

# NORTHERN HORIZON CAPITAL AS VALUATION POLICY

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Operating principle/instruction	Northern Horizon Capital AS Valuation Policy
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## 1. INTRODUCTION

The valuation process of the alternative investment funds (**AIFs**) which Northern Horizon Capital AS (**AIFM**) manages is described in this document (**Valuation Policy**). One key feature of the valuation process is appointing of an external independent real estate valuator to perform valuation services of AIF's Property investments. The AIFM shall not invest in a particular type of asset for the first time unless an appropriate valuation methodology or methodologies have been identified for that specific type of asset.

The AIFM shall inform the Financial Supervision Authority (**FSA**) of the valutors of Properties chosen and the criteria on the basis of which the valutors were chosen.

The Valuation Policy and the designated valuation methodologies shall be applied consistently across all AIFs managed by the AIFM, taking into account the investment strategies and the types of asset held by the AIFs, and, if applicable, the existence of different external valuers.

## 2. DEFINITIONS

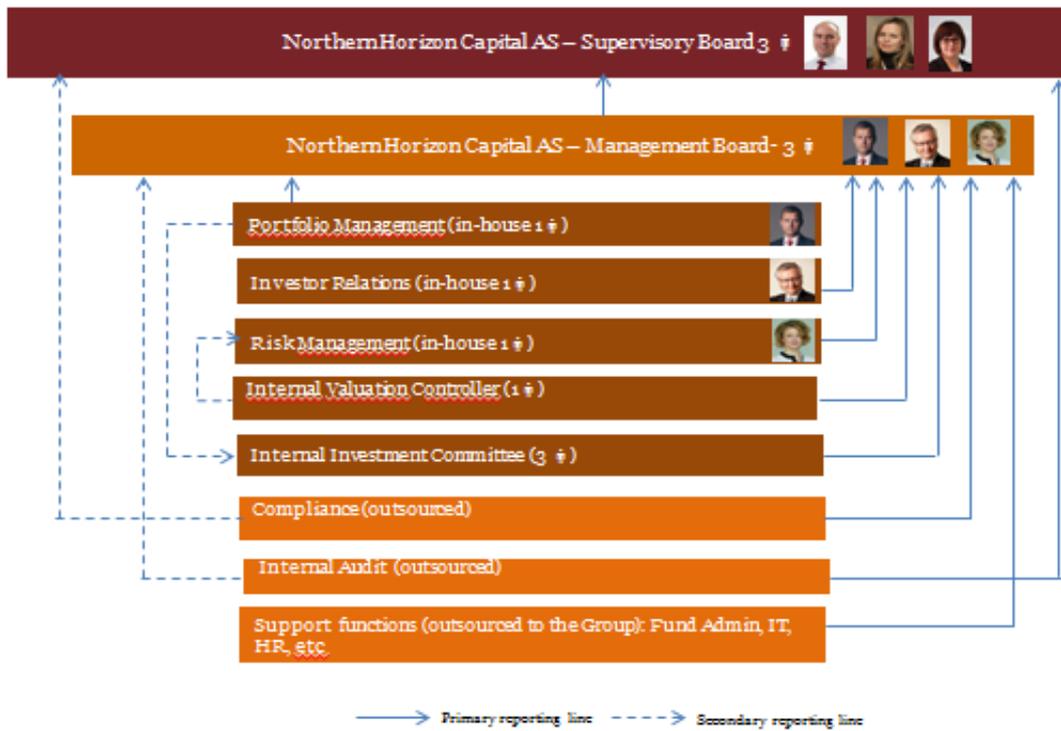
<b>AIF or Fund</b>	means Alternative Investment Fund (a collective investment undertaking) managed by the AIFM, and which (i) raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors; and (ii) which is not subject to UCITS regulation (Directive 2009/65/EC).
<b>Assets</b>	mean Securities, cash and other rights and assets acquired in the name of the AIFM and on the account or for the benefit of the Fund, excluding the Property.
<b>AIFM</b>	means Northern Horizon Capital AS which is an alternative investment funds manager and whose regular business is managing one or more AIFs, registry code: 11025345.
<b>Compliance Function</b>	means the function of AIFM whose purpose is to detect any risk of failure by the AIFM to comply with its obligations under Regulations, the associated risks and to perform other duties.
<b>FSA</b>	means the Financial Supervision Authority of Estonia (in Estonian: <i>Finantsinspektsioon</i> ).
<b>Fund Controller</b>	means a person or persons or a unit who perform(s) (i) financial risk control function and (ii) fund administration function whereas such functions may be, fully or partially, be performed at Group level or outsourced.
<b>Fund Manager</b>	shall have the meaning as defined in the Manual.
<b>Fund Rules</b>	means a document which stipulates the requirements for the Fund activities and the relationships between the AIFM and the Investors.
<b>Group</b>	means the AIFM together with all legal persons belonging to the same consolidation group with the AIFM.
<b>Internal Valuation Controller</b>	means a person or persons (eg valuation committee) designated by the AIFM for performing valuation control whereas such person(s) may be employed by the AIFM or another Group company. Internal Valuation Controller may be the same person(s) as the Fund Controller.
<b>Investor</b>	means unit-holder or shareholder of the Fund.
<b>Manual</b>	means the Manual of Internal Rules of the AIFM to which the present Valuation

Policy is attached to as an Appendix.

<b>Management Board</b>	means the management board of the AIFM.
<b>Material Risk Cases</b>	has a meaning described in Section 5.2.1.
<b>NAV</b>	means Net Asset Value (in Estonian: <i>vara puhasväärtus</i> ), which is the value of Fund's assets minus the value of its liabilities.
<b>Portfolio Management Function</b>	means the function responsible for target selection, submission of proposed investment or divestment for final recommendation, execution of transaction. Portfolio Management Function is performed by the Fund Manager(s) responsible for the portfolio management.
<b>Property</b>	means real estate and rights related to real estate including right of superficies acquired in the name of the AIFM and on the account or for the benefit of the Fund.
<b>Regulations</b>	mean the following: <ul style="list-style-type: none"> <li>(a) Investment Funds Act of Estonia;</li> <li>(b) Regulation No 15 of the Minister of Finance of 20 May 2014 on the "Requirements to alternative fund manager and depository of investment fund managed by it";</li> <li>(c) FSA guidelines;</li> <li>(d) Commission Delegated Regulation No 231/2013 of 19 December 2012;</li> <li>(e) other applicable acts.</li> </ul>
<b>Risk Management Function</b>	means AIFM function aimed to identify and manage risks the realisation of which may express itself for Investors in a reduction in the net value of a unit (risks related to Funds) or which may result in the disruption of the orderly functioning of a Fund (operational risks).
<b>Security or Securities</b>	means a financial instrument defined in Article 2 of the Securities Market Act (in Estonian: <i>Väärtpaberituru seadus</i> ) as well as shares in private limited companies (e.g. SPVs).
<b>Valuation Policy</b>	means the present document.

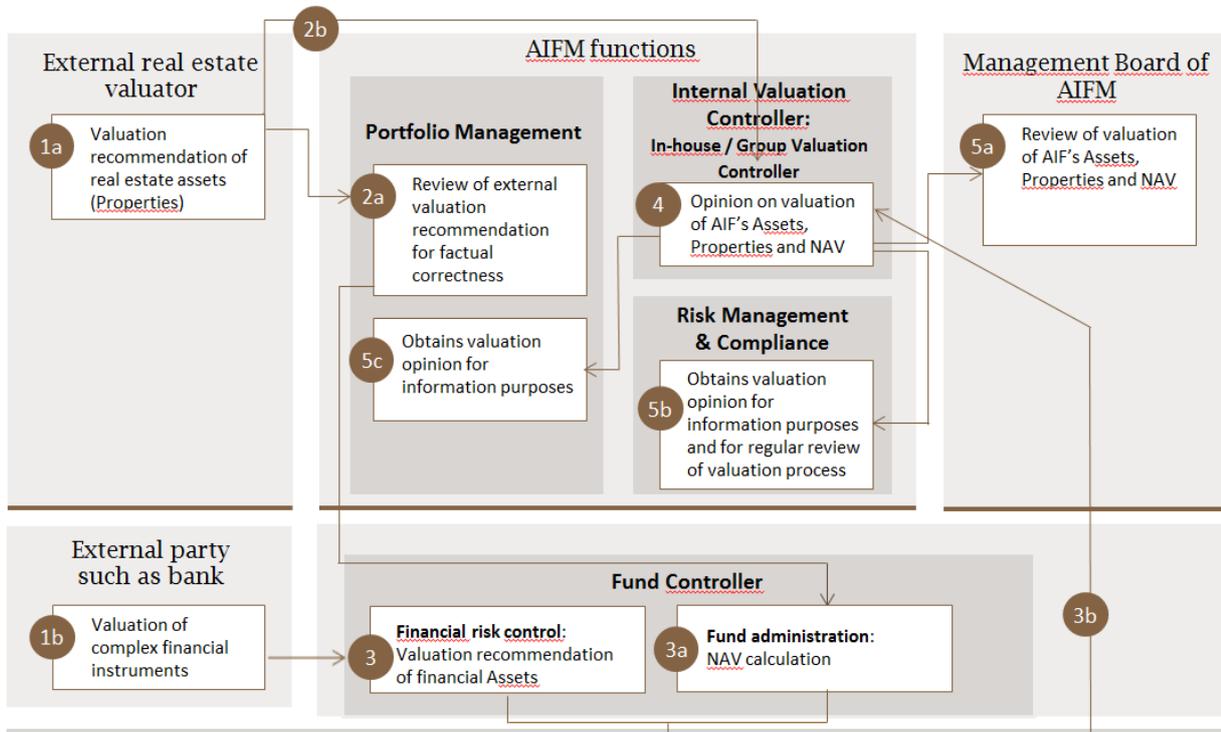
### 3. ORGANIZATION

The below graph shows the valuation function in the context of AIFM's structure.



### 4. VALUATION PROCESS

The below graph shows the valuation process which is described in more detail below.



- 4.1. The Management Board shall appoint an independent external real estate valuator to provide a recommendation of the valuation of Properties of the AIF (1a).
- 4.2. The external real estate valuator shall deliver the valuation (recommendation) of the Properties held by the AIF to both Portfolio Management Function of AIFM (2a) and to the Internal Valuation Controller (2b). AIFM acknowledges that the valuation report of the external valuator does not form a firm opinion of the external valuator of the Property as at the valuation date but is to be considered as a recommendation. The Portfolio Management Function shall verify the factual correctness of the valuation recommendation and deliver the valuation recommendation to Fund Controller for calculation of the AIF's NAV (3a).
- 4.3. The Fund Controller (in capacity as financial risk controller) prepares a valuation recommendation of Assets such as financial assets in the balance sheet of the AIF (3). For this purpose it receives bank statements and other such reports from external parties such as banks (1b).
- 4.4. Fund Controller (in capacity as fund administration function) calculates the NAV of the AIF on the basis of the obtained valuation recommendation of (i) the Properties received from the Portfolio Management Function and (ii) its own assessment and recommendation of the Assets. The Fund Controller (in capacity as fund administration function) will deliver the complete NAV calculation to the Internal Valuation Controller (4) along with recommendation of valuation of the Assets.
- 4.5. The Internal Valuation Controller shall review the valuation recommendation of Properties delivered by the external valuator (2b) and the valuation recommendation of the Assets delivered by the Fund Controller (3b) in order to assess that Properties and Assets of the AIF are valued in accordance with the approved valuation methodologies (4). Thereafter the Internal Valuation Controller shall deliver Internal Valuation Controller's *statement of the valuation of the Properties and NAV* as at a certain date to:
  - (a) The Management Board for review (5a);
  - (b) Risk Management Function and Compliance Function for information purposes and regular review of the valuation process (5b); and
  - (c) Portfolio Management Function for information purposes (5c).

The Management Board shall review the NAV of the AIF delivered by the Internal Valuation Controller as well as the value of AIF's Properties and Assets.

After review made by the Management Board, Internal Valuation Controller's *statement of the valuation of the Properties and NAV* shall be considered as final.

## 5. FURTHER TO ROLES OF PARTICIPANTS TO THE VALUATION PROCESS

### 5.1. External valuator

The Management Board shall appoint an independent external real estate valuator to provide a recommendation of the valuation of real estate assets (Properties) of the AIF. The selection of an external valuator is made on the basis of several criteria such as, for example, type of assets, experience (including personnel) and reputation of the available valuers.

The valuation methodologies, models, assumptions as well as documentation provided by the outsourcing partner, i.e. the external real estate valuator, are approved and constantly evaluated by the Management Board. At the time of appointing the external valuator it is underlined that the valuation methodologies, underlying assumptions, rationale for the assumptions and sources of data used must be clearly written in the valuation recommendation. Also the external valuator as a valuation professional is constantly evaluated according to the outsourcing rules of the AIFM, and change of external valuator is performed regularly.

Since the external valuator provides the recommendation as to the valuation of the Properties only as one source along with internal valuation (final value of Properties and Assets determined in the Internal Valuation Controller's *statement of the valuation of the Properties and NAV*), the overall valuation process is considered internal in accordance with Article 19(4)(b) of the AIFMD which imposes requirements on the internal valuation function, notably that the valuation task should be functionally independent from the Portfolio Management Function and the remuneration policy and other measures should be applied to ensure that conflicts of interest are mitigated and that undue influence upon the employees is prevented.

The remuneration payable to the Internal Valuation Controller for performing Internal Valuation Controller's function shall not be interdependent on valuations determined by the Internal Valuation Controller or on the results of the activities of Portfolio Management Function. The Management Board shall see that this principle is adhered to irrespective of whether the Internal Valuation Controller is employed by the AIFM itself (in which case the principle may be addressed e.g. in employment agreement) or by another Group company (in which case the principle may be addressed e.g. in the delegation agreement).

#### **5.1.1. Valuation methodology applied by the external valuator**

Valuation methodologies are considered and selected for each type of asset in which the AIF may invest in accordance with the AIF specific rules (investment restrictions are typically set in the Fund Rules, articles of association or other such instruments of incorporation). At the time of appointing the external valuator the valuation methodologies are agreed with the valuator, and it is underlined that the valuation methodologies, underlying assumptions, rationale for the assumptions and sources of data used must be clearly written in the valuation report. Moreover, as a main principle the selected valuation methodology should be applied constantly to the Properties of the AIF over its lifetime.

While the valuation methodology related issues are in detail agreed with the external valuator as described above, following principles shall be adhered to when agreeing upon valuation methodology related issues. Due to this methodology being most appropriate for valuating Properties the AIF may invest in, as a general rule, Properties are evaluated by applying 5 or 10 year DCF (Discounted Cash Flow) methodology. Under the DCF methodology, the value of the Property is estimated by compiling the net present value of the future cash flows which are obtained by applying a discount rate. Discount rate is calculated by the formula of WACC (Weighted Average Cost of Capital) and it is based on valuer's knowledge about the most probable financing conditions and return expectations for similar investment objects at the moment. As a general rule, main inputs for the valuation are projected rental income, holding period, projected operating expenses, capital expenditures requirements, discount rate, exit yield.

The external real estate valuator shall perform visual inspection of the Property and search information regarding the Property from public databases.

Valuation methodology of Assets is provided in the *NAV Calculation Policy* attached as Appendix 5 to the Manual.

#### **5.1.2. Delivery of Property related information to external valuator**

The property/asset manager (if any) appointed by AIFM shall deliver all the necessary information and materials to the external valuator on the Property they are responsible for, unless it has separately been agreed that some information is delivered by the Portfolio Management Function of AIFM. The necessary information will include at least the key information on valid lease agreements and such lease agreements which have been agreed but are not in force yet, any material operating expenses of the Properties and other Property specific issues which might have a material impact on the value of the Property.

The valuator will receive the information within the time schedule set out in the agreement between AIFM and the valuator.

## 5.2. Internal valuation function: Internal Valuation Controller

The Internal Valuation Controller shall assess in all cases whether the valuation methodology is properly selected and applied in accordance with clause 5.1.1 above, and verify that the input data delivered by the property/asset manager (if any) or by the Portfolio Management Function is correct and used consistently, transparently as well as otherwise properly, and to review that any data chosen solely by the decision of the external valuator is used reasonably, consistently and transparently. In assessing the above, the Internal Valuation Controller shall, among other, compare external valuator's recommendation with external valuator's recommendations regarding the same asset from previous years.

In verifying whether data delivered by the property/asset manager (if any) or by the Portfolio Management Function is correct, the Internal Valuation Controller shall, among other, compare provided information regarding rental income and operating expenses (i) with information regarding the same period of previous year(s) and (ii) with information provided in relevant agreements by occasionally checking agreements such as rental agreements and insurance agreements. If Internal Valuation Controller discovers unfounded deviations as a result of such comparison, the Internal Valuation Controller shall require clarification from the property/asset manager or Portfolio Management Function having delivered certain data.

The Internal Valuation Controller shall verify data delivered by the Portfolio Management Function in relation to capital expenditure requirements by requesting relevant clarifications from the Portfolio Management Function (e.g. with the purpose to understand that the Portfolio Management Function has understood correctly the proposal by the property/asset manager on necessary capital expenditures).

If reasonably necessary or upon reasonable doubt (e.g. based on unjustified deviations from external valuator's recommendations from previous years, upon doubt that valuation methodology is not properly selected or applied, upon doubt that input data is not used consistently, transparently or otherwise properly or any data chosen solely by the decision of the external valuator is not used reasonably, consistently or transparently) of the value of Properties or Assets, the Internal Valuation Controller shall issue a recommendation to the Management Board to initiate additional external valuation from another valuer or valuers to compare the outcome for the final decision. Based on Internal Valuation Controller's recommendation, the Management Board shall initiate such additional external valuation.

After review made by the Management Board, Internal Valuation Controller's *statement of the valuation of the Properties and NAV* shall be considered as final.

## 5.3. Fund Controller

Fund Controller shall prepare:

- a recommendation of valuation of Assets to the Internal Valuation Controller;
- NAV calculation of the AIF based on the Property and Asset value recommendations.

For determination of the Assets value it may also use external valuation sources or adviser, as needed.

Generally, the NAV calculation is prepared, in other words the value of assets and liabilities of the AIF is determined, in accordance with IFRS. Rules for the NAV calculation are handled in detail in *NAV Calculation Policy* attached as Appendix 5 to the Manual.

## 6. REVIEW OF INDIVIDUAL VALUES OF PROPERTIES AND ASSETS

6.1. While reviewing the value of the Properties and Assets the Internal Valuation Controller and the Management Board shall always consider whether a material risk of an inappropriate valuation exists, such as in the following cases which are subject for specific review (**Material Risk Cases**):

- (a) the valuation is based on prices only available from a single counterparty or broker source – not applicable in case of Properties (being the main asset class the AIF invests into), but may be applicable in case of certain Assets such as complex and illiquid financial instruments;
- (b) the valuation is based on illiquid exchange prices - not applicable in case of Properties (being the main asset class the AIF invests into), but may be applicable in case of certain Assets such as complex and illiquid financial instruments;
- (c) the valuation is influenced by parties related to the AIFM – not applicable in case of Properties (being the main asset class the AIF invests into) as initial price recommendation shall be provided by independent external valuation, but may be applicable in case of certain Assets, such as complex and illiquid financial instruments;
- (d) the valuation is influenced by other entities that may have a financial interest in the AIF’s performance – the AIFM currently does not see such risk to arise;
- (e) the valuation is based on prices supplied by the counterparty who originated an instrument, in particular where the originator is also financing the AIF’s position in the instrument - not applicable in case of Properties (being the main asset class the AIF invests into), but may be applicable in case of certain Assets such as complex and illiquid financial instruments;
- (f) the valuation is influenced by one or more individuals within the AIFM – the AIFM currently does not see such risk to arise as no individual within AIFM will make influence over the valuation except for Internal Valuation Controller who will determine the final value.

Explanation:

*Portfolio Management Function and Financial risk control can provide their input to the person/committee performing the valuation function (Internal Valuation Controller). For example, Portfolio Management Function may participate in the discussion in an advisory capacity but they may not have a vote on, or a decision-making role in, the determination of the final value of the assets. The Internal Valuation Controller should have sufficient seniority and competence to form an independent view on whether the Portfolio Management Function’s recommendations are reliable, so that they are not unduly influenced by the views of the Portfolio Management Function.*

6.2. Should there be Material Risk Cases as described above, the Internal Valuation Controller and the Management Board shall assess the reasonableness of individual values in terms of the existence of an appropriate degree of objectivity. The checks and control shall include at least:

- (a) verifying values by a comparison amongst counterparty- sourced pricings and over time – not available in case of Properties, but may be available in case of certain Assets;
- (b) validating values by comparison of realised prices with recent carrying values - not available in case of Properties, but may be available in case of certain Assets;
- (c) considering the reputation, consistency and quality of the valuation source – (i) in case of Properties, the reputation, consistency and quality of external real estate valuator is considered carefully before appointment of the external real estate valuator as well as constantly valued after appointment in accordance with clause 5.1 above, (ii) in case of Assets such as complex financial instruments the reputation, consistency and quality of external parties such as banks is carefully considered and constantly evaluated;

- (d) a comparison with values generated by a third party – (i) in case of Assets, may be available or additional external valuation may be initiated as described in this Valuation Policy, (ii) in case of Properties, additional external valuation may be initiated as described in this Valuation Policy;
- (e) an examination and documentation of exemptions - not available in case of Properties, but may be available in case of certain Assets;
- (f) highlighting and researching any differences that appear unusual or vary by valuation benchmark established for the type of asset – may be available in case of Assets and Properties;
- (g) testing for stale prices and implied parameters - may be available in case of Assets and Properties;
- (h) a comparison with the prices of any related assets or their hedges - not available in case of Properties, but may be available in case of certain Assets;
- (i) a review of the inputs used in model-based pricing, in particular of those to which the model's price exhibits significant sensitivity – currently pricing of Properties or Assets is not model-based.

In case of Material Risk Cases as described in clause 6.1, the Internal Valuation Controller shall run available checks listed above or, if needed, use for that purpose external valuation sources or adviser.

If reasonably necessary or upon reasonable doubts of the value of Properties or Assets additional external valuation from another valuer or valuers may be initiated to compare the outcome for the final decision or any other reasonable means may be initiated/taken to address differences or other problems in the valuation of Properties or Assets.

## **7. ESCALATION CHANNELS**

The Risk Management Function and Compliance Function shall alert the Management Board of a material risk or irregularity identified in the valuation process.

## **8. VALUATION FREQUENCY**

The AIF documentation (eg Fund Rules) shall include the frequency of valuation for all material assets and liabilities of the AIF. The AIF documentation shall also disclose the frequency of the NAV calculation. The rules and procedures stipulated in the AIF documentation are followed and shall supersede this Valuation Policy.

The valuation procedures of each AIF shall ensure that the Assets and Properties of the AIF are valued at least once a year as at the end of the financial year and before the audit of the annual report of the AIF is conducted.

## **9. PERIODIC REVIEW OF VALUATION POLICY**

The review of the valuation procedures of each AIF shall be carried out by the Management Board at least annually and before the AIF engages with a new investment strategy or a new type of assets that is not covered by the actual valuation procedure.

## **10. DISCLOSURE**

The rules for the valuation of Properties shall be disclosed on the website of the AIFM.