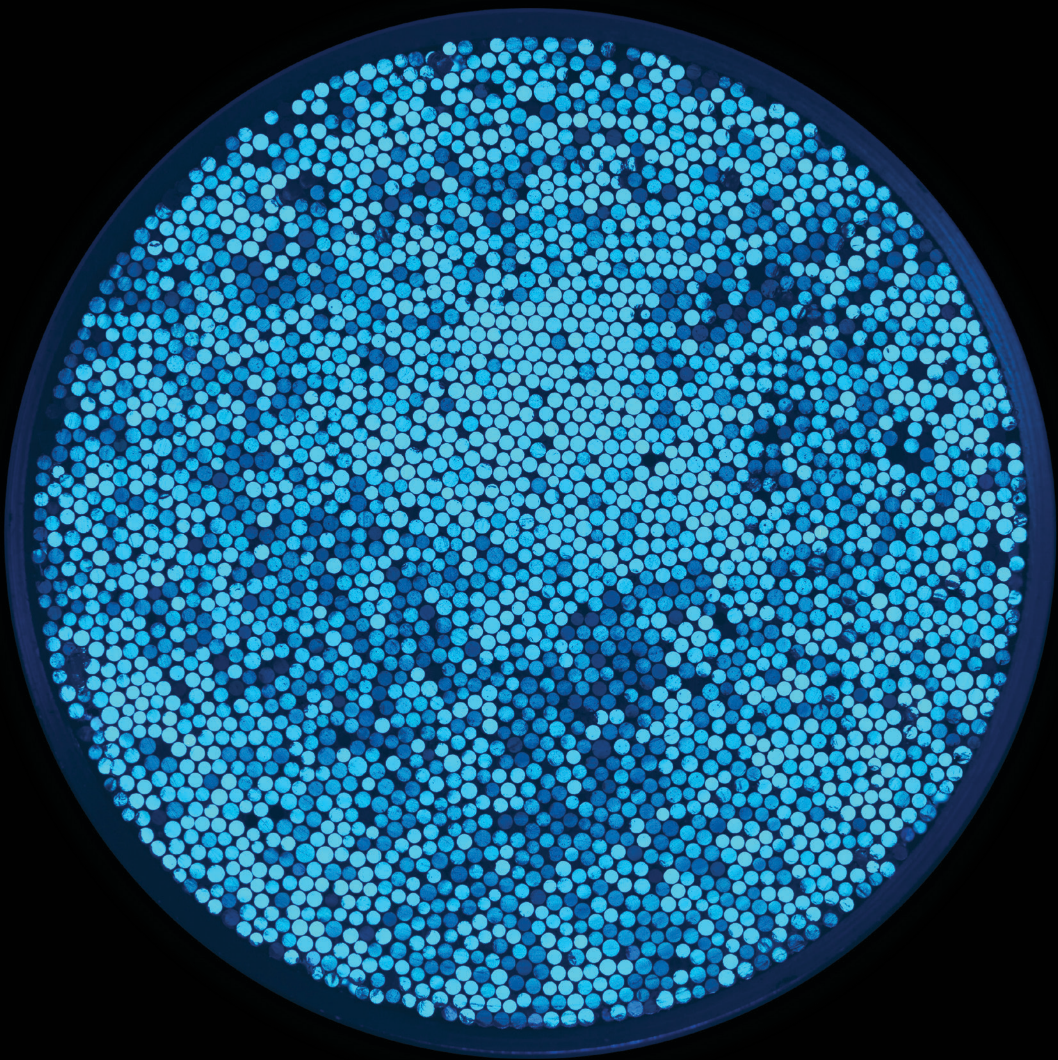
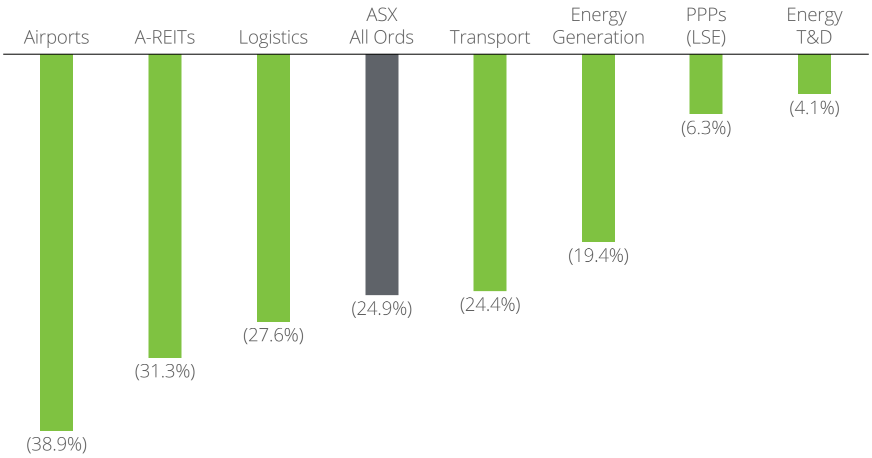


What is the impact of COVID-19 on your portfolio valuations?

Many businesses have experienced significant declines in market capitalisation as a result of the unprecedented impact of and market reaction to COVID-19. Some of these impacts may be tied to temporary factors and extreme volatility in the markets, while others reflect longer lasting or even permanent shifts in the business or industries in which these companies operate. This will affect financial reporting for both March 31 quarter-end and beyond. The impact of COVID-19 also raises a number of valuation considerations to be aware of when valuing a fund's investment holdings.

1/1 - 31/3 2020 Change in Share Prices

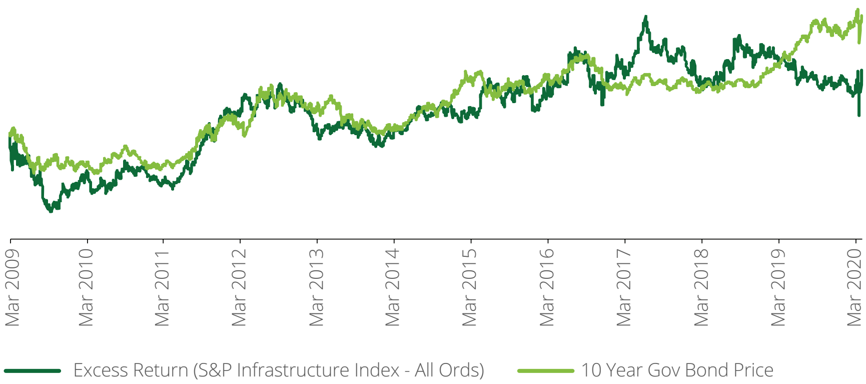


Whilst listed equity instruments (mostly representing minority holdings) have reacted promptly to the potential disruptions caused by the virus pandemic, there is still very little evidence on its impact on the value unlisted investments reflective of control or strategic holdings. In periods of extreme volatility such as the global financial crisis, valuations on a control basis deviated significantly from on-market share prices as evidenced by much higher premiums paid on change of control transactions (with higher peaks observed during the most depressed trading quarters). If these trends were to persist during the volatile period introduced by COVID-19, this would suggest control-based valuations to be less reactive the current volatility.

2000 - 2019 Historical Control Premiums

While infrastructure holdings (an increasingly attractive asset class amongst fund managers) have generally outperformed the broader equity market in a low interest rate environment and underperformed in a high interest rate environment, as a result of the severe impact COVID-19 has had on the market, there appears to be a breakdown between this relationship. This is possibly counterintuitive given the potential long term implications of Governments' reaction to the pandemic and a consequent downward pressure on long-term interest rates.

2009 - 2020 Infrastructure Excess Returns



In assessing the value of unlisted investments, different asset classes will be differently vulnerable to (or benefitting from) the dynamics caused by the COVID-19 pandemic.

Infrastructure

Since the outset of the GFC, the value of infrastructure assets have progressively been appreciating as a result of declining interest rates and an abundance of capital available to be deployed by superannuation/pension funds and sovereign funds. Whilst the COVID-19 pandemic does not directly adversely affect any of these dynamics (in fact, it increases the chance that risk free rates will remain low for longer), its impact on infrastructure's users behavior is creating uncertainty over the future financial performance of this asset class.

GDP-linked, transport and uncontracted energy assets are the most likely to be adversely affected whilst PPPs and contracted/regulated energy assets appear to be sheltered. In contrast, data centers and telecom towers may receive a boost over the medium term.

This dynamic is evident from the recent share trading performance of infrastructure-like assets. Does the short to medium term impact on demand for such assets justify the decrease in value?

Private equity

The overall market decline resulting from COVID-19 signals that many privately-held equity investments will likely need repricing.

In evaluating the nature and extent of the impact on a business, its income forecasts, and valuation assumptions, funds should consider a variety of issues including store or facility closures, loss of customers or customer traffic, impact on distributors, supply chain interruptions, production delays or limitations, impact on human capital, regulatory changes, risk of loss on significant contracts.

As the magnitude and the duration of the above dynamics is highly uncertain, a repricing of investments based on increase risk premiums (on both equity and debt funding) may be a reasonable temporary solution. Funds should also consider a range of alternative scenarios in order to assess the potential impact of COVID-19 on their investments.

Debt/Credit

The slow down in the economy from COVID-19 will likely lead to many instruments becoming distressed. This can be anticipated through the monitoring of several key factors, including:

- declines in enterprise value/coverage ratios
- breaches of financial covenants
- key customer or supplier impacts that will lead to diminished cash flows in the future.

Valuing distressed debt may be more complex than a straightforward yield analysis, with special attention needed to determine:

- likelihood of default
- ability to make cash payments in both near and longer term.
- waterfall coverage for different tranches under a distressed/liquidation value.
- the impact of the crisis on the value of collateral
- ability to restructure the instrument

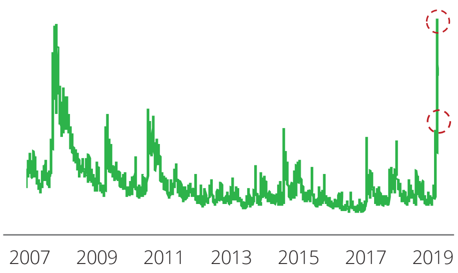
Real estate

Real estate investments are generally less susceptible to market volatility than stocks or certain other financial instruments, but are subject to similar business issues, as tenants face the pressures described above. Government push for landlords to provide rent holidays as part of the "hibernation" strategy may exacerbate these dynamics.

- The COVID-19 pandemic will compound the issues already facing the retail sector. In addition, trends created from the pandemic and a period of prolonged physical distancing may lead tenants to revisit their office space needs long-term.
- In addition, real estate investments in the hospitality, gaming/transportation industries, such as hotels, casinos, parking garages, etc., will see significant short-term and potentially long-term effects on their underlying real estate forecasts and valuations.
- Other real estate asset types, such as warehouse/logistics may see increased long-term demand as businesses adjust their operations to a post-COVID-19 world.

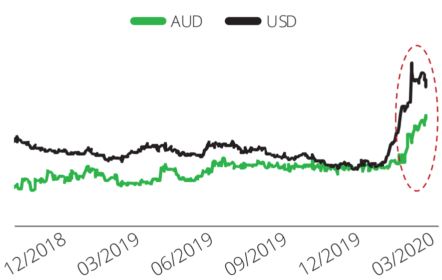
Impact on valuation measures

S&P 500 volatility



Australian market (ASX) cost of equity

Debt spreads (BBB)



Unprecedented increase in volatility since the GFC: Forecasts made before the spread of the COVID-19 in Australia may need to be re-evaluated in light of its impacts on the economy and the business in question.

Spike in the market cost of equity: Evaluate whether your discount rates fully reflect the recent considerable increase and subsequent reduction in the implied market rate of return following a partial recovery in markets accompanied by substantial reduction in earnings forecasts. Consider how to best update these parameters for your business in an internally consistent and appropriate fashion, in the face of seemingly erratic market indicators.

Escalating cost of debt: Widening debt spreads signal deteriorating liquidity and reflect both a worsening of company credit risk and a higher returns required by bond market investors.

Other considerations

Reforecasting and modeling: Given the immense uncertainty in the near and medium term, consider alternative scenarios in your forecasting process and performing enhanced modeling.

Long term prospects: Huge economic and financial stimulus programs pursued by global authorities may undermine long term inflationary and real growth prospects.

Cash management: Evaluate whether the portfolio companies have cash to cover operations and obligations under alternative scenarios and stay connected with your lenders.

Normalisation of market data: Given the disconnect in market data ("unaffected" metrics vs. "affected" market prices), it is important to document the nature of the selected multiples (actual vs. normalised) and how they align against the portfolio company's financial metrics. While there is no preferred method, care should be made to ensure that the comparison is like-for-like between the public comps and the portfolio company.

Disclosure and reporting: Given the substantial increase in volatility, consider whether the current frequency of re-valuations and your internal protocols are sufficient to provide investors with appropriate guidance on unit pricing.

Goodwill and impairment: Given the decline in share prices in the market, consider whether an impairment of goodwill has been triggered for the portfolio company.

Who we are:

Michele Picciotta
Partner
Deloitte Valuations
Melbourne
Phone: +61 3 9671 7303
Email: mipicciotta@deloitte.com.au

Mary-Beth Adam
Partner
Deloitte Valuations
Melbourne
Phone: +61 3 9671 6208
Email: maryadam@deloitte.com.au

Tapan Parekh
Partner
Deloitte Valuations
Sydney
Phone: +61 406 428 009
Email: tparekh@deloitte.com

Christophe Bergeron
Partner
Deloitte Valuations
Sydney
Phone: +61 2 9322 7429
Email: chbergeron@deloitte.com.au

Stephen Reid
Partner
Deloitte Valuations
Sydney
Phone: +61 2 9322 7654
Email: stereid@deloitte.com.au

Tim Heberden
Partner
Deloitte Valuations
Sydney
Phone: +61 2 9322 3809
Email: theberden@deloitte.com.au

Rob McConnel
National leader
Deloitte Valuations
Brisbane
Phone: +61 7 3308 7300
Email: robmcconnel@deloitte.com.au

Renee Jaszewski
Director
Deloitte Valuations
Brisbane
Phone: +61 7 3308 7377
Email: rjaszewski@deloitte.com.au

Nicki Ivory
Partner
Deloitte Valuations
Perth
Phone: +61 8 9365 7132
Email: nivory@deloitte.com.au

Stephen Adams
Partner
Deloitte Valuations
Adelaide
Phone: +61 8 8407 7025
Email: stadams@deloitte.com.au

Deloitte.