

RESPONDING TO DUE DILIGENCE QUESTIONNAIRES

COMPETITIVE
EDGE

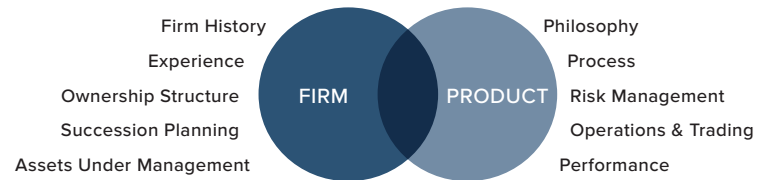


INTRODUCTION

Financial intermediaries conduct various levels of product due diligence to gain a better understanding of the investment firm's Competitive Edge. Due diligence questionnaires cover two key areas; firm and product. Due diligence teams are seeking to understand the investment advisor's philosophy, processes and operational support to best determine business viability and product continuity. The following is a general guideline, created to prepare you in responding to a due diligence team.

[Check out "Uncover Your Competitive Edge" article](#)

HIGHLIGHTING YOUR COMPETITIVE EDGE



"The strongest steel is well-founded self-belief. It is earned, not given."

-COACH JOHN WOODEN

FIRM

QUESTION	WHY DOES THE DUE DILIGENCE TEAM ASK FOR THIS INFORMATION?	HOW TO HIGHLIGHT YOUR COMPETITIVE EDGE
Present your firms overview, including history, inception date and key members	Learn the origin of the company, who started the firm and why the firm was founded. Looking for evidence of industry and investment strategy management experience.	Express what makes the organization unique – your history, story and reason why you manage money.
Outline your current ownership structure	To find interested parties that may influence accountability, company liquidity and may provide potential investment in the firm's future growth. For example: private ownership, employee owned, public, corporation or LLC, LP.	Validate alignment of all interested parties that will continuously support the firm and the investment management goals. Key points: <ul style="list-style-type: none"> • Decision making hierarchy • Past growth and future growth opportunities • Succession planning
Provide the total number of employees and detailed descriptions of key personnel, including number of years of experience and average tenure for each professional in their respective roles	Investigate the organization's supportive infrastructure and determine ability to sustain and manage long term growth. (Ratio of personnel to AUM, complexity of the strategy and client sales support may influence a due diligence team's rating).	Key points: <ul style="list-style-type: none"> • Total number of firm employees • Total number of investment professionals (analyst / traders / portfolio managers) • Sales, marketing and client service • Administrative: legal, compliance, risk management and operations
Are investment professionals compensation tied to performance of the investment strategy?	To learn the compensation structure allows the due diligence team to gain insight on the collaborative nature of the organization to drive consistent results.	Focus on competitive and performance driven environment to best demonstrate alignment with the shareholder. Provide insight to how compensation is determined and processed (i.e. options, equity, bonus, etc.)
Provide firms personnel turnover over the past five years and rationale for the turnover	Determine the stability of the firm personnel and the consistent implementation of the firm's core philosophy. For investment professionals, low turnover is a key factor in determining the validity of the historical track record and tends to demonstrate product continuity.	Proving team stability and continuity by demonstrating: <ul style="list-style-type: none"> • Years of experience • Number of professionals that contribute to the investment strategy • Rationale for any turnover of research and investment management team • Provide succession plans – cultivating and advancing talent
View firms assets under management (AUM) for the past 5 years	Exhibit the scalability of the firm and the strategy to determine potential risk to the investment strategy implementation and sustainability of the business development opportunities.	Key items of consideration are product/firm capacity and liquidity constraints. Describe components of your firms AUM: <ul style="list-style-type: none"> • Total firm • By vehicle; LP, SMA, Funds • Discretionary vs. Advisement If low assets or high turnover, describe the fluctuation and what is being done to minimize potentially large swings.

PRODUCT

QUESTION	WHY DOES THE DUE DILIGENCE TEAM ASK FOR THIS INFORMATION?	HOW TO HIGHLIGHT YOUR COMPETITIVE EDGE
Illustrate your investment philosophy	Recognize the overarching core beliefs that will impact the strategy and investment process implementation.	Present your firms core beliefs that drive the strategy implementation. For example: top down or bottom up viewpoints, quantitative drivers or qualitative fundamental factors, macro or micro viewpoints and or market trend followers.
Detail the firm's investment process	Explore the process for portfolio construction, with emphasis on key decision makers and buy and sell disciplines to ascertain replicability of the strategy to drive consistent performance.	Outline decision making hierarchy and provide detailed security selection process that influences portfolio allocation decisions.
Include portfolio allocation rationale	Discover the guardrails for minimum/maximum holdings at the security, sector and industry level with emphasize on risk management tools.	Emphasize the consistency of the investment process by highlighting how the firm generates alpha, i.e., when there would be underweights and overweight's in the portfolio, any benchmark considerations and provide rationale for cash holdings.
Showcase your performance history	Seeks to understand how the investment management team has performed vs the benchmark and designated peer group since inception and for key time periods: 1, 3, 5+ years.	Highlight respective vehicle performance and history managing assets in the investment style. Provide examples of "stressed" time periods and how your strategy performed.
Define risk management policies and procedures	To understand the firms risk controls for three key areas: <ul style="list-style-type: none"> Operational and trading support Books and records / information security Succession planning 	Illustrate disaster recovery plans. Provide procedures for safe keeping of all sensitive information and how client privacy is protected and monitored against cyber security attacks. Discuss contingency plan should key decision makers leave the firm. Highlight succession plans with emphasis on cultivating the next generation of talent.
Portray the sales and marketing support that will drive sales growth opportunities	Seeking to understand how the firm will grow the strategy assets over time.	Feature your short term and long term marketing plans that may impact your sales over time. Emphasize on what circumstances would increase your sales efforts. Focus on target market, distribution activity and personnel.

NEXT STEPS



DISCOVER – Gain a deeper understanding of how to highlight your Competitive Edge in the due diligence process



PLAN – Create an off the shelf due diligence questionnaire for your firm and strategy



PREPARE – Work with your Strategic Relationship Manager to determine the intermediary opportunities



ACT – Proactively provide the questionnaire when soliciting new opportunities



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