

OPERATING BETWEEN THE FLAGS

– OPERATIONAL DUE DILIGENCE Sinesipho Maninjwa CA (SA)



Operational Due Diligence reviews play a crucial role in thoroughly examining the non-investment aspects of a manager's operations.

Key Points

- It is our fiduciary responsibility to ensure managers maintain high operational standards.
- ODD reviews enable DFM's to mitigate potential risks.
- Investors have peace of mind in the knowledge that their DFM continuously assesses the operational risks.

ODD – too important to ignore

ODD reviews play a crucial role in thoroughly examining the non-investment aspects of a manager's operations. They take an in-depth look at BUSINESS, COMPLIANCE and OPERATIONAL risks and identify any red flags that could merit further investigation.

Setting high standards

Fully understanding the operational risks of our asset managers is integral to making prudent investment decisions. Given our fiduciary obligations, we cannot accept low operational standards simply because we are allocating to underlying asset managers. As such, we expect our managers to match our operating standards and mitigate business risks at the same standard that we do.

Our toolbox...behind the scenes

Our aim is to carefully select asset managers that possess robust operational frameworks. We meticulously scrutinize asset managers of various sizes and strategies, actively seeking out those with visibly operational infrastructures. While there are multiple categories and sub-categories of risk covered in our ODD process, certain elements are of paramount importance.

Let us explore them further:

1. Policy

This involves the meticulous review of an asset manager's internal policies, procedures and governance frameworks. We assess the adequacy and effectiveness of risk management policies, compliance procedures, conflict of interest policies, and business continuity plans. We place significant value on those managers that are able to demonstrate quantified operational risks and provide supporting mitigation frameworks.

2. People

We carefully evaluate the expertise, qualifications and experience of the operational staff. This includes a thorough examination of their track records and credentials, and an understanding of their roles and responsibilities within the organization.

3. Process

We scrutinize the operational procedures and workflows followed by the manager. This involves analysing valuation methodologies, risk management practices and performance measurement processes.

4. Product

We conduct a comprehensive analysis of fund documentation, disclosures and legal agreements to ensure transparency and compliance with regulatory requirements.

5. Pricing (valuation)

The process by which an asset manager determines the value of investments is of utmost importance in our risk review. Pricing is a sensitive and critical function as it can leave room for manipulation, fraud, inaccuracy and errors in valuing assets. This emphasizes the need for a clear valuation and pricing policy to maintain accuracy and integrity in the pricing process.

6. Providers

We focus on evaluating the relationships and due diligence processes with the external service providers of the asset managers. Assessing the quality of services, adequacy of controls and reliability of the outsourced functions helps ensure that the manager has established strong partnerships with reputable service providers to effectively support their operations.

In conclusion

Sound operational risk management is a challenging discipline. Ongoing oversight and staying informed about industry developments remains essential for making investment decisions and safeguarding investments by DFM's, especially in situations where regulatory oversight may have limitations. Red flags can appear anywhere and whilst ODD reviews are not a guarantee of manager success, they do help avoid some obvious risks.



For any queries or support
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