US-based firm, and on a US venture specialist on behalf of a large UK institutional client.

Based on our experience in the niche area of illiquid or private market ODD, DWA can offer clients, which include banks, pension funds, private equity funds, charities, family offices, endowments and sovereign wealth funds,

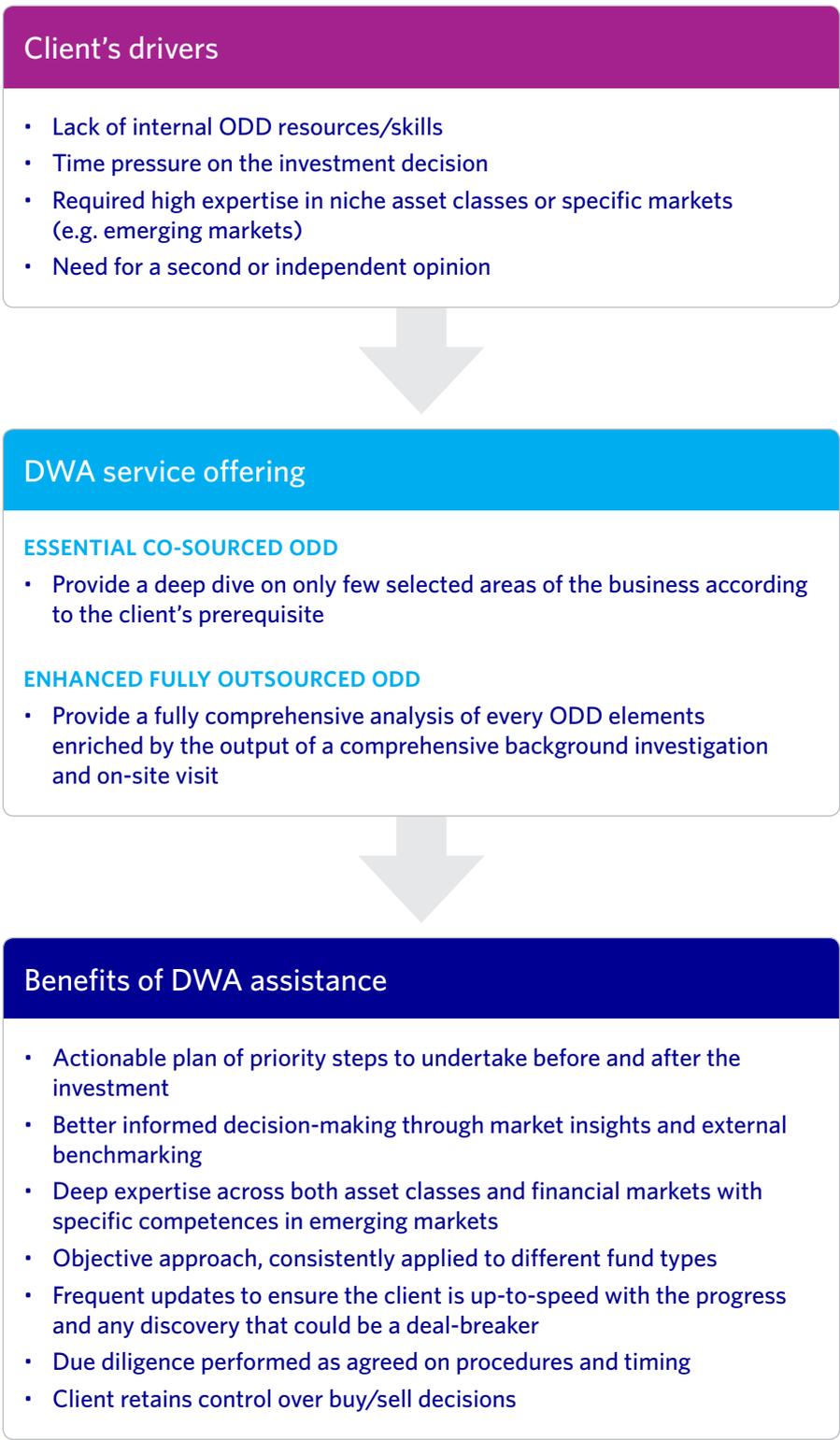
an analysis of an investment manager's operational capabilities and robustness.

Our process creates an awareness of potential malfunctions and shortcomings in a manager's operational processes and procedures; legal structure, organisation, staffing, underlying securities, compliance policies and procedures or use of third-party service providers, which can seriously impact a fund's overall success.

Our ODD service offering

DWA ODD specialists have extensive experience of conducting operational due diligence procedures over a broad range of strategies including hedge fund, infrastructure, venture capital, private equity and traditional asset managers.

To better understand DWA's ODD offering, we have compiled a detailed description of our ODD services:



DWA approach to ODD projects

Our Offering will be tailored to your needs

DWA's approach can be specifically tailored according to each client's requirements.

From minimally co-sourced ODD project, where our contribution is combined with the client's internal resources to fully outsourced projects, we accommodate each client's need on a full spectrum of services according to their desired level of engagement and risk profile.

Our overall aim is to adopt a highly collaborative approach with our clients, drawing on both deep industry experience as well as insights gained from our significant experience in illiquid funds investing in both Developed and Emerging Markets.

The key stages of DWA's approach to a comprehensive report are summarised below. Services can be selected from the menu of services below, either in whole or in part, in line with the client's risk profile and their desired level of engagement.

The DWA client-driven approach menu

<p>SCOPING/DEFINING PROCEDURE</p> <p>Agreeing scope of procedures to be performed.</p> <p>Defining reporting format, logistics and timescales.</p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p>	<p>DOCUMENTATION COLLECTION AND ANALYSIS</p> <p>Review of the fund's corporate documents, prospectus, audited financial statements and manuals.</p> <p>Identification of key service providers.</p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p>	<p>ON-SITE VISIT AND PROCESS DOCUMENTATION</p> <p>Meetings with key staff as well as more junior employees.</p> <p>Performing walkthroughs of the key operational processes and controls and observing the operation of such controls.</p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p>
<p>SERVICE PROVIDER REVIEW</p> <p>Meeting with service providers to verify, identity and scope services.</p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p>	<p>INVESTIGATIVE DUE DILIGENCE</p> <p>Performing background investigation.</p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p>	<p>FINAL REPORT/OPERATIONAL DECISION</p> <p>Reporting factual findings in a formal report together with opinions, advice and recommendations when deemed appropriate.</p> <p>Providing a table in the report summarising every issue in order of priority.</p> <p><input checked="" type="checkbox"/> <input type="checkbox"/></p>

Key areas of coverage

There are no uniform rules for ODD as the process can vary by client, location, size and strategy of the fund. However, while meeting the particular needs of our clients, we give specialist attention to the analysis of conflicts of interests, corporate culture, strength of the governance environment, IT systems and security – and last but not least – cash management. These are historically the “weak entry points” through which misconduct and fraud can typically be perpetuated within an organisation.

- **Conflicts of interests**
- **Corporate culture**
- **Governance environment**
- **IT systems and security**
- **Cash management**

Case studies

DWA works with clients in either an outsourced capacity or alongside our client's in-house investment specialists. The case studies below highlight some of our experience, and we would welcome the opportunity to explore how we can assist you.

Case I

CLIENT ISSUE

Our client, a large private equity fund manager focused on Africa, intended to expand its footprint in emerging markets through the acquisition of a leading credit financier. The client had concerns over the robustness of the governance environment of the target company and required a thorough analysis of its operational structures prior to an acquisition and had limited time to make an assessment to support their decision to acquire or not.

DWA SERVICES

DWA conducted a detailed ODD review of the target company, including the Investment Advisor and other service providers. The project required on site face-to-face interviews in multiple sites.

Due to the time constraints of the project, feedback and updates to the client were provided on a regular basis across the eight weeks of engagement.

BENEFITS

The action plan developed by DWA provided clear instructions to the client on how to resolve the issues identified in our analysis. This enabled the client to address the issues promptly with the target company in an orderly and comprehensive manner.



Case II

CLIENT ISSUE

One of our longstanding clients, a UK institutional client, required an ODD framework to support an IDD for a pre-concluded illiquid allocation of its pension scheme portfolio. The ODD framework required the development of both an initial ODD questionnaire and an ad-hoc annual ODD questionnaire for continuous monitoring.

DWA SERVICES

DWA supported the client's in-house team in the development of the initial ODD questionnaire. We were also tasked with conducting the first round of both initial and annual ODD processes on every investment made by the scheme. DWA implemented the ODD framework for the client and initiated and maintained the audit trails, in order to monitor improvements in the operational issues identified during the initial ODD. The audit trail constituted the basis for the development of the Annual ODD questionnaire, which was customised for each manager according to the specific circumstances and stage of improvements.

BENEFITS

Through the implementation of the ODD framework, our client was able to better understand and reduce non-investment risks, while satisfying its own risk management and assessment procedures for unquantifiable risks.



Should you wish to learn more about the
DWA Operational Due Diligence service or any of our other
consulting services, please feel free to contact
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ABOUT US

DWA was founded in 2009. We are an employee-owned firm, offering a boutique range of investment consulting and advice services to institutional investors, including pension schemes, endowments, charities, private equity funds and hedge funds.

In addition to our core services, we also offer market knowledge and intelligence and strategic advice on fund structuring and governance.

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