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association of the
luxembourg fund industry

London, 11 May 2010

Luxembourg – The future opportunities & challenges for alternative investment funds

Moderator: Michael Ferguson, Partner, Ernst & Young

Georges Bock, Partner, KPMG

Noel Fessey, Managing Director, Schroder Investment Management

Benjamin Lam, Partner, Deloitte

Jérôme Wigny, Partner, Elvinger Hoss & Prussen

Luxembourg – The European Hub For Alternative Investment Funds



“Setting the scene”



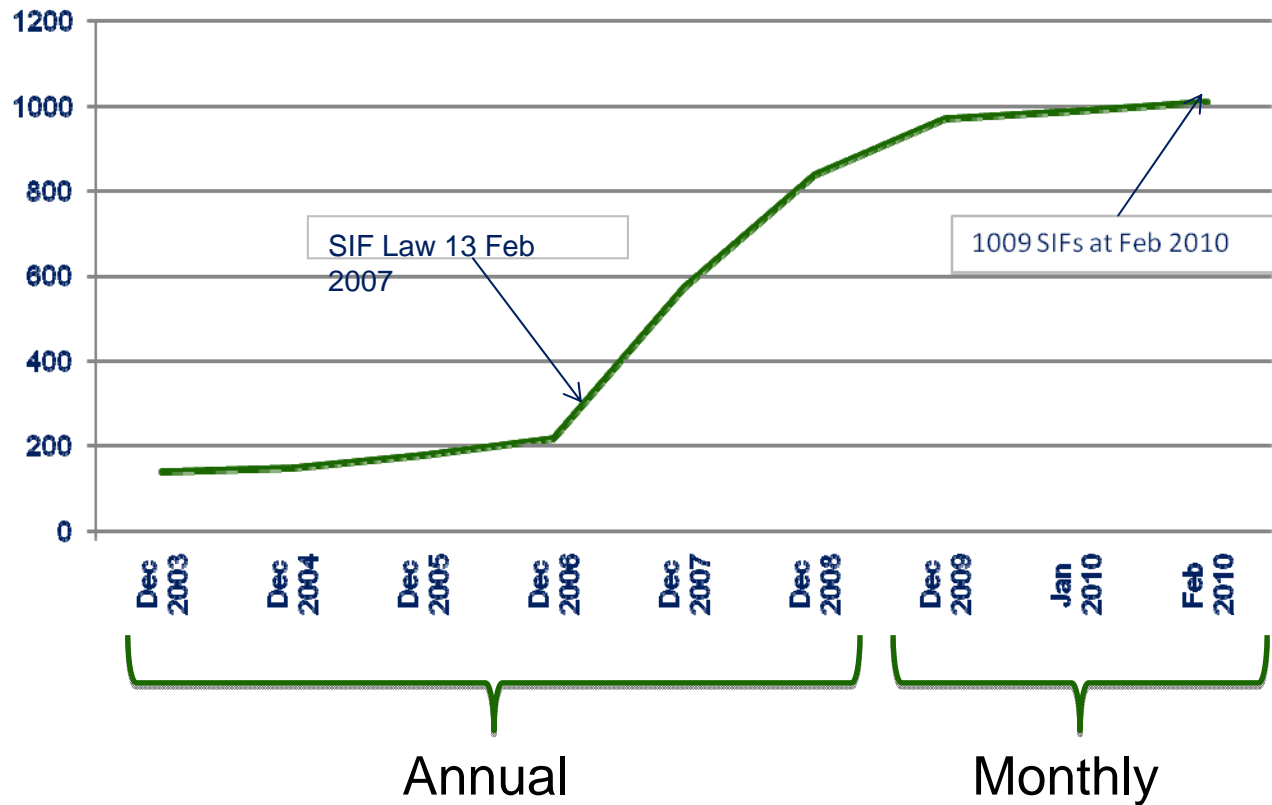
- Overview of the market
- Service providers
- Regulatory developments
- Re-domiciliation
- Taxation developments
- Why Luxembourg for Alternative Investment Funds?
- Q & A

Overview of the market

The SIF Success Story



Number of SIFs

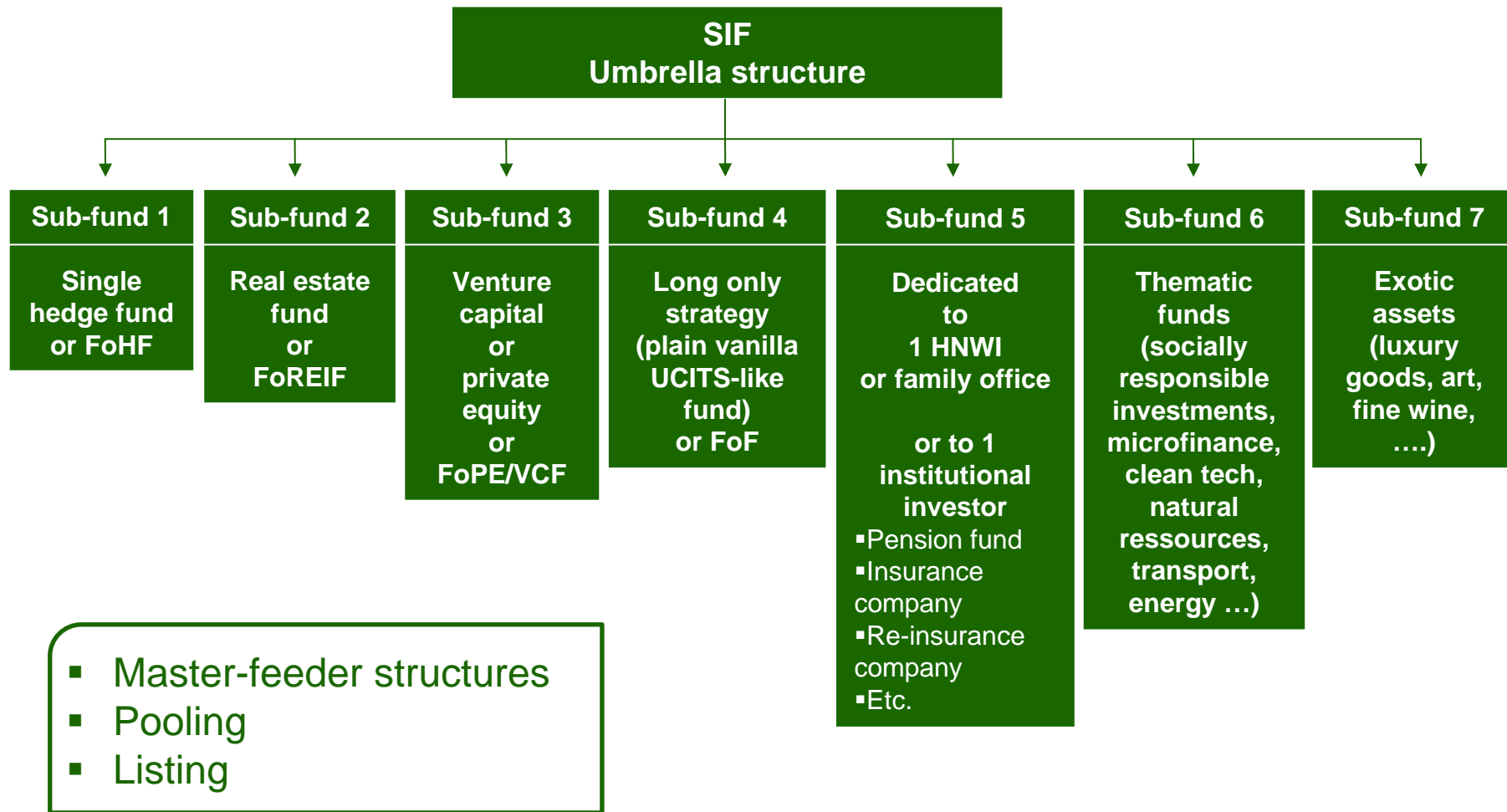


Source: CSSF

Strong growth under the SIF Law since February 2007

Overview of the market

The fund product – The SIF – flexible and versatile



Overview of the market

Luxembourg – a growing European hub for private equity (1)



- The leading European regulated private equity centre
- Over 300 private equity funds
- Over US\$ 40 billion of private equity fund assets administered in Luxembourg
- Growth of 850% over last 5 years
- Leading private equity service providers present in Luxembourg
- Leading global private equity managers operating in Luxembourg

US\$ 40 billion in assets

Over 300 funds

Overview of the market

Luxembourg – a growing European hub for private equity (2)



Global private equity houses using Luxembourg as a center of excellence

- 3i
- American Capital
- Apax Partners
- Bain Capital
- BC Partners
- Carlyle Group
- Cinven
- CVC
- Fortress
- Goldman Sachs
- Investcorp
- JP Morgan
- KKR
- Kreditanstalt für Wiederaufbau (KfW)
- Lazard
- LGT Capital Partners
- Oaktree Capital
- Permira
- Unicapital
- Warburg Pincus

Overview of the market

Luxembourg – a leading European hub for real estate (1)



- The leading European regulated real estate center
- Over 130 real estate investment funds
- Over US\$ 30 billion of real estate investment fund assets administered in Luxembourg
- Growth of 500% over last 5 years
- Leading real estate service providers present in Luxembourg
- Leading global real estate managers operating in Luxembourg

US\$ 30 billion in assets

Over 130 funds

Overview of the market

Luxembourg – a leading European hub for real estate (2)



Global real estate managers using Luxembourg as a center of excellence

- Aberdeen
- AMB Capital
- Aviva
- BlackRock
- BNP Paribas
- CBRE Investors
- Deutsche Bank
- Fidelity
- Franklin Templeton
- Heitman
- Henderson Global Investors
- Hines
- ING
- JPMorgan
- LaSalle
- Morgan Stanley
- Pramerica
- Prologis
- Schroders
- Tishman Speyer
- UBS

Overview of the market

Luxembourg – a leading European hub for “regulated” hedge funds (1)



- The leading European regulated hedge funds center
- Over 2,000 hedge funds and funds of hedge funds
- Over US\$ 190 billion of hedge fund assets administered in Luxembourg
- Growth of 182% between June 2005 and June 2008
- Leading hedge fund service providers present in Luxembourg
- Leading global hedge fund managers operating in Luxembourg

US\$ 190 billion in assets

Over 2,000 funds

Overview of the market

Luxembourg – a leading European hub for “regulated” hedge funds (2)

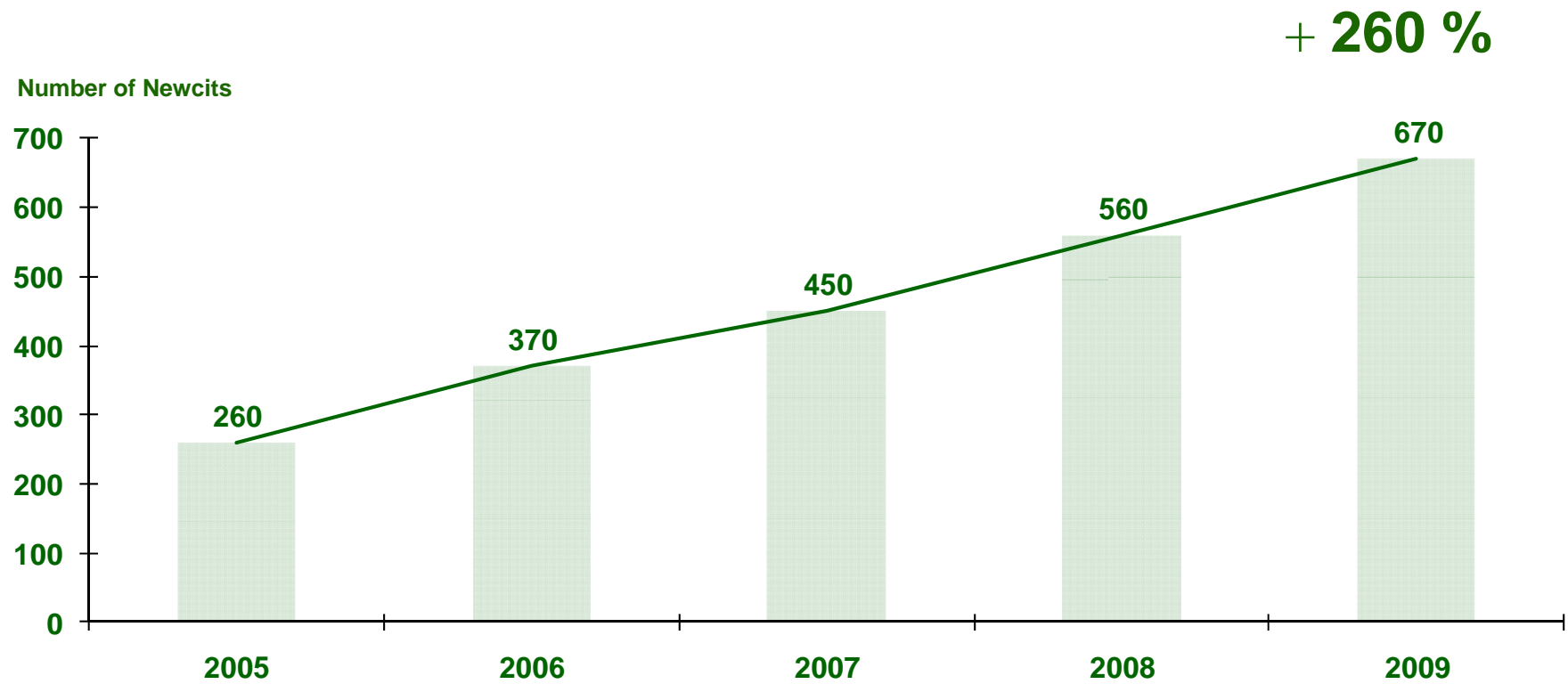


Global hedge fund managers using Luxembourg as a center of excellence

- Aberdeen Asset Managers
- Alliance Bernstein
- BlackRock
- BlueBay Asset Management
- Crédit Agricole
- Crédit Suisse
- Deutsche Bank
- Fidelity
- GLG
- Goldman Sachs
- HSBC
- ING
- Invesco
- JP Morgan
- LCF Rothschild
- Lyxor
- MAN
- Morgan Stanley
- Permal
- Pioneer Investments
- Transtrend
- UBS

Overview of the market

Overview of Pan-European Newcits Market (1)



Overview of the market

Overview of Pan-European Newcits Market (2)



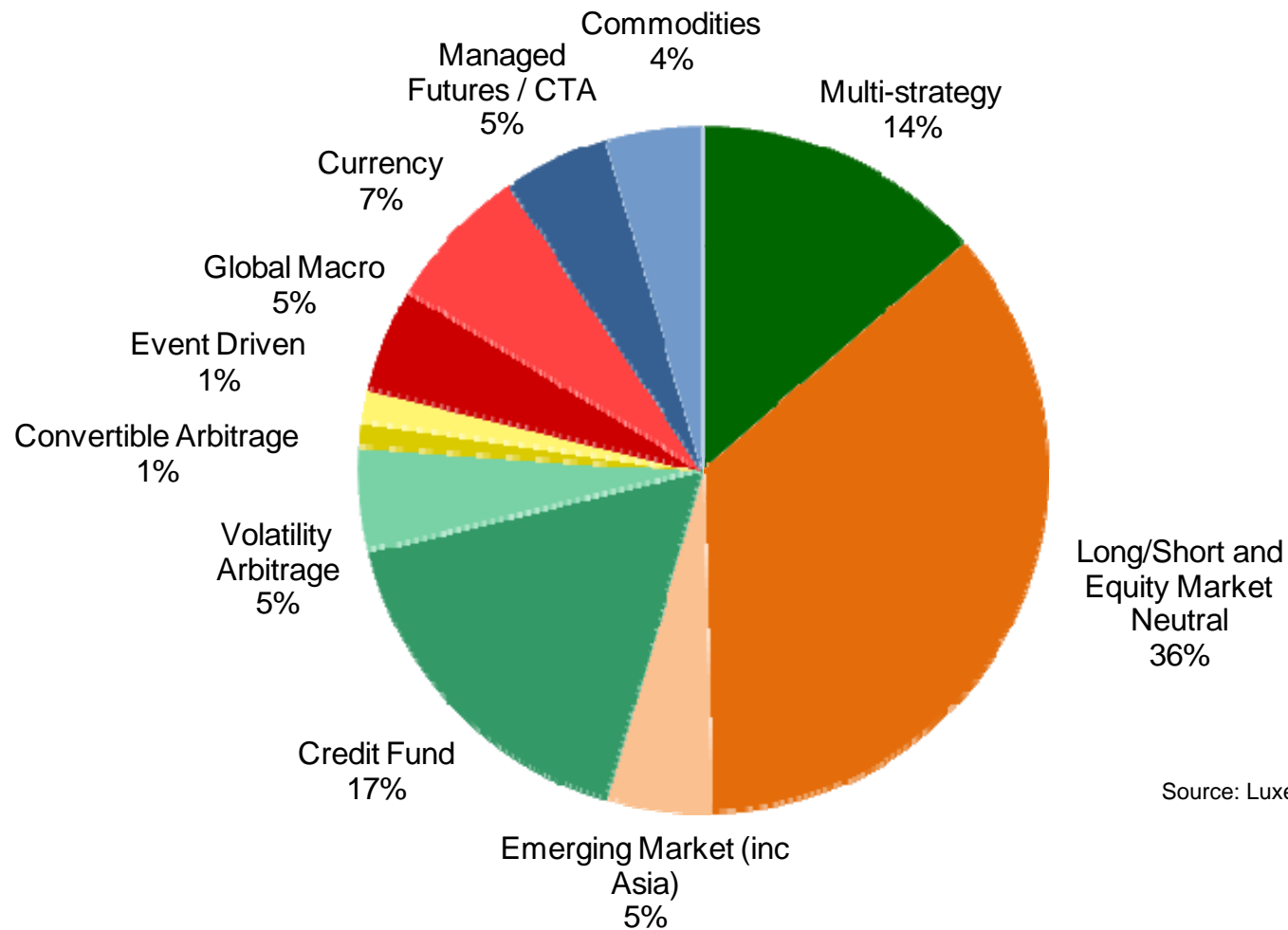
- Growth of 260% over last 4 years
- Estimated AuM in Newcits of US\$ 47 bn
- Projected growth in AuM of Newcits over next 5 years US\$ 170 bn
- Current Luxembourg market share + 42%

Overview of the market

Overview of Pan-European Newcits Market (3)



HF UCITS by strategy, April 2010



Source: Luxembourg Financial Group



Service providers

- Third party administrators?
- Custodian/PB?
- Other ?

- ✓ **Leading service providers present**
- ✓ **Specialization**
- ✓ **Breadth and depth of services offered**
- ✓ **Multi-cross-border distribution/placement support**



Regulator and regulatory developments

The Regulator

1. What is new?
2. Future Developments?

Alternative Investment Fund Managers (AIFM) Directive: How is Luxembourg positioned?

- Scope
- Passports
- Depositary
- Valuator
- Delegation
- Organizational requirements
- Specific provisions
- Third country

Re-domiciliation (1)

Drivers for re-domiciliation



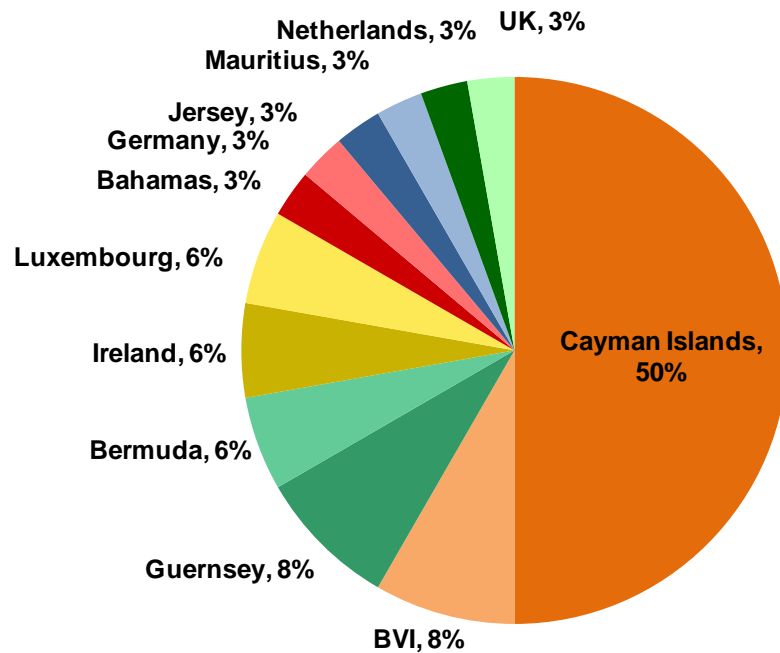
- G20 discussions
- Prohibition on investors investing in the so-called “offshore tax haven funds”
- Increasing pressure by home country regulators
- Accounting standards e.g., Fin 48
- AIFM Directive

Re-domiciliation (2)

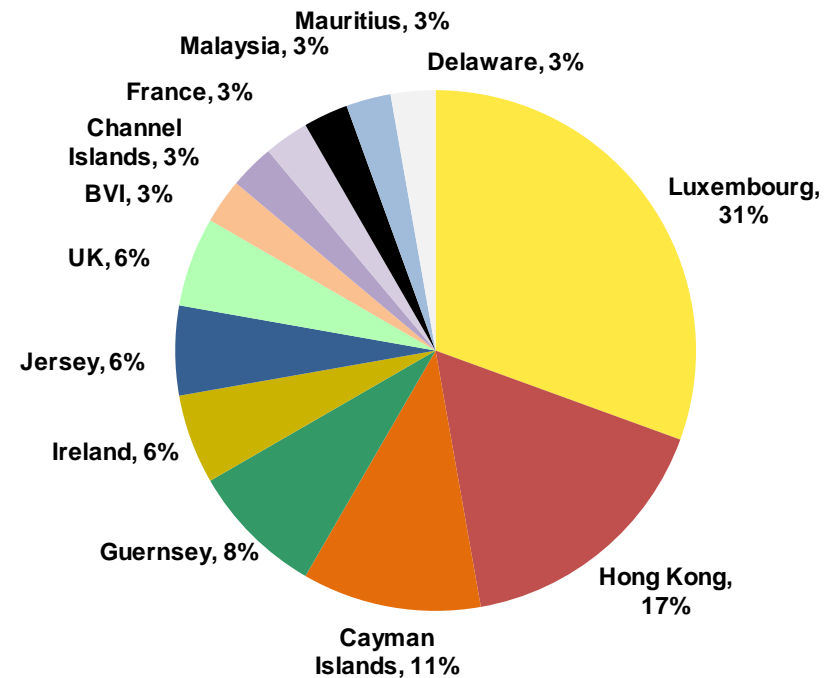
Re-domiciliation of funds (incl. UCITS) from end 2007 to end 2009



Countries of origin



Target countries



Over 30% of re-domiciliations of funds between 2007-2009 were to Luxembourg

Source : Lipper

Taxation developments (1)

- Extension of withholding tax exemptions to all DTT countries
- Extension of DTT network
- Compliant with OECD cooperation requirements
- Nominal increase of minimum income tax
- Increase of corporate income tax from 21,84% to 22,05%

BUT: Participation exemption untouched

Taxation developments (2)

Double Tax Treaties / Exchange of Information Clause

- Currently 57 double tax treaties in force
- Treaties entered into force (1.1.2010)
 - Azerbaijan, Georgia, India, Moldova, United Arab Emirates
- 20 tax treaties pending
 - *approved: Qatar (will enter into force on 1.1.2011)*
 - *approved: Argentina (air traffic), Armenia, Bahrain, Liechtenstein, Monaco, Ukraine*
 - *signed (in 2009): Albania, Barbados, Kazakhstan, Kuwait*
 - *initialed: Cyprus, Kirghizstan, Macedonia*
 - *negotiations: Lebanon, Pakistan, Panama, Serbia & Montenegro, Syria, UK (renegotiation)*
- Additional protocols to existing treaties (exchange of info):
 - Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Japan, Mexico, Netherlands, Norway, Spain, Switzerland, Turkey, UK, US, (+ treaties with EOI: Armenia, Bahrain, Barbados, India [most-favored nation treatment], Liechtenstein, Monaco, Qatar, San Marino)



Taxation developments (3)

Key international developments

- EU savings directive – flow through for non EU corporations
- FATCA regulation
- AIFM-directive reference to OECD Art-26 (5)
- Luxembourg unique possibility for all-in solution in one legislation
- Combination of regulatory framework and structuring flexibilities



	SIF	SICAR
Income tax	Tax exempt	Tax exemption for income derived from transferable securities. Tax exemption for one year for income on cash held for the purpose of a future investment. The remaining income is subject to the ordinary income tax of 28,59 % (Municipal Business Tax + Corporate Income Tax - Luxembourg city 2010).
Withholding tax on dividends & capital gains	Not subject to withholding tax except if EU savings directive applies.	Not subject to withholding tax except if EU savings directive applies.
Subscription tax	<ul style="list-style-type: none"> • Annually 0.01% of NAV. • Tax exemption possible for certain money market and pension funds or SIFs investing in other funds already subject to subscription tax. 	No subscription tax.
Net wealth tax	Tax exempt	Tax exempt
Capital duty	No proportional capital duty	No proportional capital duty
Value Added tax (VAT)	Tax exemption on management services.	Tax exemption on management services.
Double Taxation Treaties (DTT)	<p><u>FCP</u> No access to DTT signed by Luxembourg; exception Ireland.</p> <p><u>SICAV/SICAF</u> Limited to some DTTs. Applicability of DTTs is determined by a decision taken by the Luxembourg fiscal authorities, but without practical experience on the exact classification that may be adopted by the other</p>	SICAR in the form of a corporate entity (all types except the SCS) should benefit from the Luxembourg double tax treaty network.

Why Luxembourg for Alternative Investment Funds? (1)



- Long established financial center of first class reputation
- A world renowned “Quality Brand”
- Legal structures catering for all segments of the alternative investment funds industry
- Fastest growing alternative investment fund sector in the world
- Deep levels of expertise in all aspects of fund creation, administration and distribution
- A highly qualified multi-lingual workforce
- Highly respected regulator, and efficient supervision

Why Luxembourg for Alternative Investment Funds? (2)



- Enhanced trend of conversion from offshore centers from Luxembourg
- Access to worldwide distribution
- Attractive tax regime
- Presence of global asset managers
- Expertise and know-how
- Commitment to excellence and reliability
- Stable jurisdiction, predictable planning and long-term investment decisions

**High conversion into
Luxembourg**

**Access to worldwide
distribution**

Q & A

We are pleased to take your questions...



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