

FEATURE ARTICLE

After the Onboarding: The Importance of Ongoing Sponsor Due Diligence

By David Sengstock, President, Mick Law PC

The alternative investment industry has developed increasingly rigorous standards for the initial onboarding of investment product sponsors, and broker-dealer firms deserve credit for the discipline that process typically reflects. The review that precedes a selling group agreement is, in most cases, thorough and well-structured, built around protecting the broker-dealer, its registered representatives, and the retail investors who depend on their recommendations.

A meaningful — and increasingly consequential — gap persists in current industry practice: the ongoing review of the sponsor itself, separate from the product-level due diligence that most firms conduct with regularity. While the industry has developed a robust onboarding diligence model, what is often missing is a defined framework for ongoing sponsor due diligence. This article makes the case for why updated sponsor opinions should be requested on a more defined schedule, and what broker-dealers stand to gain by doing so.

That case has become more urgent. FINRA's sustained focus on supervisory systems, including the adequacy of broker-dealer due diligence frameworks, has raised the stakes for firms that cannot demonstrate ongoing oversight of their sponsor relationships. Regulatory examiners do not grade on a curve when a sponsor deteriorates after approval and a firm has no documentation of subsequent review. The question is no longer whether ongoing sponsor due diligence is a good idea. The question is whether the absence of it creates an exposure firms can afford.

■ THE ONBOARDING PROCESS AND THE SPONSOR OPINION

When a broker-dealer enters a selling group agreement with an alternative investment product sponsor, the review preceding that relationship is typically comprehensive. Organizational history, key personnel, financial condition, track record, compliance infrastructure, and investment strategy are all examined, whether through internal due diligence resources or a qualified third-party due diligence firm.

A central output of that process is the sponsor opinion. Prepared by an independent third-party firm and often accompanied by an onsite visit to the sponsor's principal offices, the sponsor opinion evaluates the entity behind the product, not merely the product itself. For many broker-dealer firms, it is among the most consequential documents produced during onboarding.

In some cases, sponsor opinions are issued by law firms and structured as formal legal opinions. This distinction is meaningful. A legal opinion reflects not only an independent assessment, but also a professional standard that carries with it accountability and, where necessary, the ability to support broker-dealer clients in legal or regulatory proceedings. Not all third-party due diligence reports are created equal in this regard, and the nature of the opinion itself should be considered as part of a firm's overall diligence framework.

The practical difference between a legal opinion issued

by a law firm and a standard due diligence report is not merely stylistic. A law firm issuing a formal opinion is subject to professional responsibility standards, bar requirements, and potential malpractice liability. That creates a level of rigor and accountability that a consulting-style due diligence report does not carry by default. When a broker-dealer is responding to a regulatory inquiry or defending a customer complaint, the origin and standing of its sponsor opinion matters. Firms should understand precisely what type of document they are receiving — and whether it would withstand scrutiny in a proceeding.

■ THE GAP THAT DEVELOPS AFTER ONBOARDING

Once a sponsor has been approved and a selling group agreement is in place, broker-dealer attention appropriately shifts to the products being offered. Program-specific opinions are requested and updated as new offerings come to market. The sponsor opinion, however, is frequently not revisited, or at least not as often as it could be.

Sponsors are not static entities. Leadership, capital structure, investment strategy, and organizational health can all shift materially over time, sometimes gradually and sometimes quickly. In effect, many firms are relying on a point-in-time assessment of a sponsor that may no longer reflect the organization as it exists today.

Consider the range of changes that can occur within a sponsor organization between onboarding and the present: senior leadership departs or is replaced; the

firm acquires a new business line or divests a core one; litigation or regulatory action is initiated; a key executive is named in an outside proceeding; the firm's financial condition deteriorates; a compliance officer or chief investment officer leaves without a disclosed successor. Any one of these developments could be material to the broker-dealer's decision to continue the relationship. And yet, without a systematic process for ongoing review, none of them may surface in a timely way.

“Many firms are relying on a point-in-time assessment of a sponsor that may no longer reflect the organization as it exists today.”

■ BEST PRACTICES FOR BROKER-DEALERS

Broker-dealer firms should implement a defined process for ongoing sponsor due diligence. At a minimum, sponsor opinions should be refreshed on an annual or biennial basis for all active sponsor

relationships. Material events — such as leadership transitions, regulatory developments, or changes in financial condition — should trigger immediate review.

The supervisory rationale for this is straightforward. FINRA Rule 3110 requires broker-dealers to establish and maintain a supervisory system reasonably designed to achieve compliance with applicable securities laws and FINRA rules. Regulators have increasingly interpreted this to include the oversight of sponsor relationships, not just the suitability of individual product recommendations. A firm that approved a sponsor five years ago and has no subsequent documentation of review is, in practical terms, operating on stale diligence — and that creates exposure in the event of a regulatory examination, customer complaint, or arbitration proceeding.

Broker-dealers should also consider the nature of the third-party provider issuing the opinion, including whether the opinion carries legal standing and the extent to which the provider is positioned to support the firm if questions arise. This consideration takes on added significance in the context of ongoing due diligence. A due diligence firm that produces a periodic update report and a law firm that issues a refreshed legal opinion are providing fundamentally different products — with different standards of care, different levels of professional accountability,

and different utility in a legal or regulatory context. Broker-dealers building or revisiting their internal monitoring framework should be clear on which type of third-party analysis they are receiving and why.

Absent a defined process for ongoing sponsor-level review, firms may find themselves exposed to risks that were neither visible nor documented within their supervisory framework. Documentation is not incidental to this process, it is the point. When a broker-dealer can demonstrate to a regulator, an arbitration panel, or a plaintiff's attorney that it conducted a formal review of a sponsor at defined intervals, that it received an updated legal opinion from a qualified provider, and that it responded appropriately to material developments as they arose, it has built a defensible record. The absence of that record is itself a liability.

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■ CONCLUSION

The rigor applied at onboarding should not be treated as a one-time investment. Sponsor relationships evolve, and the due diligence framework around them should evolve accordingly. Broker-dealers that formalize and document ongoing sponsor due diligence — through regularly updated sponsor opinions and event-driven reviews—will be better positioned to identify emerging risks, demonstrate supervisory rigor, and protect investor outcomes. Those that do not will find themselves in a difficult position when conditions change, and in this industry, conditions always change.

In an environment where conditions can change quickly, relying solely on onboarding diligence is no longer sufficient.

■ Mick Law P.C. to Co-Moderate Landman Session at ADISA's Spring Conference

Please join us at **9:05 AM LOCAL TIME ON APRIL 1, 2026**, for a 50-minute panel session based on *Paramount's Landman TV Series*.

The session will be co-moderated by **Brad Updike**, an attorney and shareholder of Mick Law P.C., and **Brett Evans**, an attorney and the owner of Evans Law, P.C. The session will feature several 1-2 minute video clips from seasons one and two of *Landman*, covering a host of topics and issues relevant to oil & gas program finance, structuring and operations.

EACH VIDEO WILL THEN BE FOLLOWED WITH A 4-5-MINUTE PANEL DISCUSSION COVERING:

Whether the circumstances presented in the video are true, false, or a little bit of both.

Lessons that due diligence officers/advisors can take away from the scene from a sponsor and program level due diligence and risk assessment perspective.

Other members of this esteemed panel will include Richard Saadeh, CFO of MDS Energy Development, Chad Willis, president and co-owner of Renaissance Growth Partners, LLC, and James Woods, who is a landman and is the president and co-owner of Citizen Energy Ventures.

Depending upon the success of the session, we plan to continue the session at the Mick Oil & Gas Symposium, held May 17 - 19 in Dallas, Texas (with new videos and topics).

WE HOPE TO SEE EVERYONE AT THIS SESSION!

■ FINRA Moves to Align Performance Projection Requirements

FINRA filed [proposed amendments](#) to Rule 2210 (Communications with the Public) to better align the regulatory requirements for broker-dealers and investment advisers that present performance projections in written communications to investors. The proposed amendments would create a narrowly tailored exception to Rule 2210 to permit the presentation of projected performance or targeted returns within institutional communications and retail communications specifically targeting qualified purchasers as that term is defined under the Investment Advisers Act of 1940. The proposal was filed with the SEC on Feb. 10.

Regarding the anticipated effect of this rule, Mick Law believes that the proposed changes will be helpful to

some member firms that want to provide qualified purchasers with sophisticated product presentations covering project revenues and costs, and future return projections on a non-tax and tax-adjusted basis. In view of the \$5 million investment threshold for qualified purchasers, however, we believe that the overall effect of the proposed changes to Rule 2210 will have limited to no effect upon most subscribers of non-traded real estate and oil/gas programs. As the proposed changes also require all such return projections to be tailed to the likely financial situation of the communication recipients, the new rule will also exclude the use of return projections on websites and within mass-mailings, and other forms of marketing in which the recipients of the communications are unknown (i.e. advertisements).

Seniors Housing and Assisted Living Market Update

According to data obtained from the National Investment Center for the Seniors Housing and Care (NIC)¹, the total occupancy rate for senior housing (including stabilized and new properties) increased by 40 basis points in the fourth quarter of 2025 to 89.1% for the 31 primary markets targeted by NIC. It marked the 18th consecutive quarter where occupancy increased. In total, an increase in occupancy of 220 basis points was recorded for the year, a result of strong demand and limited new construction. Senior housing occupancy closed 2025 11.3% above its pandemic-related low of 77.8%, and above the pre-pandemic occupancy level of 87.2% in the first quarter of 2020. The fourth quarter of 2025 set a record with nearly 635,000 senior housing units occupied compared to roughly 621,000 in the first quarter of 2025. Inventory growth remained under 1% at the close of the year, with fewer than 1,900 new units introduced to the market.

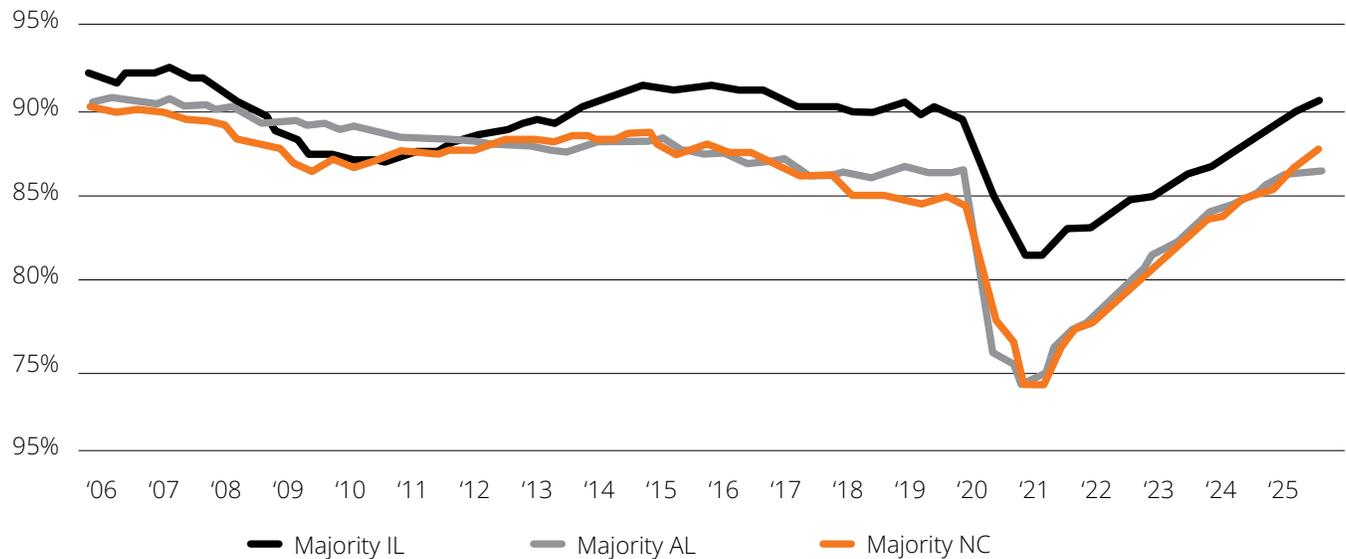
Rent growth in the senior housing market has been very strong in recent years, but showed signs of a gradual deceleration in 2024 and 2025.

Rent growth increased to 4.1% during the second quarter of 2025, up from 3.9% during the prior three-month period.

Trends within the national assisted living (“AL”) and independent living (“IL”) market are similar to the overall seniors housing market. According to NIC, the occupancy rate for AL in the fourth quarter of 2025 increased to 87.2%, up from a pandemic low of 75.4% and above its pre-pandemic occupancy rate of 84.9%. IL occupancy increased as well, surpassing 90% compared to a pandemic low of 81.6%.

“Senior housing occupancy closed 2025 11.3% above its pandemic-related low of 77.8%, and above the pre-pandemic occupancy level of 87.2% in the first quarter of 2020.”

NIC MAP | PRIMARY MARKETS



1. NIC tracks occupancy rates, inventory levels, absorption volumes, supply growth, construction starts, asking rents, and annual rent growth for the senior housing and care property markets.

Recent Sponsor Level Opinions

Deloache Capital

Completed January 23, 2026

BIP Capital, LLC

Completed February 10, 2026

LAGO Asset Management, LLC

Completed February 24, 2026

Boardwalk Wealth, LLC

Completed February 26, 2026

BT DST Manager, LLC

Completed March 13, 2026

Upcoming Events

| **ADISA 2026 SPRING CONFERENCE** | March 30 – April 1, 2026, Arlington, Texas



Featuring **Brad Updike** in
**“LANDMAN:”
Fact, Fiction, or Some of Both?**

April 1 at 9:05 am in Crystal F



Featuring **David Sengstock** in
**DST Structure and Outcomes:
How Design Choices Shape Risk,
Income, and Exits**

April 1 at 9:05 am in Crystal G

2026 Mick Law Energy & Global Alts Symposium

May 17-19, 2026 | Marriott at Legacy Town Center, Dallas/Plano, TX

| **2026 MICK LAW REAL ESTATE SYMPOSIUM** | October 18-20, Tempe, AZ

QUESTIONS?

For questions regarding sponsor opinions, or for all other inquiries, kindly contact **David Sengstock**, president, at dsengstock@micklawpc.com, or **Zia Sabir**, vice president, at zsabir@micklawpc.com.