



CVCA

CANADA'S VENTURE CAPITAL & PRIVATE EQUITY ASSOCIATION
ASSOCIATION CANADIENNE DU CAPITAL DE RISQUE ET D'INVESTISSEMENT

Presents

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CVCA CFO Taskforce

October 19, 2010

New Fair Value Rules

Impact on GPs & LPs Investing in Alternative Assets

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David Larsen is a managing director in the San Francisco office and part of the Portfolio Valuation service line. He has more than 25 years of transaction and accounting experience.

David has advised numerous strategic and private equity acquirers in all areas of mergers, acquisitions, joint ventures and divestitures. David serves as a special advisor to the Institutional Limited Partners Association; board member, project manager and technical advisor to the Private Equity Industry Guidelines Group and was instrumental in developing and drafting the Private Equity Industry Guidelines Group's Valuation and Reporting Guidelines; member of Financial Accounting Standards Board's Valuation Resource Group responsible for providing the Board with input on potential clarifying guidance on issues relating to the application of the principles of FASB Statement No. 157, Fair Value Measurements; board member of the International Private Equity and Venture Capital Valuations Board, which released international Private Equity Guidelines in 2005 and will be updating those guidelines in 2009; and member of the American Institute of Certified Public Accountants (AICPA) Net Asset Value Task Force.

Prior to joining Duff & Phelps, David was a Partner in KPMG LLP's Transaction Services practice, where he was the segment leader of KPMG's U.S. Institutional Investor practice. He served 13 years in KPMG's Seattle, Düsseldorf and Prague audit practices prior to moving full time to deal work.

David received his M.S. in accounting from Brigham Young University's Marriott School, his B.S. in accounting from Brigham Young University. He is a certified public accountant licensed in California and Washington. David is also a member of the AICPA and the California and Washington Society of Certified Public Accountants.

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- Over 30 years of operating history
- Strong group of senior professionals
- Very focused firm (20 professionals, a total of 35 people)

Cole & Partners



Agenda

- I. Impact on Private Equity and Venture Capital of the proposed IASB & FASB changes to Fair Value Measurement & Disclosure Standards
- II. New and emerging Fair Value guidance for LPs
- III. How the IPEV Valuation Guidelines assist LPs and GPs comply with relevant GAAP and the ILPA Private Equity Principles
- IV. Overview of the International Private Equity and Venture Capital (IPEV) Valuation Guidelines
- V. Plans for updated Reporting Guidelines (EVCA/IPEV/ILPA)
- VI. Questions

Section I.1

Impact on Private Equity and Venture Capital of the proposed IASB & FASB changes to Fair Value Measurement & Disclosure Standards

Why did FASB issue the Proposed ASU?

Convergence

- FASB & the IASB have a plan to jointly develop high quality accounting standards
- There is currently no IFRS equivalent to FASB ASC Topic 820
- The IASB released a Fair Value Measurement Exposure Draft in 2009
- The IASB due process consideration of responses to their initial exposure draft and results from roundtables pushed towards a common US GAAP / IFRS Fair Value Standard
- Joint deliberations by FASB/IASB resulted in the need to modify ASC Topic 820 to achieve a converged standard.
- The IASB issued a companion Exposure Draft to the Proposed FASB ASU focused on Fair Value Disclosures

Common Definition of Fair Value

- *Fair value is the price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.*

How vs. When

- Topic 820 explains how to measure fair value. It does not dictate when fair value is used. Other accounting standards dictate when fair value is used.
- Topic 946 for US GAAP requires Investment Companies to record assets at fair value.
- Under IFRS IAS 39 requires investments to be recorded at fair value
- IFRS problematic for Alternative Assets—Requires Control Investments be consolidated (Exposure draft expected in 2010 to correct the problem)

What are the key proposed changes to Topic 820?

Proposed Changes

Most proposed changes are not intended to modify existing application of Topic 820

Some proposed changes clarify the Boards intent about existing guidance:

- Highest & best use and the valuation premise are only applicable to non-financial assets
- Measuring the fair value of an instrument classified in shareholders equity
- Measuring the fair value of financial instruments managed within a portfolio
- Prohibiting the use of blockage factors for level 2 & 3 inputs
- Specifying that premiums and discounts may be appropriate for level 2 & 3 inputs
- Additional disclosures about fair value measurements
 - Measurement Uncertainty for level 3 inputs; impact on fair value of using other reasonable unobservable inputs.
 - Use of an asset in a way that differs for its highest and best use.
 - Categorization by level for items not reported at fair value, but disclosed at fair value.

Effective Date

To be determined

Section 1.2

Changes to Topic 820 which may impact Alternative Asset Investors

Impact of the Proposed Update on Alternative Assets

Limited or no impact on Alternative Assets

- Measuring the fair value of an instrument classified in shareholders equity
- Measuring the fair value of financial instruments managed within a portfolio
- Additional disclosures about fair value measurements
 - Use of an asset in a way that differs for its highest and best use.
 - Categorization by level for items not reported at fair value, but disclosed at fair value.

Impact of the Proposed Update on Alternative Assets

Potential impact on Alternative Asset Valuations

- Highest & best use and the valuation premise are only applicable to non-financial assets
 - Some interpret the change to prohibit financial assets from being measured as part of a group
 - Impacts Funds that invest in control equity and debt of the same portfolio company
 - » In such situations, current practice results in the fair value of debt equaling the par value of debt given the call feature by the control equity.
 - » In the future, debt would be “fair valued” on a standalone basis and would not necessarily equal par value.
- Prohibiting the use of blockage factors for level 2 & 3 inputs
- Specifying that premiums and discounts may be appropriate for level 2 & 3 inputs
 - Questions: Is the Unit of account a single share, or the combined interest in a non-traded portfolio company? Does Topic 946 specify the Unit of Account?
- Additional disclosures about fair value measurements
 - Measurement Uncertainty for level 3 inputs; impact on fair value of using other reasonable unobservable inputs.
 - However, the board has indicated that the proposed Financial Instruments project would not require such disclosure for unquoted equity instruments. Yet, the example at **820-10-55-80** has implications that could reverse this exception.

Excerpt from Measurement Uncertainty Analysis 820-10-55-80

	Fair Value at 12/31/X9	Difference in Fair Value from Using Different Unobservable Inputs That Could Have Reasonably Been Used		Significant Unobservable Inputs
		Increase in Fair Value	Decrease in Fair Value	
Private Equity Investments	\$ 25	\$ 4	\$ (3)	Net asset value provided by the investee
Venture capital investments	10	3	(2)	Net asset value provided by the investee

Example Implication: LPs must disclose Measurement Uncertainty impact. Logically, the LP will ask the GP for the information to support the disclosure. Therefore, while the GP may not be required to disclose measurement uncertainty, they may still need to provide such data to their LPs who would be required to perform a measurement uncertainty analysis and provide related disclosures.

Section I.3

Open Questions generated by the Proposed ASU

Open Questions to be resolved

- Does the proposed amended wording prohibit control equity and debt investments in the same portfolio company to be valued jointly?
 - If yes, how should enterprise value be allocated?
 - » Debt at fair value?
 - » Equity value equal to Enterprise value less debt at par or debt at fair value?
 - If no, clarification of the proposed ASU language is likely required.
- Does the “unit of account” language effectively prohibit the use of premiums, if applicable, even though they are expressly allowed?
- If the topic 820 amendments are effective before the Financial Instrument standard is effective, will GPs be required to provide measurement uncertainty analysis for equity investments?
- Are LPs required to provide a measurement uncertainty analysis as is implied by the proposed example?
 - If yes, where do LPs obtain the data for such an analysis if they are using NAV as their estimate of Fair Value?
 - Will GPs need to provide measurement uncertainty disclosures as part of the financial statements or outside the financial statements to support LPs in determining their disclosures.
- Does the substantial rewrite and reordering of Topic 820 allow other inconsistencies to be resolved:
 - Restrictions—attribute of the holder or attribute of the security?
 - Contingent Assets—recorded at fair value?
 - Undue Cost & Effort?

Section I.4

Fair Value Concept

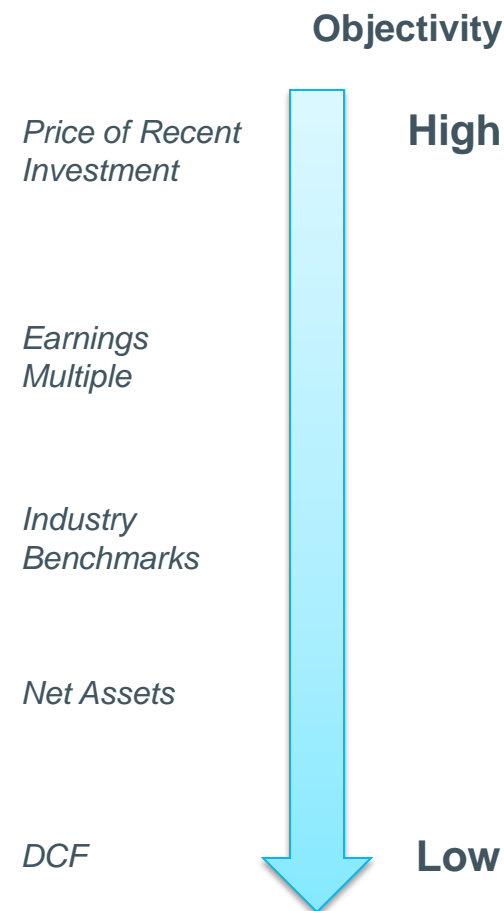
Fair Value Concept

- Fair Value Definitions:
 - **IFRS (Proposed) / US GAAP:** *Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*
 - **IPEV:** *Fair Value is the price at which an orderly transaction would take place between Market Participants at the Reporting Date (measurement date)*
- Common concepts:
 - market participant perspective
 - exit price
 - orderly transaction

Why Fair Value?

- Fair Value is the best basis to make “apples to apples” asset allocation decisions.
- Fair Value allows interim investment (manager selection) decisions on a comparable basis.
- Fair Value is often necessary as a basis to make incentive compensation decisions at the investor level.
- Fair Value provides a comparable basis for monitoring interim performance in the context of exercising the investor’s fiduciary duty.
- Most investors are required by relevant GAAP to report their investments on a Fair Value basis. Therefore, most LP’s require Fair Value.
- Investment Companies (under US GAAP) are exempt from consolidation rules because their investments are carried at Fair Value.
- Limited Partners need consistent, transparent information to exercise their fiduciary duty. Fair Value provides such information. An arbitrary reporting basis such as cost does not allow comparability.

Valuation Hierarchy



Management Responsibilities

Management is responsible for making the fair value measurements and disclosures included in the financial statements. As part of fulfilling its responsibility, *management* needs to establish an accounting and financial reporting process for determining the fair value measurements and disclosures, select appropriate valuation methods, identify and adequately support any significant assumptions used, prepare the valuation, and ensure that the presentation and disclosure of the fair value measurements are in accordance with GAAP.

(AU 328 paragraph 4)

- *Applies to GPs for Fund Financial Statements*
- *Applies to LPs for LP Financial Statements*

Section II.1

New and emerging fair value guidance for LPs

Use of NAV: Historical Background

- **Prior to 2007 (before application of SFAS 157):** NAV routinely used by investors to estimate the fair value of an interest in an alternative investment fund.
- **July 2007:** FASB's Valuation Resource Group discusses the question as to whether or not NAV is considered Fair Value in the context of SFAS 157 Fair Value Measurements. FASB Staff responds "Not necessarily" but provides no further guidance
- **2008 – January 2009:** The AICPA formed a taskforce to address the question of NAV and Fair value. A draft issues paper *FASB Statement No. 157 Valuation Considerations for Interests in Alternative Investments*, was released for comment in early 2009.
- **February 2009:** FASB's VRG again discusses the NAV / Fair Value Question.
- **June 2009:** FASB issued its proposed FSP FAS 157-g, "*Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, Investment Companies*".
- **Summer 2009-September 2009:** FASB issued its exposure draft on using NAV to value interests in alternative investments, culminating with the issuance of ASU 2009-12 "*Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*" in September 2009.
- **September 2009:** IPEV issues updated guidelines including a new section focused on valuing LP interests.
- **December 2009:** The AICPA released TIS (*Technical Information Service*) Section 2220 *Long-Term Investments*, to assist reporting entities in implementing the provisions outlined in FASB ASC 820, *Fair Value Measurements and Disclosures*. More specifically, the TPA (*Technical Practice Aid*) aims to assist those reporting entities attempting to estimate fair value of their investments by utilizing NAV.
- The Technical Practice Aid answers 10 questions related to estimating and disclosing the fair value if interests in alternative assets. The TPA can be accessed at the following link: [TIS Section 2220- Long-Term Investments](#)

ASU No. 2009-12: Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent).

- **Timeline**

- Accounting Standards Update (“ASU”) 2009-12 (“the Update”) was released on September 30, 2009.
- The update is effective for periods ending after December 15, 2009.

- **Scope**

- The Update provides a practical expedient for determining the fair value of an interest in an alternative investment fund if three conditions are met.

- **Disclosure**

- Significant additional disclosure is required (aggregated by major security type) for all interests in alternative investments reported at fair value, even if NAV is not used to estimate fair value.

Conditions Required to use NAV as an LP's estimate of Fair Value

- Applicable for investments required or permitted to be recorded or disclosed at fair value including interests in Fund-of-Funds, Hedge Funds, Real Estate Funds, Private Equity Funds (Buyout, Venture Capital, Mezzanine Debt) etc., which are not actively traded if the following conditions are met:
 - The fund *meets* the definition of an investment company as contained in the Investment Companies Guide (*AICPA Audit and Accounting Guide, Investment Companies*) (Topic 946).
 - Net Asset Value (“NAV”) has been calculated in accordance with Topic 946 (e.g., NAV is derived based on valuing underlying investments at fair value consistent with Topic 820 (FAS 157)).
 - NAV is as of the same date as the investors measurement date (e.g., no reporting lag).
- No IFRS Guidance
- NAV not necessarily an IFRS concept
- IPEV Guidelines consistent with ASU 2009-12

Consolidation: Proposed Investment Company Definition

The Boards tentatively decided that an investment company is an entity that meets all of the following criteria:

- *Express business purpose.* The express business purpose of an investment company is investing for current income, capital appreciation, or both.
- *Exit strategy.* The entity has identified potential exit strategies and a defined time (or range of dates) at which it expects to exit the investment.
- *Investment activity.* Substantially all of the entity's activities are investment activities carried out for the purposes of generating current income, capital appreciation, or both. The entity and its affiliates shall not obtain benefits from its investees that would be unavailable to other investors or unrelated parties of the investee.
- *Unit ownership.* Ownership in the entity is represented by units of investments.
- *Pooling of funds.* The funds of the entity's owners are pooled to avail owners of professional investment management.
- *Fair value.* All of the investments are managed, and their performance evaluated (both internally and externally), on a fair value basis.
- *Reporting entity.* The entity must be a reporting entity.
- *Debt.* Any providers of debt to the investees of the entity shall not have direct recourse to any of the entity's other investees.

Section II.2

AICPA Technical Practice Aid (TIS 2220
Long Term Investments)

AICPA TIS 2220 Inquiries

- **.18 Applicability of Practical Expedient:** *Which investments are permitted, as a practical expedient, to be measured at fair value on the basis of the net asset value (NAV)?*
- **.19 Unit of Account:** *How should the unit of account be identified for an interest in an alternative investment?*
- **.20 Determining Whether NAV is Calculated Consistent with FASB ASC 946, Financial Services – Investment Companies:** *How does a reporting entity conclude that the NAV, as most recently reported by the manager of the alternative investment (reported NAV), has been calculated in a manner consistent with the measurement principles of FASB ASC 946, Financial Services – Investment Companies?*
- **.21 Determining Whether an Adjustment to NAV is necessary:** *How does a reporting entity determine whether an adjustment to the last reported NAV is necessary?*
- **.22 Adjusting NAV When It is Not as of the Reporting Entity’s Measurement Date:** *If the reporting entity concludes that the reported NAV is calculated consistently with FASB ASC 946, but an adjustment is necessary because the NAV is not as of the reporting entity’s measurement date, how should the reporting entity estimate the adjustment?*
- **.23 Adjusting NAV When It Is Not Calculated Consistent with FASB ASC 946:** *If the reporting entity concludes that an adjustment is necessary because a reported NAV is not calculated consistently with the measurement principles of FASB ASC 946, how does a reporting entity estimate the adjustment?*
- **.24 Disclosures-Ability to Redeem Versus Actual Redemption Request:** *In order to classify the investment as level 2, must the investor have submitted a previous redemption request effective as of the measurement date or is it sufficient for an investor to have had the ability to redeem on the measurement date, even though it may not have exercised this ability?*
- **.27 Determining Fair Value of Investments When the Practical Expedient is not Used or is not Available:** *For entities that do not elect to use NAV as a practical expedient to estimate fair value or are unable to adjust the most recently reported NAV to estimate a NAV that is calculated in a manner consistent with the measurement principles of FASB ASC 946 as of the reporting entity’s measurement date, what inputs or investment features should be considered in estimating fair value?*

.18 Applicability of Practical Expedient

Inquiry: Which investments are permitted, as a practical expedient, to be measured at fair value on the basis of the net asset value (NAV)?

- FASB ASC 820-10-35-59 permits reporting entities, as a practical expedient, to estimate the fair value of their investments in certain entities that calculate NAV per share (or its equivalent) by using NAV if the interest is not actively traded.

- Such investments, (*alternative investments*), include interests in:
 - Hedge Funds,
 - Real Estate Funds,
 - Private Equity Funds (Buyout, Venture Capital, Mezzanine Debt) etc., which are not actively traded if the following conditions are met:
 - Commodity Funds
 - Offshore fund vehicles, and
 - Fund of Funds

- Generally, Investment Companies (including Fund of Funds), Pension Funds, Endowments and certain other investors use the fair value framework to report interests in alternative assets.

ASU 2009-12: Exceptions to use of NAV

- An investment with a readily determinable fair value is not allowed to be valued using NAV.

- A reporting entity is not permitted to estimate the fair value of an investment using NAV if it is probable that the entity will sell the investment (or a portion of the investment) for an amount other than the NAV. A sale is considered probable if all of the following criteria have been met:
 - Management commits to a plan to sell the investment.
 - An active program to locate a buyer and other actions required to complete the plan to sell the investment have been initiated.
 - The investment is available for immediate sale subject only to usual and customary terms.
 - Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or the plan will be withdrawn.

.19 Unit of Account

Inquiry: According to the FASB ASC glossary, the unit of account is “[t]hat which is being measured by reference to the level at which an asset or liability is aggregated (or disaggregated).” How should the unit of account be identified for an interest in an alternative investment?

- For interests in alternative investments, the appropriate unit of account is the interest in the investee fund itself, not the underlying investments within the investee fund; this is because the reporting entity owns an undivided interest in the whole of the investee fund portfolio and typically lacks the ability to dispose of individual assets and liabilities in the investee fund portfolio.
- As discussed in FASB ASC 820-10-35-61, if it is probable at the measurement date that a reporting entity will sell a portion of an investment at an amount different from NAV, and the criteria described in FASB ASC 820-10-35-62 are met, the portion that the reporting entity intends to sell is valued in accordance with other provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*.
- The remaining portion of the interest that is not probable of being sold may be valued by using NAV as a practical expedient in accordance with FASB ASC 820-10-35-59.

.20 - Determining whether NAV is calculated consistent with FASB ASC 946

FASB ASC 820-10-35-59 states: *A reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of paragraphs 820-10-15-4 through 15-5 using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of the investment, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.*

Inquiry: *How does a reporting entity conclude that the NAV, as most recently reported by the manager of the alternative investment (reported NAV), has been calculated in a manner consistent with the measurement principles of FASB ASC 946, Financial Services – Investment Companies?*

- A reporting entity's management is responsible for the valuation assertions in its own financial statements (slide 9).
- Determining that reported NAV is calculated consistently with FASB ASC 946 (e.g. that the underlying investments are fair value based (consistent with FASB ASC 820)) requires a reporting entity to independently evaluate the fair value measurement process utilized by the fund manager to calculate NAV.
- Such an evaluation is a matter of professional judgment and includes determining that the investee fund manager has an effective process and related internal controls in place to estimate the fair value of its investments that are included in the calculation of NAV.

.20 - Determining whether NAV is calculated consistent with FASB ASC 946 (continued)

- The reporting entity's controls used to evaluate the process of the fund manager may include the following:
 1. *Initial due diligence* (procedures performed before the initial investment).
 2. *Ongoing monitoring* (procedures performed after the initial investment).
 3. *Financial reporting controls* (procedures related to the accounting for, and reporting of, the investment) (See also AICPA practice aid [Alternative Investments—Audit Considerations](#)).
- Before concluding that the reported NAV is calculated in a manner consistent with FASB ASC 946 (e.g. is fair value based), the reporting entity evaluates the evidence gathered via the initial due diligence and ongoing monitoring of the investee fund.

.20 - Determining whether NAV is calculated consistent with FASB ASC 946 (continued)

The reporting entity also may consider the following key factors relating the valuation received from the investee fund manager:

- The investee fund's fair value estimation processes and control environment, and any changes to those processes or the control environment
- The investee fund's policies and procedures for estimating fair value of underlying investments, and any changes to those policies or procedures
- The use of independent third party valuation experts to augment and validate the investee fund's procedures for estimating fair value
- The portion of the underlying securities held by the investee fund that are traded on active markets
- The professional reputation and standing of the investee fund's auditor (this is not intended to suggest that the auditor is an element of the investee fund's internal control system, but as a general risk factor in evaluating the integrity of the data obtained from the investee fund manager)
- Qualifications, if any, of the auditor's report on the investee fund's financial statements
- Whether there is a history of significant adjustments to the NAV reported by the investee fund manager as a result of the annual financial statement audit or otherwise
- Findings in the investee fund's advisor or administrator's SAS 70 report, if any
- Whether NAV has been appropriately adjusted for items such as carried interest and clawbacks (more fully described in paragraph .29 of Technical Question and Answer [TIS] section 6910, "Investment Companies" [AICPA, *Technical Practice Aids*])
- Comparison of historical realizations to last reported fair value

.21 Determining Whether an Adjustment to NAV is necessary

Inquiry: *How does a reporting entity determine whether an adjustment to the last reported NAV is necessary?*

- FASB ASC Paragraph 820-10-35-60 allows the reporting entity to estimate fair value using reported NAV when the following requirements have been fulfilled:
 - (i) NAV has been calculated consistently with FASB ASC 946 and
 - (ii) NAV has been calculated as of the reporting entity's measurement date.
- Examples of when an adjustment to the last reported NAV may be necessary include, but are not limited to:
 - NAV is not as of the reporting entity's measurement date; or
 - NAV is not calculated in a manner consistent with the measurement principles of FASB ASC 946 (which requires, among other things, measurement of all or substantially all of the underlying investments of the investee in accordance with FASB ASC 820);
 - Or both.
- The existence of either of these factors may lead the reporting entity to conclude that an adjustment to the last reported NAV may be necessary. Practically, it is difficult to assess whether an adjustment is necessary unless an estimate of the adjustment is calculated.

.22 Adjusting NAV When It is Not as of the Reporting Entity's Measurement Date

Inquiry: *If the reporting entity concludes that the reported NAV is calculated consistently with FASB ASC 946, but an adjustment is necessary because the NAV is not as of the reporting entity's measurement date, how should the reporting entity estimate the adjustment?*

- FASB ASC 820-10-35-60 states that “The objective of any adjustment is to estimate a net asset value per share for the investment that is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.”
- If the last reported NAV is calculated consistently with FASB ASC 946 but is not as of the reporting entity's measurement date, the reporting entity may request the investee fund manager to provide a supplemental NAV calculation consistent with the measurement principles of FASB ASC 946 as of the reporting entity's measurement date, or it may be necessary to adjust or roll forward/roll back the reported NAV for factors that might cause it to differ from the NAV at the measurement date.

.22 Adjusting NAV When It is Not as of the Reporting Entity's Measurement Date (continued)

- The following factors might necessitate an adjustment to reported NAV when it is not calculated as of the reporting entity's measurement date:
 - The reporting entity has made additional investments since the calculation date of the reported NAV and prior to the reporting entity's measurement date,
 - The reporting entity has received distributions or partial redemption since the calculation date of the reported NAV,
 - The reporting entity has become aware of changes in the value of underlying investments since the calculation date of the reported NAV,
 - Market changes/economic conditions have changed to affect the value of the investee's portfolio after the calculation date of the reported NAV,
 - Changes have occurred in the composition of the underlying investment portfolio of the investee fund after the NAV calculation date.

.22 Adjusting NAV When It is Not as of the Reporting Entity's Measurement Date (continued)

The roll forward NAV might be calculated as follows:

Last Reported NAV (calculated consistently with FASB ASC 946)	\$	X,XXX
Add capital contributions/subscriptions		C,CCC
Subtract distributions/redemptions/withdrawals		(D,DDD)
Adjust for changes in valuations ^(a)		<u>V,VVV</u>
Roll forward NAV (as of the reporting entity's measurement date)	\$	<u>R,RRR</u>

(a) *Market changes* refer to market fluctuations between the date of the reported NAV and the reporting entity's measurement date. Examples of other economic conditions for which it may be necessary to adjust a reported NAV include, but are not limited to, a portfolio company being acquired, going public, or declaring bankruptcy between the date of the reported NAV and the reporting entity's measurement date, or changes in the value of underlying investments caused by company performance or market conditions, or both.

.23 Adjusting NAV When It Is Not Calculated Consistent with FASB ASC 946

Inquiry: *If the reporting entity concludes that an adjustment is necessary because a reported NAV is not calculated consistently with the measurement principles of FASB ASC 946, how does a reporting entity estimate the adjustment?*

- Although it is not possible to state all the reasons why a reported NAV may not be consistent with the measurement principles of FASB ASC 946, the reporting entity would need to consider and understand the following:
 - The reasons why NAV has not been based upon fair value.
 - Whether a fair value based NAV can be obtained from the investee manager.
 - Whether the specific data needed to adjust the reported NAV can be obtained and properly utilized to estimate a fair value based NAV. Examples of circumstances in which the reporting entity may be able to obtain data to estimate an adjustment include:
 - Reported NAV is on a cash basis.
 - Reported NAV utilizes blockage discounts taken on securities valued using level 1 inputs, which is not consistent with FASB ASC 820.
 - Reported NAV has not been adjusted for the impact of unrealized carried interest or incentive fees.

.27 Determining Fair Value of Investments When the Practical Expedient is not Used or is not Available

Inquiry: *For entities that do not elect to use NAV as a practical expedient to estimate fair value or are unable to adjust the most recently reported NAV to estimate a NAV that is calculated in a manner consistent with the measurement principles of FASB ASC 946 as of the reporting entity's measurement date, what inputs or investment features should be considered in estimating fair value?*

- If the reporting entity chooses not to estimate fair value using NAV or cannot estimate fair value Using NAV, then fair value could be estimated using an alternative method such as:
 1. Estimating and modeling all future cash flows and discounting at an appropriate rate.
 2. Estimating the fair value of an interest in a Fund based on transparent observable secondary market transaction data applying the concepts of Topic 820.
 3. Identifying a similar fund or funds and using it as a proxy for the value of the fund being valued. (Highly unlikely that sufficient correlation would exist, but conceptually possible).

.27 Determining Fair Value of Investments When the Practical Expedient is not Used or is not Available (continued)

- **Consideration should be given to:**
 - **Investments with redeemable interests**
 - **Investments with non redeemable interests**
- **Further the following should be evaluated in making the fair value assessment:**
 - **Investment Inputs** such as NAV, overall market conditions, transactions in brokered markets, features of the alternative investment, discounted future cash flows and factors used to determine whether there has been a decrease in the volume and level of activity for the asset when compared with normal market activity for the asset.
 - **Investment Features** such as initial due diligence features (i.e. lock-up period and redemption fees, notice periods, holdbacks, suspension of redemptions, lack of redemption options, fund sponsor approval to transfer, use of “side pockets”) and ongoing monitoring features (i.e. imposition of a gate, redemptions from an investee fund, notification of redemption, significant changes in key terms of the investee fund, closure of fund to new subscriptions, ability of fund to identify and make acceptable investments, allegations of fraud against the investee fund manager, change in financial strength or key personnel of investment manager).

Implications of TIS 2220, *Long-Term Investments*

- The guidance provided in the AICPA Technical Guidance clarifies that an investor reporting under ASU 2009-12 cannot blindly accept NAV reported by the Fund without independently evaluating the fair value measurement process utilized by the investee fund manager.
- GPs that utilize a more rigorous fair value estimating process, and who report timely, may limit the amount of independent work that the LP finds it necessary to perform.
- Therefore, ASU 2009-12 and the TPA, indirectly, may result in LPs being more likely to invest with GPs who report NAV based on rigorous, timely, fair value estimates.
- LPs unfamiliar with ASU 2009-12 and the AICPA TPA may have difficulties with their auditors as a result of not demonstrating rigor in their policies, processes and procedures for estimating fair value.
- Greater pressure on LPs from their auditors, will likely result in more adhoc requests for data and information from GPs.

Section III

How the IPEV Valuation Guidelines assist LPs and GPs comply with relevant GAAP and the ILPA Private Equity Principles

Institutional Limited Partners Association (“ILPA”) Private Equity Principles

ILPA established these principles to “restore and strengthen the basic ‘alignment of interests’ value proposition in private equity”. The guidelines cover three primary areas of best practice for private equity partnerships.

- **Alignment of Interests**
- **Governance**
 - Limited Partner Advisory Committee meeting processes and procedures should be adopted and standardized across the industry to allow this sub-body of the limited partners to effectively serve its role.
- **Transparency**
 - Detailed valuation and financial information related to the portfolio companies should be made available on a quarterly basis
 - Investors in private equity funds should have greater transparency as requested with respect to relevant information pertaining to the general partner

Calculating Net Asset Value (or its Equivalent)


- Limited Partners must report their interests at Fair Value
- Net Asset Value can be used under certain circumstances
- NAV may be fair value for illiquid interests if the following three conditions are met:
 - The fund meets the definition of an investment company
 - » as contained in the Investment Companies Guide (AICPA Audit and Accounting Guide, Investment Companies) (Topic 946).
 - NAV has been calculated appropriately in accordance with fair value guidance
 - » underlying investments at fair value consistent with ASC § 820 (formerly FAS 157).
 - NAV is determined as of the same date as the investors' measurement date (e.g., no reporting lag).
- Investors are required to determine if NAV is estimated and reported robustly
- Investors are responsible for making adjustments to NAV (if significant)
 - When NAV is not fair value-based
 - When NAV is not “in phase”

How do LPs Determine that NAV is Usable?

- Considerations for qualifying Fund Managers' reported NAV include:
 1. *Initial due diligence (procedures performed before the initial investment).*
 2. Ongoing monitoring (procedures performed after the initial investment).
 3. Financial reporting controls (procedures related to the accounting for, and reporting of, the investment).

- Additionally, consideration should be given to:

- *The fund's fair value estimation **processes and control environment**, and any periodic changes*
- *The fund's **policies and procedures** for estimating fair value*
- Use of **independent third party** valuation experts to augment and validate the investee fund's procedures for estimating fair value
- Portion of the underlying securities that are actively traded
- Professional **reputation** and standing of the investee fund's auditor (this is not intended to suggest that the auditor is an element of the investee fund's internal control system, but may reflect a general risk factor in evaluating the integrity of data obtained from the fund)
- Qualifications, if any, of the **auditor's report** in the fund's financial statements
- Whether there is a **history** of significant adjustments to the NAV reported by the fund manager as a result of the annual financial statement audit or otherwise
- Findings in the investee fund's advisor or administrator's SAS 70 report, if any

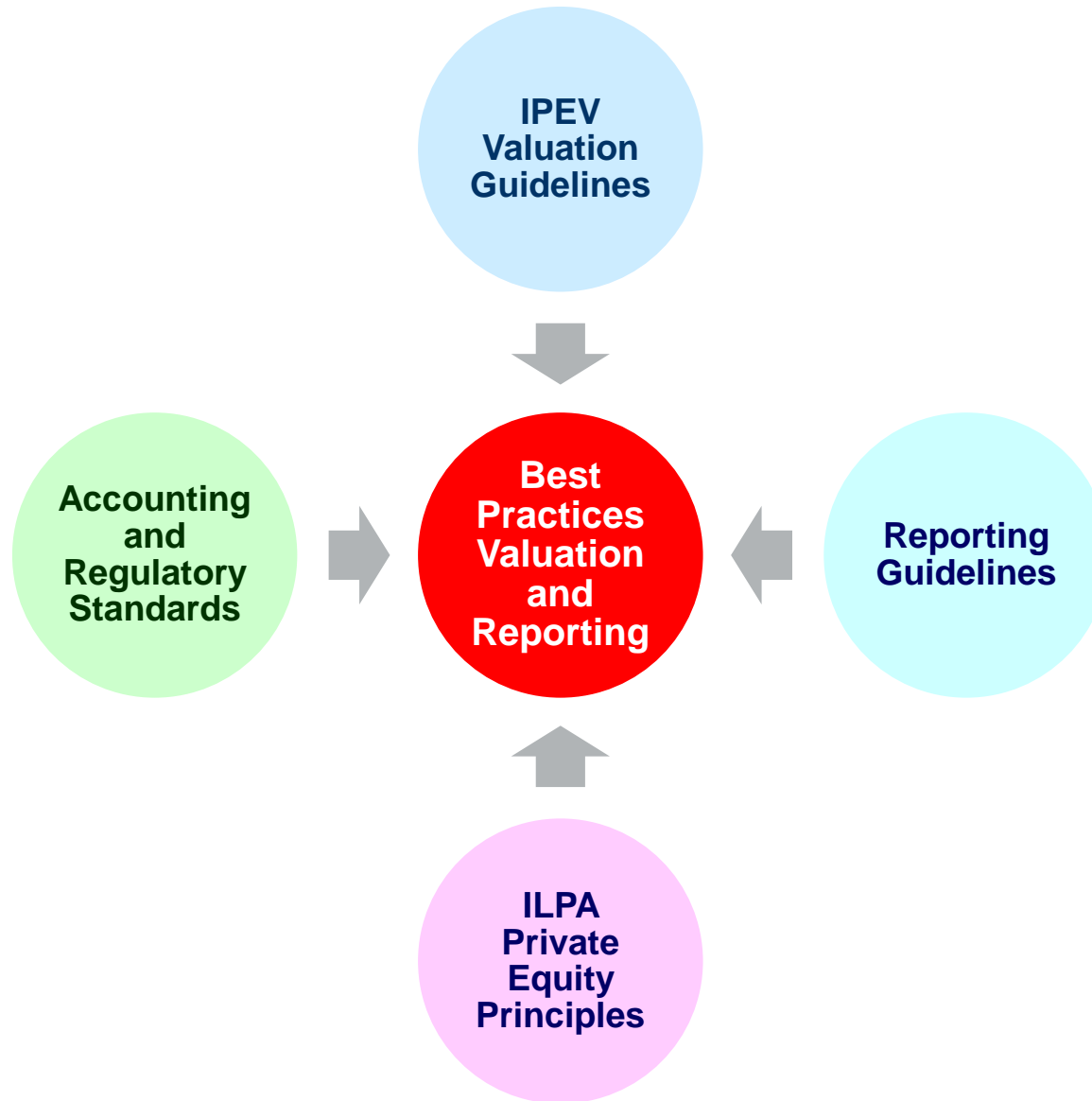


IPEV
Guidelines
Provide
Consistency

IPEV Guidelines Help GPs and LPs Achieve ILPA Principles and Comply with Accounting Requirements

- The IPEV Guidelines provide a framework for valuation best practices that fund managers may utilize when reporting the fair value of investments held by their fund.
- The IPEV Guidelines cover:
 - The Concept of Fair Value
 - Principles of Valuation
 - Valuation Methodologies and the Selection of Appropriate Methods
 - The Valuation of Fund Interests
 - LP Valuation if non-US GAAP basis of accounting

Why Should LPs Care About the IPEV Guidelines?



Section IV.1

Overview of the International Private Equity and Venture Capital (IPEV) Valuation Guidelines

Private Equity Valuation Guidelines – A Brief History

- **1989 – 1990s** – Group of Investors and managers develop guidelines. US NVCA does not endorse, but they become known as the *de-facto NVCA Valuation Guidelines* used in the decade of the 1990s.
- **2001** – EVCA releases valuation guidelines allowing two methodologies.
- **2002** – In the US, a self-appointed group of PE GPs, LPs and Service Providers form the Private Equity Industry Guidelines Group (PEIGG) in response to the suggestion that some PE GPs did not take into account the post-bubble decreases in value.
- **December 2003** – After extensive input, PEIGG releases their Valuation Guidelines.
- **March / April 2004** – NVCA & ILPA issue statements supporting the PEIGG Guidelines.
- **October 2004** – ILPA endorses PEIGG Guidelines.
- **2004/2005**– IPEV formed by the Association Française des Investisseurs en Capital (AFIC), the British Venture Capital Association (BVCA) and the European Private Equity and Venture Capital Association (EVCA)
- **2005; April 2006** –IPEV Guidelines are released adopting the Fair Value concept. Subsequently endorsed by more the 40 non-US associations.
- **September 2006** – FASB releases statement No. 157 (now known as ASC Topic 820), Fair Value Measurements.
- **March 2007** – PEIGG releases their updated US Private Equity Valuation Guidelines to incorporate the concepts of ASC 820.
- **October 2008; April 2009** – IASB Releases Expert Panel Paper; FASB issues ASC 820-10-35 & ASC 820-10-65 (formerly FASB Statements FSP FAS 157-3 and FSP FAS 157-4).
- **September 2009**– IPEV Board releases updated IPEV Guidelines.

IPEV Board Members

- Chairman:
 - M. Herman Daems (GIMV)
- Members:
 - Mr. Anthony Cecil (KPMG)
 - Mr. Herve Claquin (Abenex Capital)
 - **Mr. Gilles Durufle (CVCA)**
 - Mr. William B. Franklin (Conversus Asset Management)
 - Mr. W. Stephen Holmes (InterWest Partners)
 - Mr. William J. Hupp (Adams Street Partners)
 - **Mr. David Larsen (Duff & Phelps)**
 - Mrs. Katharina Lichtner (Capital Dynamics)
 - Mr. Michael P. Maher (U.S. Venture Partners)
 - Mrs. Monique Saulnier (Sofinnova Partners)
 - Mr. Michael Wotherspoon (Actis)
 - Mr. Barry Zuckerman (CHAMP Equity)

Overview

- The IPEV Guidelines consist of six areas: (i) Preface, (ii) Introduction, (iii) Definitions, (iv) Section I, (v) Section II and (vi) Endorsing Associations.
- The Guidelines are split into two main sections:
 - Section I: Determining Fair Value
 - Detailed discussion of the overall concept and definition of fair value as well as additional discussion related to the different valuation methodologies associated with determining fair value.
 - This section is comprised of four main parts: (i) The Concept of Fair Value, (ii) Principles of Valuation, (iii) Valuation Methodologies and (iv) Valuing Fund Interests.
 - Section II: Additional Application Guidance
 - This section further elaborates the methodologies discussed in Section I by applying those methodologies and principles to specific cases.

IPEV Guidelines available at:
www.privateequityvaluation.com

Key IPEV Guidelines

- The Concept of Fair Value:

The Fair Value is the price at which an orderly transaction would take place between Market Participants at the Reporting Date.

For Quoted Instruments, available market prices will be the primary basis for the determination of Fair Value.

For Unquoted Investments, the estimation of Fair Value requires the Valuer to assume the Underlying Business is realised at the Reporting Date, appropriately allocated to the various interests, regardless of whether the Underlying Business is prepared for sale or whether its shareholders intend to sell in the near future.

- US GAAP and Proposed IFRS definition of Fair Value: “Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.
- Principles of Valuation:

The Fair Value of each Investment should be assessed at each Reporting Date.

In estimating Fair Value for an Investment, the Valuer should apply a methodology that is appropriate in light of the nature, facts and circumstances of the Investment and its materiality in the context of the total Investment portfolio and should use reasonable data and market inputs, assumptions and estimates.

Section I: Determining Fair Value

- I. Concept of Fair Value
 - Objective: To estimate the Fair Value at which Market Participants would agree to transact at the Reporting Date.
- II. Principles of Valuation
 - Objective: To determine the appropriate valuation methodologies for estimating Fair Value in the absence of an active market and determining a Fair Value comparable to what parties in an arm's-length transaction would make at the Reporting Date.
 - Fair Value is estimated by the Valuer by
 - » (i) adjusting Enterprise Value for surplus assets, excess liabilities and other contingencies to arrive at an Adjusted Enterprise Value;
 - » (ii) Deducting the amount that would be paid in a liquidation scenario and accounting for investments that may dilute the Fund's investment to arrive at the Attributable Enterprise Value;
 - » (iii) Allocating the Attributable Enterprise Value between the Company's financial instruments (based on ranking) and
 - » (iv) Allocating these amounts according to the Fund's holding in each instrument, representing their Fair Value.
 - The guidelines further discuss the uncertainties involved in estimating Fair Value and the correct way to allocate Attributable Enterprise Value between a Company's financial instruments.

Section I: Determining Fair Value (continued)

- III. Valuation Methodologies

- Objective: To delve deeper into specific valuation methodologies than can be utilized to estimate the Fair Value of unquoted instruments.
- Commonly used methodologies include (i) price of recent investment, (ii) multiples, (iii) net assets, (iv) discounted cash flows or earnings of the underlying business, (v) discounted cash flows from the investment, (vi) industry valuation benchmarks and (vii) available market prices.
- The guidelines further discuss each of the above methodologies and provide direction on (i) how to derive Fair Value when using each methodology, (ii) which methodology should be utilized and (iii) advantages and disadvantages related to each of the above valuation methodologies.

- IV. Valuing Fund Interests

- Objective: To provide guidance on determining the reported fund Net Asset Value to determine the Fair Value of an interest in a fund.
- The guidelines further discuss factors that would result in an adjusted Net Asset Value as well as the role of secondary transactions in determining Fair Value.

Section II: Application Guidance

- Objective: This section aims to provide guidance on the application of the principles and methodologies described in Section I to specific cases.
- Specific considerations discussed within Section II include
 - (i) Insider Funding Rounds
 - (ii) Distressed Markets
 - (iii) Deducting Higher Ranking Instruments
 - (iv) Bridge Financing
 - (v) Mezzanine Loans
 - (vi) Rolled up Loan Interest
 - (vii) Indicative Offers and
 - (viii) Impacts from Structuring.

Section IV.2

2009 Updated IPEV Guidelines

Overview of 2009 Updates to IPEV Guidelines

- Clarification of timing of fair value assessments (each measurement date; no one year “safe-harbor”)
- Clarification of “marketability discount” to ensure no double counting
- Additional Guidance for early stage (VC) investments
- New Guidance for Valuing LP Interests in PE Funds
- Section II streamlined

The Concept of Fair Value

- New Guidance:
 - Fair Value is the price at which an orderly transaction would take place between Market Participants at the Reporting Date.
 - For Quoted Instruments, available market prices will be the primary basis for the determination of Fair Value.
 - For Unquoted Investments, the estimation of Fair Value requires the Valuer to assume the Underlying Business is realized at the Reporting Date, appropriately allocated to the various interests, regardless of whether the Underlying Business is prepared for sale or whether its shareholders intend to sell in the near future.
- Old Guidance:
 - Under the old guidance, Fair Value was defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Timing of Fair Value Assessments

- New Guidance:
 - Where the Investment being valued was itself made recently, its cost may provide a good indication of Fair Value.
 - Where there has been any recent Investment in the Investee Company, the price of that Investment will provide a basis for estimating value.
 - The validity of a valuation obtained in this way is inevitably eroded over time.
 - The length of period for which it would remain appropriate to use this methodology will depend on the specific circumstances of the Investment and is subject to the judgement of the Valuer.
- Old Guidance:
 - Under the old guidance, the length of period for which it would remain appropriate to use this methodology would also depend on the specific circumstances, but a period of one year is was recommended as it is the period often applied in practice.

Marketability Discount Eliminated

- New Guidance: The new guidance eliminates the need to apply Marketability Discount to derive the Net Attributable Enterprise Value (“EV”).
 - Under the new guidance, the Fair Value is estimated from the Enterprise Value (“EV”), as follows:
 - » Determine the EV of the Investee Company using the valuation methodologies;
 - » Adjust the EV for surplus assets or excess liabilities and other contingencies;
 - » Deduct any financial instruments ranking ahead of the highest ranking instrument of the Fund in a liquidation scenario (e.g. the amount that would be paid) and taking into account the effect of any instrument that may dilute the Fund’s Investment to derive the Attributable EV;
 - » Apportion the Attributable EV between the company’s relevant financial instruments according to their ranking;
 - » Allocate the amounts derived according to the Fund’s holding in each financial instrument, representing their Fair Value.

Early Stage (VC) Investments

- New Guidance:
 - It might be difficult to determine Fair Value of early stage VC investments due to:
 - » the range of reasonable Fair Value estimates is significant
 - » the probabilities of the various estimates within the range cannot be reasonably assessed
 - » the probability and financial impact of achieving a key milestone cannot be reasonably predicted
 - » there has been no recent investment into the business.
 - While these situations prove difficult, the Valuer must still come to a conclusion as to their best estimate of the hypothetical exchange price between willing Market Participants.
- Old Guidance:
 - Under the old guidance, in these situations, the Valuer might have concluded that Fair Value cannot be reliably measured.

Early Stage (VC) Investments (continued)

- New Guidance:
 - For early or development stage investments, it may be difficult to gauge the probability of success or failure of development or research activities and to make reliable cash flow forecasts.
 - For these situations, commonly a set of agreed milestones would be established at the time of making the investment decision. These will vary, but are likely to include the following measures:
 - » Financial (E.g., revenue growth, profitability expectations, cash burn rate, covenant compliance);
 - » Technical (E.g., phases of development, testing cycles, patent approvals)
 - » Marketing and sales (E.g., customer surveys, testing phases, market introduction, market share).
 - In applying the milestone analysis approach, the Valuer attempts to assess whether there is an indication of change in Fair Value based on a consideration of the milestones.
 - If the Valuer concludes that there is an indication that the Fair Value has changed, they must estimate the amount of any adjustment from the last Price of Recent Investment.

Valuing LP Interests in PE Funds

- New (Added) Guidance:
 - The Updated Guidelines offer new guidance on Valuing Fund Interests:
 - » Limited Partners investors in Private Equity Funds must value their Interest in an underlying Fund at regular intervals to support their financial reporting.
 - » In estimating the Fair Value of an interest in a Fund, the Valuer may base their estimate on their attributable proportion of the reported Fund NAV.
 - » As an investor in a Fund, reliance on a reported NAV provided by the investee Fund manager can only be used by the investor to the extent that they have evidence that the reported NAV is appropriately derived using proper Fair Value principals as part of a robust process.
 - » After the Valuer determines that the reported NAV is an appropriate starting point, it may be necessary to make adjustments based on the best available information at the Reporting Date.
 - Although the Valuer may look to the Fund Manager for the mechanics of their Fair Value estimation procedures, the Valuer needs to have appropriate processes and related controls in place to enable the Valuer to assess and understand the valuations received.

Section II Considerations

- Insider Funding Rounds
- Distressed Market
- Deducting Higher Ranking Instruments
- Bridge Financing
- Mezzanine Loans
- Rolled up Loan Interest
- Indicative Offers
- Impacts from Structuring

Technical Corrections/Edits

- New Guidance:
 - The Updated Guidelines reduce ambiguity by separating the actual Guidelines from supporting discussion.
 - The text related to the Guidelines is now formatted bold and found within red boxes throughout each section of the Guidelines.

Section V& VI

Plans for updated Reporting Guidelines (EVCA/IPEV/ILPA)

Questions

Appendix I

IPEV Valuation Methodologies

Fair value

- Fair Value is the price at which an orderly transaction would take place between Market Participants at the Reporting Date (measurement date).
- It does not assume that at the reporting date:
 - The Underlying Business is saleable
 - The shareholders intend to sell in the near future
 - This is a forced sale or liquidation
- It is the exchange price at which hypothetical Market Participants would agree to transact.

How do we estimate Fair Value

- Select methodology
- Estimate value of the whole (Enterprise Value)
- Should this be adjusted for relevant factors?
- Deduct higher ranking financial instruments
- Adjust for dilution factors (Gross Attributable Enterprise Value)
- Allocate to the various instruments
- Calculate Fund's holding of each instrument (Fair Value)
- Does the answer make sense?
 - Would a market participant pay this price for this security at this date?
 - If you didn't own the security, would your deal team pay this price for this security on this date?

Select methodology

- Six suggested methodologies in the guidelines
 - Price of recent investment
 - Earnings multiples
 - Net assets
 - Discounted Cash Flows or earnings of the Underlying Business
 - Discounted Cash Flows from the Investment
 - Industry benchmarks
- How to judge which is the most appropriate?
- Methodologies are not ranked, but those that are based on market inputs are likely to be more reliable

Methodology - Price of Recent Investment

- Cost, or someone else's cost of significant additional investment
- Best evidence on that date as actually testing the market
- How long is it valid for?
 - Apply judgment
- Commonly used:
 - All investments immediately post acquisition
 - Early stage, pre revenue, pre earnings
- When would it not be appropriate:
 - Bargain purchase
 - Significant change in the market (Q4 2008?)
- Recent investment in the business
- Need to be happy that there is no evidence of impairment:
 - No significant change in market or competitive position
 - Investment case on track
 - No unexpected or significant events
 - No evidence of significant improvement
- Information sources:
 - Performance against forecast/budget (financial/operational milestones)
 - Business environment
 - Further fund raising terms

Methodology - Earnings multiple

- Apply a multiple that is reasonable and appropriate to the maintainable earnings
 - Comparing your unquoted investment to a quoted comparable company
 - Calibrate entry multiple with comparable companies
 - Strong evidence for fair value because it is market based
 - Judgment should be exercise in relation to the words underlined
 - What points of difference should be adjusted
- Commonly used:
 - Investments with profits, or high visibility of profits
- Does the company have positive earnings or cash flow?
- Is there a reasonable certainty of positive earnings?
- Have there been recent transactions in this sector?
- Can I find appropriate comparators?

Methodology - Net Assets

- Generally only applied to businesses where value is in the asset base, rather than the ability to generate income
 - Good evidence as little judgment exercised
- Commonly used:
 - Property companies
- Is this an asset business?
- Do the net assets provide a valuation base?
- Who has valued them?

Methodology - Discounted cash flows or earnings of the underlying business

- Project earnings into the future, estimate 'terminal value' and discount back at the cost of capital
 - Highly subjective inputs
 - Limited 'hard' or market based inputs
 - Valuation very sensitive to assumptions
 - Bulk of the value often arises from terminal value assumptions

Use with extreme caution!

- Commonly used:
 - When no other methodology is appropriate
- Are the market based measures inappropriate?
- Do I need professional help?
- Can I support the answer?

Methodology - Discounted cash flows of the investment

- Project cash flows forward and discount back at the cost of capital
 - Same caveats as previous slide
- Commonly used:
 - Once sale price is agreed and heads of agreement signed
 - Mezzanine debt instruments
- Are cash flows reasonably certain and predictable?
- Is realisation imminent?

Methodology - Industry benchmarks

- Many commonly quoted
 - Price per square foot
 - Price per bed
 - Price per customer
 - Price per website hit
- A useful check, but rarely a sensible primary basis

Check: Is my valuation within normal industry ranges?

When to change methodology

- Infrequently, but when it is appropriate
- Common transition
 - Price of recent investment
 - Price of recent investment (impaired)
 - Earnings multiple
 - DCF from investment

Quoted investments

- Value the investment at the bid price, quoted on an active market
 - This means that the bid / offer spread is written off on acquisition
 - Powerful evidence as market based
 - Is the market truly active ?
 - Is a discount appropriate ?
 - Does GAAP allow a blockage discount?
 - » US GAAP, permitted if a legal restriction (such as a lock-in) applies
 - » IFRS, no blockage discount allowed

Pitfalls to be wary of

- A degree of caution or prudence is good
- Excessive or outrageous prudence is not!
- Use reasonable assumption and estimates
- Sector multiples
- Focus on the Fund's package of investments
- Historic or prospective data?
- Some judgments may be too big to call

Support for the valuations

- What auditors expect to see
- A valuation is never 'right' unless sold on that day!
- What is experience of valuer?
- How much rigour is there in the process?
- Support that 'Cost' is still appropriate
- Should a follow on investment be regarded as arms length?
- What supports the multiple choice and adjustments?
- Can all internally generated figures be supported?
- Have external experts provided reports?
- What supports the expectation of cash flows?
- On the basis of the information made available, can I reasonably come to the same conclusion?

Global Investment Performance Standards (GIPS) – CFA Institute/BVI/DVFA

- GIPS Standards apply mainly to asset managers but contain private equity valuation rules
- GIPS are intended to provide best practice rules with regards to performance measurement
- Appendix D contains Private Equity valuation standards
- Requirements include:
 - Documentation of valuation procedures
 - Transparent valuation process
 - Disclosure of valuation methods
 - Recommendation of fair value accounting in compliance with IFRS (and hence IPEV)
 - Quarterly valuation recommended
 - Cost approach only allowed if fair value cannot be reliably measured

Appendix II

Additional Duff & Phelps Background

Duff & Phelps Services List

Valuation

Financial Reporting Valuation

Purchase Price Allocation
Goodwill and Intangible Asset Impairment
Impairment of Long-Lived Assets
Intellectual Property Valuation
Business Valuation
Contingent Asset and Liability Valuation
Fresh Start Accounting
Option Valuation
Tax Valuation

Corporate Finance Consulting

Financial Engineering
Portfolio Valuation
Operational Risk Due Diligence

Real Estate Services

Real Estate Valuation and Consulting
Corporate Real Estate Management Consulting
Real Estate Restructuring
Cost Segregation

Fixed Asset Services

Machinery and Equipment Valuation
Fixed Asset Management Services
Fixed Asset Records Reconciliation

Investment Banking

Mergers and Acquisitions
Restructuring and Special Situations
Fairness Opinions
Solvency Opinions
ESOP and ERISA Advisory
Private Placement of Debt and Equity
Commercially Reasonable Debt Opinions

Dispute and Legal Management Consulting

Bankruptcy Litigation
Intellectual Property Disputes
Commercial and Shareholder Disputes
Fraud, Forensic and Investigative Services
M&A Purchase Price Disputes and Arbitration
Business Insurance Consulting
Merger Trustee Services
Tax Litigation
Global Electronic Discovery and Investigations
Enterprise Information Management and Records Strategies
Law Department Strategy and Operations
Law Department Technology Planning and Implementation
Legal and Regulatory Compliance Program Development and Monitoring

Tax Services

Tax Valuation
Property Tax Services
Business Incentives Advisory
Transfer Pricing
Unclaimed Property and Tax Risk Advisory
Sales and Use Tax Services
Strategic Tax Advisory Review Services

Transaction Advisory

Corporate Finance Consulting

Business Modeling
Due Diligence
Financial Projections
Strategic Value Advisory

Real Estate Services

Loan Underwriting Due Diligence
Private Placements
Real Estate Transaction Due Diligence

Industry Experience

Selected Clients



Consumer Products



Industrial Products



Financial Services



IT & Communications

JERINI

ATU
AUTO TEILE UNGER

Campbell's

Johnson & Johnson

Henkel

sp Schering-Plough

Verbund **sanofi aventis**
L'essentiel c'est la santé.

BrainLAB

Procter & Gamble

HUGO BOSS

Philip Morris
Companies Inc.



TANK & RAST

genzyme

MERCK

Pfizer



Mainova

United Technologies

KNORR-BREMSE

e-on

VORWEG GEHEN

Tyco Electronics

KION

ArcelorMittal

Archimica



GE



JPMorganChase

Deutsche Bank

citigroup

Bank of America

Permira

The Blackstone Group

KKR **Apax PARTNERS**

RESTINVEST
KENEDIX

T-Mobile



france telecom

PHILIPS

ALLIANCE

IDS SCHEER

EM.SPORT MEDIA AG

O2

EMI
MUSIC PUBLISHING

STUDIO BABELSBERG

Microsoft



versatel

QSC AG

ProSiebenSat.1 Media AG

IBM



STUDIO CANAL



Kabel Deutschland

NXP
founded by Philips

LAWSON

TMG
TELE MÜNCHEN GRUPPE

Portfolio Valuation Services

Why use a third party review?

- **Need for Independence**
 - Investors – requiring transparency and need to understand investment manager valuation process for own reporting needs
 - Auditors – precluded from advice that would affect what they audit; conflicts of interest
 - Boards – risk management is a key concern; different valuations at the fund level versus valuations done for portfolio company management
 - Management compensation/performance; encourages consistent analyses and documentation



- **Track Record and Credibility**
 - Fund raising and satisfaction of LP agreements
 - Standardizes monitoring process and formalization of valuation policy and procedures
- **Disclosure Requirements and Privacy Issues**
 - Increases ability for LPs to rely on NAV
 - Information can be consolidated within a third party opinion; retention of sensitive data that would otherwise have to be disclosed
- **Seen as Best Practice**; evolving guidance and industry practice regarding valuation policy allow knowledge transfer from third party reviewer
- **Documentation is key**; involving valuation expert helps support conclusions with concise arguments and objective facts