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## Valuation Assurance Report for Alternative Fund Ltd.

for illustrative purposes only





# Assurance Statement for Alternative Fund Ltd

For illustrative purpose only!

# Independent Limited Assurance Statement (1 of 3)



## Independent Limited Assurance Report of KPMG to the Directors of Alternative Fund Ltd

We were engaged by the Directors (“the Directors”) of the Alternative Fund Ltd (“the Fund”) to provide limited assurance on the Valuation Report as at 31 December 2012 (valuation date of 31 December 2012) issued by the Administrator as to whether the unit-values of the investments reported within the Fund as set out in the Valuation Report as at 31 December 2012 have been, with respect to the suitable criteria, valued in accordance with US Generally Accepted Accounting Principles (“US GAAP”) and the valuation policy disclosed within the Fund's financial statements. The Valuation Report details the unit value of the majority, but not all, of the investments held within the Fund. A reconciliation of the aggregate value of the investments included in the Valuation Report, which are within the scope of this assurance report, to the total Net Asset Value of all investments held within the Fund is attached as Appendix 1.

This independent assurance report is made solely to the Directors in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the Directors those matters that we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Directors for our work, for this independent assurance report, or for the conclusions we have reached.

## Responsibilities of the Directors

The Directors are responsible for the Valuation Report in accordance with the terms of the Agreement between the Fund and the Administrator. In fulfilling this requirement, the Directors, together with the Manager, are responsible for determining the valuation of the Fund's investments in accordance with US GAAP and the valuation policy disclosed within the Fund's financial statements.

## Responsibilities of KPMG

Our responsibility is independently to express a conclusion, based on our work, as to whether the unit-values of the investments reported within the Fund as set out in the Valuation Report as at 31 December 2012 have been, with respect to the suitable criteria, valued in accordance with US GAAP and the valuation policy disclosed within the Fund's financial statements.

We conducted our work in accordance with the International Standard on Assurance Engagements 3000 ‘*Assurance Engagements other than Audits or Reviews of Historical Financial Information*’ issued by the International Auditing and Assurance Standards Board. That Standard requires that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform the engagement to obtain sufficient, appropriate evidence on which to base our conclusion.

## Scope of work

A limited assurance engagement involves performing procedures to obtain sufficient appropriate evidence to give assurance over the matters identified for our report. The procedures selected depend on our judgment, the suitable criteria (as defined below) including our assessment of the risk of material misstatement in the Valuation Report, whether due to fraud or error.

In making those risk assessments, we considered the internal controls relevant to the preparation and presentation of the Valuation Report in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the internal controls over the preparation and presentation of the Valuation Report.

# Independent Limited Assurance Statement (2 of 3)



The procedures performed included:

1. Conducting interviews with the management to obtain an understanding of the processes used to prepare the Valuation Report;
2. Independently pricing the investments within the Valuation Report in accordance with US GAAP and the valuation policy disclosed within the Fund's financial statements and comparing our values to those used in the valuation of investments. The pricing and comparison procedures comprised:
  - Valuation of unit prices for each class of investment
    - Determining valuation techniques to be utilised for each class of investment
    - Deriving independent reference unit prices on individual position level
    - Determining deviations from provided unit prices on individual position level
  - Deviations analysis
    - Setting thresholds on individual position level
    - Performing unit price for comparison to internally defined thresholds
    - Identifying deviations within and outside of the expected range on individual position unit price level by taking into consideration:
      - Market inherent valuation uncertainties
        - Intraday fluctuation of input parameters/ prices of listed securities on the primary exchange
        - Choice of market contributors for parameters/ quotes
      - Model inherent uncertainties
        - Choice of model for complex structured securities and derivatives
        - Possible methodologies in deriving input parameters (e.g. swap curve construction methodology / choice of interpolation methods, etc)

## Limitations

In accordance with our terms of engagement, we were not required to, nor have we verified or provided any assurance over:

- the total Net Asset Value of the Fund or the notional amounts per position which constitute the net and absolute fair values of the Fund.
- the completeness of the number of investment positions provided to KPMG by the manager
- the aggregate or unit fair values of investment positions within the Fund that are not included within the Valuation Report. A net summary of the positions which are not in the scope of this service are provided separately by the manager for the purpose of reconciling the Fund's NAV as published in the Transparency Report.
- the reported Net Asset Value of the Fund or the reconciliation of the Net Asset Value of the investments within the Valuation Report to the Fund's reported Net Asset Valuation.
- the accuracy of the underlying books and records of the Administrator.
- the number of units held of each investment within the Fund. If the number of units of any of the investments actually held were to differ from that reported on the Valuation Report, the value of that investment, and the total value of the investments held would also differ.
- the ownership of the investments by the Fund as reported.

# Independent Limited Assurance Statement (3 of 3)



## Determination of suitable criteria

As a basis for the assurance engagement, we have used suitable criteria (valuation thresholds) specifically developed for Assurance Valuation Services provided to alternative investment managers.

## Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the unit-values of the investments reported within the Fund as set out at 31 December 2012 have not been, in all material respects, and with respect to the suitable criteria, valued in accordance with US GAAP and the valuation policy disclosed within the Fund's financial statements dated 31 December 2011.

KPMG LLP

04 January 2013



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# Assurance Analytics for Alternative Fund Ltd

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## Scope

The scope of the KPMG iRADAR's analysis is the Alternative Fund Ltd ("AI100"). The economics for individual position are submitted by the Alternative Fund Management as of 31st December 2012. The verification of the completeness of the provided data is not in the scope of this engagement.

## Approach

- Portfolio valuation
  - Determine valuation techniques to be utilised for each class of investments
  - Derive independent reference values on individual position level
  - Determine deviations from provided prices on individual position level
- Deviations analysis
  - Set thresholds on individual position level
  - Perform valuation results comparison to defined thresholds
  - Identify deviations within and outside of the expected range on individual position level
- Reporting
  - Summarise deviations within and outside of the expected range on individual position level
  - Report findings for each class of investments, including highlights and recommendations on individual investment level (if applicable)

## Purpose

The goal of this analytics report is to provide its reader with insights of our work and the procedures we performed to derive to the assurance conclusion.

For the purposes of communicating the deviations on valuation, we have reported all variances in excess of the thresholds determined through:

- Market inherent valuation uncertainties
  - Intraday fluctuation of input parameters/ prices of listed securities on the primary exchange
  - Choice of market contributors for parameters/ quotes
- Model inherent uncertainties
  - Choice of model for complex structured securities and derivatives
  - Possible methodologies in deriving input parameters (e.g. swap curve construction methodology / choice of interpolation methods)

In the following the document is structured as follows:

- Executive Summary which provides an overview of the aggregated results for AI100
- Details on valuation performed per investment class



# Executive Summary



## Summary of the valuation results for Alternative Fund Ltd ('AI100')

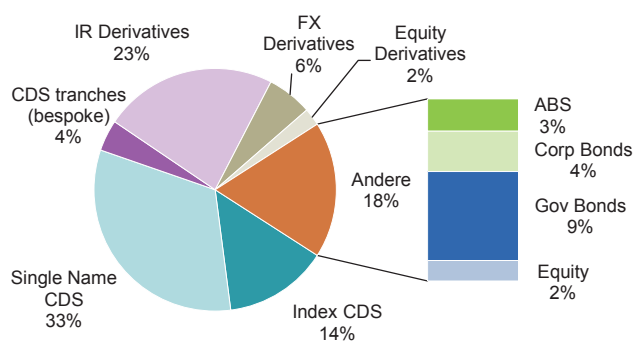
The KPMG iRADAR ("iRADAR") was assigned to provide assurance on the correctness of the final NAVs for fund AI100 by the means of:

- independently revaluation of the submitted portfolio of financial instruments as of 31st December 2012,
- comparing the resulting monetary variances on a position level with predefined tolerance ranges with respect to the investment specific sensitivities
- drawing a conclusion on the deviations remaining outside these tolerance ranges

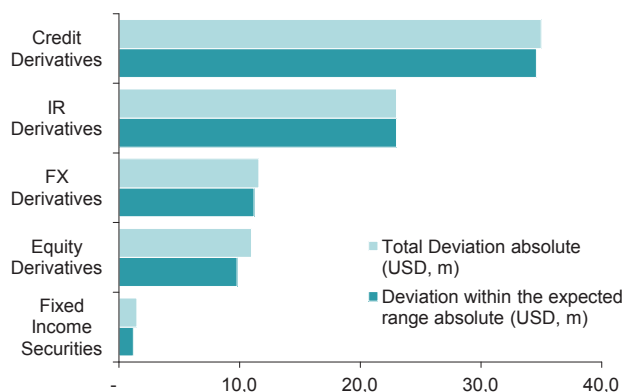
The results can be summarized as follows:

- *Achieved coverage: 99.5 % of the NAV in absolute terms*
- *Total absolute market value variance : USD 82.1m (USD -2.9m netted) of which USD 79.8m can be traced back to common market uncertainties as shown on the chart below*
- *Remaining absolute variance outside the tolerance ranges: USD 2.3m (USD 0.9m netted)*
- *In depth analysis of the deviations revealed no indications of systematic issues in the final NAVs as of 31<sup>th</sup> Dec 2012. These have been driven by isolated cases resulting from higher market uncertainties.*

### AI100 Portfolio composition % absolute NAV



### AI100 Absolute Market value variance per asset type



Overview of financial instruments	% NAV (absolute)	AFM NAV (USD,m)	Coverage	Unexplained Deviation (USD, m)	Valuation Conclusion
Credit & Interest Rate Derivatives	74%	-155.5	100%	-0.2	✓
Bonds & Equities	18%	200.3	99%	0.3	✓
Equity & FX Derivatives	8%	22.8	100%	0.8	✓
<b>Total</b>	<b>100%</b>	<b>67.6</b>	<b>99.5%</b>	<b>0.9</b>	

Details on the testing performed for each investment class are presented in the following appendices.

# Details on Credit Derivatives

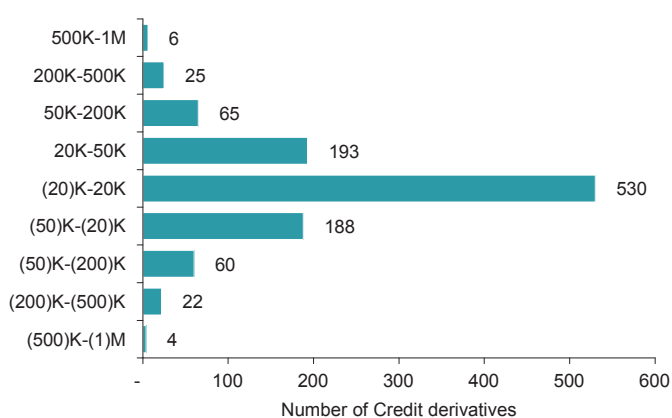


## Summary of the valuation results

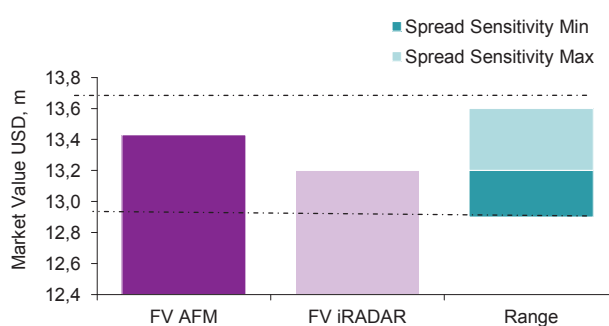
iRADAR valued independently 100% of the credit derivative positions in AI100. The results derived on this asset class can be summarized as follows:

- Out of total absolute monetary variances of USD 35m, USD 34.6m can be traced back to usual market uncertainties
- Remaining absolute variance of USD 0.4m nets out to USD -0.2m and seems to result from additional parameter sources utilized by the administrator for the determination of the final NAV which are not directly accessible for iRADAR.

## USD Variance Distribution per number of derivatives



## Assessment of deviations based on security specific ranges: Single Name CDS on Spain Govt 5YR



## Methodology and basis for conclusion on the observed variances

In order to derive a reference market value for each derivative, iRADAR applies an independent set of market parameters (e.g. CDS spreads, recovery rates, volatilities) together with valuation models considered as best practice for the specific derivative type.

The assessment of deviations in market values is based on the sensitivities of each investment regarding its most relevant input parameter, here CDS spreads, base correlation, recovery rates and implied volatility. In this context, iRADAR analyses the observable fluctuations of these parameters by studying intraday movements and dispersions between contributors. Based on this information, it is concluded what portion of the total deviation can be traced back to market inherent uncertainties. The top chart on the right hand-side illustrates the assessment process conducted by iRADAR.

Product type	% NAV (abs)	AFM NAV (USD, m)	Nr. Investments	Coverage	Deviation Total (USD, m)	Deviation out of range USD
CDS Tranche (bespoke)	4.2%	-25.4	56	100%	1.6	-
Index CDS	13.8%	87.8	230	100%	-2.8	-0.15
Single Name CDS	32.4%	-182.4	807	100%	2.5	-0.05
<b>Total</b>	<b>50.4%</b>	<b>-120.0</b>	<b>1,093</b>	<b>100%</b>	<b>2.2</b>	<b>-0.2</b>

# Details on Interest Rate Derivatives

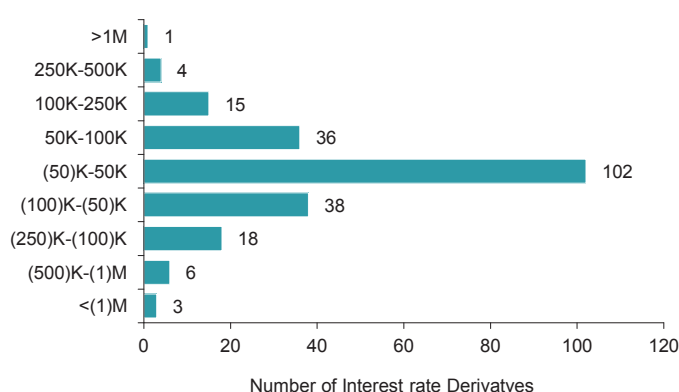


## Summary of the valuation results

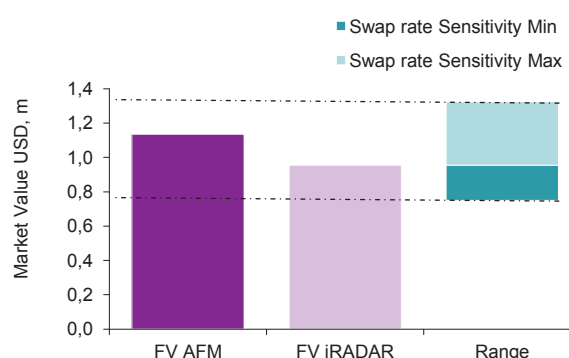
iRADAR valued independently 100% of the interest rate positions in AI100. The results derived on this asset class can be summarized as follows:

- The total absolute monetary variances of USD 23m can be traced back completely to usual market inherent valuation uncertainties

## USD Variance Distribution per number of derivatives



## Assessment of deviations based on security specific ranges: EUR 6M vs 2.5%, Dec 2013 – Dec 2023



## Methodology and basis for conclusion on the observed variances

In order to derive a reference market value for each derivative, iRADAR applies an independent set of market parameters (e.g. swap rates, volatility, basis spread) together with valuation models considered as best practice for the specific derivative type.

The assessment of deviations in market values is based on the sensitivities of each investment regarding its most relevant input parameter, here swap rates, option volatility and basis spread fluctuation. In this context, iRADAR analyses the observable fluctuations of these parameters by studying intraday movements and dispersions between contributors. Based on this information, it is concluded what portion of the total deviation can be traced back to market inherent uncertainties. The top chart on the right hand-side illustrates the assessment process conducted by iRADAR.

Product type	% NAV (abs)	AFM NAV (USD, m)	Nr. Investments	Coverage	Deviation Total (USD, m)	Deviation out of range USD
Vanilla Swaps	12%	-41.4	120	100%	-8.8	-
Swaptions	9%	23.1	83	100%	2.5	-
Basis Swaps	2.1%	-16.7	20	100%	1.5	-
<b>Total</b>	<b>23.1%</b>	<b>-35.0</b>	<b>223</b>	<b>100%</b>	<b>-4.8</b>	<b>-</b>

# Details on Listed Derivatives & Cash Instruments

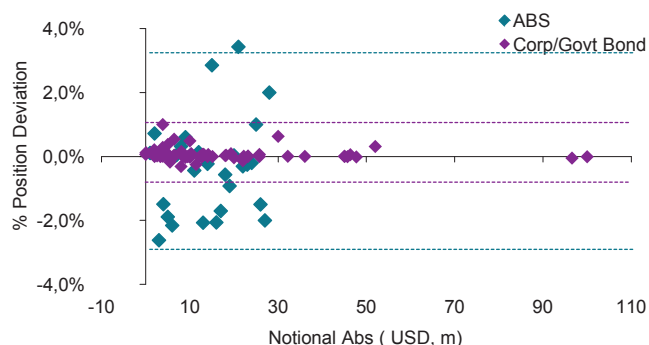


## Summary of the valuation results

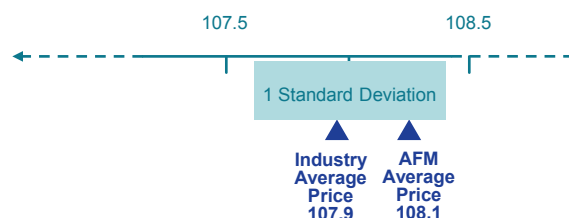
iRADAR valued independently 99.5% of the listed derivatives and cash positions in AI100. The results derived for these asset classes can be summarized as follows:

- Out of total absolute monetary variances of USD 1.5m, USD 1.2m can be traced back to usual market uncertainties
- Remaining absolute and netted variance of USD 0.3m is contributed to one ABS which shows higher market uncertainty than the average threshold of 3.7%. There are no further indications of over or undervaluation performed by the administrator for this type of investments.

## % Price Variance in relation to USD Notional amount



## Peer Group Analysis of Bonds



The chart on the left represents the price dispersion in relation to the absolute notional amount for 250 fixed income securities in AI100 together with the applied tolerance ranges.

In addition, iRADAR compares the pricing of fixed income securities performed by the client with the industry average, that is other clients' pricing the same securities as of 31<sup>st</sup> of December as shown in the chart on the right. In AI100 a Peer Group Average Prices could be determined for 220 out of the 250 fixed income products. On average, iRADAR compared each security with 7.5 prices within its database and determined an average standard deviation of 0.3%. The difference between the client's average price of 108.1% and the industry average price of 107.9 lies within one standard deviation.

## Methodology and basis for conclusion on the observed variances

iRADAR derived an independent fair value estimate either based on quality assured external prices or by applying mark to model approach. To assess the resulting deviations, iRADAR derives tolerance ranges for fixed income securities by continuously monitoring dispersions between different prices observed for identical financial instruments. For exchange traded derivatives and stocks, the intraday fluctuation has been utilized to assess any price deviations. As of 31<sup>st</sup> of December the ranges are as follows:

- 3.7% Mortgage Backed securities
- 0.5% Corporate and Government Bonds

Product type	% NAV (abs)	AFM NAV (USD, m)	Nr. Investments	Coverage	Deviation Total (USD, m)	Deviation out of range (USD, m)
ABS	3%	75	46	100%	-2.6	0.3
Corp & Govt Bonds	13%	122	204	100%	1.1	-
Equity	2%	3.3	28	94.5%	-	-
<b>Total</b>	<b>18%</b>	<b>200.3</b>	<b>278</b>	<b>99.5%</b>	<b>-1.5</b>	<b>0.3</b>

# Details on Equity & FX Derivatives

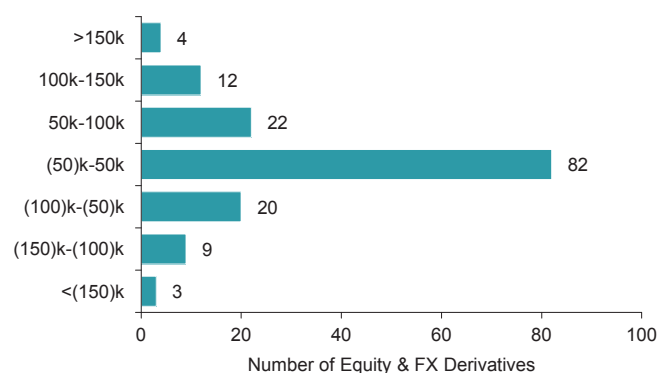


## Summary of the valuation results

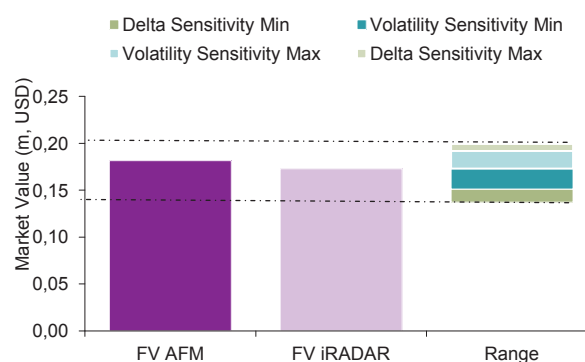
iRADAR valued independently 100% of the equity and FX derivative positions in AI100. The results derived on these asset classes can be summarized as follows:

- Out of total absolute monetary variances of USD 22.6m, USD 21m can be traced back to usual market uncertainties
- The remaining absolute variance of USD 1.6m results from deep out-of-the-money FX options for which no market parameters are directly observable. Here, iRADAR models the volatility assumptions for these moneyness levels. This introduces additional level of uncertainty in the valuation.

## USD Variance Distribution per number of derivatives



## Assessment of deviations based on security specific ranges: EURUSD Put 01/28/2012 @1.12



## Methodology and basis for conclusion on the observed variances

In order to derive a reference market value for each derivative, iRADAR applies an independent set of market parameters (e.g. swap rates, spot rates, implied volatilities) together with valuation models considered as best practice for the specific derivative type.

The assessment of deviations in market values is based on the sensitivities of each investment regarding its most relevant input parameters, here implied volatility and underlying spot rate. In this context, iRADAR analyses the observable fluctuations of these parameters by studying intraday movements and dispersions between contributors. Based on this information, it is concluded what portion of the total deviation can be traced back to market inherent uncertainties. The top chart on the right hand-side illustrates the assessment process conducted by iRADAR.

Product type	% NAV (abs)	AFM NAV (USD, m)	Nr. Investments	Coverage	Deviation Total (USD, m)	Deviation out of range (USD, m)
Equity Derivatives	6.0%	10.1	42	100%	4.2	0.6
FX Derivatives	2.3%	12.7	110	100%	-3.0	0.2
<b>Total</b>	<b>8.3%</b>	<b>22.8</b>	<b>152</b>	<b>100%</b>	<b>1.2</b>	<b>0.8</b>



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# The KPMG iRADAR

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