

WHITE PAPER

SCALING UP TO \$1 BILLION AND BEYOND

WHAT INSTITUTIONAL INVESTORS EXPECT



You're confident that your fund can hook institutional investors. After all, you've got a track record of solid returns. Your staff boasts great analysts. You've invested in an IT infrastructure, applications, and systems. But, even with all that, you may not be institutional-ready ... in which case, instead of seeing an investor's signature on the dotted line, you could end up watching the door close behind an institutional investor as he takes his business elsewhere.

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Institutional investors are a different animal from the traditional high-net-worth individual or family. Their requests for proposal (RFPs) are more involved; their due diligence questions more intense. And their inquiries don't end once the investment is an accomplished fact: audit demands can — and will — be made at any time.

You therefore have two questions to answer before you can pursue institutional investors with any hope of winning them:

1

HOW CAN YOU ASSURE AN INSTITUTIONAL INVESTOR THAT YOU ARE CURRENTLY DOING ALL THE RIGHT THINGS?

2

HOW CAN YOU ASSURE AN INSTITUTIONAL INVESTOR THAT YOU ARE DOING ALL THE RIGHT THINGS ON AN ONGOING BASIS?



What will institutional investors want to know about? The list is a long one, and includes information about your firm's compliance, trading, valuation, human resources (HR), and service provider policies. The level of due diligence will be high: a potential investor will grill you on the institutional capabilities of your business and on your ability to proactively monitor, track, and maintain those capabilities in the future.

TWO STATEMENTS THAT JUST WON'T CUT IT

Some firms find out the hard way that certain statements just won't cut it in discussions with institutional investors. The two biggest are:

“WE HAVE A BIG, BEAUTIFUL COMPLIANCE MANUAL RIGHT HERE!”

Quite frankly, “So what?” Certainly, a compliance manual is necessary, and an institutional investor will want to review it carefully to be sure it is complete, detailed, and customized to your firm. But more than that, investors want to know:

- *How do you ensure compliance?*
- *Can you demonstrate that your people are following the rules?*
- *What is being monitored and checked?*

“OUR COMPLIANCE OFFICER IS GREAT – HE USED TO WORK FOR THE SEC AND KNOWS ALL THE RULES.”

That's impressive, but again, your compliance officer is just one person in your organization. Compliance, on the other hand, must involve everyone. How do you demonstrate that you have a “culture of compliance” throughout your organization? Investors may very well ask questions such as:

- *Where are your monthly audit reports?*
- *How do you know what compliance activities need to be addressed at any given time?*
- *How do you ensure that issues are addressed in a timely and appropriate fashion?*



“SHOW ME.”

You can already see what institutional investors want from the sample questions above. They want you to show them that you are doing right thing and prove that you will continue doing the right thing. Again and again, you will hear the phrase “Show me,” such as:

- *Show me your process for remediation.*
- *Show me how you monitor and track issues to resolution.*
- *Show me the following documents.*
- *Show me the audit trail for this process.*
- *Show me your meeting minutes.*
- *Show me your service provider reports.*

“Show me.” It isn't enough to verbally tell an institutional investor that you have some business process covered. Candidly, they're not going to take your word for it — You have to show them. They will require proof. They will probe what you do. They want a thorough understanding of exactly how you run your operations before they will invest with you.

THINK “PLATFORM,” NOT “PEOPLE”

People are the most expensive resource you have. So when you want to make your firm institutional-ready, throwing more people at compliance likely isn't the best or more cost-effective solution. What is needed is an operational platform — a framework of tools that will:

- *Monitor and track all compliance matters within your firm.*
- *Provide the necessary data, reporting, and analysis to generate business intelligence.*
- *Supply a report or audit trail for any process or request on demand.*
- *Schedule compliance activities to be completed on a consistent basis.*
- *Flag potential compliance issues for investigation and resolution.*
- *Prioritize daily activities for personnel involved in compliance oversight.*
- *Retain documents, meeting information, notes, emails, etc. for actionable reporting.*
- *Provide intelligent insight and oversight related to key process metrics and milestones.*
- *Track service provider service level agreements (SLAs), reviews, and reports.*

CONTRASTING CONFLICTS OF INTEREST

WHICH SCENARIO WOULD YOU LIKE PLAYED OUT IN YOUR OFFICE?



SCENARIO #1: Institutional-Unprepared

Your firm has a policy of performing semi-annual conflict of interest reporting in January and July. The dates are noted on the Chief

Compliance Officer's calendar.

In late February, you hire a new Analyst named Stan. During onboarding, the conflict of interest disclosure is overlooked by HR. Stan begins working.

In June, an institutional investor asks for an audit of all conflict of interest disclosures. You realize with a shock that Stan has not completed one. You rush to have him fill out the necessary form. In horror, you realize that he has a potential conflict of interest with one of the fund's investments.

Now, you have to have two very unpleasant conversations. First, you have to tell the SEC that Stan has been making trading recommendations for four months while he had a conflict of interest. Second, you have to tell the institutional investor that even though you said you had a process in place for conflict of interest disclosures, you missed one ... and it affects them directly.



SCENARIO #2: Institutional-Ready

Your firm utilizes an operational platform to ensure the timely completion of semi-annual conflict of interest disclosures. Any omission

is instantly flagged for follow-up. Plus, the platform is tied into the HR system to monitor all employee onboarding.

In late February, you hire a new analyst named Stan. During onboarding, the conflict of interest disclosure is overlooked. The platform flags the omission and HR follows up immediately with Stan. He completes the form and a conflict of interest with certain organizations is noted. Stan does not engage in work related to those organizations.

In June, an institutional investor asks for an audit of all conflict of interest disclosures. You promptly run the applicable report and send it to them. The investor is pleased with your prompt response and their confidence in your operational compliance is upheld. Business continues smoothly.

With such a platform in place, you don't have to rely on busy, stressed, fallible people to manage every detail of compliance throughout your firm. The platform performs the lion's share of the work, allowing your Chief Compliance Officer to do what he or she does best: focus on oversight, strategic direction, and issue resolution.

An operational platform can demonstrate — in concrete, qualitative terms — to an institutional investor that you have solid compliance policies in place, that you are following them, and that you have a method in place to ensure continued compliance enterprise-wide. A platform also supports client service with visibility, responsiveness, and clarity.

FROM IDEAL TO REAL

The ideal world for institutional investors is one in which a firm's key processes are followed, issues are tracked and addressed, transparency is complete, and audit reports are substantive. If you can show them that, they will have confidence that you are currently doing all the right things in your business, and that you will continue doing so.

With the right operational platform to help you, your firm can turn that ideal world into the real world. You will be able to demonstrate to potential investors that you are institutional-ready, well-prepared for the allocation of institutional dollars.



IN SUMMARY: TO WIN AN INSTITUTIONAL INVESTOR, YOUR FIRM MUST BE ABLE TO ANSWER TWO QUESTIONS:

1. How can you assure an institutional investor that you are *currently* doing all the right things?
2. How can you assure an institutional investor that you are doing all the right things *on an ongoing basis*?

An operational platform can help you manage, monitor, and track compliance matters so that you can provide a substantive "Institutional" answer to the above questions.

ABOUT THE AUTHOR



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Bob has 20 years of experience in financial services, with 15 years specializing in Alternative Investment and Institutional Asset Management. At Backstop, Bob is responsible for the sales engineering and consulting activities of the Global Solutions Consulting Team. Working directly with Hedge Funds, Private Equity, and Alternative Asset Managers/Allocators, the Solutions Consulting team helps clients adopt best practices in a wide range of operational capacities including Investor relations, research management, capital raising, and portfolio management. Prior to Backstop, Bob managed Sales Engineering teams at CorrectNet, Netik, and CoreOne Technologies, delivering Institutional Client and Web Reporting solutions for the top 20 fund administrators and global 100 institutional asset managers.

ABOUT BACKSTOP SOLUTIONS

Backstop Solutions Group is the leading provider of a comprehensive cloud-based productivity suite of solutions for the alternative investment industry, including hedge funds, funds of funds, pensions, endowments, foundations, private equity firms, consultants, and family offices. Founded in 2003, Backstop pioneered the industry's first cloud-based software that helps firms in the alternative investment management industry achieve greater business agility. Backstop's comprehensive suite of solutions includes Backstop CRM, Backstop IR, Backstop Research, Backstop Portfolio, Backstop Portal, and Backstop Accounting. With offices across the United States and in Europe and Asia, Backstop now serves over 700 firms worldwide, making it one of the fastest growing software providers in the financial services industry. For more information visit, www.backstopsolutions.com. Or get [LinkedIn](#) with us!

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