



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

### **INVESTMENT MANAGER**

- What is the background and experience of investment manager & the investment team?
- What is the governance surrounding the investment manager & investment team?
- What are the features of the investment manager's compliance culture?
- What risk management frameworks are in place? For example, independent reporting lines, operational risk management, conflicts of interest, etc.?
- Are the members of senior management of the investment manager, the portfolio manager and/or the fund directors personally invested in the fund?

### **STRATEGY**

- What is the fund's investment objective and principal investment strategies?
- Have the objectives of the investment strategy changed in the past 5 years?
- From where are the underlying positional data, market data and any underlying models sourced for this strategy? Are there position limits and what are they?
- Who makes the portfolio management decisions and how are they made?
- What is the performance history? In what type of markets would this strategy be expected to outperform or underperform?
- What method(s) does the investment manager use to measure the total risk of a portfolio using this strategy?
- How much financial leverage does the fund use on average? What are the limits? What are the sources of leverage?
- Are there any capacity constraints?
- Offering documents, subscription agreements, and process for purchases and redemptions? What are the fees, including performance fees and calculation methodology?
- What is the valuation policy and frequency of valuation?
- How long would it take in normal market conditions and stressed market conditions to liquidate the fund without incurring unusual costs?
- What portfolio data does the investment manager provide to investors, and with what frequency and time lag?

- Who are the outsourced service providers of the fund? For example, prime broker, auditor, custodian, administrator, legal counsel, etc.?

## **PRIVATE CREDIT STRATEGY**

- 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?
- What is the typical target range of maturities sought?
- How are repayment terms on originated loans typically structured?
- Describe the investment manager's credit assessment and due diligence process.
- What types of representations, warranties and covenants are the borrowers required to give and what collateral is required? How is this monitored?
- What is the investment manager's policy towards impaired/stressed loans or bad debts and what track record does they have?

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