Deloitte.

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

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Foreword

The global investment management industry has been under tremendous strain in the past few years amidst an anaemic market recovery, increased regulatory pressure and waning investor confidence. The changing market saw 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 recent economic disaster. Asset managers and service providers alike scrambled to update their operating models to adapt to the changing landscape.

In the face of this challenging financial climate, Luxembourg remained resilient. At the end of 2011, the country posted a record number of more than 13,000 sub-funds and net assets of over €2 trillion, exceeding pre-crisis levels. 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, continued to decline. 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 centre for alternative investments.

Throughout the crisis and 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.

Benjamin Lam
Private Equity Leader

Private equity in Luxembourg: a shifting landscape

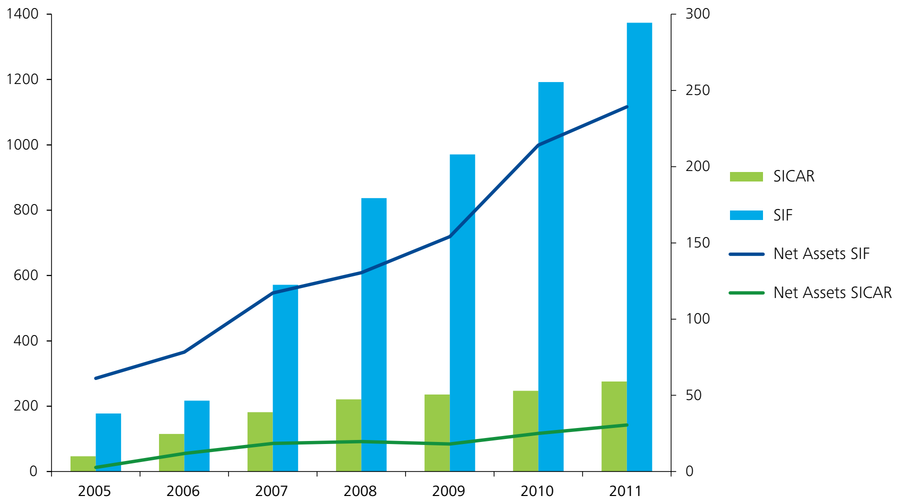
Industry overview

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 centre 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. As the Luxembourg fund industry grew, and with competition mounting among various international fund jurisdictions to attract capital, the country further diversified its fund vehicle range and successfully launched 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.

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, as presented in Figure 1.1.

Fig 1.1: Evolution of SIF and SICAR funds

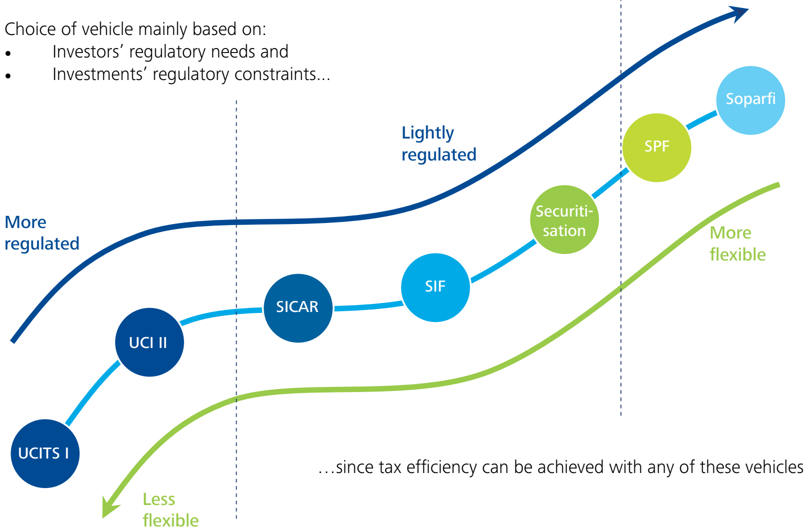


Key figures for SIFs and SICAR

- From 2005 to 2011, SICAR and SIF net assets posted a compound annual growth rate of 50% and 26% respectively
- In 2011, there were 234 stand-alone SICARs and 67 compartments of the 42 umbrella SICARs and 1,374 SIF sub-funds
- 61% of total SICAR compartments are invested in private equity, 34% in venture capital, 3% in mezzanine investments and 2% in public-to-private enterprises
- More than 200 SIFs (or 15%) are used for private equity, real estate and venture capital

Although the SIF and SICAR structures are the most widely used private equity vehicles, Luxembourg has a wide range of investment vehicles (as presented in Figure 1.2 below) that can also be used by this asset class depending upon a number of factors, including planned strategies, economic and tax benefits and investor needs:

Fig 1.2: Luxembourg vehicles for private equity entities



There is no question that Luxembourg has indeed benefited from the global phenomenon of changing market dynamics, as evidenced by the impressive growth and expansion, over a short span, in the country's fund vehicles catering to alternative assets. However, while Luxembourg is now well-known as a prime financial centre with a wide range of fund products, it is also worthwhile to note that, in the private equity world, the country is more of a fund domicile and a service-oriented centre, providing middle- and back-office support functions such as fund administration and transfer agency services to international fund management companies. The country hopes that, with increasing substance requirements from current regulations, private equity firms will increase their asset management and/or middle- and back-office activities locally, which would further develop and enhance Luxembourg's expertise and solidify its position in the private equity field.

Moreover, although optimistic signs of recovery have begun to appear with the increased number of exits at the end of 2010 followed by revitalised deal-making in most private equity markets during the first half of 2011, the trend was halted once again due to rising fears of another recession as market woes afflicted Western Europe and the United States. Since then, global private equity activities have been quite subdued and dry powder levels have remained very high. Having taken off just a decade ago, the Luxembourg private equity market is still seen as a budding industry and any further contraction in the global markets would surely have adverse consequences. But it helps to know that vital lessons have been learned from the crisis, and the country's strong economic fundamentals and responsive government – key factors cited in containing and mitigating what could have been a far more serious impact of the erstwhile financial calamity – are now more vigilant than ever before in protecting and supporting the Luxembourg financial sector from further deterioration or even an untimely demise.

To this day however, the private equity industry is still rife with challenges, the most significant of which are discussed below, keeping industry players on their toes during these uncertain times.

- Macroeconomic fundamentals. The lingering effects of the crisis, along with the significant doubts cast over the financial health of the United States and Europe, are plaguing an already weakened market. This will undoubtedly impact fund raising from investors or limited partners for private equity companies. Moreover, this will make valuations very high and unattractive as there will be fierce competition between large numbers of players chasing very few deals. In the long run, it would be down to the survival of the fittest, and it will be interesting to see who emerges victorious in this battle

- Legal and regulatory reforms. The explosion of new regulations introduced as part of solutions to fix economies and other fiscal problems continues to hamper the industry. While risk-averse investors welcome the offered protection and transparency, other players ranging from asset managers to service providers have found these to be cumbersome to implement and ultimately costly for end investors. Additionally, there are doubts that such measures would indeed stem or curb any systemic risks or improve investor protection, and questions still abound over whether such stringent regulations are not in fact choking the alternatives market

- Risk management and exposure. Although a lot of investors are now more sophisticated than before, they have largely become more risk-averse. As a consequence, asset managers and investment advisors are under great pressure to keep portfolios within the realm of 'safer' assets and in regulated regimes. A focus on asset classes which have not fared well in recent times will keep money away from private equity and other alternatives and will eventually hinder portfolio performance. For asset managers, the greatest challenge in achieving performance is to strike a good balance between risks and asset diversification by establishing robust risk management programs. Also, in compliance with investor demands and regulatory requirements, other service providers including fund administrators and depositary banks will have to do the same in their respective organisations, the costs of which will, of course, ultimately be passed on to investors

- Portfolio, valuation and performance. The private equity business, although battered and bruised just like any other asset class, has still performed far better than money markets, equities or bonds, making this the best asset class in a tough economic cycle. However, the number of deals has fallen from pre-crisis levels in the usual U.S. and European markets, prompting firms to look elsewhere in order to diversify portfolios and boost performance. The risks are much higher in untested markets, and the legal, regulatory and tax environments may make fund structuring more burdensome, due to the fact that governance, valuation and performance standards may differ. Entering into new markets requires a great degree of flexibility and caution on the part of private equity firms and this entails extensive due diligence requirements, extended closing periods, and various operational or even organisational changes

Despite all these challenges, there is more evidence to conclude that the private equity industry is able to withstand, survive and thrive in these dire conditions. The current environment has made the industry sturdier, highly flexible, innovative and responsive to fluctuating market fundamentals and regulatory developments. These challenges have likewise pushed the industry to move forward, albeit slowly, towards discovering carefully targeted opportunities in new market frontiers, broadening strategies and partnerships across the globe.

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.

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

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.

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**

Deloitte Luxembourg provides a focused investment management centre of excellence

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

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:

- **Tier one in the World Tax 2014 Luxembourg jurisdiction** (International Tax Review)
- **Tier one in the Transfer Pricing 2014 Luxembourg jurisdiction** (International Tax Review)
- **ICT Strategic Advisor of the Year** (ICT Awards 2013)
- **Best Luxembourg Tax Firm 2013** (International Tax Review)
- **European Transfer Pricing Firm of the Year 2013** (International Tax Review)
- **Best Tax Firm of the Year in Luxembourg 2013** (European Tax Awards)
- **Transfer Pricing firm of the Year in Luxembourg 2013** (European Tax Awards)
- **Winner of the Prix Santé en Entreprise 2012** (Luxembourg Health Ministry)
- **Best HR Strategy Firm** (HR One Awards 2012)
- **Top 5 World's Most Attractive Employer 2012, in the business category** (Universum's Global Top 50 list)
- **Best Tax Advisor** (Luxembourg Finance Management Awards 2012)
- **Professional Service Firm of the Year 2011** marking the second occasion Deloitte has been awarded with top honours (Real Deals Private Equity Awards)
- **Best IT Advisory Company of the Year 2011** (IT One)
- **Best Change Management Services Firm of the Year 2011** (HR One)
- ***Entreprise Socialement Responsable*** (INDR accreditation)
- ***Action Positive accredited by the Luxembourg Ministère de l'Egalité des Chances***

Deloitte Luxembourg is a recognised market leader, with a reputation for local and international service excellence

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