



Common Questions About the Asset Valuation Process for Due Diligence Firms

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Following the financial crisis and the enactment of Dodd-Frank, hedge funds and other institutional asset managers are increasingly engaging third-party valuation firms, such as Sterling Valuation Group, to provide independent valuations, particularly for illiquid investments, to assist asset managers in determining and reporting net asset values. While all of the valuations Sterling provides are independently derived, we do rely on the accuracy of the data each client provides us. Upon receiving this information from the client, we perform our own independent analysis by selecting the appropriate valuation methodology and assumptions to employ, taking into account the results of direct discussions with client management and, in some cases, investee company management. All of our reports are completely transparent and our engagements are free from any conflict of interest. We willingly speak with client auditors and due-diligence firms when requested, allowing them to review our processes. Below, we have compiled a list of common- themed questions that are likely to emerge in 2017/2018.

Q: Please describe your approach and process in performing a valuation.

We use sophisticated industry-standard pricing models. For example, for complex path-dependent options, we use custom-developed Monte Carlo models. For private debt and equity investments, we use one or more of the following valuation methodologies/techniques based on our independent judgment and the circumstances of the particular investment: the income approach (DCF), the market approach (analysis of comparable companies and precedent transactions), and a yield-based analysis for the debt investments. Also, we take into account our extensive experience with other market participants in valuing similar investments.

Q: Do you only work with hedge funds?

Our client base consists primarily of hedge funds but we work with other financial institutions, including private-equity firms, banks, and business-development corporations.

Q: Do you give an exact figure for your valuations?

Because these investments don't trade on a market, their price is not obvious. We can't pinpoint the price exactly, but we provide a range of values based on our independent analysis.

Q: What is considered an acceptable range of values for a valuation?



Based on our experience, generally a range of values of up to 5 percentage points for a debt investment is typical. For equity investments, a range of enterprise values of up to 10 percent is typical.

Q: What kind of methodology do you use to value an investment?

We develop a tailored methodology for each investment based on our experience with similar investments. We describe the methodology in detail in each report and outline how we've applied that methodology in the valuation of every investment. We've built our reputation over time by consistently following this rigorous process, through which we distill complex information, apply market insight, and bring our knowledge and industry experience to the valuation process.

Q: Does your firm, under any circumstances, have limitations on its ability to perform a valuation for independence reasons? How are possible conflicts of interest handled?

Sterling has adopted a Code of Ethics for all supervised persons of the firm, outlining its high standard of business conduct and fiduciary duty to its clients, and including provisions related to conflicts of interest. Employees who become aware of a possible conflict of interest must promptly disclose the conflict to Sterling's Chief Compliance Officer, who shall consider the situation and determine the appropriate course of action.

Q: How is the confidential information of clients managed in the context of your firm's other service lines?

Controls over confidential information include: All email communication is encrypted via enforced TLS encryption. All data is stored in a locked cabinet in both our New York City and Virginia locations. The office networks are protected via a Sonicwall firewall with intrusion-detection services actively monitoring inbound connections. All employees/advisors sign a confidentiality agreement, and all correspondence is communicated via Sterling's email server.

Q: Is your firm willing to speak directly to our auditors in order to fully support the valuations? Is your firm prepared to discuss methodologies and provide support for all material inputs to our auditors and to GTAM to satisfy our Level 3 disclosure requirements?

Yes, Sterling does speak with client auditors and is willing to provide further explanation as to our valuation process, methodologies, and basis for our conclusions.

Q: Is your firm willing to share copies of valuation opinions with the client investors if they ask? Is your firm able to send copies of valuations directly to their administrators?



The ability for clients to share informational copies of our reports is subject to the disclosure provisions contained in the reports. Yes, at the request of the client, we frequently send copies of the valuations directly to their administrators.

