

Case study

Buyside – hedge funds

Boosted process efficiency by ~50% and optimized investments through enhanced manager selection and surveillance in an FoF setup

Background



A leading hedge fund FoF sought to revamp and streamline its investments, operational due diligence (DD), manager selection and fund performance review/reporting structures

Challenge



High attrition rate in the onshore FoF's DD team disrupted ongoing workflows and led to scalability constraints

Crisil solution



A. Solution construct included

- **Phase 1:** Build a comprehensive and standard DD process aligned with the industry's best practices for the fund structuring phase
- **Phase 2:** Build a tool to monitor return and risk matrices

B. Execution

- A dedicated analyst team conducted investment and operational due diligence, handled DDQ administration, evaluated pre-qualification and technical bids based on quantitative and qualitative criteria, and assessed organizational structure, investment processes, operational processes and efficiency, risk management, selling and distribution and client servicing practices
- Leveraged multi-factor performance attribution models to identify skill-based returns in fund performance
- Created panel data using aggregate time-series data for all funds
- Developed a *Power BI* dashboard for ongoing monitoring of performance and risk metrics**. Additionally, developed efficient programs to run automated regressions and perform robustness tests. Set up email alerts for managers with easy access to daily updated results and flexibility to choose the fund, duration and metric as per their requirement and help them make informed decisions

Client impact



- The revamped DD structure enabled the hedge fund to launch five new FoFs across multiple themes within 12-18 months
- The client benefited from a 50% improvement in process efficiency through the dashboard developed (used as a single platform to evaluate fund performance, monitor risk daily and estimate early warning signals)

**Performance and risk matrices – fund return, benchmark return, risk-free return, active return, volatility, tracking error, Z-score, Sharpe ratio, information ratio, concentration risk, value at risk (VaR), correlation to benchmark and maximum drawdown, and exposure by factor (country, currency, industry style, etc.)

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