



# Webinar: Do Alternative Asset “Fair Value” Measurements Differ in Asia Compared to the Rest of the World and Why Do LPs Care?

31 August, 2021

**DUFF & PHELPS**  
A **KROLL** BUSINESS

# Agenda for Today's Session

- I. Duff & Phelps, A Kroll Business Overview
- II. Why do LPs need Fair Value to be Robustly Estimated?
- III. Fair Value in Asia
- IV. Fair Value in Practice – Calibration, Dealing with Differential Instruments, Market Misconceptions and More
- V. Questions

# ABOUT DUFF & PHELPS, A KROLL BUSINESS

For **nearly 100 years**, Duff & Phelps has helped clients make confident decisions in the areas of valuation, real estate, taxation and transfer pricing, disputes, M&A advisory and other corporate transactions.

Kroll is the world's premier provider of services and digital products related to **governance, risk and transparency**. We work with clients across diverse sectors in the areas of valuation, expert services, investigations, cyber security, corporate finance, restructuring, legal and business solutions, data analytics and regulatory compliance.

The firm's nearly **5,000 professionals** are located in **30 countries and territories** around the world.

**~5,000**  
**TOTAL PROFESSIONALS**  
**GLOBALLY**

**13,400**  
CLIENTS INCLUDING  
NEARLY  
**48%** OF THE  
**S&P 500**

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**2,700+**  
PROFESSIONALS

EUROPE AND  
MIDDLE EAST  
**1,250+**  
PROFESSIONALS

ASIA  
PACIFIC  
**950+**  
PROFESSIONALS

# ENHANCING VALUE ACROSS A RANGE OF EXPERTISE

## Our service areas



### VALUATION ADVISORY

Valuation and consulting for financial reporting, tax, investment and risk management purposes

- Valuation Services
- Alternative Asset Advisory
- Real Estate Advisory
- Tax Services
- Transfer Pricing
- Fixed Asset Management and Insurance Solutions



### CORPORATE FINANCE

Objective guidance to management teams and stakeholders throughout restructuring, financing and M&A transactions, including independent fairness and solvency opinions

- M&A Advisory
- Fairness and Solvency Opinions
- Transaction Advisory Services
- ESOP and ERISA Advisory
- Private Equity - Financial Sponsors Group
- Distressed M&A and Special Situations
- Private Capital Markets and Debt Advisory



### GOVERNANCE, RISK, INVESTIGATIONS AND DISPUTES

Risk management and mitigation, disputes and other advisory services

- Business Intelligence and Investigations
- Compliance and Regulatory Consulting
- Compliance Risk and Diligence
- Cyber Risk
- Disputes Consulting
- Global Restructuring Advisory
- Legal Management Consulting
- Security Risk Management



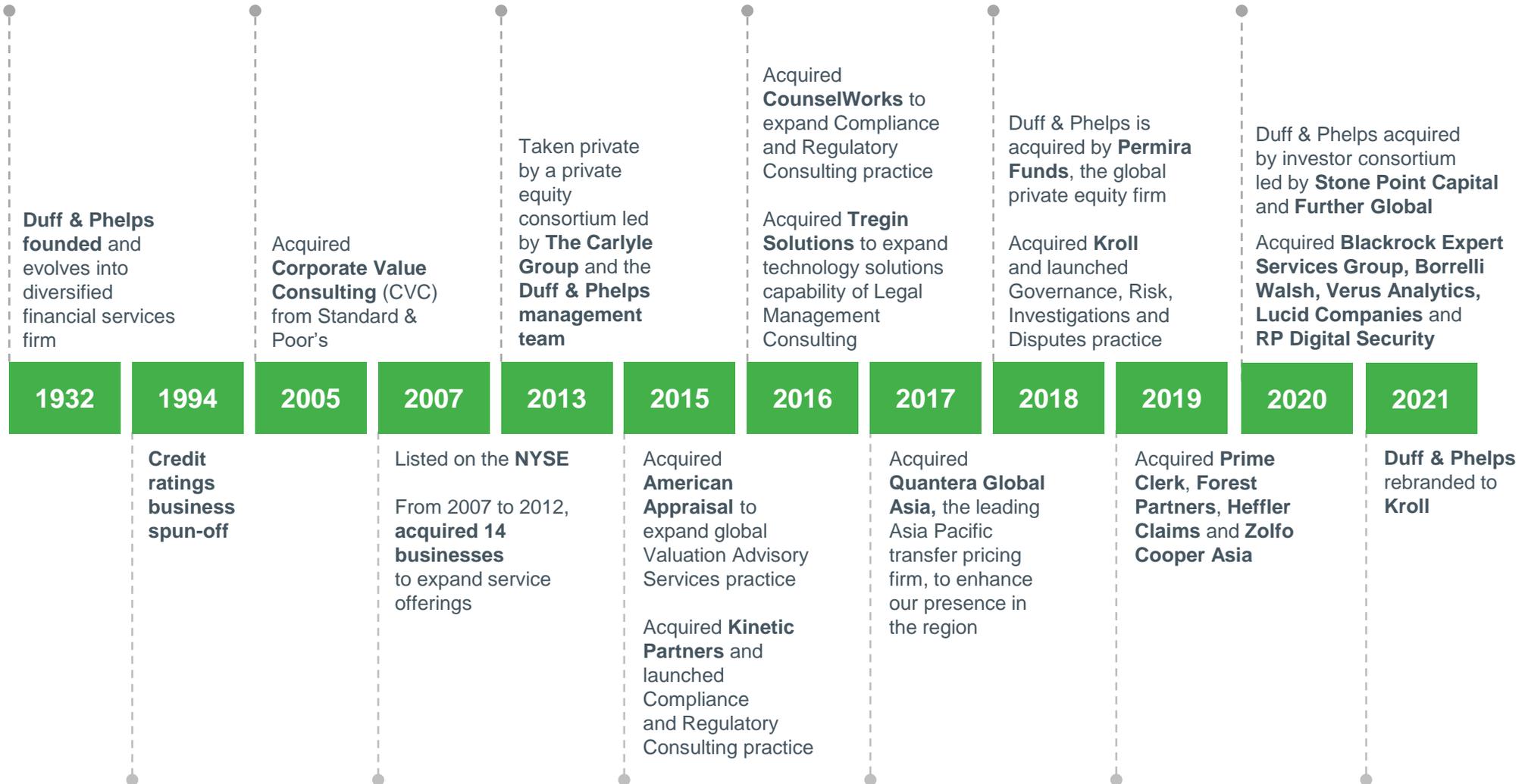
### BUSINESS SERVICES

Complex legal and business solutions through our proprietary technology and team of experts

- Prime Clerk Restructuring
- Kroll Corporate Actions
- Lucid Issuer Services
- Lucid Agency and Trustee Services
- Kroll Class Action Administration
- Kroll Mass Tort Administration
- Kroll Notice Media Solutions
- Kroll Business Technology
- Kroll Agency Cloud

# OUR EVOLUTION

In operation for nearly 100 years



# OUR LOCATIONS

Across 30 countries and territories worldwide



## THE AMERICAS

Addison	Houston	San Francisco
Atlanta	Los Angeles	São Paulo
Austin	Mexico City	Seattle
Bogota	Miami	Secaucus
Boston	Minneapolis	Silicon Valley
Buenos Aires	Morristown	St. Louis
Chicago	Nashville	Toronto
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Barcelona	Lisbon	Paris
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Berlin	Longford	Riyadh
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Bangalore	New Delhi
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Limassol  
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# DUFF & PHELPS IS BECOMING KROLL

New Name. Same Trusted Partner



## Duff & Phelps is being rebranded as Kroll!

No change in ownership; No change in management; No change in service capabilities or expertise.

We begin this new chapter with a fresh look and a clear and confident vision for the future. Under the Kroll brand we will continue to deliver a seamless experience across our full suite of services, with a cohesive approach to bringing tech-forward solutions to the market. Our goal is to produce greater value for our clients and partners along with compelling career opportunities for our people.

Our Kroll Lens, the focal part of our new logo, represents the unique perspective we bring, helping clients cut through the complexity to see their business more clearly. We believe in the power of transparency, trust and objectivity. For almost 100 years, we've put these values into practice by providing real solutions – with rigor, skill and passion – revealing what clients need to know, not just what they want to hear.

Since Duff & Phelps was founded in 1932, the firm has added more than 30 complementary companies to its portfolio, including the 2018 acquisition of Kroll. Together, these brands have supported the company's growth from a 10-person advisory firm to a global leader serving 61% of Fortune 100 companies.

Kroll is the world's premier provider of services and digital products focused on Governance, Risk & Transparency through our business segments which include:

- Valuation
- Expert Services
- Investigations
- Cyber Security
- Corporate Finance
- Restructuring
- Legal & Business Services
- Data Analytics
- Regulatory Compliance

# ALTERNATIVE ASSET ADVISORY

Duff & Phelps assists clients with design and implementation of best-in-class valuation policies and processes, including on-going review of valuation procedures and conclusions to ensure best practices.

## Market Leader

- » Our client base consists of **575 alternative asset** fund managers and investors in the **U.S. and globally**
- » We perform in-depth valuation analyses of all asset types for clients across the spectrum of banks, hedge funds and private equity firms globally:
  - **70% of the top 25** largest Hedge Funds
  - **70% of the top 25** largest Private Equity Funds
  - **50% of the top 25** largest publicly traded Hedge Fund platforms (business development companies or “BDCs”)
  - Our client base includes **20 BDCs**
  - **Private debt funds** and **mid-market private equity funds** are the fastest growing segment of our client base
- » We review or value over **10,000 investment positions** on a quarterly basis, including derivatives and structured products
- » We have **18 full-time Managing Directors** and draw from D&P’s pool of over 1,000 valuation professionals with wide ranging sector and asset class expertise across the spectrum

## Thought Leader

- » We are at the forefront of the industry’s leading committees on valuation processes, guidelines, and regulations:
  - **IPEV** – Former Board Vice Chair; Technical Advisor
  - **ILPA** – Special Advisor
  - **AICPA PE/VC Valuation Guide Task Force** – Member
  - **FASB Valuation Resource Group** – Member
  - **Managed Funds Association** – Sustaining Member
  - **IVSC** – Member of Standards Review Board and Technical Boards
- » Leadership on drafting AICPA, IPEV and PEIGG private equity valuation guidelines
- » Development of Duff & Phelps Created Value Attribution Framework.

**Duff & Phelps’ Portfolio Valuation practice enables alternative investment managers to enhance their valuation process with the independence and objectivity that investors require.**

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# Presenters

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David Larsen is a managing director in the Seattle office of Duff & Phelps and part of the Alternative Asset Advisory service line. He has more than 35 years of transaction and accounting experience. He specializes in fair value accounting issues, and specifically in valuation, accounting, and regulatory issues faced by Alternative Asset managers and investors.

David advises leading Private Equity Managers and Institutional Investors and has advised numerous strategic and private equity acquirers in all areas of mergers, acquisitions, joint ventures, divestitures and valuation related matters. He provides valuation policy and process assistance to a number of the world's largest institutional limited partner investors and some of the world's largest alternative Investment managers. David is a member of the International Valuation Standards Council Standards Review Board, an advisor to and has served as Vice Chair of the International Private Equity and Venture Capital Valuations Board (IPEV), which in 2018 released updated International Private Equity Valuation Guidelines and serves as a member of the American Institute of Certified Public Accountants (AICPA) PE/VC Practice Guide Task Force. David has served 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 the 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 ASC Topic 820 (formerly SFAS No. 157), *Fair Value Measurements* and a member of the 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 advisory 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 and is a FINRA Series 7, 24 and 63 registered representative.

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Rishi is a managing director in the Alternative Asset Advisory group and is based in Mumbai. He is responsible for overseeing Portfolio Valuations and Secondary Market Advisory in India.

Rishi has over 18 years of financial advisory experience, both on the consulting and client side. His clients primarily include alternative asset managers, including private equity funds, hedge funds and credit funds across India, Asia, the Americas and Europe. Rishi specializes in mark-to-market valuations across diverse portfolios of illiquid and privately-held securities including loans, bonds, convertibles, preferred equity, equity, and derivatives under the guidelines of IFRS 13, ASC § 820 or the equivalent local GAAP standard.

Rishi returned to Duff & Phelps in 2015 through the firm's acquisition of American Appraisal. Prior to joining American Appraisal, Rishi provided Apollo Global Management, then a \$160bn investment firm, a range of internal advisory services for its Credit funds domiciled in the United States, India and Singapore.

Prior to this stint, Rishi worked with the Avista Houlihan Lokey partnership in India, and Duff & Phelps in the New York office where he advised Board of Directors, CFOs and Controllers on a variety of valuations of businesses and assets for transaction, financial reporting and tax purposes across a broad spectrum of industries.

Rishi has been a speaker on valuation-related topics at universities such as Harvard University, forums organized by the Indian Private Equity & Venture Capital Association (IVCA), CAIA Association, VCCircle, the International Valuation Standards Council (IVSC) and ASSOCHAM. He is also a contributing author to journals such as the IVCA semi-annual publication, and the VCCircle platform.

Rishi received his Bachelor's degree in Finance and International Business from the Leonard N. Stern School of Business, New York University. Rishi has passed the FINRA Series 7 exam, is a RICS member and CFA charter holder.

In 2019, Rishi was selected for the "40 under 40" award by the AIWMI. Under his tutelage, Duff & Phelps was awarded the 'Alternative Asset Advisory Firm of the Year in India' in 2020 and 2021 by Global Advisory Experts.

# Bennett Cupit, CFA

Director, Alternative Asset Advisory



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Bennett Cupit is Director in Duff & Phelps' Hong Kong office and is part of the Portfolio Valuation practice. Before joining our Hong Kong practice, Bennett spent ten years in our San Francisco office, providing valuation and consulting services to private equity funds, hedge funds, venture capital firms, business development corporations, limited partners, and corporate clients covering numerous industries across the world.

Bennett's expertise lies in:

- Providing valuation services for illiquid investments such as private equity, debt, and derivatives;
- Assisting both GPs and LPs in developing and enhancing their valuation policy and procedures;
- Providing corporate valuation services for a variety of purposes including impairment testing, accounting for stock-based compensation, purchase accounting, valuation for tax purposes, and other corporate-related matters;
- Secondary market transaction pricing of illiquid fund positions between large, well known GPs and LPs; and
- Assisting private equity firms with valuing various management company entities.

Bennett received his M.B.A. with honors from Thunderbird School of Management and has a degree in International Economics from the University of Arkansas. He is a member of Beta Gamma Sigma International Honor Society, a CFA Charterholder, and a member of The CFA Institute.

# Srividya Gopal, CVA, MRICS, CEIV

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Srividya is Managing Director & Southeast Asia Leader, Valuation Advisory Services at Duff & Phelps, a Kroll Business. She set up American Appraisal Singapore operations in 2012, which later got acquired by Duff & Phelps, the largest global independent valuation advisory firm. She is the Chair for the firm's Asia Pacific Management Committee and a member of the global Business Leadership team.

She has over 24 years of experience in valuations, transactions and management consulting. She has advised numerous companies on valuations for the purposes of financial reporting, transaction, restructuring, taxation, dispute resolution and financing.

She is a member of the Institute of Valuers & Appraisers of Singapore (IVAS) Council and chairs their Professional Development Working Group. She is a former member of the global Regulatory Board of the Royal Institution of Chartered Surveyors (RICS). She is also an empaneled valuer with the Intellectual Property Office of Singapore (IPOS) for their IP Financing Scheme.

Earlier in her career, Srividya was the Partner and Practice Leader – Valuations at Grant Thornton India and prior to that, she has also worked with Baring Communications Equity Asia (BCEA), a private equity fund in Singapore, part of the ING-Barings group and with A.F. Ferguson & Co (part of Deloitte).

Srividya has advised several global and Asian clients across a variety of sectors such as technology, telecommunications, life sciences, manufacturing, consumer products, energy & resources etc.

Srividya has published various articles on valuation, PE/VC and M&A, and has been interviewed by several television channels, newspapers and magazines. She is a regular speaker at conferences and seminars.

Srividya is a registered Chartered Valuer & Appraiser (CVA) with IVAS, Member of the RICS (MRICS) and successfully completed the Certified in Entity and Intangible Valuations (CEIV) training and examination. She also has a Post Graduate Diploma in Management (equivalent to MBA), is a Graduate of the Institute of Cost & Works Accountants of India and a Bachelor of Commerce.

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Section A

# Why Do LPs Need Fair Value

# Fair Value Definition

## Fair Value is defined by:

- FASB ASC Topic 820, IFRS 13, Ind AS 113, SFRS (I) 13, CAS 39
- GASB (US Government Accounting Standards Board) Statement 72 (many US LPs are required to apply GASB 72).

as:

- ***... 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.***

## Key Considerations:

- Unit of Account
- Calibration
- Market Participant Assumptions
- Orderly transaction (Active Market)
- How does Value Accrete?
- Application of Judgement

**Management is ultimately responsible for Fair Value estimates**

# Why Do LPs Need Fair Value?

- Fair Value is the basis investors use to report periodic (quarterly/yearly) performance to their investors, beneficiaries, boards, etc.
- Fair Value is the best basis to make “apples to apples” asset allocation decisions.
- Fair Value is an important data point in making 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.
- Fund Investors need consistent, transparent information to exercise their fiduciary duty.
- Fair Value provides such information on a comparable basis for monitoring interim performance. An arbitrary reporting basis such as cost does not allow comparability.
- Most investors, including retirement funds, are required by relevant GAAP to report their investments on a Fair Value basis.
- Investment Companies (under IFRS & US GAAP) are exempt from consolidation rules because their investments are carried at Fair Value.

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Section B

# Fair Value In Asia

# Flawed Past Practices that are NOT consistent with Fair Value

- Cost  $\neq$  Fair Value! (though in certain circumstances Fair Value may equal cost)
- Equity
  - Failure to Calibrate Valuation inputs to transaction price or recent round of financing price
  - Inappropriate use of marketability/liquidity discounts
  - Failure to consider rights/preferences (fully diluted is not the only allocation methodology)
- Debt
  - PAR or Face  $\neq$  Fair Value!
  - Amortized Cost  $\neq$  Fair Value!
  - Use of underwriting IRR as discount rate may not result in Fair Value
  - Hold to maturity assumption  $\neq$  Fair Value!
  - Contractual yields, may not equal Fair Value yields for Convertible Debt (conversion options have value)
- Assumption that an unqualified audit opinion means that Fair Value of underlying investments has been rigorously estimated must be verified. Blind acceptance of an audit opinion without corroborating evidence is not sufficient for LP purposes.

**At every measurement date (every time a GP reports to investors) Fair Value is the amount that would be received in an orderly transaction using market participant perspectives at that date!**

# What Questions are Regulators and Auditors Asking?

- What is your valuation policy?
- Is your policy consistent with regulatory requirements (does it provide a Fair Value result)?
- Are you delivering to investors what you agreed (through the Limited Partner Agreement (LPA) and Offering Documents) you will deliver with respect to valuation processes and conclusions?
- If your LPA states that you will value investments in accordance with accounting standards (Fair Value) or IPEV Guidelines (Fair Value) are you delivering Fair Value?
- Do you calibrate valuation inputs?
- Was appropriate judgement applied (market participant perspectives)?
- What oversight and independence do you have in your valuation process?
- If you use a third party valuation expert to enhance your valuation process, what are the credentials and experience of the third party?

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Section C

# Fair Value in Practice

# Marking the Investments at Cost without Subsequent Evaluation

- Because negotiation is such a large part of round pricing and standard valuation approaches do not necessarily apply (especially for early-stage deals), Funds often err on the side of leaving investments at cost.
- Some of the most common Fair Value related errors / misconceptions:
  - “We don’t have a model to update”
  - Marking to cost because:
    - “Nothing has happened”
    - “We have a liquidation preference”
  - Marking to a pari passu round

***At a given measurement date, cost may be a reasonable estimate of Fair Value, but it is not automatically Fair Value – Fair Value must be determined at each measurement date.***

# Calibration

Calibration is simply the use of transaction pricing and subsequent events (both company specific and in the market) to make an informed decision on key inputs used to estimate Fair Value at each measurement date.

- **Calibration is required accounting principles** when the initial transaction is at Fair Value
- Calibration is the process of using observed transactions in the portfolio company's own securities, especially the transaction in which the Fund entered a position, to ensure that the valuation techniques that will be employed to value the portfolio company investment on subsequent measurement dates begins with assumptions that are consistent with the observed transaction
- On the transaction date, when the transaction price represents Fair Value, calibrated inputs used with applicable valuation techniques will indicate that the Fair Value of the portfolio company investment equals the transaction price

**If you don't calibrate valuation inputs, you likely don't comply with FRS or GAAP.**

# Calibration Example – Market Approach

Your initial model should mirror how the investment was priced at your investment date.

To test a valuation model, you should consider whether your approach would support the price you paid as of the investment date.

Company Name	Investment Date			
	EV /	EV /	EV /	EV /
	Trailing Revenue	Trailing EBITDA	Projected Revenue	Projected EBITDA
Comp 1	3.54x	11.51x	3.58x	18.22x
Comp 2	1.00x	5.10x	0.80x	NM
Comp 3	4.09x	13.72x	3.63x	12.85x
Comp 4	0.78x	3.96x	NA	NA
Comp 5	0.67x	2.97x	0.69x	3.58x
Comp 6	0.74x	3.93x	NA	NA
Comp 7	3.85x	13.38x	3.85x	13.53x
Comp 8	8.01x	13.77x	8.16x	16.05x
Comp 9	5.60x	15.00x	5.65x	15.79x
Comp 10	4.80x	23.56x	4.46x	22.90x
Comp 11	0.92x	5.25x	0.81x	10.83x
Minimum	0.67x	2.97x	0.69x	3.58x
1st Quartile	0.85x	4.53x	0.81x	12.34x
Mean	3.09x	10.20x	3.51x	14.22x
Median	3.54x	11.51x	3.63x	14.66x
3rd Quartile	4.45x	13.74x	4.46x	16.59x
Maximum	8.01x	23.56x	8.16x	22.90x
<b>Target Entry Date Implied EV Multiples</b>	<b>4.48x</b>	<b>44.60x</b>	<b>2.32x</b>	<b>22.00x</b>
<i>Premium / Discount to Median of Comparables</i>	26.6%	287.5%	-36.1%	50.0%

# Calibration Example – Market Approach

When selecting the appropriate market multiple at each Valuation Date, you should consider

- How market comparable multiples have changed since entry
- How the company has performed relative to comparables since entry
- The rationale for the premium/discount paid at entry, and how this may have changed
- Any additional company-specific considerations

Company Name	Investment Date		Valuation Date		% Change	
	EV /	EV /	EV /	EV /	EV /	EV /
	Trailing	Trailing	Trailing	Trailing	Trailing	Trailing
	Revenue	EBITDA	Revenue	EBITDA	Revenue	EBITDA
Comp 1	3.54x	11.51x	5.07x	20.33x	43.4%	76.6%
Comp 2	1.00x	5.10x	1.27x	7.14x	26.9%	39.9%
Comp 3	4.09x	13.72x	7.75x	25.51x	89.3%	86.0%
Comp 4	0.78x	3.96x	1.39x	9.11x	78.8%	129.9%
Comp 5	0.67x	2.97x	0.96x	4.27x	43.6%	43.7%
Comp 6	0.74x	3.93x	1.29x	7.84x	73.8%	99.5%
Comp 7	3.85x	13.38x	4.47x	16.39x	16.0%	22.5%
Comp 8	8.01x	13.77x	11.09x	19.96x	38.4%	45.0%
Comp 9	5.60x	15.00x	6.90x	20.02x	23.2%	33.4%
Comp 10	4.80x	23.56x	5.55x	26.95x	15.6%	14.4%
Comp 11	0.92x	5.25x	1.35x	9.99x	46.9%	90.4%
Minimum	0.67x	2.97x	0.96x	4.27x	15.6%	14.4%
1st Quartile	0.85x	4.53x	1.32x	8.48x	25.1%	36.7%
Mean	3.09x	10.20x	4.28x	15.23x	45.1%	61.9%
Median	3.54x	11.51x	4.47x	16.39x	43.4%	45.0%
3rd Quartile	4.45x	13.74x	6.23x	20.17x	60.4%	88.2%
Maximum	8.01x	23.56x	11.09x	26.95x	89.3%	129.9%
<b>Target Entry Date Implied EV Multiples</b>	<b>4.48x</b>	<b>44.60x</b>				
<i>Premium / Discount to Median of Comparables</i>	26.6%	287.5%				
<i>% Change in Median of Comparables</i>			43.4%	42.4%		
<i>Calibrated Target Multiples</i>			???	???		

# Marketability Discounts

**A marketability discount is rarely applicable when valuation inputs are calibrated as required.**

IPEV Guidance (Section I: The Concept of Fair Value):

- *The estimation of Fair Value assumes that the time period required to consummate a transaction hypothetically began at a point in time in advance of the Measurement Date such that the hypothetical exchange culminates on the Measurement Date.*
- *Therefore, Fair Value should reflect the actual amount that a seller would receive in an Orderly Transaction under current market conditions at the Measurement Date.*
- *An additional discount for Marketability (where Marketability is defined as the time required to complete a transaction) is not appropriate. However, liquidity or illiquidity (meaning the frequency of transactions) is taken into account by Market Participants and therefore should be a factor used in assessing Fair Value.*

# Ignoring Rights & Preferences

- Early-stage companies, especially tech startups, receive several funding rounds from investor with different rights and preferences.
- Given that these companies may be pre-revenue or might not have sufficient historical results, funds often err in marking their investments using the share price of latest funding round without considering the rights and preferences of the senior instruments.
- Rights and preferences must be taken into account. Treating all classes of equity as common equivalents is not consistent with GAAP.
- Certain economic rights (liquidation preferences, dividends, conversion, participation, etc.) can be explicitly modeled out and typically impact the value per share differently across tranches. Non-economic rights (tag/drag-along, voting, information) influence exits and influence and may require adjustments too.

***At a given measurement date, share price of latest funding round may be used to derive the Fair Value for each class of shares by accounting for the rights and preferences of the senior instruments***

# Allocation to Equity Securities

Once enterprise value has been estimated, the value of individual securities can be estimated by using one or more of the following methods:

- Fully-diluted
  - Value is allocated on a fully-diluted ownership basis, which is likely what would happen in an IPO situation
  - Value of the company is high enough to force conversion of all preferred equity and equity owners would own the same class of security, common equity, which would receive their respective fully diluted ownership percentage of the company (if liquidated).
- Contingent Claims Analysis
  - Treats common stock and preferred stock (and other forms of ownership) as call options on the value of the subject company, with exercise prices based on the liquidation preference of the preferred stock
  - Other option rights such as participation and conversion rights are also modeled as separate call options
  - This method typically uses Black-Scholes option pricing formula to value each call option, which is then allocated according to the securities that have a right to that option (on a pro-rata basis). It should be noted that OPM can be problematic for early stage investments.
- Liquidation / current value method (“Waterfall Approach”)
  - Allocation of the intrinsic value of the business as if it were liquidated on the valuation date
  - This method accounts for liquidation preferences and breakpoints, but does not account for optionality

# Debt Valuation Considerations

**LPs need Debt to reported and measured at Fair Value.**

**Par plus accrued interest is generally not a proxy for Fair Value, especially for convertible debt, and when credit quality or market return expectations change.**

IPEV Guidance (Section 3.8):

- Debt Investments, other than those traded in an active market, are often valued using a Discounted Cash Flow Valuation Technique.
- At initial investment, inputs to value are compared to observable data where available. For example, at inception the internal rate of return (IRR) for a given Debt Investment can be calculated from the price paid and the expected cash flows. An implied spread for the Investment can be derived by subtracting the risk-free rate from the implied IRR. The spread can be compared to observable spreads for issuances with similar duration and credit quality.
- At subsequent Measurement Dates, the risk-free rate is adjusted based on market conditions and the spread adjusted based on changes in credit quality and changes in market conditions. Observable transactions, if any, are often used to corroborate the results of the DCF analysis.

# Is estimating Fair Value in Asia different than other geographies?

**NO!**

**Fair Value is Fair Value!**

**LPs and regulators cannot accept a different standard of Fair Value determination**

- Fair Value is based on what is known or knowable at the measurement date.
- If the investment manager has a basis for making an investment decision and they are monitoring the investment performance, they have a basis for estimating Fair Value.
- Valuation Inputs (properly calibrated) are based on market participant assumptions for Asian investments, just as they are based on market participant assumptions outside of Asia.
- Estimating Fair Value requires informed judgement.

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# Questions

# Key Fair Value Takeaways

- Holding an investment at Cost is not Fair Value
- Using a static template such as increasing the last valuation estimate by hoped for IRR is not Fair Value
- Volatility exists whether or not it is measured and reported
- Bargain purchases are rare – in such rare circumstances there would be a day one gain as Fair Value would exceed cost
- At the Initial Valuation date the Valuation framework or model is established using the transaction price (if Fair Value) and deal team expectations as of the transaction date to properly calibrate valuation inputs.
- Some personnel at LP entities may not want Fair Value, but the LP entities NEED Fair Value
- Fair Value requires the application of experienced informed judgement
- Fair Value should be prudently estimated; Conservative values have come to mean purposefully understating

# Where can we find Fair Value guidance?

- IPEV Valuation Guidelines and IPEV Board Special Guidance  
[www.privateequityvaluation.com](http://www.privateequityvaluation.com)
- AICPA Article: Investment Companies: Measuring Fair Value in Times of Significant Uncertainty <https://www.aicpa.org/interestareas/forensicandvaluation/resources/businessvaluation.html>
- AICPA Accounting and Valuation Guide: *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies*
- Duff & Phelps
  - Frequently Asked Questions: *Measuring the Fair Value of Private Debt and Equity Investments in Times of Significant Uncertainty* [http://images.duffandphelps.com/Web/DuffPhelps/%7B25bcfa88-6998-4c81-88e4-5e9ed7f235a2%7D\\_DP200797\\_BK\\_Marxh\\_Webcast\\_FAQ.pdf](http://images.duffandphelps.com/Web/DuffPhelps/%7B25bcfa88-6998-4c81-88e4-5e9ed7f235a2%7D_DP200797_BK_Marxh_Webcast_FAQ.pdf)
  - <https://www.duffandphelps.com/insights>
  - Your Duff & Phelps service team

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### About Duff & Phelps, A Kroll Business

For nearly 100 years, Duff & Phelps has helped clients make confident decisions in the areas of valuation, real estate, taxation and transfer pricing, disputes, M&A advisory and other corporate transactions. For more information, visit [www.duffandphelps.com](http://www.duffandphelps.com).

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