

DUE DILIGENCE 101

PRESENTED BY:
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Co-Founder IMDDA

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IMDDA
Investment Management
Due Diligence Association



Our Cause

The Investment Management Due Diligence Association is the voice of global investor community. Our goal is to advance the knowledge and skills of the due diligence community through continuing education and world-class information resources and the establishment of industry standards for conducting due diligence on potential and ongoing investments.

Our Promise

IMDDA provides exceptional experiences, a vibrant community, and essential tools that make you and your organization more successful.

Meet Daniel Strachman

A&C Advisors LLC

3



Daniel Strachman

Managing Partner

- 20+ Years of Investment Management Experience
- 15 Years in Current Position

Background: Independent Director, Consultant, Author

Expertise: Hedge Funds, Mutual Funds, Operations, Investment Management, Due Diligence, Regulations

Accreditations: CDDA



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Agenda

The Objective of Due Diligence
What you need to find out

How to perform Due Diligence
It's a lot more than just checking a box

Hot Topics
What people are talking about now and in the future



What is Due Diligence

Overview and process



Types of Due Diligence

Categories and their unique challenges



Results of Due Diligence

Finding and how to record and present them





What is Due Diligence

This is what you need to do

Alternative Investments

These investments are generally characterized as high-risk/high-return opportunities.



Hedge Funds

Hedge funds are alternative investments using pooled funds that may use a number of different strategies in order to generate alpha for their investors.



Private Equity Funds

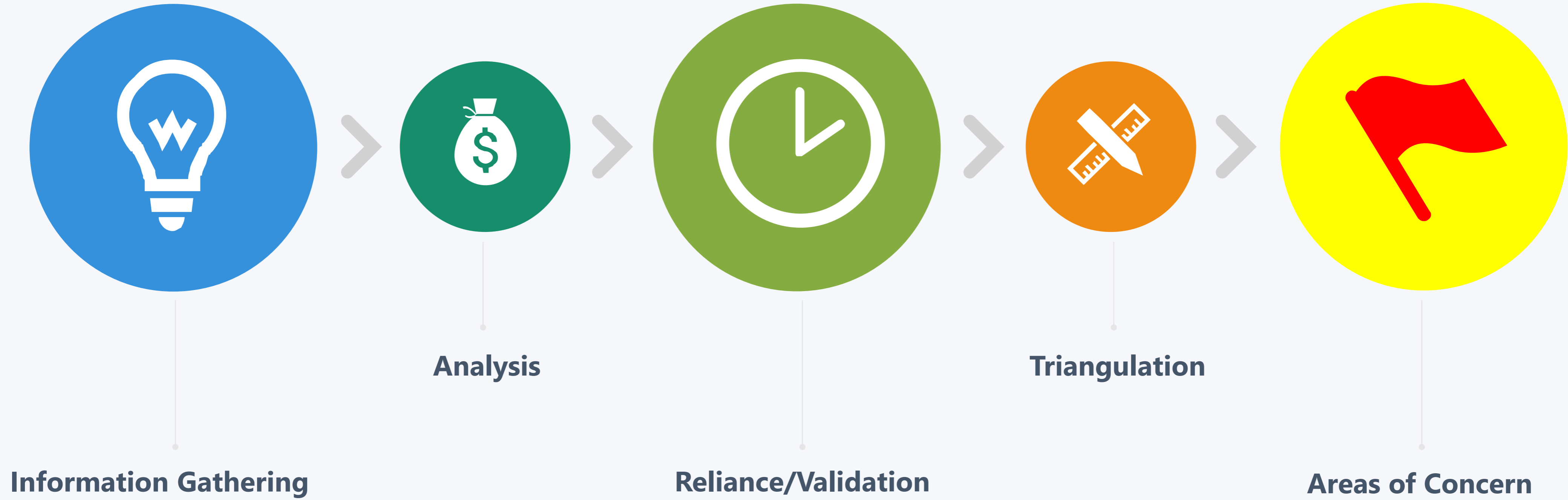
Private equity funds make investments directly into private companies or buyouts of public companies. The monies are used to fund new technologies, expand working capital, make acquisitions or to strengthen a balance sheet



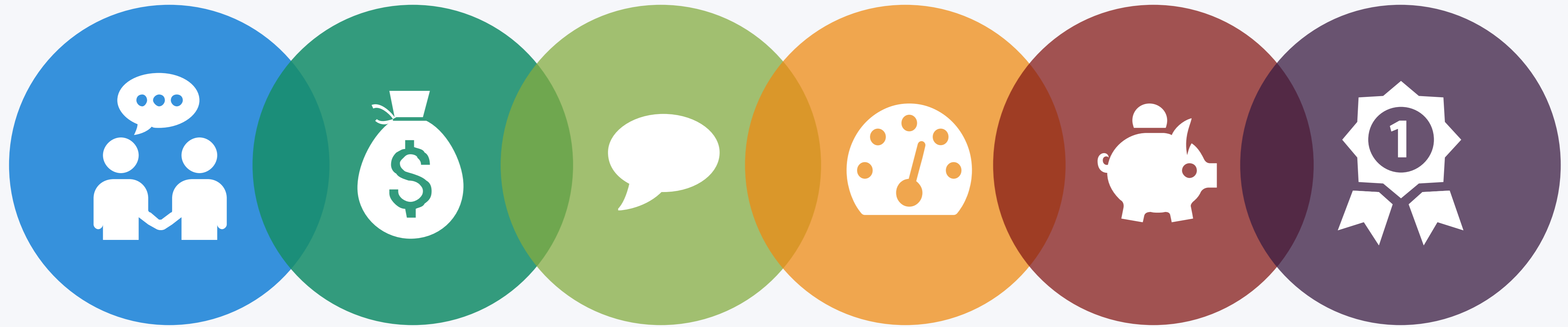
Venture Capital Funds

Venture capital funds invest in private equity stakes in startup and small- and medium-size companies with strong growth potential. These investments are generally characterized as high-risk/high-return opportunities.

Process to Success



Sources of Industry Knowledge



01 IMDDA

02 SEC/AIMA/MFA

03 Presidents Working Group

04 Books

05 Articles

06 Seminars



Objective

What we need to find out

Objectives

What are you trying to accomplish

- ✓ **May differ organization to organization**
 - ✓ **Suitability**
 - ✓ **Risk Tolerance**
 - ✓ **Fiduciary status**
 - ✓ **Investment**

- ✓ **Risk Management**

- ✓ **Identification of a red flags**

- ✓ **Document analysis**

- ✓ **Process the information:**
 - ✓ **Manage**
 - ✓ **Report**

- ✓ **Due Diligence is ongoing**



Expose important components of a target organization 11



Company/Manager
Information



Obtain data



Risks



Third Party
Providers



Investment Thesis
Confirmation



Policy and
Strategy



Infrastructure



Other



Types of Due Diligence

Categories and their unique challenges

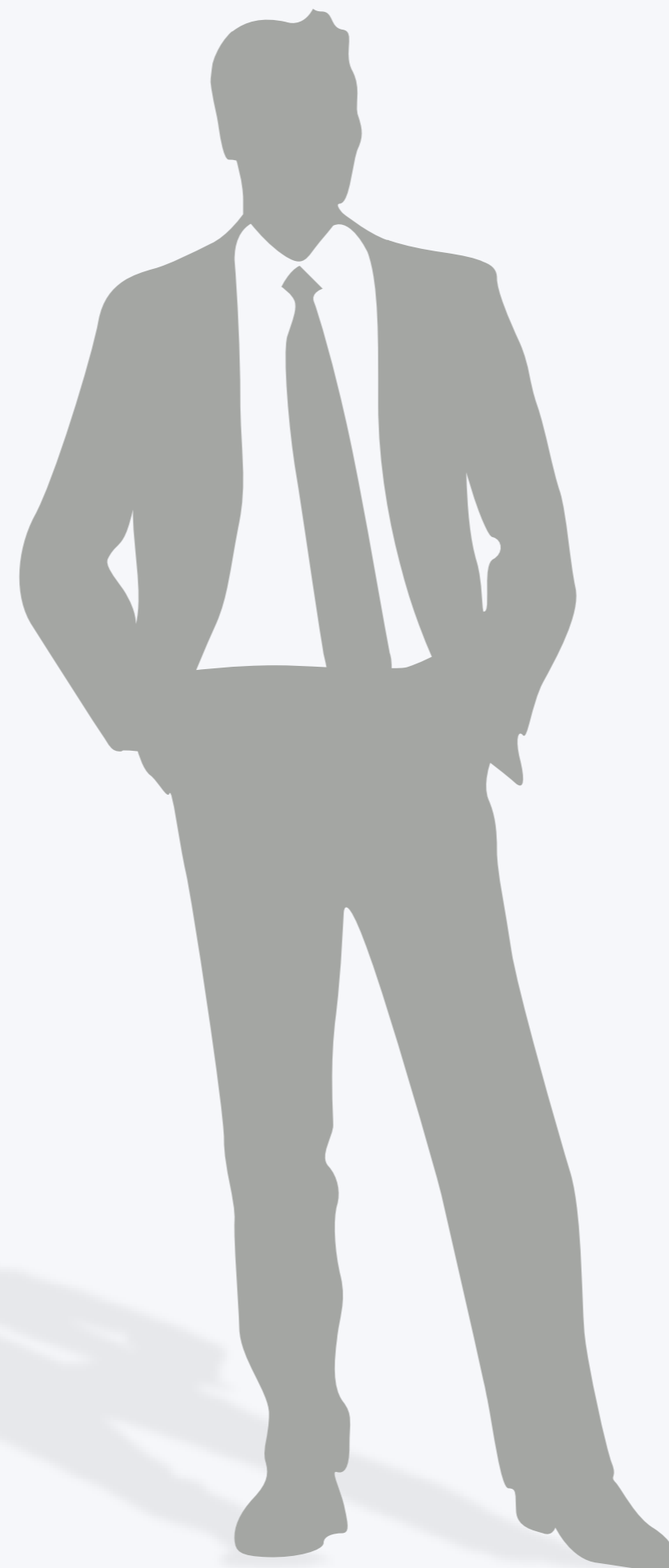
Types of Due Diligence



Initial



Investment



Ongoing



Operational



Performing Due Diligence

It's a lot more than just checking a box

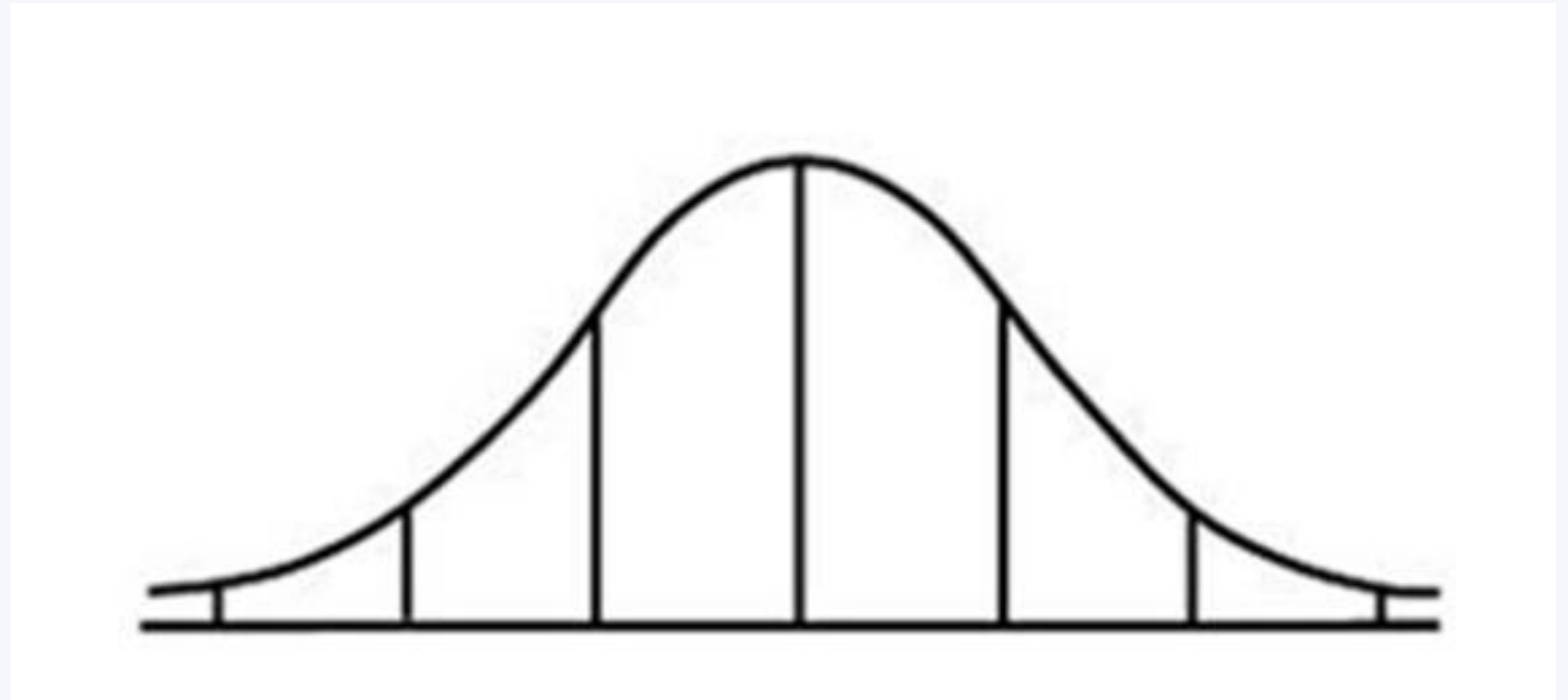
Performance Objectives

- ✓ **Contacting target**
- ✓ **Gathering data**
- ✓ **Documentation**
- ✓ **Review Investment Program and risk verification**
- ✓ **Background Checks**
- ✓ **Data Analysis**
- ✓ **Validation/Triangulation**
- ✓ **Visits**
- ✓ **Third party verification**
- ✓ **Risk tolerance analysis**
- ✓ **Risk Questionnaire**
- ✓ **Red flag mitigation**
- ✓ **Risk analysis**
- ✓ **Result**



What to look for

- ✓ **Anomalies**
- ✓ **Key Personnel**
- ✓ **Backgrounds of key personnel**
- ✓ **Discrepancies**
- ✓ **Variances**
- ✓ **Non industry standard explanations**
- ✓ **Lack of data**
- ✓ **Implausible information**
- ✓ **Indicia of fraud, malfeasance**
- ✓ **Errors**
- ✓ **History**
- ✓ **Unexplained turnover**
- ✓ **Corporate structure challenges**
- ✓ **Public / criminal record**
- ✓ **Other factors**







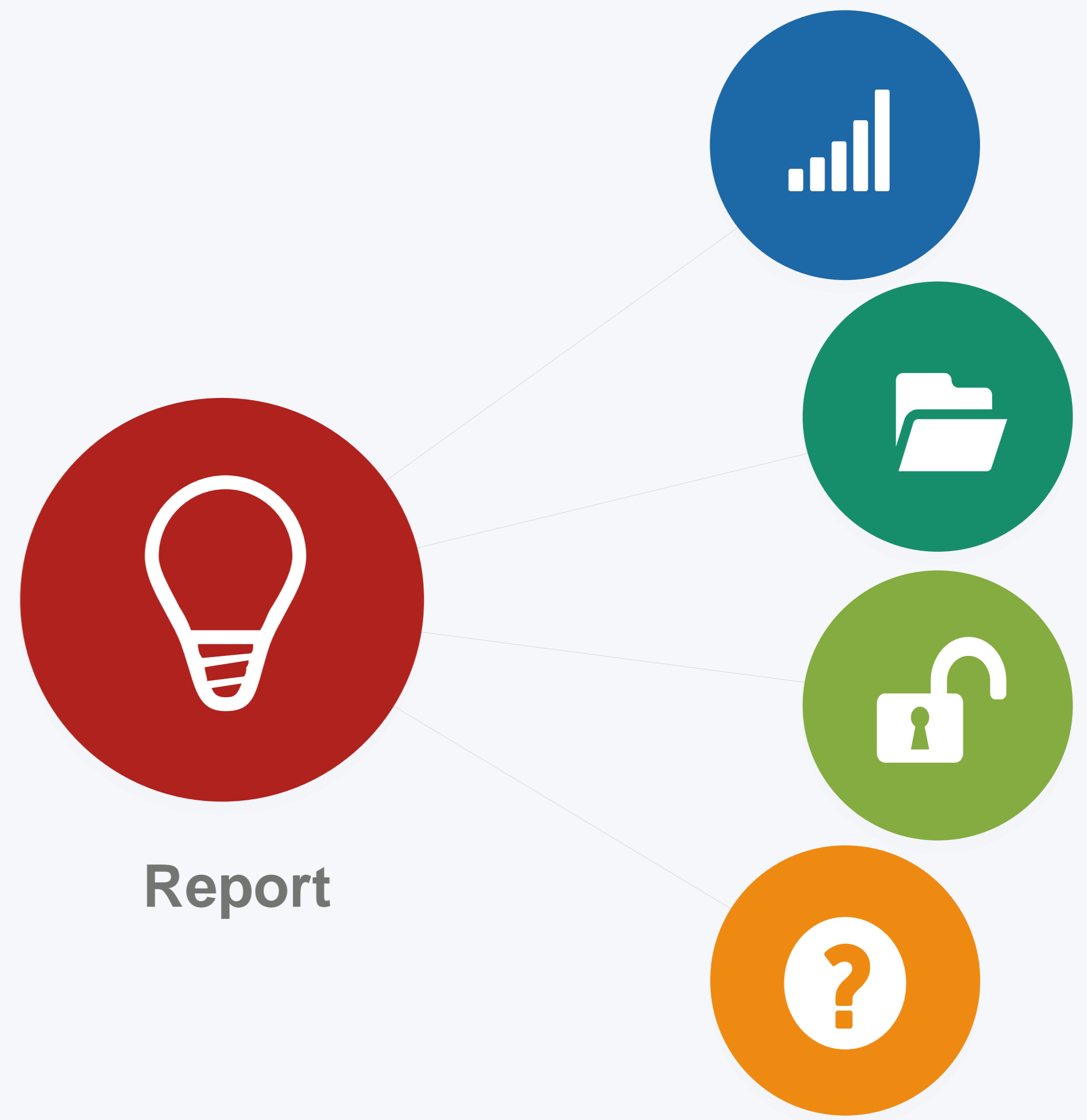


Results of Due Diligence

Findings and how to record them

Documentation

-  **Process**
-  **Data Gathered**
-  **Analysis**
-  **Questionnaire**



Red Flags

What to look for and what to avoid



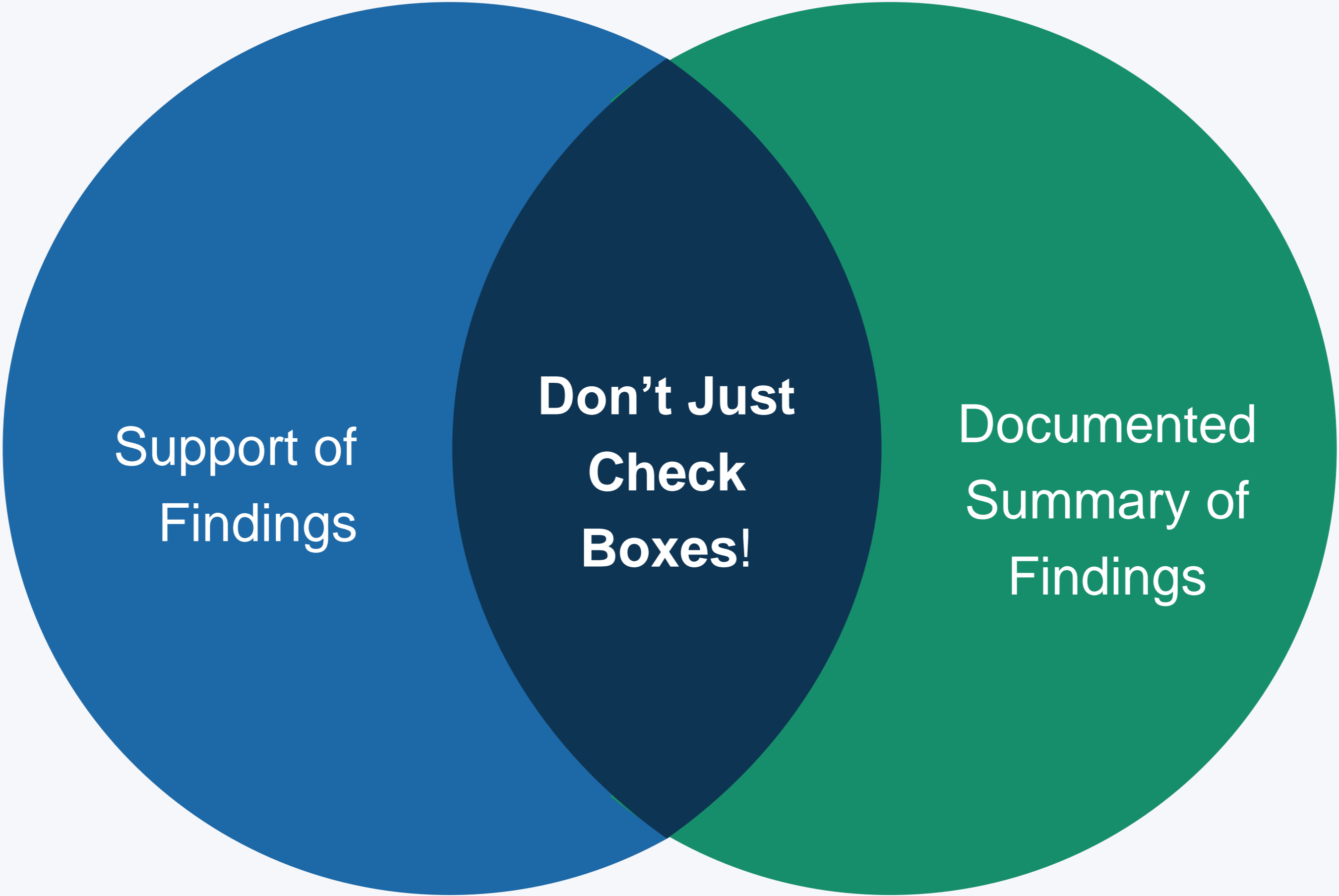
Identification



Mitigation



**Risk Analysis and
Assessment**



Presentations



INVESTOR



CIO



INVESTMENT/OPERATIONS
COMMITTEE



BOARD





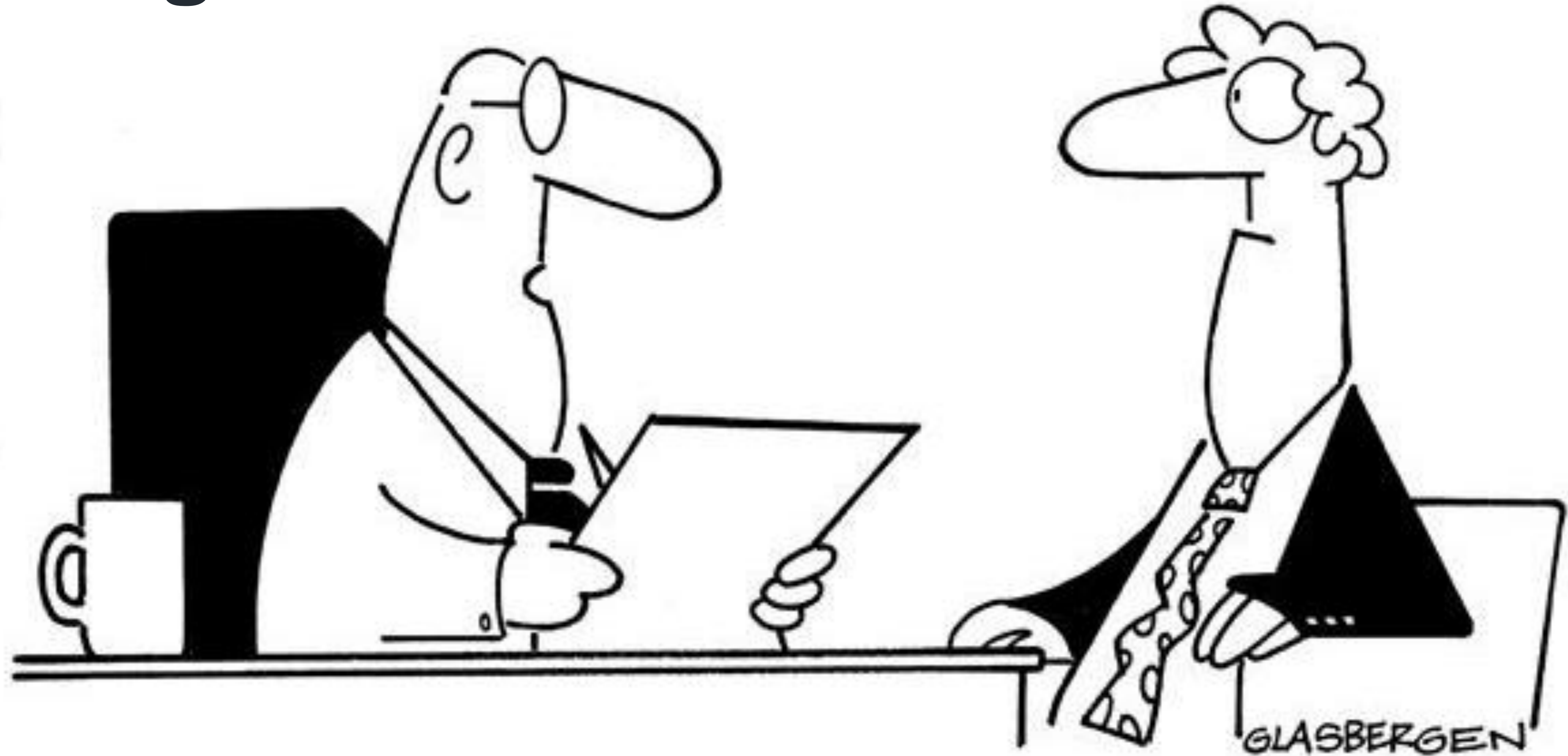
Hot Topics

What people are talking about now and in the future

Cyber Security



Background Checks



“All potential managers get a thorough background check. We found some Facebook posts that make you look like an idiot.”

Business Continuity



SHOW ME THE

MONEY!!!!!!!

Counterparty Risk



Legal & Regulatory



Q & A



Chartered
Due
Diligence
Analyst

Upcoming Live Class: April 30 – May 1, New York City

Closed-End/Illiquid Funds Investment Due Diligence (PE, VC, Private Debt & Credit, Real Assets, Infrastructure)

Topics covered:

- Private Equity Funds in Context
- Track Record Analysis and Benchmarking
- Monitoring, Targeting, and access
- Fund Launch
- First Physical Meeting
- Onsite Due Diligence and ODD
- Legal Review and Background
- The Final Decision



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