A Guide to Hedge Fund Business and Operational Due Diligence

Stockholm (HedgeNordic) – Maybe surprisingly, the causes of half of hedge fund failures stem from operational issues alone, history shows. A whitepaper released by fund of hedge funds SkyBridge Capital in March of 2016 titled "A Guide to Hedge Fund Business and Operational Due Diligence" provides a guide for investors seeking to conduct business and operational due diligence in hedge funds. Authored by Kenneth McDonald, Head of Operational Due Diligence at SkyBridge, the whitepaper outlines a business and operational due diligence program that can help investors avoid Bernie Madoff-like Ponzi schemes and scams in the hedge fund industry. Unfortunately, Madoff still remains in the back of some investors' minds. I witnessed this first hand. During an investor meeting organised by a U.K.-based asset manager last year, an investor asked reassurances that the asset manager's fund was not a Ponzi scheme.

The whitepaper starts by summarizing four case studies to highlight the impact of business and operational risks on a hedge fund investment. The article outlines a series of characteristics investors should assess when evaluation a hedge fund or a hedge fund manager. Lastly, the paper describes the process of obtaining information to make assessments on a potential hedge fund investment. All in all, the whitepaper concludes by saying that "business and operational risk can materially impact a hedge fund investment." Hence, "investors should be aware of the potential effect these risks can have on their portfolios."

The whitepaper titled "A Guide to Hedge Fund Business & Operational Due Diligence" can be accessed below:


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