

Maximising value
Private Equity
Solutions



Deloitte's private equity practice is an industry group with more than 150 industry specialists from across the Luxembourg firm. In turn, our people are connected to Deloitte's global cross-functional industry group, which comprises nearly 5,000 professionals in 40 countries providing a spectrum of assurance and advisory, tax, enterprise risk, regulatory and consulting services to a broad range of asset management companies and asset servicers. This is in addition to a global network of more than 6,000 M&A specialists who could be at work on your proposal tomorrow, anywhere in the world.

Introduction

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We understand the issues

The private equity industry is going through a period of significant change: with more intense regulatory scrutiny from multiple jurisdictions, there is a greater focus on a closer alignment of interests between limited partners and general partners and a spotlight on transparency and governance.

Our professionals and our valued clients bring us an incisive appreciation of the issues facing private equity today.

And we can help you to address them

In addition to our industry practice and expertise, we maintain and strengthen our industry insight through:

- Representation on industry bodies and committees
- Industry surveys
- Involvement in industry reviews
- Liaison with regulators
- Responses to public consultations

Our core private equity service offering encompasses audit and assurance, regulatory and compliance, specialist tax and private equity advisory services.

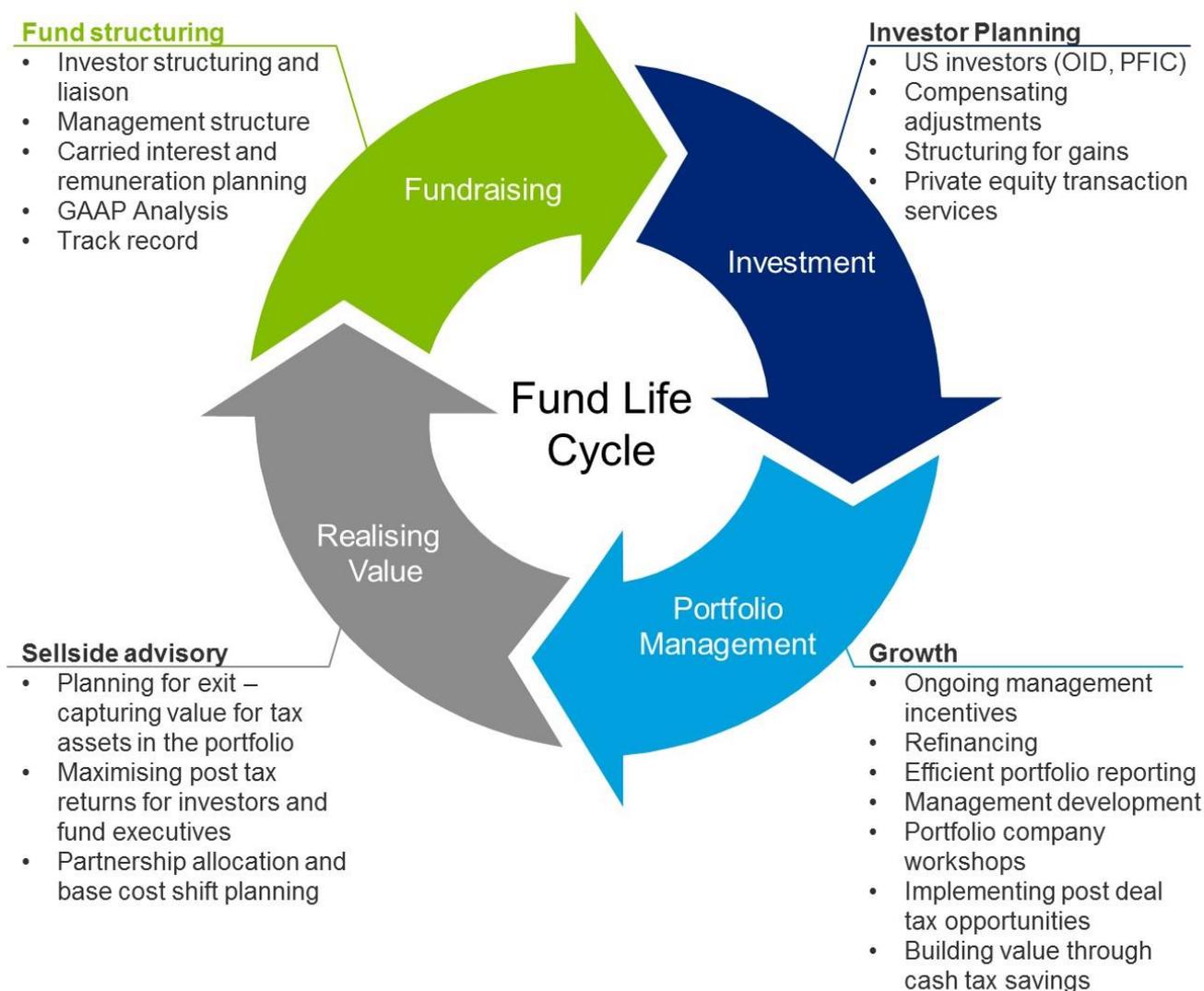
As one

Irrespective of their individual specialism, all our private equity specialists work together as one to provide a seamless, joined-up service that adds genuine value to our clients. Through our interconnected approach, we provide advice and assistance to our clients on all aspects of a fund's lifecycle: fund structuring and fundraising; investor planning; investment growth and portfolio management; sell-side advisory and realising value; and operational matters and regulatory compliance.



Some examples of our joined-up methodology include designing tax-efficient executive remuneration structures, which may involve co-investment and carried interest structures. Our accounting practice can provide advice on accounting issues, and assist in the design and administrative maintenance of the carried interest vehicle. In addition, our advisory practice can help you define your operating model, as well as perform AIFMD regulatory reporting on your behalf.

In summary, with the most extensive range of services of any professional service firm, together with a world-class consulting practice, Deloitte provides an unrivalled breadth and depth of integrated services to private equity firms and their portfolios, encompassing all sizes, sectors and geographical footprints.



Audit and assurance

As you would anticipate from a world-class professional services firm like Deloitte, we can call upon vast resources of experience and expertise to deliver audit and assurance services. The scope of the services provided by our private equity industry team includes:

- External audit of funds and managers, including regulatory reporting on client assets
- Investment valuation reviews
- Loan covenant reviews
- Contribution in kind reports
- Carried interest verification
- Regulatory impact assessments of, for example, AIFMD/Dodd Frank etc.
- IFRS conversion projects and U.S. GAAP reporting
- Governance reviews
- Training for finance teams

A unique portfolio of competencies

We are actively involved in industry events through sponsorship arrangements, speaker participation and delegate attendance. Our involvement not only gives us access to leading professionals in the field, but also develops our understanding of industry issues and risks, and keeps us abreast of market developments and new technologies, which we can then communicate to our clients. Furthermore, our advisory relationships equip us with the intellectual firepower to update our clients on the development of accounting, tax and regulatory frameworks as they happen.

Seminars

To keep our clients fully informed, we regularly provide our clients with accounting and technical publications across financial reporting, regulatory and corporate governance issues, as well as providing updates through our "Lunch & Learn" programme.

Working together

Our Luxembourg private equity team has extensive experience of working with member firms in other countries. We co-ordinate closely in our work for a number of private equity clients.

External audit

We provide our private equity clients with a fresh perspective when carrying out an external audit, whether on the management or fund side,

underpinned by our audit quality promise, including:

- The right team with the appropriate level of industry knowledge that brings insights to client teams
- Continuity of team
- Timely communication of industry issues
- A common sense approach to accounting, auditing, and reporting issues

Our innovative worldwide audit technology system offers a dynamic combination of a tailored audit approach to private equity, enabling data analytics technology and state-of-the-art audit software.

Our partner-led approach means that through discussion with senior management, key issues and risks are identified at an early stage. In this way, we provide practical business solutions to any challenges and problems we may have identified.

Our quality framework includes many elements, but most importantly:

- An independent review of audit issues, judgements and views, fully completed before we issue our opinion. This does not detract from our speed of response but it gives our clients confidence that our opinion is our own
- An ongoing commitment to significant investment in the latest methodology and techniques to enhance the service experienced by our clients. Innovative data analytics tools embedded within our technology platform enable our teams to perform audit tests with the utmost efficiency.

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Regulatory and advisory services

As you would expect from Luxembourg's leader in advisory services, Deloitte can assist you at all stages of the investment cycle of a private equity fund, from a strategic implementation analysis through ongoing regulatory reporting until the fund liquidation. The services provided by our advisory private equity practice encompass:

- **Definition of strategy:** definition of the target operating model, benchmarking of fees and services, conducting requests for proposals
- **Substance requirements:** impact analysis of new regulation, definition of the control framework, outsourcing of the internal audit function, due diligence performance, risk management functions
- **Transaction services:** due diligence on investment targets, valuation services, deal closing
- **Regulatory compliance:** AIFMD reporting, private placement regimes and registration outsourcing services

A unique portfolio of competencies

Our advisory private equity practice is a fair mix of industry specialists with industry experience prior to joining Deloitte, and grown-up consultants. Furthermore, our tax and audit relationships equip us with a deep and sound understanding of your practical issues and concerns.

Valuation

The introduction of the Alternative Investment Fund Manager Directive reinforced the governance and control framework surrounding AIFMs' valuation processes with the key objective of managing subjectivity and conflicts of interest to achieve unbiased, transparent valuation results.

Thanks to an experienced team of around 50 experts and a proven track record spanning fifteen years, our Fair Value Centre covers all valuation requirements:

- Gap analysis, recommendations and implementation roadmap
- Design and implementation of best practice valuation processes, procedures and policies
- Independent valuation model review and/or validation
- Valuation sensitivity analysis/stress tests to support risk management activities
- Outsourcing of part of the valuation process (e.g. market research)

- Initial due diligence of delegates/service providers and/or ongoing monitoring procedures
- Bespoke workshops/training on these subjects

Risk management

The AIFMD framework introduces stringent and new risk management requirements for alternative investment fund managers (AIFMs) but does not provide full detailed implementation measures for risk measurement techniques or monitoring procedures.

The different types of private equity investments, from early-investing angel and venture capital funds to leveraged buyout, mezzanine and distressed funds, are likely to be a challenge for risk managers in the context of the AIFMD.

We offer our clients regulatory and quantitative risk solutions so as to facilitate the gradual movement towards new AIFMD requirements. Our services can take an organisational and/or operational slant:

- AIFMD gap analysis, recommendations and implementation roadmap
- Definition of each private equity fund's risk profile and establishment of qualitative/quantitative risk limits
- Formalisation of roles/responsibilities and the oversight model at board level
- Identification of appropriate risk indicators and techniques
- Initial due diligence on delegates and drafting of delegates' monitoring procedures
- Establishment of a risk management function
- Development of ex-ante quantitative risk techniques
- Development of ex-post risk indicators and control plans
- Design of a stress-testing framework
- Independent risk model validation
- Periodic risk reporting to all stakeholders, including regulatory risk reporting
- Design of a synthetic risk dashboard for senior management and directors

ISAE 3402/SSAE 16 service organisation control reports

For a long time, traditional investment managers have been fielding questions about their internal control mechanisms and receiving requests from institutional investors (or their advisors) to provide detailed breakdowns, with independent confirmation of their internal controls. As more institutional investors invest across a broader portfolio, this trend is now spreading to the private equity industry.

At Deloitte, we can assist you with the development and verification of internal controls against a variety of industry service organisation control (SOC) reporting standards, such as ISAE3402 and SSAE 16 (formerly SAS70) and AAF01/06.

An ISAE 3402/ SSAE 16 report provides an independent examination of the `adequacy` of control procedures and `reasonable assurance` over the processing control environment that could impact on clients' internal control. In addition, such reports help the private equity firm overcome the following key challenges:

- Market and regulatory demand for greater accountability and transparency are reaching unprecedented levels
- The recent degree of loss and public outrage combined with the prevalence of outsourcing have put a great deal of pressure on service providers to demonstrate strong internal controls to their clients
- The growing willingness of market players to obtain reassurance on service providers' internal controls from a trusted independent source
- Strengthened due diligence processes for prospective clients requesting and evaluating the quality of service providers, where independent assurance reports are highly appreciated, if not required

At Deloitte, we have the depth and breadth within our organisation to deliver best practice to you on industry and ISAE 3402/SSAE 16 matters. We work with our clients to proactively identify value-added business insights, provide suggestions for improvement throughout the engagement and ensure a smooth and consistent process. Below we have highlighted what we believe are a few of the key elements that distinguish Deloitte as unique in our ability to provide superior ISAE 3402/SSAE 16 services:

- **Insight on ISAE 3402/SSAE 16 report improvements:** we strive to add value to the process by identifying ways to remove ambiguities from the reports and provide a crystal clear picture of the control environment to report users and their auditors

- **Enhancement of controls and processes:** we proactively look for opportunities throughout our ISAE 3402/SSAE 16 engagements to provide our clients with insights aimed at enhancing controls/processes based on our extensive ISAE 3402/SSAE 16 experience and knowledge of the latest industry trends and developments
- **Use of industry experts:** our outstanding pool of recognised industry experts is available to support our core engagement team in their service delivery responsibilities, a key differentiating factor that brings a comprehensive, business-oriented view to your operations and enables us to focus on the areas that are crucial for you and your customers and advise you in a proactive manner on best practices and improvement opportunities
- **Proactive, open-minded and efficient service:** our technical expertise is delivered to our clients through our service philosophy, which emphasises open, honest and frequent communication with management to ensure smooth completion within the stated deadlines

Internal audit services

A common misconception is that internal audit departments should only be found in large and complex listed organisations.

However, in today's environment, unprecedented levels of regulation and market expectation are driving more firms to place increasing reliance on internal audit functions to deliver independent high-quality assurance over current and emerging risks across financial operational, IT, regulatory and strategic business processes.

Our comprehensive risk-based and process-driven approach improves internal audit performance and efficiency while adding true value to the organisation. We work closely and collaboratively with our clients, providing the full range of services, such as helping to set up an effective and strategically positioned internal audit function, enhancing existing departments, providing specialised resources or outsourcing their entire internal audit function.

Our practitioners have the knowledge, technology and experience in the private equity industry, along with a distinctive approach, to make us uniquely qualified to help. We work closely with our clients to build world-class internal audit processes that become critical in helping management assess the current situation and strengthen the entire organisation.

- **Co-sourcing services:** increasingly, internal audit departments are leveraging the benefits of co-sourcing to supplement their internal

audit team with external resources or specialised skills. Co-sourcing provides a flexible solution to the resourcing needs of an in-house internal audit department.

- **Resource enhancement:** we can provide you with skilled internal audit professionals to complete special projects or fill vacant internal audit positions to enable the completion of your annual internal audit plan
- **Specialised skills:** we can provide your internal audit team with specialised skills in a wide variety of areas such as information technology, regulatory compliance, private banking, capital market, and human resources, to name just a few
- **Outsourcing:** outsourcing the entire internal audit function to an external provider can be an effective business solution to allow management to focus its time and efforts on the core competencies of the organisation. We work with clients to seamlessly fill the role and serve as the organisation's internal audit department; we can do this because internal auditing is our core competency. With access to high performance methodologies, automated tools and expertise in specialised areas, our experts create value-added internal audit functions
- **Internal audit function review and enhancement:** the revised Institute of Internal Auditors (IIA) standards require a periodic external assessment of internal audit activity to appraise the quality of the operations. Our internal audit function reviews look at the ability of internal audit to help an organisation achieve business objectives and strategies. We help clients measure the quality of their internal audit function to ensure and sustain its value to the organisation. Using proven methodology and a customised approach, we assess the department's structure, technology use, methodologies and people. We also examine the approach and performance relative to plans, the policies and procedures relative to professional standards, the best practices and the needs of internal audit customers. The results, which are communicated to management, the board and/or the audit committee, act as a catalyst for change, resulting in greater assurance and enhanced client satisfaction

AIFMD reporting

At first sight, the regular reporting set out in Article 24 of the AIFM Directive may seem innocuous. However, the reality is that those requirements have revealed themselves to be one of the greatest regulatory and operational burdens general partners and AIFMs are facing. Reporting requirements combine all the challenges of risk management, operating conditions, staffing,

compliance and distribution—in one regulatory 'hot spot'.

As general partner, in order to safeguard your AIFM and AIF status, you must meet the regulatory notification requirements by submitting updated notifications for all significant changes.

Leveraging our leadership in cross-border distribution services, we offer a unique value proposition as follows:

- Identify the available data in your systems
- Transform your data where necessary by way of mapping, reformatting or calculation
- Enrich your data sets if necessary through expert enrichment or computation
- Manage and monitor the whole production cycle for relevant funds, resolving any issues e.g. missing or inconsistent files or data
- Transmit reports to regulators and limited partners



National placement regime and registration

Cross-border distribution is the key to asset gathering; with the introduction of passports for private equity funds, distribution strategies can become more integrated. With AIFMD adopting a UCITS-style regime for making passport notifications, there are many advantages to a centralised approach.

For an EU-domiciled general partner or third-party AIFM managing and intending to market an EU-domiciled fund, the requirements are better defined than those which may be imposed on non-EU-domiciled general partners or AIFMs wishing to distribute AIFs in the EU.

Capitalising on our leadership position in registration outsourcing solutions in Luxembourg for UCITS, we have adapted our offer to service private equity houses:

- Deloitte provides a complete AIFMD passport notification and disclosure offering
- Maintenance of the AIFM marketing passport and provision of the notifications to regulators required to market your AIFs on a cross-border
 - Timely transmission to regulators while ensuring AIFMD compliance of fund documents
- Focus on peripheral requirements not catered for directly in the AIFMD, including marketing literature and various investor information requirements
- For those general partners unable to benefit from the AIFM passport, we provide insight into local placement regimes and strategic options to maintain and attract assets from within the EU

Alongside our AIFMD marketing passport service, Deloitte provides a fully integrated AIFMD service encompassing investor disclosure and regulatory reporting:

- Identification, collation, enhancement and transformation of the required data
- Efficient project management of the creation, production, dissemination and maintenance process
- Robust, state-of-the-art technical solutions to meet specific client needs
- Transmission of reports to the regulators.

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Tax

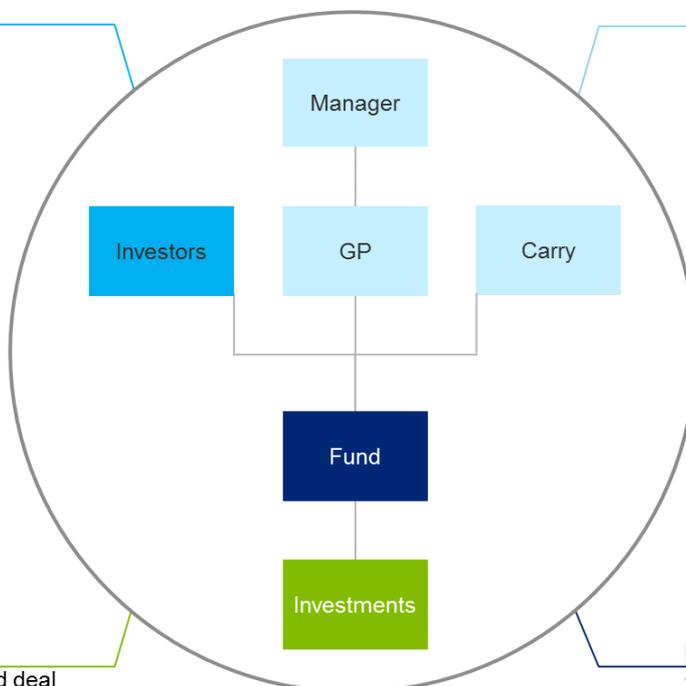
As you can see from our chart below, Deloitte adopts a joined-up approach to fund structuring and advice, taking into account all stakeholders throughout the fund's lifecycle.

Planning for investors

- Withholding tax
- Other U.S. issues, e.g. PFIC, OID
- Other investors
- FATCA

Management team

- Reporting for GP and carry vehicles
- Individual tax reporting and disclosure
- Carry/PPS planning
- Indirect tax – optimising recovery



Maximising returns

- Financing structure and deal due diligence
- Capturing all cash tax opportunities, e.g. deal fees, interest deductibility
- Incentivisation of management teams
- Planning for exit
- Tax-efficient approach to losses
- VAT on deal fees

Fundamentals

- Fund partnership reporting
- Accounting policies and tax
- Partnership and base cost shift planning
- Transfer pricing arbitrage

Fund tax structuring advice

Our cross-service line private equity specialists provide comprehensive and practical tax structuring advice in conjunction with our accounting, partnership tax and employee tax specialists on the establishment of funds. We cover both companies and partnerships, both onshore and offshore, and we advise on structures to minimise and/or defer the tax burden at both the corporate and income tax level throughout the life of the fund. We advise on all aspects including carry, co-investment, structuring of acquisitions and exits, fiscal valuation of incentives and review of limited partnership (LP) agreements and legal documentation, plus ongoing advice related to all aspects of reward.

FATCA

Given a more effective and wider exchange of information, private equity funds should gather the information required to register entities falling

under the regime and to comply with their annual reporting obligations. We have developed a range of tools specifically geared to the private equity sector, along with online training modules to facilitate FATCA compliance and ensure that there are sufficient controls and governance in place to provide evidential support.

Indirect taxes

Our dedicated M&A and funds indirect taxes team provides advice on all aspects of VAT issues relating to private equity funds and deals. We work with both onshore and offshore funds on VAT compliance and advisory matters. Fund advisory covers VAT establishment, VAT recovery and VAT implications on restructuring. We have extensive experience of advising on private equity-backed acquisitions and exits to ensure that the VAT position on deal costs, which can be significant, is optimised.

Preparation and review of annual tax returns

Sound tax planning needs to be implemented carefully and correctly in order to gain any perceived benefits. And if policies and procedures are not understood and properly managed, the costs can be significant. A key element of any effective tax strategy is tax compliance. We work to ensure that the returns are completed accurately and filed on time. And, just as importantly, we see to it that the tax treatment envisaged when the fund structure was set up (and for any subsequent exit planning), is reflected appropriately in the tax returns.

Review of transfer pricing policies of the group

Our team of tax experts and economists can advise you on current best market practice, the approach of Luxembourg tax authorities and other tax authorities and assist you in developing appropriate transfer pricing policies to meet your commercial needs, as well as providing robust supporting documentation to meet the tax authority documentation standards.

U.S. corporate tax services

With the largest U.S. tax practice in Europe, Deloitte is uniquely positioned to assist you with both fund and manager U.S. tax issues. We are specialists in annual investor reporting, K-1s and tax returns, and we are able to advise on UBTI, PFIC and CFC issues that commonly arise in private equity structures. In addition, we have a depth of experience in advising U.S. members of private equity houses concerning the treatment of management fees and carried interest for U.S. tax purposes.

Personal tax services to private equity executives

Our award winning private client team provides expert advice on all aspects of personal taxation and acts as trusted advisor to a significant number of private equity executives. We work extensively with both Luxembourg domiciled and non-domiciled individuals and their families. Our advice spans multiple jurisdictions including Europe and the United States. It encompasses

everything from the completion of tax returns, reporting fund returns and managing tax authorities' enquiries, to complex strategic planning, including issues relating to structuring the ownership of carried interest, funding co-investment tax efficiently, and advising on the valuation for tax purposes of carried interest or other incentives.

Corporate and accounting services

Our dedicated corporate and accounting team provide smart, bespoke solutions for the administration of private equity structures from domiciliation and bookkeeping to filing of financial statements and tax returns.

Transaction accounting services

Our clients are increasingly asking us for detailed assistance to avoid any potential adverse accounting consequences that may arise from the varied transaction, financing and restructuring issues they face.

We advise clients on the financial reporting consequences of transactions they are contemplating; whether buy-side, sell-side, or relating to a merger, restructuring or reorganisation (including those undertaken to achieve tax efficiency). Often, these are highly complex transactions involving various forms of debt and equity, multiple countries, foreign exchange risks and tax considerations.

Within our Transaction Accounting Services team, our many GAAP specialists and transaction services experts work hard to help our clients identify and evaluate the financial reporting issues around private equity transactions. Our people work conscientiously and collaboratively with our clients to find the optimum structuring solution.



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