

**AIMA**

THE ALTERNATIVE INVESTMENT  
MANAGEMENT ASSOCIATION

**ALTERNATIVE  
CREDIT COUNCIL**

LENDING  
FOR GROWTH

# **GUIDE TO SOUND PRACTICES FOR THE VALUATION OF INVESTMENTS 2018 Edition**

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## Executive summary

AIMA is pleased to present this updated version of the Guide to Sound Practices for the Valuation of Investments. The alternative asset fund industry has continued to develop and mature since the last version of the guide was published in October 2013. Although the significant challenges that arose immediately following the financial crisis have been moderated by new regulatory requirements and the passage of time, valuation remains a continuing area of regulatory, accounting and investor scrutiny. In addition, a significant increase in the numbers and types of alternative asset funds investing in and holding illiquid assets has heightened interest in valuations processes.

AIMA believes that the enhancement of sound practices in the area of valuation is an ongoing process, given the evolution of the different types of instruments, and developments in valuation techniques in the context of a changing regulatory environment.

The vast majority of alternative fund managers behave in a responsible manner and take their fiduciary duties very seriously. Their reputation and future success relies upon their reliability, transparency and credibility in the eyes of existing and potential investors. Such investment managers have an obvious vested interest in the ongoing stability of financial markets and the equitable treatment of investors. AIMA's previous valuation guides have demonstrated that opinions and techniques may vary but that most stakeholders understand the issues that arise and seek to address them as diligently as those who operate in other financial sectors. The valuation of financial assets is an area where inherent risks can never be eliminated, regardless of how simple the asset class or investment vehicle may appear.

This fourth edition of the guide seeks to reflect the changes in the markets and industry with respect to valuation since 2013. We have expanded the number of recommendations by one, to 17, and enhanced and updated a number of the existing recommendations to reflect trends in valuation processes during that period. This version of the guide also better reflects the valuation practices that have developed in the wake of the implementation of the AIFMD.

These recommendations on hedge fund valuation, which AIMA has developed over time, have

been recognised and acknowledged globally by regulators. The recommendations reflect sound practice in alternative asset fund valuation in the current environment.

The guide sets out and elaborates on:

### Recommendations regarding governance

1. adopting a Valuation Policy Document;
2. the contents of a Valuation Policy Document;
3. establishing a fair value hierarchy;
4. segregating duties;
5. overseeing the valuation process;

### Recommendations regarding transparency

6. making appropriate disclosures to investors;
7. disclosing any material involvement of the investment manager in the valuation process;
8. providing transparency reporting to investors;

### Recommendations regarding procedures, processes and systems

9. segregating the valuation process from the investment process;
10. managing investment manager involvement in the valuation process;
11. maintaining consistency with accounting standards;
12. applying and deviating from the policies in the Valuation Policy Document;
13. managing price challenges and inaccurate vendor sourced prices;

### Recommendations regarding sources, models and methodologies

14. establishing primary pricing sources;
15. using broker quotations;
16. using pricing models and pricing matrices; and
17. valuing side-pockets.

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## Working Group Members

|                               |                                       |
|-------------------------------|---------------------------------------|
| Olwyn Alexander<br>(Co-Chair) | PricewaterhouseCoopers                |
| Ryan McNelley<br>(Co-Chair)   | Duff & Phelps                         |
| Barry Christoforou            | Deloitte                              |
| Bevan Kaminer                 | Brevan Howard Asset Management        |
| Christopher Gardner           | Dechert LLP                           |
| Dan Serrano                   | Elliott Management Corporation        |
| Daniel Johnson                | SS&C GlobeOp                          |
| Eric Champ                    | BNY Mellon                            |
| Gary Ibbott                   | Cheyne Capital Management             |
| Joachim Heukmes               | Deloitte                              |
| Matthew Tidman                | Polygon Global Partners LLP           |
| Melissa Brady                 | RSM LLP                               |
| Richard DeBohun               | Polygon Global Partners LLP           |
| Robin Gvysihic                | Deloitte                              |
| Ryan Teal                     | Albourne Partners                     |
| Shaun Brick                   | CQS LLP                               |
| Stuart Murphy                 | Parquet Capital Management LLC        |
| Toby Rutterford               | Prudential Portfolio Management Group |

AIMA and the Working Group would also like to thank the following people who also contributed toward the drafting and production of this Guide:

|                   |                        |
|-------------------|------------------------|
| David Larsen      | Duff & Phelps          |
| Jeremy Philips    | PricewaterhouseCoopers |
| Clodagh O'Reilly  | PricewaterhouseCoopers |
| Paul C Kelly      | PricewaterhouseCoopers |
| Shaan Elbaum      | PricewaterhouseCoopers |
| Dean Ahmad        | PricewaterhouseCoopers |
| Arlene Towarnicke | RSM LLP                |
| Tom Carr          | RSM LLP                |

Electronic copies of the full *Guide to Sound Practices for the Valuation of Investments (2018 Edition)* are available to AIMA member contacts via the AIMA website. The electronic copies are subject to a limited licence and are reserved for the use of AIMA members only.

For further details on AIMA membership, please contact Fiona Treble (ftreble@aima.org), who will be able to assist you.

## AIMA members have exclusive access to a growing library of industry references:

### Due Diligence Questionnaires:

- Administrators
- Clearing Members
- Fund Directors
- Investment Managers
- Prime Brokers
- Vendor Cyber Security ^

### Guides and Guidance Notes:

- Fund Directors' Guide
- Guide to Liquid Alternative Funds
- Guide to Managed Accounts
- Side Letter Guidance
- Media Relations
- Expense Allocation Guidance \*

### Guides to Sound Practice:

- Business Continuity Management
- Cyber Security ^
- Investor Relations
- Liquidity Risk Management \*
- Market Abuse and Insider Trading \*
- Operational Risk Management
- OTC Derivatives Clearing
- Outsourcing \*
- Paying for Research ^
- Private Credit \*
- Selecting a Prime Broker
- Selection and Periodic Assessment of Administrators
- Valuation of Investments

\* Forthcoming    ^ Update in progress

## About AIMA

AIMA, the Alternative Investment Management Association, is the global representative of the alternative investment industry, with more than 1,900 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than \$2 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors).

For further information, please visit AIMA's website, [www.aima.org](http://www.aima.org).

## About the ACC

The Alternative Credit Council (ACC) is a global body that represents asset management firms in the private credit and direct lending space. It currently represents over 100 members that manage \$350bn of private credit assets. The ACC is an affiliate of the Alternative Investment Management Association (AIMA) and is governed by its own board which ultimately reports to the AIMA Council. ACC members provide an important source of funding to the economy. They provide finance to mid-market corporates, SMEs, commercial and residential real estate developments, infrastructure projects and trade and receivables businesses. The ACC's core objectives are to provide guidance on policy and regulatory matters, support wider advocacy and educational efforts and generate industry research with a view to strengthening the sector's sustainability and wider economic and financial benefits. Alternative credit, private debt or direct lending funds have grown substantially in recent years and are becoming a key segment of the asset management industry. To find out more, visit [www.lendingforgrowth.org](http://www.lendingforgrowth.org).



## Disclaimer

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