Ten Ways Exposure Monitoring Enhances Manager Due Diligence

1 Leverage

Monitor your managers' leverage to ensure it is within their stated mandate.

2 Assessing market timing skill

Differentiating among managers that ramped up net long exposures heading into a bull market versus into a bear market is essential.

3 Detecting style drift

Determine if a manager has ventured into an esoteric area where their expertise is unproven.

4 Position concentrations

Understand a manager's approach to risk tolerance and budgeting by viewing position concentrations. Are the top 5 positions 10% of the portfolio or 75%?

5 Manager's AUM

Understanding the manager's exposures relative to their growing, or declining, asset base is important. The changing asset size could influence their ability to invest in the asset classes that they have developed an expertise in.

6 Detect Fraud

It is important to make sure the returns of the manager are relatively consistent with the returns of the asset classes they claim to invest in.

7 Liquidity mismatch

The liquidity terms of the manager must be aligned with the liquidity of the securities the manager invests in.

8 Performance Attribution

Returns must be considered in the context of exposures. If the manager made most of their returns in just one, concentrated position returns become a question of luck versus skill.

9 Historical Analysis

Viewing managers' exposures in the context of history allows you to better decipher when there are significant anomalies worth discussing.

10 Benchmark Comparison

Whether the manager is adept at sector and security selection can be gleaned by analyzing attribution relative to an appropriate benchmark.

To learn more about Caissa's total portfolio analytics solution for institutional allocators, contact us at **212-332-5290 / info@caissallc.com**

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