

Alternative Investing Process Review

Suggestions for increasing operational efficiency
and helping reduce risk in 5 key areas

#1 Operational due diligence

A time consuming yet critical function

Operational due diligence (ODD) is certainly not sexy or exciting, but it is one area that is intended to be performed at 100%. As the number and variety of alternative investments in your portfolio grows, so does the ODD workload. Without proper ODD, you can face fraud, weak internal processes, systems incapable of certain external events or misuse of funds.

ODD includes thorough manager background checks, monitoring policies and reviewing internal processes. You need a detailed understanding of the manager's operations, valuation policy, lifecycle of trade, IT infrastructure and compliance functions. Typically, a questionnaire is combined with meetings with key operations and compliance personnel to determine if adequate internal controls are followed and segregation of duties exist for the manager.

When looking at the firm, you should obtain information about assets under management and investor composition, ownership structure, personnel hires and departures, compensation structures, future plans and other material issues. Review offering memorandums looking for key terms that are outside of industry standards. In addition, you may want to contact key vendors to verify critical details.

#2 The manager data challenge

You may receive manager communications via email, password-protected web portals or PDFs and in different formats like tables, Excel, Word, PDF or PowerPoint. It's challenging when each manager has their own preferred method of delivery, leaving you with inconsistent data formats to comb through. Not only does this waste time but it can add a layer of unnecessary risk.

Aggregating data and reconciling from multiple sources with many asset types is difficult. Those performing this function are being relied upon to provide clean, timely, normalized and enriched data. We believe this is the standard and as such should be achieved. Teams using multiple spreadsheets and spending hours and hours trying to compile and organize manager data are opening themselves up to inefficiency and potential inaccuracy of the data.

There are systems available that can do this heavy lifting for you. They can simplify data collection, normalization and enrichment across all asset classes to power timely, accurate exposure reporting, risk modeling and analytics. Adopting one of these systems can help to reduce human error for a more efficient and less time-consuming process.



SELF ASSESSMENT

If you are not confident about your ODD efforts, you may need to consider adding resources, expertise or software in an effort to ensure adequate ODD is being performed. Another option some organizations take is partnering with a firm to assist. You can augment your efforts with significant expertise without adding staff. This approach can give your investment office the same scale as much larger teams while helping to reduce risk.



SELF ASSESSMENT

It is worth taking a look at your processes. Understand how much time is going into consolidating manager data on a monthly basis. How many people are touching the data and how many different spreadsheets are involved? Have there been errors affecting your reporting?

#3 Reporting and risk analytics

Knowledge is power

Sound analysis serves as the foundation for all investment decisions. Your investment team needs to be able to easily access analytics and reports on a timely basis. We believe having the proper staff and budget dedicated to reporting is key to success. You need robust systems that can incorporate all holdings and risk data in one spot. Many in-house systems are not capable of incorporating all asset classes, including alternatives. Risk characteristics for multi-asset class portfolios can also be hard to measure and report.

You can also explore robust systems that automate portfolio reporting, monitoring and analytics-based clean data so that you can feel confident you are adhering to board mandates, portfolio construction guidelines, liquidity and leverage rules, and other requirements.

#4 Recordkeeping for documents and agreements

Avoiding the paper chase

Investment staff are strained with frequent investor updates and maintaining multiple documents, which are often stored in a scattered way in unencrypted storage containers. It might seem manageable now, but like gremlins, the number of alternative investments can start small and can grow rapidly!

Each strategy is unique and more involved than traditional or passive investments, and that comes with more documents and agreements to manage. While every team has their own system, maintaining document management can be risky if not properly executed. Private market investments can linger on the books for a long time due to the long-term nature of the asset class.

#5 Is the information at your fingertips when needed most?

Very busy investment teams do not want to receive a call from an auditor. But we all know it happens. Auditors love to ask about holdings that have been on the books forever – especially those pesky zombie companies.* Failure to quickly respond to an auditor's request (especially an IRS auditor) can mean a much more thorough examination.

Alternative investments bring challenges and risk to portfolio management. Do your part to mitigate a break in process or reporting. The most successful investment teams know the value of staying ahead of the ever-changing times. Technology can be tricky to stay on top of, especially if you're not leveraging those systems that have been successful, and continue to reinvest over time. Partnering with an organization rooted in technology and committed to advanced learning each and every year can bring your portfolio to a whole new level.



Want to learn more? Contact institutions@seic.com.

We can arrange a brief assesment with Patrick Carlevato, our in-house specialist.

SELF ASSESSMENT

You may want to take a fresh look at your reports to ensure they are keeping up with best practices regarding data and timing. Is your team staffed to deliver what is needed? Are there metrics your team is missing? Can you identify exposures by asset class, compute exposures by country and sector, analyze how the portfolio will react to various scenarios/shocks for all asset classes, including private investments? Consider reaching out to industry peer groups for samples or insights into how others are approaching their reporting.

SELF ASSESSMENT

Leveraging time-tested systems and technologies to simplify what seems like countless documents is much more effective and helps to reduce risk and error. That way your documents and agreements are well organized and updated. A good, encrypted system should store Sub Docs, LP agreements and legal documents. Eliminate the paper chase so you can spend more time on critical tasks.

SELF ASSESSMENT

Having the proper processes and systems in place to organize, simplify and bring all your data into one platform can help you confidently respond to requests.

Important Information

Information provided by SEI Investments Management Corporation, a registered investment adviser and wholly owned subsidiary of SEI Investments Company. Investing involves risk including possible loss of principal. There can be no guarantee objectives will be achieved.

Alternative investments are subject to a complete loss of capital and are only appropriate for parties who can bear that risk and the illiquid nature of such investments.

Alternative investments:

- Often engage in leveraging and other speculative investment practices that may increase the risk of investment loss
- Can be highly illiquid
- Are not required to provide periodic pricing or valuation information to investors
- Involve complex tax structures and delays in distributing important tax information
- Are not subject to the same regulatory requirements as mutual funds
- Often charge high fees

*Zombie companies are companies that earn just enough money to continue operating and service debt but are unable to pay off their debt.