

DUE DILIGENCE MATTERS - JANUARY 2022

Our flexible **Allocator On-Demand ODD**, **Investment Manager ODD Therapy**, and **Service Provider ODD** work continues, with an ongoing bias towards private equity, credit and digital (crypto) assets.

We now have 15 digital asset Investment Manager and Funds reviewed/under review, and we have just kicked off our 7th digital asset service provider (Exchanges, Custodians, Primes) review.

We are pleased to welcome Nik Downham, CFA, to the team as a Senior ODD Consultant. Nik is based in Geneva and joins us after nine years with JP Morgan Wealth

Management, most recently as an ODD manager covering the entire investment platform. Nik previously held roles at the Bank of England, managing the 'Special Liquidity Scheme', and Fitch Ratings, in the Fund and Asset Manager Ratings Group.

May we take this opportunity to wish you all the best for a happy, healthy and prosperous 2022.

INSIGHTS, THOUGHTS AND OBSERVATIONS

What we learnt about ODD in 2021 that will help inform reviews in 2022

The debate around self-custody versus using a third-party custodian (sometimes classified as 'qualified') for investment managers looking to custody digital assets will continue. That debate no longer exists in traditional asset investing, as very few would now consider self-custody a feasible and sensible option. And yet, for digital assets, self-custody is an option, and is often supported by dedicated third-party technology firms. Factors we think that will inform the debate include:

- Increasing involvement of institutional investors and, by default, a bias towards third-party custodians in line with their other assets
- Greater transparency provided by investment managers into their internal controls around self-custody technology solutions, including policies and procedures
- Service, choice and operational track record of custodians will continue to mature. This will improve the breadth of service options that enable investment managers to use a third-party custodian, such as staking
- Consideration of native crypto-custodians' balance sheets, which continue to improve but still significantly lag traditional assets, raising questions around their safety and security (think \$billions instead of \$trillions). This may change in 2022, with continued adoption across traditional banking sectors
- Continued improvement in choice and adoption of automatic trade and settlement systems that reduce the need for manual processing
- (Hopefully) an increased number of investment managers and crypto exchanges that are licenced to operate in populous, highly regulated jurisdictions

Tips to those who are the targets of ODD in order to be prepared / ready

- Have all your documents – DDQ, presentation, staff organisation chart, etc. – dated within the last three months
- Ensure your firm's LinkedIn profile is consistent with your documents, including name, branding and employee job titles
- Ensure your internal documents are in line with legal documents, e.g. fund redemption terms in the DDQ match terms in the prospectus
- Be prepared to discuss your approach to cyber security and business continuity in detail; this is a key focus area where we continue to find risk consideration to be lacking for all types of firms
- Ensure your controls for payments out of the fund to third parties are robust; many operational issues arise as a result of wire fraud and as a result this continues to be a key focus for ODD.
- Be prepared to explain the level of involvement independent directors have in the oversight of the fund

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DUE DILIGENCE SERVICES

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JTC Group is a publicly listed, global professional services business with deep expertise in Fund, Corporate and Private Client Services.

Launched in 2019, perfORM was set up as an ODD business to provide solutions across private equity and credit, real estate, infrastructure, hedge, digital (crypto) assets, and long only.

As one of the few practitioner-led businesses in London, UK, perfORM has since grown its client base exponentially, underpinned by its credibility, flexibility, pricing and use of technology.