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## **Due Diligence Considerations & Processes for Evaluating Direct Investment Programs**

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# How Can We Help You?

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Aliso Advisors helps financial intermediaries secure sustainable growth by providing ongoing compliance services, c-suite education, and hands-on project-based consulting engagements. We also help financial intermediaries prudently integrate direct investment opportunities into their clients' portfolios.

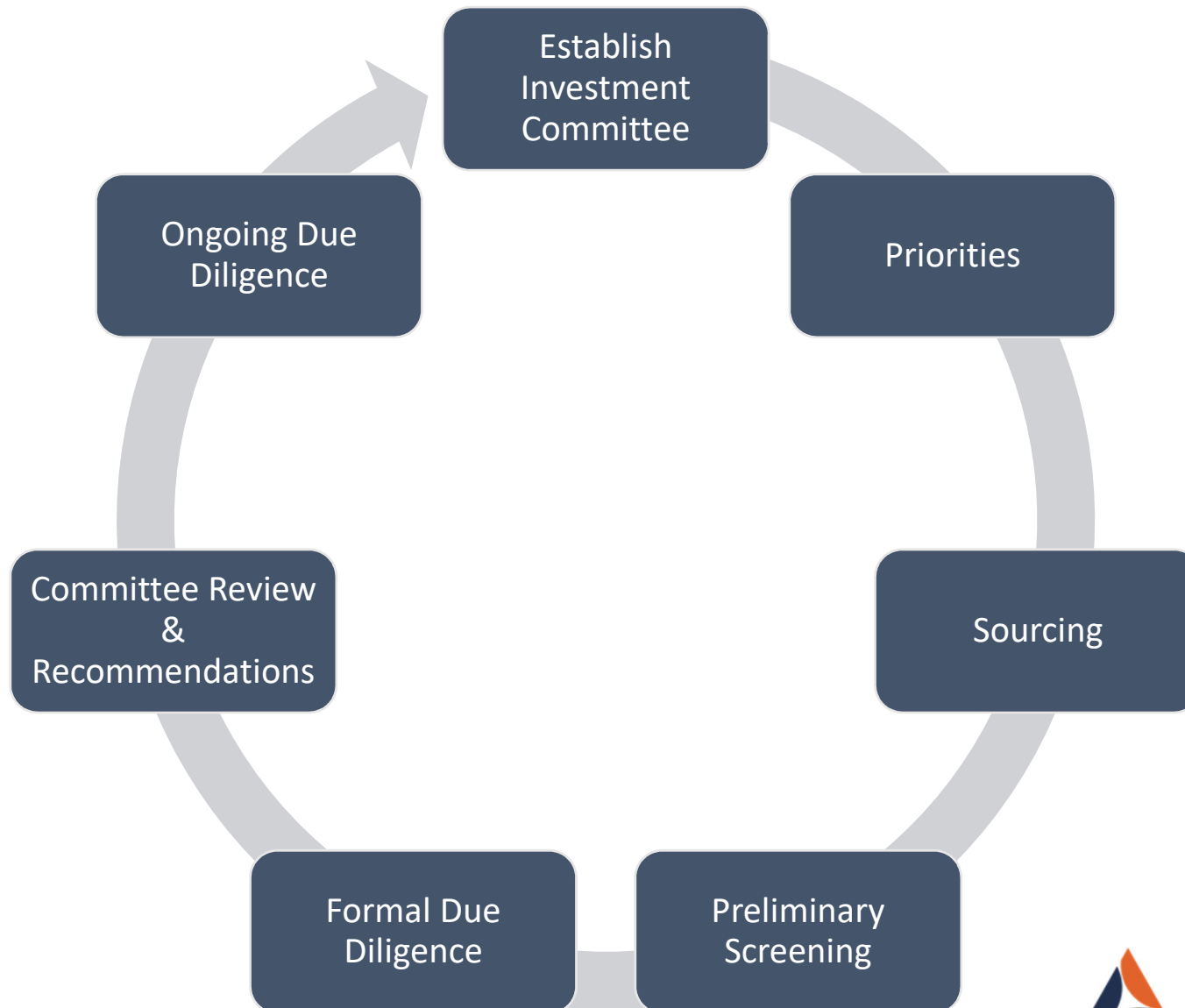
Our solutions include:

- Broker / Dealer and RIA Registration
- Mock FINRA / SEC Audit Examinations
- Regulatory Examination Assistance
- Compliance Procedures Assistance
- Annual Compliance Meetings
- Transactional Compliance Protocols
- Due Diligence Protocols Assistance
- Ongoing Due Diligence Advisory Services
- Advisor Compliance and Sales Training
- E&O Insurance Assistance



# Internal Due Diligence Lifecycle

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# Investment Committee Roles

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## Chief Strategy Officer

- Role: Determines global asset allocation guidelines
- BP: Establishes candidate investment priorities

## Chief Compliance Officer

- Role: Ensures compliance protocols are followed
- BP: Has absolute authority to reject IC approvals

## Due Diligence Officer

- Role: Manages DD projects
- BP: Has authority to reject candidate investment before review by investment committee

## Due Diligence Analyst

- Role: Completes internal DD project
- BP: Does not vote on candidate investment



# Sources of Sourcing

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- Media
  - Real Asset Adviser
  - The DI Wire
- Conferences
  - IPA (the best!)
  - ADISA
- Research (\$)
  - BlueVault Partners
  - AI Insight
- Third-Party DD Firms
  - SK Research
  - Buttonwood
  - Mick Law
  - FactRight
- DD Specific Events
  - TNDDA
  - MARRS (RIA only)
  - Elite RIA (RIA only)
- Outsourced CIO Firms
  - Aliso Advisors (shameless plug)



# Preliminary Screening Best Practices

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- Create sponsor initial communication:
  - What you're looking for
  - What you're not looking for
  - What soft requirements do you have
  - What hard requirements do you have
  - How to get started / expectations
- Utilize an intake questionnaire
- Keep initial conference call / webinar to 20 minutes
- Track programs in matrix. Sample priorities:
  - High priority
  - Low priority
  - Watchlist
  - Iced





# Sample Intake Questions

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- ☐ Sponsor's mission statement. Make sure it really is a mission statement...
- ☐ Briefly describe sponsor and any key management members
- ☐ Identify 3rd party sub-advisors, if any
- ☐ Briefly describe investment strategy
- ☐ Briefly describe how investment fits within a portfolio (i.e., "asset-backed fixed income replacement")
- ☐ Anticipated life span of offering and likely exit options
- ☐ Identify current distributions, if any. Identify whether distribution is fully covered or not
- ☐ Describe preferred return and promote structure, if any
- ☐ Offering structure and investor suitability requirements
- ☐ Identify any states in which offering is subject to additional Blue Sky requirements
- ☐ Minimum investment amount
- ☐ Effective date of offering

- ☐ Anticipated close date
- ☐ Total capital raise and green shoe, if any
- ☐ Capital raised to date (updated quarterly)
- ☐ Describe share classes, if any
- ☐ Briefly describe use of proceeds
- ☐ Identify advisor commission or if a fee-only product. Describe what happens if purchased through RIA, if not obvious (i.e., gross up)
- ☐ Early redemption provision, if any
- ☐ Identify whether investment is subject to UBTI
- ☐ Identify if investors receive a 1099 or K-1
- ☐ List custodial platforms available, if any
- ☐ Describe how valuation and distributions data is provided if not available through custodial platform
- ☐ Identify which 3<sup>rd</sup> Party Due Diligence firms have completed a report
- ☐ Sponsor's website
- ☐ Sponsor's due diligence contact information
- ☐ Managing Broker-Dealer contact information



# Formal Due Diligence Best Practices

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- Determine if on-site review is necessary
- Build a second, more in-depth, questionnaire
- Utilize third-party DD reports
- Develop due diligence document checklist
- Develop internal report template
- Document any flags
  - All flags must have a resolution





# At Investment Committee Meeting

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- Document decisions
- Create estimated hold period
- Determine internal investor suitability guideline
- Determine internal concentration guidelines
- Identify additional risks, if any, to disclose
- Determine required adviser training
- Establish review frequency guidelines



# Ongoing Due Diligence

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- Establish review frequency
- Determine depth per interval
- Determine information required from sponsor
  - Pricing
  - Acquisitions / dispositions
  - Distressed assets
  - Regulatory issues / inquiries / audits
  - Key personnel turnover
- Decide whether to continue, ice, or close



## Thank You!

Contact us for a copy of this presentation.

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