AIMA

AIMA Due Diligence Considerations for Retail Investment Advisors:
Hedge Funds, Alternative Mutual Funds & ETFs, Private Credit Funds

INVESTMENT MANAGER

- Experience: What is the background and experience of investment manager & the investment team?
- Governance: What is the governance surrounding the investment manager & investment team?
- Compliance Culture: What are the features of the investment manager's compliance culture?
- Risk Management & Operations: What risk management frameworks are in place (e.g., independent reporting lines, operational risk management & operational resilience, conflicts of interest, relationship disclosures, management of outsourced & delegated functions, management of cyber & technology risks)?
- Alignment of Interests: Are the members of senior management of the investment manager, the portfolio manager and/or the fund directors personally invested in the fund?

STRATEGY

- Investment Objective:
  - Objective & Strategy: What are the fund's investment objective and principal investment strategies?
  - Sources of Return: What are the fund's expected sources of return?
  - Style Drift: Have the objectives of the investment strategy changed in the past 5 years? If so, why?
  - Capacity: What is the optimal or maximum capacity for this strategy?
  - Investment Restrictions: Any restrictions to the investment mandate?
- Portfolio Considerations:
  - Decision Making: Who makes the portfolio management decisions and how are they made?
  - Information Sourcing: From where are the underlying positional data, market data and any underlying models sourced for this strategy?
  - Diversification/Concentration: How are the appropriate levels of portfolio diversification and/or concentration for the portfolio determined?
  - Position Limits: Are there position limits and what are they?
- Leverage:
  - Average level: How much financial leverage does the fund use on average?
  - Limits: What are the limits?
  - Sources: What are the sources of leverage?

FUND OPERATIONAL CONSIDERATIONS

- Fees: What are the fees, including performance fees and calculation methodology?
- Risk-Adjusted Performance:
  - Performance history: What is the performance history? In what type of markets would this strategy be expected to outperform or underperform?

- Risk Metrics: What method(s) does the investment manager use to measure the total risk of a portfolio using this strategy?

- Transparency & Reporting: What level of transparency and portfolio data does the investment manager provide to investors, and with what frequency and time lag?
- Fund Service Providers: Who are the fund's service providers (e.g., prime broker, auditor, custodian, administration, legal counsel, etc.)?
- Valuation & Liquidity:
  - Valuation: What is the valuation policy and frequency of valuation?
  - Liquidity: Does the underlying liquidity of the assets align with the fund liquidity terms?
  - Liquidation: How long would it take in normal market conditions and stressed market conditions to liquidate the fund without incurring unusual costs?

ADDITIONAL CONSIDERATIONS FOR PRIVATE CREDIT STRATEGIES

- Origination: How does the investment manager source potential borrowers --direct relationships with the borrower (e.g. in-house advisory), private equity sponsors, banks, via corporate debt advisors (e.g. audit firms/lawyers, consultants etc.), marketplace lending platforms?
- Maturity Range: What is the typical target range of maturities sought?
- Repayment Terms: How are repayment terms on originated loans typically structured?
- Credit Assessment & Diligence: Describe the investment manager's credit assessment and due diligence process.
- Loan Terms & Monitoring: What types of representations, warranties and covenants are the borrowers required to give and what collateral is required? How is this monitored and at what frequency?
- Work-Out Experience: What is the investment manager's policy towards impaired/stressed loans or bad debts and what track record does they have?

ABOUT AIMA

AIMA is the world's largest membership association for alternative investment managers. Its membership has more firms, managing more assets than any other industry body, and through our 10 offices located around the world, we serve over 2,000 members in 60 different countries.

AIMA's mission, which includes that of its private credit affiliate, the Alternative Credit Council (ACC), is to ensure that our industry of hedge funds, private market funds and digital asset funds is always best positioned for success. Success in our industry is defined by its contribution to capital formation, economic growth, and positive outcomes for investors while being able to operate efficiently within appropriate and proportionate regulatory frameworks.

AIMA's many peer groups, events, educational sessions, publications and practical tools like its Due Diligence Questionnaires and industry sound practice guidance available exclusively to members, enable firms to actively refine their business practices, policies, and processes to secure their place in that success.

AIMA Canada was founded in 2003. Further educational materials produced by AIMA Canada for the local retail investment advisor channel can be accessed here.

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