



# Short Term Investment Due Diligence Platform

May 2009



# Legal Due Diligence

Investment Company Act of 1940 – Rule 2a-7

Make Sure the Fund falls under the scrutiny of Rule 2a-7 of the Investment Company Act of 1940!

If it is not subject to the ICA, make sure the Fund's documents state that it voluntarily complies with Rule 2a-7!

# Legal Due Diligence

## Document Review

### Document Review –

Review offering documents and various ancillary agreements, especially any bank- and insurance-company contracts.

Know what the contracts state about paying the difference between market and book value. Do the contracts offset market value and book value? You want to clearly understand the market-to-book value.

Registration Statement contains Prospectus and Statements of Additional Information (“SAI”s) for information regarding personnel – background checks.

Summary Prospectus is useful too.

Semi-annual and annual reports – review for financial statements, review portfolios’ securities

Quarterly portfolio schedules – disclose holdings on a quarterly basis.

# Legal Due Diligence

## Document Review

**Fund manager to complete due diligence questionnaire**

**Compare responses to information in the offering documents and/or publicly available information**

**Communicate with affiliates**

**Determine degree of diversification**

# Legal Due Diligence

## Assessments of Material Risks

### Liquidity –

#### **Minimum daily liquidity requirement:**

The Investment Company Institute (“ICI”) recommends that 5% of a fund’s net assets be held in securities that are accessible within one day.

#### **Minimum Weekly liquidity requirement:**

The Investment Company Institute (“ICI”) recommends that 20% of a fund’s net assets be held in securities that are accessible within one day.

### Client Risk –

Maintaining sufficient liquidity depends on the composition and diversification of the fund’s client base. Funds should disclose client composition on a monthly basis through their websites.

# Legal Due Diligence

## Assessments of Material Risks

### **Credit Analysis –**

Does the fund have a ‘new products committee’ to assess the creditworthiness of the “SIV of Tomorrow”?

### **Independent Directors –**

The ICA requires that 40% or more of a fund’s directors be independent. We recommend only funds with a majority of independent directors.

### **Portfolio Maturity –**

Review the maximum Weighted average maturity. The shorter the WAM, the less exposure to interest rate risk. The ICI recommends shortening the WAM from 90 to 75 days.

# Operational Due Diligence

## Service Providers Review

**Determine level of risk by utilizing certain service providers –**

Confirm relationship with auditor and custodian – Should be one of the large outfits. Review agreements

**History of relationship**

**Individual interviews**

**Rate of turnover**

# Operational Due Diligence

## Corporate Governance Review

**Review structure –**

Independent Directors (again)

**Controlling persons**

# Operational Due Diligence

## Background Checks of Key Individuals, the Fund and Affiliates

**Review portfolio manager's track record**

**Analyze relevant litigation (state and federal)**

**Actions brought by regulatory agencies**

**Confirm education and job history**

**Other relevant information**

# Operational Due Diligence

**Onsite Visit to the Manager – Comprehensive Review**

**Books and records**

**Office space and equipment**

**Staffing**

**Other operational items**