

PRESS RELEASE

14 December 2021

Establishing robust valuation framework across European and US private debt critical for asset class – European Leveraged Finance Association and Houlihan Lokey

- **Growth of private debt in portfolios necessitates need for best practice and consistent standards of valuation**
- **Differences in valuation practices exist between European and US private debt fund managers**
- **Insights Report highlights methodologies and practical considerations in assessing valuation of private debt**

London, 14th December 2021: Establishing a robust valuation framework for private debt as a growing and maturing asset class will be critical from a regulatory and investor reporting standpoint, according to a report from the European Leveraged Finance Association (ELFA) and Houlihan Lokey. The Insights report, *Valuation of Private Debt Investments*, was published today with the aim of providing a primer to the methodologies and practical considerations faced by valuation practitioners when assessing private debt instruments.

The European private debt market has experienced significant growth from €8 billion in 2012 to €120 billion in 2020,¹ with the asset class increasing in importance within investors' portfolios. The report highlights that this growth, alongside the illiquidity of the underlying instruments and increasing scrutiny from investors, regulators and auditors, requires best practices and consistent standards in the valuation of private debt.

Traditionally, private debt fund managers in Europe have been dispersed in their adoption of fair value accounting versus impairment assessments for their credit portfolio holdings. ELFA and Houlihan Lokey highlight that as the asset class matures, matters such as valuation are increasingly scrutinised suggesting some obvious benefits in further streamlining practices across the European market and incorporating fair value elements for additional comparability with the more mature market in North America.

The report outlines the different approaches to valuation and practical elements of each. While market participants might consider these approaches straightforward, the report aims to highlight the numerous points at which different approaches can be selected to create a specific outcome as opposed to following prescriptive guidelines. For example, driven by the regulatory framework in the US, valuation approaches often take more of a trade mentality, considering current pricing of the loan market i.e. current yields versus the yield secured across the portfolio. In Europe however, there is a tendency to determine asset value based on impairment analysis and applying haircuts if assets are underperforming.

The report seeks to highlight some of the practical elements of valuation approaches including inter alia the importance of timeliness of data, appropriateness of comparable peers selection, changes to portfolio company forecasts and the consideration of undrawn debt instruments (i.e. RCFs), demonstrating how the devil can lie in the detail when it comes to assessing issuer and instrument performance.

Sabrina Fox, Chief Executive Officer, European Leveraged Finance Association, said: "The impact of the pandemic on businesses globally is the first real test for the private debt market, with increased scrutiny expected. A due diligence call with Limited Partners three years ago might have been more likely to focus on high level details, but valuation considerations have come to the fore following the pandemic.

"Through partnering with Houlihan Lokey on this report, we aim to bring this increased scrutiny to the market's attention and believe that establishing a robust valuation framework for private debt as a growing and maturing asset class will be critical from a regulatory and investor reporting standpoint. A convergence of best practices and valuation standards is a natural evolution for the asset class to become more widely accepted in portfolio investment allocation decisions."

Carina Spitzkopf, Co-Chair of ELFA's Private Debt Committee added; "Valuation ought to provide the best possible picture of portfolio performance, and getting it right is central to ensuring transparency and accuracy for investors. Incorporating more streamlined standards across market participants enhances transparency for investors, facilitates comparability and benchmarking of manager performance, and provides an accurate representation of evolving risks based on the credit quality of the borrower and market conditions."

The full Insights report is available to view and can be downloaded [here](#).

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14 December 2021

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Notes to Editors

¹Preqin data

About European Leveraged Finance Association (ELFA)

ELFA is a trade association comprised of European leveraged finance investors from over 50 institutional fixed income managers, including investment advisors, insurance companies, and pension funds. ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants. For more information, please visit the ELFA website: www.elfainvestors.com.

About Houlihan Lokey

Houlihan Lokey (NYSE:HLI) is a global investment bank with expertise in [mergers and acquisitions](#), [capital markets](#), [financial restructuring](#), and [valuation](#). The firm serves corporations, institutions, and governments worldwide with offices in the United States, Europe, the Middle East, and the Asia Pacific region. Independent advice and intellectual rigor are hallmarks of the firm's commitment to client success across its advisory services. For more information, please visit <https://hl.com/>