



Valuation of alternative
investments

Deloitte Valuation Center:
Your partner of choice



More regulation, more complexity, more valuation issues



Following the 2008 financial crisis, regulators across the globe have increased their focus on the alternative investment fund industry, an industry which was still relatively unregulated.

This has triggered the introduction of measures such as the Alternative Investment Fund Managers Directive (AIFMD) and other stringent obligations around valuation matters. In this context, the way professionals look at valuation issues has to be revisited. Past philosophies and processes have become obsolete and no longer comply with current requirements.

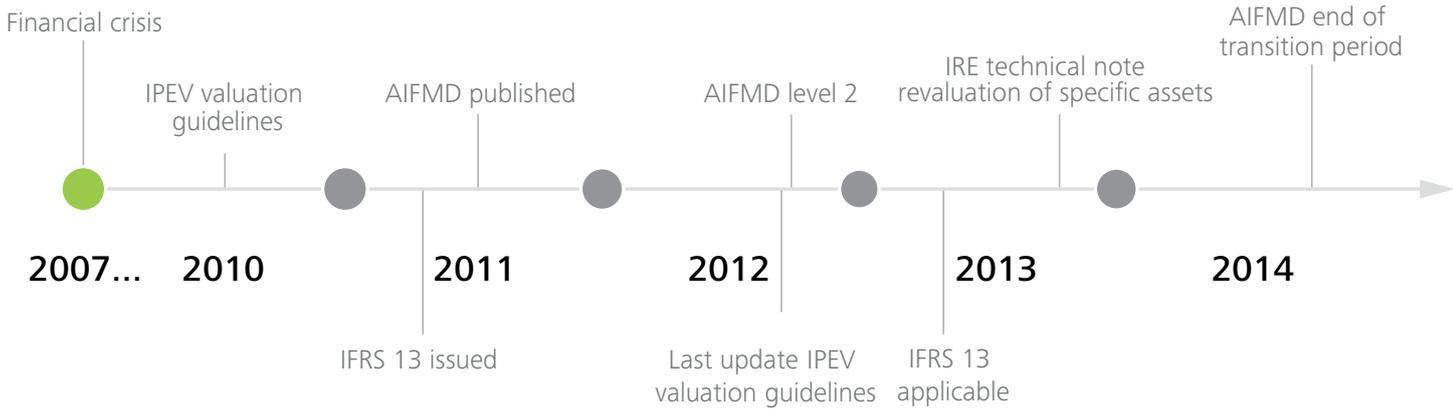
In addition, the demand for additional disclosure and greater transparency in financial statements has created the need for consistent, well-documented, independent valuations.

Alternative investment fund managers and asset servicers have to adapt to this new environment and either dedicate internal resources or seek an external provider to assist with their valuation needs.

The Deloitte Valuation Center is your partner of choice for all valuation-related matters, across the lifecycle of your fund or investment portfolio.

The Deloitte Valuation Centre offers an integrated solution around all your valuation needs across most asset classes

The road to valuation complexity



- **Financial crisis**
 - US Sub-prime crisis
 - Major collapses (Bear Stearns, Lehman Brothers, Fannie Mae, Freddie Mac, etc.)
 - Sovereign debt crisis in the European Union

- **Loss of confidence**
- Calls for **more transparency** from investors on:
 - Valuation models
 - Input parameters
 - Fees and costs

- Regulators introducing **new measures**:
 - Governance best practice
 - Conflict of interest management
 - Responsibility of governing bodies
 - Transparency/documentation of valuation and reporting requirements

- **Valuation complexity increased** as a consequence of:
 - Additional regulation
 - More rigorous reporting standards and disclosures
 - More stringent valuation guidelines
 - More complex investments



- **Depressed yields** resulting from low interest rate policies
- Search for higher returns through alternative and complex products
- Increased asset allocation to **alternative investments**



- **More complex investment** portfolios
- Increased presence of illiquid, hard to value assets
- **Absence of observable market price**
- Value uncertainty until exit

Whether you are a Director, a Fund Manager Deloitte can assist in meeting your valuation

Deloitte provides tailor made solutions to stakeholders across the value chain



Deloitte added value

- Industry knowledge
- Valuation expertise
- Safeguards for independence of valuation functions
- Quality control
- Cost efficient services
- Outsourcing of non-core activities for stakeholders

FUND MANAGER / AIFM

Your requirements

- Perform the valuation function internally or delegate to an external valuer
- Establish and periodically review appropriate and consistent valuation procedures and escalation process
- Account for the proper and independent valuation of AIF's assets

- Advice for the design and implementation of valuation policies & procedures and for the drafting of valuation principles in the offering documents
- Assistance on all aspects of the preparation of recurring valuations (e.g. methodology, models, data, etc.)
- Independent review of valuations prepared by AIFM or third party to confirm results fall within an acceptable range
- Set-up of delegates' oversight and control framework



Our services to
Fund Managers / AIFMs



Fund manager



NAV
calculation

FUND ADMINISTRATOR

Your requirements

- Ensure specific administrative and accounting procedures are in place for the proper calculation of the net asset value of the AIF
- Ensure existence of remedial procedures for incorrect NAV calculation / pricing issues
- Act as external valuer if appointed by the AIFM

- Drafting of NAV calculation / pricing policies and procedures
- Cross-valuation of fund investments and definition of escalation measures in case of discrepancy
- Assistance for the valuation of illiquid and hard to value investments (i.e. level II and level III assets)
- Preparation of fair value disclosures for financials and investor reporting
- AIFM-like services if fund administrator acts as valuer



Our services to
Fund Administrators

or a Service Provider, related responsibilities



Investors



Fund



SPVs



Target Investments



Safekeeping of assets



Investors protection

DEPOSITARY

Your requirements

- Ensure that appropriate valuation procedures and policies are established for each AIF
- Verify that periodic valuations are consistently performed in accordance with the terms of the offering documents, valuation policies and procedures
- Control that valuation policies are periodically reviewed
- Understand the valuation models

- Design of AIF investment valuation monitoring / controlling / plausibility tools
- Independent review of valuation reported by the AIF
- Conduct ad-hoc or recurring due diligence on third party valuation processes (AIFM, fund manager, valuer, etc.) on behalf of the depositary to ensure compliance with fund regulatory requirements, policies and procedures



Our services to Depositaries

DIRECTORS

Your requirements

- Ultimately responsible for proper valuations of AIF assets
- Ensure oversight of the valuation function
- Ensure existence and respect of escalation measures to tackle valuation issues
- Liaise with auditors and valuation experts to obtain guidance

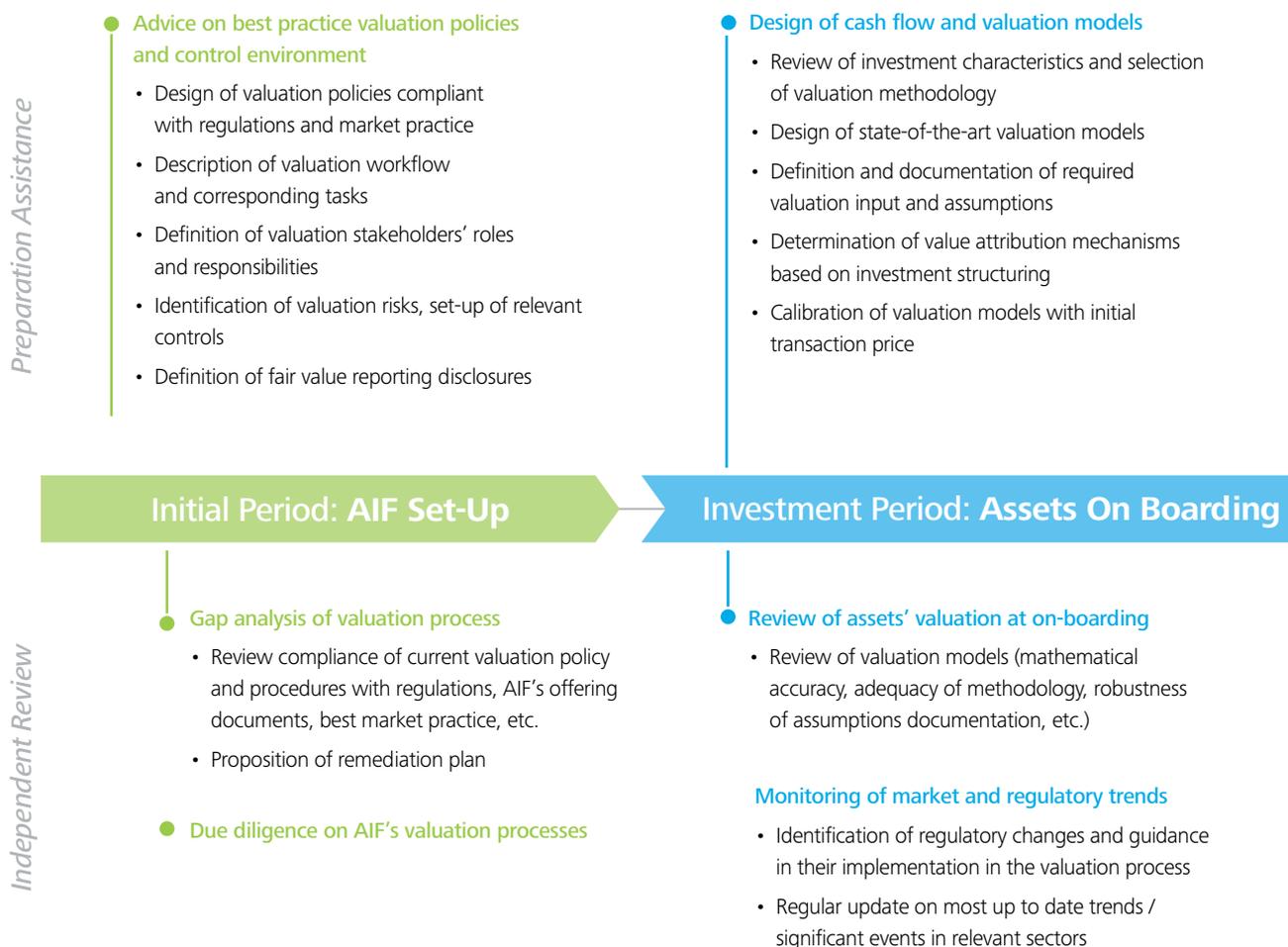
- Assistance in the preparation of Board /Valuation Committee meetings regarding valuation matters
- Ad-hoc training around valuation concepts and related risks
- Audit of valuation processes on behalf of Board / Audit Committee
- Independent expert opinion in case of valuation disputes / disagreements



Our services to Directors

The Deloitte Valuation Center provides lifecycle, from initial set-up to periodic

Our involvement can range from support to your teams to a full independent review



assistance throughout the AIF's portfolio valuation updates

● Market and sector data collection

- Gather and analyse data required by the valuation process
 - Market data such as risk free rates, exchange rates, betas, volatility, transaction multiples, etc.
 - Investment specific data such as historical financials, forecasts, etc.
 - Financial statements of funds of funds
- Definition of benchmarking to support key assumptions

● Valuation models update and reporting assistance

- Update of all market and investment specific data, including peer group, forecasts, etc.
- Valuation model technical review
- Valuation models update
- Assistance in the definition of acceptable valuation range for each investment
- Update of investor reporting
- Support in dealing with auditors

Holding Period: Recurring Valuation of Assets

● Independent valuation review

- For **direct investments**, our review includes:
 - Check compliance with valuation policies and procedures
 - Confirm proper selection of valuation methodology
 - Review validity and completeness of market data
 - Benchmarking of main valuation assumptions
 - Verification of valuation models
 - Review adequacy of valuation results and confirm results fall within an acceptable range
- For **indirect investments** (funds of funds), our review includes:
 - Collect and review estimated vs. final NAV and log impact
 - Collect financials of underlying funds
 - Assess liquidity risk and valuation appropriateness of underlying funds
 - Produce risk reports and dashboards

A wide coverage across asset classes

We cover a wide range of asset classes and our goal is to become your preferred valuation support service provider, irrespective of the alternative asset class under consideration.



Geographics

- Access to valuation professionals across the globe through the Deloitte network

The Deloitte Valuation Center tackles all your valuation needs so that you can focus on your core activities



Our valuation practice at a glance

The Deloitte Valuation Center has a 15-year track record in valuing a wide range of illiquid or hard to value assets, as well as all types of securities, issued by privately held or public businesses, intangible assets, such as intellectual property rights, partnership interests, options and warrants, and other derivatives or structured products.

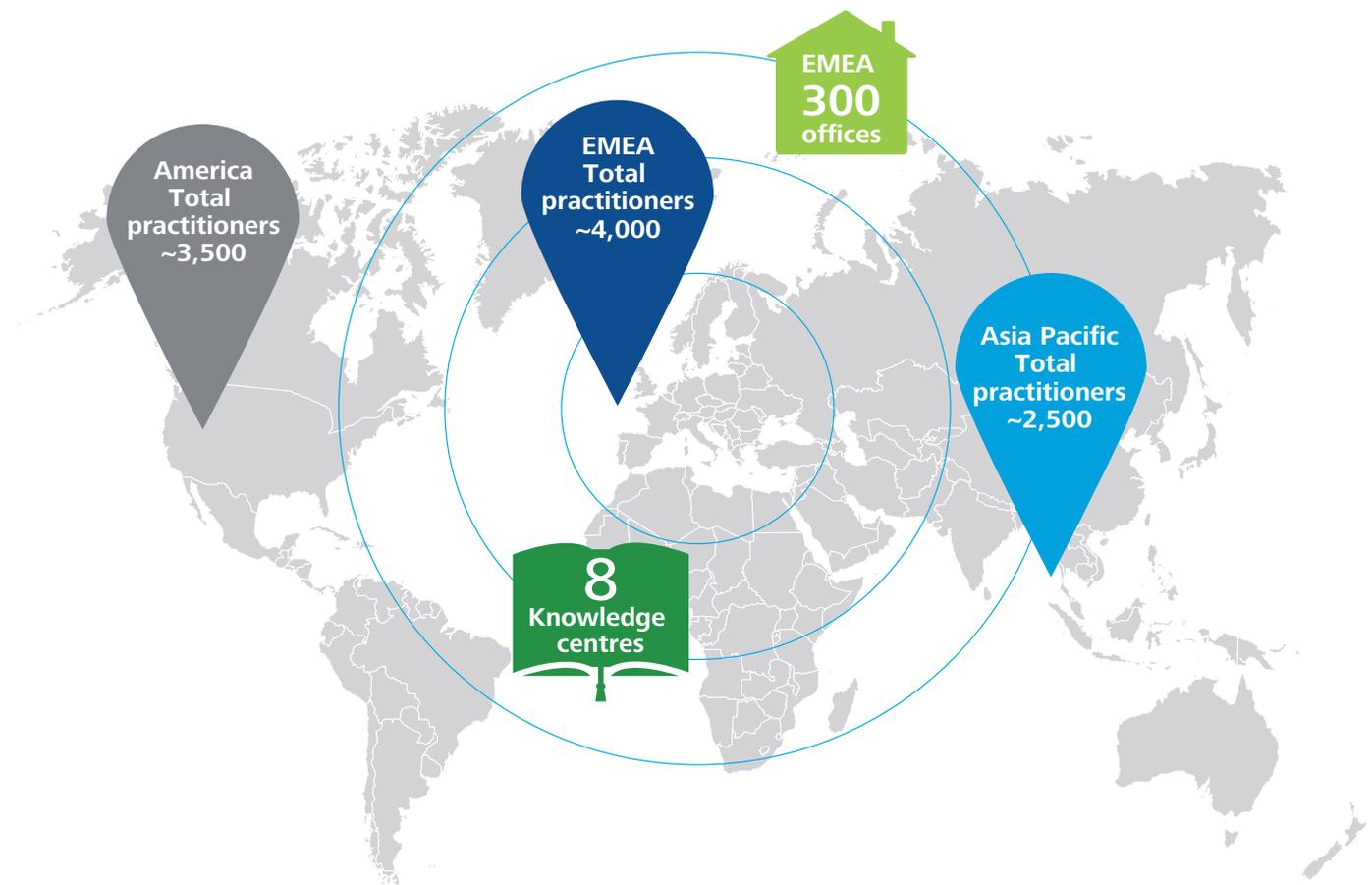
Our involvement can range from limited valuation review to publicly disclosed fairness opinion. We have rendered these services in many different circumstances including financial reporting, mergers & acquisitions or disposals, taxation planning and compliance, bankruptcy and restructuring, litigation and dispute resolution, succession issues and strategic planning.

We have a diversified client base that includes Private Equity Funds, Hedge Funds, Fund of Funds, Fund administrators and many others. We also have a valuation centre of excellence within Deloitte, helping audit teams review the valuation of the investment portfolio of alternative investment funds at year end. As a result, we have acquired extensive knowledge of audit requirements.

Our team is made up of 30 experts who are based in Luxembourg and have developed an impressive track record by carrying out numerous local and international valuation assignments. Our valuation professionals have a variety of backgrounds such as investment banking, asset management, private equity, audit, strategic consulting, etc. They are highly qualified professionals having studied MBAs, CFAs, CQFs, ERMs, CAIAs and include chartered accountants and professionals who are members of organisations such as RICS, EVCA, IIBV, etc.

Our professionals are always checking for changes in regulatory, tax and accounting requirements using Deloitte's global accounting, advisory and tax practices.

Thanks to our global network and teams of more than 10,000 dedicated valuation professionals in all major geographic markets and jurisdictions, we are able to cover all geographic regions.



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