

# ***Private Equity Valuation Policy***

**Document Owner:**

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Simplicity Investment Committee

**Review Cycle:**

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**Document History:**

<b>Version</b>	<b>Date</b>	<b>Changes/Modification</b>	<b>Author</b>	<b>Status</b>
1.0	16 December 2020	Initial Draft	Matt Houtman	Draft
Final	17 December 2020	Final	Matt Houtman	Final
2.0	28 February 2022	Removed 5.8 – IC may review annually	Matt Houtman	Final
3.0	14 April 2023	Changed 45 days from end of quarter to 60 days and review month to fit with IC cadence	Matt Houtman	Final
4.0	5 February 2024	Update 5.3 to include market data at month end, made VC reference generic	Matt Houtman	Final
5.0	21 February 2025	Changed Simplicity Entity	Matt Houtman	Final

## 1. Background

- 1.1. Simplicity Investment Management Limited (**Simplicity, we/our**) is the Manager of the Private Equity Fund (**PE Fund**) which operates according to the Investment Guidelines, which include the following:
  - 1.1.1. A Venture Capital strategy to make investments into funds that deliver a broad exposure to early-stage New Zealand businesses (**Venture Capital Investments**); and,
  - 1.1.2. A Private Equity strategy to make direct equity investments into privately owned mature New Zealand businesses (**Private Equity Investments**).
- 1.2. Simplicity is required to report investments at fair value under NZ IFRS 13. The valuation techniques generally rely on Level 3 inputs for this standard.

## 2. Purpose and Scope

- 2.1. The purpose of this policy is to set out the techniques and process to estimate fair value of the PE Fund investments (**PE valuation policy**).
- 2.2. The framework to estimate fair value is the International Private Equity and Venture Capital Valuation Guidelines (**IPEV guidelines**). These guidelines have been developed as a source of best practice by Private Equity and Venture Capital stakeholders and endorsed by most of the leading industry associations globally, including the New Zealand Private Capital Association. The guidelines are explicitly designed to be compliant with IFRS 13.
- 2.3. The latest version of the IPEV guidelines is December 2022, for reporting periods from 1 January 2023. There are also periodic guidance notes and an FAQ section on the IPEV website. The PE valuation policy will use the latest version of the guidelines from time to time together with any further guidance on the IPEV website.
- 2.4. The IPEV guidelines should be taken as read. The PE valuation policy does not attempt to summarise the IPEV guidelines, but to highlight relevant features as applied.

## 3. Valuation Techniques used for Simplicity Venture Capital Investments

- 3.1. A manager of Venture Capital Investments (**Venture Capital Manager**) shall report the fair value of these fund investments to us.
- 3.2. A Venture Capital Manager shall have its own valuation policy, which is based on the IPEV guidelines. Any change to a Venture Capital Manager's valuation policy requires our consent.
- 3.3. Reflecting the earlier stage of the underlying businesses, a Venture Capital Manager will mainly use the technique of Milestone Analysis, which involves qualitatively assessing progress against prior stated business milestones at each measurement date and calibrating this progress to the more recent of either the valuation at the prior measurement date or the price of the most recent investment. Assessing the impact on valuation of progress to milestones requires significant judgement.

#### **4. Valuation Techniques used for Simplicity Private Equity Investments**

- 4.1. Under the IPEV guidelines, the fair value estimate of a Private Equity investment starts with the Enterprise Value (**EV**) of the underlying business, then considers the waterfall of value priority ahead of instruments held by us.
- 4.2. We will predominantly use a combination of the following valuation techniques to estimate EV: the price of any recent investment in the business; EV multiples of revenue, earnings or other relevant metrics observable from public markets or private transactions of businesses comparable to the business; and, Discounted Cash Flows of the business based on reasonable expectations of future financial performance, the appropriate risk-adjusted return on capital and the reasonable estimation of terminal value.

#### **5. The Valuation Process**

- 5.1. Fair value for each PE Fund investment will be estimated quarterly and within 60 days of the end of the relevant quarter. Given the typical operating cadence for the underlying businesses, we believe a more frequent or less frequent value estimate would not be helpful.
- 5.2. Simplicity and any Venture Capital Manager will each operate the concept of 'continuous disclosure' for any events within the underlying business which may have an impact on value or any material changes in equity market conditions and will assess any impact on value at that time. The concept of continuous disclosure will be pushed down to the underlying business.
- 5.3. Our fund reporting requires monthly fair value estimates for the PE Fund investments. Each monthly estimate will be that for the most recent quarter updated for the relevant market-derived inputs at month end (e.g., risk free rate, cost of debt, EV multiples) unless there is a new estimate following continuous disclosure.
- 5.4. A Venture Capital Manager is responsible for preparing the fair value estimates of the Venture Capital Investments.
- 5.5. The investment committee for a Venture Capital Manager is responsible for reviewing and accepting the fair value estimates for the Venture Capital Investments.
- 5.6. Our Head of Private Capital is responsible for reviewing annually the fair value of the Venture Capital Investments reported by a Venture Capital Manager and may elect to review at any time.
- 5.7. Our Head of Private Capital is responsible for preparing the fair value estimates of the Private Equity Investments.
- 5.8. Our investment committee may elect to review the fair value estimates of the PE Fund at any time.

#### **6. Policy Review and Approval**

- 6.1. This policy is to be approved by the Investment Committee and reviewed by them periodically.