International Private Equity and Venture Capital Valuation Guidelines

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Preface

The International Private Equity and Venture Capital Valuation (IPEV) Guidelines ('Valuation Guidelines') set out recommendations, intended to represent current best practice, on the valuation of private equity investments. The term "private equity" is used in these Valuation Guidelines in a broad sense to include investments in early stage ventures, management buyouts, management buyins, infrastructure, mezzanine debt and similar transactions and growth or development capital.

The Valuation Guidelines, as presented in Section I, are intended to be applicable across the whole range of Private Equity Funds (seed and start-up venture capital, buyouts, growth/development capital, etc.) and financial instruments commonly held by such Private Equity Funds. They also provide a basis for valuing investments by other entities, including Fund-of-Funds, in such Private Equity Funds. The Valuation Guidelines have been prepared with the goal that Fair Value measurements derived when using these Valuation Guidelines are compliant with both International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP). Other jurisdictions that use a similar definition of Fair Value, such as "willing buyer and willing seller" may also find these Valuation Guidelines applicable.

Individual Valuation Guidelines are outlined in Section I. Section II presents the Valuation Guidelines themselves surrounded by a border and set out in bold type, with accompanying explanations, illustrations, background material, context and supporting commentary, to assist in the interpretation of the Valuation Guidelines. Section III provides application guidance for specific situations.

Where there is conflict between the content of these Valuation Guidelines and the requirements of any applicable laws or regulations or accounting standard or generally accepted accounting principles, the latter requirements should take precedence.

No member of the IPEV Board, any committee or working party thereof can accept any responsibility or liability whatsoever (whether in respect of negligence or otherwise) to any party as a result of anything contained in or omitted from the Valuation Guidelines nor for the consequences of reliance or otherwise on the provisions of these Valuation Guidelines.

These Valuation Guidelines should be regarded as superseding previous 2009/2010 Valuation Guidelines issued by the IPEV Board with effect for reporting periods post 1 January 2013.

Introduction

Private equity managers may be required to carry out periodic valuations of Investments as part of the reporting process to investors in the Funds they manage. The objective of these Valuation Guidelines is to set out best practice where private equity Investments are reported at 'Fair Value' and hence helping investors in Private Equity Funds make better economic decisions.

The increasing importance placed by international accounting authorities on Fair Value reinforces the need for the consistent use of valuation practices worldwide and these Valuation Guidelines provide a framework for consistently determining valuations for the type of Investments held by Private Equity Funds.

Private Equity Funds are typically governed by a combination of legal or regulatory provisions or by contractual terms. It is not the intention of these Valuation Guidelines to prescribe or recommend the basis on which Investments are included in the accounts of Funds. The IPEV Board confirms Fair Value as the best measure of valuing private equity portfolio companies and investments in Private Equity Funds. The board's support for Fair Value is underpinned by the transparency it affords investors in Funds, which use Fair Value as an indication of the interim performance of a portfolio. In addition, institutional investors require Fair Value to make asset allocation decisions, and to produce financial statements for regulatory purposes.

The requirements and implications of global financial reporting standards and in particular IFRS and US GAAP have been considered in the preparation of these Valuation Guidelines. This has been done, in order to provide a framework for Private Equity Funds for arriving at a Fair Value for Investments which is consistent with accounting principles.

Financial reporting standards do not require that these Valuation Guidelines be followed. However while Valuers must conclude themselves whether or not their Fair Value measurements are compliant with relevant financial reporting standards, measuring Fair Value in compliance with relevant financial reporting standards can be achieved by following these Valuation Guidelines.

These Valuation Guidelines are intended to represent current best practice and therefore will be revisited and, if necessary, revised to reflect changes in regulation or accounting standards.

These Valuation Guidelines are concerned with valuation from a conceptual, practical, and investor reporting standpoint and do not seek to address best practice as it relates to internal processes, controls and procedures, governance aspects, committee oversights, the experience and capabilities required of the Valuer or the audit or review of valuations.

A distinction is made in these Valuation Guidelines between the basis of valuation (Fair Value), which defines what the carrying amount purports to represent, a valuation technique (such as the earnings multiple technique), which details the method or technique for deriving a valuation, and inputs used in the valuation technique (such as EBITDA).

Private equity by its nature utilizes confidential, non-public information. Yet Investors in Private Equity Funds need sufficient, timely, comparable and transparent information from their Managers which allows Investors to:

- **Exercise fiduciary duty in monitoring deployed investment capital**
- **Report periodic performance to ultimate Investors, beneficiaries, boards, etc., as applicable**
- **Prepare financial statements consistent with applicable accounting standards.**

Investors may also use the Fair Value information to:

- Make asset allocation decisions
- Make manager selection decisions
- Make Investor level incentive compensation decisions.

Readers should note that these Valuation Guidelines address financial valuation issues only. The IPEV Board, after thorough discussion and consultation, has concluded that matters relating to the reporting and evaluation of non-financial factors or inputs in the context of a Fund's responsible investment practices, including environmental, social and governance factors, are conceptually included in these Valuation Guidelines where their impact is financial, but are otherwise outside the scope of this document.

The IPEV Board has prepared separate Investor Reporting Guidelines. The IPEV Investor Reporting Guidelines (IRG) are a globally applicable set of disclosure principles and practices designed to provide general partners and their limited partners with guidance in reporting their investments and investment performance over the life of a fund.

The IPEV IRG may be obtained at: http://www.privateequityvaluation.com/ipev-board/reporting-guidelines/ipev-reporting-guidelines/index.html.

Financial Reporting Standards

United States and International financial reporting standards (used interchangeably with accounting standards) were amended in 2011 resulting in a common definition[1] of Fair Value and a common approach to measuring Fair Value. Other jurisdictions use a definition of Fair Value which is substantially similar with US GAAP, IFRS and the definition used in these Valuation Guidelines.

The measurement of Fair Value under US GAAP and IFRS is dictated by *Accounting Standards Codification* (ASC) Topic 820, *Fair Value Measurement* as issued by the Financial Accounting Standards Board (FASB), and IFRS 13, *Fair Value Measurement* as issued by the International Accounting Standards Board (IASB). Other accounting standards dictate when Fair Value is required or permitted. In the United States, FASB ASC Topic 946, *Investment Companies* requires assets of Investment Companies to be reported at Fair Value. Various IFRS require or permit certain financial instruments to be reported at Fair Value.

On October 31, 2012, the IASB amended IFRS 10, 12 and 27 such that IFRS now requires "control" investments held by investment entities to be reported at Fair Value rather than being consolidated at cost.

These Valuation Guidelines are focused on the consistent measurement of Fair Value. Other accounting concepts such as disclosure requirements or day-one gains/losses are beyond the scope of these Valuation Guidelines.

Unit of Account

US and International financial reporting standards require the Fair Value of an asset to be measured consistently with the level of aggregation (Unit of Account) dictated by the accounting standard requiring or permitting its measurement at Fair Value (for example, ASC Topic 946, *Investment Companies*, in the United States or internationally IFRS 9 and 10, and International Accounting Standard (IAS) 27, 28, 39 and 40).[2] The Unit of Account is a level of aggregation concept that was developed for financial reporting purposes (that is, it addresses the way in which assets and liabilities are to be aggregated or disaggregated in the financial statements).

Because financial reporting is meant to portray economic phenomena, the Unit of Account attempts to describe the specific way that an investment is owned, including the legal rights and obligations of ownership and its relationship to other ownership rights in a complex capital structure. However, actual transactions may not and do not actually have to take place at the Unit of Account level specified by accounting standards.

Fair Value measurement guidance articulated in both ASC Topic 820 and IFRS 13 states: "An entity shall measure the Fair Value of an asset or liability using the assumptions that Market Participants would use when pricing the asset or liability, assuming that Market Participants act in their economic best interest."[3] Neither ASC Topic 820 nor IFRS 13 specify the Unit of Account for assets or liabilities, but rely on other accounting standards to do so.

1 Fair Value is defined by US and International accounting standards 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." IFRS 13 paragraph 9, ASC Topic 820-10-15-5. These Valuation Guidelines focus on Fair Value measurement from a Private Equity Fund perspective which generally focuses on underlying portfolio investments, e.g. assets, and therefore for ease of drafting do not focus on the "or paid to transfer a liability" portion of the accounting definition.

2 The international accounting guidance for private equity investments is contained in IFRS 9, Financial Instruments, IFRS 10, Consolidated Financial Statements, IAS 27, Consolidated and Separate Financial Statements, IAS 28, Investments in Associates, and IAS 40, Investment Property. IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement, however as IFRS 9 is not yet effective, these Valuation Guidelines apply equally to IAS 39.

In US GAAP, ASC Topic 946 specifies that an investment company must measure its investments in debt and equity securities at Fair Value. An entity then refers to ASC Topic 820 for Fair Value measurement guidance. In the absence of more specific Unit of Account guidance from ASC Topic 946, entities measure the Fair Value of their debt and equity securities consistently with how Market Participants would act in their economic best interest.

In IFRS, the recent revisions to IFRS 10 state that the Fair Value of controlled investments held by investment entities should be measured at fair value through profit or loss in accordance with IFRS 9. IAS 27 and IAS 28 also permit certain entities to measure their Investments at Fair Value through profit or loss in accordance with IFRS 9. IFRS 9 then refers to IFRS 13 for specific Fair Value measurement guidance. IFRS 9 appears to require the Unit of Account of a financial instrument to be assessed as a single or individual share. Although a single share Unit of Account interpretation applies to actively traded securities (see Section I paragraph 3.9 of these Valuation Guidelines), there are different interpretations of the Unit of Account for non-actively traded securities:

- One interpretation is that because IFRS 10 and IAS 28 refer to measuring Fair Value in accordance with IFRS 9, the Unit of Account is determined by IFRS 9 and is a single share. However, actual transactions for non-actively traded securities rarely take place on a single share basis.
- Another interpretation is that the Unit of Account is determined by IFRS 10, IAS 27 and IAS 28 as the “Investment”, which is not necessarily a single share. This interpretation more fully matches how Market Participants transact.

While it is important that a Fund’s auditors agree with management’s conclusion on the Unit of Account, management must take responsibility for the accounting conclusions reached, including the appropriate Unit of Account. If there are any further discussions or decisions by the IASB or the FASB on this issue, these Valuation Guidelines will be updated accordingly.

Because private equity transactions typically do not happen for individual shares, these Valuation Guidelines do not address how to value a single share of a non-actively traded security. In the absence of Unit of Account guidance to the contrary, these Valuation Guidelines have been prepared with the premise that the Fair Value measurement should be consistent with how Market Participants would transact in their economic best interest.

As the Unit of Account concept must be judgementally applied, in the absence of specific guidance, we offer the following examples to help clarify how such judgments may be reached:

- Some private equity managers invest in multiple securities or tranches of the same portfolio company. Unit of Account would be expected to be determined on the same basis that Market Participants (willing buyers and sellers) would enter into an Orderly Transaction. If Market Participants would be expected to purchase all positions in the same underlying portfolio company simultaneously, then, Fair Value would be measured for the aggregate investment in the portfolio company. If individual tranches of securities would be purchased by Market Participants individually, then the Unit of Account and the basis for determining Fair Value would be the individual tranche.
- If a Fund only holds a debt instrument within a portfolio company’s capital structure, the Unit of Account would be the individual debt instrument and the Fair Value of the debt instrument would be measured using the perspective of a Market Participant and would include cash flow (coupon payments), risk, and time to expected principal repayment.

3 IFRS 13 paragraph 22; ASC Topic 820 paragraph 820-10-35-9.

- If a Fund holds both debt and equity Investments in the same portfolio company and Market Participants would transact separately, purchasing a debt position independently from an equity position, then Unit of Account and Fair Value would be measured separately for the debt and equity positions.
- If a potential Market Participant buyer would or could purchase individual shares of an interest in a private company, then the Unit of Account may be a single share. However, generally in the Private Equity industry, Market Participants purchase a meaningful ownership interest in a private company, by acquiring more than single private shares.

Generally it is appropriate to use the value of an entire Enterprise (business) as a starting point for measuring Fair Value if Market Participants would use such an approach regardless of the accounting Unit of Account. This is because private equity investors often invest in-concert with one another and realise value only when the entire Enterprise is sold. Further, private equity returns are usually proportionate to the equity position held. Therefore, the hypothetical sale of an Enterprise is a fundamental premise used by Market Participants to determine Fair Value. Common adjustments necessary to allocate Enterprise Value on a Unit of Account basis to measure Fair Value are discussed in these Valuation Guidelines.

The above discussion of Unit of Account is for informational purposes and represents the IPEV Board's interpretation of relevant accounting standards in the context of how Market Participants transact in the private equity industry. Ultimately, Unit of Account judgements are a matter for the Fund as confirmed by the Fund's auditor.

Valuation Standards

Global Valuation Standards continue to evolve. The IPEV Board has entered into an understanding with the International Valuation Standards Council (IVSC) with the objective of promoting consistency between the IPEV Board's Valuation Guidelines and the IVSC International Valuation Standards (IVSs) and to enable these Valuation Guidelines to be positioned as providing sector specific application guidance of the principles in IVSs. A valuation of private equity investments prepared in accordance with the IVSs and following the Valuation Guidelines will be consistent with the requirements of applicable financial reporting standards and will also maximise Investor's trust and confidence.

Further information about the IVSC, the IVSs and the IVSC Code of Ethical Principles for Professional Valuers is available at http://www.ivsc.org/.

Section I: Valuation Guidelines

1. The Concept of Fair Value

1.1. Fair Value is the price that would be received to sell an asset in an Orderly Transaction between Market Participants at the Measurement Date.

1.2. A Fair Value measurement assumes that a hypothetical transaction to sell an asset takes place in the Principal Market or in its absence, the Most Advantageous Market for the asset.

1.3. For actively traded (quoted) Investments, available market prices will be the exclusive basis for the measurement of Fair Value for identical instruments.

1.4. For Unquoted Investments, the measurement of Fair Value requires the Valuer to assume the Underlying Business or instrument is realised or sold at the Measurement 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.

1.5. Some Funds invest in multiple securities or tranches of the same portfolio company. If a Market Participant would be expected to transact all positions in the same underlying Investee Company simultaneously, for example separate investments made in series A, series B, and series C, then, Fair Value would be estimated for the aggregate Investments in the Investee Company. If a Market Participant would be expected to transact separately, for example purchasing series A, independent from series B and series C, or if debt Investments are purchased independent of equity, then Fair Value would be more appropriately determined for each individual financial instrument.

2. Principles of Valuation

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

2.2. In estimating Fair Value for an Investment, the Valuer should apply a technique or techniques that is/are appropriate in light of the nature, facts and circumstances of the Investment in the context of the total Investment portfolio and should use reasonable current market data and inputs combined with Market Participant assumptions.

2.3. Fair Value is estimated using the perspective of Market Participants and market conditions at the Measurement Date irrespective of which valuation techniques are used.

2.4. Generally, for Private Equity, Market Participants determine the price they will pay for individual equity instruments using Enterprise Value estimated from a hypothetical sale of the Investee Company, as follows:

(i) Determine the Enterprise Value of the Investee Company using the valuation techniques;

(ii) Adjust the Enterprise Value for factors that a Market Participant would take into account such as surplus assets or excess liabilities and other contingencies and relevant factors, to derive an Adjusted Enterprise Value for the Investee Company;

(iii) Deduct from this amount any financial instruments ranking ahead of the highest ranking instrument of the Fund in a sale of the Enterprise scenario (e.g. the amount that would be paid[4]) and taking into account the effect of any instrument that may dilute the Fund's Investment to derive the Attributable Enterprise Value;

(iv) Apportion the Attributable Enterprise Value between the company's relevant financial instruments according to their ranking;

(v) Allocate the amounts derived according to the Fund's holding in each financial instrument, representing their Fair Value.

2.5. Because of the uncertainties inherent in estimating Fair Value for private equity Investments, care should be applied in exercising judgement and making the necessary estimates. However, the Valuer should be wary of applying excessive caution.

2.6. When the price of the initial investment in an Investee Company or instrument is deemed Fair Value (which is generally the case if the entry transaction is considered Orderly[5]), then the valuation techniques that are expected to be used to estimate Fair Value in the future should be evaluated using market inputs as of the date the investment was made. This process is known as Calibration. Calibration validates that the valuation techniques using contemporaneous market inputs will generate Fair Value at inception and therefore that the valuation techniques using market inputs as of each subsequent Measurement Date will generate Fair Value at each such date.

3. Valuation Methods

3.1. General

3.1 (i) In determining the Fair Value of an Investment, the Valuer should use judgement. This includes consideration of those specific terms of the Investment which may impact its Fair Value. In this regard, the Valuer should consider the economic substance of the Investment, which may take precedence over the strict legal form.

3.1 (ii) Where the reporting currency of the Fund is different from the currency in which the Investment is denominated, translation into the reporting currency for reporting purposes should be done using the bid spot exchange rate prevailing at the Measurement Date.

3.2. Selecting the Appropriate Valuation Technique

The Valuer should exercise their judgement to select the valuation technique or techniques most appropriate for a particular Investment.

3.3. Price of Recent Investment

In applying the Price of Recent Investment valuation technique, the Valuer uses the initial cost of the Investment itself, excluding transaction costs[6], or, where there has been subsequent investment, the price at which a significant amount of new Investment into the company was made, to estimate the Enterprise Value, but only if deemed to represent Fair Value and only for a limited period following the date of the relevant transaction. During the limited period following the date of the relevant transaction, the Valuer should in any case assess at each Measurement Date whether changes or events subsequent to the relevant transaction would imply a change in the Investment's Fair Value.

4 Some Valuers may question whether the Fair Value of debt or the face value of debt should be subtracted from Adjusted Enterprise Value when estimating the Fair Value of an equity instrument. A Market Participant perspective should be used incorporating individual facts and circumstances. The premise of Fair Value measurement is that the Investment is sold at the Measurement Date. Because the definition of Fair Value contains an exit price notion, it assumes that a change in control takes place upon the sale of the Investment at the Measurement Date. However, if debt must be repaid upon a change of control, then a question arises about how a Market Participant would be expected to value debt for purposes of valuing an equity instrument:
(a) Taking into account the timing and likelihood of a future actual change in control (that is, assuming that a change in control has not yet taken place as of the Measurement Date, but incorporating into the Fair Value of the debt the existence of the change in control provision); or
(b) using a term of zero on the basis that a hypothetical change in control has taken place (that is, assuming that the change in control takes place on the Measurement Date, resulting in the Fair Value of debt being equal to the face or par value of debt)
When using a Market Participant perspective, the Fair Value of debt may equal the face or par value of debt depending on the facts and circumstances. If debt is not required to be repaid upon a change of control, then the Fair Value of equity would be impacted by favorable or unfavorable terms (such as interest rate) of the debt, or in other words, the Fair Value of debt reflecting the favorable/unfavorable elements would be subtracted from Adjusted Enterprise value.

5 A forced transaction (e.g. a forced liquidation or distress sale) would not be considered Orderly.

6 Transaction costs are not considered a characteristic of an asset and therefore should not be added or included as a component of an asset's Fair Value..

3.4. Multiples

In using the Earnings Multiple valuation technique to estimate the Fair Value of an Enterprise, the Valuer should:

(i) Apply a multiple that is an **appropriate** and **reasonable** indicator of value (given the size, risk profile and earnings growth prospects of the underlying company) to the **maintainable earnings** of the company;

(ii) Adjust the Enterprise Value for surplus or non-operating assets or excess liabilities and other contingencies and relevant factors to derive an Adjusted Enterprise Value for the Investee Company;

(iii) Deduct from this amount 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 Enterprise Value;

(iv) Apportion the Attributable Enterprise Value appropriately between the relevant financial instruments using the perspective of potential Market Participants. Judgement is required in assessing a Market Participant perspective.

3.5. Net Assets

In using the Net Assets valuation technique to estimate the Fair Value of an Investment, the Valuer should:

(i) Derive an Enterprise Value for the company using the perspective of a Market Participant to value its assets and liabilities (adjusting, if appropriate, for non-operating assets, excess liabilities and contingent assets and liabilities);

(ii) Deduct from this amount 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 Enterprise Value; and

(iii) Apportion the Attributable Enterprise Value appropriately between the relevant financial instruments using the perspective of potential Market Participants. Judgement is required in assessing a Market Participant perspective.

3.6. Discounted Cash Flows or Earnings (of Underlying Business)

In using the Discounted Cash Flows or Earnings (of Underlying Business) valuation technique to estimate the Fair Value of an Investment, the Valuer should:

(i) Derive the Enterprise Value of the company, using reasonable assumptions and estimations of expected future cash flows (or expected future earnings) and the terminal value, and discounting to the present by applying the appropriate risk-adjusted rate that captures the risk inherent in the projections;

(ii) Adjust the Enterprise Value for surplus or non-operating assets or excess liabilities and other contingencies and relevant factors to derive an Adjusted Enterprise Value for the Investee Company;

(iii) Deduct from this amount 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 Enterprise Value;

(iv) Apportion the Attributable Enterprise Value appropriately between the relevant financial instruments using the perspective of Market Participants. Judgement is required in assessing a Market Participant perspective.

3.7. Discounted Cash Flows (from the Investment)

In using the Discounted Cash Flows (from an Investment) valuation technique to estimate the Fair Value of an Investment, the Valuer should derive the present value of the cash flows from the Investment using reasonable assumptions and estimations of expected future cash flows, the terminal value or maturity amount, date, and the appropriate risk-adjusted rate that captures the risk inherent to the Investment. This valuation technique would generally be applied to Investments with characteristics similar to debt.

3.8. Industry Valuation Benchmarks

The use of industry benchmarks is only likely to be reliable and therefore appropriate as the main basis of estimating Fair Value in limited situations, and is more likely to be useful as a sanity check of values produced using other techniques.

3.9. Available Market Prices

(i) Instruments quoted on an Active Market should be valued at the price within the bid / ask spread that is most representative of Fair Value on the Measurement Date. The Valuer should consistently use the most representative point estimate in the bid /ask spread.

(ii) Blockage Factors that reflect size as a characteristic of the reporting entity's holding (specifically, a factor that adjusts the quoted price of an asset because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity) should not be applied.

(iii) Discounts may be applied to prices quoted in an Active Market if there is some contractual, Governmental or other legally enforceable restriction attributable to the security, not the holder, resulting in diminished Liquidity of the instrument that would impact the price a Market Participant would pay at the Measurement Date.

4. Valuing Fund Interests

4.1. General

In measuring the Fair Value of an interest in a Fund the Valuer may base their estimate on their attributable proportion of the reported Fund Net Asset Value (NAV) if NAV is derived from the Fair Value of underlying Investments and is as of the same Measurement Date as that used by the Valuer of the Fund interest, except as follows:

(i) if the Fund interest is actively traded Fair Value would be the actively traded price;

(ii) if management has made the decision to sell a Fund interest or portion thereof and the interest will be sold for an amount other than NAV, Fair Value would be the expected sales price.

4.2. Adjustments to Net Asset Value

If the Valuer has determined that the reported NAV is an appropriate starting point for determining Fair Value, it may be necessary to make adjustments based on the best available information at the Measurement 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 from the Fund Manager.

If NAV is not derived from the Fair Value of underlying Investments and / or is not as of the same Measurement Date as that used by the Valuer of the Fund interest, then the Valuer will need to assess whether such differences are significant, resulting in the need to adjust reported NAV.

4.3. Secondary Transactions

When a Valuer of an interest knows the relevant terms of a Secondary transaction in that particular Fund and the transaction is orderly, the Valuer must consider the transaction price as one component of the information used to measure the Fair Value of a Fund interest.

Section II: Explanatory Comments-
Measuring Fair Value

1. The Concept of Fair Value

1.1. Fair Value is the price that would be received to sell an asset in an Orderly Transaction between Market Participants at the Measurement Date.

1.2. A Fair Value measurement assumes that a hypothetical transaction to sell an asset takes place in the Principal Market or in its absence, the Most Advantageous Market for the asset.

1.3. For actively traded (quoted) Investments, available market prices will be the exclusive basis for the measurement of Fair Value for identical instruments.

1.4. For Unquoted Investments, the measurement of Fair Value requires the Valuer to assume the Underlying Business or instrument is realised or sold at the Measurement 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.

1.5. Some Funds invest in multiple securities or tranches of the same portfolio company. If a Market Participant would be expected to transact all positions in the same underlying Investee Company simultaneously, for example separate investments made in series A, series B, and series C, then, Fair Value would be estimated for the aggregate Investments in the Investee Company. If a Market Participant would be expected to transact separately, for example purchasing series A, independent from series B and series C, or if debt Investments are purchased independent of equity, then Fair Value would be more appropriately determined for each individual financial instrument.

The objective is to estimate the price at which an Orderly Transaction would take place between Market Participants at the Measurement Date.

Fair Value is the hypothetical exchange price taking into account current market conditions for buying and selling assets. Fair Value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale.

Although transfers of shares in private businesses are often subject to restrictions, rights of pre-emption and other barriers, it should still be possible to estimate what amount a willing buyer would pay to take ownership of the Investment, subject to such restrictions.

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 effect a transaction) is not appropriate. Liquidity or illiquidity (meaning the frequency of transactions) is taken into account by Market Participants and should be a factor used in assessing Fair Value.

2. Principles of Valuation

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

In the absence of an Active Market for a financial instrument, the Valuer must estimate Fair Value utilising one or more of the valuation techniques.

2.2. In estimating Fair Value for an Investment, the Valuer should apply a technique or techniques that is/are appropriate in light of the nature, facts and circumstances of the Investment in the context of the total Investment portfolio and should use reasonable current market data and inputs combined with Market Participant assumptions.

2.3. Fair Value is estimated using the perspective of Market Participants and market conditions at the Measurement Date irrespective of which valuation techniques are used.

In private equity, value is generally realised through a sale or flotation of the entire Underlying Business, rather than through a transfer of individual shareholder stakes. The value of the business as a whole at the Measurement Date (Enterprise Value) will often provide a key insight into the value of Investment stakes in that business.[7]

If value is realised as described above, then Enterprise Value would be used by a Market Participant to determine the orderly price they would pay for an Investment. Alternatively, if a Market Participant would transact for individual instruments, such as individual shares debt tranches, or a single series of equity, then Fair Value would be more appropriately assessed at the individual instrument level.

2.4. Generally, for Private Equity, Market Participants determine the price they will pay for individual equity instruments using Enterprise Value estimated from a hypothetical sale of the Investee Company, as follows:

(i) Determine the Enterprise Value of the Investee Company using the valuation techniques;

(ii) Adjust the Enterprise Value for factors that a Market Participant would take into account such as surplus assets or excess liabilities and other contingencies and relevant factors, to derive an Adjusted Enterprise Value for the Investee Company;

(iii) Deduct from this amount any financial instruments ranking ahead of the highest ranking instrument of the Fund in a sale of the Enterprise scenario (e.g. the amount that would be paid[8]) and taking into account the effect of any instrument that may dilute the Fund's Investment to derive the Attributable Enterprise Value;

(iv) Apportion the Attributable Enterprise Value between the company's relevant financial instruments according to their ranking;

7 Some have interpreted International accounting standards as requiring the Unit of Account to be a single share of a private company (see discussion of Accounting Standards and Unit of Account on pages 6 through 9 of these Valuation Guidelines). These Valuation Guidelines do not address a single share Unit of Account conclusion (other than for actively traded securities) as a Fair Value measurement for a single share of a private company generally does not occur in practice and would therefore not provide a meaningful measurement of Fair Value.

8 Some Valuers may question whether the Fair Value of debt or the face value of debt should be subtracted from Adjusted Enterprise Value when estimating the Fair Value of an equity instrument. A Market Participant perspective should be used incorporating individual facts and circumstances. The premise of Fair Value measurement is that the Investment is sold at the Measurement Date. Because the definition of Fair Value contains an exit price notion, it assumes that a change in control takes place upon the sale of the Investment at the Measurement Date. However, if debt must be repaid upon a change of control, then a question arises about how a Market Participant would be expected to value debt for purposes of valuing an equity instrument:
(a) Taking into account the timing and likelihood of a future actual change in control (that is, assuming that a change in control has not yet taken place as of the Measurement Date, but incorporating into the Fair Value of the debt the existence of the change in control provision); or
(b) using a term of zero on the basis that a hypothetical change in control has taken place (that is, assuming that the change in control takes place on the Measurement Date, resulting in the Fair Value of debt being equal to the face or par value of debt)
When using a Market Participant perspective, the Fair Value of debt may equal the face or par value of debt depending on the facts and circumstances. If debt is not required to be repaid upon a change of control, then the Fair Value of equity would be impacted by favorable or unfavorable terms (such as interest rate) of the debt, or in other words, the Fair Value of debt reflecting the favorable/unfavorable elements would be subtracted from Adjusted Enterprise value.

(v) Allocate the amounts derived according to the Fund's holding in each financial instrument, representing their Fair Value.

It is important to recognise the subjective nature of private equity Investment valuation. It is inherently based on forward-looking estimates and judgements about the Underlying Business itself: its market and the environment in which it operates; the state of the mergers and acquisitions market; stock market conditions and other factors and expectations that exist at the Measurement Date.

Due to the complex interaction of these factors and often the lack of directly comparable market transactions, care should be applied when using publicly available information regarding other entities in deriving a valuation. In order to measure the Fair Value of an Investment, the Valuer will have to exercise judgement and make necessary estimates to adjust the market data to reflect the potential impact of other factors such as geography, credit risk, foreign currency, rights attributable, equity prices and volatility.

As such, it must be recognised that, while valuations do provide useful interim indications of the progress of a particular Underlying Business or Investment, ultimately it is not until Realisation that true performance is firmly determined. A Valuer should be aware of reasons why realisation proceeds are different from their estimates of Fair Value and consider such reasons in future Fair Value estimates.

Apportion the Attributable Enterprise Value appropriately

The apportionment should reflect the respective amounts accruing to the holder of each financial instrument and all other financial instruments (regardless of holder) in the event of a realisation at the Measurement Date. As discussed further in section III 5.8, where there are ratchets or share options or other mechanisms (such as 'liquidation preferences', in the case of Investments in early-stage businesses) in place which are likely to be triggered in the event of a sale of the company at the given Enterprise Value at that date, these should be reflected in the apportionment.

The estimation of Fair Value should be undertaken on the assumption that options and warrants are exercised, where the Fair Value is in excess of the exercise price and accordingly it is a reasonable assumption that these will be exercised. The aggregate exercise price of these may result in surplus cash arising in the Underlying Business if the aggregate exercise price is significant.

Where significant positions in options and warrants are held by the Fund, these may need to be valued separately from the underlying Investments using an appropriate option based pricing model.

Differential allocation of proceeds may have an impact on the value of an Investment. If liquidation preferences exist, these need to be reviewed to assess whether they are expected to give rise to a benefit to the Fund, or a benefit to a third party to the detriment of the Fund.

When subtracting outstanding debt from Enterprise Value to measure the Fair Value of Equity Instruments, judgement should be exercised to ensure that the Fair Value of debt represents a Market Participant perspective. For example, if debt must be repaid upon the sale of the Underlying Business, which is often the case in a private equity transaction, then a Market Participant transacting in their economic best interest, may deem the Fair Value of debt to equal the Par Value of debt (or the amount to be repaid) for purposes of determining the Fair Value of equity. If debt would not be repaid when the Enterprise is sold, then the Fair Value of debt would not necessarily equal the Par Value of debt.

It should be noted, however, that if debt is a standalone Investment, a Market Participant would take into account risk, coupon, time to expected repayment, and other market conditions in determining the Fair Value of the debt instrument, which may **not** be equivalent to Par Value.

2.5. Because of the uncertainties inherent in estimating Fair Value for private equity Investments, care should be applied in exercising judgement and making the necessary estimates. However, the Valuer should be wary of applying excessive caution.

Private Equity Funds often undertake an Investment with a view to build, develop and/or to effect substantial changes in the Underlying Business, whether it is to its strategy, operations, management, or financial condition. Sometimes these situations involve rescue refinancing or a turnaround of the business in question. While it might be difficult in these situations to measure Fair Value, it should in most cases be possible to estimate the amount a Market Participant would pay for the Investment in question at a point in time.

There may be situations where:

- 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; and
- 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. Estimating the increase or decrease in Fair Value in such cases may involve reference to broad indicators of value change (such as relevant stock market indices). After considering these broad indicators, in some situations, the Valuer might reasonably conclude that the Fair Value at the previous Measurement Date remains the best estimate of Fair Value.

Where a change in Fair Value is perceived to have occurred, the Valuer should amend the carrying value of the Investment to reflect the new Fair Value estimate.

2.6. When the price of the initial investment in an Investee Company or instrument is deemed Fair Value (which is generally the case if the entry transaction is considered Orderly[9]), then the valuation techniques that are expected to be used to estimate Fair Value in the future should be evaluated using market inputs as of the date the investment was made. This process is known as Calibration. Calibration validates that the valuation techniques using contemporaneous market inputs will generate Fair Value at inception and therefore that the valuation techniques using market inputs as of each subsequent Measurement Date will generate Fair Value at each such date.

Fair Value should reflect reasonable estimates and assumptions for all significant factors that parties to an arm's length transaction would be expected to consider, including those which impact upon the expected cash flows from the Investment and upon the degree of risk associated with those cash flows.

In assessing the reasonableness of assumptions and estimates, the Valuer should:

- note that the objective is to replicate those that the parties in an arm's-length transaction would make at the Measurement Date;
- take account of events taking place subsequent to the Measurement Date where they provide additional evidence of conditions that existed at the Measurement Date that were known or knowable by Market Participants;
- take account of current market conditions at

9 A forced transaction (e.g. a forced liquidation or distress sale) would not be considered Orderly.

the Measurement Date; and

- to the extent the initial entry price is deemed Fair Value, test (or calibrate) valuation techniques expected to be used at subsequent valuation dates, using input data at inception to ensure that the techniques provide a resultant initial Fair Value estimate equal to the entry price; (**Note:** at subsequent Measurement Dates the calibrated valuation techniques are used with current market inputs reflecting then current market conditions.);

3. Valuation Methods

3.1. General

A number of valuation methods or techniques that may be considered for use in measuring the Fair Value of Unquoted Instruments are described in sections 3.3. to 3.8. below. These valuation techniques should incorporate case-specific factors affecting Fair Value. For example, if the Underlying Business is holding surplus cash or other assets, the value of the business should reflect that fact to the extent a Market Participant would attribute value to such items.

Techniques for valuing Actively Traded Instruments are described in section 3.9.

Because, in the private equity arena, value is generally realised through a sale or flotation of the entire Underlying Business, rather than through a transfer of individual shareholder stakes, the value of the business as a whole at the Measurement Date will often provide a key insight into the value of Investment stakes in that business. For this reason, a number of the techniques described below involve estimating the Enterprise Value as an initial step. If a Market Participant would be expected to maximize value through the sale of the entire business, the estimation of the Fair Value of individual financial instruments would include an assessment of the allocation of the Enterprise Value to the value of individual financial instruments.

There will be some situations where the Fair Value will derive mainly from the expected cash flows and risk of the relevant financial instruments rather than from the Enterprise Value. The valuation technique used in these circumstances should therefore reflect this fact.

3.1 (i) In determining the Fair Value of an Investment, the Valuer should use judgement. This includes consideration of those specific terms of the Investment which may impact its Fair Value. In this regard, the Valuer should consider the economic substance of the Investment, which may take precedence over the strict legal form.

Underlying Businesses may operate using multiple currencies. Investments may be denominated in currencies other than the Funds reporting currency. Movements in rates of exchange may impact the value of the Fund's Investments and these should be taken into account using a Market Participant perspective.

3.1 (ii) Where the reporting currency of the Fund is different from the currency in which the Investment is denominated, translation into the reporting currency for reporting purposes should be done using the bid spot exchange rate prevailing at the Measurement Date.

3.2. Selecting the Appropriate Valuation Technique

The Valuer should exercise their judgement to select the valuation technique or techniques most appropriate for a particular Investment.

The key criterion in selecting a valuation technique is that it should be appropriate in light of the nature, facts and circumstances of the Investment and in the expected view of

Market Participants. The Valuer may consider utilising further techniques to check the Fair Value derived, as appropriate.

When selecting the appropriate valuation technique each Investment should be considered individually.

An appropriate valuation technique will incorporate available information about all factors that are likely to materially affect the Fair Value of the Investment.

The Valuer will select the valuation technique that is the most appropriate and consequently make valuation adjustments on the basis of their informed and experienced judgement. This will include consideration of factors such as:

- the relative applicability of the techniques used given the nature of the industry and current market conditions;
- the quality, and reliability of the data used in each valuation technique;
- the comparability of Enterprise or transaction data;
- the stage of development of the Enterprise;
- the ability of the Enterprise to generate maintainable profits or positive cashflow;
- any additional considerations unique to the Enterprise; and
- the results of testing (calibrating) techniques and inputs to replicate the entry price of the Investment (**Note:** at subsequent Measurement Dates the calibrated valuation techniques are used with updated inputs reflecting then current market conditions.).

In assessing whether a technique is appropriate, the Valuer should maximise the use of techniques that draw heavily on observable market-based measures of risk and return. Fair Value estimates based entirely on observable market data are deemed less subjective than those based on Valuer assumptions. In some cases observable market data may require adjustment by the Valuer to properly reflect the facts and circumstances of the Instrument being valued. This adjustment should not be automatically regarded as reducing the reliability of the Fair Value estimation.

While accounting standards do not specify a hierarchy of valuation techniques, for the private equity industry utilising discounted cashflows and industry benchmarks in isolation, without using market-based measures would be considered rare and then only with caution. These techniques may be useful as a cross-check of values estimated using the market-based valuation techniques.

Where the Valuer considers that several techniques are appropriate to value a specific Investment, the Valuer may consider the outcome of these different valuation techniques so that the results of one particular valuation technique may be used as a cross-check of values or to corroborate or otherwise be used in conjunction with one or more other techniques in order to measure the Fair Value of the Investment.

Techniques should be applied consistently from period to period, except where a change would result in better estimates of Fair Value.

The basis for any changes in valuation techniques should be clearly understood. It is expected that there would not be frequent changes in valuation techniques over the course of the life of an Investment.

The table on page 25 identifies a number of the most widely used techniques.

3.3. Price of Recent Investment

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 of the valuation.

Valuation Technique	Approach
Price of Recent Investment	(Market Approach)
Multiples	(Market Approach)
Net assets	(Cost Approach)
Discounted cash flows or earnings (of Underlying Business)	(Income Approach)
Discounted cash flows (from an Investment)	(Income Approach)
Industry valuation benchmarks	(Market Approach)

The validity of a valuation obtained in this way is inevitably eroded over time, since the price at which an Investment was made reflects the effects of conditions that existed on the date that the transaction took place. In a dynamic environment, changes in market conditions, the passage of time itself and other factors will act to diminish the appropriateness of this valuation technique as a means of estimating value at subsequent dates.

In addition, where the price at which a third party has invested is being considered as the basis of valuation, the background to the transaction must be taken in to account. In particular, the following factors may indicate that the price was not wholly representative of the Fair Value at the time:

- different rights attach to the new and existing Investments;
- disproportionate dilution of existing investors arising from a new investor(s);
- a new investor motivated by strategic considerations; or
- the transaction may be considered to be a forced sale or 'rescue package'.

This valuation technique is likely to be appropriate for all private equity Investments, but only for a limited period after the date of the relevant transaction. Because of the relatively high frequency with which funding rounds are often undertaken for seed and start-up situations, or in respect of businesses engaged in technological or scientific innovation and discovery, this method will often be appropriate for valuing Investments in such circumstances. Generally, Fair Value would be indicated by the post money valuation.

The length of period for which it would remain appropriate to use this valuation technique will depend on the specific circumstances of the Investment and is subject to the judgement of the Valuer.

In stable market conditions with little change in the entity or external market environment, the length of period for which this valuation technique is likely to be appropriate will be longer than during a period of rapid change.

3.3. In applying the Price of Recent Investment valuation technique, the Valuer uses the initial cost of the Investment itself, excluding transaction costs[10], or, where there has been subsequent investment, the price at which a significant amount of new Investment into the company was made, to estimate the Enterprise Value, but only if deemed to represent Fair Value and only for a limited period following the date of the relevant transaction. During the limited period following the date of the relevant transaction, the Valuer should in any case assess at each Measurement Date whether changes or events subsequent to the relevant transaction would imply a change in the Investment's Fair Value.

The Price of Recent Investment valuation technique is commonly used in a seed, start-up or an early-stage situation, where there are no current and no short-term future earnings or positive cash flows. For these Enterprises, typically, it is difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts.

10 Transaction costs are not considered a characteristic of an asset and therefore should not be added or included as a component of an asset's Fair Value.

Consequently, the most appropriate approach to measure Fair Value is a valuation technique that is based on market data, that being the Price of a Recent Investment.

If the Valuer concludes that the Price of Recent Investment, unadjusted, is no longer relevant, and there are no comparable companies or transactions from which to infer value, it may be appropriate to apply an enhanced assessment based on an industry analysis, sector analysis and/or milestone analysis.

In such circumstances, industry-specific benchmarks/milestones, which are customarily and routinely used in the specific industries of the Investee Company, can be used in estimating Fair Value where appropriate. In applying the milestone approach, the Valuer attempts to ascertain whether there has been a change in the milestone and/or benchmark which would indicate that the Fair Value of the Investment has changed.

For an Investment in early or development stages, commonly a set of agreed milestones would be established at the time of making the investment decision. These will vary across types of investment, specific companies and industries, but are likely to include:

Financial measures:
- revenue growth;
- profitability expectations;
- cash burn rate;
- covenant compliance.

Technical measures:
- phases of development;
- testing cycles;
- patent approvals;
- regulatory approvals.

Marketing and sales measures:
- customer surveys;
- testing phases;
- market introduction;
- market share.

In addition, the key market drivers of the Investee Company, as well as the overall economic environment, are relevant to the assessment.

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. This assessment might include considering whether:
- there has been any significant change in the results of the Investee Company compared to budget plan or milestone;
- there have been any changes in expectation that technical milestones will be achieved;
- there has been any significant change in the market for the Investee Company or its products or potential products;
- there has been any significant change in the global economy or the economic environment in which the Investee Company operates;
- there has been any significant change in the observable performance of comparable companies, or in the valuations implied by the overall market;
- any internal matters such as fraud, commercial disputes, litigation, changes in management or strategy.

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. By its very nature such adjustment will be subjective. This estimation is likely to be based on objective data from the company, and the experience of the investment professionals and other investors. However, the necessity and magnitude of the adjustments are relatively subjective and require a large amount of judgment on the part of the Valuer. Where deterioration in value has occurred, the Valuer should reduce the carrying value of the Investment reported at the previous Measurement Date to reflect the estimated decrease.

If there is evidence of value creation, such as those listed above, the Valuer may consider increasing the carrying value of the Investment. Caution must be applied so that positive developments are only valued when they contribute to an increase in value of the Underlying Business when viewed by a Market Participant. When considering these more subtle indicators of value enhancement, in the absence of additional financing rounds or profit generation, the Valuer should consider what value a Market Participant would place on these indicators, taking into account the potential outcome and the costs and risks to achieving that outcome.

In the absence of significant revenues, profits or positive cash flows, other methods such as the earnings multiple are generally inappropriate. The DCF technique may be utilised as a cross-check, however the disadvantages inherent in these, arising from the high levels of subjective judgement, may render the method inappropriate without corroborating support.

3.4. Multiples

This valuation technique involves the application of an earnings multiple to the earnings of the business being valued in order to derive a value for the business.

This valuation technique is likely to be appropriate for an Investment in an established business with an identifiable stream of continuing earnings that are considered to be maintainable.

This section sets out guidance for preparing valuations of businesses on the basis of positive earnings. However, for businesses that are still in the development stage and prior to positive earnings being generated, multiples of actual or projected revenue may be used as a basis of valuation. A revenue multiple is commonly based on an assumption as to the 'normalised' level of earnings that can be generated from that revenue. The valuation technique and considerations set out here for earnings multiples equally apply if a multiple of revenue is utilised.

This valuation technique may be applicable to companies with negative earnings, if the losses are considered to be temporary and one can identify a level of 'normalised' maintainable earnings. This may involve the use of adjusted historic earnings, using a forecast level of earnings or applying a 'sustainable' profit margin to current or forecast revenues.

The most appropriate earnings to use in this valuation technique would be those likely to be used by a prospective Market Participant purchaser of the business.

3.4. In using the Earnings Multiple valuation technique to estimate the Fair Value of an Enterprise, the Valuer should:

(i) Apply a multiple that is an appropriate and reasonable indicator of value (given the size, risk profile and earnings growth prospects of the underlying company) to the maintainable earnings of the company;

(ii) Adjust the Enterprise Value for surplus or non-operating assets or excess liabilities and other contingencies and relevant factors to derive an Adjusted Enterprise Value for the Investee Company;

(iii) Deduct from this amount 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 Enterprise Value;

(iv) Apportion the Attributable Enterprise Value appropriately between the relevant financial instruments using the perspective of potential Market Participants. Judgement is required in assessing a Market Participant perspective.

Guidance on the interpretation of underlined terms is given below.

Appropriate multiple

By definition, earnings multiples have as their numerator a value, such as price, Enterprise Value, etc., and as their denominator an earnings figure. The denominator can be the earnings figure for any specified period of time and multiples are often defined as 'historical', 'current' or 'forecast' to indicate the earnings used. It is important that the multiple used correlates to the period and concept of earnings of the company being valued.

A number of earnings multiples are used, including price/earnings (P/E), Enterprise Value/ earnings before interest and tax (EV/EBIT) and depreciation and amortisation (EV/EBITDA). The particular multiple used should be appropriate for the business being valued. (The multiples of revenues and their use are presented in 3.8. Industry Valuation Benchmarks).

In general, because of the role of financial structuring in private equity, multiples should be used to derive an Enterprise Value for the Underlying Business. Where EBITDA multiples are available, these are commonly used. When unavailable, P/E multiples may be used since these are more commonly reported. For a P/E multiple to be comparable, the two entities should have similar financing structures and levels of borrowing.

Therefore, where a P/E multiple is used, it should generally be applied to an EBIT figure which has been adjusted for the impact of finance costs relating to operations, working capital needs and tax impacts. These adjustments are designed to eliminate the effect on the earnings of the acquisition finance on the Enterprise Value since this is subsequently adjusted.

Reasonable multiple

The Valuer would usually derive a multiple by reference to current market-based multiples, reflected in the market valuations of quoted companies or the price at which companies have changed ownership. The multiple derived from the acquisition price is calibrated with the multiple of comparable companies expected to be used in on-going valuation estimates. Differences between the acquisition multiple and the comparable companies multiples are monitored and adjusted, as appropriate, over time, given differences between the Investee company and the comparable companies.

For example, assume the acquisition price of an Investment was deemed Fair Value (e.g. an Orderly Transaction price) and represented an EBITDA multiple of 8 when comparable company EBITDA multiples were 10. In future periods, when estimating Fair Value judgement is required as to whether or not the 20% discount to comparable company multiples should be maintained or should change at each subsequent Measurement Date.

This market-based approach presumes that the comparable companies are correctly valued by the market. While there is an argument that the market capitalisation of a quoted company reflects not the value of the company but merely the price at which 'small parcels' of shares are exchanged, the presumption in these Valuation Guidelines is that market based multiples are indicative of the value of the company as a whole.

Where market-based multiples are used, the aim is to identify companies that are similar, in terms of risk attributes and earnings growth prospects, to the company being valued. This is more likely to be the case where the companies are similar in terms of business activities, markets served, size, geography and applicable tax rate.

In using P/E multiples, the Valuer should note that the P/E ratios of comparable companies will be affected by the level of financial gearing and applicable tax rate of those companies.

In using EV/EBITDA multiples, the Valuer should note that such multiples, by definition, remove the impact on value of depreciation of fixed assets and amortisation of goodwill and other intangibles. If such multiples are used without sufficient care, the Valuer may fail to recognise that business decisions to spend heavily on fixed assets or to grow by acquisition rather than organically do have real costs associated with them which should be reflected in the value attributed to the business in question.

It is important that the earnings multiple of each comparable company is adjusted for points of difference between the comparable company and the company being valued. These points of difference should be considered and assessed by reference to the two key variables of risk and earnings growth prospects which underpin the earnings multiple. In assessing the risk profile of the company being valued, the Valuer should recognise that risk arises from a range of aspects, including the nature of the company's operations, the markets in which it operates and its competitive position in those markets, the quality of its management and employees and, importantly in the case of private equity, its capital structure and the ability of the Fund holding the Investment to effect change in the company.

When considering adjustments to reported multiples, the Valuer should also consider the impact of the differences between the Liquidity of the shares being valued and those on a quoted exchange. There is a risk associated with a lack of Liquidity. The Valuer should consider the extent to which a prospective acquirer of those shares would take into account the additional risks associated with holding an unquoted share.

In an unquoted company the risk arising from the lack of Liquidity is clearly greater for a shareholder who is unable to control or influence a realisation process than for a shareholder who owns sufficient shares to drive a realisation at will. It may reasonably be expected that a prospective Market Participant purchaser would assess that there is a higher risk associated with holding a minority position than for a control position.

Value attributed to a lack of Liquidity may be difficult to assess. Calibration provides a technique to objectively assess value attributed to a lack of Liquidity. The multiple at the date of acquisition should be calibrated against the market comparable multiples. Differences, if any, should be understood and similar differences may be expected or need to be understood at subsequent valuation dates.

For example, the reasons why the comparable company multiples may need to be adjusted may include the following:

- the size and diversity of the entities and, therefore, the ability to withstand adverse economic conditions;
- the rate of growth of the earnings;
- the reliance on a small number of key employees;
- the diversity of the product ranges;
- the diversity and quality of the customer base;
- the level of borrowing;
- for any other reason the quality of earnings may differ; and
- the risks arising from the lack of Liquidity of the shares.

Fair Value measurements should not include a premium or discount that is inconsistent with the instrument (Unit of Account) being valued. Blockage Factors are not allowed by accounting standards. However, investors in private companies generally consider their overall interest and the extent to which they act in concert with other investors. Judgment must be applied to individual facts and circumstances to assess the amount a Market Participant would pay in the context of the potential adjustments to multiples noted above.

Recent transactions involving the sale of similar companies are sometimes used as a frame of reference in seeking to derive a reasonable multiple. It is sometimes argued, since such transactions involve the transfer of whole companies whereas quoted multiples relate to the price for 'small parcels' of shares, that recent transactions provide a more relevant source of multiples. However, the appropriateness of the use of recent transaction data is often undermined by the following:

- the lack of forward looking financial data and other information to allow points of difference to be identified and adjusted for;
- the generally lower reliability and transparency of reported earnings figures of private companies;
- the impact of reputational issues, such as ESG and other factors; and
- the lack of reliable pricing information for the transaction itself.

It is a matter of judgement for the Valuer as to whether, in deriving a reasonable multiple, they refer to a single comparable company or a number of companies or the earnings multiple of a quoted stock market sector or sub-sector. It may be acceptable, in particular circumstances, for the Valuer to conclude that the use of quoted sector or sub-sector multiples or an average of multiples from a 'basket' of comparable companies may be appropriate.

Maintainable earnings

In applying a multiple to maintainable earnings, it is important that the Valuer is satisfied that the earnings figure can be relied upon. While this might tend to favour the use of audited historical figures rather than unaudited or forecast figures, it should be recognised that value is by definition a forward-looking concept, and quoted markets more often think of value in terms of 'current' and 'forecast' multiples, rather than 'historical' ones. In addition, there is the argument that the valuation should, in a dynamic environment, reflect the most recent available information. There is therefore a trade-off between the reliability and relevance of the earnings figures available to the Valuer.

On balance, while it remains a matter of judgement for the Valuer, a Market Participant perspective should be used either focused on historical earnings or focused on future earnings based on the availability and reliability of forward looking projections and multiples or historical results and multiples.

Whichever period's earnings are used, the Valuer should satisfy himself that they represent a reasonable estimate of maintainable earnings, which implies the need to adjust for exceptional or non-recurring items, the impact of discontinued activities and acquisitions and forecast material changes in earnings.

3.5. Net Assets

This valuation technique involves deriving the value of a business by reference to the value of its net assets.

This valuation technique is likely to be appropriate for a business whose value derives mainly from the underlying Fair Value of its assets rather than its earnings, such as property holding companies and investment businesses (such as Fund-of-Funds as more fully discussed in 4. Valuing Fund Interests).

This valuation technique may also be appropriate for a business that is not making an adequate return on assets and for which a greater value can be realised by liquidating the business and selling its assets. In the context of private equity, it may therefore be appropriate, in certain circumstances, for valuing Investments in loss-making companies and companies making only marginal levels of profits.

3.5. In using the Net Assets valuation technique to estimate the Fair Value of an Investment, the Valuer should:

(i) Derive an Enterprise Value for the company using the perspective of a Market Participant to value its assets and liabilities (adjusting, if appropriate, for non-operating assets, excess liabilities and contingent assets and liabilities);

(ii) Deduct from this amount 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 Enterprise Value; and

(iii) Apportion the Attributable Enterprise Value appropriately between the relevant financial instruments using the perspective of potential Market Participants. Judgement is required in assessing a Market Participant perspective.

3.6. Discounted Cash Flows or Earnings (of Underlying Business)

This valuation technique involves deriving the value of a business by calculating the present value of expected future cash flows (or the present value of expected future earnings, as a surrogate for expected future cash flows). The cash flows and 'terminal value' are those of the Underlying Business, not those from the Investment itself.

The Discounted Cash Flows (DCF) technique is flexible in the sense that it can be applied to any stream of cash flows (or earnings). In the context of private equity valuation, this flexibility enables the valuation technique to be applied in situations that other techniques may be incapable of addressing. While this valuation technique may be applied to businesses going through a period of great change, such as a rescue refinancing, turnaround, strategic repositioning, loss making or is in its start-up phase, there is a significant risk in utilising this valuation technique.

The disadvantages of the DCF valuation technique centre around its requirement for detailed cash flow forecasts and the need to estimate the 'terminal value' and an appropriate risk-adjusted discount rate. All of these inputs require substantial subjective judgements to be made, and the derived present value amount is often sensitive to small changes in these inputs.

There is no hierarchy of valuation techniques required by accounting standards. However, due to the high level of subjectivity in selecting inputs for this technique when valuing equity Investments for the private equity industry, DCF based valuations are more useful as a cross-check of values estimated under market-based techniques and should generally not be used in isolation.

In assessing the appropriateness of this valuation technique, the Valuer should consider whether its disadvantages and sensitivities are such, in the particular circumstances, as to render the resulting Fair Value insufficiently reliable.

3.6. In using the Discounted Cash Flows or Earnings (of Underlying Business) valuation technique to estimate the Fair Value of an Investment, the Valuer should:

(i) Derive the Enterprise Value of the company, using reasonable assumptions and estimations of expected future cash flows (or expected future earnings) and the terminal value, and discounting to the present by applying the appropriate risk-adjusted rate that captures the risk inherent in the projections;

(ii) Adjust the Enterprise Value for surplus or non-operating assets or excess liabilities and other contingencies and relevant factors to derive an Adjusted Enterprise Value for the Investee Company;

(iii) Deduct from this amount 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 Enterprise Value;

(iv) Apportion the Attributable Enterprise Value appropriately between the relevant financial instruments using the perspective of Market Participants. Judgement is required in assessing a Market Participant perspective.

3.7. Discounted Cash Flows (from an Investment)

This valuation technique applies the DCF concept and technique to the expected cash flows from the Investment itself.

Where Realisation of an Investment or a flotation of the Underlying Business is imminent and the pricing of the relevant transaction has been substantially agreed, the Discounted Cash Flows (from the Investment) valuation technique (or, as a surrogate, the use of a simple discount to the expected Realisation proceeds or flotation value) is likely to be the most appropriate valuation technique.

This valuation technique, because of its flexibility, is capable of being applied to all private equity Investment situations. It is particularly suitable for valuing non-equity Investments in instruments such as debt or mezzanine debt, since the value of such instruments derives mainly from instrument-specific cash flows and risks rather than from the value of the Underlying Business as a whole.

However, because of its inherent reliance on substantial subjective judgements, and because of the general availability of market based techniques, the Valuer should be extremely cautious of using this valuation technique as the only basis of estimating Fair Value for Investments which include an equity element.

The valuation technique will often be useful as a common sense check of values produced using other techniques.

Risk and the rates of return necessary to compensate for different risk levels are central commercial variables in the making of all private equity Investments. Accordingly there exists a frame of reference against which to make discount rate assumptions.

However the need to make detailed cash flow forecasts over the Investment life (except in circumstances where realisation is imminent) may reduce the reliability and crucially for equity Investments, there remains a need to estimate the 'terminal value'.

Where the Investment comprises equity or a combination of equity and other financial instruments, the terminal value would usually be derived from the anticipated value of the

Underlying Business at Realisation. This will usually necessitate making assumptions about future business performance and developments and stock market and other valuation ratios at the assumed Realisation date. In the case of equity Investments, small changes in these assumptions can materially impact the valuation. In the case of non-equity instruments, the terminal value will usually be a pre-defined amount, which greatly enhances the reliability of the valuation.

In circumstances where a Realisation is not foreseeable, the terminal value may be based upon assumptions of the perpetuity cash flows accruing to the holder of the Investment. These circumstances (which are expected to be rare in private equity) may arise where the Fund has little ability to influence the timing of a Realisation and/or those shareholders that can influence the timing do not seek a Realisation.

3.7. In using the Discounted Cash Flows (from an Investment) valuation technique to estimate the Fair Value of an Investment, the Valuer should derive the present value of the cash flows from the Investment using reasonable assumptions and estimations of expected future cash flows, the terminal value or maturity amount, date, and the appropriate risk-adjusted rate that captures the risk inherent to the Investment. This valuation technique would generally be applied to Investments with characteristics similar to debt.

The implied discount rate at initial investment is adjusted over time for changes in market conditions.

3.8. Industry Valuation Benchmarks

A number of industries have industry-specific valuation benchmarks, such as 'price per bed' (for nursing-home operators) and 'price per subscriber' (for cable television companies). Other industries, including certain financial services and information technology sectors and some services sectors where long-term contracts are a key feature, use multiples of revenues as a valuation benchmark.

These industry norms are often based on the assumption that investors are willing to pay for turnover (revenue) or market share, and that the normal profitability of businesses in the industry does not vary much.

3.8. The use of industry benchmarks is only likely to be reliable and therefore appropriate as the main basis of estimating Fair Value in limited situations, and is more likely to be useful as a sanity check of values produced using other techniques.

3.9. Quoted Investments

Private Equity Funds may be holding Quoted Instruments, for which there is an available market price.

3.9 (i) Instruments quoted on an Active Market should be valued at the price within the bid / ask spread that is most representative of Fair Value on the Measurement Date. The Valuer should consistently use the most representative point estimate in the bid /ask spread.

For certain Quoted Instruments there is only one market price quoted, representing, for example, the value at which the most recent trade in the instrument was transacted.

For other Quoted Instruments there are two market prices at any one time: the lower 'bid' price quoted by a market maker, which he will pay an investor for a holding (i.e. the investor's disposal price), and the higher 'ask' price, which an investor can expect to pay to acquire a holding. However, as an alternative to the bid price (where not required by regulation), is the mid-market price (i.e. the average of the bid and ask prices), where this is considered the most representative point estimate in the bid/ask spread.

As previously noted, Fair Value measurements should not include a premium or discount that is inconsistent with the instrument (Unit of Account) being valued. Blockage Factors are not allowed by accounting standards.

3.9 (ii) Blockage Factors that reflect size as a characteristic of the reporting entity's holding (specifically, a factor that adjusts the quoted price of an asset because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity) should not be applied.

If a market is deemed not to be active, the Valuer would supplement the use of quoted prices with additional valuation techniques to measure Fair Value.

3.9 (iii) Discounts may be applied to prices quoted in an Active Market if there is some contractual, Governmental or other legally enforceable restriction attributable to the security, not the holder, resulting in diminished Liquidity of the instrument that would impact the price a Market Participant would pay at the Measurement Date.

In determining the level of discount to apply, the Valuer should consider the impact on the price that a buyer would pay when comparing the Investment in question with an identical but unrestricted holding.

A Valuer may consider using an option pricing model to value the impact of this restriction on realisation. However, in practice for restrictions which only cover a limited number of reporting periods, this is simplified to a simple mathematical discount to the quoted price.

The discount applied should appropriately reflect the time value of money and the enhanced risk arising from the reduced Liquidity. The discount used is a matter of judgement influenced by expected volatility which should reduce to zero at the end of the restriction period.

4. Valuing Fund Interests

4.1. General

4.1. In measuring the Fair Value of an interest in a Fund the Valuer may base their estimate on their attributable proportion of the reported Fund Net Asset Value (NAV) if NAV is derived from the Fair Value of underlying Investments and is as of the same Measurement Date as that used by the Valuer of the Fund interest, except as follows:

(i) if the Fund interest is actively traded Fair Value would be the actively traded price;

(ii) if management has made the decision to sell a Fund interest or portion thereof and the interest will be sold for an amount other than NAV, Fair Value would be the expected sales price.

Fund-of-Funds and investors in Private Equity Funds must value their Interest in an underlying Fund at regular intervals to support their financial reporting. Historically, the Net Asset Value ('NAV') based on the underlying Fair Value of the Investments, as reported by the Manager, has been used as the basis for estimating the Fair Value of an interest in an underlying Fund.[11]

11 FASB ASC Topic 820 (820-10-15-4 & 820-10-35-59 to 62) allows the use of NAV to measure Fair Value if certain conditions are met: the investment is in a Fund (as defined by ASC Topic 946); and underlying investments are reported at Fair Value as of the Measurement Date. IFRS is silent on the use of NAV and provides no further guidance on how to measure the Fair Value of a Fund interest. Generally under IFRS, NAV is used as a starting point with the Valuer assessing that reported net assets are valued compliant with Fair Value principles.

Fair Value for an underlying Fund interest is, at its most basic level, equivalent to the summation of the estimated value of underlying Investments as if realised on the Measurement Date. The proceeds from such a realisation would flow through to the investor in an amount equal to NAV. This concept makes particular sense for closed-end Fund investors who realise cash returns on their Investment when realisation events occur through the sale of the underlying portfolio companies.
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 principles as part of a robust process. Typically, evidence as to the Fair Value approach, procedures and consistency of application is gathered via initial due diligence, on-going monitoring, and review of financial reporting and governance of the investee Fund by the investor entity.

Therefore, NAV. when rigorously determined in accordance with the principles of Fair Value and these Valuation Guidelines provides the best estimate upon which to base the Fair Value of an Interest in a Fund.

4.2. Adjustments to Net Asset Value

4.2. If the Valuer has determined that the reported NAV is an appropriate starting point for determining Fair Value, it may be necessary to make adjustments based on the best available information at the Measurement 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 from the Fund Manager. If NAV is not derived from the Fair Value of underlying Investments and / or is not as of the same Measurement Date as that used by the Valuer of the Fund interest, then the Valuer will need to assess whether such differences are significant, resulting in the need to adjust reported NAV.

Factors which might result in an adjustment to the reported NAV would include the following:

- significant time elapsing between the Measurement Date of the Fund NAV and the Valuer entity's Measurement Date. This would be further exacerbated by:
  - the Fund making subsequent Investments or achieving realizations;
  - the Valuer becoming aware of subsequent changes in the Fair Value of underlying investee companies;
  - subsequent market changes or other economic conditions changing to impact the value of the Fund's portfolio;
- information from an orderly Secondary Transaction if sufficient and transparent;
- the appropriate recognition of potential performance fees or carried interest in the Fund NAV;
- waived management fees included in NAV;
- impact of claw back provisions;
- any features of the Fund agreement that may affect distributions but which are not captured in the NAV;
- materially different valuations by GPs for common companies and identical securities; and
- any other facts and circumstances which might impact underlying Fund value.

NAV should be adjusted such that it is equivalent to the amount of cash that would be received by the holder of the interest in the Fund if all underlying Investee Companies were realised as at the Measurement Date.

4.3. Secondary Transactions

4.3. When a Valuer of an interest knows the relevant terms of a Secondary transaction in that particular Fund and the transaction is considered orderly, the Valuer must consider the transaction price as one component of the information used to measure the Fair Value of a Fund interest.

Limited Secondary Transactions exist for Private Equity Funds. External market transactions for a Fund are typically infrequent, opaque and information is extremely limited. Secondary prices are negotiated, may be influenced by factors beyond Fair Value and based on assumptions and return expectations that are often unique to the counter parties. In addition, information relevant to specific transactions may not be deemed orderly and any pricing data available may no longer be current.
In the event that the investor in the Private Equity Fund has decided to sell their interest in that Fund, then data known from orderly Secondary Transaction prices is likely to be better evidence of Fair Value.

Any use of a Secondary Transaction price requires considerable judgement. If orderly Secondary Transaction prices are available, but are not deemed active, then such prices should be augmented with other valuation inputs, generally NAV.

4.4. Discounted Cash Flows

In situations where a Valuer decides not to use or cannot use NAV as a starting point for determining Fair Value and orderly Secondary Transaction information is not available, the primary valuation technique available to estimate Fair Value for a Fund interest would be to perform a discounted cash flow analysis of all future cash flows for the Fund. Given the subjectivity involved, it is not expected that the DCF alternative would be used often in practice.

Section III: Application Guidance

Introduction

Section II sets out the Valuation Guidelines and principles which represent best practice for the valuation of private equity and venture capital Investments. This section, Section III, sets out further practical guidance to the application of those principles and techniques to specific cases.

5. Specific Considerations

5.1. Insider Funding Rounds

The price at which a funding round takes place may be a clear indicator of Fair Value at that date. When using the Price of Recent Investment valuation technique, the Valuer should consider whether there are specific circumstances surrounding that round of Investment which may reduce the reliability of the price as an indicator of Fair Value.

Where there is a round of financing that involves only existing investors of the Underlying Business in the same proportion to their existing Investments (insider round), the commercial need for the transaction to be undertaken at Fair Value may be diminished. The Valuer needs to assess whether the transaction was appropriately negotiated and reflected the Enterprise Value at that date.

Nevertheless, a financing with existing investors that is priced at a valuation that is lower than the valuation reported at the previous Reporting Date (insider down round) may indicate a decrease in value and should therefore be taken into consideration.

Insider down rounds may take various forms, including a corporate reorganisation, i.e. a significant change in the common equity base of a company such as converting all outstanding preferred shares into common equity, combining outstanding preferred shares into a smaller number of shares (share consolidation) or even cancelling all outstanding shares before a capital increase.

It should be noted that a Board of Directors has the legal obligation to set the price of newly issued shares at Fair Value in the best interests of the Company.

5.2. Distressed Market

Markets from which transaction data may be extracted may be viewed by Valuers to be 'distressed markets'. A distressed market does not mean that all transactions within that market may be deemed to be distressed and invalid for use as comparative purposes, however an individual transaction may be deemed not orderly. In these situations significant judgement is needed when determining whether individual transactions are considered orderly and thereby are indicative of Fair Value.

When considering whether a transaction may be deemed to be distressed or forced (e.g. not orderly), the Valuer may include such matters as the following indicators in their consideration:

- a legal requirement to transact, for example a regulatory mandate;
- a necessity to dispose of an asset immediately and there is insufficient time to market the asset to be sold;
- the existence of a single potential buyer as a result of the legal or time restrictions imposed;
- the seller is in or near bankruptcy or receivership (i.e. the seller is distressed);
- there was not adequate exposure to the market to allow for usual and customary marketing activities; and
- the transaction is considered an outlier by Market Participants when considering other similar transactions of the same or similar asset.

Determining whether a transaction is not orderly or merely reflects current distressed market conditions requires judgment.

5.3. Higher Ranking Instruments

Many acquisition structures include third party debt which ranks higher than the interests of the Fund, which is deducted from Adjusted Enterprise Value to estimate the Attributable Enterprise Value.

For certain transactions, this debt is actively traded and may be acquired by the Investee Company or the Fund in the market at a price which is at a discount to the par value.

In calculating the Attributable Enterprise Value, the Valuer should deduct from the Enterprise Value the amount which is expected to be repaid in settlement of this debt at the Measurement Date. Typically this is the par value since the debt is generally repayable at the time of disposal of the Investee Company and the Enterprise Value has been estimated on the basis of disposal at the Measurement Date as this is how Market Participants in the Private Equity industry view the realization process.

When debt must be repaid upon the sale of the Underlying Business, then a Market Participant may deem the Fair Value of debt to equal the Par Value of debt (or the amount to be repaid) for purposes of determining the Fair Value of equity. It should be noted however, that if debt is a standalone Investment, a Market Participant would take into account risk, coupon, time to expected repayment, and other market conditions in determining the Fair Value of the debt instrument, which would generally not be equivalent to Par Value (see 5.5 below).

Where the debt is trading at a discount to par, this lower amount would not normally be deducted from the Enterprise Value until the Investee Company or the Fund has acquired that debt in the market at that value and intends to cancel the debt rather than seek repayment at par.

5.4. Bridge Financing

Funds, or related vehicles, may grant loans to an Underlying Business pending a new round of equity financing (Bridge financing). This may be provided in anticipation of an initial Investment by the Fund, or ahead of a proposed follow-on Investment.

In the case of an initial Investment, where the Fund holds no other Investments in the Underlying Business, the Bridge loan should be valued in isolation. In these situations and if it is expected that the financing will occur in due course and that the Bridge loan is merely ensuring that funds are made available early, cost is likely to be the best indicator of Fair Value.

If it is anticipated that the company may have difficulty arranging the financing, and that its viability is in doubt, the Valuer should reassess Fair Value.

If the bridge finance is provided to an existing Investee Company in anticipation of a follow on Investment, the bridge finance should be included, together with the original Investment, as a part of the overall package of Investment being valued to the extent a Market Participant would be expected to combine the overall Investment.

5.5. Mezzanine Loans

Mezzanine loans are one of the commonly used sources of debt finance for Investments. Typically these will rank below the senior debt, but above shareholder loans or equity, bear an interest rate appropriate to the level of risk being assumed by the loan provider and may have additional value enhancing aspects, such as warrants.

Often these are provided by a party other than the equity provider and as such may be the only instrument held by the Fund in the Underlying Business. In these situations, the mezzanine loan should be valued on a standalone basis. The price at which the mezzanine loan was issued is a reliable indicator of Fair Value at that date.

The Valuer should consider whether any indications of deterioration in the value of the Underlying Business exist, which suggest that the loan will not be fully recovered. The Valuer should also consider whether any indications of changes in required yield exist, which suggest that the value of the loan has changed.

There are generally limited market opportunities for the holders of mezzanine loans to trade. There are agencies which regularly quote prices on these types of loans; however transactions cannot always be undertaken at the indicative prices offered. Prices reported of transactions should be considered by the Valuer as to whether these are a reasonable indication of Fair Value.

Since the cash flows associated with a mezzanine loan may be predicted with a reasonable amount of certainty, typically these are valued on the basis of a DCF calculation.

Warrants attached to mezzanine loans should be considered separately from the loan. The Valuer should select a valuation technique appropriate to valuing the Underlying Business and apply the percentage ownership that the exercised warrants will confer to that valuation.

In the event that the warrant position is significant, the Valuer may consider utilising one of the sophisticated option and warrant pricing models.

If the mezzanine loan is one of a number of Investments held by a Fund in the Underlying Business, then the mezzanine loan and any attached warrants should be included as a part of the overall package of Investment being valued, to the extent that a Market Participant would combine the Investments. Depending on the facts and circumstances of the Investments held by a fund, the Fair Value of a mezzanine loan may be equal to the par value of the loan if it must be repaid upon a change of control.

5.6. Rolled up Loan Interest

Many financial instruments commonly used in private equity Investments accumulate interest which is only realised on redemption of the instrument (e.g. deep discount debentures or Payment-in-Kind Notes).

In valuing these instruments, the Valuer should assess the expected present value of the amount to be recovered from these instruments. The consideration of recoverable amount will also include the existence of any reasonably anticipated enhancements such as interest rate step increases.

In a typical financing package, these are inseparable from the underlying equity Investment and will be realised as part of a sale transaction.

The difference between the estimated recoverable amount (if in excess of the original cost) should be spread over the anticipated life of the note so as to give a constant rate of return on the instrument.

5.7. Indicative Offers

Indicative offers received recently from a third party for the Underlying Business may provide a good indication of Fair Value. This will apply to offers for a part or the whole Underlying Business as well as other situations such as price indications for debt or equity refinancing.

However, before using the offer as evidence of Fair Value, the Valuer should consider the motivation of the party in making the offer. Indicative offers may be made deliberately high for such reasons as: to open negotiations, gain access to the company or made subject to stringent conditions or future events.

Similarly they may be deliberately low if the offeror believes that the vendor may be in a forced sale position, or to take an opportunity to increase their equity stake at the expense of other less liquid stakeholders.

In addition, indicative offers may be made on the basis of insufficient detailed information to be properly valid.

These motivations should be considered by the Valuer; however it is unlikely that a firm conclusion can be drawn.

Accordingly, indicative offers may provide useful additional support for a valuation estimated by one of the valuation techniques, but are generally insufficiently robust to be used in isolation.

5.8. Impacts from Structuring

Frequently the structuring of a private equity Investment is complex with groups of stakeholders holding different rights which either enhance or diminish the value of their interests, depending on the success or disappointments of the Underlying Business.

Valuations must consider the impact of future changes in the structure of the Investment which may materially impact the Fair Value. These potential impacts may take several different legal forms and may be initiated at the Fund's option, automatically on certain events taking place, or at the option of another party.

Common clauses include, but are not limited to

- stock options and warrants;
- anti-dilution clauses;
- ratchet clauses;
- convertible debt instruments;
- liquidation preferences;
- commitments to take up follow-on capital Investments.

These rights should be reviewed on a regular basis to assess whether these are likely to be exercised and the extent of any impact on value of the Fund's Investment. At each Measurement Date, the Valuer should determine whether these rights are likely to be exercised.

In assessing whether rights are likely to be taken up by stakeholders, the Valuer may limit their consideration to a comparison of the value received by the exerciser against the cost of exercising. If the exerciser will receive an enhancement in value by exercising, the Valuer should assume that they will do so.

The estimation of Fair Value should be undertaken on the basis that all rights that are currently exercisable and are likely to be exercised (such as options), or those that occur automatically on certain events taking place (such as liquidation preferences on Realisation, or ratchets based on value), have taken place.

Consideration should also be given to whether the exercise price will result in surplus cash arising in the Investee Company.

Notwithstanding the above, when considering the impact of liquidation preferences, the Valuer should include in their assessment the likelihood of the Fund receiving their full contractual right under the preference. In practice, full value for the preference may not be achieved, particularly when this would result in other investors who are integral to the sale process (such as a continuing management team) receiving a significantly reduced value for their Investment.

5.9. Contractual Rights

Increasingly, additional consideration dependent upon future events is used as a strategy for exiting an Investment. Upon the sale of an Underlying Business some consideration is received, with additional consideration potentially being received in the future. The contractual right to future consideration can be very beneficial, especially for deals encircled with uncertainty; where significant potential value of a business lies in the outcome of future events. The contractual right to future consideration is often described as "contingent consideration."

Negotiating a contract for future consideration allows sellers to close a deal with the ability to realize a price they think is fair, taking into account future performance they deem both valuable and likely, but that has not yet been achieved. For buyers, the ability to contractually delay paying for value before it fully crystallizes protects their Investment.

Because the interpretation of accounting standards differs and the treatment of so-called "gain contingencies" is not uniform, the Fair Value of contractual rights (gain contingencies) may not have been recorded in a Fund's financial statements or related notes. However, in the context of a private equity or venture capital Investment, the sale of an Investment that includes potential future consideration is both contractual and qualifies as a financial instrument. Said differently, a contractual right exists. The right itself is not contingent; the future consideration is variable depending on future events and outcomes. In many ways this is no different than the ownership in an underlying investee company; an ownership right exists; the future cash flows that will result from that ownership right are dependent (contingent) upon future events. The same concept applies to warrants or options. The ultimate value is contingent upon future events. To avoid confusion, and misapplication of accounting principles, it is more appropriate to describe "contingent consideration" in its legal form, that being a "contractual right" to future consideration.

Due to the unique aspects of these types of rights, it is likely that an income approach (discounted cash flow) will be the best tool to estimate Fair Value. This requires the development of expected cash flows and an appropriately chosen discount rate. Estimated cash flows in their simplest form are determined by assessing the probability of payment at various points in time.

Cash flow assumptions should include the estimation of the likelihood and timing of various possible outcomes for achievement of the specified contingency and/or consider scenario-based projections relevant to the specified contingencies. The key starting point is to decompose the factors that would lead to a contingency being met (or not being met). The Valuer must identify sources of data to be used to support assumptions. It is often possible to keep the analysis relatively simple while still incorporating the material complexities of the contractual right, especially if the probability of success is low or the amount of the future consideration is small. As noted above, even though the accounting treatment of contractual rights differs (recognition as an asset in the financial statements vs. disclosure in notes to financial statements), Investors generally are in need of a Valuer's estimate of the Fair Value of such contractual rights or contingent gains.

5.10. Mathematical Models

Unlike derivatives and debt markets, mathematical option pricing models have not seen wide usage in the private equity marketplace. Such models are rarely used by Market Participants to determine the transaction price for an Investment. However, for certain early stage Investments, option pricing models (OPM) or probability-expected weighted return models (PWERM) are deemed by some to provide a reliable indication of Fair Value. In due course the IPEV Board expects to provide additional guidance on the use of OPM, PWERM and other techniques on the IPEV website, **http://www.privateequityvaluation.com/**, and in future updates to these Valuation Guidelines.

Appendix: Definitions

The following definitions shall apply in these Guidelines:

Active Market
A market in which transactions for an asset take place with sufficient frequency and volume to provide pricing information on an on-going basis. A financial instrument is regarded as quoted in an Active Market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The necessary level of trading required to meet these criteria is a matter of judgement.

Adjusted Enterprise Value
The Adjusted Enterprise Value is the Enterprise Value adjusted for factors that a Market Participant would take into account, including but not limited to surplus assets, excess liabilities, contingencies and other relevant factors.

Attributable Enterprise Value
The Attributable Enterprise Value is the Adjusted Enterprise Value attributable to the financial instruments held by the Fund and other financial instruments in the entity that rank alongside or beneath the highest ranking instrument of the Fund.

Blockage Factor
An adjustment that adds a discount or premia to the quoted price of a security because the normal daily trading volume, on the exchange where the security trades, is not sufficient to absorb the quantity held by the Fund. Blockage Factors are not permitted under US GAAP or IFRS.

Distressed or Forced Transaction
A forced liquidation or distress sale (i.e., a forced transaction) is not an Orderly Transaction and is not determinative of Fair Value. An entity applies judgement in determining whether a particular transaction is distressed or forced.

Enterprise
A commercial company or business financed through debt and equity capital provided by debt holders and owners.

Enterprise Value
The Enterprise Value is the total value of the financial instruments representing ownership interests (equity) in a business entity plus the value of its debt or debt-related liabilities, minus any cash or cash equivalents available to meet those liabilities.

Fair Value
Fair Value is the price that would be received to sell an asset in an Orderly Transaction between market participants given current market conditions at the Measurement Date.

Fund or Private Equity Fund
The Fund or Private Equity Fund is the generic term used in these Valuation Guidelines to refer to any designated pool of Investment capital targeted at all stages of private equity Investment from start-up to large buyout, including those held by corporate entities, limited partnerships and other investment vehicles.

Fund-of-Funds	Fund-of-Funds is the generic term used in these Valuation Guidelines to refer to any designated pool of investment capital targeted at investment in underlying Private Equity Funds.
Investee Company	The term Investee Company refers to a single Enterprise or group of Enterprises in which a Fund is directly invested.
Investment	An Investment refers to the individual financial instruments held by the Fund in an Investee Company.
Liquidity	A measure of the ease with which an asset may be converted into cash. A highly liquid asset can be easily converted into cash; an illiquid asset may be difficult to convert into cash. Liquidity represents the relative ease and promptness with which an instrument may be sold when desired.
Market Participants	Market Participants are potential or actual willing buyers or willing sellers when neither is under any compulsion to buy or sell, both parties having reasonable knowledge of relevant facts and who have the ability to perform sufficient due diligence in order to be able to make orderly investment decisions related to the Enterprise in the principal (or most advantageous) market for the asset.
Marketability	The time required to effect a transaction or sell an Investment. Accounting standards dictate that the Marketability period begins sufficiently in advance of the Measurement Date such that the hypothetical transaction determining Fair Value occurs on the Measurement Date. Therefore, accounting standards do not allow a discount for Marketability when determining Fair Value.
Measurement Date	The date for which the valuation is being prepared, which often equates to the reporting date.
Most Advantageous Market	The market that maximizes the amount that would be received to sell an asset after taking into account transaction costs and transportation costs.
Net Asset Value ('NAV')	NAV of a Fund is the amount estimated as being attributable to the investors in that Fund on the basis of the Fair Value of the underlying Investee Companies and other assets and liabilities.
Orderly Transaction	An orderly transaction is a transaction that assumes exposure to the market for a period prior to the Measurement Date to allow for marketing activities that are usual and customary for transactions involving such assets; it is not a Forced Transaction.
Principal Market	The market with the greatest volume and level of activity for the potential sale of an asset.

Quoted Instrument

A Quoted Instrument is any financial instrument for which quoted prices reflecting normal market transactions are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency.

Principal Market

The market with the greatest volume and level of activity for the potential sale of an asset.

Realisation

Realisation is the sale, redemption or repayment of an Investment, in whole or in part; or the insolvency of an Investee Company, where no significant return to the Fund is envisaged.

Secondary Transaction

A Secondary Transaction refers to a transaction which takes place when a holder of an unquoted or illiquid interest in a Fund trades their interest to another party.

Unquoted Instrument

An Unquoted Instrument is any financial instrument other than a Quoted Instrument.

Underlying Business

The Underlying Business is the operating entities in which the Fund has invested, either directly or through a number of dedicated holding companies.

Unit of Account

An accounting term which identifies the level at which an asset is aggregated or disaggregated for Fair Value recognition purposes. Unit of Account is dictated by individual accounting standards which are subject to interpretation. Because Fair Value accounting standards seek to reflect the economic behaviour and the perspective of Market Participants these Valuation Guidelines general use a Market Participant view in assessing the level of aggregation or disaggregation. For example where accounting guidance is open to interpretation, if a Market Participant would purchase an interest in a private company, not focusing on individual shares; the unit of account would be the overall interest purchased. However, if accounting standards clearly define unit of account, such guidance should be followed.

Valuer

The Valuer is the person with direct responsibility for valuing one or more of the Investments of the Fund or Fund-of-Funds.

Endorsing Associations

AFIC
(Association Française des Investisseurs pour la Croissance)

Established in 1984, AFIC has 280 active members covering all types of private equity activities in France. In addition, AFIC has 200 associate members from a wide range of related professions who support and advise investors and entrepreneurs in the structuring and management of their partnerships.

By virtue of its responsibilities in the areas of compliance, controlling and establishing generally accepted practices, AFIC is one of two associations recognized by the French Financial Market Authority (AMF). Management companies must be AFIC members in order to be certified by the AMF. AFIC is the only professional association focused on the private equity business.

AIFI
(Italian Private Equity and Venture Capital Association)

AIFI was founded in May 1986 in order to promote, develop and institutionally represent the private equity and venture capital activity in Italy.

The Association is a non-profit organisation whose main activities are: to create a favourable legal environment for the private equity and venture capital investment activity, to analyse the Italian private equity market collecting statistical data, to organize business seminars and specialized courses addressed to institutional investors and to people interested in operating within the industry, to publish research papers regarding specific topics about the private equity market, to build up stable and solid relationships with other National Venture Capital Associations and key players in the international private equity market.

In order to carry out the above-mentioned activities, AIFI can rely both on its permanent staff and on different Technical Committees established with the task to carry out activities of study on specific matters and projects.

AMEXCAP
(Asociación Mexicana de Capital Privado, AC)

The Mexican Private Equity Association (AMEXCAP) is a non for profit organization, created in 2003, representing venture capital/private equity funds that actively invest in Mexico. Additionally, other affiliates that play an important role in the sector are members of the Association such as top consulting and law firms that are active in Mexico.

AMIC
(Moroccan Venture Capital & Private Equity Association)

Founded in 2000, AMIC is an independent professional association whose mission is to unite, represent and promote the private equity profession to local and international investors, entrepreneurs and governmental bodies.

AMIC counts 20 active members and 16 associated members (see list of members on our website).

The main mission of the association is to strengthen the private equity industry's competitiveness in Morocco and abroad through:

- Effective and clear communication on the private equity industry
- Executing reliable reports and surveys on the state of private equity in Morocco
- Active participation in discussions on any draft law regulating the sector
- Establishing a good governance and ethics code for the private equity industry and promoting compliance with such code
- Providing support services to members on regulatory issues related to the profession
- Development of a quality training program on all aspects of the private equity industry

Contact: Françoise Giraudon – De Donder fgiraudon@amic.org.ma

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www.amic.org.ma

APCRI
(Portuguese Private Equity and Venture Capital Association)

APCRI was established in 1989 and is based in Lisbon. APCRI represents the Portuguese private equity and venture capital sector and promotes the asset class. APCRI's role includes representing the interests of the industry to regulators and standard setters; developing professional standards; providing industry research; professional development and forums, facilitating interaction between its members and key industry participants including institutional investors, entrepreneurs, policymakers and academics. APCRI's activities cover the whole range of private equity: venture capital (from seed and start-up to development capital), buyouts and buyins. APCRI represents the vast majority of private equity and venture capital in Portugal. APCRI has 16 full members and 5 associate members. Full members are active in making equity investments primarily in unquoted companies. The associate membership can include those firms who invest directly in private equity but for whom this is not their principal activity, advisory firms experienced in dealing with private equity and educational or research based institutions closely associated with the industry.

ASCRI

ASCRI is a non-profit making association that was set up in 1986, to promote and develop the venture capital and private equity activity in Spain and represent, manage and defend its members' professional interests. The Association stimulates the promotion and information analysis in the venture capital/private equity sector in Spain, and provides the contact between Official Organisations, investors, professional advisers, business schools and other relevant institutions. At the end of May 2005, ASCRI had 84 full members and 28 associate members. The ASCRI's main activities are: Research activity, Organisation of different events such as: Annual General Assembly, ASCRI Congress, Training Seminars and Conferences/Workshops, Communication of investment opportunities between ASCRI members, and Institutional and lobbying activity.

ATIC
(Tunisian Association of Capital Investors)

The Tunisian Association of Capital Investors (ATIC) was created in 2004 to represent Tunisian managers of venture capital or private equity funds, whether using the SICAR, FCPR or Seed Capital type of vehicle. It is the official industry association vis-a-vis public authorities.

Goals of ATIC:

- Boost private investment through private equity resources;
- Offer a strategic support to PE players in Tunisia and contribute to their good governance;
- Lobby on behalf of the PE players with the Ministry of Finance, the market authorities, the parliament, and other governmental entities in order to help the investment environment and the regulation evolve and become more investor friendly;
- Help grow, develop and rebuild the economy;
- Help improve national productivity.

Committees, and working groups:
The purpose of these bodies is to come up with recommendations to reform the profession:

- Investor relations committee;
- Committee for judicial, legislative, and fiscal issues;
- Committee for statistics and communication;
- Committee for training;
- Committee for research;
- Fiscal Committee;
- Committee for Investment.

The ATIC has 45 members:

- 6 regional SICARs
- 9 banks, research firms, lawyers, etc.
- 7 Management Companies/GPs
- 16 Banking SICARs
- 18 Group SICARs

– Banking SICARs are funds (captive subsidiaries) of banking institutions that invest in SMEs;
– Private SICARs are affiliates of family-owned groups in Tunisia that invest in affiliates of the groups;
– The Management Companies are independent VC or PE teams that manage funds raised from local and international third parties;
– Regional SICARs are special funds created by the government to foster investments in challenging regions that lack private investments.

Most of these funds have been created thanks to fiscal incentive schemes implemented by the government to spur private investment in the country, either in specific sectors or in less developed regions.

AVCA
(African Venture Capital Association)

AVCA is an industry association supporting African private equity and venture capital investors through research, information dissemination, industry gatherings, advocacy, and training.

We represent African private equity and venture capital firms, institutional investors, foundations, international development institutions and global professional service firms, amongst others.

AVCAL
(Australian Private Equity and Venture Capital Association)

AVCAL represents the interests of Australia's venture capital and private equity industry. AVCAL's 50 investor members have A$10 billion under management.

AVCAL's roles include: promotion of the industry, education of practitioners, public policy development, staging networking events, application of valuation & disclosure guidelines, benchmarking IRRs, development of industry standard Limited Partnership agreement. AVCAL conducts about 40 networking events annually across Australia, and leverages its online presence at www.avcal.com.au for maximum efficiency.

AVCO
(Austrian Private Equity and Venture Capital Organisation)

AVCO is the National Association of Austria's private equity and venture capital industry, which covers more than 90% of the Austrian private equity market with its members.

- It works as a knowledgeable partner and independent information point for journalists, entrepreneurs, potential investors, private and public institutions as well as international bodies that are interested in Austria's private equity industry, its development and structure as well as its activities and performance.
- It acts as the official representative of the industry actively engaged in improving the tax-related, legal and economic policy environments in close connection with respective policy makers.
- As a proactive networking institution it promotes co-operation inside the industry as well as interaction with complementary players from other fields in order to intensify information flows and create learning loops.
- In addition it takes the role of an interface to international organisations exchanging experience, information and knowledge with other Private Equity and Venture Capital Associations in Europe, with the European Commission and further relevant institutions in order to put international best practice at work for Austria.

Currently AVCO is engaged to initiate internationally favourable private equity fund structures for Austria and recently AVCO has published Investor Relations Guidelines – behavioural standards for its members vis-à-vis their fund investors – in order to raise transparency and faith in private equity as a professional asset class in Austria.

In line with these efforts AVCO welcomes the International Private Equity and Venture Capital Guidelines and will be eager to support their introduction and accurate application by its members.

BVA
(Belgian Venture Capital & Private Equity Association vzw/asbl)

BVA was founded in 1986 as a professional association.

Its mission is to:

- Animate the Belgian private equity and venture capital industry by deploying a series of activities for its members and for other stakeholders in the prosperity of the VC/PE sector in Belgium. The objectives of the main animation activities are: to foster active networking amongst members of the BVA and between members of the BVA and other third parties, to provide extensive information to its members on all topics relevant to the VC/PE industry, to improve the quality of the operation of the sector.
- Promote the well-being of the Belgian private equity and venture capital industry towards all relevant third parties. The objectives of the promotional activities are:
  - to pro-actively represent the Belgian VC/PE industry to third parties as the industry's recognized spokesperson, to conduct active lobbying for (i) improvements to or (ii) the removal of obstacles from the structural context in which the Belgian VC/PE industry operates, to contribute to the continuous development of business in our industry.

BVCA
(The British Private Equity & Venture Capital Association)

The British Private Equity & Venture Capital Association (BVCA) is the industry body and public policy advocate for the private equity and venture capital industry in the UK. We drive forward the case for private equity and venture capital as the engine room of entrepreneurship and economic growth. As our members support growing businesses, so we support the collective impact of their investment by demonstrating its value to Government, the media and society at large.

More than 500 firms make up the BVCA membership and this number continues to grow. We represent 230 private equity, midmarket and venture capital firms with an accumulated total of over £200 billion funds under management; as well as nearly 300 professional advisory firms, including legal, accounting, regulatory and tax advisers, corporate financiers, due diligence professionals, environmental advisers, transaction services providers, and placement agents. Additional members include international investors and funds-of-funds, secondary purchasers, academics and fellow national private equity and venture capital associations globally.

We provide our members and the wider industry community with a comprehensive portfolio of services and best practice standards including leading professional development courses, research, networking opportunities, proprietary publications and topical conferences, all designed to ensure our members and their teams have access to the broad range of skills and tools required to drive their firms and the industry forward.

www.bvca.co.uk
+44 (0)20 7420 1800

BVK
(Bundesverband Deutscher Kapitalbeteiligungs - gesellschaften – German Private Equity and Venture Capital Association e. V.)

BVK was founded in 1989. BVK represents most of the German private equity and venture capital firms as well as the German branches of foreign private equity and venture capital firms. As per March 31, 2005, BVK represented more than 180 private equity and venture capital firms. Apart from full membership BVK offers associate membership to companies and organizations working in this particular business sector, i.e. accountants, lawyers, consultants etc.

BVK serves as a link between government and business and represents its members' views, needs and problems while supplying information and discussing any particular political and economic subject with the relevant governmental institutions.

Science and research are becoming more and more interested in private equity and venture capital issues. BVK supports universities, colleges and their students with their research activities and problem solving.

On the international level BVK exchanges information with other national organizations in the economic sector and other international private equity and venture capital associations.

CAPE
(China Association of Private Equity)

The CAPE is a voluntary union and non-profit social group, jointly established by private equity industry players. CAPE has been guided and supported by relevant state authorities; Adhering to the principles of "Standardization, Internationalization, and Marketization", it provides services to various funds and intermediary institutions registered in China. We are also committed to building the self-regulatory discipline of the PE industry, safeguarding the legitimate rights and interests of members, improving member's professional capabilities, strengthening communication and cooperation among members as well as domestic and foreign PE investors, in order to promote the sound development of China's PE industry.

CAPE's main tasks are:

- Building the self-regulatory mechanisms of the PE industry
- Promoting the sound operation of China's PE industry and improving the regulatory environment
- Providing series of fund registration services
- Organizing relevant activities, building a communications platform for industry players
- Building an industry database, media platform, education and training system; improving research capability
- Cooperating with foreign institutions, upgrading industrial influence

www.chinacape.org

CVCA
(Canada's Venture Capital & Private Equity Association)

The CVCA – Canada's Venture Capital & Private Equity Association, was founded in 1974 and is the sole national representative of Canada's venture capital and private equity industry. Its over 1800 members are firms and organizations which manage the majority of Canada's pools of capital designated to be committed to venture capital and private equity investments.

CVCA members' collectively manage over $85 billion. CVCA's members actively collaborate to increase the flow of capital into the industry and expand the range of profitable investment opportunities.

This is accomplished by the CVCA undertaking a wide variety of initiatives, ranging from developing comprehensive performance and valuation statistics, education and networking activities to promoting the industry's interests with governments and regulatory agencies.

www.cvca.ca

CVCA
(China Venture Capital Association)

The China Venture Capital Association ("CVCA") is a member-based trade organization established to promote the interest and the development of venture capital ("VC") and private equity ("PE") industry in the Greater China Region. Currently CVCA has close to 100 member firms, which collectively manage over US$100 billion in venture capital and private equity funds.

CVCA's member firms have long and rich experience in private equity and venture capital investing worldwide and have made many successful investments in a variety of industries in China, including information technology, telecommunications, business services, media and entertainment, biotechnology, consumer products, and general manufacturing.

CVCA's mission is to foster the understanding of the importance of venture capital and private equity to the vitality of the Greater China economy and global economies; to promote government policies conducive to the development of VC and PE industry; to promote and maintain high ethical and professional standards; to facilitate networking and knowledge sharing opportunities among members; and to provide research data, industry publications and professional development for PE and VC investors.

CVCA is incorporated in Hong Kong with a representative office in Beijing. Funding for CVCA's activities come from membership dues. CVCA's membership is open to all China-focused professional venture capital and private equity organizations and corporate venture capital investors, and is also open to the related professional companies, which can join as CVCA associate members. CVCA has three liaison officers in Shanghai, Xi'an and Silicon Valley respectively facilitating local networking and communication.

CVCA
(Czech Venture Capital and Private Equity Association)

CVCA is an association representing companies active in the private equity and venture capital industry in the Czech Republic. CVCA has full members (private equity and venture capital fund managers) and associated members (companies providing advisory services to the private equity and venture capital industry). CVCA has 14 full members and 16 associated members as of May 2005.

CVCA's priorities are: increasing the awareness about private equity/venture capital among entrepreneurs, state administration and general public, promoting interests of CVCA members in contact with the government and other state authorities, providing information on the private equity/ venture capital industry in the Czech Republic, providing platform for discussion among members of CVCA.

DVCA
(Danish Venture Capital and Private Equity Association)

DVCA is an association with the goal of strengthening its member's business, network, and competences. DVCA includes a broad range of high tech investors in Denmark. Furthermore the organisation covers the whole investment chain from individual business angels over venture capital companies to private equity and institutional investors.

DVCA was founded in 2000 and was in 2004 merged with the formerly known Danish Business Angel Network. The association is situated in the Old Stock Exchange, Slotsholmsgade, Copenhagen.

www.dvca.dk.

EMPEA
(Emerging Markets Private Equity Association)

The Emerging Markets Private Equity Association (EMPEA) is an independent, global membership association whose mission is to catalyze private equity and venture capital investment in emerging markets around the world. With access to an unparalleled global network, EMPEA provides its members a competitive edge for raising funds, making good investments and managing exits to achieve superior returns. Our 300+ member firms, representing nearly 60 countries and more than US$1 trillion in assets under management, include the leading institutional investors and private equity and venture capital fund managers across developing and developed markets.

EMPEA believes that private equity can provide superior returns to investors while creating significant value for companies, economies and communities in emerging markets. Despite significant differences across emerging market regions, private equity firms face important common challenges and opportunities. EMPEA's global programming addresses these challenges through industry data, research, analysis, conferences, peer-to-peer networking and advocacy.

In pursuit of its mission, EMPEA works closely with national and regional venture capital associations, as well as international organizations and local governments.

www.empea.org

EVCA
(European Private Equity and Venture Capital Association)

The EVCA is the voice of European private equity.

We represent venture capital, mid-market private equity, the large majority investors and institutional investors, speaking for 700 member firms and 400 affiliate members.

In the last five years, EVCA members have invested 160 billion euros in 7,000 companies across Europe, making a valuable contribution to growth and innovation.

The EVCA shapes the future direction of the industry, while promoting it to stakeholders like entrepreneurs, business owners and employee representatives.

We explain our industry to the public and engage in debate with policymakers, so that our members can conduct their business effectively.

The EVCA is responsible for the industry's professional standards, demanding accountability, good governance and transparency from our members and spreading best practice through our training courses.

Thanks to our industry research teams, we have the facts when it comes to European private equity. The EVCA has 25 dedicated staff working in Brussels to make sure the industry is heard.

FVCA
(The Finnish Venture Capital Association)

The Finnish Venture Capital Association (FVCA) was established in 1990. The main objective of the FVCA is to enhance public confidence in venture capital and private equity, and also to increase awareness of venture capital and private equity as a part of established financial markets.

The FVCA aims to improve the conditions for venture capital/private equity activity in Finland by overseeing the general interests and business-ethics of the industry together with governmental and other institutions as well as by assisting in improving professional practices, co-operating with other national associations, and generating statistics regarding the industry.

The FVCA also strives to develop the business environment by, among other things, contributing to the creation and development of appropriate legal, fiscal and operational environments for investors as well as entrepreneurs.

Furthermore, the FVCA defines best practices and operational principles for the industry, while requiring members to comply with the FVCA Code of Conduct. The association also creates a unique network of contacts within the Finnish private equity and venture capital industry by providing a forum for exchange of views and experiences among its members and interest groups.

The FVCA has 39 full members who represent the vast majority of the Finnish venture capital and private equity companies. Full membership has been approved for equity investors and risk financiers representing private and public investment capital, captive funds and corporate ventures.

In addition, the FVCA has 51 associate members. Associate membership can be given to organizations and individuals with an interest in the venture capital and private equity industry.

www.fvca.fi

HKVCA
(Hong Kong Venture Capital Association)

Hong Kong Venture Capital Association was established on November 12, 1987 with the objectives of promoting and protecting the interests of the venture capital and private equity industry, networking and cooperation on regional and international front, and in raising the professional standards of the market.

Its 120 members are engaged in all levels of venture capital, expansion capital and buyout activities in China, Japan, Korea, Australia, Taiwan, Thailand, Singapore, and other markets in Asia. It is committed to the promotion of the venture capital industry as a financial and business partner to businesses and the creation of an environment that creates sound partnerships. It is dedicated to developing a high standard of professionalism in the market to ensure investor confidence in the asset class.

The Association provides an effective channel of communication for members to share information on developments within the industry in Hong Kong/PRC as well as on a regional and international level. It also works closely with the government and various trade bodies to further the interests of the industry.

HVCA
(Hungarian Venture Capital and Private Equity Association)

HVCA represents virtually every major source of funds and expertise of private equity in Hungary. HVCA aims to promote the development of the industry, and to create and follow the highest possible professional and ethical standards. HCVA was set up in 1991 and has developed considerably since then: the original five members have grown to 26 full members, 29 associate members and 9 individual members.

The Association provides a regular forum for the exchange of ideas among members, high-level discussions on the topical issues of the venture capital and private equity industry and the future trends. As the official representative of the industry it is in constant discussion with the financial and legislator institutions of the Hungarian State and with other professional organisations.

ILPA
(Institutional Limited Partners Association)

The ILPA is a non-profit organization committed to serving limited partner investors in the global private equity industry by providing a forum for: facilitating value-added communication, enhancing education in the asset class, and promoting research and standards in the private equity industry.

Initially founded as an informal networking group, the ILPA is a voluntary association funded by its members. The ILPA membership has grown to include more than 138 member organizations from 10 countries, who in total have assets under management in excess of two trillion U.S. dollars. Members of the ILPA manage more than US$300 billion of private equity capital.

The ILPA membership comprises corporate and public pension plans, endowments and foundations, insurance companies and other institutional investors in private equity. The ILPA holds semi-annual meetings for members.

IVCA
(Irish Venture Capital Association)

The IVCA is the representative body of the venture capital industry in Ireland. The association was established in 1985 to represent the views of its members and to promote the Irish venture capital industry. We seek to encourage co-operation and best practices within the industry and to facilitate those seeking venture capital.

The IVCA also continuously works with those individuals and organisations committed to fostering an economic and regulatory climate conducive to the growth and development of an enterprising economy.

LAVCA
(Latin American Private Equity and Venture Capital Association)

The Latin American Private Equity and Venture Capital Association (LAVCA) is comprised of over 150 firms, from leading global investment firms active in the region to local fund managers from Mexico to Argentina. Member firms control assets in excess of $50 billion, directed at capitalizing and growing Latin American businesses.

LAVCA plays an active role in the advocacy of sound public policy, and publishes annual ranking of the PE/VC environments of 12 key markets in Latin America.

LAVCA also produces targeted research and proprietary industry data, with nearly 200 firms reporting annual fundraising, exits and investments. In addition, the association's activities include investor education programs targeting global and Latin American LPs and networking forums in the US, Chile, Peru and Colombia.

www.lavca.org

LPEQ
(LPEQ Listed Private Equity)

LPEQ is an association of international listed private equity companies. Our goal is to increase awareness and understanding of listed private equity among institutional and retail investors, their advisers, commentators and the public.

www.LPEQ.com

LVCA
(Latvian Venture Capital Association)

To promote the development of venture capital sector in Latvia, the six biggest companies that operate in the venture capital sector in Latvia have founded a public organization: the Latvian Venture Capital Association. The founders of the association are fund management companies that manage investment funds of different value and function profile.

LVCA has the following missions: to inform businessmen and society about venture capital financing possibilities, to promote the exchange of opinions and experience of the members of the association, to represent opinions and interests of the members in negotiations with public authorities, to organize and to ensure cooperation with international or other countries' venture capital associations.

MENA Private Equity Association

The MENA Private Equity Association is a non-profit entity committed to supporting and developing the private equity and venture capital industry in the Middle East and North Africa.

The Association aims to foster greater communication within the region's private equity and venture capital net¬work and facilitate knowledge sharing in order to encourage overall economic growth, and will actively promote the industry's successes to local stakeholders and build trust with investors, regulators and the public regionally and internationally.

NVCA
(Norwegian Venture Capital & Private Equity Association)

NVCA is a non-profit association supporting the interests of the companies active in the Norwegian industry. NVCA was established in 2001 by the leading players, and represents today around 40 Norway-based private equity and venture capital firms, the vast majority of such firms in Norway. The 20 associated members are service providers to the industry such as lawyers, advisors, investors and corporate finance companies.

The purpose of the association is to promote an efficient private equity market, to improve the regulations of the industry, to promote entrepreneurship and to ensure political focus on Norway's position as a strong and attractive country for international investments. NVCA provides knowledge, analysis and general information to the Government and media to communicate the importance of the industry and it's role in the national innovation system and the general industrial development in Norway. NVCA is in this way the public face of the industry providing services to its members, investors and entrepreneurs as well as the Government and media.

NVP
(Nederlandse Vereniging van Participatiemaatschappijen)

The Dutch Private Equity & Venture Capital Association acts in the interests of private equity companies in the Netherlands. The aims of the NVP are: in cooperation with the government, work on an adequate regulatory framework for the private equity sector and its clients; inform entrepreneurs and businesses about the financing possibilities of private equity; inform investors about the characteristics of private equity as an asset class; raise awareness and improve the image of private equity to achieve aforementioned goals; contribute to further raising the level of professionalism of the private equity sector.

The NVP has about 70 members and 85 associated members. Members of the NVP represent 95% of the number of private equity investments and about 85% of the total invested capital in the Netherlands. More information about the activities of the NVP and its members can be found on www.nvp.nl.

NZVCA
(New Zealand Private Equity & Venture Capital Association Inc.)

The NZVCA's mission is to develop a world-best venture capital and private equity environment for the benefit of investors and entrepreneurs in New Zealand.

Our activities cover the whole spectrum of investment in New Zealand private enterprise including Angel investment, seed and early-stage venture capital through to development capital and private equity (including management buy-outs and buy-ins).

PSIK
(Polish Private Equity and Venture Capital Association)

PSIK represents private equity management firms operating in Poland. Its mission is to promote and develop the private equity and venture capital industry in Poland. PSIK comprises 87 institutions: 41 private equity management firms (full members) and 46 associate members that are law and consulting companies as well as banks cooperating with the private equity and venture capital industry.

The full members have more than EUR 21 billion under management and have invested in more than 700 Polish and CEE companies.

www.psik.org.pl.

Réseau Capital

(Quebec's Private Equity and Venture Capital Association) Réseau Capital, Quebec's Private Equity and Venture Capital Association, is the only private equity association that brings together all stakeholders involved in the Quebec investment chain.

Mission

The mission of Réseau Capital is to contribute to the development and efficient operation of the private equity industry, which plays a major role in the development and financing of businesses in Québec. Founded in 1989, Réseau Capital has more than 425 members representing private equity, labour-sponsored and other retail funds and public investment companies as well as banks and insurance companies, accounting and law firms, along with many professionals working in the field.

Main objectives

Réseau Capital works to promote the private equity industry in Québec through activities in five areas: ***training*** (provide members with access to training to keep them current on various issues they encounter and ways to deal with them), ***information*** (identify and effectively communicate information, particularly about the industry and various issues, to meet members' needs), ***networking*** (organize events for members to meet and network with other industry stakeholders, develop or enhance business relationships, and advance their knowledge in a friendly environment), ***promotion*** (promote understanding of the private equity ecosystem and inform direct and indirect industry players, the media, government authorities and the general public about the industry's achievements and economic contributions) and ***representation*** (ensure that the mutual interests of its members are taken into account by the various regulatory and governmental bodies when establishing policies or regulations and solve challenges in the private equity industry in the mutual interest of various members).

The full members have more than EUR 21 billion under management and have invested in more than 700 Polish and CEE companies.

RVCA
(Russian Private Equity and Venture Capital Association)

RVCA was set up in 1997. The central office of RVCA is situated in St.Petersburg. Today RVCA unites about 60 members more than half of them are private equity and venture capital funds.

RVCA's mission is to contribute to establishment and development of venture industry in Russia. RVCA's goals are: to create a political and entrepreneurial environment favorable for investment activity in Russia, to represent RVCA's interests in political and administrative agencies, in mass media, in financial and industrial circles in Russia and abroad, to provide informational support and create communicative forums for Russian venture market players, to create the stratum of experts qualified to work in venture business companies.

RVCA is the unique professional organization in Russia units the progressive financial institutions investing in private Russian companies. RVCA is generally accepted in the business community and by the Russian Government.

SAVCA
(South African Venture Capital and Private Equity Association)

SAVCA is a non-profit company based in South Africa that represents the interests of the participants of the private equity and venture capital industry in Southern Africa. All the key participants in the industry are members of the Association. Membership of SAVCA provides a high level of endorsement and denotes a high level of professionalism and integrity for the member firm. SAVCA plays a meaningful role in the Southern African private equity and venture capital industry by promoting the industry and its members, promoting self-regulation, setting professional standards, lobbying, disseminating information on the industry, arranging training for the staff of its members and researching the industry in South Africa.

SAVCA represents over 70 private equity and venture capital fund managers, the industry has over R 100 billion (c.US$ 12.5 billion) in funds under management with approximately 400 professionals.

www.savca.co.za

SECA
(Swiss Private Equity and Corporate Finance Association)

SECA is the representative body for Switzerland's private equity, venture capital and corporate finance industries. SECA has the objective to promote private equity and corporate finance activities in Switzerland. Members of the SECA include equity investment companies, Banks, Corporate Finance Advisors, Auditing Companies, Management Consultants and Private Investors.

The association is a non-profit organization and has the following purposes: to promote corporate finance and private equity activities in the public and the relevant target groups, to promote the exchange of ideas and the cooperation between members, to contribute to the professional education and development of the members and their clients, to represent the members views and interests in discussion with government and other bodies, to establish and maintain ethical and professional standards.

In addition to promoting corporate finance in the public, SECA provides a platform to its members to exchange information and experiences. The main activities of SECA are: seminars and events about relevant topics, publication of statistics about private equity investment and management buyout activities in Switzerland, weekly edition of a SECA eNewsletter (for free), contacts of other associations and state bodies.

SLOVCA
(The Slovak Venture Capital Association)

SLOVCA was created in 1995 with primary purpose to increase the awareness of private equity and venture capital to the public, such as the entrepreneurs, investment and banking institutions and the economic, political and regulatory bodies in Slovakia.

The mission of SLOVCA includes five key objectives: to provide information to those seeking capital for new and existing enterprises, to represent the interests of members before the government and other related institutions/agencies, to provide a forum for networking for members to exchange views and practices, to provide education and training for members of SLOVCA and others, to encourage the highest standards of business practices.

SVCA
(Singapore Venture Capital & Private Equity Association)

Established in 1992, the Singapore Venture Capital & Private Equity Association (SVCA) is a not-for-profit organisation formed to foster the growth of venture capital (VC) and private equity (PE) in Singapore and around the region. From a humble start of 2, our membership now exceeds 100 and continues to grow with the industry's development.

Since its inception, SVCA has championed various efforts to promote the local VC/PE industry through talks, workshops, seminars, conferences and networking events. The thrusts of SVCA continues to be (1) fostering a greater understanding of the importance of venture capital and private equity to the Singapore economy in support of entrepreneurship and innovation; (2) representing the local VC/PE industry in and outside of Singapore; (3) nurturing an environment conducive for advancing VC/PE investment and profession; and (4) providing a platform to match fund-seeking businesses with our members and the investment community.

For more information please visit: www.svca.org.sg.

SVCA
(The Swedish Private Equity and Venture Capital Association)

The SVCA represents around 110 private equity firms as well as business angels and service providers. Sweden is one of the leading private equity markets with annual private equity investments over 1% of the national GDP. The Association was established 1985 and its objective is to work towards a well-functioning private equity industry in Sweden. This is done by supplying information and working for the professional development of the industry.

We aim to inform about how the industry functions and what frameworks are needed to facilitate entrepreneurs and investors so that together they can help the development of the Swedish economy and industry that is necessary for the country's future prosperity. We also inform about how investments in private equity funds have yielded a good profit over the long term for pension funds and other institutional investors. We work for the professional development of players active in the industry through education, ethical guidelines, transparency and valuation principles, networking and seminars with the participation of international colleagues, amongst many other things.

See www.svca.se for more information.