



**Covering the end-to-end
private equity life cycle**

Contents

Foreword	3
Private equity in Luxembourg: a shifting landscape	4
Luxembourg - The gateway to expanding your business in Europe	6
Our services	8
Contacts	12

Foreword



Over the last few years, the global Private Equity industry has seen an incredible recovery after a few anemic years. Dry powder has hit an all-time high with the largest fund managers tending towards a larger market share. The changing market has seen investors becoming very cautious and demanding greater accountability and transparency than ever before. Governments and policymakers crafted laws (AIFMD, UCITS V, Basel III, Solvency II, MIFID, Dodd-Frank Act, etc.) ultimately aimed at ensuring a high level of investor protection, stabilising markets and avoiding a repeat of the 2008 economic disaster. Most asset managers and asset servicers alike scrambled to successfully update their operating models to adapt to the changing landscape.

While political instability and economic uncertainty is all around us, the Luxembourg Private Equity industry has never been so promising. Leveraging its promises for political stability, a pragmatic regulator approach, a diverse fund structuring toolbox and an easy access to a vast tax treaty network, Luxembourg has finally become a no-brainer for most Anglo-Saxon Private Equity fund managers having a European exposure. At the end of February 2017, the country posted a record of more than €3.8 trillion of net assets under management, marking an increase by 13.7% over 12 months. Interestingly, this growth, as in the past few years, was spurred by money flowing into funds with alternative strategies, including private equity, while funds in traditional asset classes, hammered by dismal performance, remained flat. We foresee that this trend towards alternative investments will continue over the next several years, perhaps until such time that the equity and bond markets will be back on track. With international private equity firms and service providers increasing their Luxembourg operations, we are optimistic that this will further develop the local private equity market and enhance the Grand Duchy's notable reputation as a stable, competent center for alternative investments.

Throughout the development of the Luxembourg private equity industry, Deloitte Luxembourg remained steadfast and attentive, working alongside many private equity firms, custodians, fund administrators and other service providers and supporting them and their business operations in coping with new regulations and operational requirements. Supported by a vast array of international, multilingual experts throughout Deloitte's global network, Deloitte Luxembourg is a recognised market leader, with a reputation for local and international service excellence. We pride ourselves in our ability to consistently deliver seamless, integrated global solutions in tax, consulting and audit services. Our brochure will give you a comprehensive overview of our services, covering the end-to-end private equity life cycle from fund set-up, transaction advice, accounting and financial reporting to exit strategies. Our mission is to support you as your businesses evolve and innovate; and rest assured that, as with all of our services, our pledge and commitment is to serve you with high-quality end results in mind.

A handwritten signature in blue ink, appearing to be 'Nick Tabone', written in a cursive style.

Nick Tabone
Private Equity Leader

Private equity in Luxembourg: a shifting landscape

Industry overview

In the investment spectrum, Luxembourg has traditionally been known for its highly regulated funds, in particular those marketed as UCITS, a gold standard in fund markets and a brand that has earned worldwide recognition for its level of investor protection. Over the past decade, Luxembourg's UCITS funds, marketed around the globe, have eventually propelled Luxembourg to the rank of prime financial center on the global investment stage.

Luxembourg entered the private equity game early in the past decade with the introduction of the unregulated SOPARFI (financial participation company) structure, and in 2004 it established the SICAR (risk capital investment company), which is primarily intended for private equity and venture capital investments. In a constant search for an efficient legal and regulatory toolbox, the country launched in 2007 the lightly regulated, multi-purpose and flexible Specialised Investment Fund (SIF) in 2007 to cater to alternative investments, including and private equity, real estate and hedge funds.

More recently, leveraging the great opportunity the AIFM Directive opened to further attract Private Equity managers to Luxembourg, the country further diversified its fund vehicle range. Driven by the idea that Anglo-Saxon fund managers should be able to set up in Luxembourg vehicles equivalent to common law limited partnerships, the Luxembourg limited partnership (SCSp) was created in 2013. Finally, the Reserved Alternative Investment Fund (RAIF), a new semi-regulated investment fund regime, was launched in 2016 in order to improve time-to-market of new vintages.

The creation of these structures came at an opportune time, as more investors, clamouring for products that would diversify income sources and boost investment returns while still affording a certain level of investor protection, shifted strategies and increased their allocations to alternative asset classes. This growth trend is supported by statistics published by the Luxembourg regulator, the CSSF (Commission de Surveillance de Secteur Financier), for SIFs and SICARs, the two most common vehicles utilised by private equity and real estate entities.

Key figures for SIFs and SICARs

- As of April 2017, more than 1,500 SCSPs had been created in Luxembourg
- As at February 2017, there were 384 SICARs totaling €41 billion AuM and 3,427 SIFs totaling €436 billion AuM
- 77% of total SICAR compartments are invested in private equity and 17% in venture capital
- More than 511 SIFs (or 15%) are used for private equity, real estate and venture capital

Our mission is to
support you as your
businesses evolve
and innovate



Luxembourg - The gateway to expanding your business in Europe

A highly skilled multilingual and multicultural workforce, a dynamic legal and regulatory framework combined with a full range of diversified and innovative financial services are just some of the factors that make Luxembourg one of the most popular financial centres in the world

Culture

- A diverse and multilingual culture
- A highly skilled workforce
- Several research and innovation programmes
- EU institutions presence

Location

- Central position in Europe
- Major capitals accessible within two hours
- Access to a market of 500 million consumers
- Highly effective logistics hub

Regulations

- Strict confidentiality enshrined in national law
- Strong personal data protection
- Business-oriented legal and regulatory environment

Infrastructure

- State-of-art connectivity infrastructure
- Vast offering of data and business continuity centres plus ICT services



Luxembourg boasts over 140 banking institutions from 25 countries and a large number of asset management companies and service providers. In terms of assets under management, its investment fund industry is the second largest player worldwide after the USA.

The Grand Duchy of Luxembourg is also renowned for its competitive tax regime for foreign holding and financing activities. The adoption of double tax treaty conventions with multiple jurisdictions together with a wide array of tailor-made incentives for investment allows international groups to take advantage of one of Europe's most competitive and effective tax rates not just for the asset management business but also for the commercial and manufacturing activities. For years, the Luxembourg tax authorities have been praised for their proximity and proactivity in their constant work to put in place the most up-to-date and innovative fiscal and legal environment.

Situated at the heart of Europe, Luxembourg has evolved as an international logistical hub for contract, air freight-based and value-added services. Its proximity to the principal European capitals combined with the high quality of its communication and transport infrastructure, make Luxembourg an ideal platform for rapid low-cost entry into Europe's main consumer markets. Many international groups specialising in manufacturing and logistics and even those in the thriving private equity and fund markets have recognised these benefits and successfully established their European operating base in Luxembourg.

Recent official surveys have classified Luxembourg's economy as one of the most competitive worldwide. This healthy economic environment translates into one of the highest GDP per capita in the world with one of the lowest unemployment rates in Europe. The strong political stability, recognised prominence and its position as a role model in European politics combined with being the headquarters of major European institutions such as the European Commission and the European Investment Bank, contribute to providing sound assurance to international investors.

Tax

- Attractive tax model supporting investment and service delivery
- Simple and straightforward administrative process

Environment

- Legal framework supporting social and environment sustainability
- Local initiatives for environmental protection and sustainable development

Political

- Minimal and pragmatic bureaucracy
- A pro-business government supporting innovative companies and new technologies
- Highly competitive economic context



Our services

Luxembourg fund centre of excellence

As Luxembourg is one of the largest centres for fund and private banking activity, Deloitte Luxembourg provides a focused investment management centre of excellence, sharing thought leadership and deep industry knowledge to the network of Deloitte member firms. Collaboration across EMEA as well as with the U.S. and Asian member firms support this knowledge growth and this is harness to provide the best possible service to clients within Europe and the wider member firm network.

Market leading knowledge is maintained through senior figures from industry joining the Deloitte team, but also through the very close involvement with the supervisory authorities and professional bodies including the European Securities and Markets Authority (ESMA), the European Fund and Asset Management Association (EFAMA), the Commission de Surveillance du Secteur Financier (CSSF), Institut des Réviseurs d'Entreprises (IRE), the Banking body (ABBL), the Association Luxembourgeoise des Fonds d'investissement (ALFI), the Luxembourg federation of the financial services professionals (PROFIL), the European Private Equity and Venture Capital Association (EVCA), European Public Real

Estate Association (EPRA), the European Association for Non-listed Real Estate Funds (INREV) and the Luxembourg Private Equity and Venture Capital Association (LPEA) .

With over 70 partners and more than 1,600 employees, Deloitte Luxembourg is among the top professional service firms in the market, delivering high-quality, value-added services to both local and international clients and offering a full range of diversified, innovative audit, tax, advisory and consulting services. Our firm supports a wide array of services, including strategy, operations, regulatory and governance, technology, compliance, fund distribution and registration, fund and tax reporting and forensic services.

Our priority is to help our clients excel by using our specific approach to business: our integrated strategy is not only pre-eminent, but also the most widely available in Luxembourg, geared to meet the ever-increasing needs of a growing number of investors and businesses for a fully integrated solution and acting as a cross-border and cross-functional service firm.

As a competence centre, we employ over 600 people, with 40 partners (18 in audit, 13 in tax, 9 in consulting) within our Investment Management Services (IMS).

Of the total IMS staff, more than 200 professionals are dedicated to our private equity and real estate practice, with 19 partners (8 in audit, 6 in tax, 5 in consulting)

- Our private equity and real estate practice represents the second-largest industry within the firm, contributing over 20% of the firm's total revenues
- We serve 13 of the top 20 private equity and real estate firms and 24 of the top 30 service providers
- We have clients all over Europe and around the globe, and offer support from Deloitte professionals in the United States and Asia for cross-border and multi-continent engagements



Our industry involvement

One of the most important characteristics of our global private equity industry network is the involvement of our personnel in external organisations and industry conferences. The knowledge we gain as private equity industry participants is fed directly back into our network, enhancing our knowledge, people and the skills we are able to offer you.

The basis for many of our publications also stems from our association with key industry events and details not only our point of view, but also the wider market perspective. We are actively involved with such 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.

Deloitte professionals serve as Chairs, Board members and ordinary members on various committees and as experts for, among others:

- *Commission de Surveillance du Secteur Financier (CSSF)*: SIF, Securitisation and SICAR Committee
- *Association Luxembourgeoise des Fonds d'Investissement (ALFI)*: Board Member
- *Institut des Réviseurs d'Entreprises (IRE)*: Board Member
- Luxembourg Private Equity and Venture Capital Association: Board Member

Our priority is to help our clients excel by using our specific approach to business

Covering the end-to-end private equity life cycle

Our complete range of audit, consulting and tax services across the private equity operational value chain, from investment structuring to exit strategies



1. Fund set-up and tax structuring

- Tax planning and structuring, selection of appropriate investment vehicles; VAT optimisation
- Fund set-up documentation, centralised dealings with authorities in domicile or distribution countries
- Stock exchange listing

2. Regulatory, compliance and fund distribution

- Review for regulatory reporting and compliance - risk management, AML and KYC, cross-border distribution, investment restrictions, AIFMD compliance and gap analysis
- Client support hotlines for investment, marketing and business compliance

3. Audit and accounting

- Accounting services for entities in multiple locations
- Multi-GAAP (local GAAPs, IFRS, etc.) accounting, financial statement compilation and consolidation
- Statutory, contractual audits, IFRS, liquidations and agreed-upon services

4. Tax and VAT compliance

- Cross-border tax compilation and reporting
- VAT analysis and reporting
- Transfer pricing

5. Asset valuations

- Valuation assistance at asset acquisition or exit
- Design and implementation of best-practice valuation procedures and policies
- Fair valuation – US GAAP, IFRS, INREV, EVCA, etc.

6. M&A and transaction advisory

- Buy-side assistance (finance sourcing, assessment of investment opportunities, SPA, negotiations, etc.)
- Deal advisory, financial modelling and structuring
- Exit strategies (IPO, organisation of sell-side process)
- Underlying fund price validation services for funds of private equity funds

7. Due diligence

- Buy-side/sell-side financial and tax due diligence
- Identification of transaction risks
- Review of financial projections
- Due diligence and assessment of counterparties or third party service providers

8. Operating models and systems

- Process reengineering and organisational design and strategies
- System selection and implementation
- Service provider selection and integration
- Operations and systems benchmarking or gap analysis

Our client-centric approach and well-proven methodologies for providing high-quality services, delivered by industry specialists and reinforced by Deloitte's global network, have led to local and international recognition:

- "Best Investment Technology Paper 2016" award (Savvy Investor Awards 2016)
- Deloitte Luxembourg wins two HR awards at the annual HROne Gala (HR One awards 2016)
- ICT Strategic Advisor of the Year (Luxembourg ICT Awards 2016)
- Deloitte ranked tier one rating in third edition of World transfer pricing and in World Tax 2016 (International Tax Review)
- Deloitte awarded for the second time 'Best Healthcare Advisory Firm' in Luxembourg (Healthcare Summit 2015)
- Deloitte Luxembourg wins three awards at the HR One gala (HR One)
- Deloitte tops survey for sustainability consulting and assurance services (Verdantix)
- Deloitte Luxembourg among the leading tax firms per International Tax Review (International Tax Review)
- Deloitte recognized in International Tax Review's World Tax 2014 (International Tax Review)
- Deloitte recognised as 'Best Healthcare Advisory Firm - Strategy'(Healthcare Summit 2014)
- International Tax Review (ITR) has named 159 Deloitte professionals in the 2016 Indirect Tax Leaders Guide (International Tax Review)
- Deloitte Luxembourg ranked tier one by ITR on two occasions (International Tax Review)
- Entreprise Socialement Responsable – ESR (INDR accreditation)



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