After pleasantries were exchanged K. Brown noted that ALA, through its relationship with Merrill Lynch, currently has a $2.0 million funding commitment with Blackstone via the Blackstone Total Alternatives Solution 2015 investment fund/pool. As of this writing a total of $1.6 million has been funded. He noted that as these investments are likely to be classified as level III and very illiquid, in addition to more responsibility being placed on the investors by the auditing industry to better understand the processes used to determine NAV, ALA wanted to be proactive in its understanding of the investment and the evaluation process involved.

In discussing the valuation process for the firm’s funds/portfolios a number of process topics were covered and included the following:

- **The Generation of Ideas** – Identified and reviewed/analyzed business opportunities by analysts and review (investment) teams. Looking to invest in an opportunity to build-up and make better i.e. world class then sell.

- **Call for Investors** – All calls for investment come from other investor groups/managers, individual investors and employees. *Note: employees are given every opportunity to participate as an investor in all the firm’s investment opportunities.*

- **Funding of Investments** – Once commitments are secured, funding is called as opportunities to enhance the investment position within a designated investment platform.

- **Required Reporting Period** – As a public company, the firm is required to provide quarterly reports detailing the value of its investments. These investments are spread over four private market investment platforms with over 200 investment positions covering the Private Equity, Real Assets, Credit and Opportunistic investing groups. ALA’s investment in BTAS 2015 has reporting requirements as follows:
- Portfolio Summary (Quarterly i.e. 45 days of quarter end)
- Investor statements (Quarterly i.e. 45 days of quarter end)
- Financial statements (Quarterly i.e. 45 days of quarter end and audited i.e. 150 days at year-end)
- Schedule K-1 (Annually i.e. generally no later than August 12)

**Determination of Reported Value** – The firm uses a multitude of factors in determining a value for its investments. These include, but are not limited to, the cost of the original investment, the operating metrics of the business, any acquisitions during the period and the model used for the type of investment, some agreed upon multiple of current/expected earnings, the trading value of similar companies in the industry and the general business conditions of the firm and industry.

**Role of the Valuation Committee** – The value of an investment is first determined by a valuation committee within a given business unit or segment, whose results are further reviewed a firmwide valuation committee. The two committees must first agree on the methods used in determining the initial valuation. While differences are rare they do on occasion occur. At that point the two committees meet and reconcile their differences. Additionally, 1x per year each investment is valued by an outside third party (Duff & Phelps).

**Performance of Investment** – Results are reported quarterly. Depending on the investment, the firm is generally looking for an IRR after fees of 15.5%. In the private equity platform as of 12-31-16, $591.0 million (42%) of the commitment has been deployed with a skew toward real assets (42%) and North America (62%). Additionally, the deployment covers over 200 investment positions and 20 industry sectors. The investment valuations increased by 7.2% over the fourth quarter in 2016 and 30.4% for the full year.

**Valuation Changes** – In those instances were an investment is determined to need a valuation adjustment – due to market factors, industry factors, operational factors or company specific factors etc., the valuation committee reviews in detail the process to make the change, and the reasonableness of the assumptions used to make the recommended change.

**Conclusion Closing**

The firm has a strong and well-developed valuation process.

**Action Items**

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<td>Keith Brown</td>
<td>August 31, 2018</td>
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<td>M. Leon</td>
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Incorporate the above information into the finance departments annual review and evaluation process of the organization’s PE valuation process.
J. Rudy and S. Nelson provided lunch for the discussion on the firm’s due diligence process. After pleasantries were exchanged R. Hersberger noted that ALA was able to participate in a KKR private equity offering via Merrill Lynch. K. Brown and M. Leon went on to further note that ALA currently has a $750,000 funding commitment with KKR via the KKR Custom Equity Opportunities Trust 2015 investment. As of this writing a total of $292,500 has been funded. M. Leon noted that as these investments are classified as level III and very illiquid. Due to the additional responsibility being placed on the investors by the auditing industry to better understand the processes used to determine NAV, ALA wanted to be proactive in its understanding of the investment.

J. Rudy began the discussion by noting that he was the Treasurer with the responsibility of overseeing KKR’s balance sheet and has been with the firm since 2008. Previously he was a member of the New York Private Equity team and prior to joining KKR he was with Bear Stearns & Co. where he was involved in a variety of merger, acquisition and financing transactions. Since 2010 he has been overseeing the firm’s valuation process for its investments. He noted that the process in use by the firm has been in place since 2006. Additionally, that Deloitte Touche Tohmatsu Limited is the firm’s auditor for its level III investments. KKR’s Private Equity platform invests in and partners with industry-leading franchises and companies poised for significant improvement or growth that attract high-quality management teams.

J. Rudy went on to state that KKR is principally involved in sponsoring and managing a group of funds that make primarily controlled-oriented investments in connection with leveraged buyouts and similar investment opportunities. As a result, most of their investments fall into the level III category. He then went on to describe the valuation process as follows:

Valuation Process – J. Rudy handed out several documents (policies) related to the firm’s valuation process – Global and Private Equity. He noted that the firm’s Global Valuation Committee is responsible for coordinating and implementing the valuation process in the application of valuation principals across portfolio investments and between periods. This committee consists of the following:

- A member of the regional Portfolio Management committees
- The head of the Global Capital and Asset Management Group
- The Chief Financial Officer
- The General Counsel
- The Chief Compliance Officer
- The Treasurer
- The Head of KKR Capstone

The individuals serving on this committee were selected based on their skills and areas of functional expertise. This group is overseen by the Head of Strategy and Special Projects. The Global Valuation committee provides general oversight of the Valuation Committees that exists across the business lines and asset classes. It was noted that each valuation committee has the primary responsibility for
valuations in its respective business lines. J. Rudy further pointed out that each business line may have specific valuation guidelines applicable to its business lines.

Global KKR Valuation Policy – J. Rudy described the valuation process in the following manner:

- Investment teams determine the initial investment ideas and valuation
- Investment teams may utilize an outside valuation expert to support or adjust their initial valuation
- Investment teams forward investment ideas and the associated valuations to the internal Valuation committee
- The Valuation committee forwards to the Global Valuation committee
- Independent auditor conducts a review or audit in accordance with US GAAP
  - Review final valuation memoranda
  - Discussions of valuation process with valuation committees
  - Discussions with independent valuation firms
  - Comparing analysis of independent valuation firms and investment teams
  - Reviews the appropriateness of valuation policies, procedures and controls
- Valuations are then presented to the firm’s Management and Audit committees of the Executive Board on a quarterly basis with the purpose of providing transparency for a publicly held company

Private Markets Valuation Policy – J. Rudy stated that in the private markets arena each sector (investment teams) has a valuation committee – the private equity valuation committee, the real estate valuation committee, and the energy & infrastructure valuation committee. He described the valuation process in these areas in the following manner:

- Investment teams generate ideas for specific investment for inclusion in the portfolio
- Each investment sector has a valuation committee and the primary responsibility for the substantive review and approval of valuations in their respective lines of business
- The valuation committee forwards investment ideas and associated valuations to the Global Valuation committee
- The Global Valuation committee is responsible for coordinating and implementing the firm’s valuation process to ensure consistency in the application of valuation principles across portfolio investments

The valuation committees work with the investment teams and or the independent valuation firm and other pricing sources that assist in the valuation process. Note: Duff & Phelps acts as the firm’s primary independent outside valuation expert to provide initial support or to resolve disagreements on a given valuation. In addition to providing valuation work they also conduct periodic reviews of the internal controls in place, general management oversight, valuation policies, procedures and controls. The valuation committees review the prepared valuation materials, processes used, any pricing overrides and conducts interviews with the investment teams. As part of the review process additional analysis may be requested of the investment team. Finally, all valuations are formally approved by the Global Valuation committee.
The independent auditor examines the final memoranda, discusses the valuation process with the valuation committees, the underlying data included in the memoranda, compares the analysis of the investment teams and the independent valuation firms and tests the accuracy of the calculations used.

Valuations are presented to the management committee and audit committee on a quarterly basis as required of publicly traded companies. Valuations are prepared more frequently for certain investments with readily available market prices or funds with daily or monthly liquidity. According to S. Nelson the firm values its investments at “Fair Value” in accordance to US GAAP and the standards as set forth in the AICPA Audit and Accounting Guide – Audits of Investment Companies. The firm has also adopted the Accounting Standards Code 820. He noted that as there is no single standard for determining fair values of an investment that does not have readily available market prices, then such fair values may be expressed in a range of fair values from which a single estimate may be derived. The firm considers industry accepted valuation methodologies, primarily an income approach (discounted cash flow analysis) and market approach (valuation based on a multiple of some financial measure i.e. EBITDA). In most cases a blend of approaches are used in arriving at an estimate of fair value.

It was noted that on occasion between reporting periods the valuation may be impacted information that becomes available or is deemed to be necessary in developing an accurate valuation. This information becomes an additional component in the valuation process to determine fair value and is used to determine whether it will have a material impact requiring an adjustment in the final valuation. For a change to take place there must be a very strong reason to do so.

When questioned further about “fair value” J. Rudy noted that there is no single standard for determining fair values for investments that do not have readily available market prices. As a result, the firm makes a good faith effort to determine the price that received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of a specific measurement date. The firm further considers industry accepted valuation methodologies.

On a closing note the issue of ESG was discussed. S. Nelson noted that more and more clients are inquiring about ESG. As of today the firm does not have a dedicated ESG product. However, it was noted confidentially that the firm would be offering an ESG portfolio in the fall of 2018. R. Hersberger expressed his feeling that the Trustees would be very interested in such a product offering. S. Nelson noted that he would keep ALA informed through Merrill Lynch as the product got closer to coming to market.

**Conclusion Closing**

The firm has a well-defined and measured approach to the valuation process for its investments. There are check points (3) along the way to ensure that the valuation is fair, reasonable and made in good faith.

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Incorporate the above information into the finance departments annual review and evaluation process of the organization’s PE valuation process. Additionally, to follow up on any ESG offering by the firm.

**Special notes**

Type additional notes here

None.