



Axiom Valuation's Alternative Investment Return Authentication Service: AIRAS

Trust But Verify

Introduction

Alternative Investments (e.g. hedge and private equity funds) have become a major investment class for Endowments, Retirement Funds, and Foundations. Because many Alternative Investment Funds lack transparency, it is virtually impossible to ensure that their self-reported NAV-based returns are proper and the NAVs are reported at fair value.

Axiom Valuation's Alternative Investment Return Authentication Service (AIRAS) solves this problem. By offering investors a cost-effective solution, AIRAS enables investors and their auditors to be certain that AI managers are not misreporting and what is reported is proper and meets the fair value standard.

Problem

The Madoff Event put fiduciaries on notice that there is an increased probability that self-reported Alternative Investment (AI) values may not be accurate. In addition, recent academic research points to self-reported hedge fund and private equity values being too high. So, when an AI manager reports returns and net asset values, how does one know that they are proper? How does one know that the manager is reporting truthfully? **AIRAS is designed to answer these questions.**

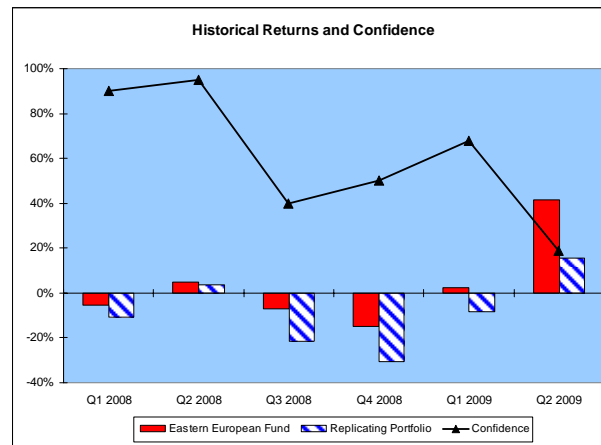
Solution

AIRAS is a statistical detective tool using Modern Portfolio Theory designed to provide a level of confidence that AI reported returns and NAVs are being reported properly. AIRAS has pioneered the use of The Replicating Portfolio (TRP) methodology to value alternative investment interests when the manager does not disclose underlying assets.

Axiom has valued hundreds of AI interests using this method, and audit firms have come to rely on it as an objective analysis upon which they can, in part, base their audit opinion.

AIRAS uses optimization and statistical methods to discover the underlying structure of an AI portfolio. Based on this, AIRAS develops a statistical-based metric, **the confidence curve**, which indicates the certainty that an AI fund return and NAV are reported properly.

The chart below is an example of a fund (the name has been changed) where the confidence was high in the initial periods, but dropped to less than 20% by the ending period. The client liquidated their position in the fund as a result of this analysis.



AIRAS Features

- Using an unbiased statistical process, AIRAS assesses the feasibility of the fund attaining the reported return.
- Determines whether the NAV reported by the manager is at fair value.
- Provides a comprehensive report with full documentation including underlying data for each AI interest.
- Quarterly reports are available for the most recent quarter and historically.

Benefits of AIRAS

- The only system available that offers a fully objective statistical-based validation that self-reported AI returns and NAVs are reported properly.
- Significantly reduces staff burden in terms of time, effort and cost associated with the audit process.
- AIRAS reports provide the analytical audit support consistent with AICPA requirements governing the audit of alternative investments.
- Increases the level of transparency by testing whether the AI manager disclosures are aligned with self-reported returns and NAVs.
- Minimizes the risk that auditors have traditionally accepted when auditing investments that are not transparent and highly illiquid.

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