

The Advisor's Pre-Flight Checklist

Before Recommending Any Alternative Investment

Stephen Johnston

Director
sjohnston@omnigenceam.com

Matt Barr

Director
mbarr@omnigenceam.com

Barclay Laughland

Director
blaughland@omnigenceam.com

Kerri Furlong

Director
kfurlong@omnigenceam.com

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Most alternative investments fail not because of the product but because of the process. If you can't check every box below, the investment may not be ready.

1. PRODUCT DUE DILIGENCE

- Can you explain the return driver in one sentence? If the GP can't, neither can you.
- What is the fund's actual track record - realized DPI, not just projected IRR?
- How does the manager get paid? Is the GP commitment meaningful?
- What happens in a stress scenario? Ask for the downside case, not just the base case.

2. CLIENT SUITABILITY

- Does the client's liquidity budget support this lock-up? (Run the numbers, don't estimate.)
- Is total illiquid exposure - including home, pension, business - still below 75% of net worth?
- Can the client absorb a total loss of this allocation without lifestyle impact?
- Has the client demonstrated behavioral patience in past drawdowns?

3. PORTFOLIO FIT

- What specific role does this fill - income, diversification, inflation hedge, or return enhancement?
- Does it genuinely reduce portfolio correlation, or just add a different label to the same risk?
- How does it interact with the client's existing alternative exposure?
- Is the allocation sized appropriately (typically 5-15% per position, 15-25% total alternatives)?

4. DOCUMENTATION AND COMPLIANCE

- Is the suitability rationale documented in writing before the subscription?
- Have you recorded the client's stated understanding of lock-up, risk, and fee structure?
- Do you have the PPM, subscription docs, and audited financials on file?
- Is there a clear process for ongoing monitoring and reporting to the client?

5. THE CLIENT CONVERSATION

- Have you explained the fee structure in total dollars, not just percentages?
- Does the client understand they cannot exit early without significant cost or delay?
- Have you discussed what reporting they will receive and how often?
- Can the client articulate back to you why this investment is in their portfolio?

Regulators don't penalize advisors for recommending alternatives. They penalize advisors for recommending them badly. This checklist is your insurance policy.



Toronto Office:
TD Canada Trust Tower, 161 Bay St.
27th Floor, P.O. Box 508
Toronto, ON, M5J 2S1

Calgary Office:
Suite 300, 4954 Richard Road SW
Calgary, AB, T3E 6L1

Montreal Office:
3 Place Ville Marie, Suite 3190
Montreal, QC H3B 2E3
www.omnigenceam.com

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