



American Society of Appraisers Current Topics in Fair Value Conference

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Chair's Introduction

◆ The Current Climate

- Continuing European distress in Greece, Spain & Italy
 - ▶ Spain's unemployment rate reaches 26%
 - ▶ Opportunity for attractive pricing for bank assets as Euro banks delever and raise capital to strengthen balance sheets
- BRIC countries have difficulty accepting movement towards laissez faire policies
 - ▶ Substantial uncertainty in China concerning high asset prices, reform policies, internal demand (can you micro manage a macro environment?)
- US Fiscal Cliff averted but not resolved
- Impact on oil and securities markets of an attack by the US or Israel on Iran's nuclear facilities

◆ Easy-to-value securities (Level 1) are volatile and hard to price; what does that say about Hard-to-value securities (Level 3)

◆ Alternative investment managers evince a wide dispersion of talent and performance – does this impact valuation assessments?

Chair's Introduction (cont'd)

- ◆ Performance of AIM's under constant scrutiny (attack?)
- ◆ London Business School Coller Institute of Private Equity
 - P/E outperformed S&P 500 by 450-800bps per annum, net of fees, between 1980 and 2008
 - Picking right managers was key: excess returns were driven by top decile, as opposed to top quartile (let alone median) funds; 60% of funds beat the S&P, however
- ◆ Robinson/Sensoy (Duke/Ohio State) study covering relative returns between 1984 and 2010
 - P/E investors earned on average 18% more than they would have earned investing in the S&P over the life of a typical P/E fund, say 10-12 years (Robinson/Sensoy not impressed on a per annum basis)
- ◆ Wharton Private Equity Forum (Feb 2012): past performance DOES predict future success

Chair's Introduction (cont'd)

- ◆ Venture Capital takes a beating
 - Kauffman study (May 2012): only 20% of funds beat the Russell 2500 index by more than 3% per annum; over 60% failed to even beat the public equivalents, after fees & carry
 - Sand Hill Econometrics (2011): less than 20% chance of getting 2x-plus on first round VC investments; 64% chance of getting back less than your investment

- ◆ Continuing love affairs with financial models
 - What ever happened to the “smell test?”
 - Easy to audit

- ◆ “It is the mark of an educated mind to rest satisfied with the degree of precision that the nature of the subject admits, and not to seek exactness where only an approximation is possible.”
 - Aristotle, 384 BCE – 322 BCE

Panel Topics

- ◆ Perceived differences in the following de facto levels of service:
 - Point Estimate
 - Positive Assurance
 - Negative Assurance
 - Limited Scope
 - Impact on weight placed upon the Valuation firm's work
 - How these compare to AICPA/GAAP & ASA guidelines

- ◆ Evolving International Private Equity & Hedge Fund Guidelines
 - Commended Valuation Techniques
 - Use of the Waterfall vs. OPM to allocate value
 - Are Venture Capitalists a different breed? Should they be?

- ◆ Income Approach vs. Market Approach
 - When is either more appropriate (Income: unique or distressed assets; Market: P/E with no L/T projections; influence of type of asset/fund)
 - Benefit of using multiple approaches

Panel Topics (cont'd)

- ◆ Does your qualitative assessment of a Fund Client (including quality of Asset Managers, JV Partners & Servicers, adequacy of the Fund Client's staff levels, and/or investment track record and experience with the subject asset class) influence your audit/review process?
 - Depth/intensity of review
 - Testing of data inputs
 - Reliability of data sources used by Fund Client to establish value/mark

- ◆ ASU 2011-04: convergence of US GAAP & IFRS [13]