

Operational Due Diligence Fact Sheet

This Fact Sheet provides an overview of Investment Manager Operational Due Diligence (ODD) reporting in accordance with the AIST Guidance Note of February 2017.

What is ODD?

Due diligence is the process of analysing the philosophy, people and processes of an investment manager to ensure it is capable of performing the functions for which it has been appointed. The ability to manage and monitor investment risk is itself impacted by the ability to manage investment operations related functions. Operational due diligence focusses on the operational capabilities of these investment operations related functions.

The goal of ODD is to understand and review the processes that need to work effectively for the investment manager to deliver to an agreed mandate. These processes may be wide ranging and vary from the ability of the manager to stay in business and withstand a serious event, to manage and direct its own service providers, to the risk control framework and culture that exists within the manager's operations. Specific areas of focus are outlined in the Guidance Note, but should not be considered exhaustive, as a range of operational events, and their impact, may vary according to the asset class, style of investment and geographic region. An ODD review should be tailored to be fit for purpose for each situation.

The ODD process provides insight to the risk culture and approach of the investment manager. This includes the ability to identify, measure and manage ALL risks while applying its investment strategy and process.

What makes a good quality ODD review?

The ODD review is not a 'tick the box' exercise. There is expected to be a strong advisory element to an ODD report which provides insight to whether a manager is capable of fulfilling its operational obligations and that these operations are in line with industry practice. The expectation is that an ODD review also includes third party descriptions and observations of key processes and systems, and relevant evidencing and testing.

It is expected that an ODD report will opine on the ability of the fund manager's operational processes to meet future obligations and targets outlined in an IMA or Trust documentation. Such opinion is expected to be based on an analysis of data used to verify systems and processes, desktop analysis and an onsite visitation program.

To carry out the review and make these observations, it would be expected that the ODD reviewer team would include relevant experience relating to the operations of investment managers.

What is a RSE Trustee's responsibility on ODD?

The Trustee of the RSE should have a clear process for managing the outcomes of the ODD report and be satisfied that the risks identified are consistent with, and not additional to, risk tolerances articulated in its own Risk Management Framework (RMF). In some cases additional research and assessment may be required by the Trustee to satisfy this responsibility.



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Prudential standards create a positive and enforceable obligation of the RSE Trustee to demonstrate compliance with prudential requirements and be satisfied that expected processes and risk management are in place. Therefore it is incumbent on the Trustee to demonstrate:

- Due Diligence policies and processes;
- Expectations with respect to the operational processes of investment managers; and
- Evidence for all appointments, and ongoing monitoring, of the required Operational Due Diligence and how the overall assessment was made.

More information

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