# “Witch” Sponsor to Choose?

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When conducting due diligence for a public or private offering, the criteria utilized when choosing a reputable sponsor are critical. So often you may be faced with a number of offerings with a similar objective, but little time to complete the analysis you believe is necessary. Given the illiquid nature of these offerings, choosing a sponsor that will not come back to **“haunt”** you will prove essential in keeping your investors happy.

In selecting a reputable sponsor, your first consideration may be whether they fill a significant gap in your Approved Product List. Expected returns and risks may vary based on whether you are choosing a triple net REIT with investment credit tenants vs. a DST single property with a non-rated tenant vs. a private equity deal with significant upside. RIAs and BDs that solely follow recommendations from top producing advisors may find that circumventing a thorough due diligence analysis may create liabilities they had never anticipated.

Important considerations to evaluate when selecting a sponsor and/or a program include:

**1. Examining prior performance:** is it consistent with the investment objectives of the new offering; is prior performance audited; are the fees associated with the prior performance consistent with those of the offering; is the sponsor investing significant amounts of their own money into the offering.

**2. Management background:** to what extent were the current managers involved in the prior performance; how much depth does the management team provide, or are there just one or two leaders with significant experience; is there a succession plan for younger members of management; does any member of management have regulatory/disclosure items of significance.

**3. Governing Documents:** includes reviewing the charter, bylaws, and partnership agreement; to what extent might the offering combine with another, and if so, would this require a vote from investors, would it be a super-majority (e.g. 67% or 75%), and what fees (charged to investors) may be associated with such an action.

**4. Offering structure:** includes the use of offering proceeds, operational and liquidation fees. Critical to the fee structure is when fees are paid, e.g. is there a preferred return, do investors receive that before the sponsor is paid, do investors receive their initial capital before the sponsor is paid; and are the sponsor’s operating costs reasonable relative to total revenue.

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**5. Liquidity:** does the sponsor have any programs that have gone full cycle, what have returns been, how long have the programs lasted, is money returned to investors in a lump sum, are properties sold individually, is there a waterfall and is it honored.

Working with Buttonwood Due Diligence, LLC will provide you with the transparency you need to engage in an in depth investigation, and offer your clients quality alternative investments. Our team has the background and insight to analyze, comprehend and communicate the complex **“web”** of legal, financial, and other details of the sponsor and offering. We look forward to helping you take the **“fright”** out of due diligence.

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