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## **Benchmarking Insights**

PwC's asset management perspectives and analysis

# *Asset Management Benchmarking - Valuation*

July 2015



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# *Introduction and Survey Demographics*

## *Section 01*

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# Introduction

Alternative asset managers continue to face a challenging environment amidst pressure from competitors, regulators, and investors. To help respond effectively to these demands, PwC's Asset Management practice is delighted to publish results from our Alternative Asset Management Benchmarking Series designed to gather, analyze, and share information about key industry trends and metrics. In this report, we present the results from our valuation survey addressing selected valuation practices and the U.S. GAAP ASU 2011-4 disclosures that were included in the 2014 financial statements of hedge funds and private equity funds. Other topics covered in our Benchmarking Series include practices and selected metrics related to Fund Administration and Governance.

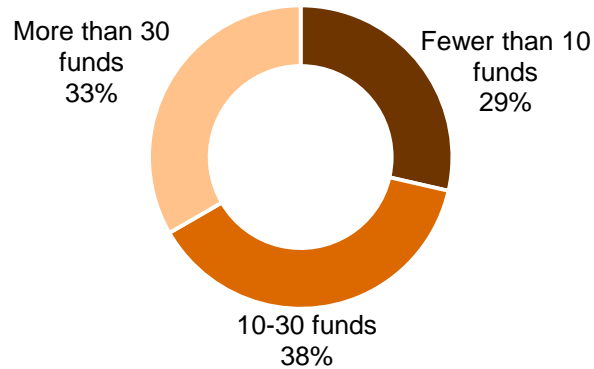
In total, 42 alternative firms participated in our benchmarking study. Because of the number of participants and the diverse nature of alternative asset managers, these results should not be considered representative of all alternative asset management firms. Where possible, managers were segmented into three different organization types based on their dominant strategy:

- Hedge Funds – Organizations that have more than 50% of their AUM in hedge fund strategies such as long/short equity, multi-strategy, credit, etc.
- Private Equity – Organizations that have more than 50% of their AUM in private equity strategies such as buy-out, venture capital, growth, distressed PE, etc.
- Other – Organizations that have more than 50% of their AUM in fund-of-fund strategies, or indicate they are a business development company

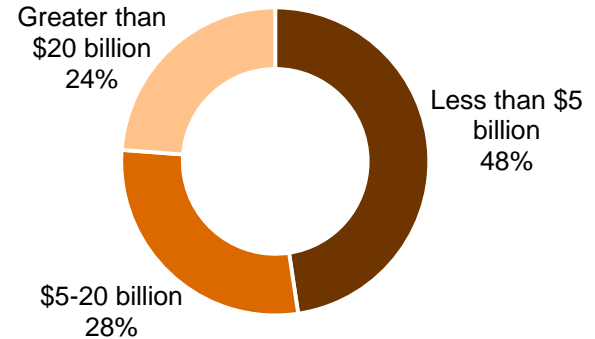
We hope that you find these results interesting.

# Survey Demographics

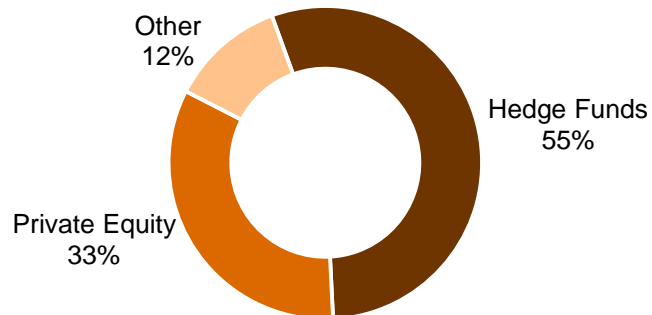
## Number of Funds Managed



## Assets Under Management

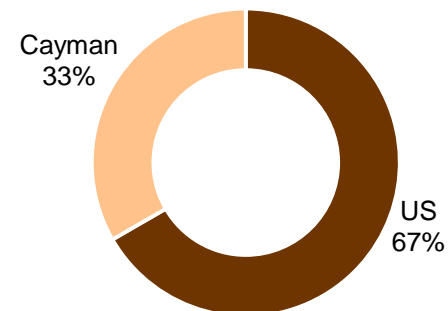


## Type of Organization

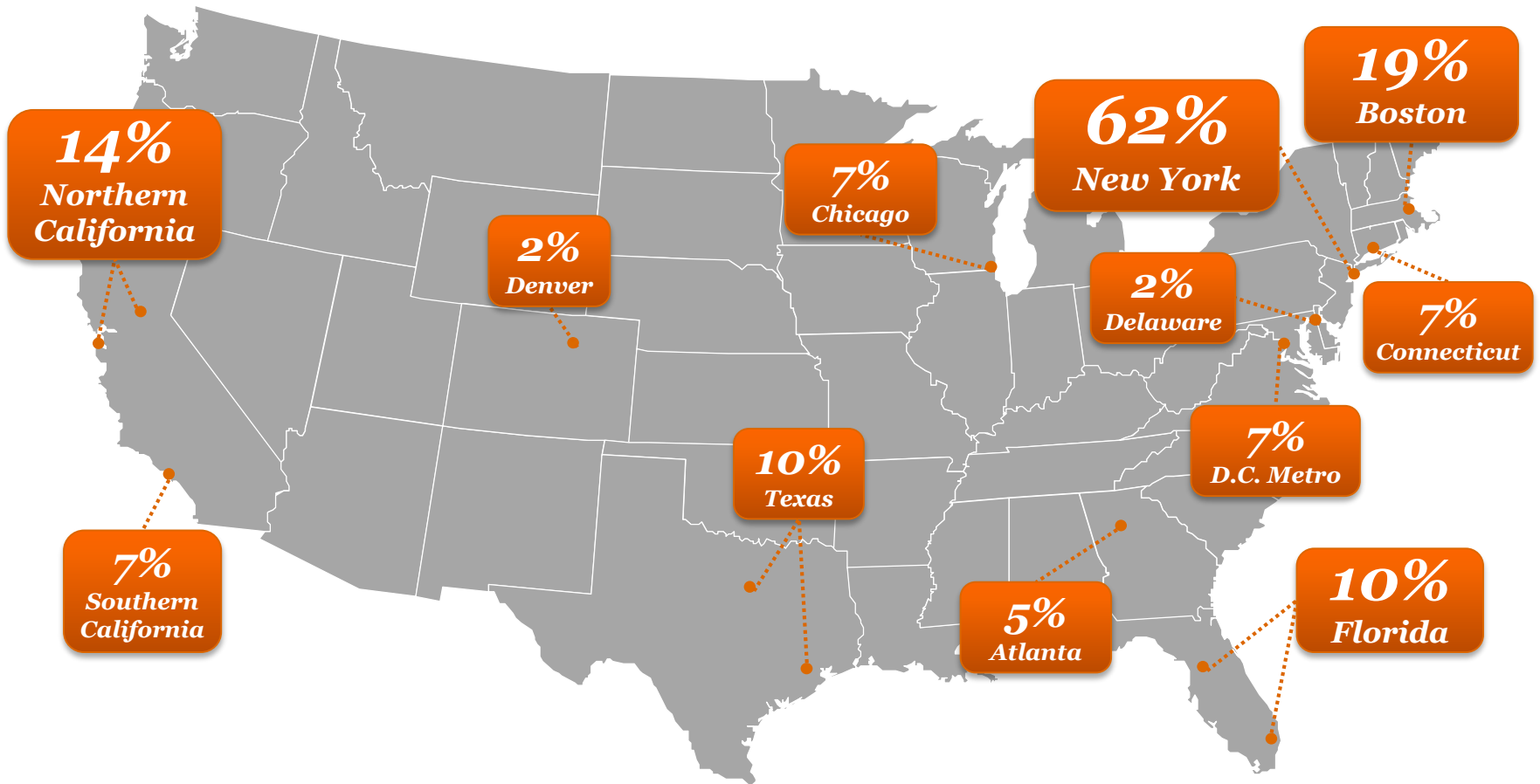


**Other** include BDCs and Fund of Funds

## Primary Domicile of Funds



# Advisor's Office Locations



**NOTE:** Advisors were given the option to select multiple locations, therefore percentages will not sum to 100%

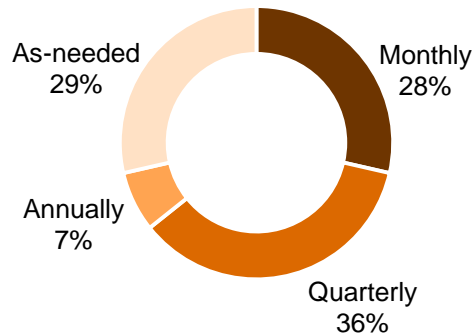
# *Valuation*

*Section*

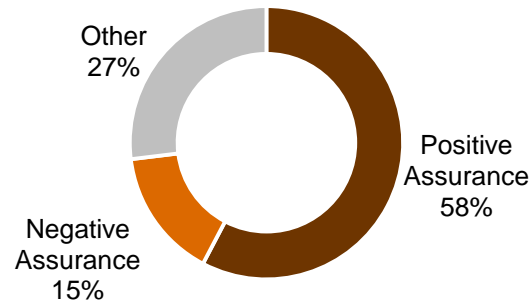
**2**

# Third Party Valuation Services

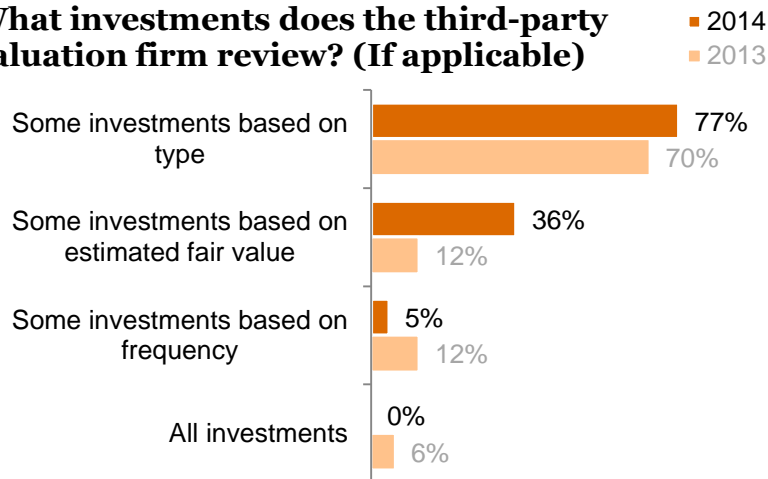
**What is the frequency of valuation firm reviews/reports?**



**What is the nature of valuation reports received?**



**What investments does the third-party valuation firm review? (If applicable)**



Positive Assurance:

A report that includes a determination as to whether or not the reviewer believes the valuation is presented in conformity with the applicable valuation framework.

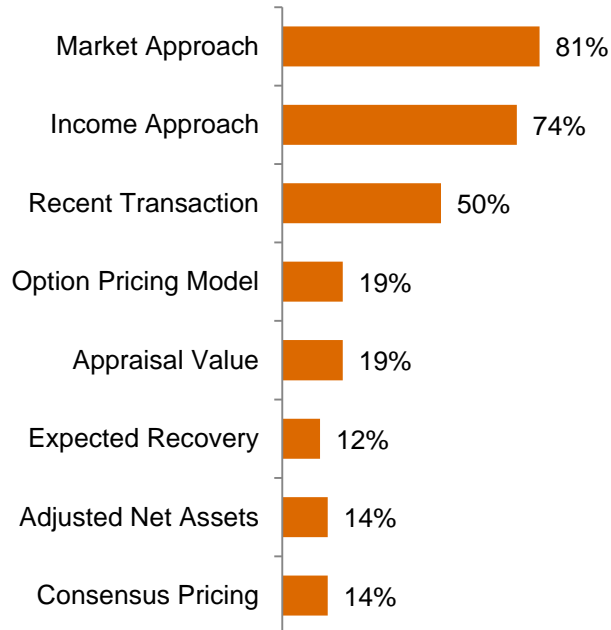
Negative Assurance:

A report that does not include an actual determination from the reviewer about the appropriateness of the valuations but states that they are not aware of any evidence to the contrary. (e.g. "We are not aware of material modifications that should be made to the valuations for them to conform with the applicable framework.")



# Valuation and Third-Party Pricing (All Respondents)

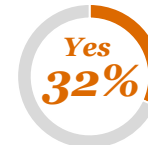
## Valuation approaches used (Select all applicable):



Client's totals included in the 2011-4 table agree with the totals per the CSI:



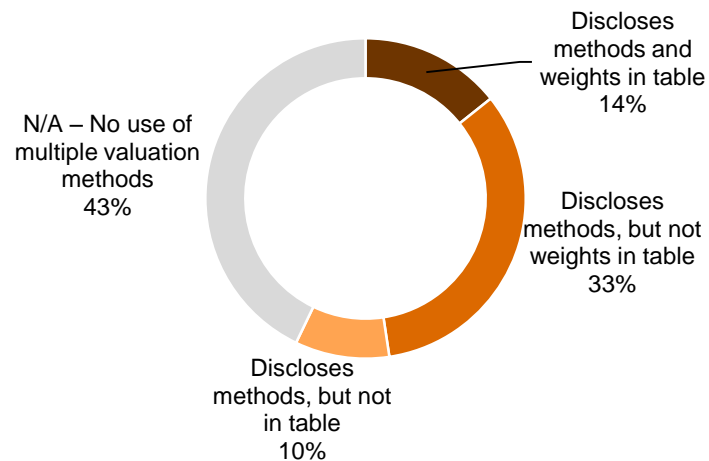
Client utilizes third-party pricing exception to disclosures about significant inputs:



Client includes the weighted average input disclosure in their 2011-4 table:



## Which of the following best describes how multiple valuation methodologies are used for a given investment in the 2011-04 table?



## *Most common inputs disclosed in 2011-4 table (All Respondents)*

### *When using the Market Approach, the most common inputs were:*

EV / EBITDA Multiple	73%
Production Multiple	53%
Discount Rates	43%
Exit Vacancy	28%
Price / NAV	25%

### *When using the Income Approach, the most common inputs were:*

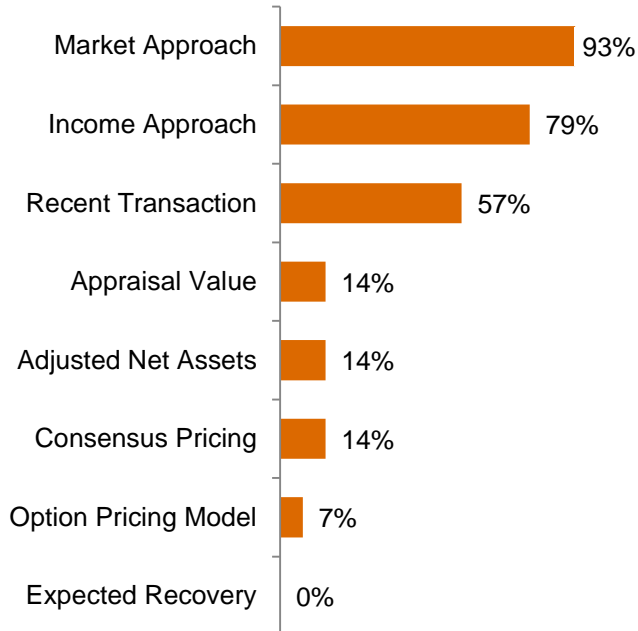
Discount Rates	70%
EV / EBITDA Multiple	40%
WACC	38%
Production Multiple	28%
Spread	25%

### *When using the Recent Transaction approach, the most common inputs were:*

Price / NAV	18%
EV / EBITDA Multiple	15%
Discount Rates	13%
Interest Rates	13%

# Valuation and Third-Party Pricing (Private Equity)

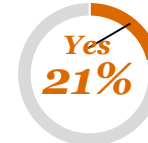
## Valuation approaches used (Select all applicable):



Client's totals included in the 2011-4 table agree with the totals per the CSI:



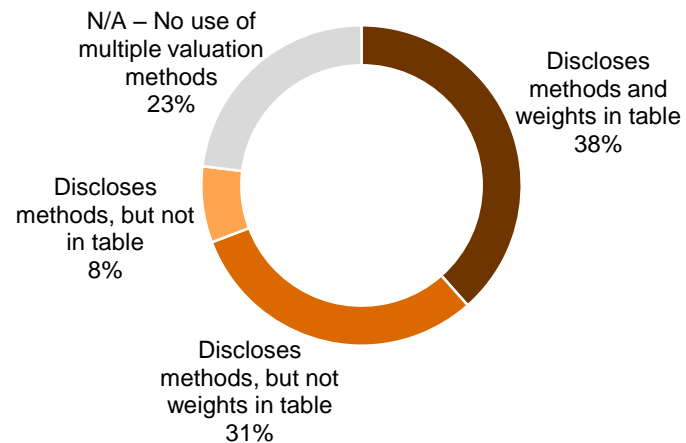
Client utilizes third-party pricing exception to disclosures about significant inputs:



Client includes the weighted average input disclosure in their 2011-4 table:



## Which of the following best describes how multiple valuation methodologies are used for a given investment in the 2011-04 table?



## *Most common inputs disclosed in 2011-4 table (Private Equity)*

### *When using the Market Approach, the most common inputs were:*

EV / EBITDA Multiple	92%
Production Multiple	77%
Discount Rates	38%
Exit Vacancy Rates	38%
Loss Severity Rates	23%

### *When using the Income Approach, the most common inputs were:*

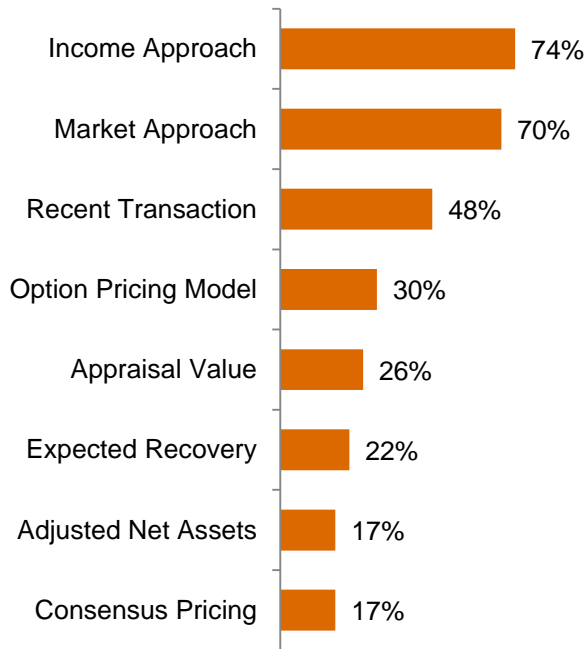
Discount Rates	62%
WACC	54%
Exit Year Revenue Growth Rates	38%
Market Rent	31%
EV / EBITDA Multiple	23%

### *When using the Recent Transaction approach, the most common inputs were:*

Discount Rates	15%
Price / NAV	15%
EV / EBITDA Multiple	8%

# Valuation and Third-Party Pricing (Hedge Funds)

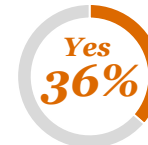
## Valuation approaches used (Select all applicable):



Client's totals included in the 2011-4 table agree with the totals per the CSI:



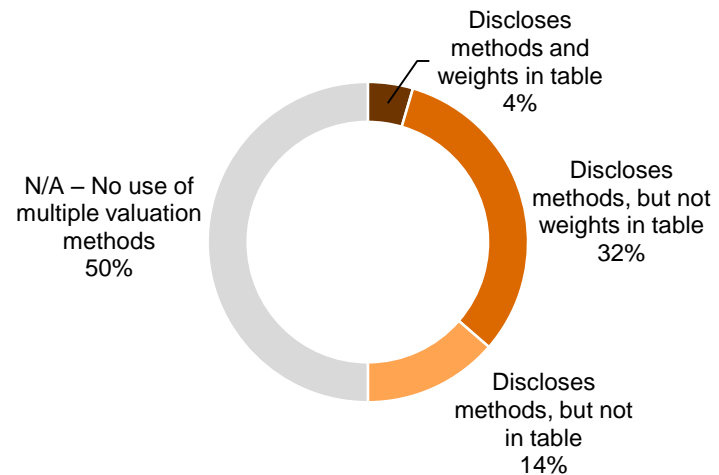
Client utilizes third-party pricing exception to disclosures about significant inputs:



Client includes the weighted average input disclosure in their 2011-4 table:



## Which of the following best describes how multiple valuation methodologies are used for a given investment in the 2011-04 table?



## *Most common inputs disclosed in 2011-4 table (Hedge Funds)*

### *When using the Market Approach, the most common inputs were:*

Discount Rates	76%
EV / EBITDA Multiple	48%
Production Multiple	33%
Spread	24%
Market Rent	19%

### *When using the Income Approach, the most common inputs were:*

EV / EBITDA	57%
Discount Rates	43%
Production Multiple	38%
Interest Rates	33%
Spread	29%

### *When using the Recent Transaction approach, the most common inputs were:*

EV / EBITDA Multiple	24%
Price / NAV	19%
Discount Rates	14%
Interest Rates	14%

# *PwC Contacts*

## *Leadership*

Mike Greenstein - *Alternatives*  
*michael.s.greenstein@us.pwc.com*

## *Benchmarking Insights*

Kristin Francisco - *Alternatives*  
*kristin.francisco@us.pwc.com*

Liz Pelan - *Alternatives*  
*elizabeth.r.pelan@us.pwc.com*

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