GND Advisory

VALUATION GUIDELINES

Approved by:	GND Advisory Board
Approved on:	June 2022
References to external policies:	Alternative Investment Fund Managers Directive (AIFMD) European Securities and Markets Authority Guidelines and Technical Standards International Private Equity and Venture Capital Valuation Guidelines (IPEV) IPEV Board, Special Valuation Guidance
References to internal policies:	Business Code of Conduct Risk and Compliance Policy Sustainability Risk Policy

Contents

1. The Firm

GND Advisory is an autonomous investment advisory registered in the Republic of Lithuania. The records of GND Advisory are kept at the State Enterprise Centre of Registers.[1] GND Advisory ("GND") and each of its majority-owned subsidiaries (together with GND, the "Firm") conducts its operations in compliance with the EU and Lithuanian Law, Regulations, and its internal Code of Conduct.

2. Purpose of the Valuation Guidelines

The purpose of the Valuation Guidelines is to set and define the business valuations principles, roles and responsibilities within GND Advisory.

All other valuation activities including but not limited to valuation of clients, investee companies, and fund interests must be aligned with these Valuation Guidelines. In case of any inconsistencies, the principles laid down in the Valuation Guidelines shall prevail.

3. Roles and Responsibilities

Group	Reason
Board	Governance responsibility
Management	Strategic responsibility
Staff Partners and Vendors	Operational responsibility
Regulators	Compliance responsibility
Investors	Fiduciary responsibility

4. Definitions

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.

Actively Traded Investment – A financial instrument traded in an Active Market. 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.

Back-testing – The process of using the observed value of an Investment as implied by a sale, liquidity event (e.g. an IPO) or other material change in facts with respect to the Investment, related Investments, or the Enterprise, to assess the Fair Value estimated at an earlier Measurement Date (or Measurement Dates).

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.

Credit Fund – A Private Capital fund that invests in fixed income Investments. A Credit Fund may invest in short-term or long-term bonds, securitised products, instruments or debt.

[1] State Enterprise Centre of Registers. https://www.registrucentras.lt/jar/index_en.php

Debt – Interest-bearing securities that include senior debt, mezzanine loans, shareholder loans, etc. Debt Investments may include a cash pay coupon, payment in kind interest, and/or equity enhancements such as warrants.

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.

EBIT – Earnings before interest and tax.

EBITA – Earnings before interest, tax, and amortisation.

EBITDA – Earnings before interest, tax, depreciation, and amortisation.

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.

Forced Transaction – A Forced Transaction entails the involuntary sale of assets or securities to create liquidity in the event of an uncontrollable or unforeseen situation. Forced selling is normally carried out in reaction to an economic event, personal life change, company regulation, or legal order.

Fund or Private Capital Fund – The Fund or Private Capital Fund is the generic term used in these Valuation Guidelines to refer to any designated pool of Investment capital targeted at all types and stages of Private Capital Investment from start-up to large buyout and including infrastructure and private credit Investment. It includes those pools held by corporate entities, limited partnerships, and other Investment vehicles. Institutional and retail investors provide the capital, which can be used, inter alia, to fund new technology, make acquisitions, expand working capital, and to bolster and solidify a balance sheet.

Fund Manager – The Fund Manager is responsible for implementing a Fund's investing strategy and managing its portfolio trading activities. The Fund Manager is also responsible for providing reporting data to the Fund's investors.

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 Capital Funds.

Investee Company – The term Investee Company refers to a single Enterprise or group of Enterprises in which a Fund is invested either directly or through a number of dedicated holding companies.

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 – Buyers and sellers in the Principal (or Most Advantageous) Market for the asset that have the following characteristics:

a. They are independent of each other;
b. They are knowledgeable;
c. They are willing to transact, that is, they are motivated but not forced or otherwise compelled to do so.

Marketability – The time required to complete 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 maximises 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.

Private Capital – Investment activity involving early-stage ventures, management buyouts, management buyins, infrastructure, credit, and similar Investments.

Private Equity Fund – A Private Capital fund that invests principally in the equity of private companies, or engages in buyouts of public companies, in order to achieve the delisting of public equity.

Quoted Investment – A Quoted Investment 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.

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 that occurs when a holder of an unquoted or illiquid interest in a Fund trades their interest to another party.

Unquoted Investment – An Unquoted Investment is any financial instrument other than a Quoted Investment.

Unit of Account – Unit of Account is 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 that are subject to interpretation. Because Fair Value accounting standards seek to reflect the economic behaviour and the perspective of Market Participants these Valuation

Guidelines generally 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 entire 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.

Valuation Technique – A Valuation Technique is a generally accepted methodology used to determine the Fair Value of an equity or Debt Investment in an Investee Company. Valuation Techniques include the Income Approach, the Market Approach, and the Replacement Cost Approach. Each of these Valuation Techniques involves methodologies including, but not limited to, pricing multiples of comparable public companies, discounted cash flow analysis, and net assets.

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

5. The Concept of Fair Value

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

5.2. 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.

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

5.4. For Unquoted Investments, the measurement of Fair Value requires the Valuer to assume the Investment is realised or sold at the Measurement Date whether or not the instrument or the Investee Company is prepared for sale or whether its shareholders intend to sell in the near future.

5.5. Some Funds invest in multiple securities or tranches of the same Investee 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 Investment 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.

5.6. The Fair Value should be estimated using consistent Valuation Techniques from Measurement Date to Measurement Date unless there is a change in market conditions or Investment-specific factors, which would modify how a Market Participant would determine value. The use of consistent Valuation Techniques for Investments with similar characteristics, industries, and/or geographies would also be expected.

5.7. To estimate Fair Value the Unit of Account must be determined. The Unit of Account represents the specific Investment that is being measured at Fair Value according to the International Private Equity and Venture Capital Valuation Guidelines.

6. Principles of Valuation

6.1. The Fair Value of each Investment should be assessed at each Measurement Date. 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 and should use reasonable current market data and inputs combined with Market Participant assumptions.

6.2. Fair Value of each Investment should be assessed at each Measurement Date. 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 and should use reasonable current market data and inputs combined with Market Participant assumptions.

6.3. Allocating Enterprise Value.
Generally, for Private Capital Investments, Market Participants determine the price they will pay for individual equity instruments using Enterprise Value estimated from a hypothetical sale of the equity which may be determined by considering the 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 the value, from a Market Participant's perspective, of any financial instruments ranking ahead of the highest-ranking instrument of the Fund in a sale of the Investee Company.
iv. Take into account the effect of any instrument that may dilute the Fund's Investment to derive the Attributable Enterprise Value;
v. Apportion the Attributable Enterprise Value between the Investee Company's relevant financial instruments according to their ranking;
vi. Allocate the amounts derived according to the Fund's holding in each financial instrument, representing their Fair Value.

6.4. Exercising Prudent Judgement.
Because of the uncertainties inherent in estimating Fair Value for Private Capital Investments, care should be applied in exercising judgement and making the necessary estimates. However, the Valuer should be wary of applying excessive caution.

6.5. Calibration.

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 an Orderly Transaction), 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 updated market inputs as of each subsequent Measurement Date will generate Fair Value at each such date.

6.6. Backtesting.

Valuers should seek to understand the substantive differences that legitimately occur between the exit price and the previous Fair Value assessment. This concept is known as Backtesting. Backtesting seeks to articulate:

i. What information was known or knowable as of the Measurement Date;
ii. Assess how such information was considered in coming to the most recent Fair Value estimates; and
iii. Determine whether known or knowable information was properly considered in determining Fair Value given the actual exit price results.

7. Valuation Methods

7.1. General

i. In determining the Fair Value of an Investment, the Valuer should use judgement. This includes consideration of those specific terms of the Investment that 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.
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.

7.2. Apply Judgement in Selecting Valuation Techniques.

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

7.3. Selecting the Appropriate Valuation Technique.

The Valuer should use one or more of the following Valuation Techniques as of each Measurement Date, taking into account Market Participant assumptions as to how Value would be determined:

A. Market Approach
  a. Multiples (7.4)
  b. Industry Valuation Benchmarks (7.5)
  c. Available Market Prices (7.6)
B. Income Approach
  a. Discounted Cash Flows (7.7, 7.8)
C. Replacement Cost Approach
  a. Net Assets (7.9)

The Price of a Recent Investment, if resulting from an orderly transaction, generally represents Fair Value as of the transaction date. At subsequent Measurement Dates, the Price of a Recent Investment may be an appropriate starting point for estimating Fair Value. However, adequate consideration must be given to the current facts and circumstances, including, but not limited to, changes in the market or changes in the performance of the Investee Company.

Inputs to Valuation Techniques should be calibrated to the Price of a Recent Investment, to the extent appropriate (7.10).

7.4. Multiples

Depending on the stage of development of an Enterprise, its industry, and its geographic location, Market Participants may apply a multiple of earnings or revenue. In using the multiples Valuation Technique to estimate the Fair Value of an Enterprise, the Valuer should:

i. Apply a multiple that is appropriate and reasonable (given the size, risk profile and earnings growth prospects of the underlying company) to the applicable indicator of value (earnings or revenue) of the Investee 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.

7.5. 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.

7.6. Quoted Investments

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.

iv. Observable Prices

In the absence of an Active Market for financial instruments, but where observable prices are available, the Valuer should consider observable prices in conjunction with estimating Fair Value utilising one or more of the other Valuation Techniques.

7.7. Discounted Cash Flows or Earnings (of Investee Company)

In using the Discounted Cash Flows or Earnings (of Investee Company) 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; and

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.

7.8. Discounted Cash Flows (from an 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 Debt Investments or Investments with characteristics similar to debt.

7.9. Discounted Cash Flows (from an Investment) 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.

7.10. Calibrating to the Price of a Recent Investment

The Fair Value indicated by a recent transaction in the Investee Companies equity is used to calibrate inputs used with various valuation methodologies. The Valuer should 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 a Recent Investment should not be considered a standalone Valuation Technique.

8. Valuing Fund Interests

8.1. 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; and

ii. if management of the interest in the Fund has made the decision to sell the 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.

8.2. 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.

8.3. 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.

8.4. Other Valuation Approaches for Fund Interests

When NAV is not or cannot be used as a starting point to estimate the Fair Value of a Fund Interest and market information is not available an income-based Valuation Technique would be used to estimate Fair Value of a Fund Interest.

9. Approval

I have read, accept and fully understand the responsibilities detailed under these Valuation Guidelines.
I approve these Valuation Guidelines.

Donatas DITKUS
GND Advisory Representative