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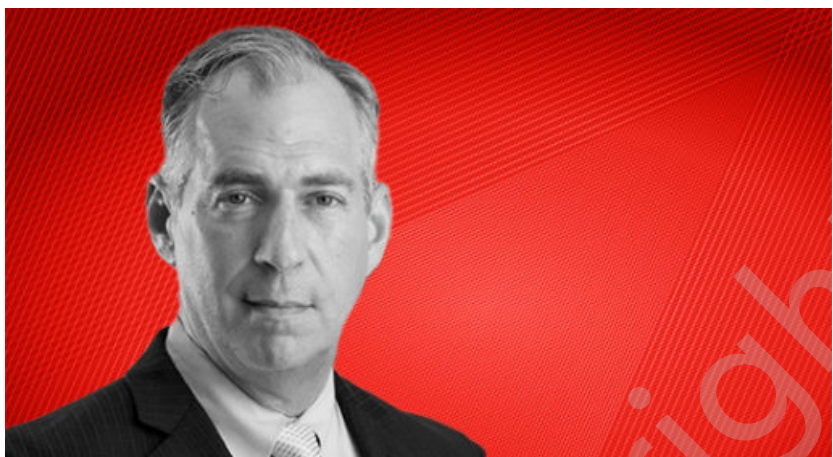
Trade group offers daily valuation approach

*'Rosetta stone' stresses data automation*By **Bill Myers** - 49 mins ago

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'It's like the Rosetta stone,' DCALTA's Epstein says of the group's new white paper.

Private funds hoping to court pension plan managers can use indirect measures as a proxy for daily valuations, a new white paper from Washington trade association DCALTA argues.

The paper offers 13 guidelines for fund managers, pension fiduciaries, auditors, consultants and others to think about when they're talking about daily valuations. It starts with recommending an accounting roll forward procedure, urges funds to “anchor” indirect valuations to direct valuations such as quarterly net asset valuations,

suggests that daily forward pricing “can serve as a suitable pricing model” and closes with recommendations for strict “system controls” to “provide reasonable assurance to auditors.”

It has been nearly a year since the **Department of Labor** carved out narrow exceptions for defined contribution plan managers to offer private funds to their clients ([RCW](#), June 11, 2020) but pension fiduciaries are still skittish about a lot of “operational” concerns—including whether pension clients can

check in on their investments daily, DCALTA President **Jonathan Epstein** says. The group's offering its new **white paper** as a kind of study guide, or a way to start discussions, Epstein says.

"It's like the Rosetta stone: This is the process that could be used to make our fund tradable daily," Epstein says. "This is how you do it. It's something that would be auditor-friendly."

Automation vital

A proper automated system is vital to the project, the paper argues.

"It's challenging from an operations point of view," says **Sheridan Porter**, co-founder of valuation technology firm **FEV Analytics**, who helped on the paper. "You're trying to connect two disparate things: the daily environment of the plan participant on the one hand, with the lagged reporting environment of the private asset pool on the other."

"Operations teams," Porter adds, "haven't had to make this connection – and close the books, so to speak – on a daily basis. Now they will have to, and the mechanisms to do that with fairness and rigor are discussed in our daily valuation paper."

Broader implications

The paper's stated purpose is narrow: It aims to address valuation concerns laid out in Labor's June 2020 letter. But for **Landmark Partners'** **Avi Turetsky**, who worked on the paper, the processes in it could help reassure a skeptical public (and regulators) that private funds are playing fairly.

"When we look at making an investment, we're not going to say, 'Well the investment was marked as this in September, therefore that's what we're going to pay,'" Turetsky says. "The valuation challenge

throughout private markets is that you observe prices when a transaction takes place. And if you're looking at a private equity investment or real estate investment, you're not going to see its value daily."

Questions to ask

The paper is written broadly but Porter says that firms thinking about daily valuations should develop "a clear understanding of data requirements" by talking with outside vendors and internal IT departments. The most important thing to keep in mind is that the valuation processes of private and public assets ultimately tie together in a way that is consistent and comprehensible to an ordinary 401(k) plan investor.

"Daily valuation of alts should not be a black box," she says. "Solution providers should be able to articulate technical challenges, how they are handled by the process, and how they translate to the everyday user experience. This clarity is important for better product design."

Landmark's Turetsky says any daily valuation system (and/or the vendor hawking one) ought to be able to offer three things:

- A clear explanation of the methodology;
- Back-testing the daily valuations, pegged to quarterly NAV; and
- The ability to "learn," and adjust.

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