

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.

Table of Contents

1. **Introduction**
 - 1.1 Valuation
 - 1.2 Alternative funds
2. **AIMA'S revised recommendations for valuation**
3. **Overview of valuation issues**
 - 3.1 Responsibility for valuation
 - 3.2 Responsibility for valuation under AIFMD
 - 3.3 Fund governing bodies and valuation committees
 - 3.4 Independence and expertise
 - 3.5 Prudence and fairness
 - 3.6 Consistency and flexibility
 - 3.7 Accounting standards and valuation policies
4. **Recommendations on governance**
 - 4.1 Adoption of a Valuation Policy Document
 - 4.2 What should be in the Valuation Policy Document
 - 4.3 Setting a fair value hierarchy
 - 4.4 Segregation of duties
 - 4.5 Oversight of the valuation process by the fund governing body
5. **Recommendations on transparency**
 - 5.1 Disclosure in the offering document
 - 5.2 Investment manager involvement in pricing and valuation process
 - 5.3 Administrator transparency reports
 - 5.4 NAV reporting
6. **Recommendations on procedures, processes and systems**
 - 6.1 Valuation process segregated from investment process
 - 6.2 Price sourcing and fair valuation levelling by the investment manager
 - 6.3 Practical and consistent with the fund's accounting standards
 - 6.4 Consistent application of procedures and approval of deviations
 - 6.5 Price challenge controls
 - 6.6 Large price movements
 - 6.7 Backtesting and stress testing
7. **Recommendations on sources, models and methodologies**
 - 7.1 Principles for pricing sources
 - 7.2 Exchange-traded instruments
 - 7.3 Other quoted securities
 - 7.4 OTC derivatives
 - 7.5 Fair valuation considerations for difficult-to-price securities
 - 7.6 Side-pockets
 - 7.7 Contingency planning
8. **Valuation due diligence on valuation service providers and independent valuation experts**
 - 8.1 Objectives of the due diligence process
 - 8.2 Procedures performed in the valuation due diligence process
 - 8.3 On-boarding and terms of engagement
 - 8.4 On-going due diligence process and monitoring of risks identified

APPENDIX A - Valuation Stakeholders
 APPENDIX B - Valuation Policy Document Online
 APPENDIX C - Summary of Recent Developments in Regulations and Industry Guidelines Impacting Valuations in the Alternative Investment Sector
 APPENDIX D - Analysis of ASC 820 and IFRS 13
 APPENDIX E - Digital Asset Considerations

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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:

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- Selection and Periodic Assessment of Administrators
- Valuation of Investments

* Forthcoming ^ Update in progress

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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.

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.



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The Guide is not a substitute for specific advice, whether legal, regulatory, tax or other advice, nor for professional judgement. It does not seek to provide detailed advice or recommendations on the wider ranging corporate governance issues.

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