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Financial Integration in Latin America: Regional Funds Passport
Part 1

Brasil Investimentos & Negócios

MINUTE FOR DISCUSSION

Agenda – part 1

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The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.

Introduction

01

Proposed agenda for discussing the products' framework

Activities

- Alignment and understanding of the products' value proposition for the region
- Alignment and understanding of the framework (macro view) related to the scope of the products based on the international references
- Discussion of the main points of the operational, market, tax and legal dimensions
- Discussion of the governance proposal that's necessary to the conduction and development of the products in the region
- Review of the prioritization, criteria and roadmap recommendations for the products
- Discussion of the conclusions and next steps

BRAiN is a non-profit entity that aims to promote a business network for Latin American through two important initiatives…

Regional Integration

Expand the market conditions to promote capital flow in the region

Prioritize the operations of the multilatin companies in the region

Investment Attraction

Attract foreign investors

Simplify rules for foreign investors

The regional integration initiative aims to develop instruments and adopt standards for LATAM countries, in order to harmonize the regulatory framework and promote capital flows to the region

Development of Regional Funds Passport

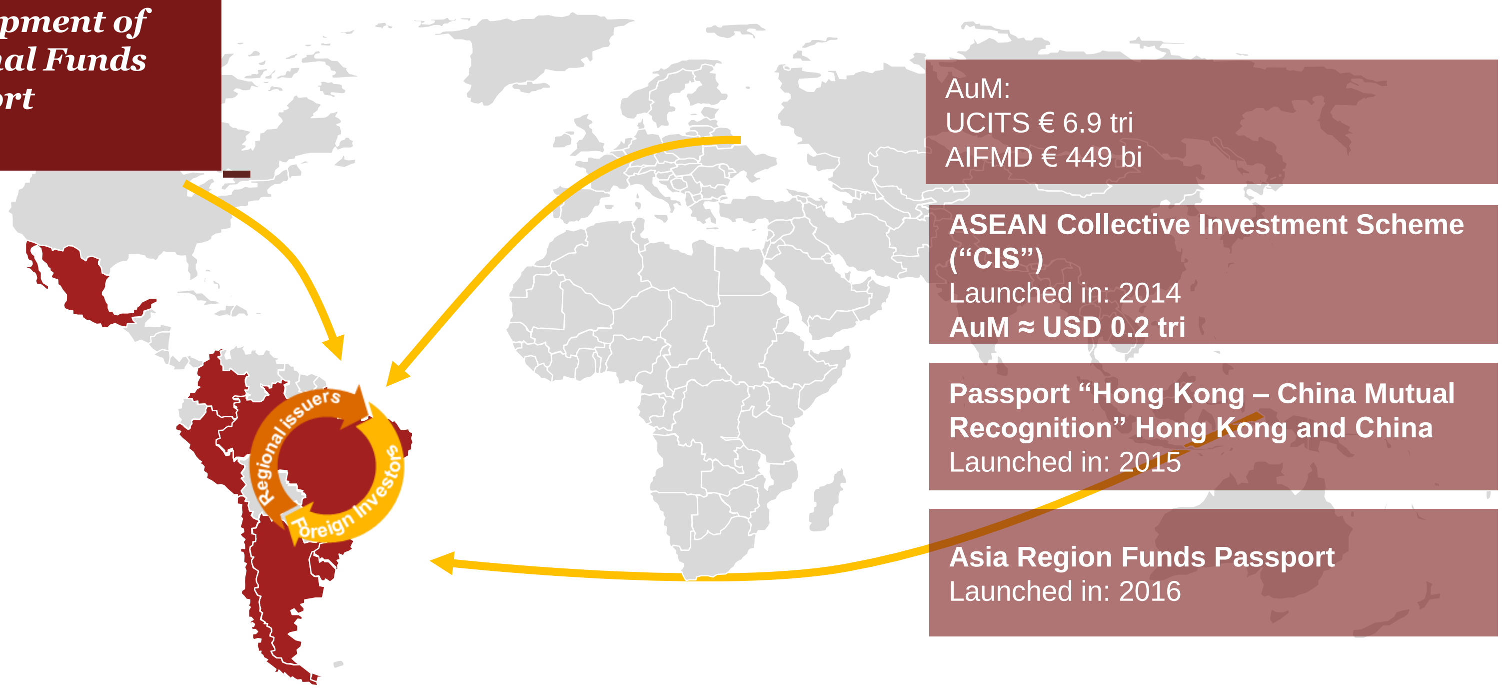
Development of LDR/Ns – Latin American Depository Receipts and Notes

BRAiN
Brasil Investimentos & Negócios

Note: Participating countries: Brazil, Argentina, Chile, Peru, Colombia and Mexico

The development of a regional funds passport will improve the funds industry efficiency, reducing costs and increasing the options for investors

Development of Regional Funds Passport



AuM:
UCITS € 6.9 tri
AIFMD € 449 bi

ASEAN Collective Investment Scheme (“CIS”)
Launched in: 2014
AuM ≈ USD 0.2 tri

Passport “Hong Kong – China Mutual Recognition” Hong Kong and China
Launched in: 2015

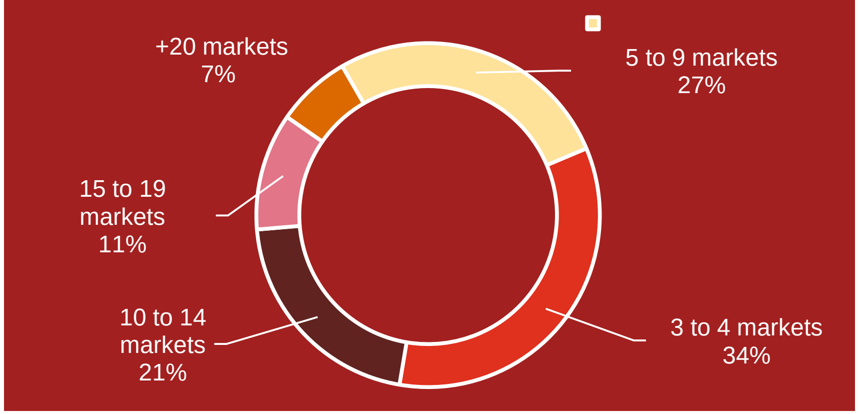
Asia Region Funds Passport
Launched in: 2016

The Latin American Funds Passport is a mechanism that will be designed to facilitate the funds distribution in LATAM local markets and other international markets

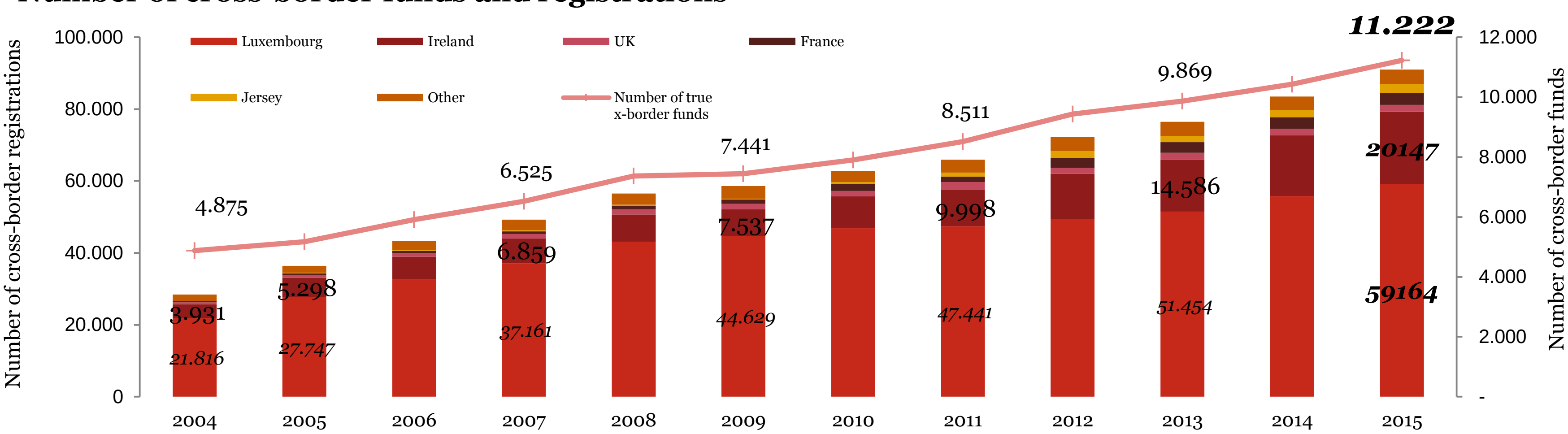
Cross-border funds have been a strong driver of growth in the asset management industry

Indeed, a Fund is composed of sub-funds and according to its scope of registration (depending on the commercial strategy of the client), they are then distributed in various countries (EU and/or Non-EU).

Distribution Footprint of the cross-border funds



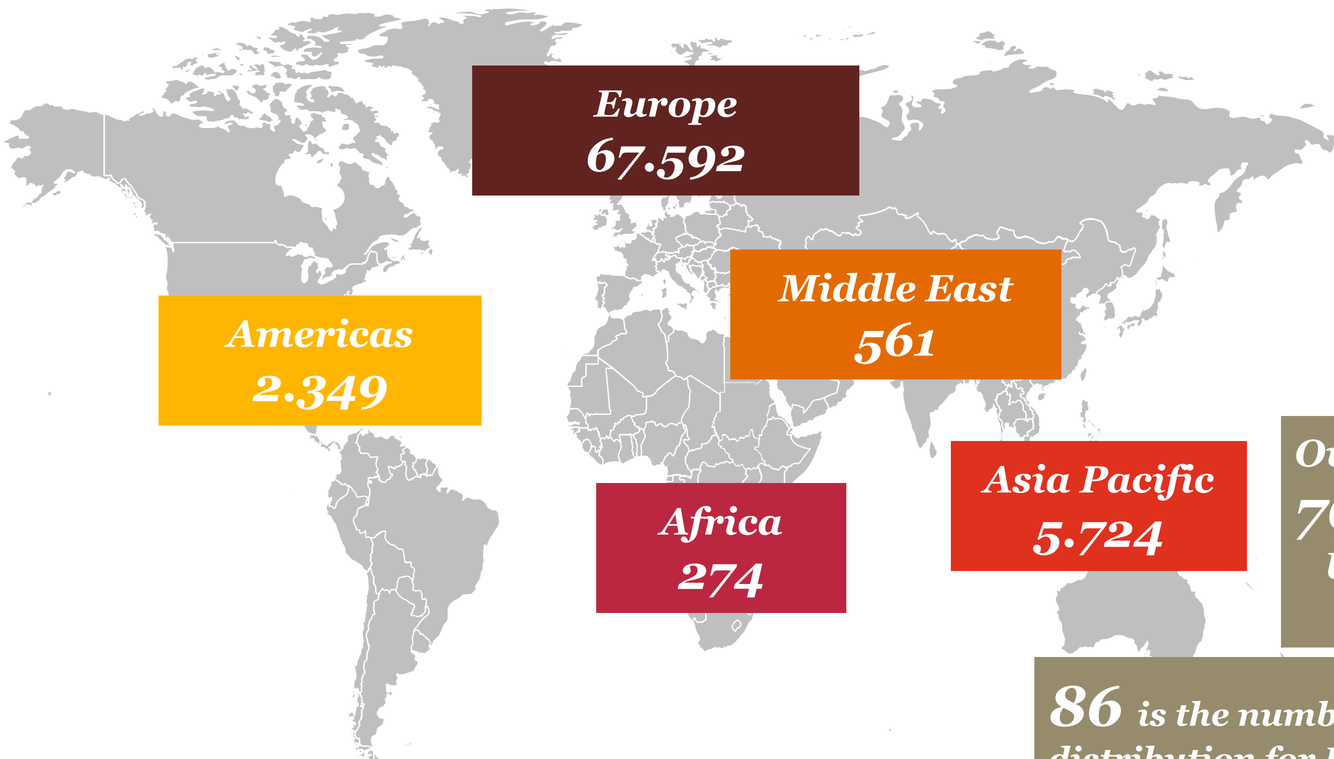
Number of cross-border funds and registrations



Considered funds thar are distributed in more than 3 countries, including their domicile

Source: PwC Benckmark your Global Fund Distribution 2016

Europe is the most popular market for mutual funds through UCITS, with over 67,000 registrations



These statistics are related to the number of UCITS which are registered for sale in each of the individual countries.

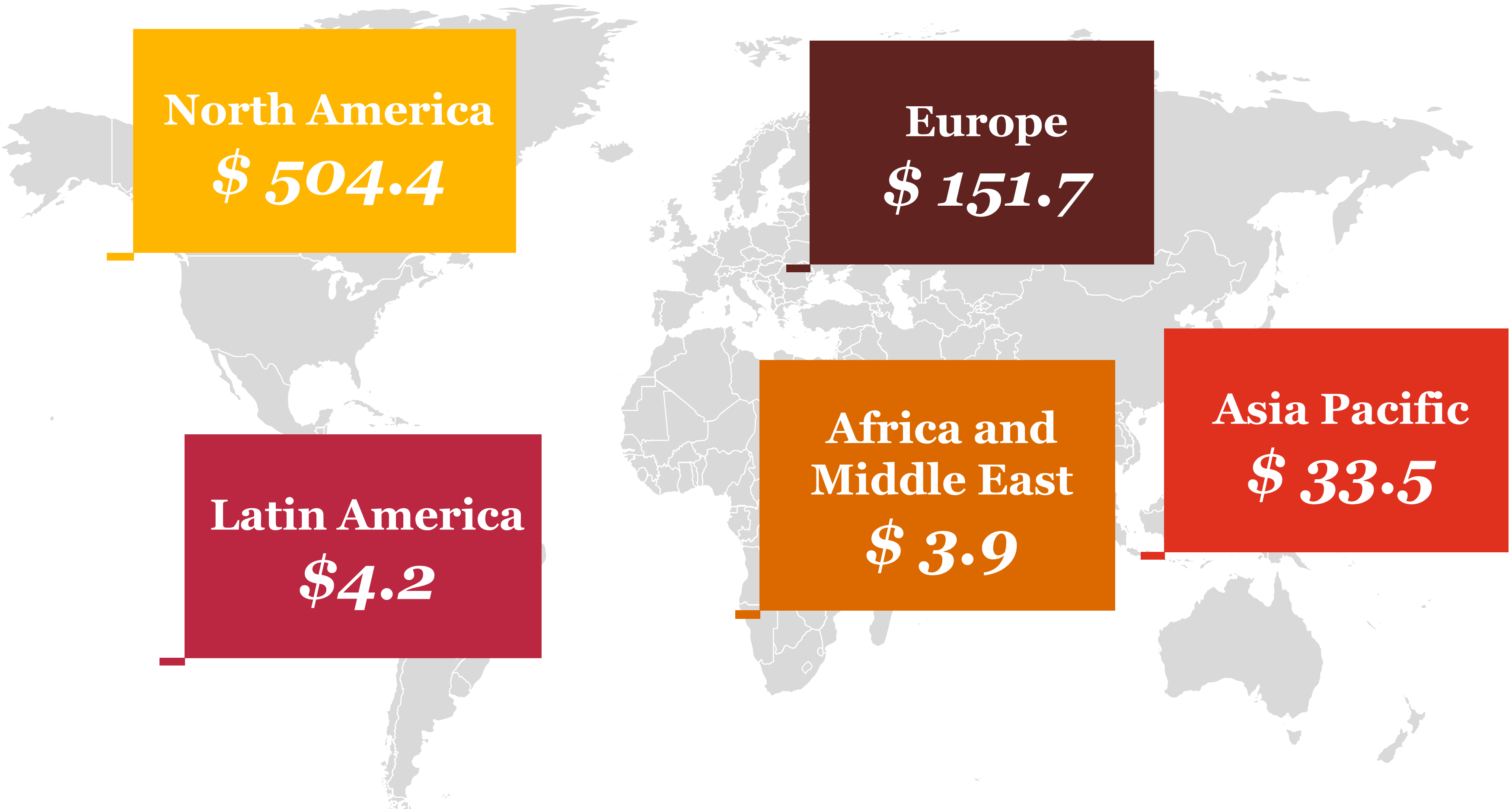
However, the number of registrations for a country does not directly correlate to the sales activity for that particular country.

Over
76.000
UCITS funds registered for sale worldwide

***86** is the number of countries of distribution for UCITS funds – 20 new countries since 2009*

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014

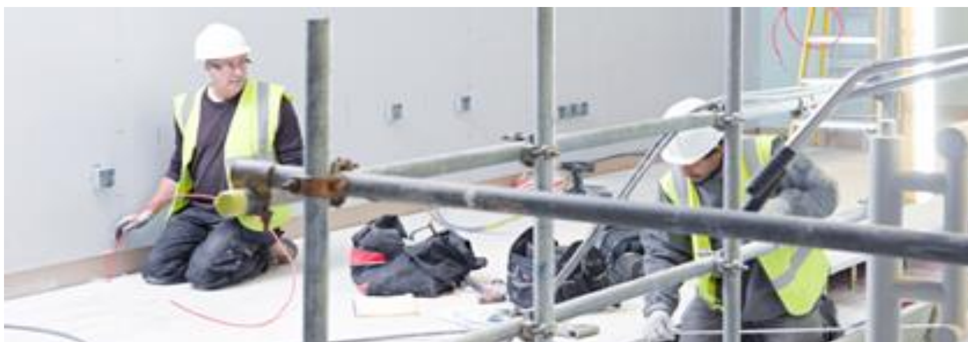
The main volumes of DRs are still focused in USA and Europe



Values in US$ billion – sep. 2015

Source: https://www.adrbnymellon.com/files/ms44262.pdf and PwC analysis.

The infrastructure development in Latin America will demand the creation of new instruments for the Financial and Capital Markets



USD 101 trillion *of AuM in 2020*	***USD 40 trillion*** *in global urban infrastructure investments for the next 20 years*	***60%*** ***of the construction activity worldwide*** *will be in emerging markets*	***New financial block*** *It is expected that by 2020, there will be 4 financial blocks, being one of them the Latin America*	***USD 200 billion*** *to be invested in infrastructure in Brazil for the next 30 years*

Source: PwC Real Estate 2020; PwC Capital Project and infrastructure spending – Outlook to 2025; PwC Project Blue; PwC Asset Management 2020

The development of financial and capital products in LATAM will represent important challenges to the countries

Standardization for the attraction of foreign investors from outside the region

Improvement of the competitiveness level of the financial and capital markets of the region compared to the other economic blocks in the world

Increase of instruments' offer for the diversification of the institutional and qualified investors' portfolio

Alignment of taxation methods and rates, as well as the definition of agreements between the countries

Creation of rules and governance for the agreements

Development of the operational model

Harmonization of rules to guarantee the investors' protection

Cooperation between the regulators and self-regulators of the countries

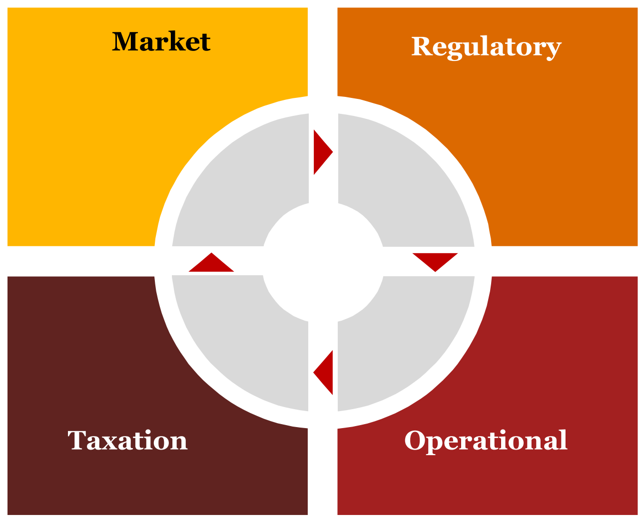
The approach proposed for the project has 4 dimensions of analysis

Approach

Latin America Markets

- Argentina
- Brazil
- Chile
- Colombia
- Mexico
- Peru

Dimensions of analysis



Steps of the approach

- *Organization*
- *Analysis*
- *Development*
- *Roadmap*
- *Disclosure*

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Value proposition

02

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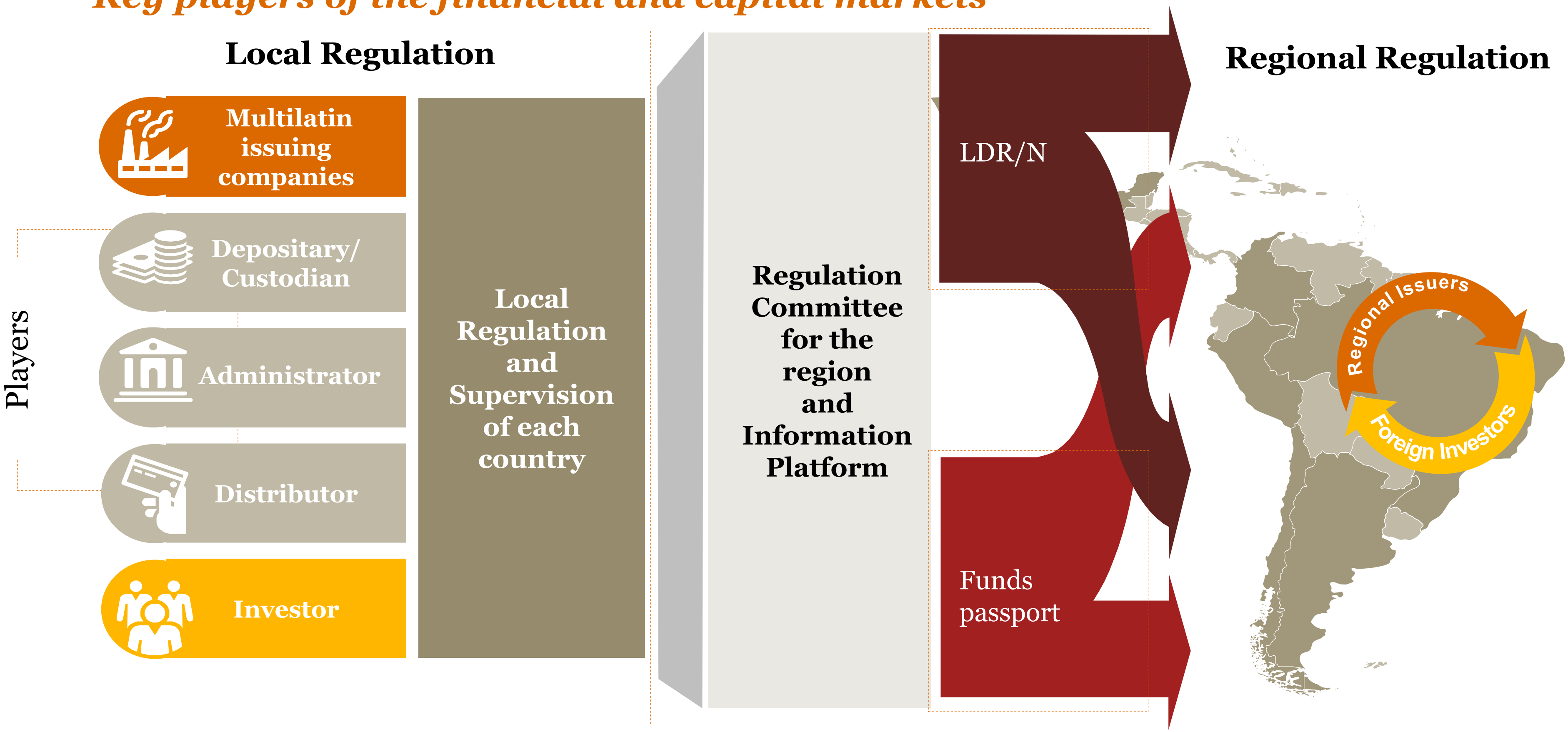
The main stakeholders in the development process are the multilatin companies and investors that are seeking for opportunities and diversification in the region

Key players of the financial and capital markets



For the players, the new products should represent an increase in the product offer and a potential operational cost reduction

Value proposition for the institutions participating in the market

Portfolio management, administration and distribution of Funds

- Expansion of products and services offer with the introduction of the Passport concept related to Asset Allocation, Wealth Management, Fiduciary Administration
- Increase of AuM especially with structured funds, destined to the direct development of the region
- Pulverization of the investors' base
- Expertise development
- Consolidation of the business models taking in consideration that the administrator can provide the services from the domicile of the Fund

Capital markets

- Expansion of the offer of products and services with the creation of Depositary receipts and notes instruments (LDR/LDNs) emitted to be distributed in the region
- Origination of new businesses in the region funded by the emission of debentures, stocks listing and related Notes and Receipts
- Expansion of the playing field of the participants from local to regional
- Potential increase of liquidity of the assets issued and traded in the region
- Potential attraction of foreign investors
- Opportunity for derivative instruments (FX hedges, options)

The funds passport will give the administrators opportunity to revisit the business models because they will begin to operate remotely in new countries

It is possible to redefine the business model with a three-step process:

Strategic view – What are the general goals of the business and which regions does it operate in? How is the capital structured and what is the expected ROE?

Product offer – What are the client's key products and in what areas do they opperate in? What is the aimed contribution margin by product?

Business design – How to align the business design with the strategic view and the product mix? How much capital will be allocated in each business? Which operational model has the best cost benefit to support the business?

1.Strategic View

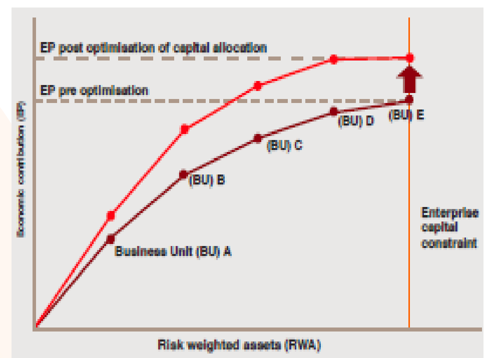
Review of the business model and definition of strategic priorities

Defined set of core businesses and complementary businesses

Identified business lines considering core and non-core products

2.Balanced Product Offer

Portfolio optimization versus capital restrictions (risk)



Capital allocation to support a balanced product offer

Definition of non-core products

3. Business Design

Front-office alignment to support the product portfolio and business view

Organization and Governance

Coverage and incentive models

Pricing models

Optimization of resource allocation

Business model aligned to the strategic view and capital allocation

Fonte: PwC Capital Markets 2020

For distributors, both products represent leverages for multichannel models

Banks will need to meet customers' needs when and where they make financial decisions

Multichannel

- Self-service channels, emphasizing both customer convenience and continued cost management pressures
- A service-to-sales mindset and a defined multi-touch, multi-channel sales model will require modifications to compensation models

Anytime, anywhere

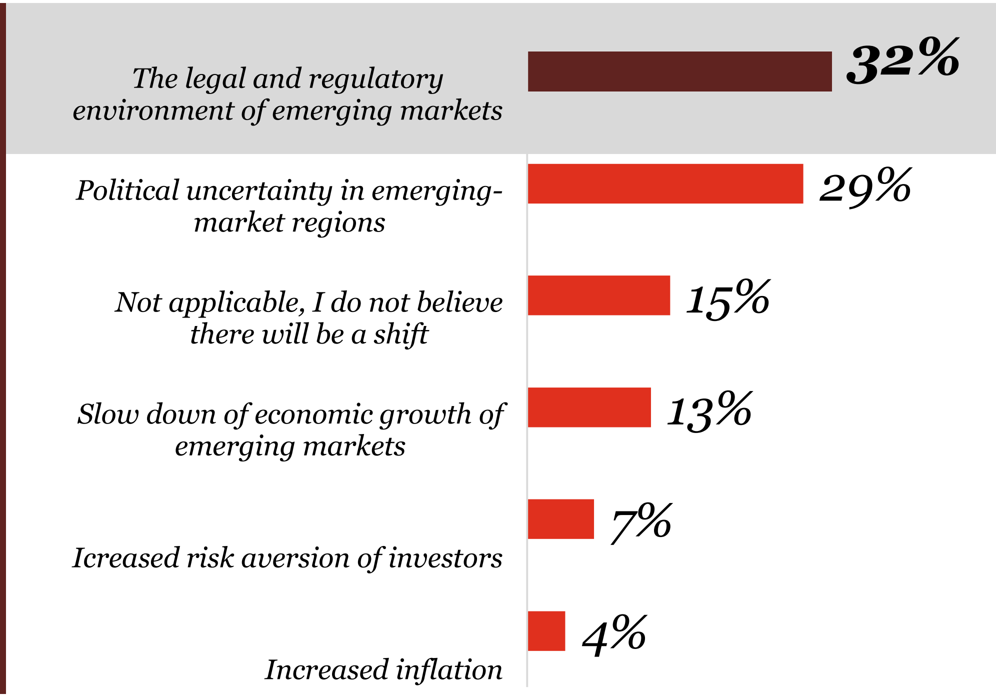
- Customers will be served according to their needs, convenience and preferred method of interaction.
- Winners will be the banks that integrate their channels and meet their customers' needs when and where they want

Funds passport and DR/Ns will be products oriented for client convenience and for the multichannel concept due to their mobility: "the product goes to the customer…"

A stable legal and regulatory framework and consistent government policy are factors companies consider when deciding about listing in emerging countries

If you believe there will be a shift by 2025 in companies from developed countries looking to emerging market stock exchanges for their IPOs, what would be most likely to derail this shift?

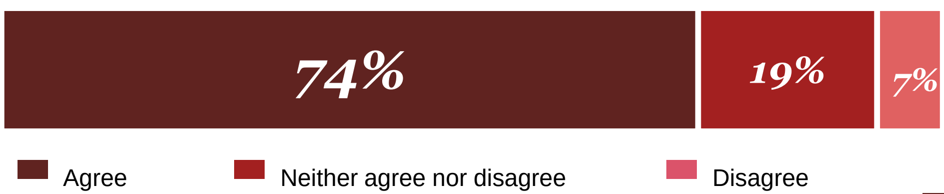
A stable legal and regulatory framework and consistent government policy are seen as prerequisites for the shift towards gaining traction in foreign jurisdictions in terms of listings



Source: PwC Capital Markets in 2025

As trade and investment between emerging markets increase, many economists believe that the so-called ‘south-south’ integration will intensify

By 2025, there will be a substantial shift in emerging market companies looking to the stock exchanges of its own or other emerging markets, rather than those of developed markets, for their IPOs.



By 2025, there will be a substantial shift in developed-market companies looking to the stock exchanges of emerging markets, rather than those of other developed market, for their IPOs.

> ***“Listing is a public demonstration of our long-standing commitment… and it generates strong goodwill with the government and regulators in those markets”***
>
> Richard Meddings – Group Finance Director, Standard Chartered

Source: PwC Capital Markets in 2025, Economist Intelligence Unit Survey

For Regulators, the proposed products represent an opportunity of leveraging their financial and capital markets

Reduction of the complexity of the legal framework and application of cross-border governance principles, supervision, and independent audit rules

Removal of barriers to the attraction of investments from international funds in the region

Development and improvement of the capital market and asset management in the region

Prioritization of the local investor protection with an arbitration chamber and a legal court/jurisdiction

Adoption of international standards for operational rules, investor relations and relevant facts

Recognition and mutual cooperation between regulators in the region

Diversification of the portfolio of funding and investment instruments

Source: Superintendencia Financeira de Colombia

For the institutional investors in the region that represent more than US$ 700 billions…

Total assets
USD 38.3 billions
20% of GDP
41% in investment funds
20% in foreign assets

Total assets
USD 252.8 billions*
12% of GDP
61% in investment funds
<1% in foreign assets

(*) Considers only "Previdência Complementar Fechada".

Total assets
USD 197 billions
17% of GDP
4% in investment funds
17% in foreign assets

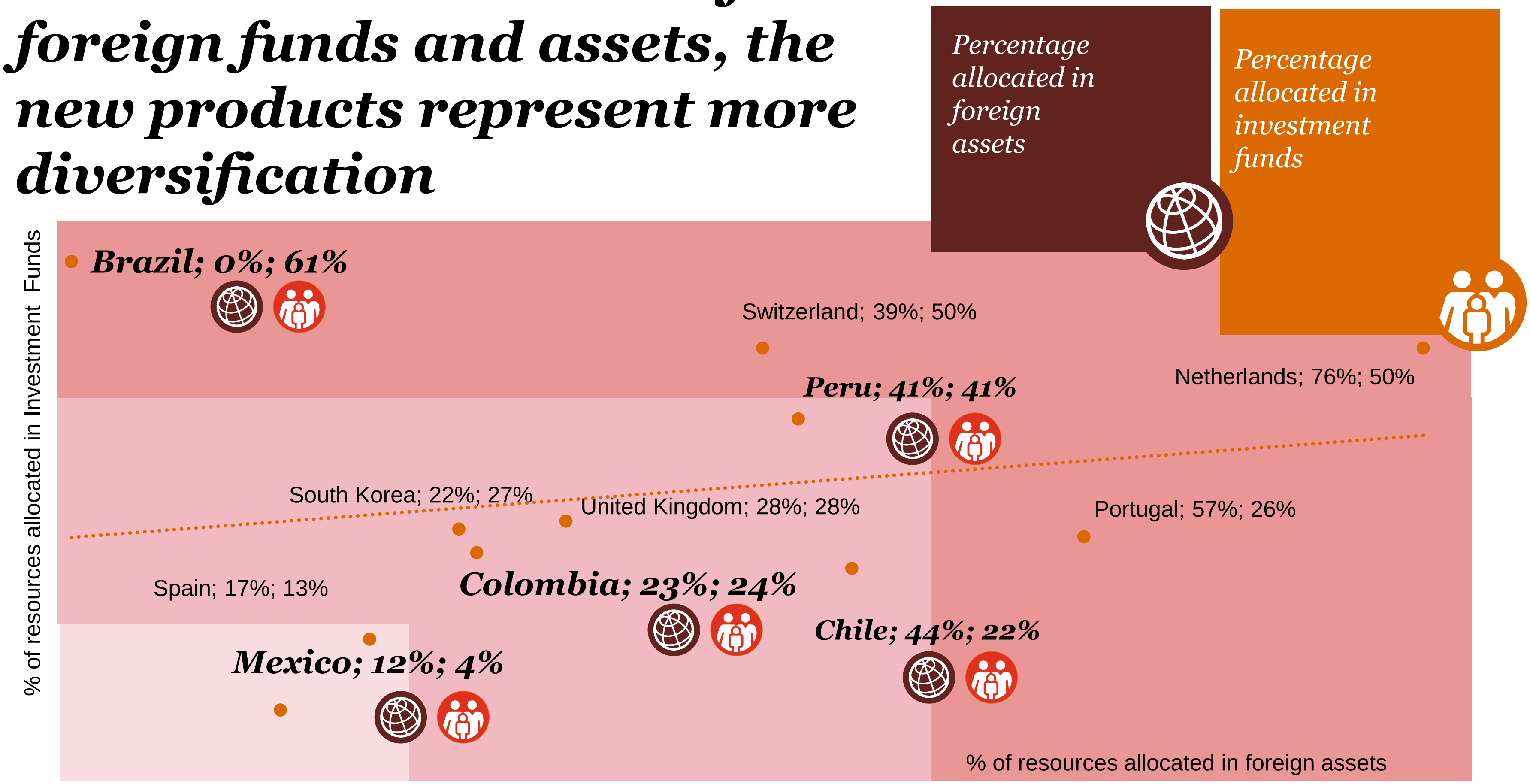
Total assets
USD 165.4 billions
68% of GDP
22% in investment funds
44% in foreign assets

Total assets
USD 74.2 billions
23% of GDP
24% in investment funds
23% in foreign assets

Note: The law nº 26.425 of 2008 has unified and nationalized Argentina's Social Security system. No available data was found.

Source: PwC – Beyond the borders. Evolution of foreign investments by pension funds. Data base: 2014

...and that show interest for foreign funds and assets, the new products represent more diversification



The key potential investors of these products are pension funds that, in Latin America, represent a market of more than USD 700 billions... and with a projection of 9.9% annual growth by 2020, the pension funds are a great potential of investment in the funds industry in the region

Level of utilization of the limits: - +

Source: PwC – Beyond the borders. Evolution of foreign investments by pension funds

Framework

03

The passport creation will increase efficiency in the funds market, reducing costs and expanding the number of options for investors

Scope and main opportunities

Mutual Funds

- Investment funds in fixed income assets and/or equities issued in the Latin America region
- Destined to qualified and institutional investors from the region and from abroad
- The fund will necessarily be domiciled in one of the countries in the region where will be registered in the regulator of this country

Structured Funds

- Investment funds in assets issued by companies in Latin America with the overall purpose to develop the region
- Destined to qualified and institutional investors from the region and from abroad
- The fund will necessarily be domiciled in one of the countries in the region where will be registered in the regulator of this country

LATAM Passport

- Passport for the distribution of Structured and Mutual Funds
- Registry and authorization by the regulator of the domicile country of the fund
- Through cooperation mechanisms among regulators, the regulator of the domicile country registers and communicates the others about the possibility of distribution

Greater operational efficiency and cost reduction

Increase of the investment offer

Aggregation of international standards

Solidity and protection to the investor

Incentive to regional economic development

The regional funds passport will be the result of a multilateral agreement among countries in LATAM which will innovate the funds distribution model in the region

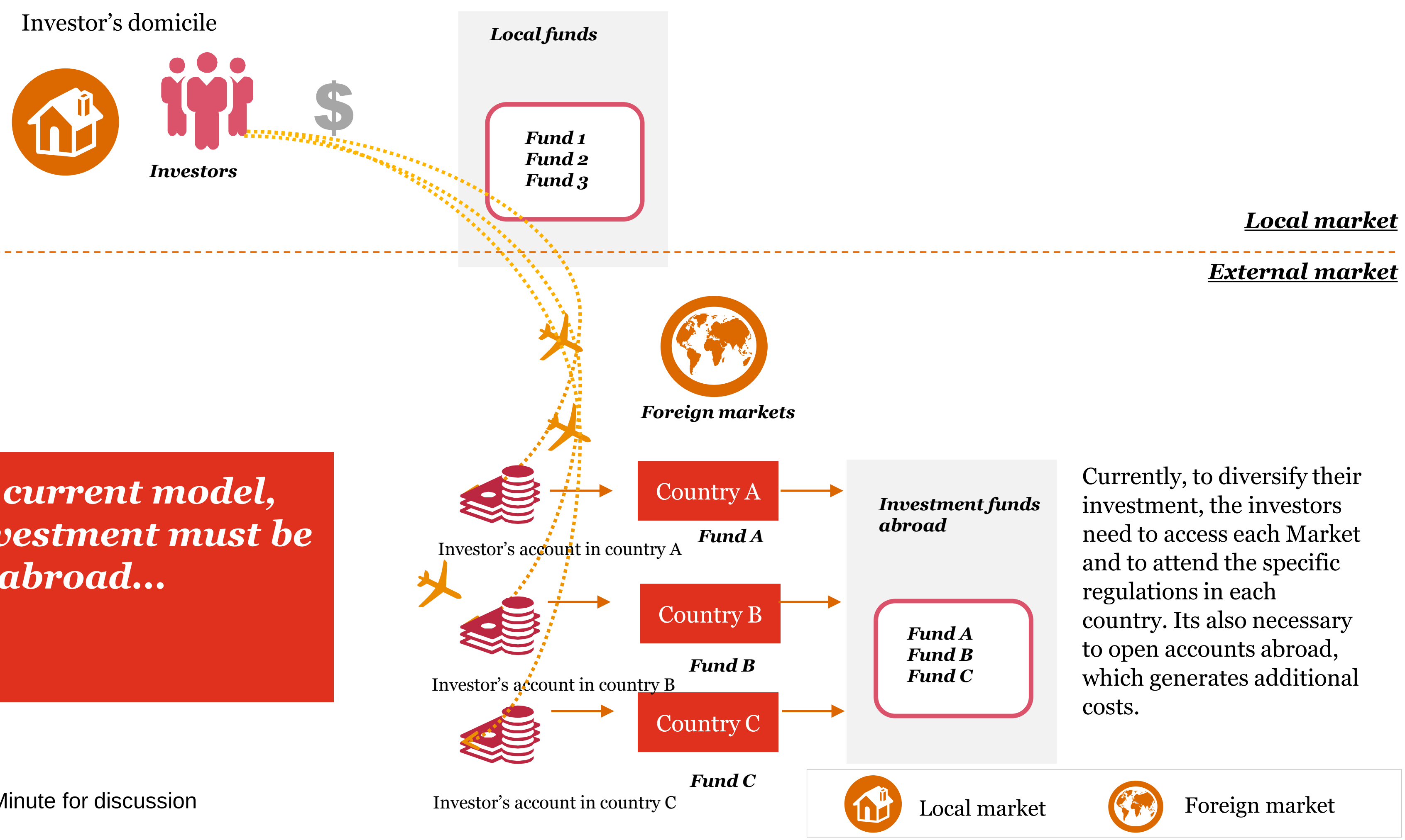
Illustrative example

The regional funds passport will allow that the fund that is registered, authorized and regulated in it's domicile country ("home economy") could be offered in other member countries of the passport agreement ("host economies"), enabled through a framework that will seek to homogenize the rules and regulations related to the operational model

The investor will have direct access to funds of the region in its own market…

the investor will no longer need to open an account and have a structure in the other countries of the region

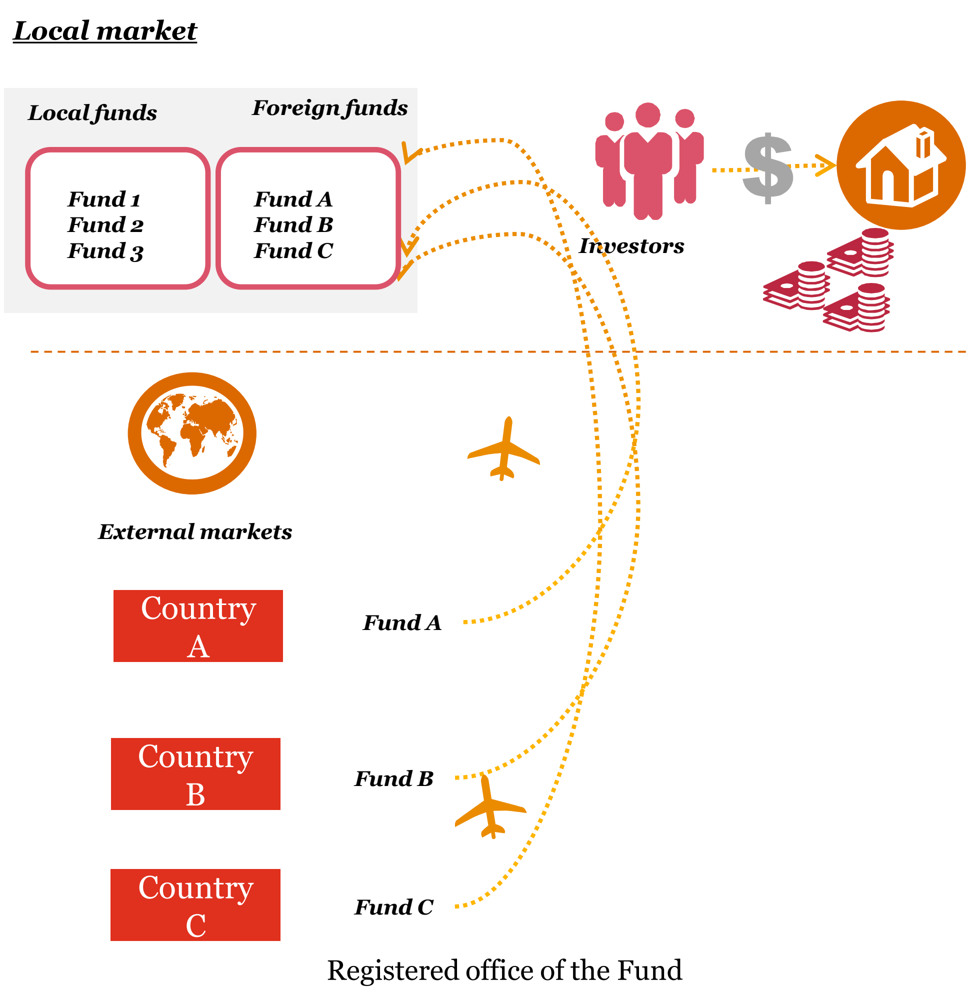
Currently, the investor that wants to invest abroad needs to send away their resources or to apply in a fund that invests abroad...



In the current model, the investment must be made abroad...

Currently, to diversify their investment, the investors need to access each Market and to attend the specific regulations in each country. Its also necessary to open accounts abroad, which generates additional costs.

With the Passport, the funds abroad will be able to be distributed locally. Changing the current situation…



The Fund is constituted in the domiciled country and also distributed in the investor's country of origin. In this sense, the investors will have the convenience of having local access to foreign funds.

Local market

External market

With the passport, the Fund will be available for distribution in the investor's local market

Local market   External market

For the LATAM passport, some premises will be adopted to prioritize its development

The passport will be destined exclusively to Latin America countries signatories of the agreement

The cooperation of the six involved countries will be prioritized

A relevant focus of the funds with passport will be the fund-raising for investments in regional projects

If the fund allocates resources in assets of different countries, there will be a limited concentration of issued and negotiated assets in the home country of the fund in order to maintain the original applicability of the passport

The products structure will be based on international standards in order to facilitate the expansion of funds distribution outside the region

Initial premises for the development of the LATAM passport

What defines the passport is the fund distribution in at least one country of the region other than the home country, and the assets of this fund shall not be exclusively from the distributing country

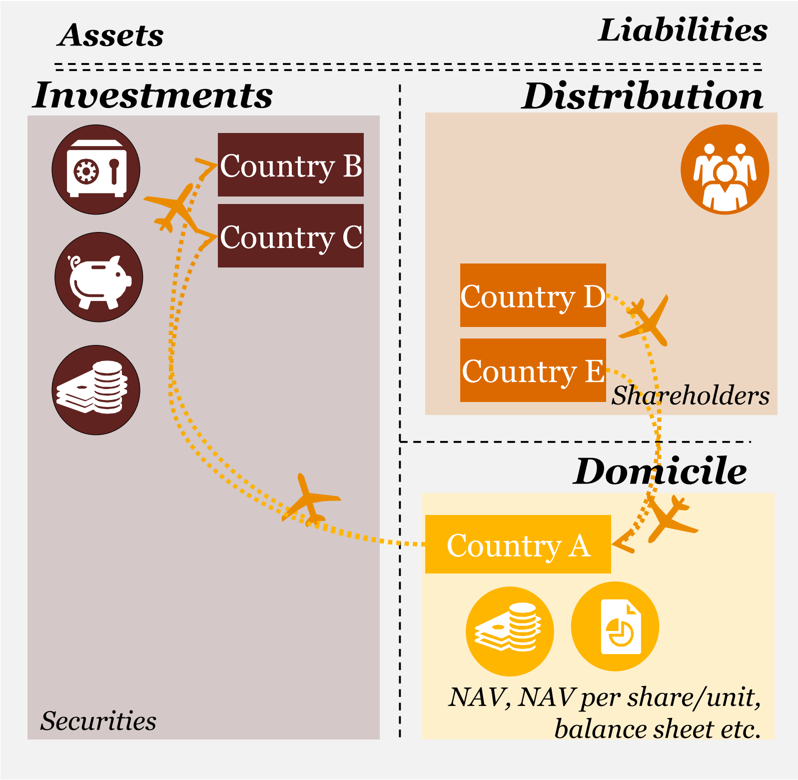
The funds passport have three specifications related to location that are fundamental to the characterization of the passport

Domicile *is the place where the fund is hosted, constituted, registered and authorized by the local regulator*

Distribution *occurs in the origin country of the investor, that is the market where the funds' shares/units are distributed or negotiated*

Investment *is the market to where the funds' resources are destined for the allocation and acquisition of assets, securities, shares of funds, derivatives, etc.*

Definition of location concepts of the activities related to the fund



Considering the location concepts, there are several scenarios that should be analyzed for the application of the passport

Preliminary analysis of the cases to characterize the need for a passport

In the studied scenarios that consider the country of origin of the fund (Domicile), origin of the investor (Distribution) and destination of the investment (Investment), not all of them will be applicable to the passport

What defines the passport is the distribution of the fund in at least one country of the region other than the domicile country, and the investments of this fund can't be exclusively of the distribution country

Scenarios

Scenario	***Domicile*** Fund origin	***Distribution*** Investor's origin	***Investment*** Investment destination	**Analysis**
1	A	A	A	Local fund
2	A	A	≠A	Foreign investment fund
3	A	B	B	Administration hub
4	A	B	C	Investment funds with passport destined to investors from the region
5	A	B	A	Investment funds with passport destined to investors from the region
6	A	N	N	Investment funds with passport destined to investors from the region

Scenarios where the passport applies (scenarios 4, 5 and 6)

N: Any country(ies) other than A, B or C.

It is desired that the country where the Fund is registered enables earnings to the investors without any tax burden

Scenarios

	Domicile	*Distribution*	*Investment*	
	Fund origin	Investor's origin	Investment destination	Risk of double taxation
1	A	A	A	Does not exist
2	A	A	≠A	Exists
3	A	B	B	Should not exist
4	A	B	C	Exists
5	A	B	A	Exists*
6	A	N	N	Exists*

Aiming at a better positioning with jurisdictions to host a funds passport, it is recommended that LATAM countries consider the following aspects:

- Enable access of the funds passport to the benefits of double taxation treaties
- Create mechanisms to allow the compensation of income tax paid abroad (in the fund's level or in the non resident investors' level) when the fund applies **predominantly** in foreign assets and/or investments
- Mitigate and/or reduce the occurrence of taxation at source on the earnings distributed and accomplished by non-resident investors when the applies **predominantly** in foreign assets and/or investments
- Expand the network of double taxation treaties with other LATAM countries included in the initiative
- Mitigate and/or reduce the taxation incidence on financial operations, remittances and or Exchange of investors in the constitution, distribution and/or liquidation of the fund

Scenarios where the passport applies

N Any country other than A, B or C.

*The risk already exists, there will be no change by the creation of the passport.

The funds authorized by the LATAM passport will be able to invest only in eligible assets, similarly to the European and Asian models

Eligible assets to the fund portfolio

Mutual funds	UCITS	ASEAN CIS	ARFP	LATAM
Transferable securities	👍	👍	👍	👍
Money Market	👍	👍	👍	👍
Bank Deposits	👍	👍	👍	👍
Derivatives	👍	👍	👍	👍
Fund shares	👍	👍	👍	👍
Others	*Cash*	-	*Cash, currency and others*	*Cash*

Structured funds	AIFs	ASEAN CIS	ARFP	LATAM
Private Equity, Real Estate, Hedge Funds, Receivables Investment Funds, etc.	👍	✖	✖	👍

For the protection of the investors and for risk reduction, concentration and diversification limits should be defined for LATAM funds passport

Mutual funds	UCITS		ASEAN CIS		ARFP		LATAM	
	Global limits	***By issuer***	***Global limits***	***By issuer***	***Global limits***	***By issuer***	***Global limits***	***By issuer***
Transferable securities	100%	10/ 25/ 35%[1]	100%	10/35%[2]	100%	10/ 35%[2]	100%	10/ 35%[2]
Money Market	100%	10/ 35%[2]	100%	10/ 35%[2]	100%	10/ 35%[2]	100%	10/ 35%[2]
Bank Deposits	100%	20%	100%	20%	100%	-	100%	-
Derivatives	100%	5% / 10%	100%	20%	100%	5% / 15%	100%	5% / 15%
Limit consolidated by issuer	-	Max 20%[3]	-	Max 20%[3]	-	Max 20%[3]	-	Max 20%[3]
Fund shares	30%	20/ 30%	30%	10/ 20%	30%	10/ 20/ 30%	30%	10/ 20/ 30%
Others	49%	-	-	5/ 15%	25%	-	25%	-

Structured funds	AIFs		ASEAN CIS	ARFP	LATAM	
Private equity, real estate, hedge funds, Receivables Investment Funds, etc.	Flexible[4]	10-30% or Flexible[1]	✖	✖	Flexible[4]	Flexible[4]

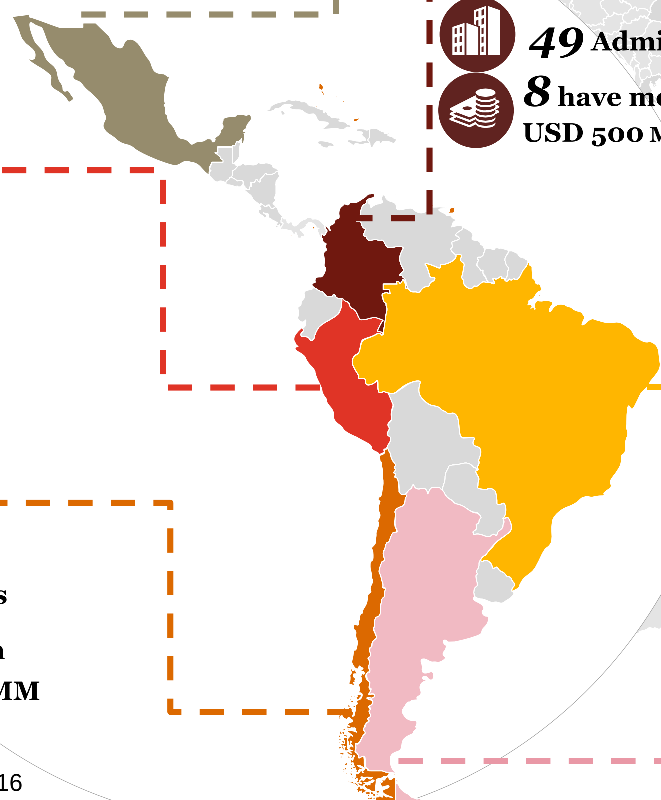
(1) 25% for debt securities issued by credit institutions in the EU/ 35% for public securities
(2) 35% for public securities
(3) Limit by group level
(4) Depending on the Fund structure

The requirements for the administrator to operate the LATAM passport are aligned with international references…

Administrator	AIFs	UCITS	ASEAN CIS	ARFP	LATAM
Minimum capital	**EUR 125.000** +0.02% > 500 MM AuM (1)	**EUR 125.000** +0.02% > 500 MM AuM (1)	**USD 1 million** +0.1% > 500 MM AuM	**USD 1 million** +0.1% > 500 MM AuM (2)	**USD 1 million** +0.1% > 500 MM AuM (2)
Minimum AuM	**NA**	**NA**	Min AUM **USD 500 MM** (3)	Min AUM **USD 500 MM** (3)	Min AUM **USD 500 MM** (3)
Time of existence of the Administrator	**NA**	**NA**	**5 years**	**5 years**	**5 years**

(1) Minimum capital limited to EUR 10 million
(2) Minimum capital limited to USD 20 million
(3) Considering holdings and subsidiaries
NA – Not applicable

...and the possibility of a limit of USD 500 MM as a minimum requirement for the administrator is compatible with LATAM reality



Mexico

29 Administrators

19 have more than USD500 MM AuM

Colombia

49 Administrators

8 have more than USD 500 MM AuM

Peru

8 Administrators

4 have more than USD500 MM AuM

Brazil

102 Administrators

40 have more than USD500 MM AuM

Chile

41 Administrators

18 have more than AuM of USD500 MM

Argentina

43 Administrators

15 have more than USD 500 MM AuM

Sources: ARG – CNV – Jun/16
BRA – ANBIMA – Sep/16
CHL – AAFM e ACAFI – Oct/16
COL – SFC – Oct/16
MEX – CNBV – Sep/16
PER – SMV – Oct/16
and PwC analysis.

The analysis considered activities from: *Sociedad gerente, Sociedad Administradora General de Fondos, Sociedad operadora de fondos de inversión, Sociedades administradoras de fondos de inversión colectiva, Sociedades administradoras de fondos mutuos y Sociedades administradoras de fondos de inversión*

The administrator must also attest to the regulator that it has an operational structure compatible to the new "cross-border" funds reality

Readiness of the organizational structure and operational model of the Administrator

- Organizational structure with a clear definition of roles and responsibilities

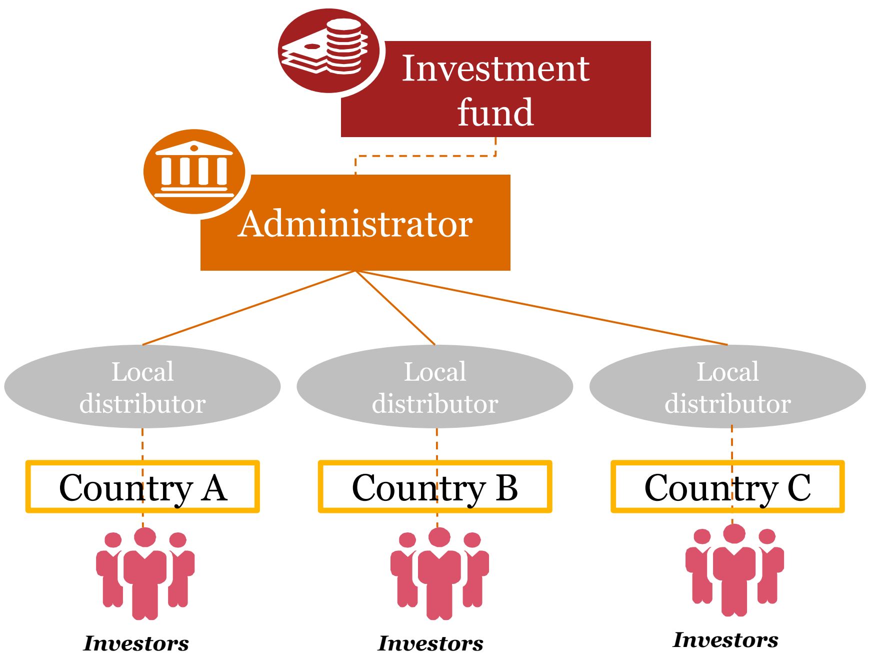
- Human resources with expertise
- Requirements for directors and fund managers related to honesty, competency, technical capability and financial solidity

- Risk monitoring and managing process, including an adequate risk management framework, based on the size and complexity of the Asset Under Management

- Efficient fund management operational system
- Adequate internal control system
- Adequate system to manage customer care and to monitor distributors

- Procedures and policies to monitor and manage conflicts of interest
- Procedures to guarantee compliance with laws, regulations and specific rules of the fund

The administrator must contract local distributors to offer funds through the LATAM passport…



The fund offer in the country of distribution must be done through local distributors registered by the regulators of the country.

In the contract signed with the distributors, the procedures of submission of information to the administrator must be clear, including its periodicity.

…requesting the regulator for the registration of the fund with the passport along with the documentation required

Documentation	AIFs	UCITS	ASEAN CIS	ARFP	LATAM
Notification letter or request form	👍	👍	👍	👍	👍
Fund regulation or constitution documents	👍	👍	👍	👍	👍
Prospect	👍	👍	👍	👍	👍
Other	• *Additional marketing documentation*	• *KIID [1]* • *Financial reports* • *Contracts with service providers* • *Business plan* • *RM[2] Policy*	• *Declarations* • *Additional documentation according to each country's regulation (ex. Fund Fact Sheet)*	• *Additional documentation according to each country's regulation*	• *Additional documentation according to each country's regulation (ex. Fund Fact Sheet)*
Length of approval process	• *20 workdays*	• *Domicile :15 workdays* • *Distribution: 5 workdays*	• *Depends on each country*	• *21 days*	• *Recommendation: up to 4 weeks.*

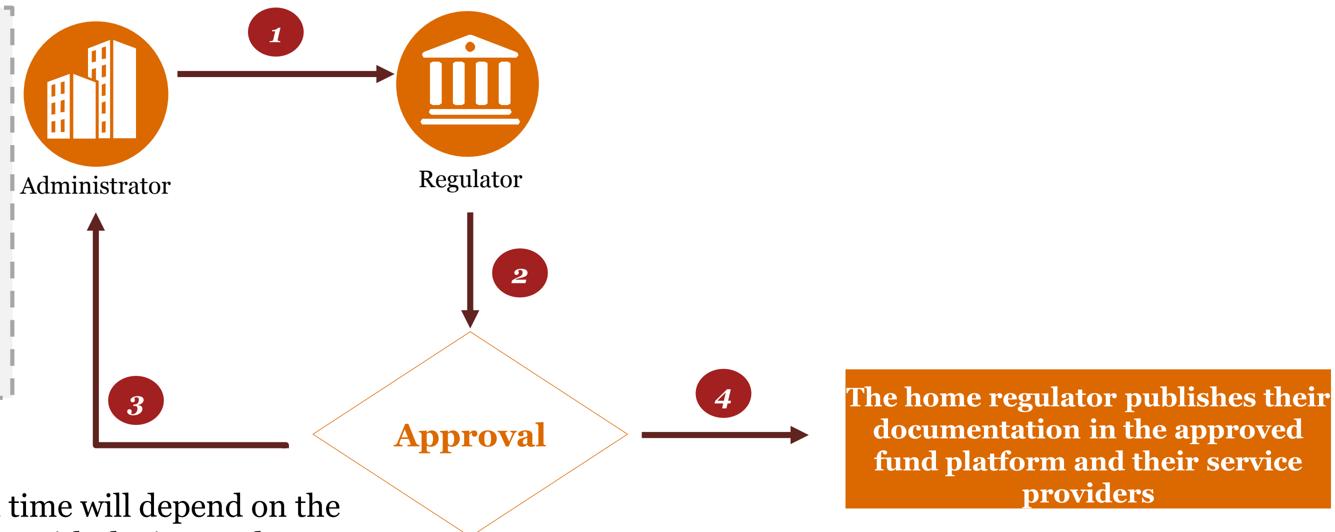
(1) Key Investor Information Document
(2) RM – Risk Management

The regulator of where the fund is registered is responsible for all adequacy of the fund to the LATAM passport

Approval process of the fund in the country of registration

NON EXHAUSTIVE

1. Fund regulation, prospect and additional documents
2. Passport's request form
3. Registration fee payment



Approval time will depend on the agreement with the internal processes of each regulator

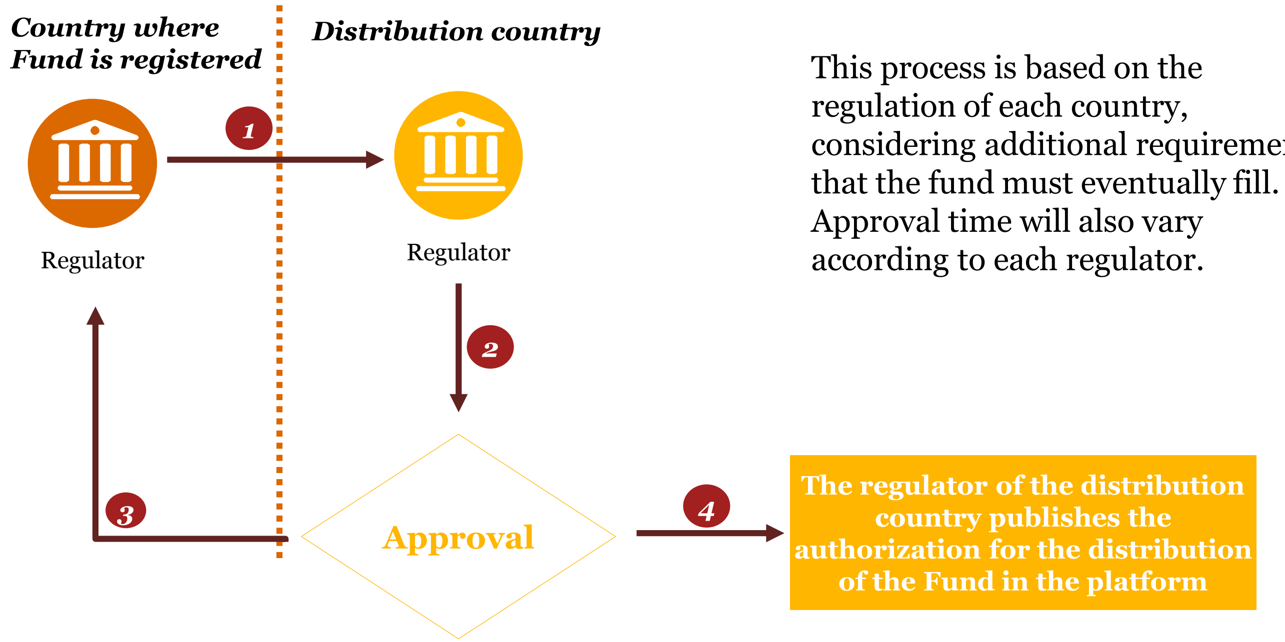
1. Submits documentation to the regulator of where the fund is registered
2. Verifies documentation and decides on approval
3. Not approved / Devolution of documents
4. Approved / Regulator reports fund approval to the administrator

The regulator of the country in which the fund will be distributed applies a simplified approval process

Fund approval process in country of distribution

NON EXHAUSTIVE

1. Passport Request Form, with authorization of the fund's domicile regulator
2. Fund regulation, prospect and additional documentation
3. Product offer documentation prepared according to requirements in each distribution country



This process is based on the regulation of each country, considering additional requirements that the fund must eventually fill. Approval time will also vary according to each regulator.

1. Submits documentation to the regulator of where the fund is registered
2. Verifies documentation and decides on approval
3. Not approved / Devolution of documents
4. Approved / Regulator reports fund approval to the administrator

To request authorization for LATAM passport, a standard form must be created…

A minimal set of documents will facilitate the harmonization in the fund registration process in participating markets

01 **Passport request form** containing:

Fund information (investment policy, service providers, administrator information, etc.)

Information on which markets the Fund will be distributed, local distributors hired, etc.

02 Fund documentation according to each country's regulation attached to the Form (prospect, regulation, administrator's financial reports, etc.)

03 Documents destined to the offer of the funds in the countries must follow the regulation of distribution country

Governance

04

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For both initiatives to succeed, it will be imperative the support and participation of the region's regulators

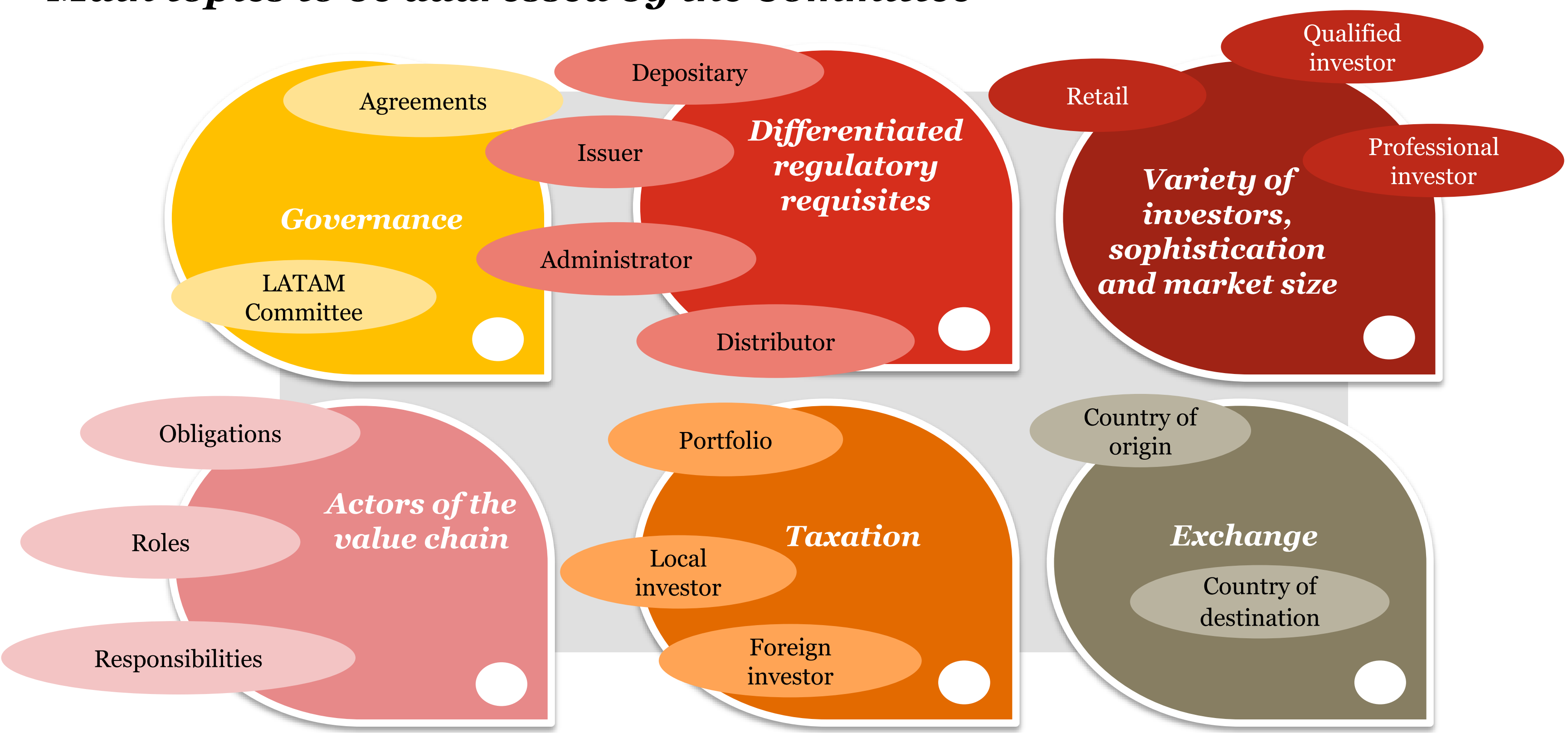
Besides the effective support of the regulators of each country, the formation of a regulation committee composed by capital market regulators of the region will be fundamental to facilitate questions related to the products' development

Mission of the LATAM Regulators Committee

- Promote and facilitate the relationship among regulators of the countries in the region
- Contribute to the adoption of best practices to be disseminated in the region
- Seek coverage and standardization of the products to be created in the region
- Celebrate and monitor the Memorandum of Understanding among countries for their operationalization

The main themes to be addressed consolidate the challenges in stablishing an agreement to operationalize the products in the region

Main topics to be addressed by the Committee



Source: PwC The future of the funds management industry in Asia

The Committee will have to focus on the discussion of the Memorandum of Understanding to operationalize the products

All participants of the Committee will have to mutually collaborate for the resolution of any impasses

The president and vice-president of the Committee must be elected by vote of its members, with periodic rotation of positions

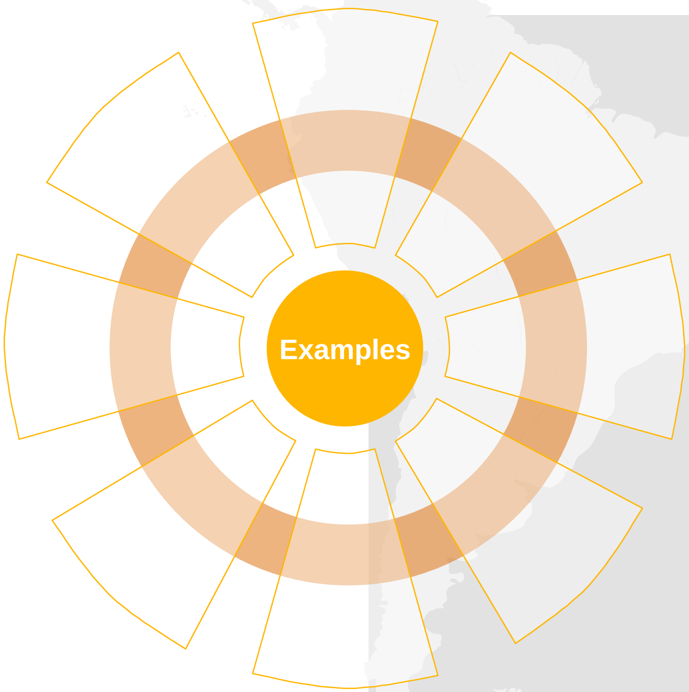
Main duties of the Committee

- Define products and market rules, acting on any harmonization needed
- Monitor the agreement and implementation of the products, ensuring adherence to agreed rules and acting on misinterpretations
- Maintain an electronic platform and website to disclose and consolidate information
- Elaborate and publish support materials to the products' implementation, such as operational manuals
- Make recommendations to the countries in process of implementation
- Publish annual reports of implementation progress

Source: Asia Region Funds Passport Memorandum of Cooperation

The eligibility criteria for the participating countries take in consideration economic, geographic and market characteristics

The eligibility for the participating countries will be based on criterias to be defined in order to aim continuity, transparency and proper functioning of the products



- Must be located in Latin America
- Economy should not be listed as High Risk or Non cooperative in the *Financial Action Task Force* (FATF)
- The country must have a signatory agency in the MMoU of IOSCO or must be in approval process
- The economy must have been evaluated by the MIF and the World Bank in the Financial Sector Assessment Program
- The economy's legal framework must be sufficiently equivalent (accepted) to the others members of the agreement

Source: Asia Region Funds Passport Memorandum of Cooperation

MMoU - Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information
IOSCO - International Organization of Securities Commissions

To operationalize the products proposed an understanding agreement among the six countries will be fundamental

The local regulator recognizes the regulatory regime of the other countries in the region and collaborates

Main objectives of a Multilateral Agreement

- ***Promotion*** of capital flow and facilitation of the access to regional markets, reducing regulatory barriers
- ***Internationalization of regional markets*** with potential to attract foreign investments
- ***Competitiveness and innovation*** increase in service offer
- ***Investors protection*** *increase*, market **integrity**, systemic ***risk mitigation*** e ***regulatory harmonization***
- ***Cooperation*** in regulation and **supervision** between regulators for the markets in the region

Main challenges of a Multilateral Agreement

- ***Mutual recognition*** agreements demand intensive ***supervision*** and ***cooperation***, with the employment of necessary ***operational resources*** meet the required levels of control
- Creation of platform for the ***adequate and effective access to information*** aiming at transparency and supervision
- Mutual recognition between regulators for full supervision of markets and/or reviews of entities in the *cross-border* activities in the region

Fonte: IOSCO Task Force on Cross-Border Regulation Final Report – sep/2015

MILA* experience demonstrates the regulators' availability and capacity to seek for solutions for an integration process

Main aspects for supervision

Supervision elements

Mutual recognition

- Recognition of each country's jurisdiction. The regulator from where the operations are done is the leader responsible for them and the other regulators act in collaboration with the leader

Market protection

- Each regulator aims to protect its own market and to prevent and sanction conducts that are not in compliance with the local rules

Reciprocity

- Each regulator recognizes the need for mutual collaboration in order to prevent and sanction eventual conducts that affect the local market but are made remotely by other parties abroad

Transparency

- Clarity about the responsibilities designated to each authority is indispensable, especially for the market, investors and agents to understand the dynamics and to promote development in the region

Operational eficiency

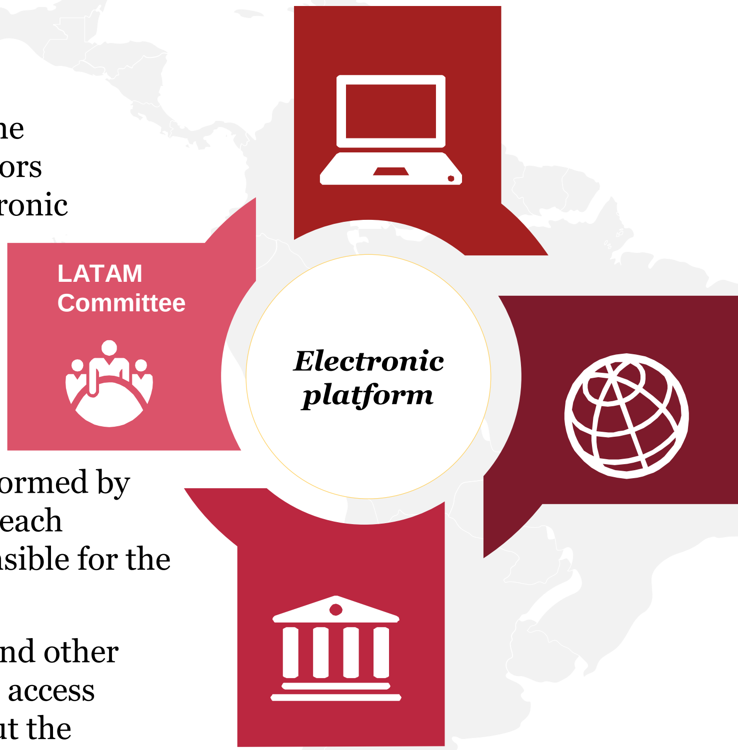
- The coordination and information exchange mechanisms must be simple, updated and effective to contribute efficiently to the supervision process

(*) MILA – Mercado Integrado Latinoamericano – Agreement between stock exchanges of Chile, Colombia, Peru and Mexico that aims to create a regional market to trade equities of these countries.

Source: Colombia's Financial Commission. PwC analysis and adaptation

For the operationalization of the products, the development of an integrated systemic platform among regulators is recommended

Each website of the countries' regulators accesses the electronic platform

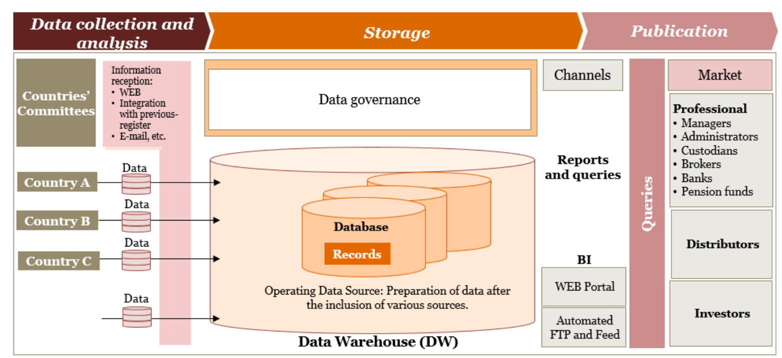


The Committee formed by the regulators of each country is responsible for the platform

Administrators and other service providers access information about the authorized products and all other information needed such as: regulations, rules, flows, authorized providers etc.

The platform must be considered as a tool to operationalize the agreement

The platform must provide the market all the transparency and necessary information related to the products of the agreement among the countries' members



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Conclusions

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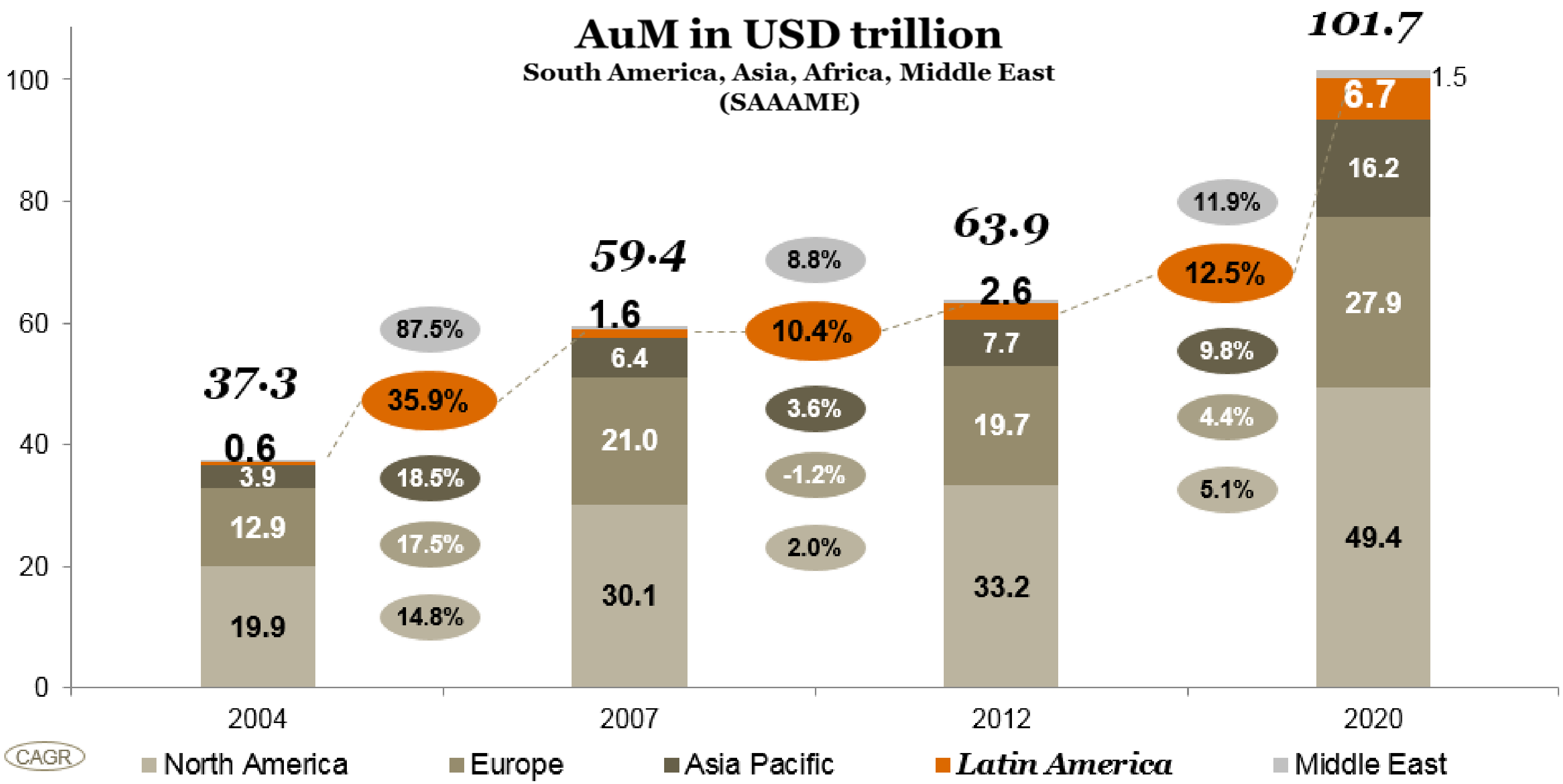
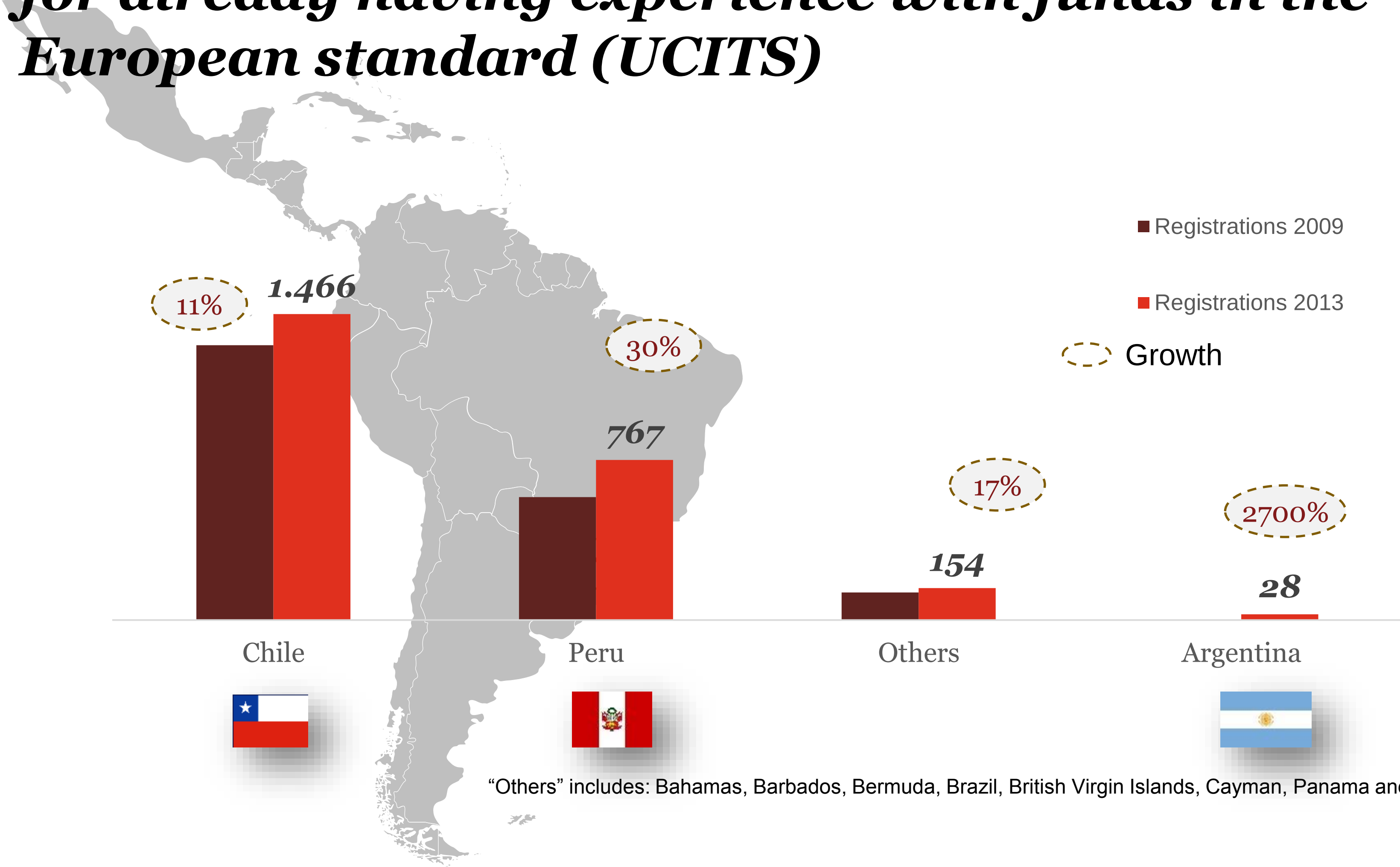
Latin America stands out for its accelerated rate growth in AuM compared to other developing regions

With a growth rate of 6% per year, the global AuM should exceed USD 100 trillion in 2020



Note: Because of the performance of the markets along the years of 2013 and 2014, the estimates have been revised after the publication of the report. The new AuM estimate is USD 102.3 trillion.

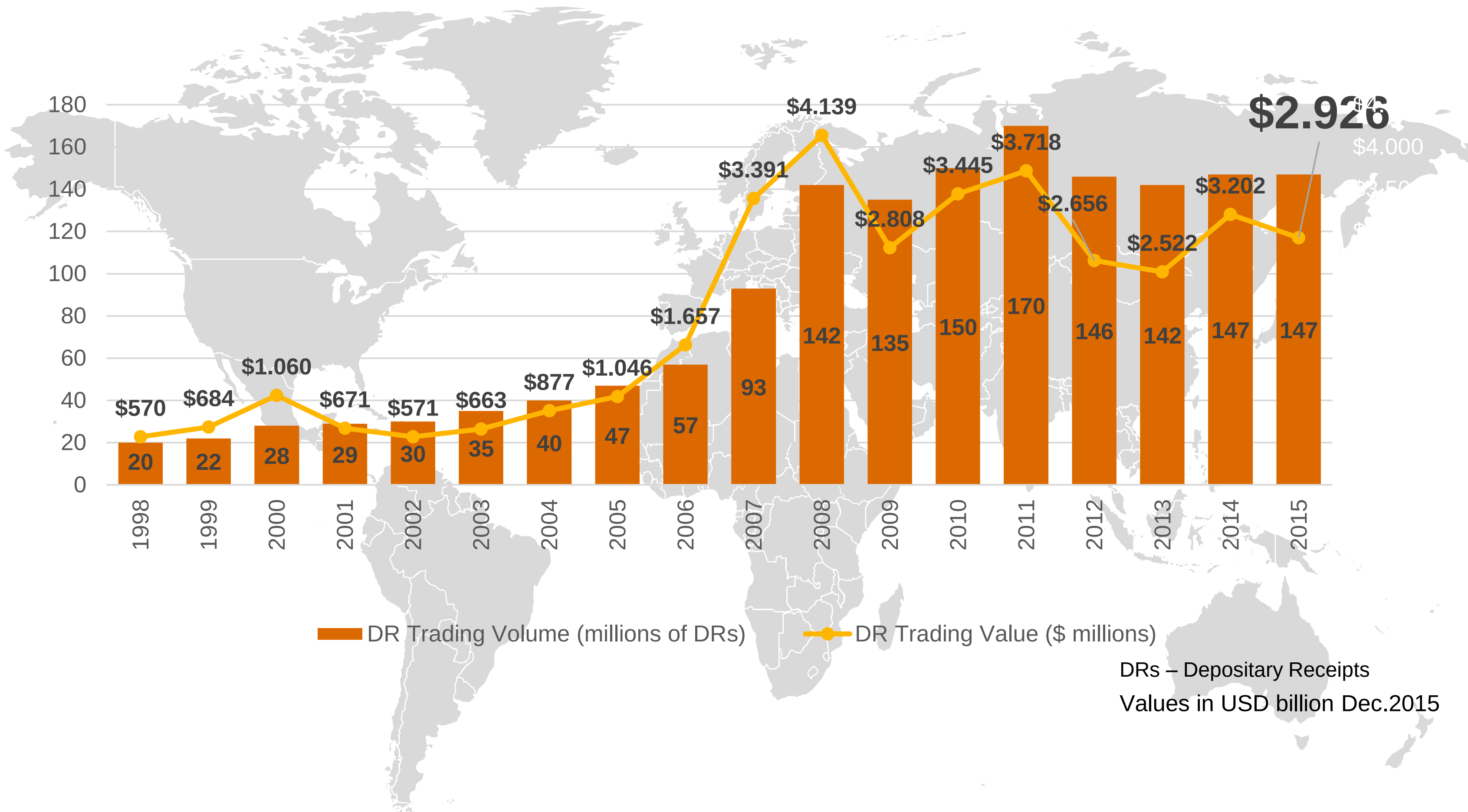
Chile, Peru and Argentina stand out in the region for already having experience with funds in the European standard (UCITS)



"Others" includes: Bahamas, Barbados, Bermuda, Brazil, British Virgin Islands, Cayman, Panama and the USA

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014

In two decades the global market of Depositary Receipts has increased five times



DRs – Depositary Receipts

Values in USD billion Dec.2015

The new products can add several competitive advantages to the region's market

Simplification and harmonization of rules

Convenience and operational efficiency for the investors

New instruments for negotiation in MILA [1] environment

Competitiveness, innovation and potential improvement of services

Investor's protection improvement

Expansion of alternative instruments to finance projects in the region

Attraction of foreign investors' capital

(*) MILA – Mercado Integrado Latinoamericano – Agreement between stock exchanges of Chile, Colombia, Peru and Mexico that aims to create a regional market to trade equities of these countries.

Key factors when comparing Europe's reality to LATAM's reality

Key factors for Europe

- Consolidated political and economical union among countries – European Union (EU)
- Well-defined Governance (EU Commission)
- Single currency for most of the countries
- Mature market
- Consolidated hubs (Luxembourg and Ireland for Passport and London for DR)
- Consolidated Distribution centers

These factors bring out some issues for defining the Latin American Passport model and the LDR/N

Key issues for LATAM

- Governance/Legislation
- Target investors
- Roles and responsibilities of all players
- Exchange rates
- Taxation

Besides the engagement of the regulators, it is fundamental the support and collaboration of other players of the markets involved

Key stakeholders of each country

Regulator	SVS	SMV	SFC	CNBV	CNV	CVM
Associations	AAFM ACAFI		AMV ASOFid	AMIB	CAFCI	ANBIMA
Players	Stock Exch. Agents	Stock Exch. Agents	Stock Exch. Agents	Stock Exch. Agents	Stock Exch. Agents	Stock Exch. Agents
Investors and Issuers	Inv Inst Cias	Inv Inst Cias	Inv Inst Cias	Inv Inst Cias	Inv Inst Cias	Inv Inst Cias

MILA

Note: "Agents" comprehends the other players of the market such as: Investment Banks, Distributors, Custodians, Depositaries, Portfolio Managers etc.

Observation

This presentation was elaborated according to the service agreement between PwC and BRAiN and the information contained in this material was obtained from public sources and/or from material presented by BRAiN's associates. This information was not verified or audited.

We have developed our work as consultants to support BRAiN in decision-making, therefore not comprehending any procedures related to auditing of financial information.

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Financial Integration in Latin America: Regional Funds Passport
PART 2

BRAIN Brasil Investimentos & Negócios

MINUTE FOR DISCUSSION

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Agenda – part 2

Introduction 1

Value proposition 2

Framework 3

Governance 4

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International References

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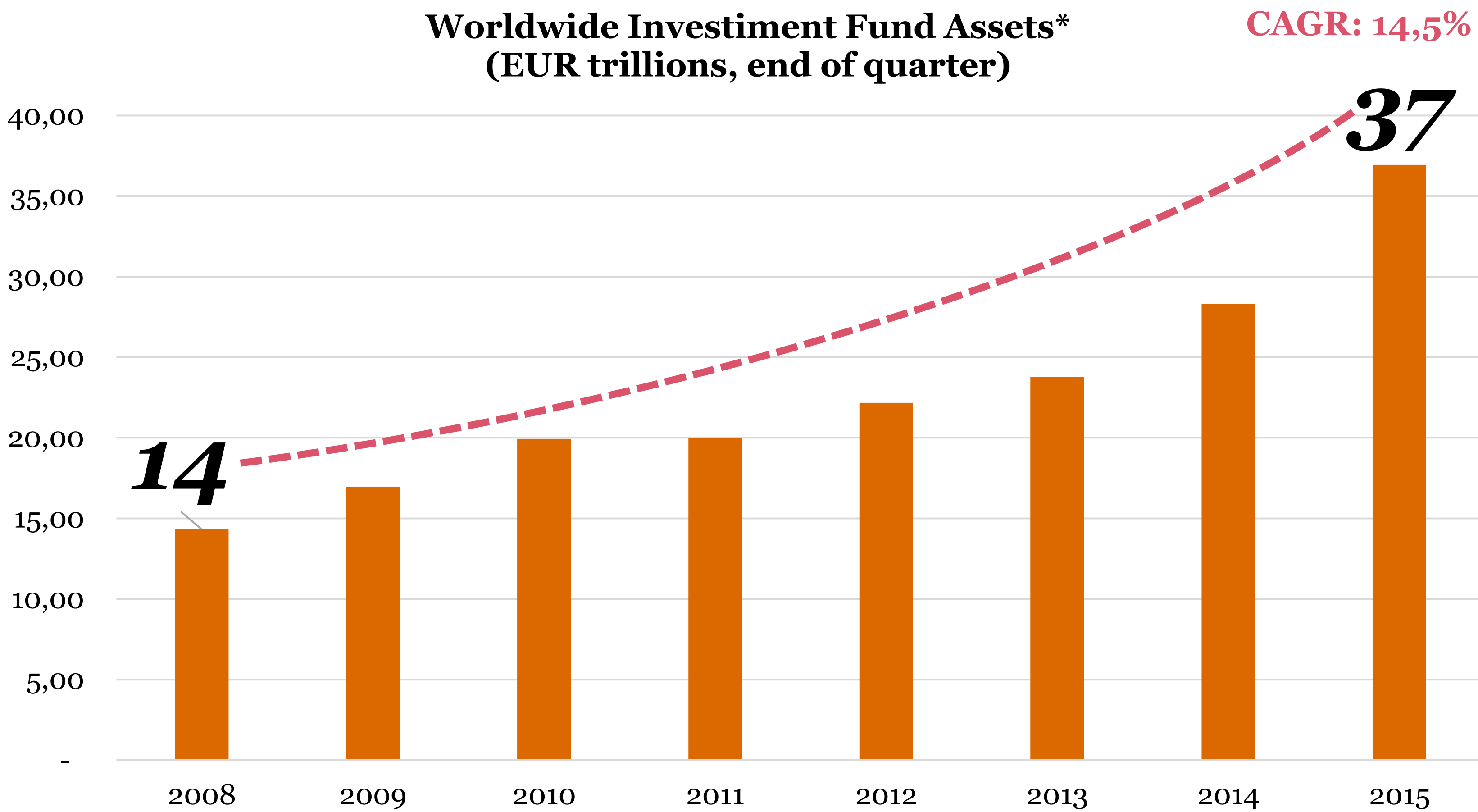
The worldwide regulated open-ended fund assets represent EUR 37 trillion



* Including fund of funds

Source: EFAMA

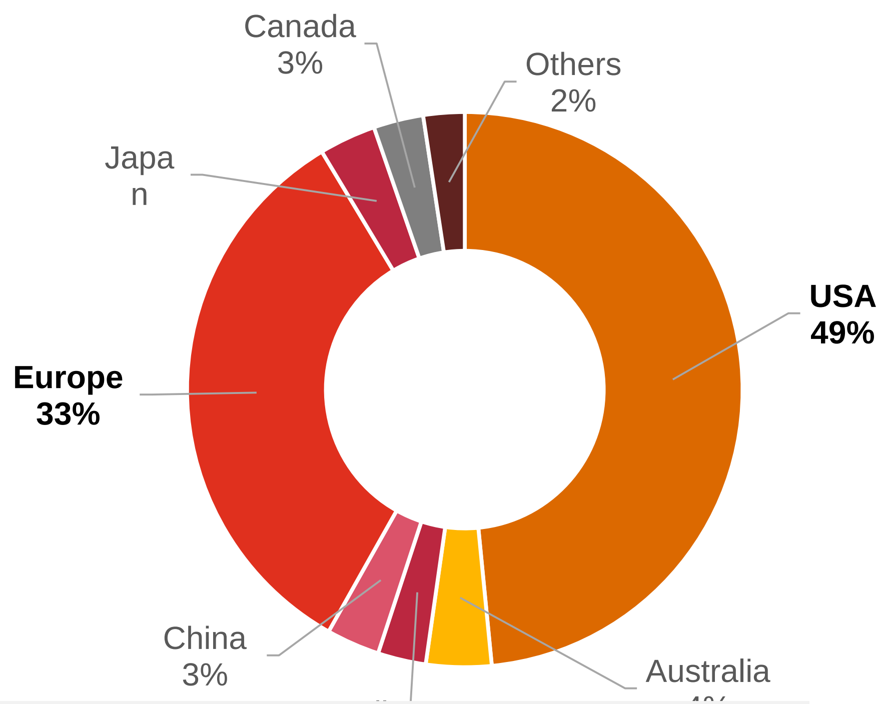
United States and Europe held the largest shares in the world market of investment funds, with 49% and 33% respectively

***Europe** represent over **EUR 12 trillion** of Net assets*

Europe held 45% of worldwide number of funds*

**** Worlswide number of funds: 113.562***

Top 10 Domiciles of Worldwide Invetment Fund Assets (AuM)

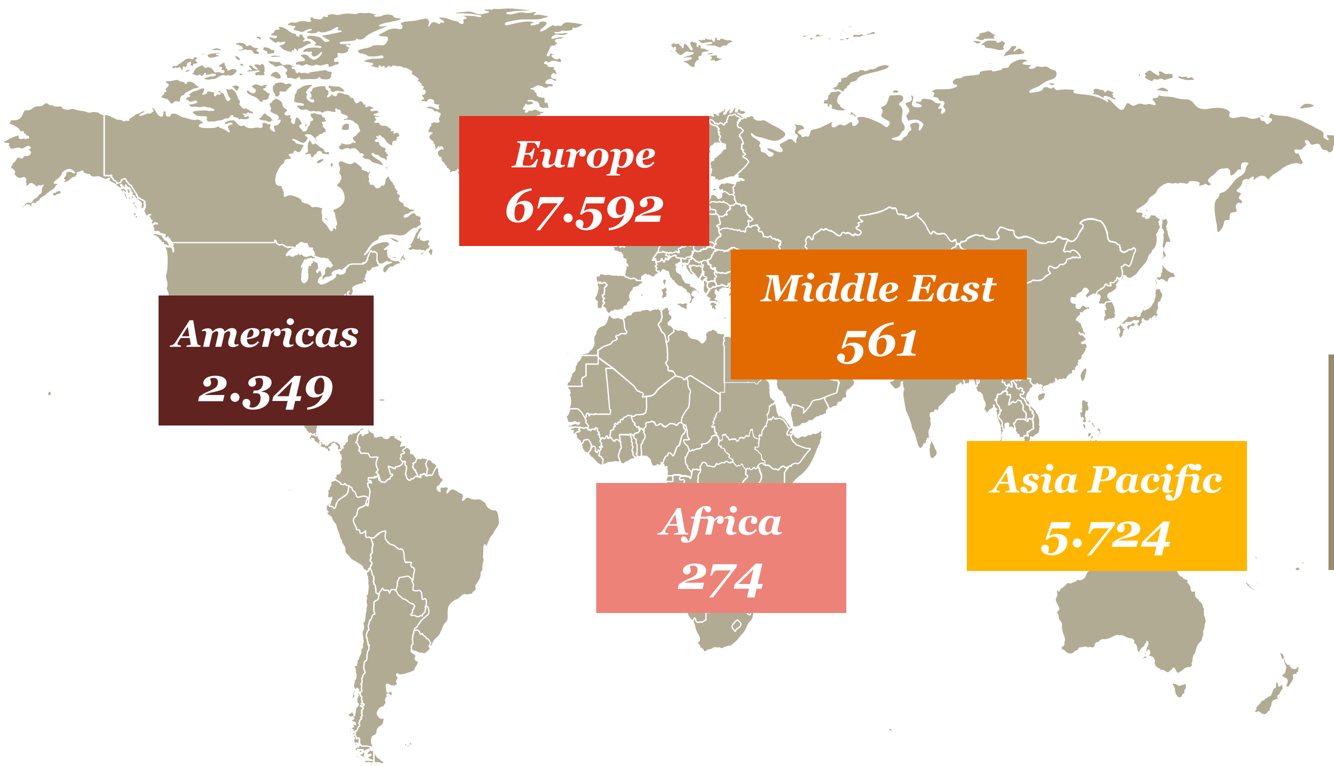


Europe has 33% of investment funds industry market share, considering AuM, which represents 12 trillion euros of net assets.

In number of funds, Europe has more than 51.000 funds.

Source: EFAMA – Q4 2015

Europe is the most popular market for UCITS funds with over 67,000 registrations



These statistics are in relation to the number of UCITS which are registered for sale in each of the individual countries.

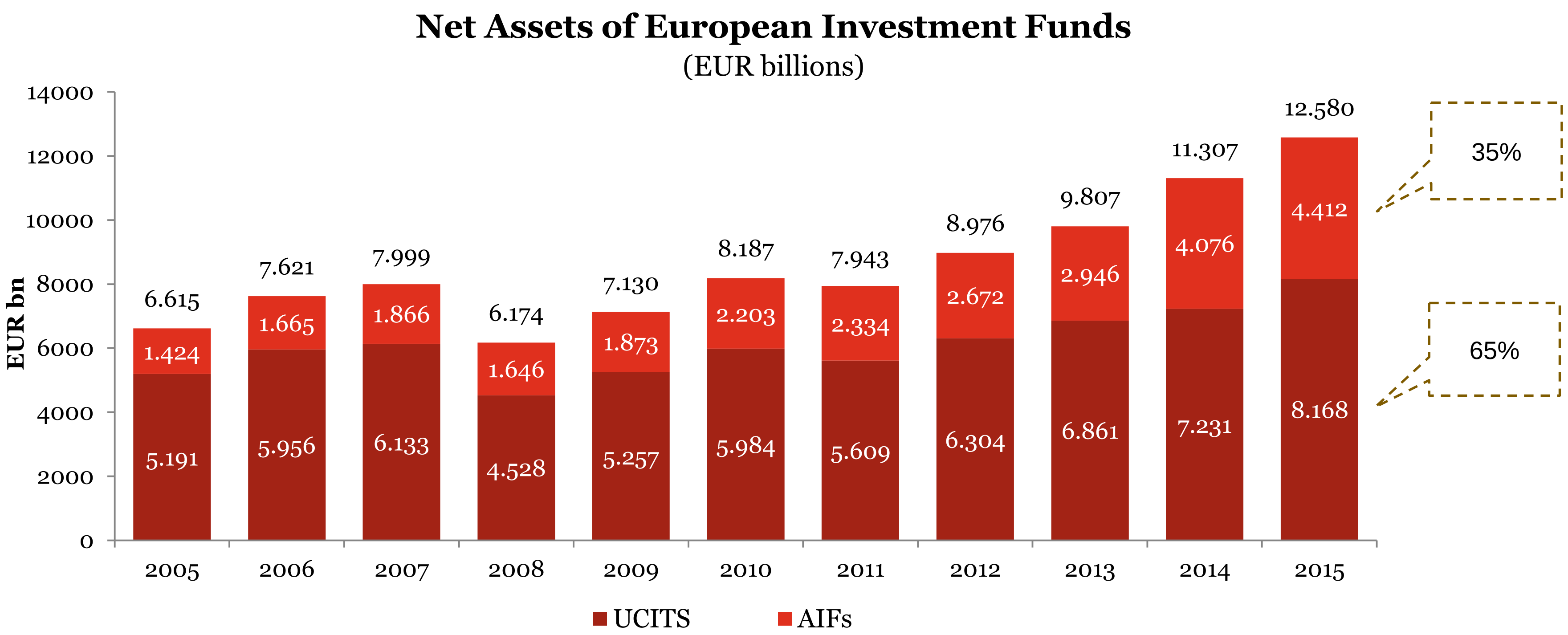
However, the number of registrations for a country does passively correlate to the sales activity for that particular country.

Over 76.000 UCITS funds registered for sale worldwide

86 the number of countries of distribution for UCITS funds – 20 new countries since 2009

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014

65% of European fund asset industry are UCITS

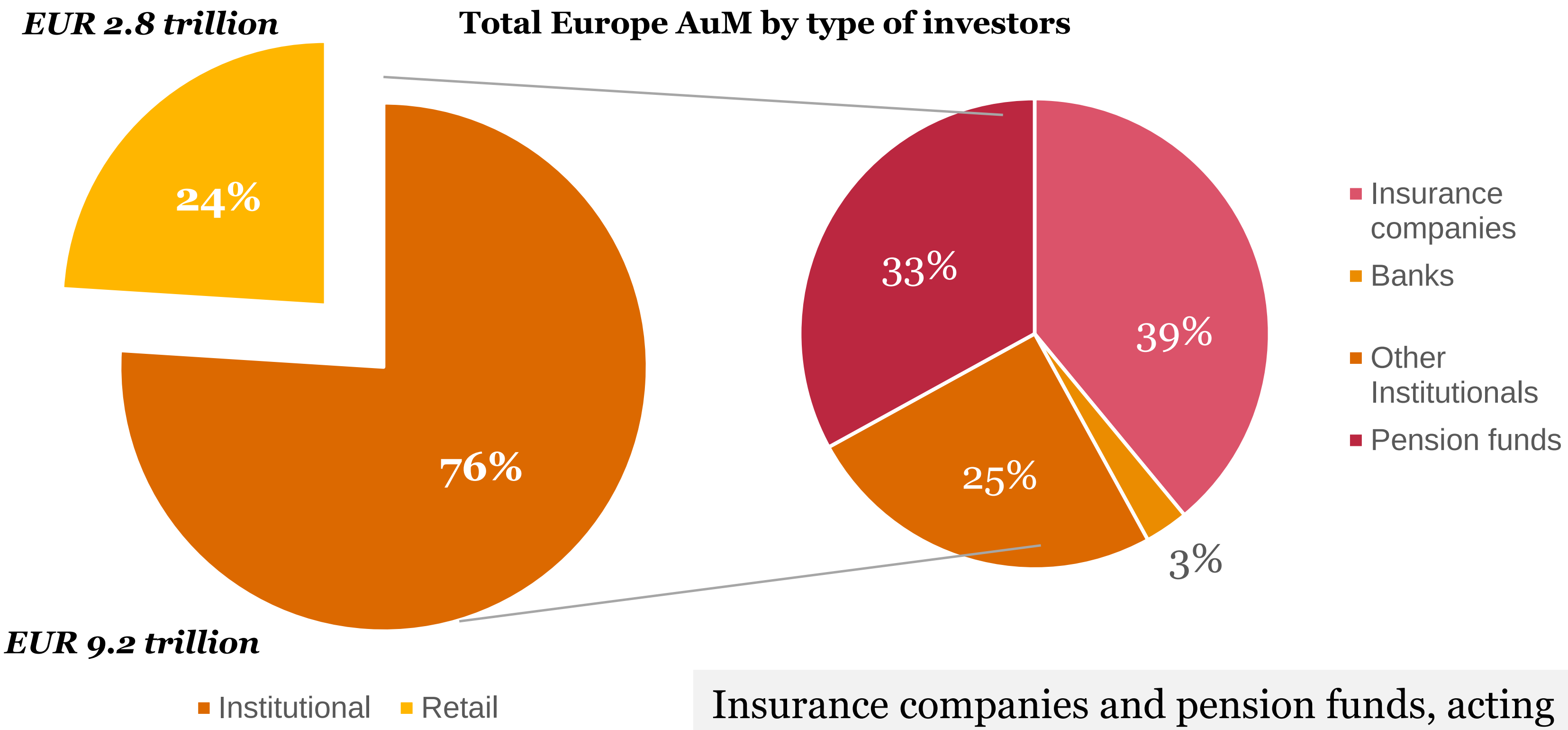


The UCITS product has had huge success since its inception in 1985. Now almost 30 years old, UCITS have gone from strength to strength. While the number of UCITS funds has reduced since 2011 the size of assets has increased. This is due to some fund managers rationalising their fund ranges following the adoption of UCITS IV in 2011 which introduced fund mergers and master/feeder structures into the UCITS framework.

Source: EFAMA – Q4 2015

Institutional clients represent the largest client category of the European asset management industry

Total Europe AuM by type of investors

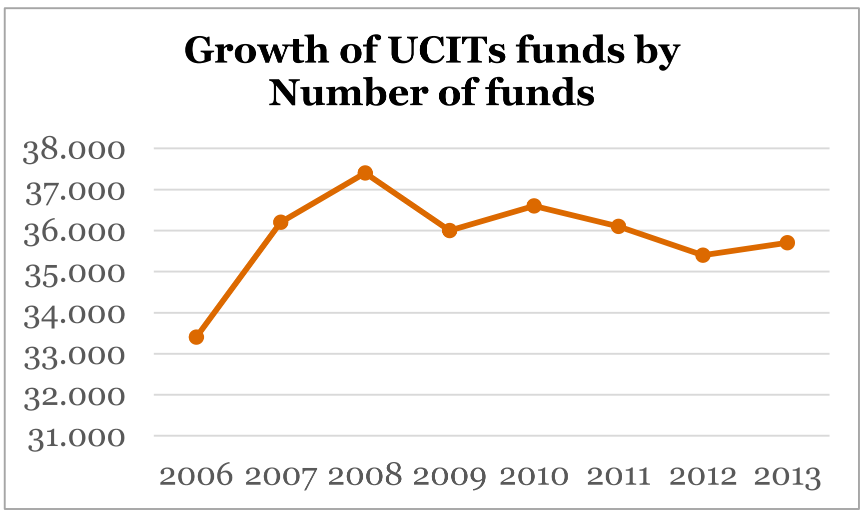


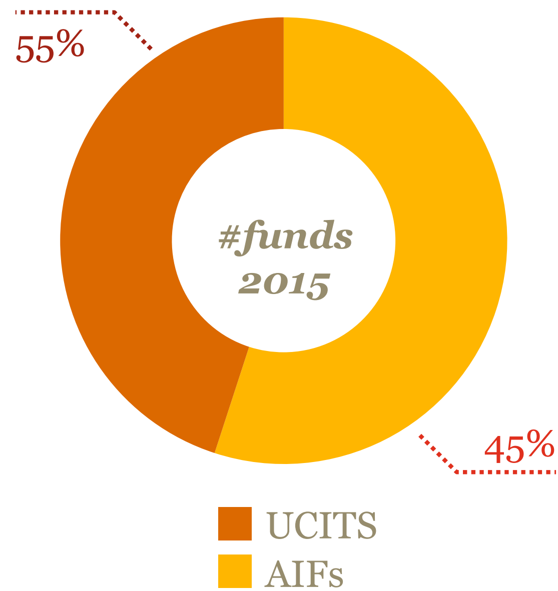
Insurance companies and pension funds, acting on behalf of millions of households, accounted for 39% and 33% of total institutional AuM, respectively.

Source: EFAMA – Asset Management in Europe - 2015

UCITS represent over 30.000 funds in Europe

Europe where the majority of mutual funds are set up as Undertakings for Collective Investment in Transferable Securities (UCITS) which are governed by European legislation. UCITS benefit from an EU wide "passport" which means that once they are authorised in one EU member state, they can be sold in any other EU member state without the need for additional authorisation.
AIFs are Alternative Investment Funds that are not covered by UCITS Directive. These include hedge funds, funds of hedge funds, venture capital and private equity funds and real estate funds.

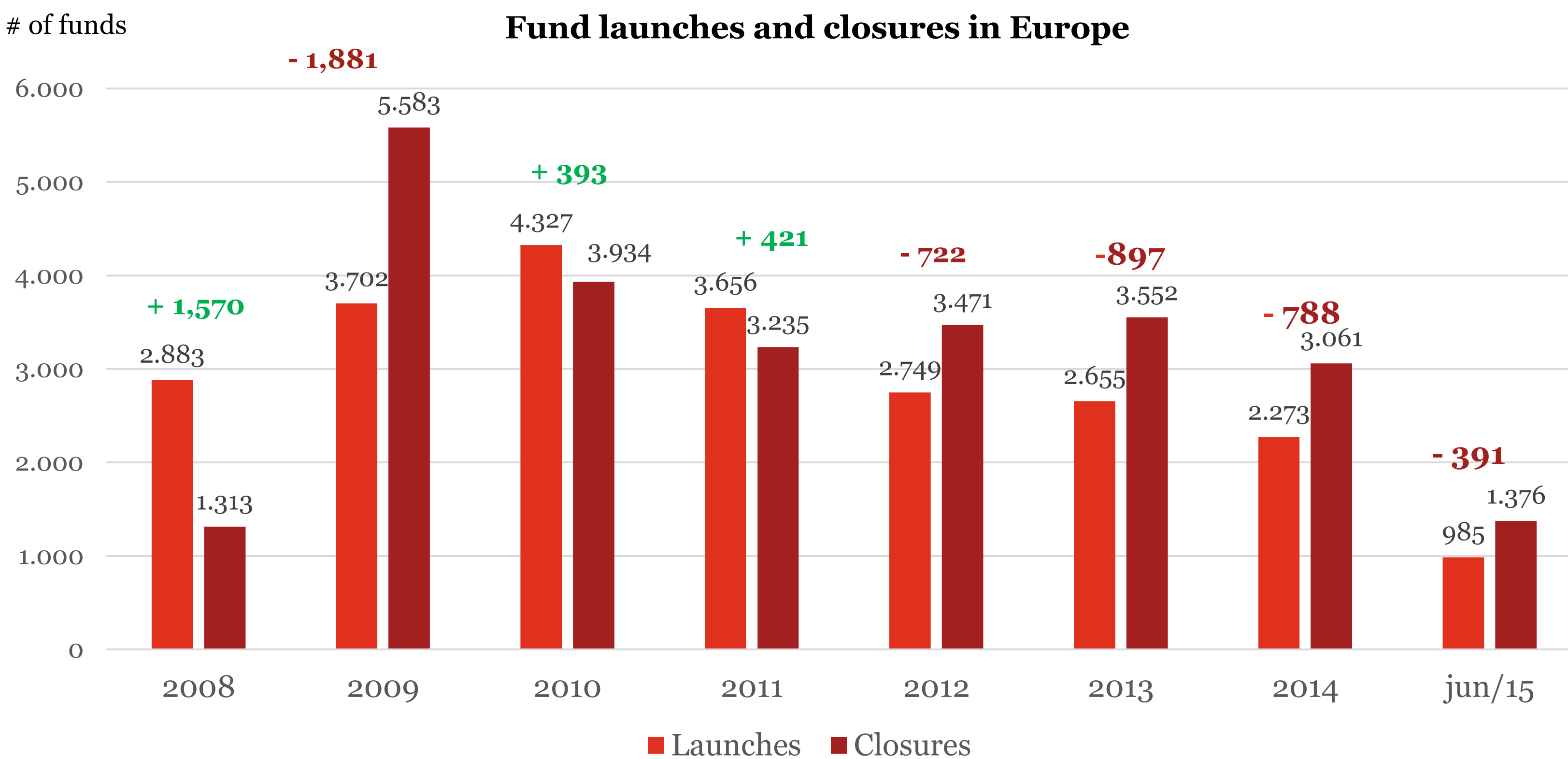




Total Number of funds: 113.000

Source: EFAMA – Q4 2015

Regulation and product consolidation are the main reasons for reducing the number of funds in Europe

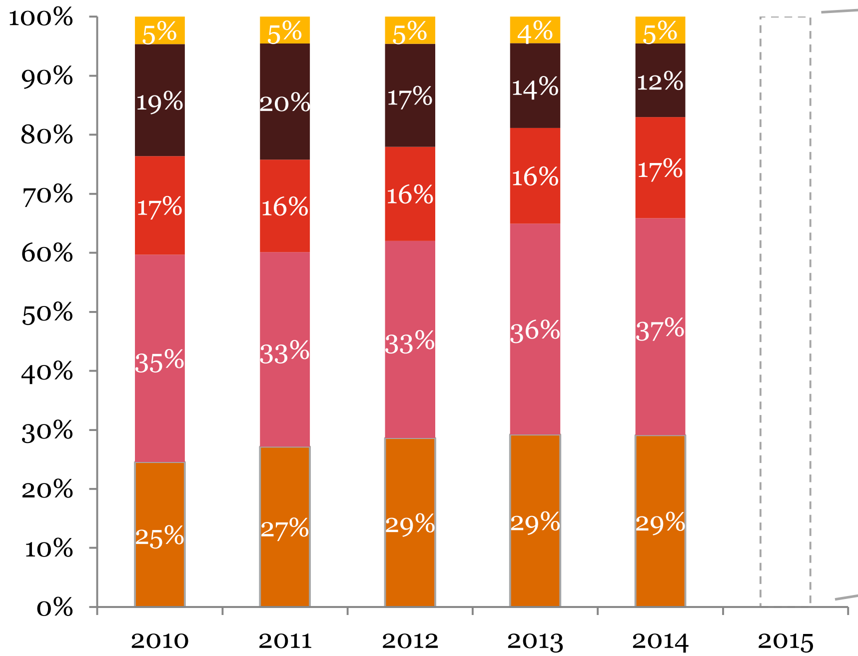


- In June 2015, the European fund market had not reversed its negative trend in terms of product numbers
- UCITS IV and V regulation including documentation requirements are two of the main reasons of this contraction
- Product consolidation in the asset management industry

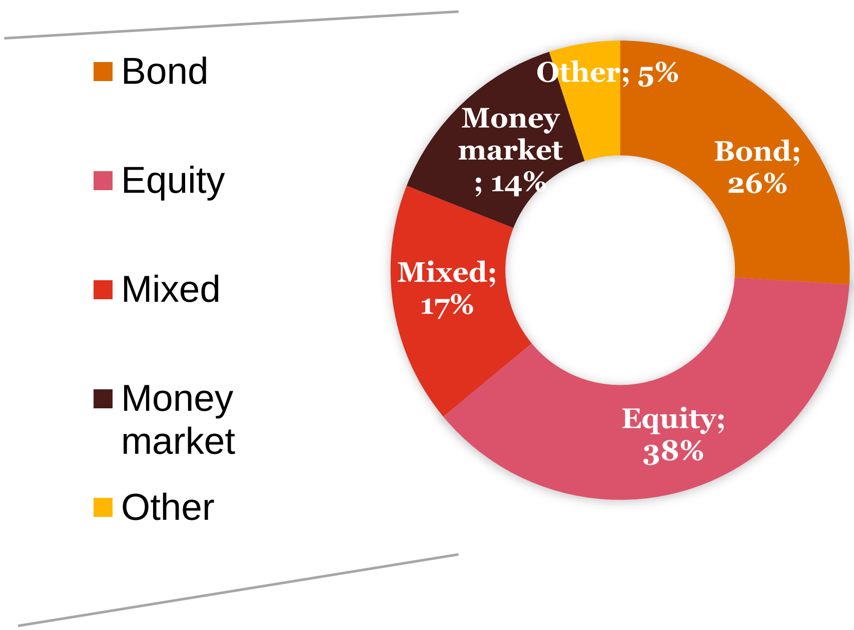
Source: PwC GFD Lux

Equity funds are the main investment type of UCITS in Europe, representing 38% of net assets

Evolution of net sales by asset class in Europe (UCITS and non-UCITS)

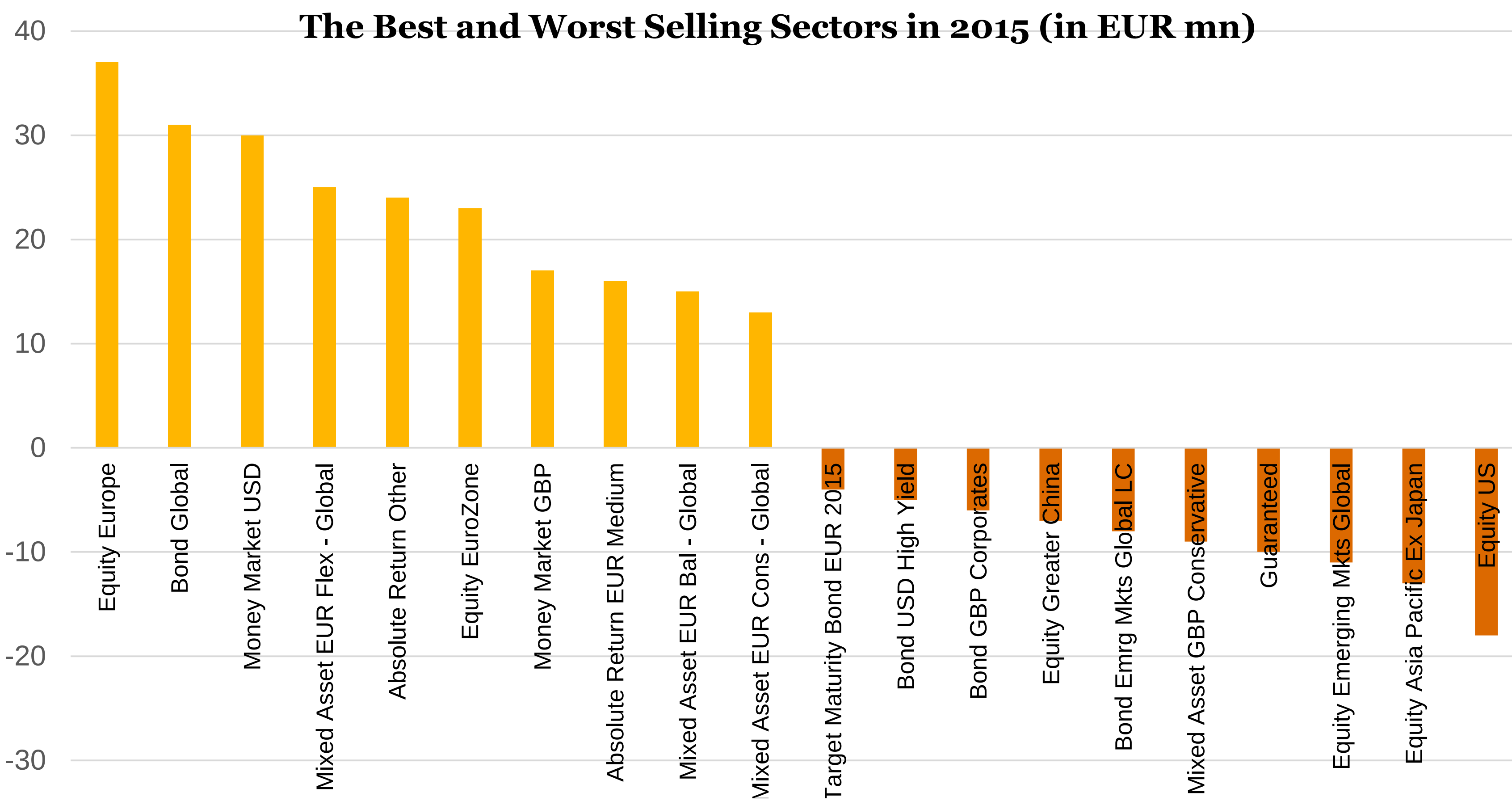


Market Share per Asset Type by AUM (31.12.2015)



Source: PwC GFD Lux

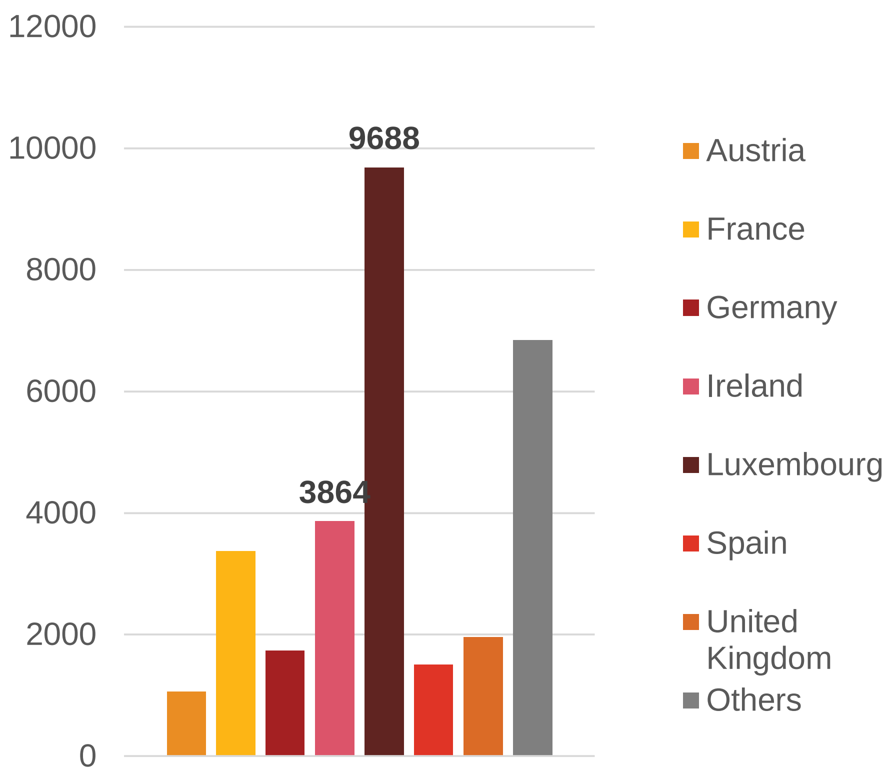
Europe equity funds are the most sold in Europe in 2015



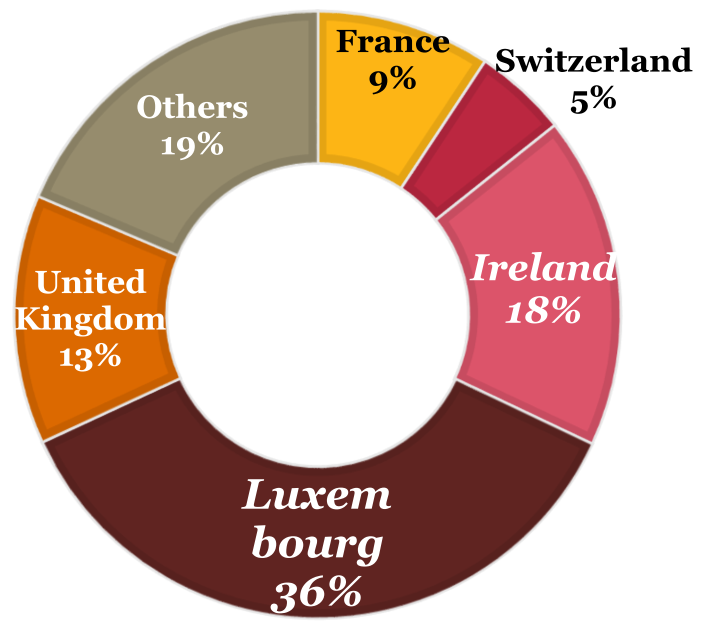
Source: PwC GFD Lux

UCITS funds are domiciled in 28 European countries, the largest being Luxembourg and Ireland

UCITS in Europe – number of funds

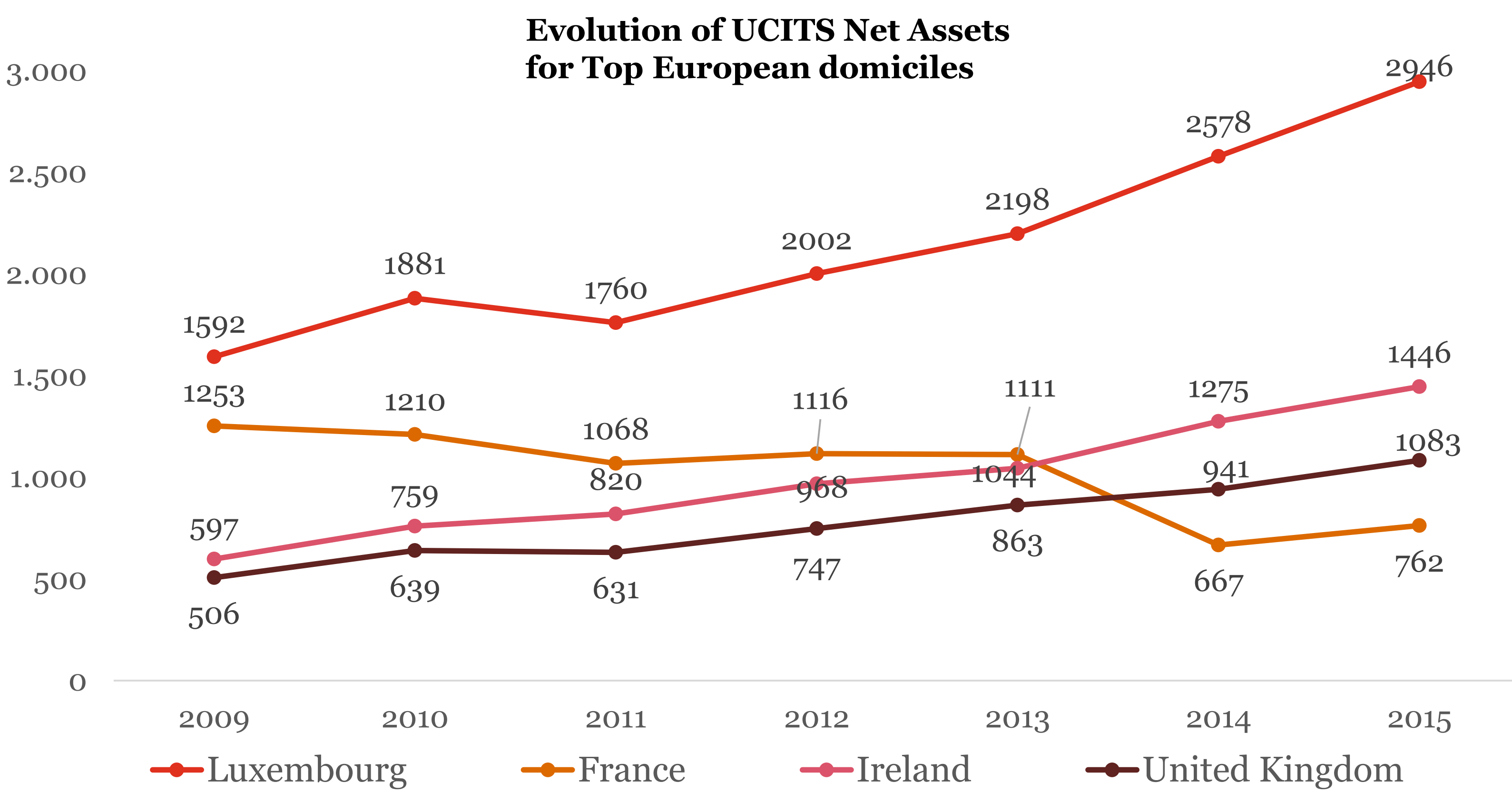


UCITS in Europe – net assets



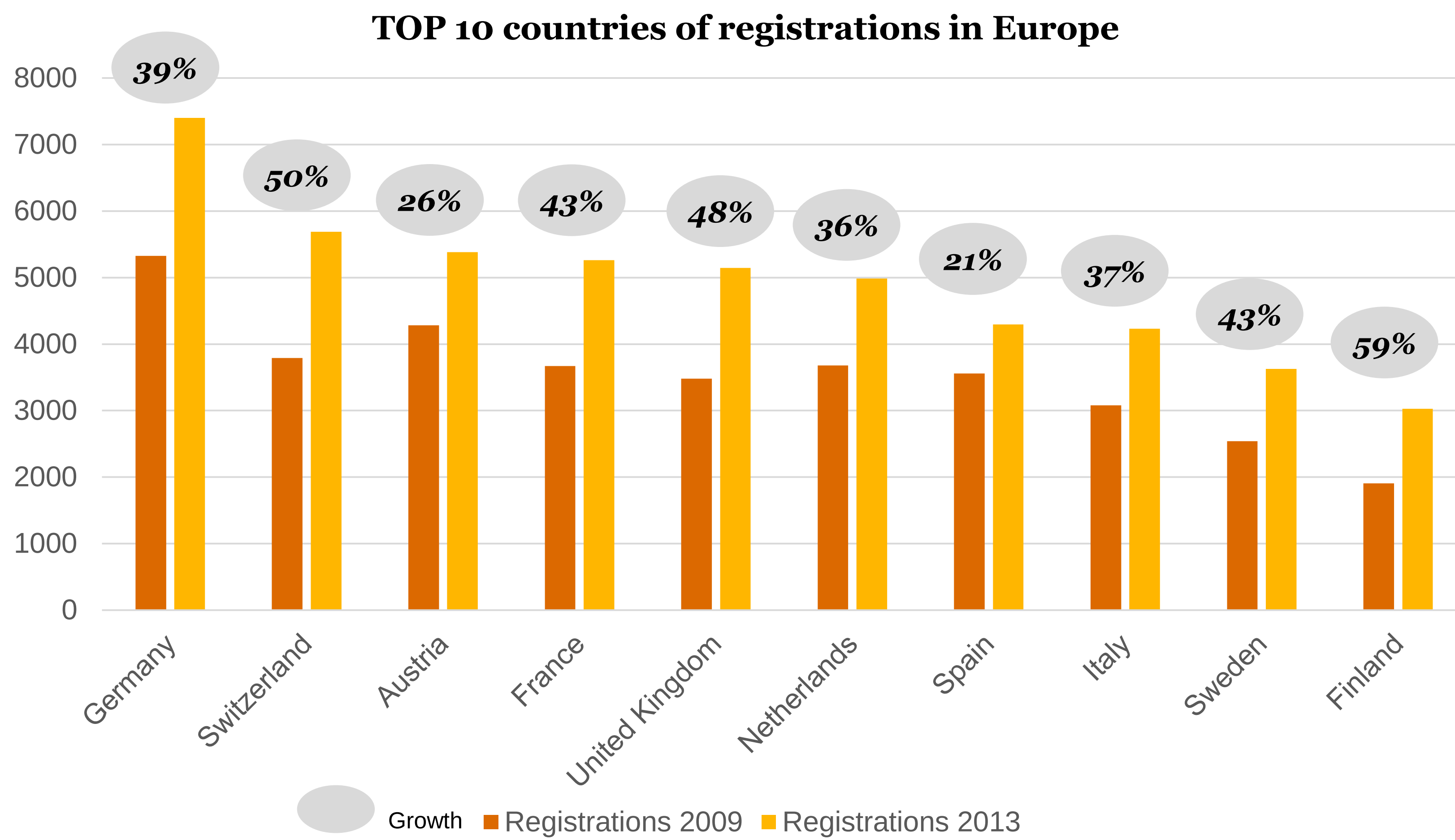
Source: EFAMA – Q4 2015

Luxembourg and Ireland held 53% of European UCITS market in a upward growth



Source: PwC GFD Lux

Looking at Europe all of the top ten countries have had over 20% growth since 2009 in registrations

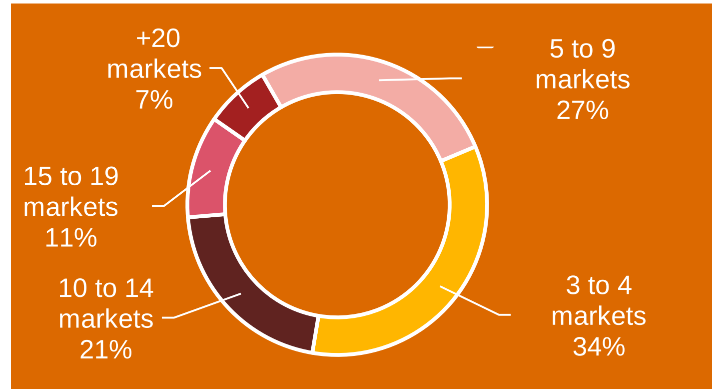


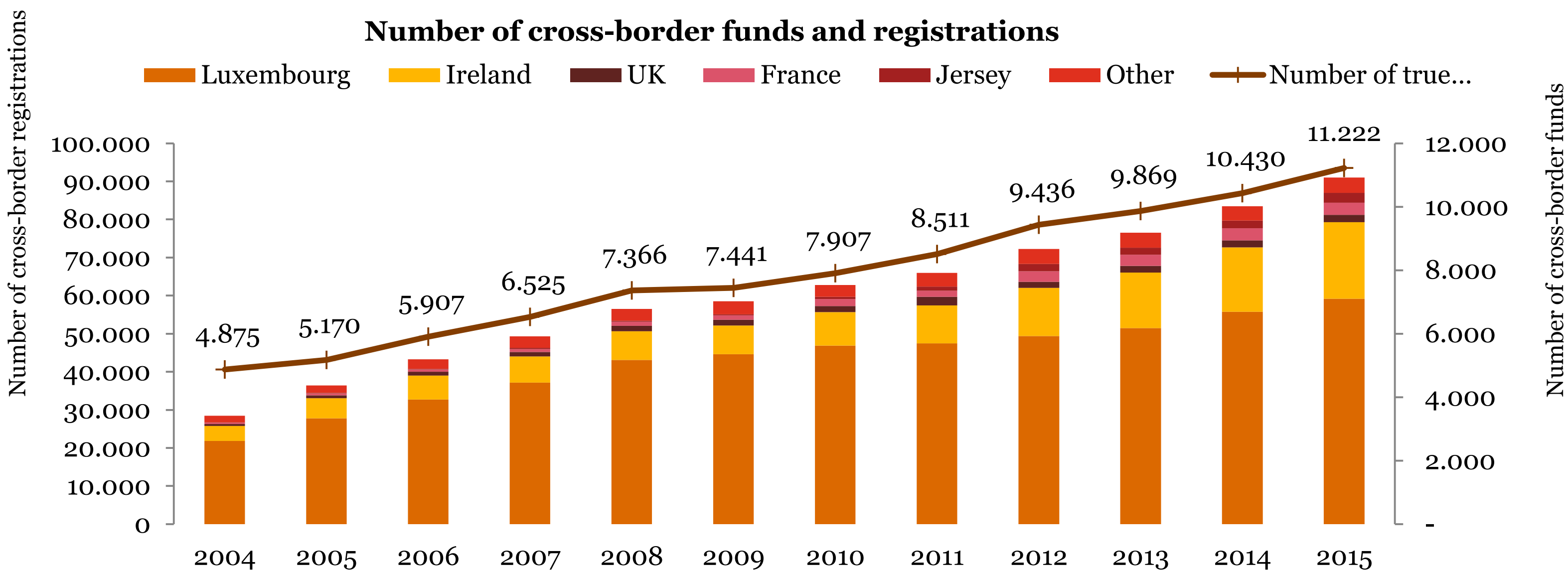
Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014

Cross-border fund has been a strong driver of growth in the asset management industry

A fund is composed of sub-funds and according to its scope of registration (depending on the commercial strategy of the client), they are then distributed in various countries (EU and/or Non-EU).

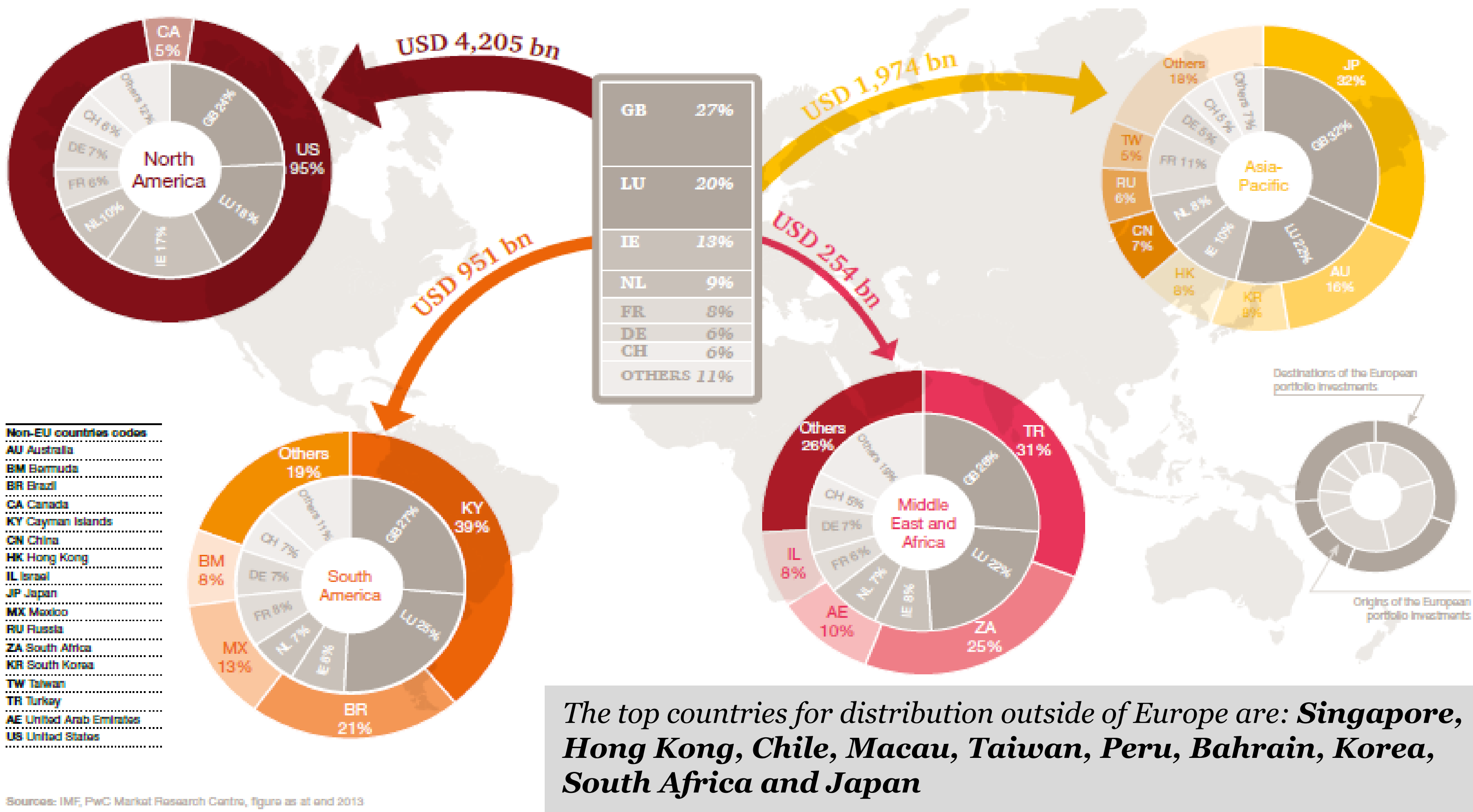
Considered funds thar are distributed in more than 3 countries, including their domicile





Source: PwC – Benchmark your Global Fund Distribution 2016

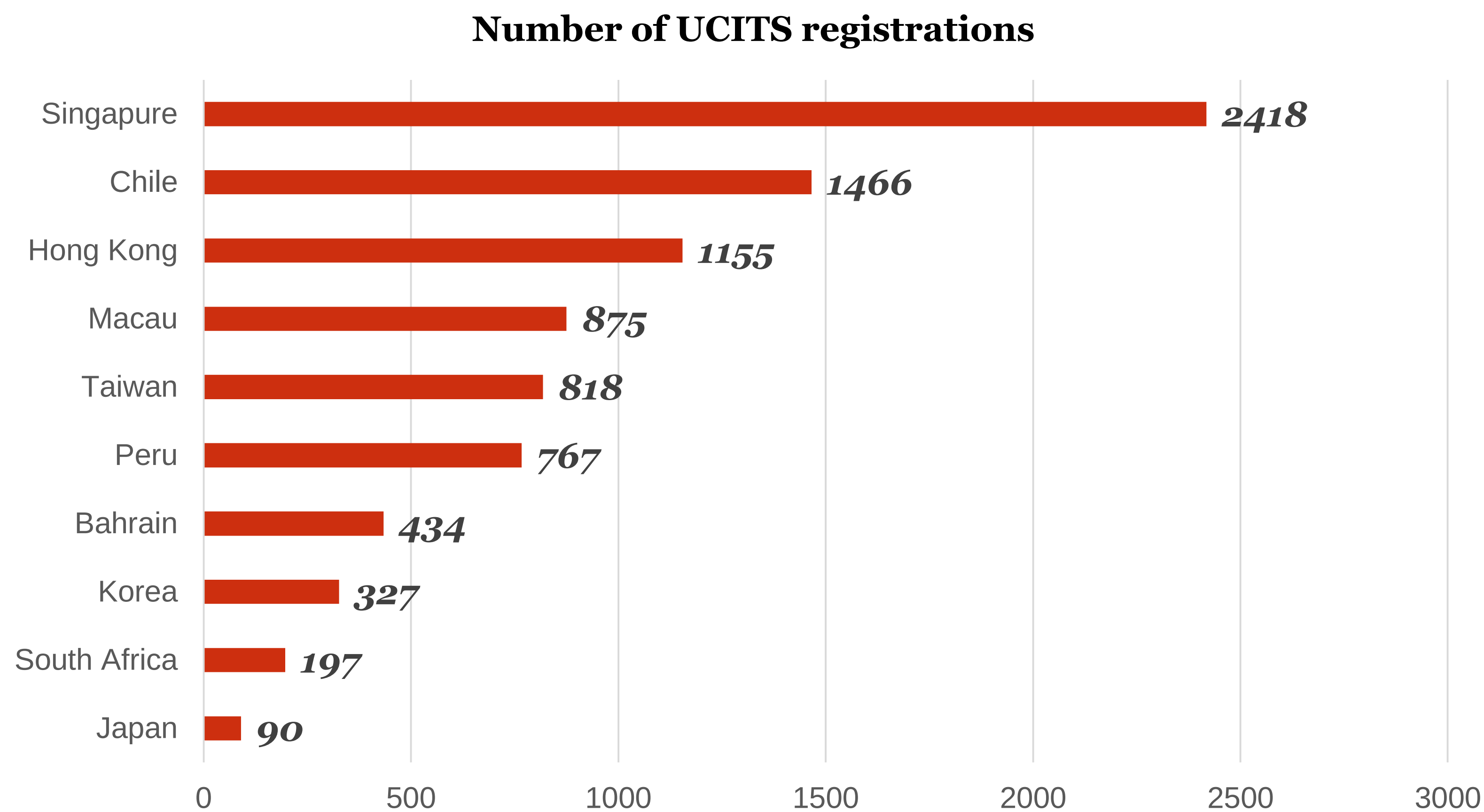
European investments outside Europe represented USD 7.4 billion



The top countries for distribution outside of Europe are: ***Singapore, Hong Kong, Chile, Macau, Taiwan, Peru, Bahrain, Korea, South Africa and Japan***

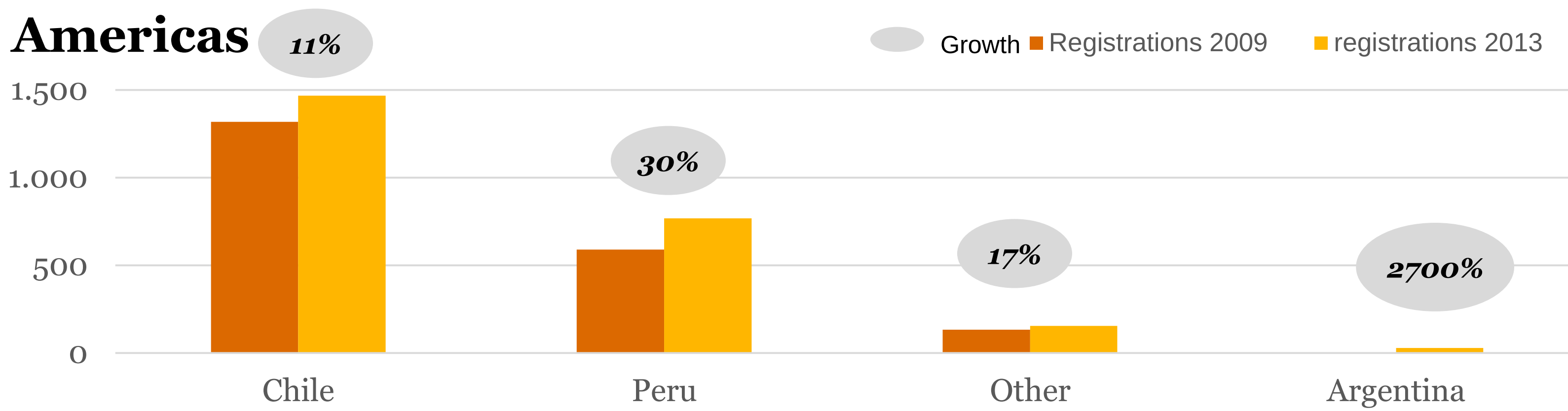
Source: PwC European Institutional Investors

The top countries for UCITS distribution outside of Europe are focused on Asia

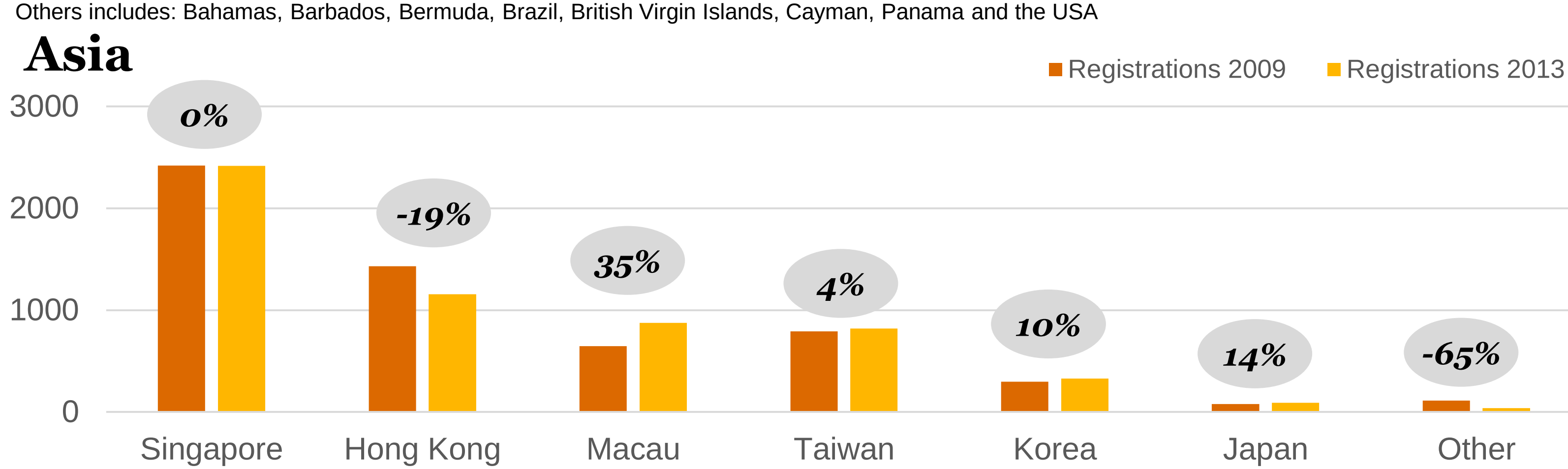


Source: PwC 2014 Ireland UCITS infographic

In Americas, Chile has the most representative number of UCITS: 1.466 registrations



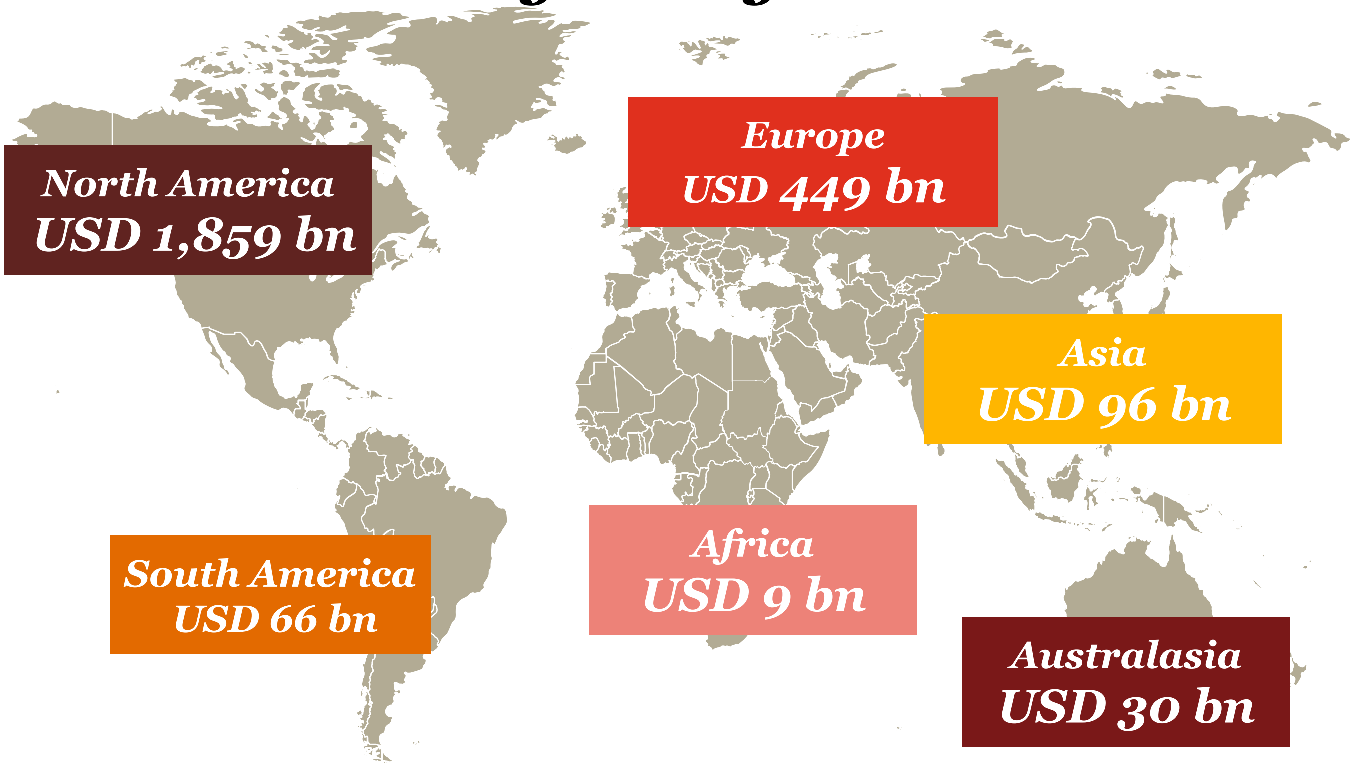
Others includes: Bahamas, Barbados, Bermuda, Brazil, British Virgin Islands, Cayman, Panama and the USA



Others includes: Austrália, Brunei, Cook Islands and New Zealand.

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014

The hedge funds industry is the most representative for AIFs, with Europe representing the second largest region

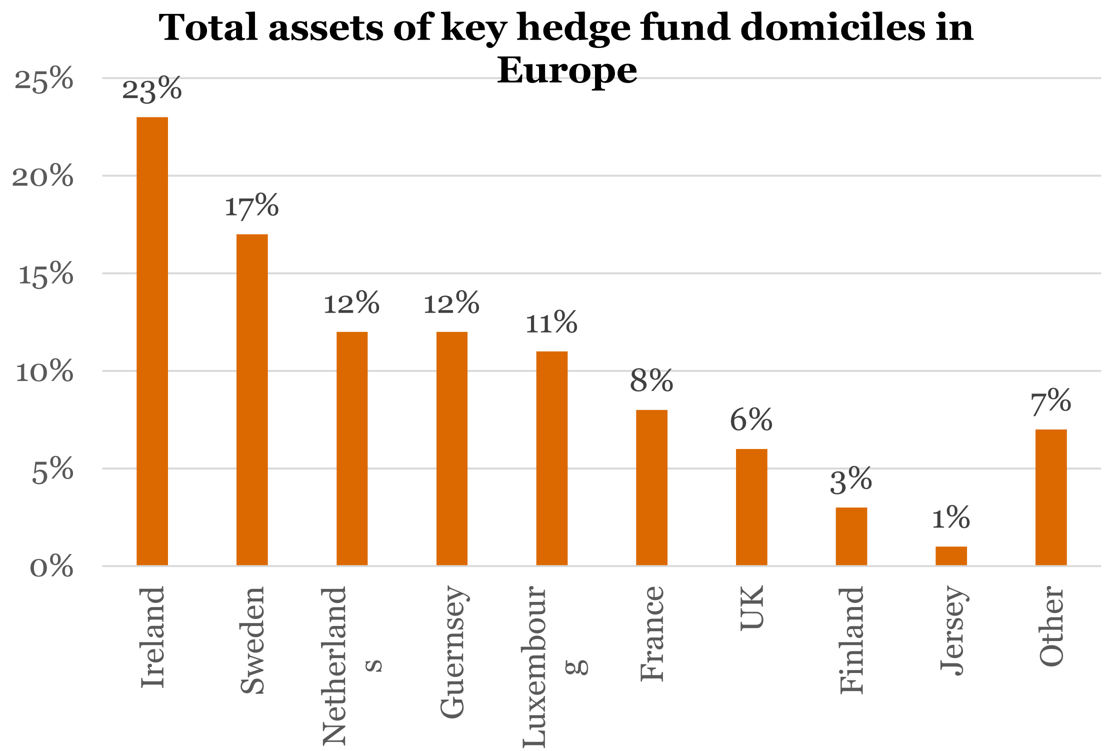


The alternative investment funds industry is very different to the mutual funds industry – it includes hedge funds, private equity, venture capital and real estate funds.

Hedge funds are sold mainly on a private placement basis to professional investors and high net Worth individuals.

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014

The top key domiciles for hedge funds within Europe are Ireland and Sweden



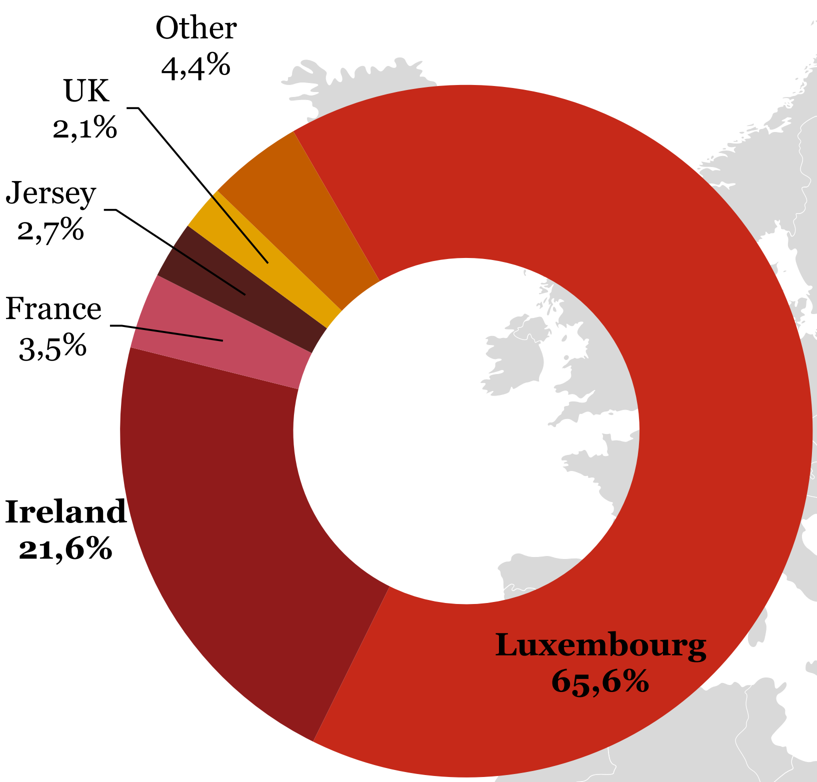
Key domiciles for hedge funds outside of Europe are the US, Cayman, Australia and Brazil.

Other: Austria, Belgium, Cyprus, Denmark, Germany, Gibraltar, Greece, Isle of Man, Italy, Liechtenstein, Macedonia, Malta, Monaco, Poland, Portugal, Spain and Switzerland

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014

Luxembourg and Ireland are the top countries of cross border distribution

Domicile Share of Cross border distribution



Top 5 destinations of leading fund domiciles

Luxembourg

Registrations in:

Germany	4,856
Switzerland	4,333
Austria	4,252
France	3,679
United Kingdom	3,406

Ireland

Registrations in:

United Kingdom	2,066
Germany	1,870
Switzerland	1,509
France	1,480
Netherlands	1,421

Source: PwC – Benchmark your Global Fund Distribution 2016 Data base: 31 December 2015 – Considered UCITS and AIFs

Why Luxembourg is highlighted as the top domicile country?

Luxembourg

Tradition

- Worldwide recognition of **UCITS brand "Made in Luxembourg"**
- Experienced and recognized **service providers** are already established in Luxembourg
- Long-standing **experience** in multi-location fund administration

Infrastructure

- Efficient & reliable **fund infrastructure**
- **Large offer** of fund structures beyond UCITS

Tax and Regulation

- Business **fr**iendly **political and tax environment** which welcomes promoters, management companies and investment funds
- Favourable **tax and social security environment**
- Sophisticated but pragmatic **legal and regulatory framework**

People

- Highly skilled and multi-lingual **workforce** with high productivity

Economical Stability

- Very low **country risk**
- Luxembourg public finances are healthy with a minimal deficit and government debt (after assessing national stimulus plans), which constitutes the best guarantee for **fiscal stability**

Location

- Ideal strategic position at the **heart of Europe & high standard of living**: 70% of the EU's wealth is concentrated in a 700km area around Luxembourg

Source: PwC – Luxembourg, your location of choice

Luxembourg: the largest investment fund centre after the US

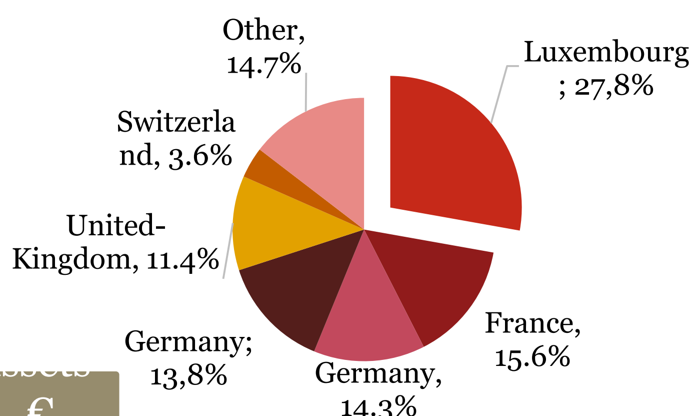
Luxembourg is the second investment fund centre in the world after the United-States and the first investment fund centre in Europe.

Luxembourg dominates the European market with a 27.8% market share. The French and German centres are mostly domestic markets while Luxembourg is a cross-border market.

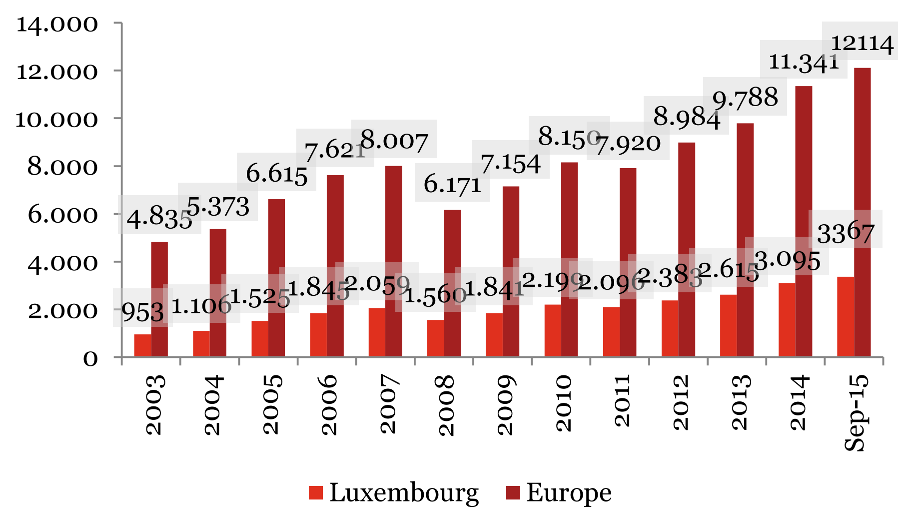
While Luxembourg domiciled investment funds were affected by the crisis in 2008 and a downturn in 2011, they quickly recovered.

Luxembourg funds reached ***a record high of EUR 3.1 trillion in assets at year-end 2014****. This represents* ***3,905 registered funds in 2014.***

Market shares of the European investment fund industry



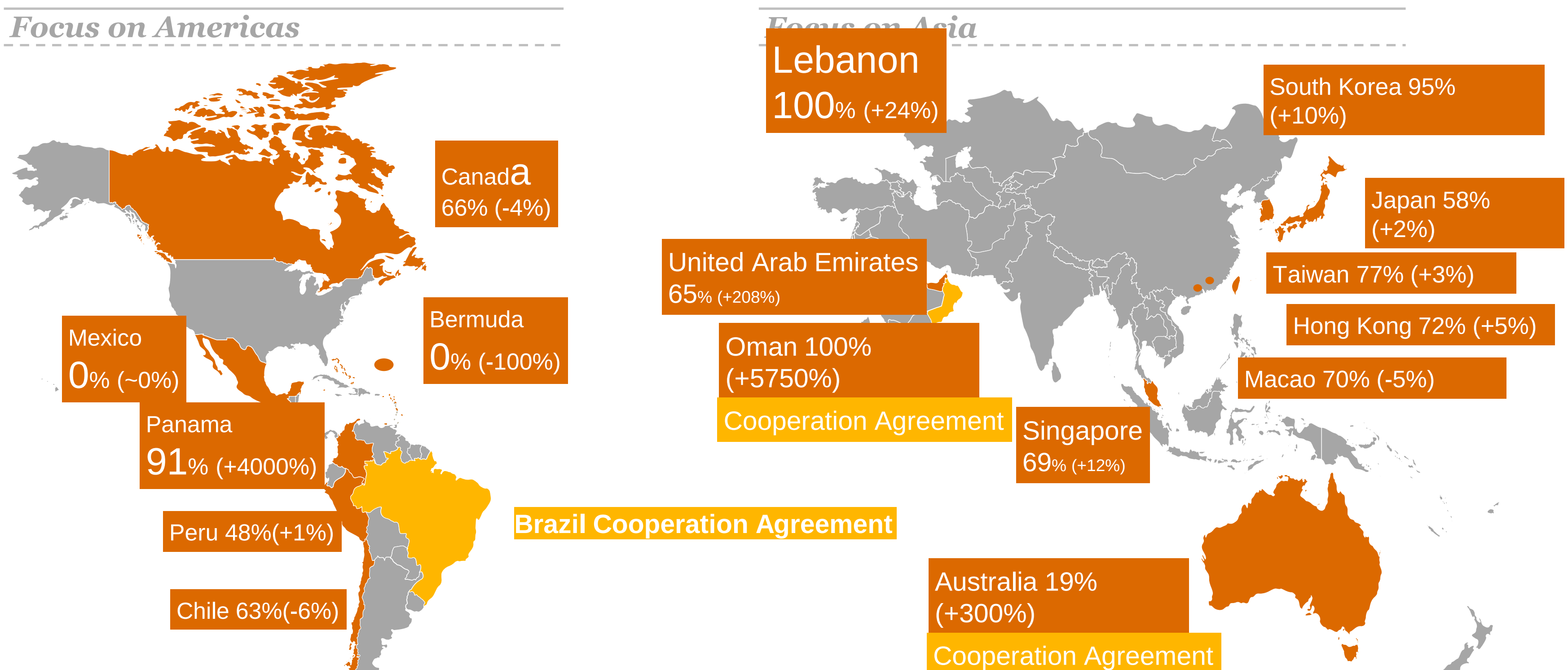
Investment funds assets in Europe and in Luxembourg (in EUR billion)



Source: PwC GFD Lux

Luxembourg is world's number one fund domicile for cross-border fund distribution

Worldwide registrations of Luxembourg funds (Dec 2014)



Inter-state arrangement for facilitating the cross-border offering of collective investment schemes.

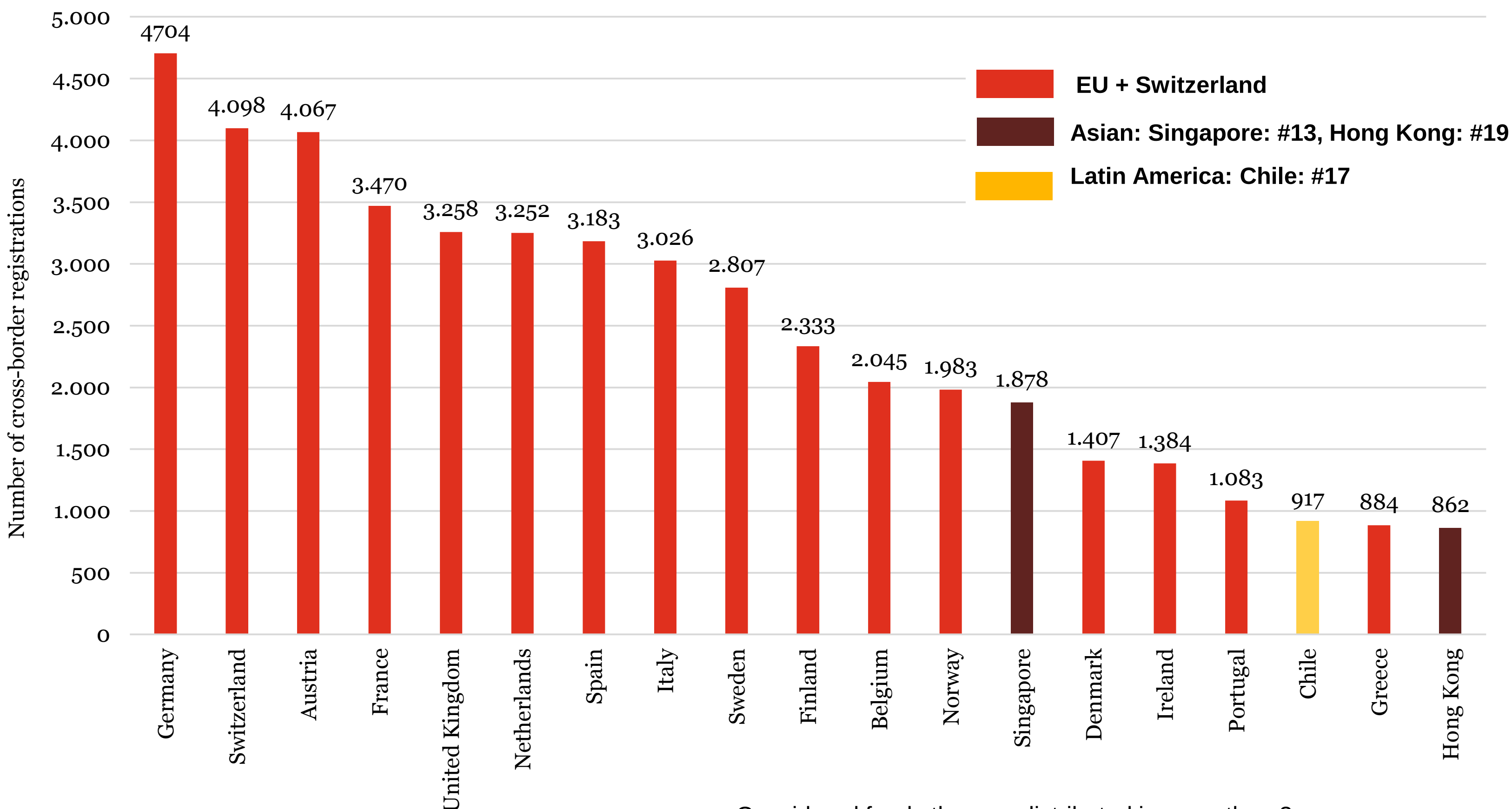
% Registrations of Luxembourg cross border funds as percentage of total cross border funds registrations in each Market
(%) Percentage change in the number of Luxembourg cross border fund registrations between 2013 and 2014.

Cooperation Agreement
Cross-border registrations of Luxembourg funds

Source: PwC – Luxembourg: your location of choice - 2016

Top countries of distribution for Luxembourg cross-border funds outside Europe are Singapore, Chile and Hong Kong

Number of registrations by country as of 2014 – Luxembourg cross-border funds

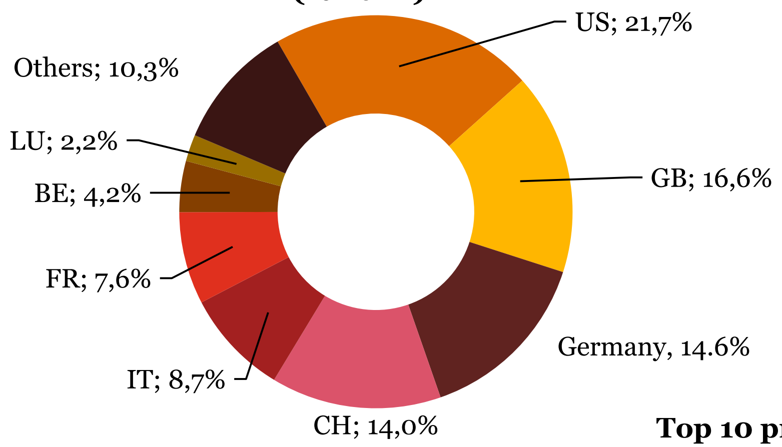


Source: PwC GFD Lux

Considered funds thar are distributed in more than 3 countries, including their domicile

In 2014, the top ten Luxemburg promoters managed more than EUR 1.1 trillion in assets

Share of origin of the promoters of Luxembourg funds (%AuM)



- Luxembourg's fund promoters are mainly from the US (21.7%), the UK (16.6%), Germany (14.6%) and Switzerland (14%);
- The **US promoters**, such as JP Morgan, Franklin Templeton and Black Rock, **hold the largest share**;
- Germany is represented by Deutsche Bank / DWS in the top ten, with AuM of EUR 161.6 billion;
- Supervision regarding risk management is strong and the range of product covered is particularly wide.
- The global knowledge and skills of risk managers has increased during the last years.

Top 10 promoters by AuM

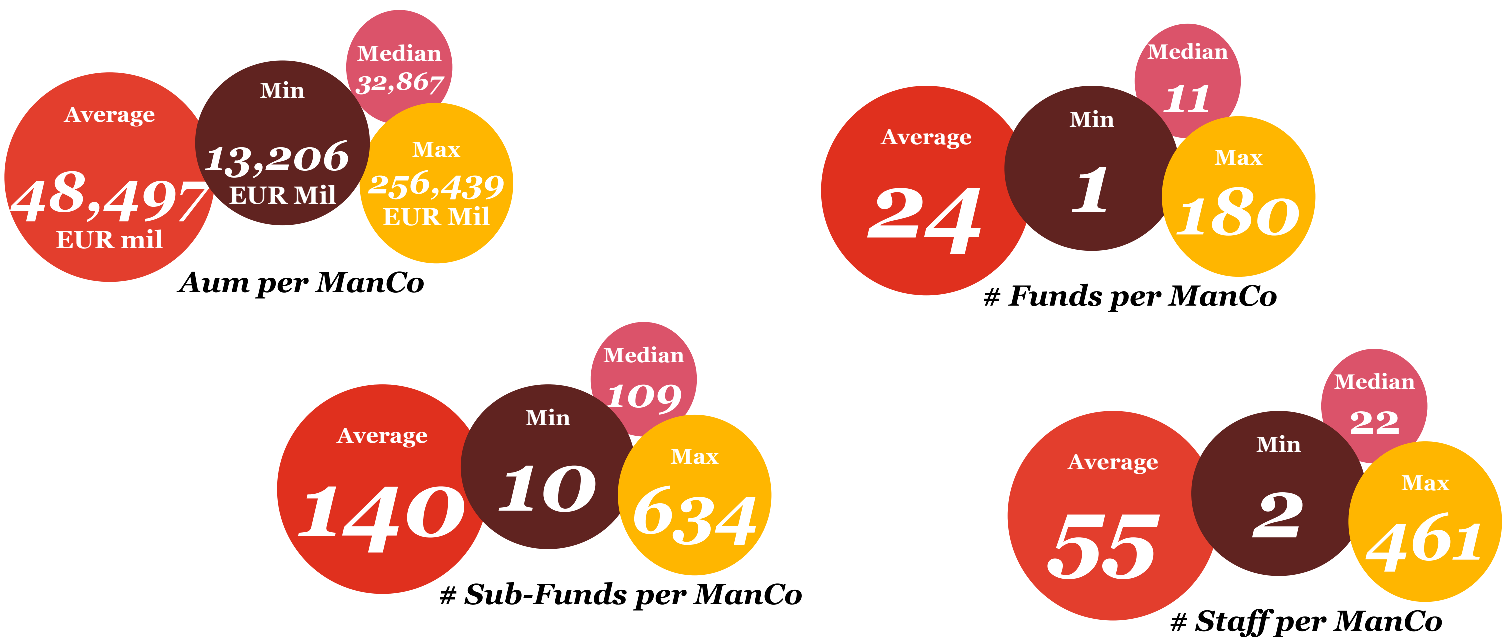
Promoter	Origin	# of sub-funds	AuM (EUR bn)
JPMorgan	US	180	223,933
Deutsche Bank/DWS	Germany	613	161,610
Franklin Templeton Investments	US	105	133,150
BlackRock Financial Management	US	109	120,241
UBS	Switzerland	357	108,216
Schroders	UK	162	90,273
Fidelity Investments	US	166	85,770
BNP Paribas	France	437	84,091
Pictet Funds	Switzerland	263	81,859
Pioneer Investments	US	244	74,166

Source: PwC GFD Lux end 2014

The Management Company (ManCo): the main institution for UCITS management in Luxembourg

A Luxembourg UCITS set up as a common fund ('FCP') must be managed by a ManCo. A UCITS investment company (e.g. SICAV) must also appoint a ManCo, unless it has designated itself as a self-managed investment company. UCITS ManCos are in charge of the investment management, administration and marketing of UCITS. Under the current law of 17 December 2010 on undertakings for collective investment, as amended, a UCITS, its ManCo and its custodian bank must be located in the same EU Member State and all three are subject to the legislation and supervision of that Member State. However, since July 2011, under the management company passport portion of the new UCITS IV legislation, UCITS may be managed by a ManCo authorized and supervised in another EU Member State. This offers very specific opportunities for existing ManCos in the EU as well as for ManCos still to be created.

Key statistics for Top 50 ManCo

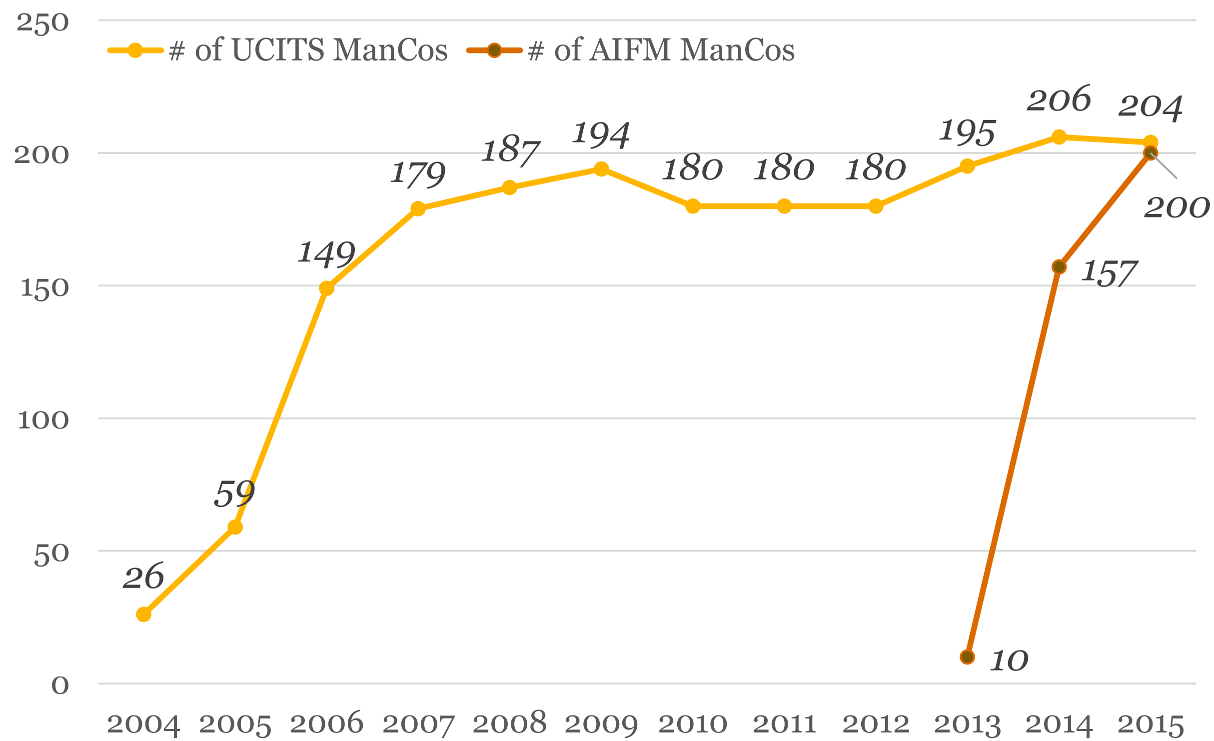


Source: PwC – Observatory for Management Companies – 2016 Barometer

In the last 10 years the number of UCITS ManCos increased almost 2.5 times

There are already 200 ManCos for AIFM, confirming a huge success following the transposition of the AIFM Directive into Luxembourg Law in July 2013

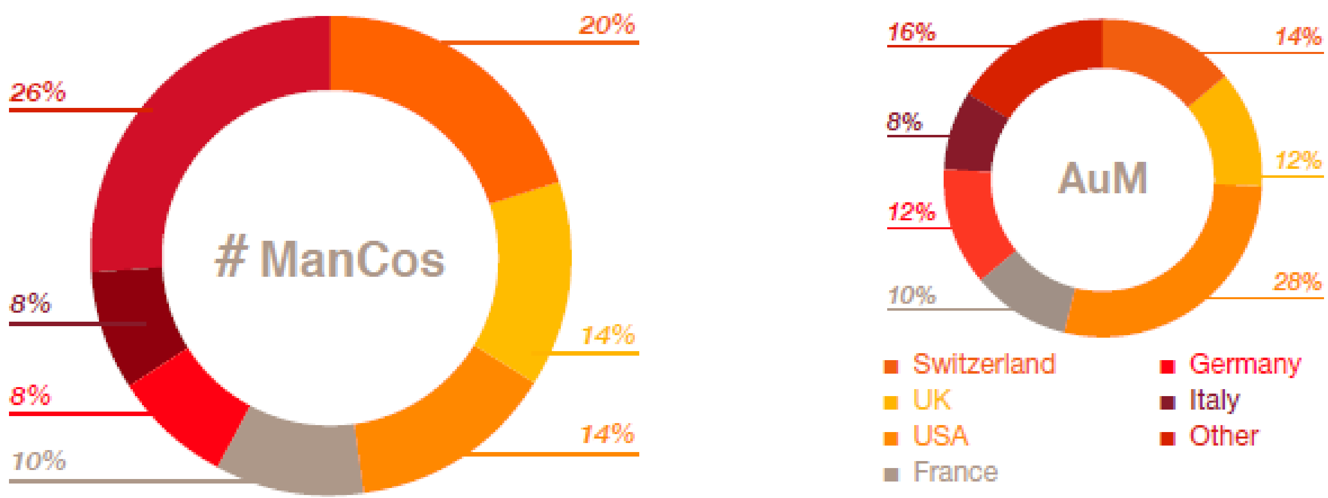
Evolution of # of UCITS ManCos and AIFM ManCos in Lux



Source: PwC – Observatory for Management Companies – 2016 Barometer

Key figures on UCITs ManCos

Origin of Top UCITs ManCos



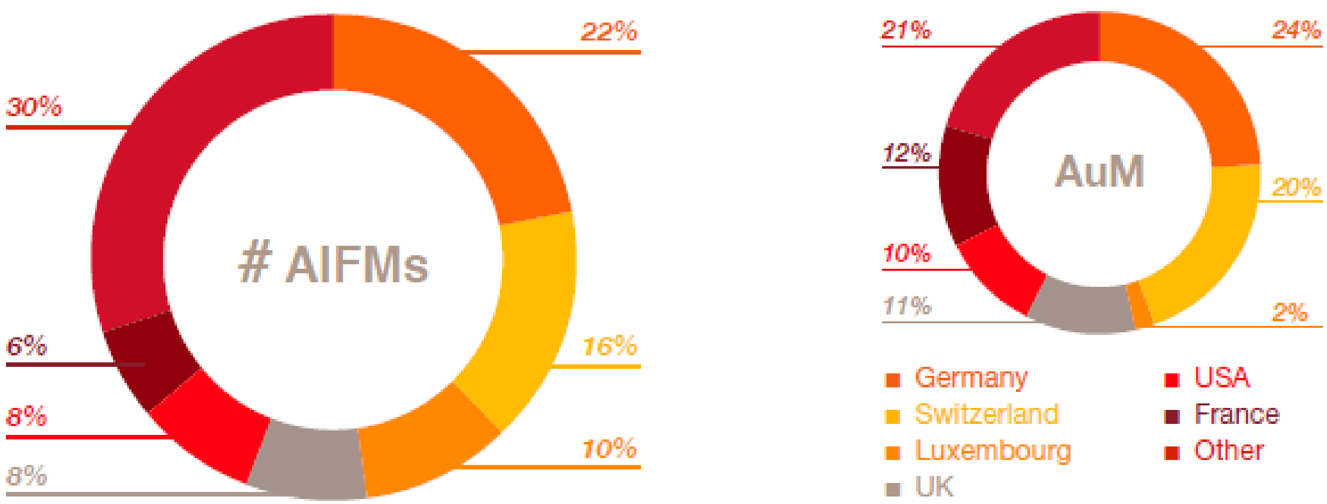
Sources: PwC analysis, Fundsquare (December 2015), CSSF Official List (2015), Company Latest Financial Statements

The number of ManCos with an AIFM license grew from 169 to 200 in 2015, confirming a huge success following the transposition of the AIFM directive into Luxembourg Law in July 2013. On the ManCo's side, 86% of the new entrants in 2015 were AIFMs. More than half of existing AIFM ManCos have originated from Switzerland, Germany and France, based on their AuM, while UCITS ManCos come mainly from the USA, UK and Switzerland.

Source: PwC – Observatory for Management Companies – 2016 Barometer

Key figures on AIFM ManCos

Origin of Top AIFM ManCos



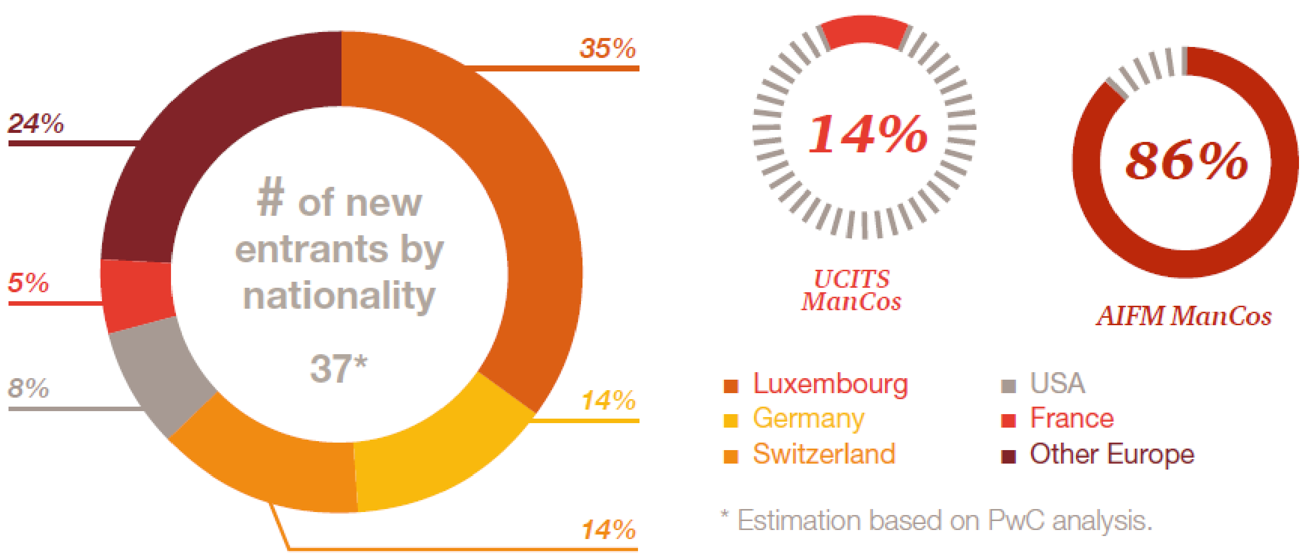
Sources: PwC analysis, Fundsquare (December 2015), CSSF Official List (2015), Company Latest Financial Statements

Concerning licensing, 85% of the Top 20 UCITS ManCos also have an AIFM license. On the other hand, 89% of the Top AIFM ManCos also have a UCITS license. Of the Top Third Party ManCos, 100% have both a UCITS and an AIFM license: on average, they manage EUR 20,026 million, which corresponds to an increase of 19% compared to 2014.

Source: PwC – Observatory for Management Companies – 2016 Barometer

In 2015, 37 new ManCo starts operating in Luxembourg, and 86% of the new entrants were AIFMs

ManCo - New entrants by nationality in 2015



Source: PwC – Observatory for Management Companies – 2016 Barometer

JPMorgan, Deutsche and BlackRock are the main UCITS ManCos (1/2)

Top 20 UCITS ManCos in Lux
31 December 2015 (million EUR)

ManCo	Sum of Dec-2015	Variation to Dec-2014	Sum of # of funds Dec-2015	Variation of # of funds to 2014	Sum of # of subfunds Dec-2015	Variation of # of subfunds to Dec-2014	Foreign Branch	UCITS License	AIFM License	Aditional Authorisation
JPMorgan Asset Management (Europe)	**256.439**	14%	10	-1	178	-2	√	√	√	
Deutsche Asset & Wealth Management Investment	**166.501**	67%	124	4	634	315		√	√	√
Blackrock (Luxembourg)	**133.888**	26%	3	0	101	7		√	√	
Franklin Templeton International Services	**114.030**	-14%	5	-1	102	-1		√	√	
UBS Fund Management (Luxembourg)	**107.186**	16%	27	0	263	9		√	√	
Schrodar Investment Management (Luxembourg)	**100.149**	11%	9	0	165	6	√	√	√	
FIL Investment Management (Luxembourg)	**98.105**	14%	9	0	177	10		√	√	
BNP Paribas Investment Partners Luxembourg	**80.832**	7%	28	-3	291	-69		√	√	
Pictet Asset Management (Europe)	**79.081**	12%	9	-2	106	-7		√	√	
Pioneer Asset Management	**74.496**	19%	14	0	156	7		√	√	

Source: PwC – Observatory for Management Companies – 2016 Barometer

JPMorgan, Deutsche and BlackRock are the main UCITS ManCos (2/2)

Top 20 UCITS ManCos in Lux
31 December 2015 (million EUR)

ManCo	Sum of AuM 12/2015	Variation to 12/2014	Sum of # of funds Dec-2015	Variation of # of funds to 2014	Sum of # of subfunds Dec-2015	Variation of # of subfunds to Dec-2014	Foreign Branch	UCITS License	AIFM License	Aditional Authorisation
Eurizon Capital	**62.140**	28%	20	-11	216	-13		√		√
Nordes Investment Funds	**60.379**	26%	9	0	109	6	√	√	√	
Deka International	**53.975**	1%	124	-3	224	-22		√	√	
Union Investment Luxembourg	**51.597**	9%	180	-2	195	1		√	√	√
Invesco Management	**47.575**	24%	2	0	67	8		√	√	
AXA Funds Management	**47.415**	4%	14	0	118	-3		√	√	
AllianceBernstoin (Luxembourg)	**46.840**	-4%	18	3	103	9	√	√	√	
Amundi Luxembourg	**45.073**	4%	8	0	118	-2		√	√	
NN Investment Partners Luxembourg	**43.617**	1%	13	-2	154	-12		√	√	√
Robeco Luxembourg	**38.325**	8%	5	0	63	6		√		

Source: Company information, CSSF Official List (2015), Fundsquare (2014-2015), Company Latest Financial Statements, PwC Analysis

More than half of existing AIFM ManCos have originated from Switzerland, Germany and France

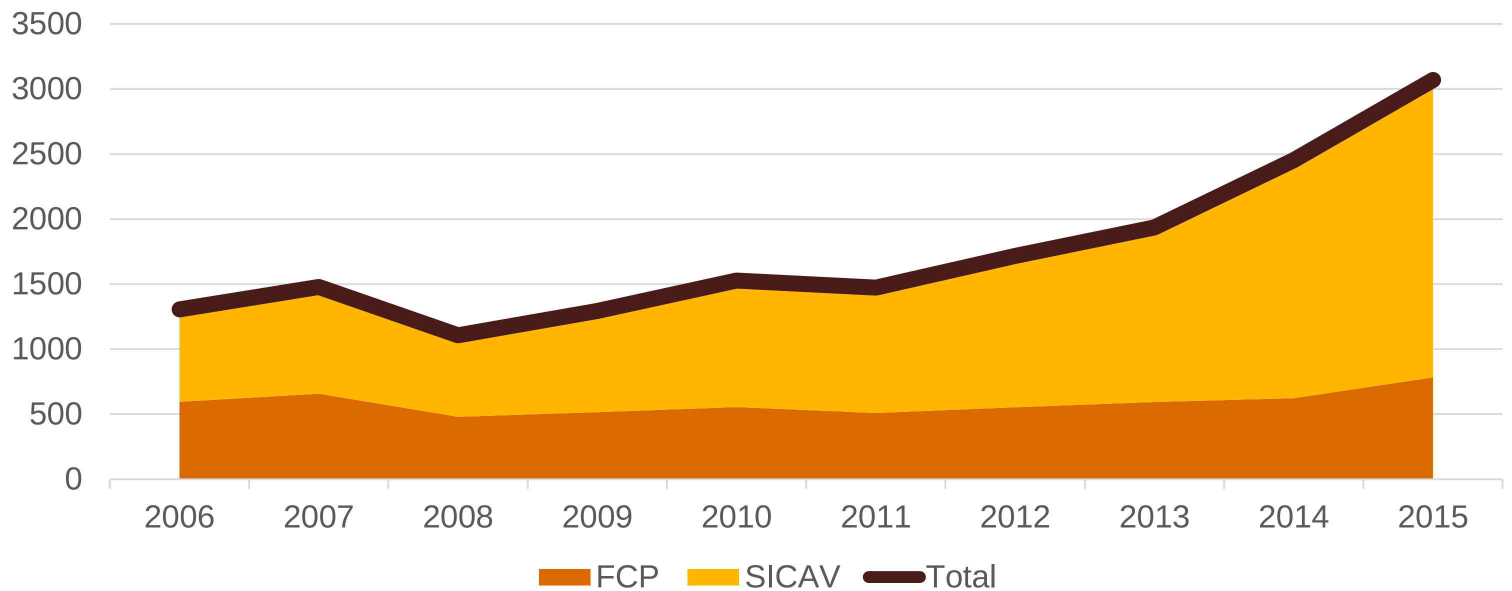
Top AIFM ManCos in Lux
31 December 2015 (million EUR)

ManCo	Sum of AuM 12/2015	Variation to 12/2014	Sum of # of funds Dec-2015	Variation of # of funds to 2014	Sum of # of subfunds Dec-2015	Variation of # of subfunds to Dec-2014	Foreign Branch	UCITS License	AIFM License	Additional Authorisation
Deka International	**26.459**	2%	42	-2	116	-20		√	√	
Cadelux	**16.076**	100%	3	3	12	12		√	√	
Pictet Asset Management (Europe)	**15.660**	-8%	6	-2	26	-10		√	√	
Universal-Investment-Luxembourg	**15.588**	25%	34	-3	39	-8		√	√	
KBC Asset Management	**13.853**	9%	10	1	251	-11		√	√	
Global Funds Management	**12.240**	-6%	19	-1	30	-1			√	
MUGC Lux Management	**10.943**	28%	41	-6	67	-3		√	√	
Fundpartner Solutions (Europe)	**10.823**	11%	44	2	252	49		√	√	
Deutsche Asset & Wealth Management Investment	**10.754**	-24%	25	2	37	12		√	√	√

Source: Company information, CSSF Official List (2015), Fundsquare (2014-2015), Company Latest Financial Statements, PwC Analysis

The trend towards the growth of average AuM per ManCo is confirmed by the decline of self-managed SICAVs

ManCo: Evolution of AuM (FCP/SICAV) managed by UCITS ManCos (in billion Euros)



Source: PwC – Observatory for Management Companies – 2016 Barometer

Why Ireland is highlighted as the second top domicile country?

Ireland

Tax
- 12.5% corporate tax rate and extensive double tax treaties
- Attractive investment and financing platforms

People
- Highly skilled and educated workers, youngest worksforce in Europe
- Globally experienced sênior mangement

IP + R&D benefits
- Attractive Intellectual Property (IP) and holding company regimes
- 25% Research and Development (R&D) tax credit plus R&D grants

Costs
- Increased cost competitiveness
- One of the lowest inflation rates in the EU

Business environment
- Free movement of goods ans services in EU
- English speaking and member of EU/Eurozone

Location
- Access to over 500 million consumers in Europe...and beyond
- Connect to the US and Asia in the same day

Source: http://www.pwc.ie/fdi

Ireland is a centre of excellence for UCITS products and became the first EU country to implement AIFMD

UCITS

€ 1 trillion
...of UCITS assets located in Ireland

3.000
...the number of Irish UCITS funds approved for cross border distribution

70
...the number of countries where Irish UCITS are distributed

AIFs

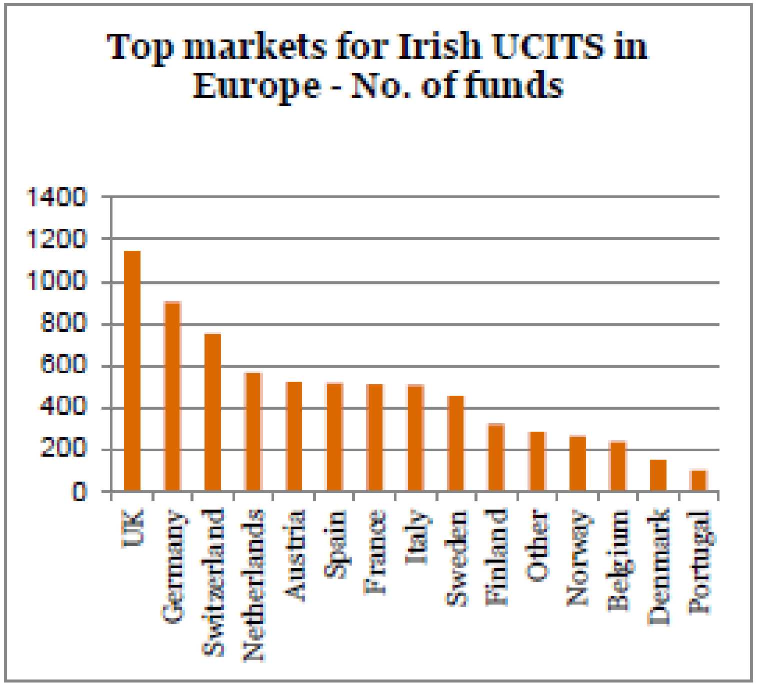
40% of the global hedge funds are serviced in Ireland making it the largest hedge fund administration centre in the world

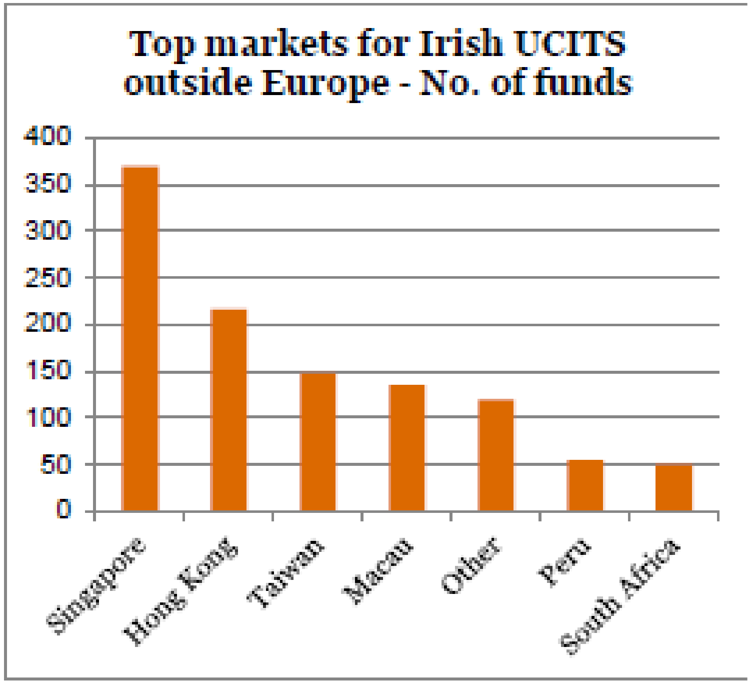
50% of the top 10 European hedge fund managers have set up hedge funds in Ireland

$ 200 bn
is the total amount of Irish domiciled hedge fund assets

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014

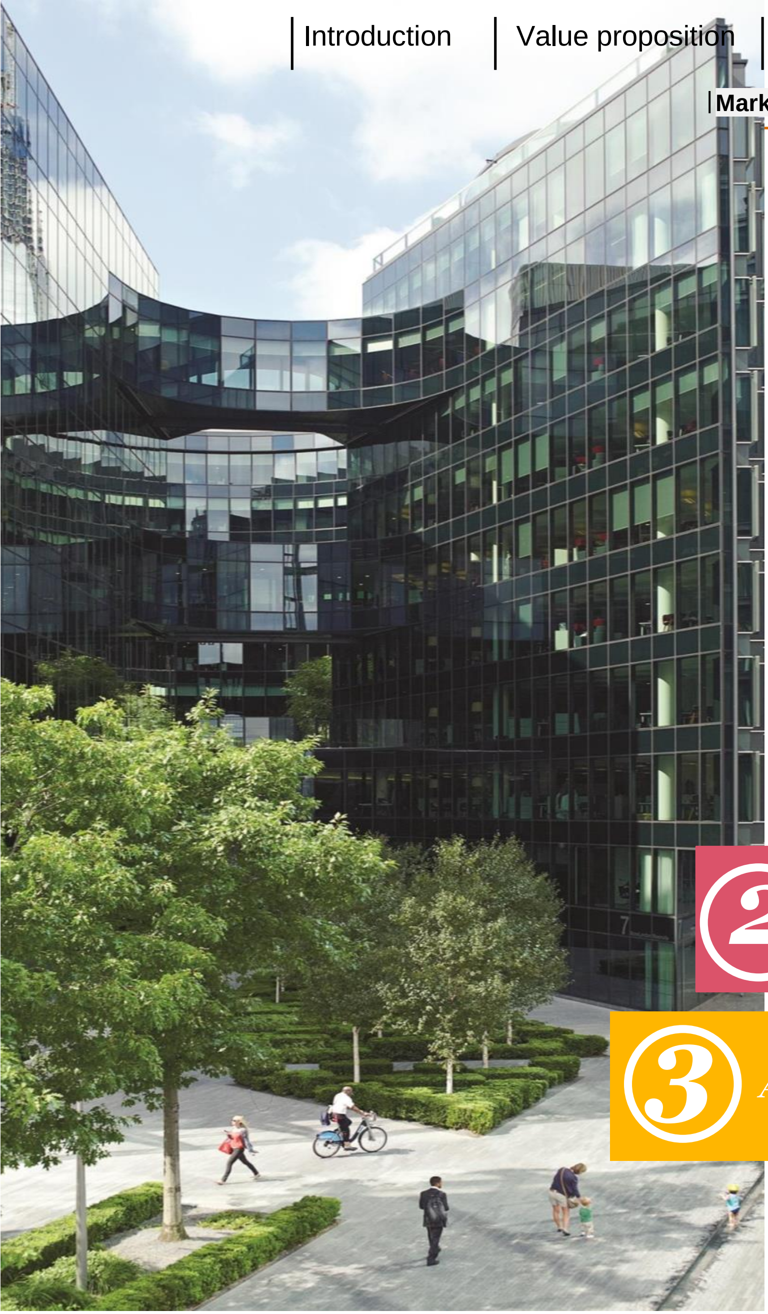
Irish domiciled funds are distributed to a large number of countries across Europe and outside Europe





Other countries in Europe include: Czech Republic, Cyprus, Estonia, Iceland, Isle of Man, Guernsey, Greece, Hungary, Isle of Man, Jersey, Latvia, Liechtenstein, Lithuania, Malta, Monaco, Pland and Slovakia.
Other countries outside Europe include: Australia, Bahamas, Bahrain, Canada, Cayman Islands, Chile Japan, Korea, Mexico, New Zealand, Panama, Turkey, United Arab Emirates and the USA.

Source: PwC - Distributing our Knowledge - Fund distribution: UCITS and Alternative Investment Funds (AIFs) - 2014



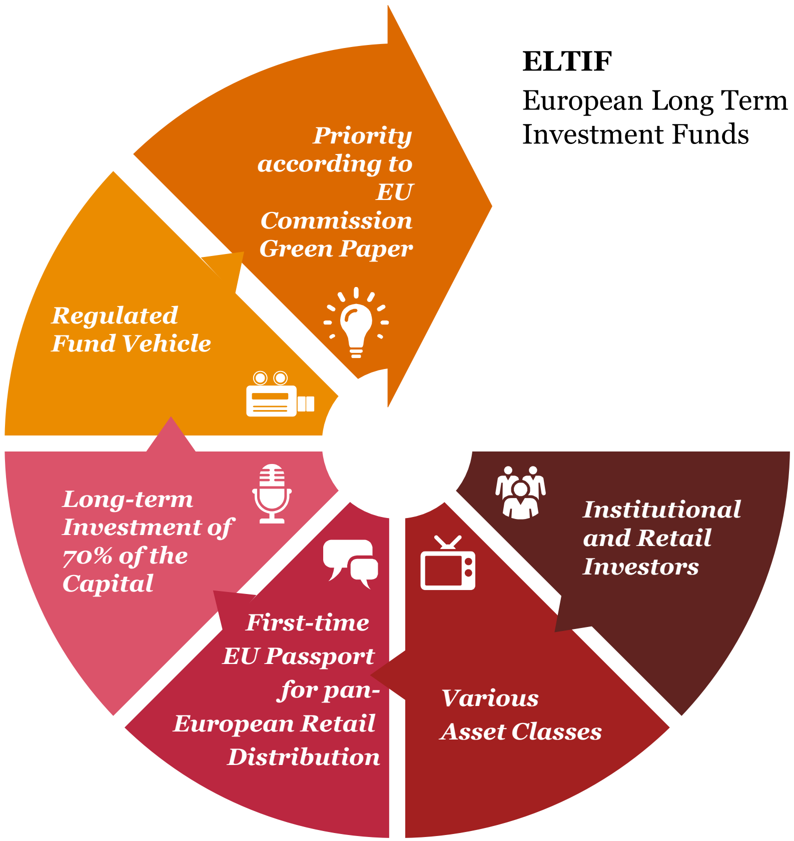
The ELTIF represents a milestone in the development of the cross-border European long-term funds business

The European long-term investment fund (ELTIF) is a pan-European regime for Alternative Investment Funds (AIF) that may invest in long-term from assets such as small and medium-sized businesses to the development and operation of social and public infrastructure.

1. *ELTIFs must appoint a fully authorised AIFM*
2. *ELTIFs can raise capital from institutional and retail investors across the EU and the EEA with the EU passport (AIFMD rules)*
3. *Any AIF can apply for the ELTIF regime*
4. *Closed-ended structure, redemptions not possible during ELTIF's life-time, exceptionally after five years or ELTIF's half-life point for a defined amount*

Fonte: ALFi guideline - **The European long-term investment fund (ELTIF)**

The ELTIF creates a harmonised EU regime for public private partnership (PPP) investments into SMEs and infrastructure



ELTIF
European Long Term Investment Funds

Financial Vehicle corresponding to the Europe 2020 Strategy
Contribution to the implementation of the political objective: high level of employment and smart, sustainable growth

Regulated Fund Vehicle,
Which provides with long-term and stable returns and pursues a long-term investment strategy

70% of the capital
Shall be invested in more or less clearly-defined long-term assets

EU AIF (with EU-AIFM) has
Retail-Distribution Passport

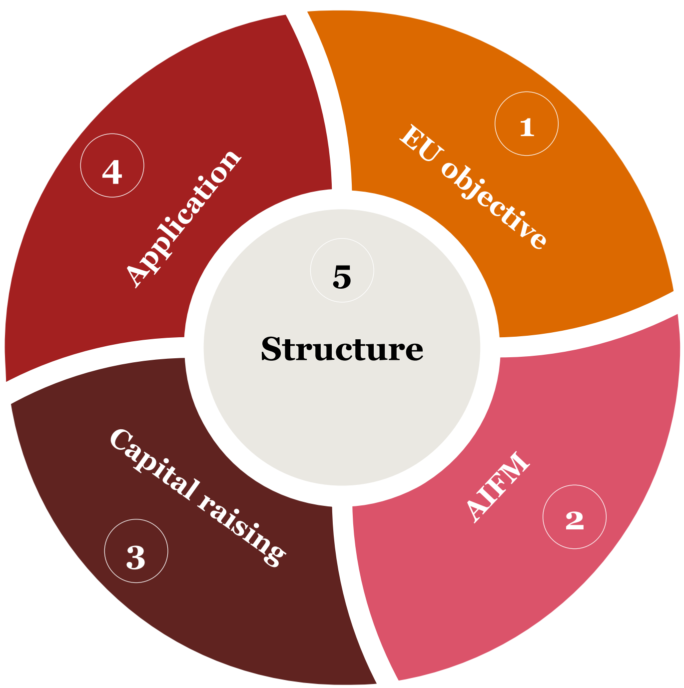
Various Asset Classes
(Private Equity, Infrastructure, specific Real Estate), as well as listed SMEs, participations, debt instruments, other ELTIF, EuVECA or EuSEF, risk diversification rules

Institutional and Retail Investors
Retail investors with a portfolio of up to EUR 500.000 shall not invest an aggregate amount exceeding 10% of their portfolio in ELTIFs. Initial amount not less than EUR 10.000. Written alert for ELTIF whose lifecycle exceeds 10 years: “may not be suitable for retail investors”.

Fonte: ALFi guideline - **The European long-term investment fund (ELTIF)**

In order to pursue its Europe 2020 strategy the EU identified long-term finance as one crucial element to implement the strategy

To foster long-term finance the EU created the European long-term investment fund. An ELTIF is designed to provide finance of lasting duration to various infrastructure projects, unlisted companies, or listed SMEs that issue equity or debt instruments.



1. Raising capital towards European long-term investments in the real economy, in line with the European objective of **smart, sustainable** and **inclusive growth.**
2. ELTIFs must appoint a fully authorised AIFM
3. ELTIFs can raise capital from institutional and retail investors across the EU and the EEA with the EU passport (AIFMD rules)
4. Any AIF can apply for the ELTIF regime
5. Closed-ended structure, redemptions not possible during ELTIF's life-time, exceptionally after five years or ELTIF's half-life point for a defined amount

Fonte: ALFi guideline - **The European long-term investment fund (ELTIF)**

An ELTIF must invest at least 70 % of its capital in eligible investment assets within a maximum of five years of authorisation

Concentration and Diversification

Type of assets	Generic rule (per issuer/single asset)	Specific rule	Aggregate
Qualifying portfolio undertakings (mainly unlisted companies)	10%	20%	
Real assets	10%	20%	
Units or other ELTIFs, EuVECA and EuSEFs[(1) (2)]	10%	-	20%
SMEs	-	-	-
eligible assets for UCITS	5%	-	-

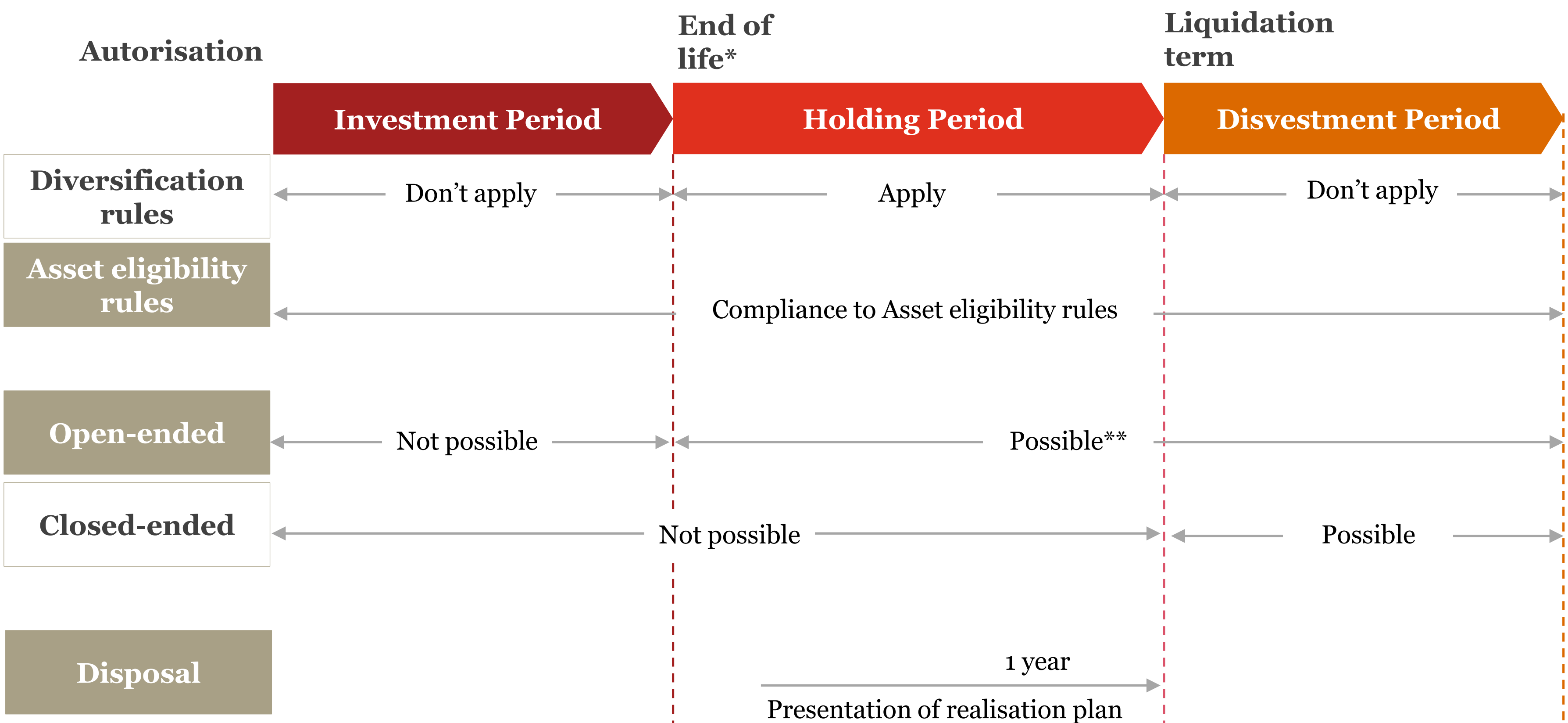
(1) EuVECA - European Venture Capital Funds
EuSEFs - European Social Entrepreneurship Funds
SMEs - small and medium-sized businesses

(2) An ELTIF cannot acquire more than 25% of the units or shares of a single ELTIF, EuVECA, or EuSEF.

% of ELTIF capital

Fonte: ALFi guideline - **The European long-term investment fund (ELTIF)**

Investors in ELTIFs cannot request the redemption of their units before the fund's end of life



* Defined in the documentation. Extension possible if provided for in documentation
** In Accordance with documentation

Fonte: ALFi guideline - **The European long-term investment fund (ELTIF)**

www.pwc.com

Operating Model

An investment fund is a vehicle that allows a number of unrelated investors to make investments together

Multiple investors *Pooled money* *Collectively invested*

"...an investment fund is a structure/vehicle that gives investors access to a well-diversified portfolio of equities, bonds and other securities. Each shareholder participates in the gain or loss of the fund..."

There are two basic types of funds in Luxembourg: UCITS and AIFs

Type of funds in Luxembourg

UCITS:
Undertaking for Collective Investment in Transferable Securities

Part I funds (based on EU directive, passport system across EU member states, offered to public, open-ended)

AIF:
Alternative Investment Fund

All investment funds that are not already covered by the European Directive on Undertakings for collective investment in transferable securities (UCITS). This includes hedge funds, funds of hedge funds, venture capital and private equity funds and real estate funds.

Source: http://www.alfi.lu/setting-luxembourg/alternative-investment-funds-0

In principle, a collective investment vehicle that does not qualify as a UCITS is designated as an AIF

UCITS

Undertaking for Collective Investment in Transferable Securities

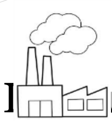
Product Passport

AIF

Alternative Investment Fund

All investors including retail investors

Investors



I uti

sophisticated investors + Domestic retail investors

Listed securities, derivatives, other UCITS, money market instruments

Investment policy

All asset classes - Traditional and alternative investment policy

Source: PwC Lux

Luxembourg laws specifies different legal structures for UCITS and AIFs

UCITS	AIFs		
UCITS	***UCI***	***SIF***	***SICAR***
UCITS stands **for *Undertakings for Collective Investment in Transferable Securities***. The concept originally derived from the European Directive 85/611/EC, replaced by European Directive 2009/65/EC dated 13 July 2009, which provides a single regulatory regime across the European Union for open-ended funds investing in transferable securities such as shares and bonds.	An ***Undertaking for Collective Investment (UCI)*** established under Part II of the Law of 2010 is an investment fund that does not invest in transferable securities and they are not under the UCITS rules. For example, the UCI structure applies to funds that invest in futures and options contracts and mainly Real Estate. UCIs are also distributed to the retail public.	With the implementation of the AIFMD Directive (Law of 12 July 2013 in Luxembourg), a new structure was regulated: the ***Specialized Investment Fund (SIF)***. Comparing to Part II UCI, the SIFs are specific to qualified and institutional investors, present greater flexibility in investment policy and regulatory standards. Infrastructure funds generally fits in this type of AIF structure.	***SICAR*** (***investment company in risk capital***) is a structure designed for private equity and venture capital. There are no rules of diversification, no restrictions on loans or leverage.

Level of supervision

UCITS and UCIs are regulated by the Law of 2010 of Luxembourg, and SIFs and SICARs by the Law of July 2013.

Source: PwC Lux

Basic characteristics for UCITS, UCI, SIF and SICAR (1/3)

	UCITS	AIFs		
	Part I UCITS	**Part II UCIs**	**SIF**	**SICAR**
European passport	Yes for UCITS	Yes for AIF		
Eligible investors	All types		Well-informed investors only	
NAV frequency	At least twice a month	At least once a month	At least once a year	
Risk Management	Regulated function based on CSSF Circular 11/512	The risk management activities are not covered by CSSF Circular 11/512		
Eligible assets	Restricted to: TS, investment funds, FDI, bank deposits and MMI compliant with art. 41 of the 2010 Law	Unrestricted Prior approval of the investment objective and strategy by the CSSF		Restricted to assets in securities representing risk/venture capital or RE under certain conditions

Source: PwC Lux

Basic characteristics for UCITS, UCI, SIF and SICAR (2/3)

	UCITS	AIFs		
	Part I UCITS	**Part II UCIs**	**SIF**	**SICAR**
Diversification	Max. 5/10/20/40% NAV	Max. 10% NAV (1)	Max 30% of the assets/commitments in securities of the same type issued by the same issuer (1)	Flexible
Concentration	Max. 10%: significant influence	Max. 10% (2)	Flexible	Flexible
Unlisted securities	Max. 10% NAV	Max. 10% NAV (3)		
Borrowing	Max. 10% NAV	Max. 25% NAV		
Short sales	Forbidden	Flexible		
Derivatives	Max. 100% on global exposure Max. 5/10% counterparty risk Max leverage: notional	Flexible Max leverage: gross and commitment	Qualitative & quantitative limits on the counterparty of OTC derivatives may be applied. Flexible for the other risks Max leverage: gross & commitment	Only for hedging purpose Max leverage: gross & commitment Max leverage: gross & commitment

Source: PwC Lux

Basic characteristics for UCITS, UCI, SIF and SICAR (3/3)

	UCITS	AIFs		
	Part I UCITS	**Part II UCI**	**SIF**	**SICAR**
Investment purpose	Collective investment in transferable securities and/or in other liquid financial assets	Collective investment in assets	Collective investment in assets	Collective investment in assets
Target investor	Retail investors / Professional investors	Professional investors / Retail also possible	Restricted to well-informed investors (incl. Professional investors)	Restricted to well-informed investors (incl. Professional investors)
Risk profile	Operate on the principle of risk-spreading	Operate on the principle of risk-spreading	Operate on the principle of risk-spreading	Operate on the principle of risk-spreading
Eligible assets (Investment restrictions)	Detailed restrictions	Detailed restrictions	General risk diversification requirements	General risk diversification requirements
Supervision by CSSF	Regulated	Regulated	Regulated	Regulated
Audit requirement	• Audit required • Long Form Report (CSSF Circular 02/81)	• Audit required • Long Form Report (CSSF Circular 02/81)	• Audit required • No LFR required	• Audit required • No LFR required
Supervisory reporting requirements	1) Monthly reporting 2) Audited annual report 3) Unaudited semi-annual report	1) Monthly reporting 2) Audited annual report 3) Unaudited semi-annual report	1) Monthly reporting 2) Audited annual report	1) Monthly reporting 2) Audited annual report
Net Asset Value frequency	Twice a month	Once a month	Once a year	Once a year
Net Asset Value error	NAV error guidance exists (CSSF Circular 02/77)		No Guidance	No Guidance

Source: PwC Lux

Eligible investments and investment restrictions for UCITS framework (1/2)

Type of asset	Global limits by type of assets	Individual limits by type of assets		
		Generic rule	Specific rule	Government bonds
Transferable securities (shares and bonds)	100%	10%	25%	35%
Money market instruments	100%	10%	10%	35%
Bank deposits *	100%	20%	20%	-
UCITS	100%	20%	-	-
Other UCIs	30%	20%	-	-
Financial derivative instruments	100%	5% / 10%	10%	-
Ancillary liquid assets	49%	-	-	-

Combined total exposure per issuer

Max 20%	Max 35%	Max 35%

*only if foreseen by investment policies in prospectus

Source: PwC Lux

Eligible investments and investment restrictions for UCITS framework (2/2)

Permitted holding as a percentage of the securities in issue

Type of instruments	Limits to be checked at sub-fund level
No voting shares of the same issuer	10%
Debt instruments of the same issuer	10%
Units/shares of the same UCITS/other UCI	25%
Money market instruments of the same issuer	10%

Other key limits

UCITS are not allowed to grant loans or act as a guarantor for third parties
UCITS may borrow the equivalent of up to 10% of their assets provided that the borrowing is on a temporary basis
UCITS may not acquire commodities or real estate assets
Short sales not allowed
Trash ratio – 10% (illiquid/unlimited transferable securities and money market instruments)

Source: PwC Lux

Luxembourg regulated investment vehicles can either be created under a contractual or a corporate form

FCP

Common Fund

Contractual form:

- Common investment fund
- Set-up in form of a contract between the management company and the investors; countersigned by the depositary, in a similar way to a partnership

→ **Management regulations**

- Investors hold units in an FCP
- Not a separate legal entity in its own right. Instead, the legal entity is the management company setting up the fund.

SICAV/F

Investment company

Corporate form:

- Investment company with variable/fixed capital
- Set-up as SICAV/F, the fund itself is a corporation and thus a legal entity*

→ **Articles of association**

- Ownership is in the form of shares
- In accordance with applicable laws and regulations, a SICAV/F may either appoint a management company or can be self-managed.

SICAFs are hardly ever used in practice. While it is still possible to set up an investment company with fixed capital there are currently only (approximately) 4 funds on the market set-up as such.

	Common fund	Investment company
Main decisions, e.g. oversight on providers	BoD of the management company	BoD, general partner or manager
Control	BoD of the management company/day-to-day business Conducting Officers	BoD, general partner or manager, investor
Investor meetings	Not mandatory	At least once a year
Taxable status	Transparent	Non-transparent
VAT	Only via management company	VAT-able (Please refer to presentation on taxation)

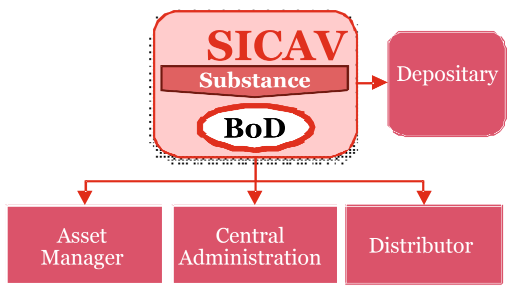
Source: PwC Lux

Note: SICAR can only be structured under a corporate form

Depending on where such substance will be allocated, a FCP / SICAV can be set up in three scenarios

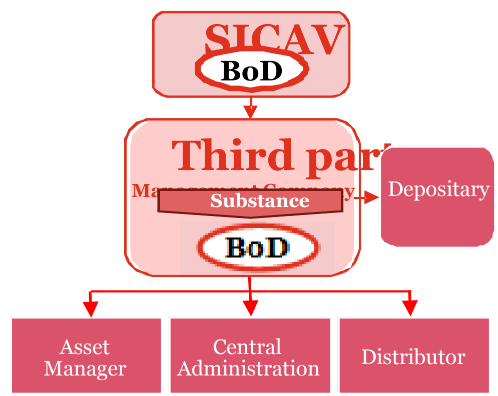
1

Self-managed -SICAV - where all substance will need to be created at the level of the SICAV.



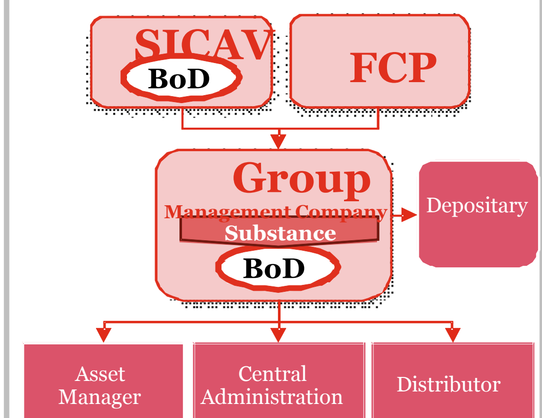
2

SICAV with an existing third party Management Company - where substance will be provided by the existing Management Company.



3

SICAV and FCP with a proprietary Management Company - where a Management Company will need to be created and substance will be allocated to this entity.

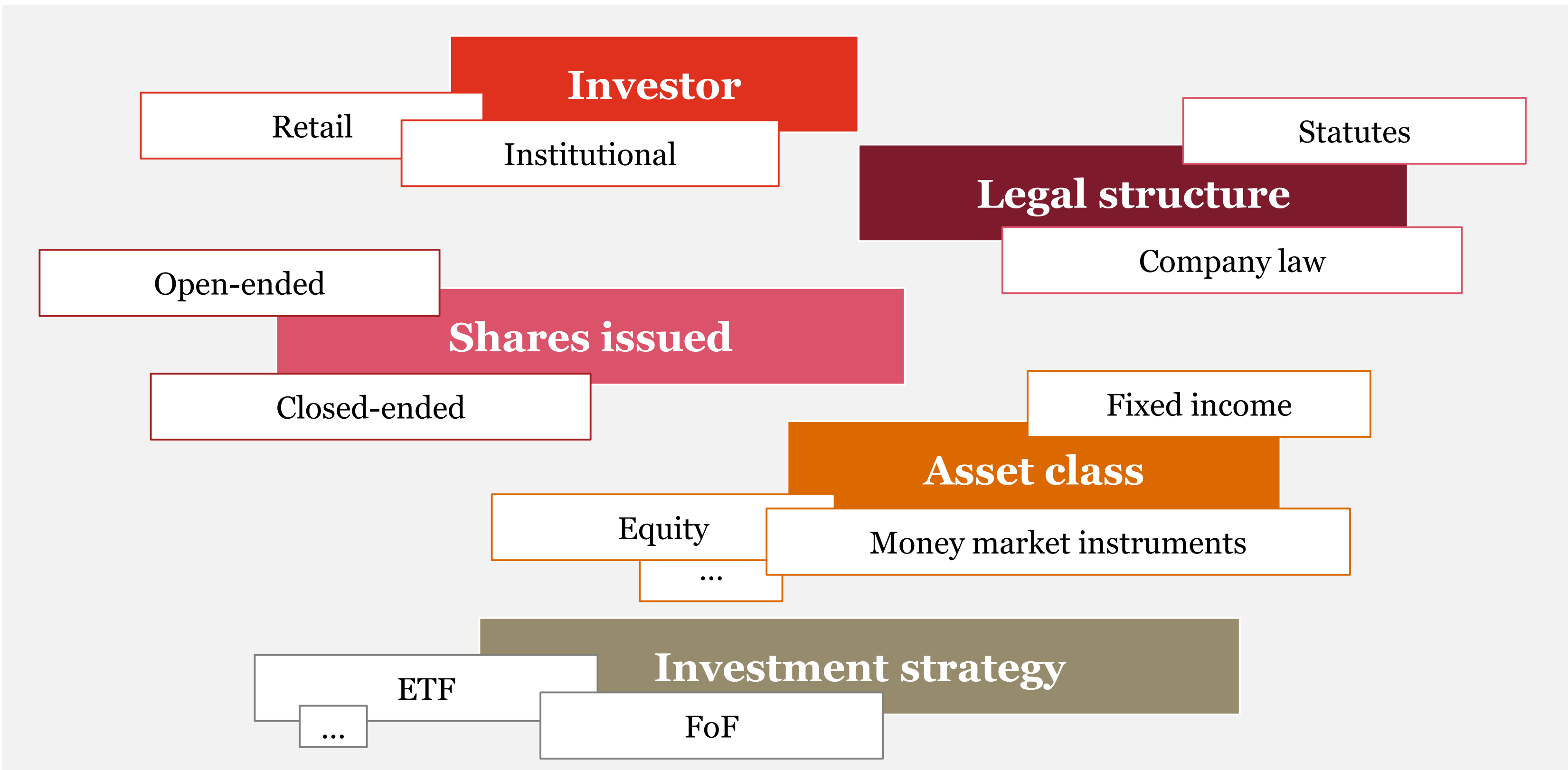


"Group" entities

Entities not controlled by any "group" entity

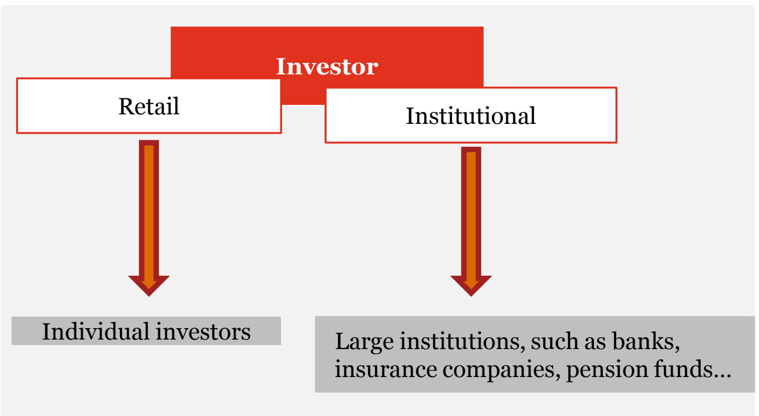
Source: PwC Lux

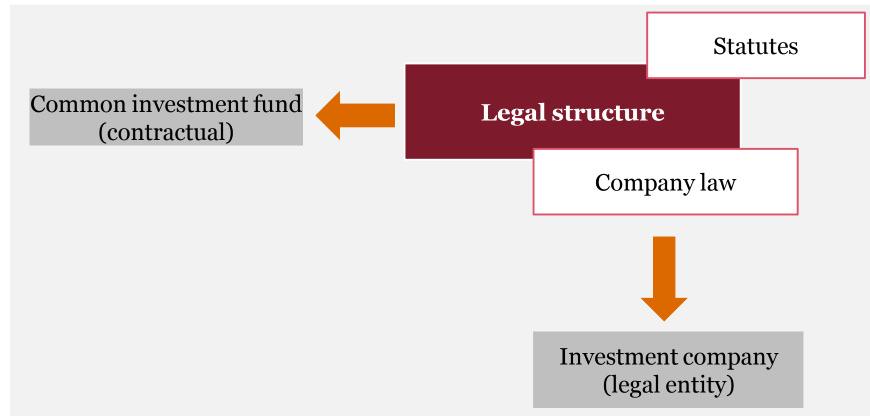
An Investment Fund in Luxembourg can be categorized basically in four perspectives (1/2)

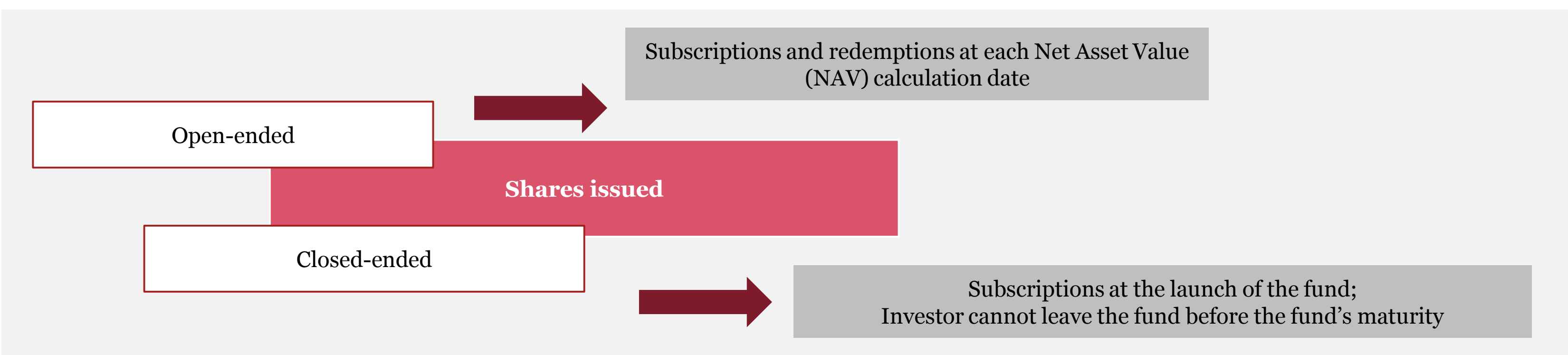


Source: PwC Lux

An Investment Fund in Luxembourg can be categorized basically in four perspectives (2/2)

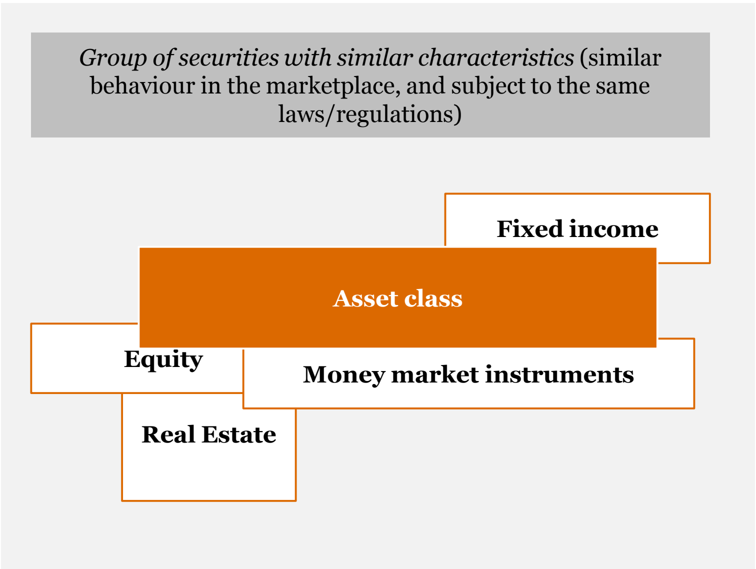






Source: PwC Lux

Based on the asset class of the primary fund securities, the are several type of funds

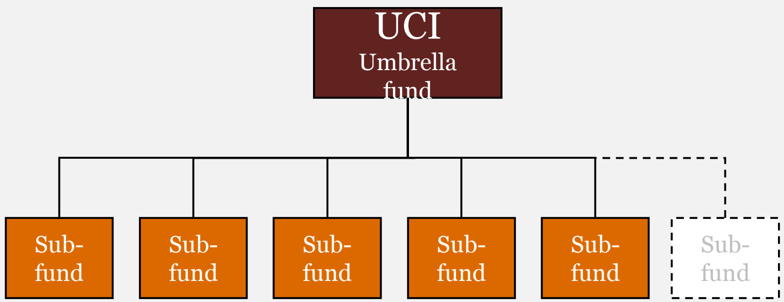


Fund category	Primary investments
Money Market	Cash and cash equivalents (short term, high-quality money market instruments)
Fixed Income	Bonds and other types of debt securities
Equity	Publicly traded stocks
Balanced	Mix of stocks, bonds and money market instruments
Index tracking	Replicate a stock index, e.g. S&P 500 (in general passively managed)
Private Equity (PE)	Privately held companies that don't trade on the stock market; e.g. buying of companies through leveraged by-out (100%); typically limited partnerships with a fixed term of 10 years
Venture Capital (VC)	Sub-set of PE; acquisition of a minority stake; usually the fund would invest smaller amounts in a lot of companies (e.g. start-ups)
Real Estate	Real estate (real estate investment trusts (REITS), real estate limited partnerships, real estate equity funds…)
Hedge	Advanced investment strategies such as leveraged, long, short and derivative positions

Source: PwC Lux

An Investment Fund in Luxembourg may be structured as a stand-alone vehicle or as an umbrella vehicle

Umbrella fund



- Funds may be constituted with **multiple compartments** (or sub-funds), each compartment corresponding to a distinct portfolio of assets;
- Assets & liabilities are clearly **segregated** between compartments unless a clause of the constitutive documents provides otherwise.
- ***Share classes***

- Each **fund** or **sub-fund** can issue different classes of shares/units

→ <u>same</u> investment policy, but **variation** in fee structure, type of investor (e.g. minimum investment, open to well-informed investor vs. retail investor, early-bird share class, income allocation...)

Single fund

- Stand-alone fund
- Single investment portfolio

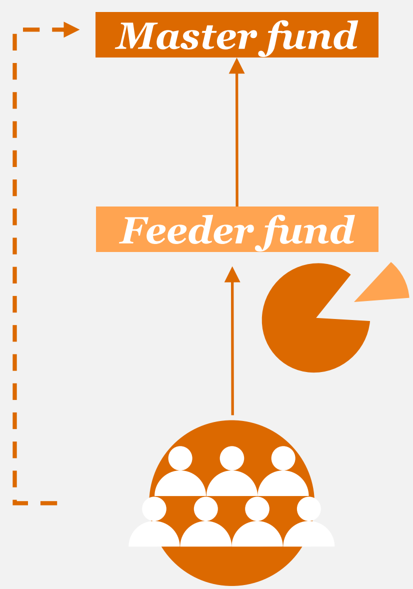
Structure	Advantages
Umbrella structure	Economies of scale Cost efficiency Flexibility
Single fund	Simple structure

Source: PwC Lux

Master-feeders structures enable strategies in view of pooling funds' assets and achieving economic of scales

Master-Feeder Structures

Any UCITS (or sub-fund) can implement a ***master-feeder investment policy***.



- Must have at least one feeder;
- Cannot be a feeder itself;
- Does not hold units or shares of another feeder;
- Master is subject to classic diversification limits.

- Invests at least 85% of its assets into a master fund;
- Invests max. 15% of its assets in liquid assets and derivatives.

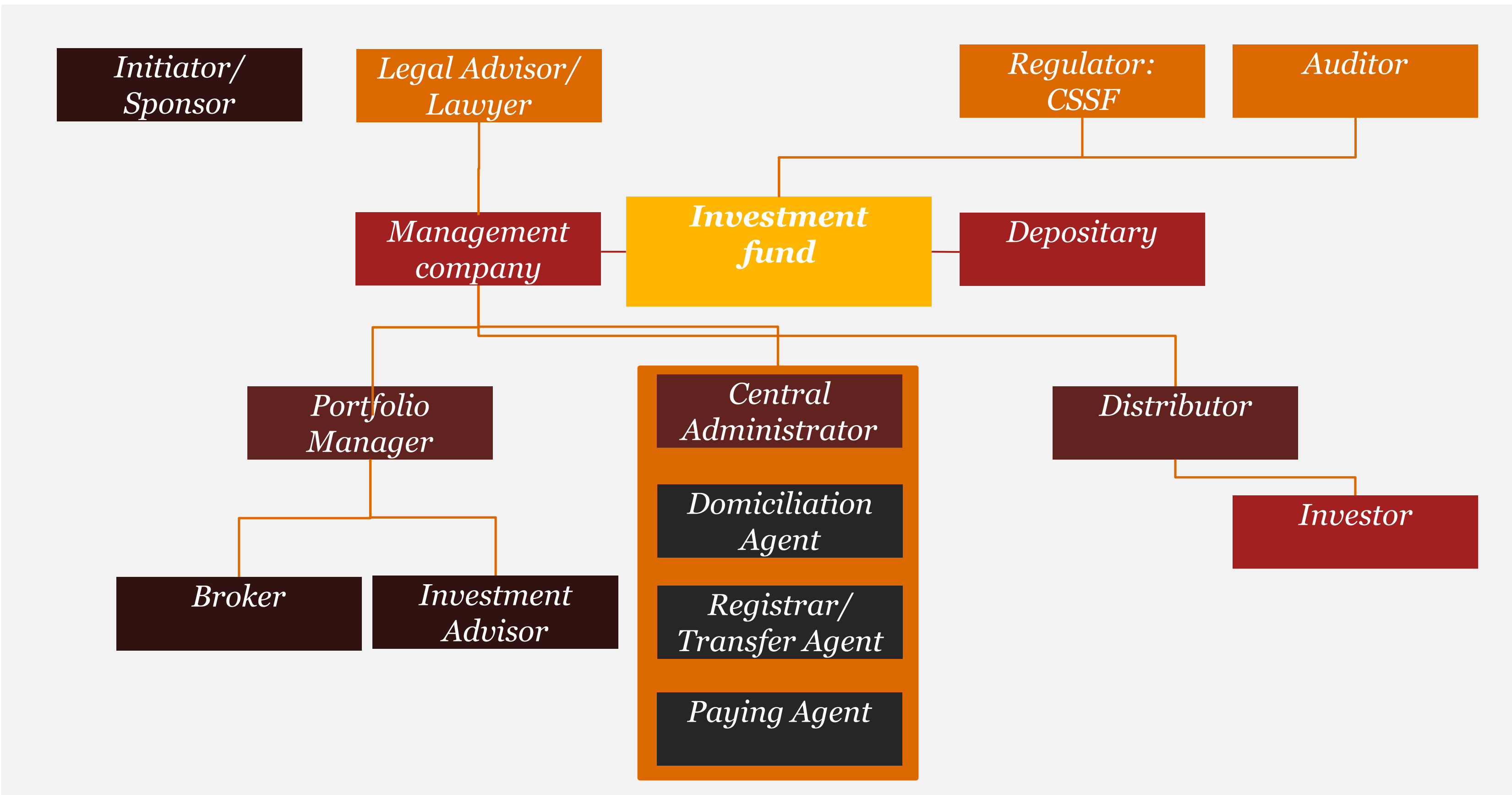
Source: PwC Lux

The actors in the management of the fund must act for the exclusive benefit of the subscribers

Management company	Investor	Depositary
Portfolio Manager	Central Administration	Distributor
Initiator/ Sponsor	Investment Advisor	Broker
Domiciliation Agent	Registrar/ Transfer Agent	Paying Agent
Legal Advisor/ Lawyer	Auditor	Regulator: CSSF*

(*) CSSF: Commission de Surveillance du Secteur Financier

The management company is the main actor for investment funds in Luxembourg



Source: PwC Lux

Roles and responsibilities of the main actors for Luxembourg Investment funds (1/5)

Management company

- **Manager** of one or more UCIs;
- Main responsibilities:
  - Management of the fund, i.e. portfolio management, fund administration and marketing
- Mandatory for a common investment fund (FCP), optional for a SICAV;
- Functions may be delegated to third parties:
  - ManCo remains responsible for the appointment of service providers and oversight of delegated functions
- Daily business conducted by Conducting Officers

Investor

- The **public**, at a broad sense, normally without restrictions on nationality, identity, status;
- Certain exceptions, e.g. for citizens/residents of USA or AML/CFT reasons;
- Buys and redeems (open-ended fund) shares/units;
- Receives a dividend (if any);
- Voting rights (SICAV)

Depositary

- **Financial institution** providing fiduciary/custodian services to investment funds;
- Main responsibilities:
  - Safekeeping of financial instruments and other assets;
  - Monitoring of cash flows;
  - General oversight.
- Appointment or change of depositary needs to be approved by CSSF;
- For UCITS, Part II funds, SIFs and SICARs: must be a bank in Luxembourg*;
- 61 authorised depositaries as of December 2013.

* UCITS/SIF: not a branch of a non-EU entity

Source: PwC Lux

Roles and responsibilities of the main actors for Luxembourg Investment funds (2/5)

Portfolio manager

- Portfolio management can be performed by the management company, or the fund (self-managed investment company) → in practice often an **external entity** appointed;
- Person/organization that makes investments in portfolios of securities on behalf of clients, in accordance with defined investment objectives;
- Main responsibilities:
  - Management of fund assets: decision taking and execution in respect to investment/ disinvestment of assets, i.e. buy and sell of securities
- Can be a Luxembourg entity, an EU- or non-EU entity – but it must be regulated.

Administrator

- Administration can be performed by the management company, or the fund (self-managed investment company) → in practice often an **external entity** appointed;
- Main responsibilities:
  - Preparation/keeping of accounting documents as well as monthly, semi-annual and annual reports;
  - NAV calculation;
  - Is in contact with the CSSF, the auditor, the tax administration.
- For Part II funds and SIFs: Central
- Central Administration* must be located in Luxembourg;
- 101 actors as of December 2013.

*Chapter D of Circular 91/75

Distributor

- Marketing of the fund can be performed by the management company, or the fund (self-managed investment company) → in practice often done by **external entities**;
- Financial professional which distributes units or shares of an investment fund;
- Main responsibilities:
  - Distribution of shares or units of the fund;
  - Ensure the marketing support.
- Global distributor: contracting and monitoring of a distribution network;
- Initiator/management company and/or intermediaries

Source: PwC Lux

Roles and responsibilities of the main actors for Luxembourg Investment funds (3/5)

Initiator/ sponsor

- Former requirement: UCITS and Part II funds must be promoted by reputable entity to guarantee proper functioning of the fund;
- CSSF abolished ***promoter*** regime for UCITS (press release 12/45) as the investor protection role is deemed to be adequately carried out through rules of CSSF Circular 12/546 applicable to management companies;
- Nevertheless, funds are set-up on ***initiative***, i.e. professional from the wealth management sector (bank, insurance, ...) and CSSF may request the issue of a “sponsorship letter” in cases.

Investment advisor

- Person/organization that makes investment recommendations or conducts securities analysis in return for a fee;
- Main responsibilities:
  - Advice to the management company, portfolio manager and/or fund with respect to investment decisions;
  - Provision of information and recommendations required for the asset management.
- Can be a Luxembourg entity, an EU- or non-EU entity – and may be regulated or not.

Broker

- Person/organization that executes buy or sell orders on behalf of a client in return for a fee;
- Acts as an ***intermediary*** (agent) between a buyer and seller
- Main responsibilities:
  - Order execution

Source: PwC Lux

Roles and responsibilities of the main actors for Luxembourg Investment funds (4/5)

Domiciliation agent

- Provision of services associated with the establishing of residency and conduction of business of a company in Luxembourg;
- Activity related to fund administration;
- Main responsibilities:
  - Provides an office to the fund, i.e. office accommodation, keeping correspondence, payment of bills, …
- Often done by third party regarded as a domiciliation agent;
- Regulated activity ("Domiciliation Law").

Registrar/ transfer agent

- Trusts or institutions that register and maintain detailed records of the transactions of fund investors;
- Activity related to fund administration;
- Main responsibilities:
  - Executes authorised transactions of fund shares/units;
  - Maintains the register of the share- or unit holders;
  - Issues certification representing the shares issued, replaced, converted, …

Paying agent

- Handle the payment of dividends and other sums due to the investors;
- Activity related to fund administration;
- Main responsibilities:
  - Arranges dividend payments based on instructions received from the fund/management company
- Usually service performed by Depositary and its network;
- Paying Agents may be required in each country of distribution.

Source: PwC Lux

Roles and responsibilities of the main actors for Luxembourg Investment funds (5/5)

Legal advisor/ lawyer

- External advisor to the fund/management company in order to comply with legal obligations
- Main responsibilities:
  - Support during the life cycle of the fund: set-up, maintenance, liquidation, i.e. drafting of contracts, amendment of prospectus, communication with regulator …

Auditor

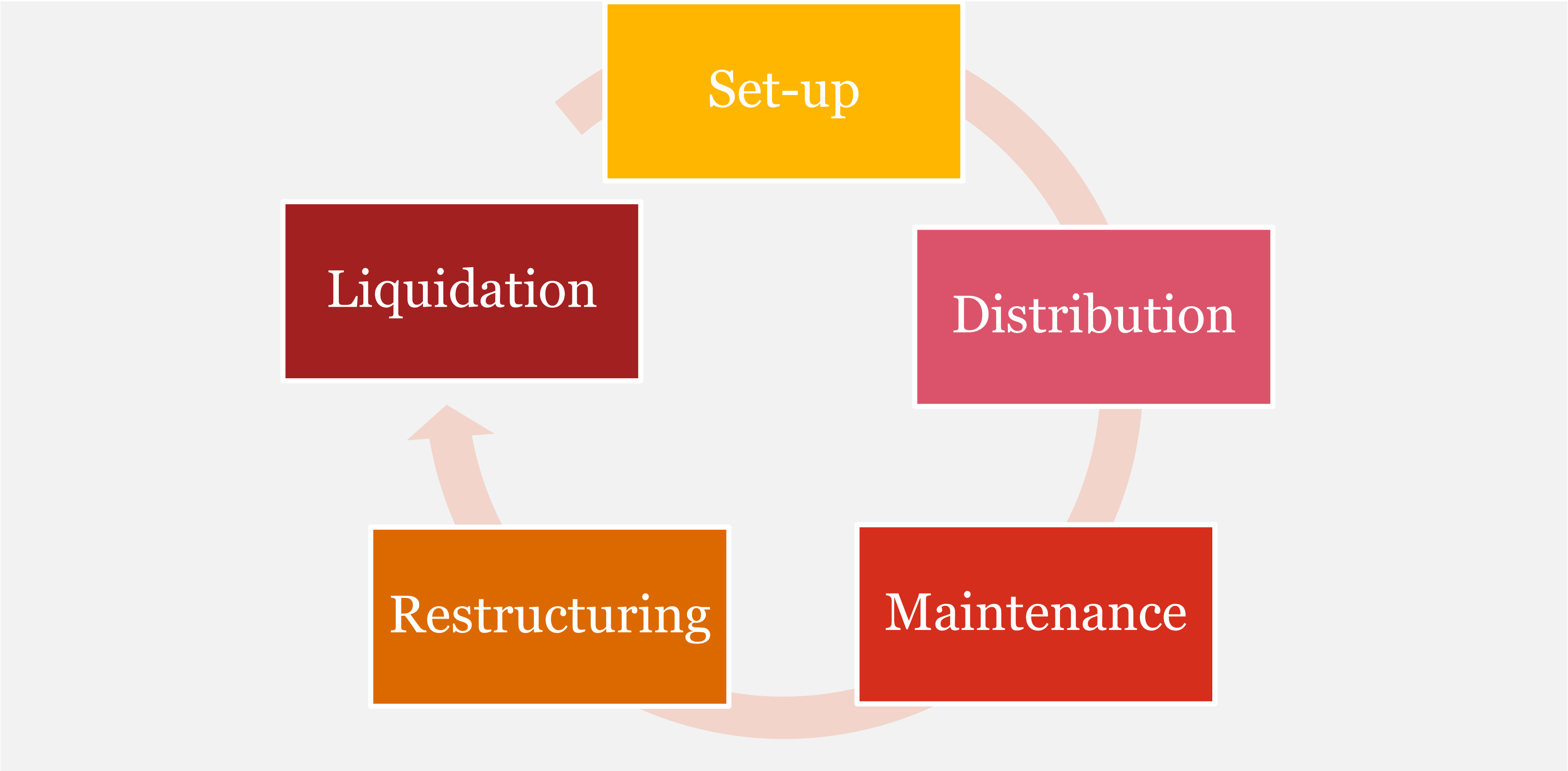
- Independent auditor
- Main responsibilities:
  - Performs the statutory audit of the fund's accounts;
  - Provides the supervisory body with information and certification it requires;
  - Informs the supervisory body of stated errors and weaknesses ("management letter");
  - Communicates on any breach in the investment restrictions.

CSSF

- Commission de Surveillance du Secteur Financier (CSSF)
- Main responsibilities:
  - Supervises professionals and products of the Luxembourg financial sector, i.e. monitors, authorises, informs, and, where appropriate, carries out on-site inspections and issues sanctions.
  - i.e. approves prospectus and constitutive documents ("visa") and any modification; registers the fund and maintains the list of authorised funds; approves management companies, custodians,…

Source: PwC Lux

The life cycle of an Investment Fund in Luxembourg is basically structured in five steps



For setting up an investment fund under UCITS or AIFMD Directives, there are major processes that must be considered

1. Determine the fund structure and the location of domicile

2. Determine the fund distribution strategy

3. Identify key service providers

4. Prepare fund documents and for filing with the regulator

5. Prepare registration of market entry for fund distribution

6. Ongoing maintenance for tax, regulatory and distribution

7. Regular reporting to investors

All regulated investment vehicles domiciled in Luxembourg shall be duly authorised by the CSSF

Draft documents → **Approval process** → **Incorporation** → **Go Live**

Application file

- Questionnaire
- Draft prospectus, articles of incorporation/ management regulations
- Draft policies, e.g. risk management, conflicts of interest…
- Draft agreements, e.g. depositary, service provider

CSSF
Commission de Surveillance du Secteur Financier

Liaising & revising
Decision

Finalization

- Final prospectus, contracts
- Incorporation in front of a notary/publication of management regulations in the commercial register (R.C.S.)

☑

Official fund list

6-8 weeks | **8-12 weeks** | **2-3 weeks**

Source: PwC Lux

To obtain authorisation, the applicant shall submit an application file to the CSSF

Drafting of prospectus and other documents to CSSF

Activities

- Main documents to be drafted / provided to the CSSF are:
  - Prospectus, Risk Management Process and KIID (Key Investors Information Document only for UCITS) including a description of each sub-fund's investment policy and restrictions
  - Articles of Association of the SICAV/Management Regulations of the FCP
  - Draft agreements with the management company and other service providers

Timing

- 3-5 weeks in average

Estimated Costs [1]

- Around EUR 25,000 – 30,000 for the set up of the SICAV/FCP[2]
- Around EUR 72,000 - 80,000 for the set up of the proprietary Management Company

[1] Excluding VAT and out-of-pocket expenses

[2] Fees do not relate to the creation of a self-managed SICAV as this structure is less used given to distribution constraints notably in Switzerland in terms of substance

Source: PwC Lux

The CSSF may ask for further information or additional documentation in order to its final approval

- **Submission to CSSF approval and incorporation upon approval**

Activities
Submission of the SICAV/FCP application file to the CSSF • Discussion with the CSSF until formal approval is received • Coordination of incorporation before a Notary in Luxembourg upon CSSF approval

Timing
• 6-8 weeks in average

Estimated Costs [1]
• Around EUR 7,500 – 10,000 for the SICAV (or FCP)

[1] Excluding VAT and out-of-pocket expenses

Source: PwC Lux

Minimum capital requirements, compartment and cases for regulated vehicles in Luxembourg

	UCITS	UCI	SIF	SICAR
Minimum Capital requirement	EUR 1.25 Million to be reached within 6 months following approval	EUR 1.25 Million to be reached within 6 months following approval	EUR 1.25 Million to be reached within 12 months following approval	EUR 1 Million to be reached within 12 months following approval
Multiple sub-funds authorised	Yes	Yes	Yes	Yes
Classes of shares/units authorised	Yes	Yes	Yes	Yes
NAV calculation frequency	At least twice a month	At least once a month	At least once a year	At least once a year

Source: PwC Lux

One-off costs at a glance in setting up a fund in Luxembourg (1/2)

Incorporation costs of a company (one-off)	
Notary fees for the incorporation	Between EUR 2,000 and EUR 5,000
Registration costs in the Companies registrar	Approximately EUR 150

Registration costs with the CSSF (one-off)	
UCITS	Stand-alone fund: EUR 3,500 Umbrella structure: EUR 7,000 Self-managed SICAV: EUR 10,000
UCI	Stand-alone fund: EUR 3,500 Umbrella structure: EUR 7,000 Part II UCI internally-managed (traditional or umbrella fund) : EUR 10,000
SIF	Stand-alone fund: EUR 3,500 Umbrella structure: EUR 7,000 SIF-AIF internally-managed (traditional or umbrella fund) : EUR 10,000
Chapter 15 Management Company	EUR 10,000
Chapter 15 Management Company and AIFM	EUR 10,000
Chapter 16 Management Company	EUR 5,000
Chapter 16 Management Company and AIFM	EUR 10,000
AIFM	EUR 10,000

Source: PwC Lux

One-off costs at a glance in setting up a fund in Luxembourg (2/2)

Legal Fees (one-off)

Legal Fees are generally a significant one-off cost for launching a Luxembourg UCITS structure. The below are an estimation only and differ on the complexity of the structure.

For the launch of an umbrella structure with a relatively straight forward investment policy and other features which will not give raise to complicated and/or lengthy discussions amongst the parties and with the CSSF.

- For a UCITS which will be structured as a self-managed SICAV, fees may be estimated to be in a range of 30,000 to 50,000 Euros.
- For a UCITS appointing a third party recognised management company we estimate fees to be in a range of 25,000 to 35,000 Euros

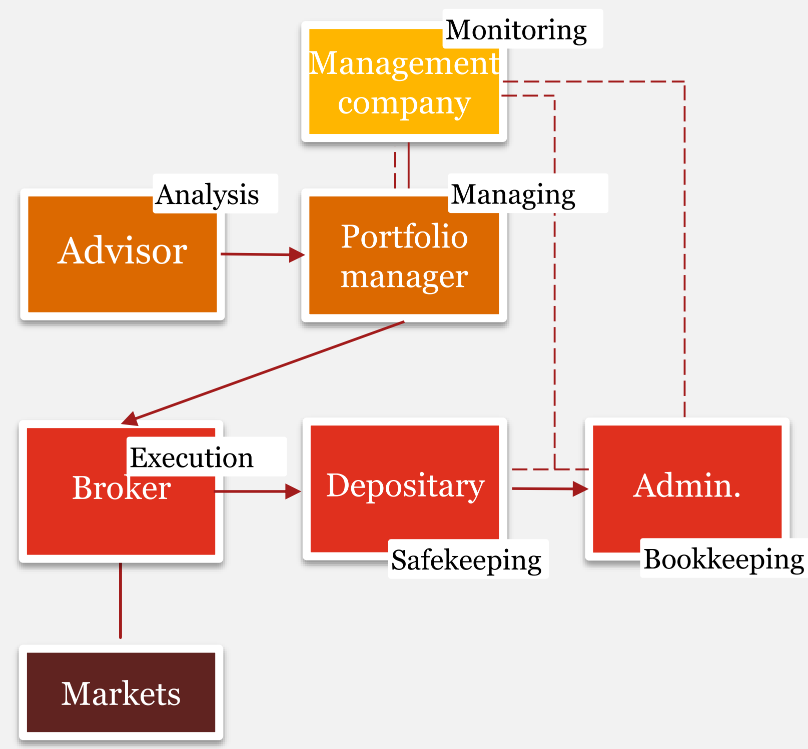
Services rendered in relation to the registration of the UCITS in other EU member countries are not included in the above.

Source: PwC Lux

The management company can delegate the portfolio management function of assets' purchasing and sales

Framed by the investment objective and strategy:

- Initiated by the investment manager (in some cases based on advice from the investment advisor);
- In consent with the management company/board of directors;
- Purchase and sale of securities are treated by a broker and
- By the depositary, then
- Communicated to the administrative agent.



Source: PwC Lux

The CSSF determines for each regulated vehicle which is the frequency for NAV calculation

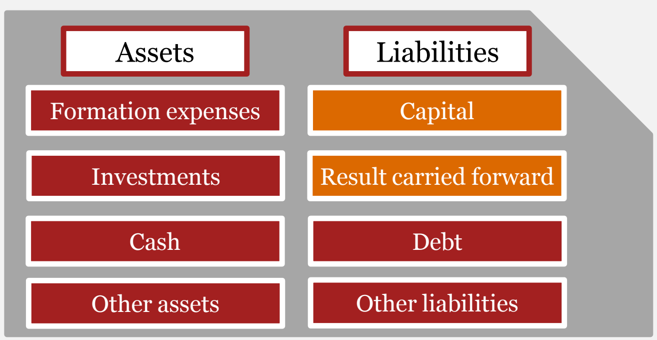
Net asset value (NAV)

- Represents a fund's market value per share (**economic value**);
- In other terms, it corresponds to the value of the fund's assets out of which is taken the value of the fund's liabilities, both assets and liabilities being estimated at the valuation date.

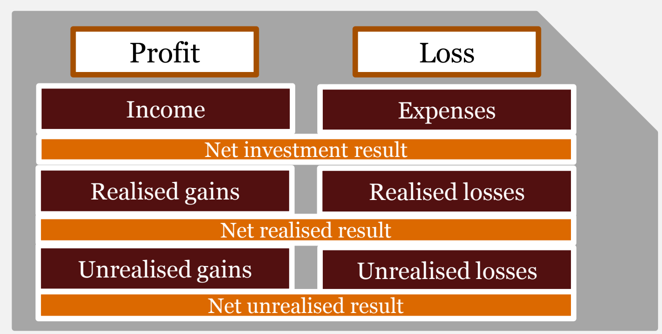
The NAV can be calculated using two different methods:

(1) using the **balance sheet** accounts or (2) using the **capital** and the **P&L** accounts.

Balance sheet



Profit & loss



using the balance sheet accounts

using the capital and the P&L accounts

Source: PwC Lux

Some regulatory requirements for fund distribution are specified in UCITS Directive and AIFMD

Marketing activities

- **Inform** potential investors about the existence of the fund;
- **Promote** the investment fund directly to clients and external or in-house distributors

New product development

- **Identify products** likely to be attractive to investors;
- **Identify changes in regulation** allowing new opportunities

Compensation

- Largest cost component in the value chain of fund's distribution: **payments** for the sales process can come
  - (i) directly from the **investor** (in the form of an upfront fee) or
  - (ii) via the **fund manager** (through commission which is eventually paid through the charges imposed on the investor)

Source: PwC Lux

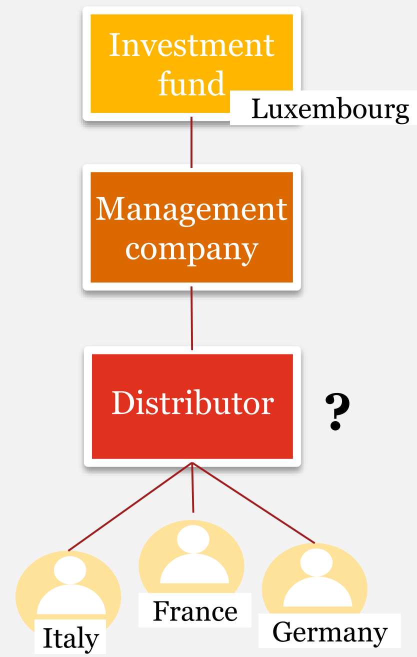
Selling a fund can be undertaken through different types of distribution methods, strategies and specific channels of marketing

Strategic decision

- Various distribution channels, e.g. branch network, independent financial advisors, direct distribution,…;
- Set-up and maintenance of a distribution network;
- Cross-border distribution (legal framework, organizational aspects,…)

Distributor	Financial professional which distributes units or shares of an investment fund
Global distributor	Financial professional which ultimately appoints and authorizes all distributors of an investment fund

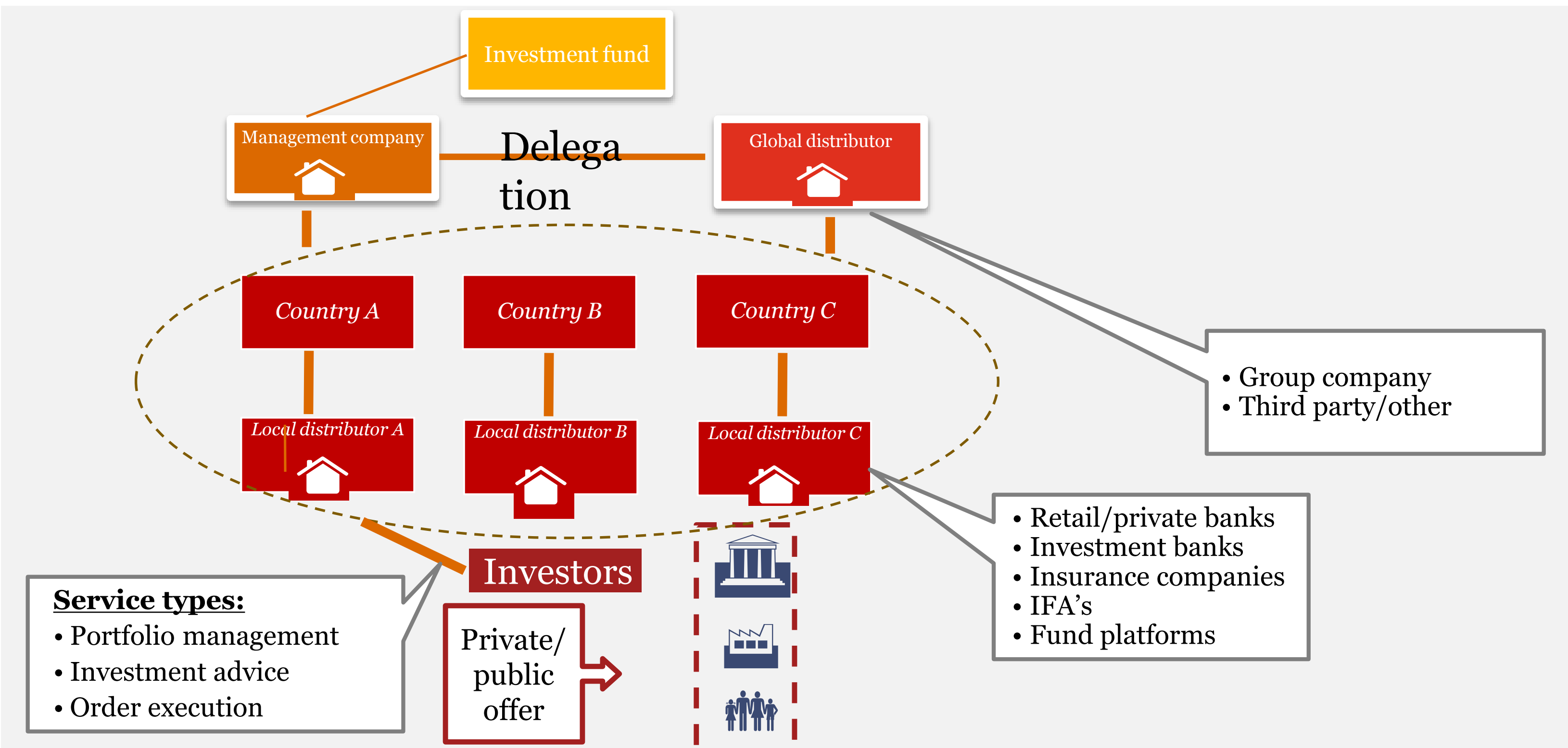
Geographic dimension



Source: PwC Lux

Distributing funds in various countries can be either performed by the ManCo itself or by a Global Distributor (1/2)

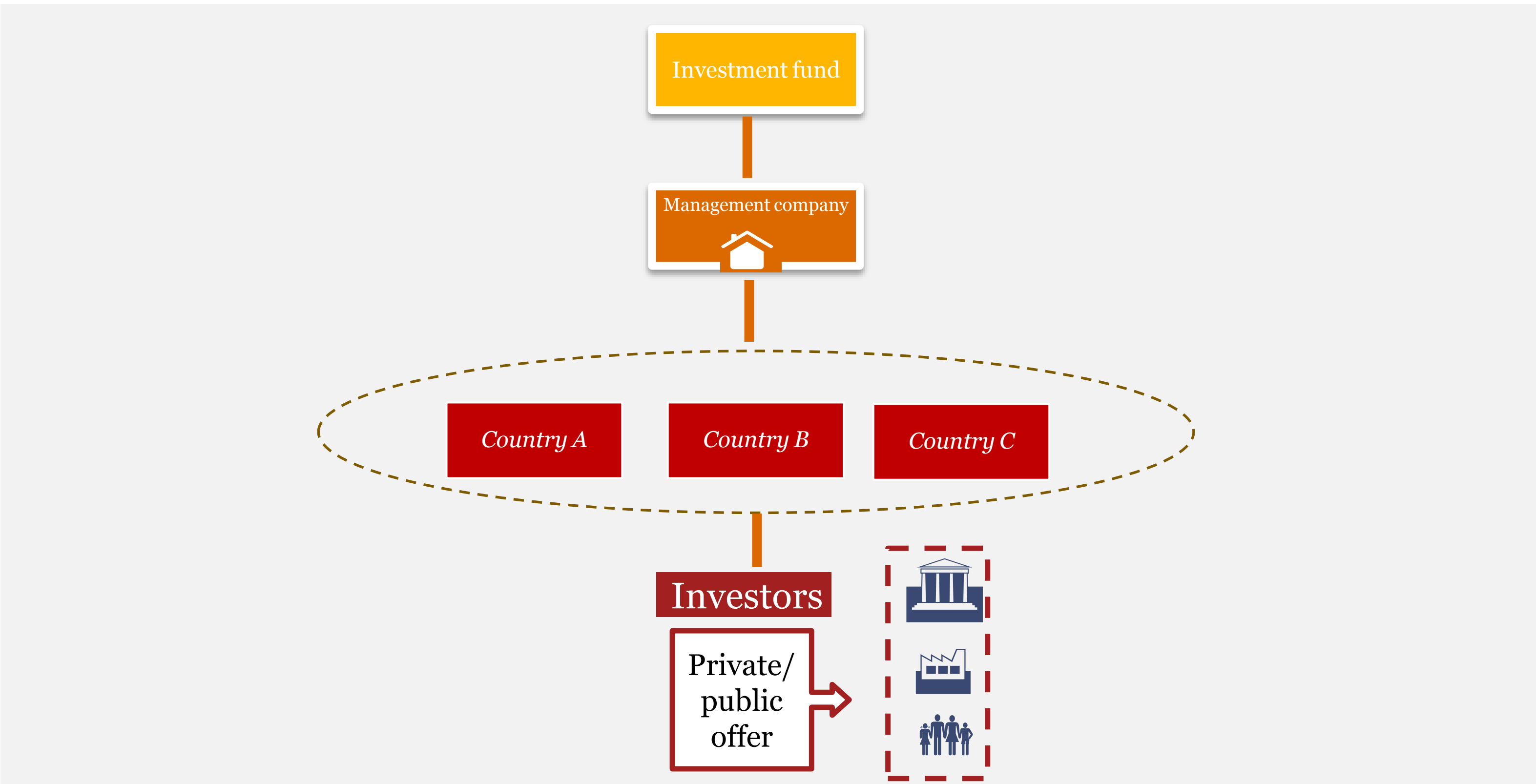
- Management Company can delegate to a Global Distributor the distribution function.



Source: PwC Lux

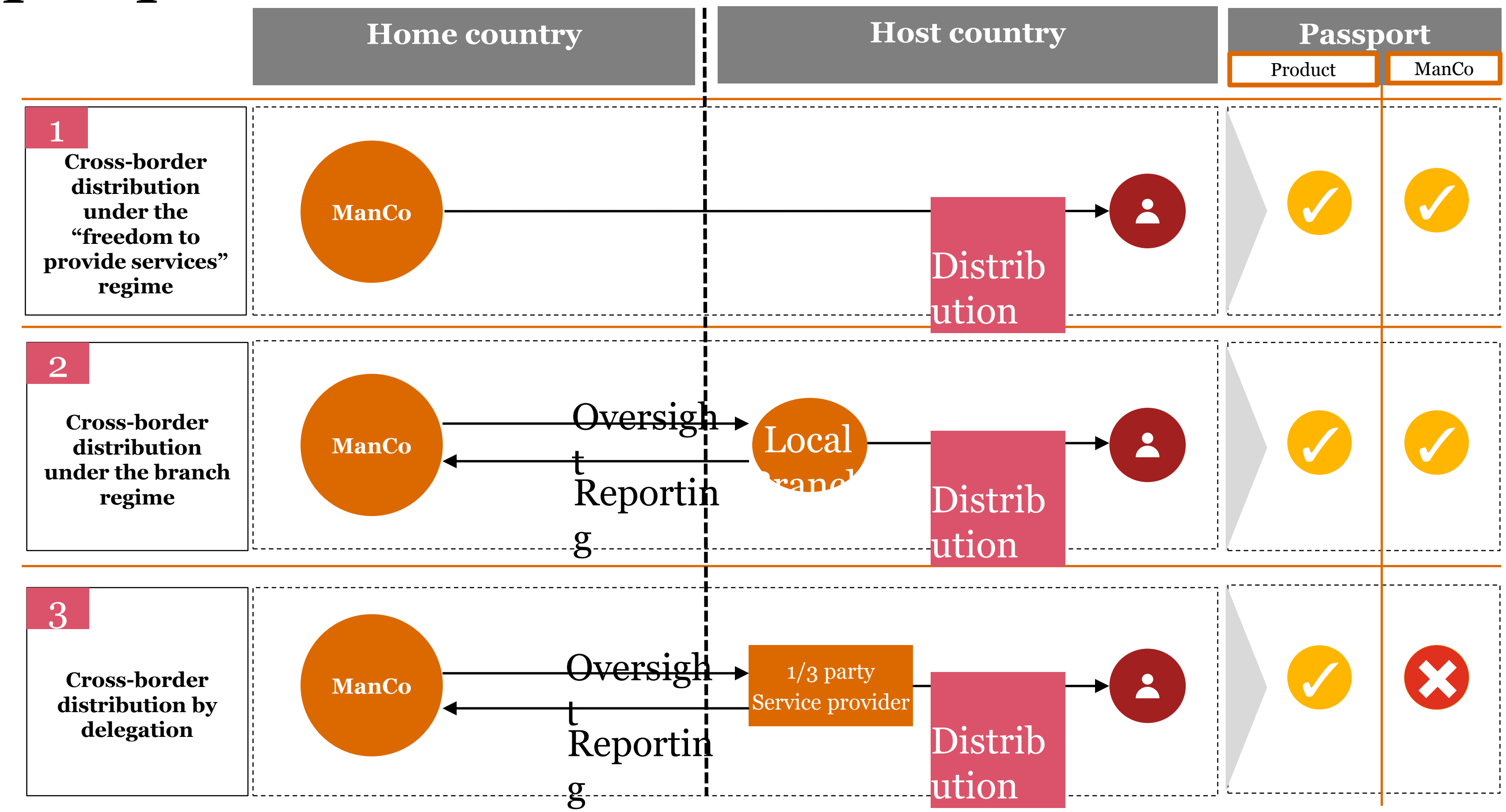
Distributing funds in various countries can be either performed by the ManCo itself or by a Global Distributor (1/2)

- Distributing funds without any delegation or local distributor.



Source: PwC Lux

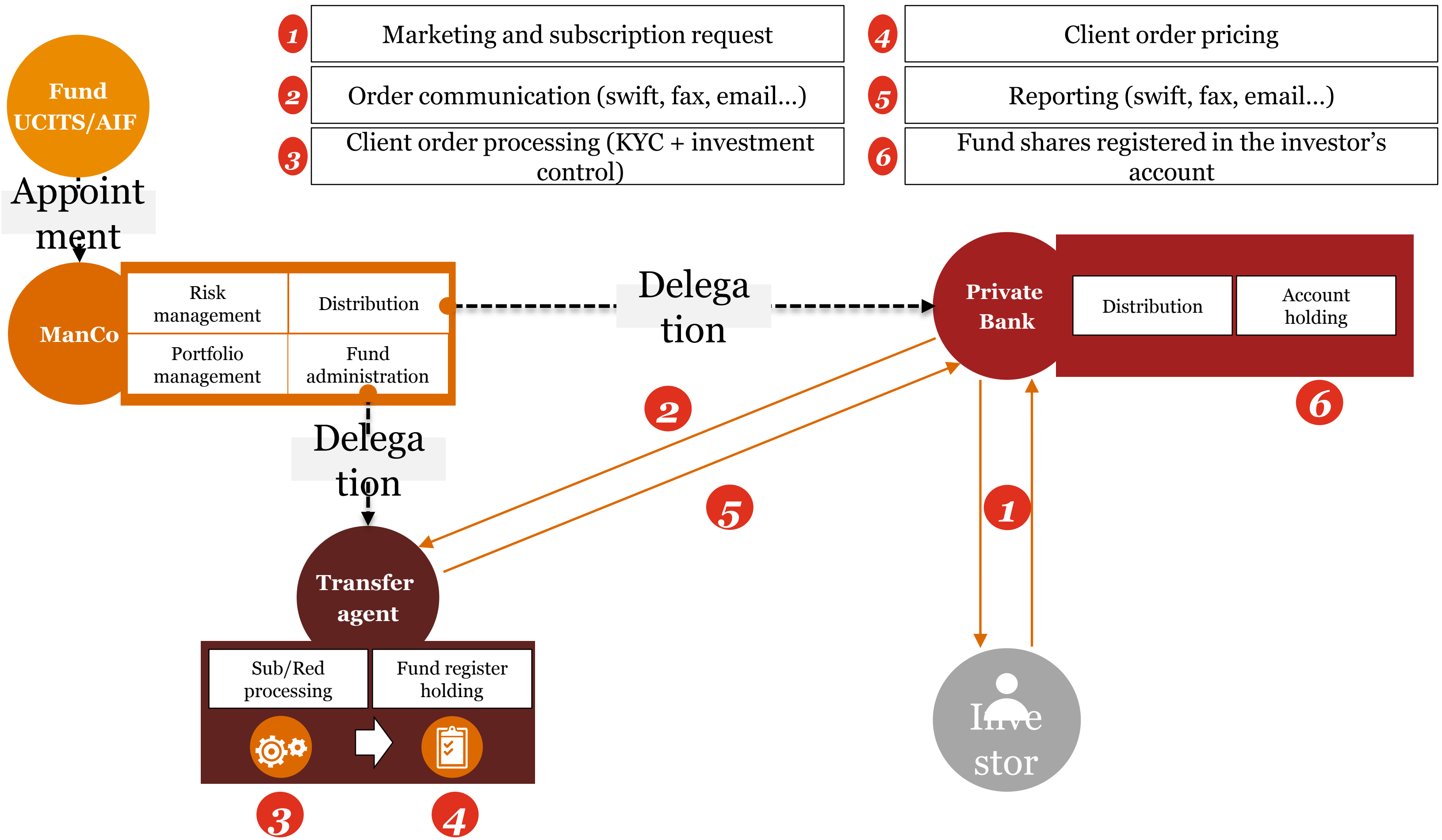
*The UCITS IV enabled the cross-border distribution of UCITS through the ManCo passport**



(*) ManCo passport: more detailed information in Chapter 3 - Legal & Regulatory requirements

Source: PwC Lux

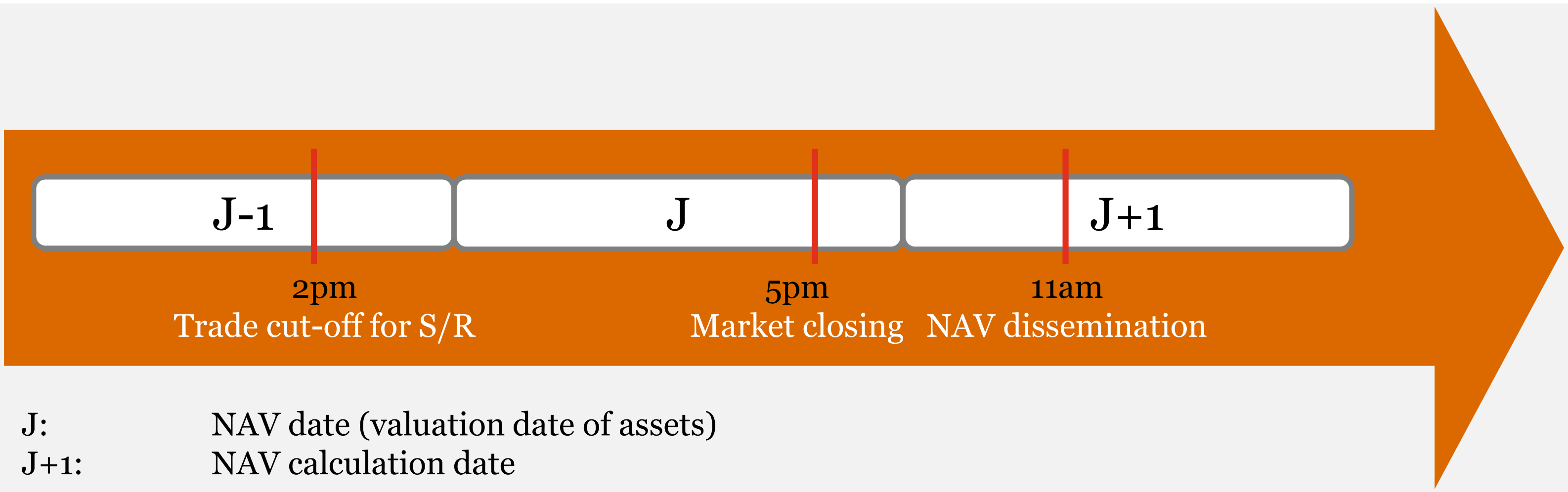
The subscription process considering the main actors in UCITS and AIFs context



Source: PwC Lux

Subscription & redemption of fund shares/units at unknown price

- Subscribing or redeeming funds shares/units while knowing the value of the NAV per share/unit may lead to disadvantages for the fund or other investors, a **subscription** or a **redemption** are to be made at an **unknown price**.
- Therefore, the investor doesn't know the exact price at which the transaction will be performed when placing a subscription or redemption order. The deadline for subscription or redemption orders has to be fixed before the NAVs are published.



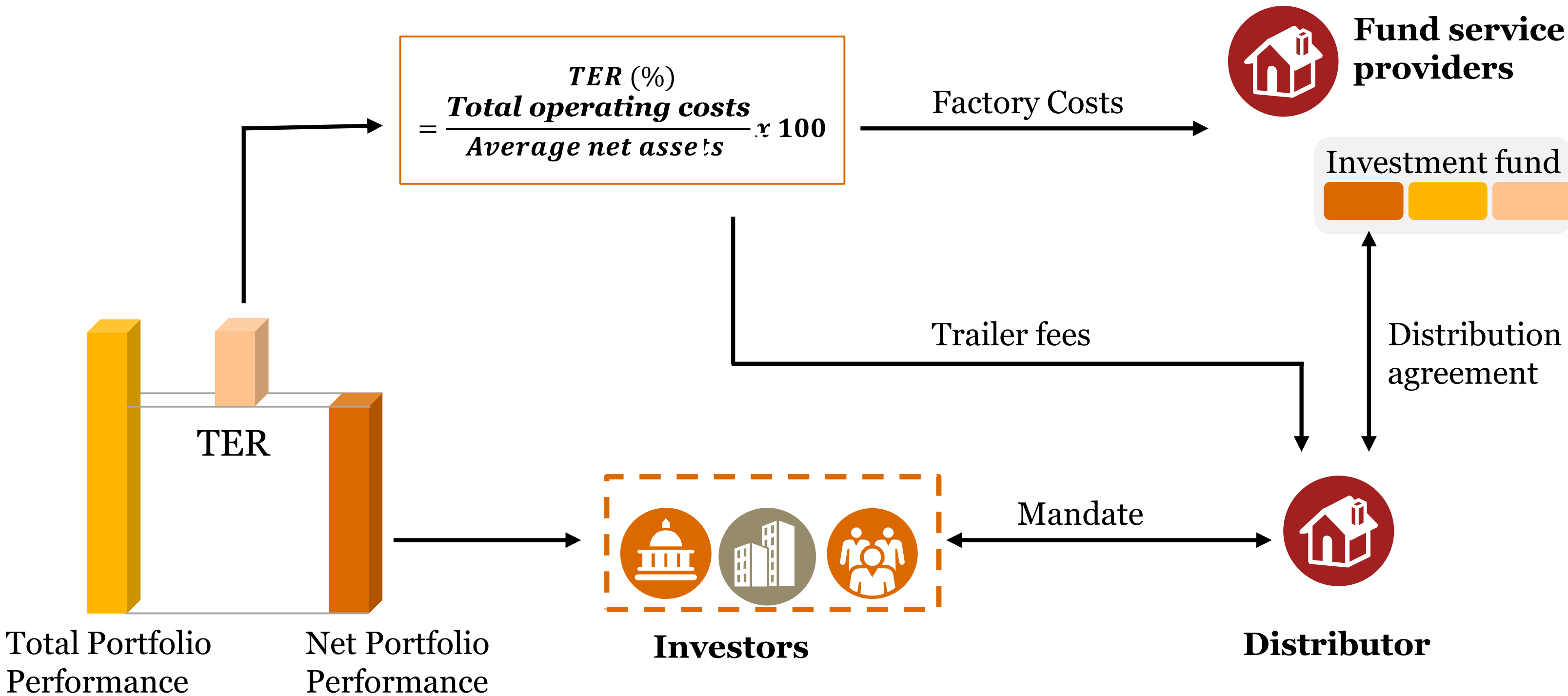
J: NAV date (valuation date of assets)
J+1: NAV calculation date

Source: PwC Lux

Costs & remuneration structures

Trailer fees/retrocessions – key aspects

- The remuneration model has evolved from direct to indirect commission. Trailer fees (retrocessions) are distributed by the initiator/sponsor to the intermediary.



Trailer Fees: Fees paid to a salesperson for providing the investor with investment advice and services.

Source: PwC Lux

Costs & remuneration structures
Fund expenses – Total Expenses Ratio

- Total Expense Ratio (TER) of a fund is equal to the **ratio** of the fund's **total operating costs** to its **average net assets.** TER is in principle calculated using the following formula:

$$\boldsymbol{TER}\ (\%) = \frac{\boldsymbol{Total\ operating\ costs}}{\boldsymbol{Average\ net\ assets}}\ \boldsymbol{x\ 100}$$

Included costs	**Excluded costs**
• Management costs including performance fees, • Administration costs, • Fees linked to depository duties, • Audit fees, • Payments to lawyers, • Registration fees, regulatory fees and similar charges, • Any additional remuneration of the management company, …	• Transaction costs (costs incurred by a fund in connection with transactions on its portfolio, i.e. brokerage fees, taxes and linked charges, • Interest on borrowing, • Payments incurred because of financial derivative instruments, • Entry/exit commissions or any other fees paid directly by the investor, • Soft commissions

Source: PwC Lux

Costs & remuneration structures

Fund expenses – Sales charges

Transaction fees paid when investor buys or sells shares of a fund (**load**);

Not included in TER!

- Load can be as high as 8%, although it seems that a **3-5% range** is common;
- Charge is **paid by the investor** (the buyer of the fund) to the seller (a financial intermediary such as a brokerage firm, insurance company, financial planner, investment advisor, …) for services rendered;
- Charge is deducted from the amount being invested.

Not all funds charge loads!

Front-end load

- Or *initial sales charge*,
- Paid by investor at the time of purchase:

$$\boldsymbol{Issue\ price = NAV + Sales\ Charge}$$

Back-end load

- Or *deferred sales charge*,
- Paid by investor when selling the fund share:

$$\boldsymbol{Redemption\ price = NAV - Sales\ Charge}$$

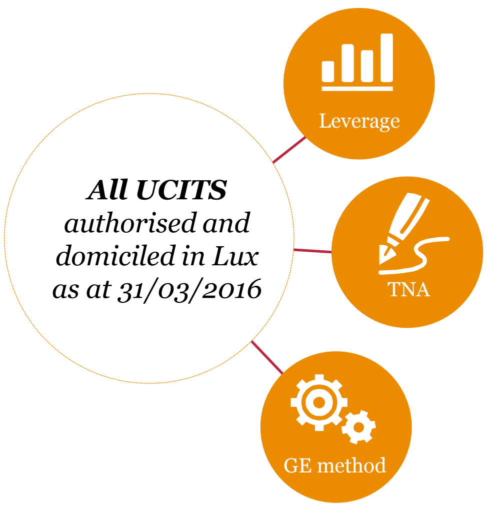
Source: PwC Lux

Risk Management Reporting for UCITS (1/4)

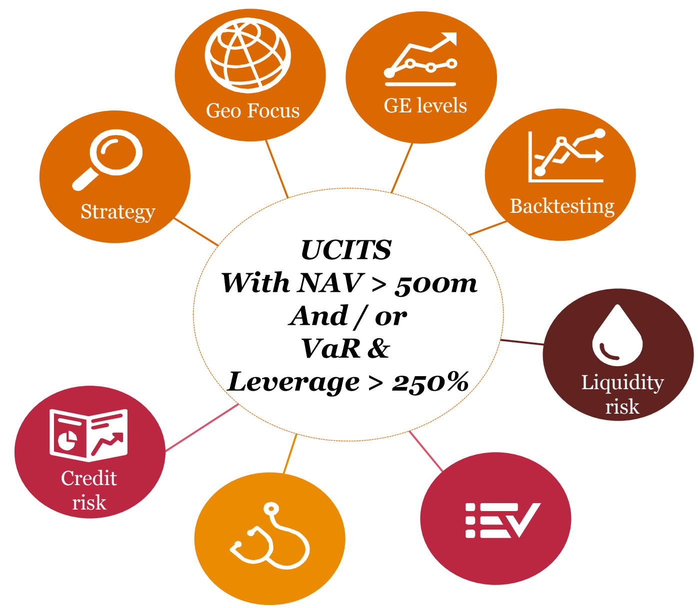
CSSF requires UCITS, on a semi-annual basis, a reporting dedicated to Risk Management, the first one to be due by **16 May 2016**.

Below the topic addressed in this reporting depending of the criteria met by the UCITS

All UCITS but Limited challenge



Selection of UCITS
Important challenge



Source: PwC Lux

Risk Management Reporting for UCITS (2/4)

1. Governance

- Independent Risk management function

2. Risk analysis

- At least market risk, counterparty risk, liquidity risk, credit and operational risk

3. Measurement methods

- Define measurement methods for each risk

4. Definition of limits

- Define limits for each risk identified

5. Monitoring

- Define monitoring process

6. Escalation

- Define how issues identified will be escalated

7 RMP

- Structure a detailed Risk management process that will be validated by the Boards and sent to the CSSF

Source: PwC Lux

Risk Management Reporting for UCITS (3/4)

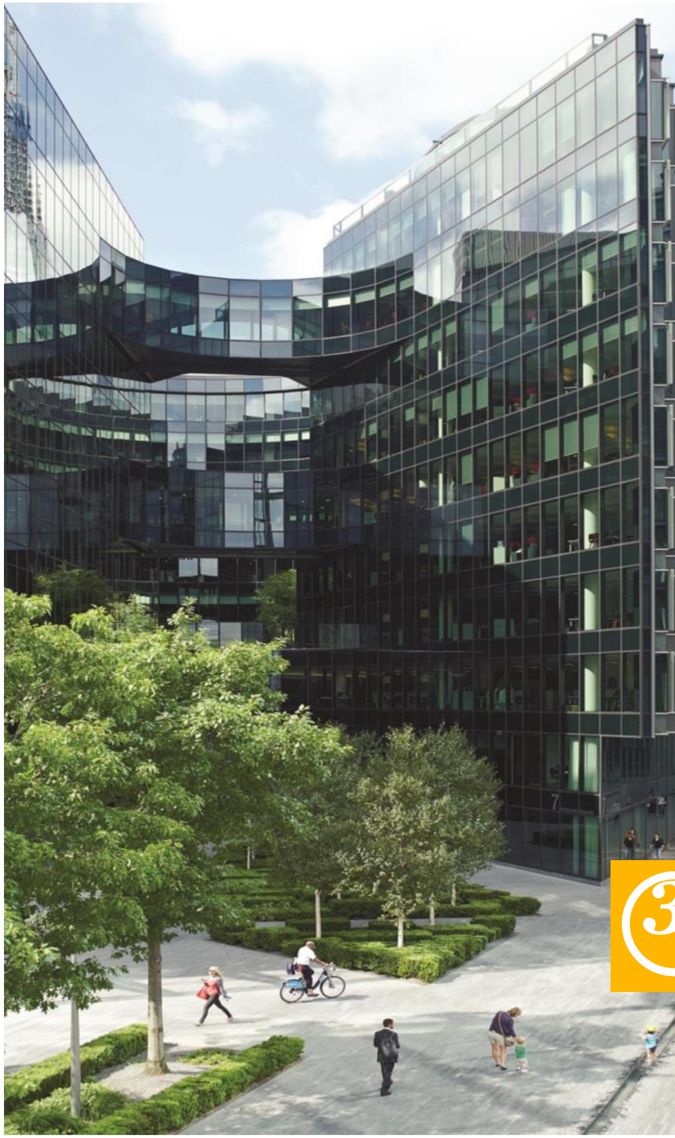
Risk dimensions	UCITS
Risk management procedure	Should follow the structure as defined by the CSSF circular 11/512 (Appendix)
Global exposure ("Market risk")	• Commitment or VaR (daily) • If VaR: Stress testing + Backtesting
Leverage	• Only if VaR • Gross leverage is the minimum requirement (leverage using commitment approach is an option)
Counterparty risk	• ∑ non-realized – collateral per counterparties < 5% to 10% (depending on status of the counterparty). • Must be computed at NAV computation frequency
Credit risk	• Not clearly specified (only required in the list of controls performed)
Operational risk	• To be covered (but not specifically defined)
Liquidity risk	• Asset: Capacity to sell the securities in portfolio • Liability: Capacity to pay redemptions

Source: PwC Lux

Risk Management Reporting for UCITS (4/4)

Risk dimensions	UCITS
Coverage Rule	• Capacity to meet future payments on derivatives
Concentration	• 5/10/40% rules • Maximum 20% • To be checked at NAV computation frequency
Disclosure	• Financial Statement + Prospectus • VaR / Commitment • If VaR: Benchmarks /use of limit + Leverage
Next steps	• CSSF reporting requirements under discussions

Source: PwC Lux



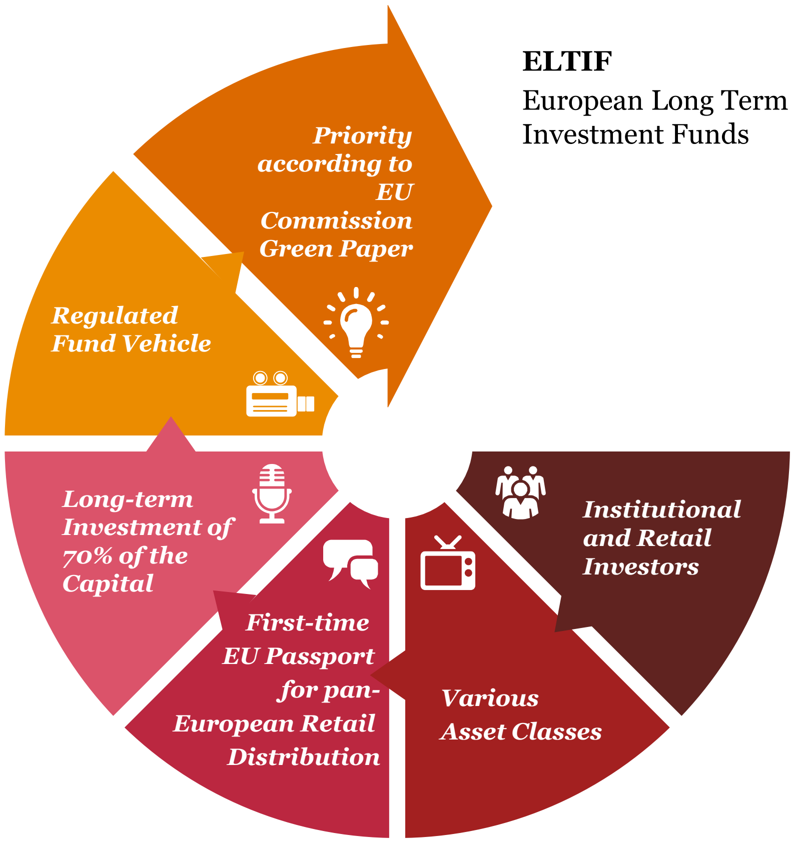
The ELTIF represents a milestone in the development of the cross-border European long-term funds business

The European long-term investment fund (ELTIF) is a pan-European regime for Alternative Investment Funds (AIF) that may invest in long-term from assets such as small and medium-sized businesses to the development and operation of social and public infrastructure.

1. *ELTIFs must appoint a fully authorised AIFM*
2. *ELTIFs can raise capital from institutional and retail investors across the EU and the EEA with the EU passport (AIFMD rules)*
3. *Any AIF can apply for the ELTIF regime*
4. *Closed-ended structure, redemptions not possible during ELTIF's life-time, exceptionally after five years or ELTIF's half-life point for a defined amount*

Source: ALFi guideline - The European long-term investment fund (ELTIF)

The ELTIF creates a harmonised EU regime for public private partnership (PPP) investments into SMEs and infrastructure



ELTIF
European Long Term Investment Funds

Financial Vehicle corresponding to the Europe 2020 Strategy
Contribution to the implementation of the political objective: high level of employment and smart, sustainable growth

Regulated Fund Vehicle,
Which provides with long-term and stable returns and pursues a long-term investment strategy

70% of the capital
Shall be invested in more or less clearly-defined long-term assets

EU AIF (with EU-AIFM) has
Retail-Distribution Passport

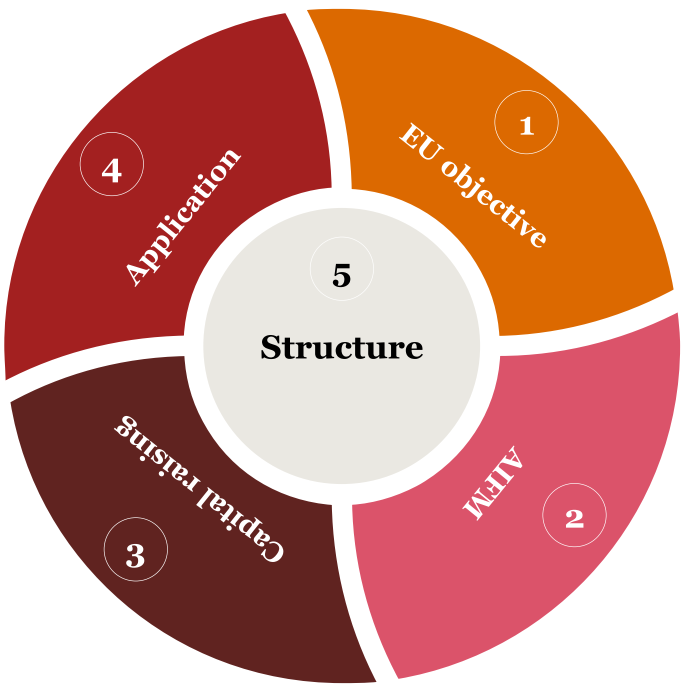
Various Asset Classes
(Private Equity, Infrastructure, specific Real Estate), as well as listed SMEs, participations, debt instruments, other ELTIF, EuVECA or EuSEF, risk diversification rules

Institutional and Retail Investors
Retail investors with a portfolio of up to EUR 500.000 shall not invest an aggregate amount exceeding 10% of their portfolio in ELTIFs. Initial amount not less than EUR 10.000. Written alert for ELTIF whose lifecycle exceeds 10 years: "may not be suitable for retail investors"

Source: ALFi guideline - The European long-term investment fund (ELTIF)

In order to pursue its Europe 2020 strategy the EU identified long-term finance as one crucial element to implement the strategy

In order to pursue its Europe 2020 strategy the EU identified long-term finance as one crucial element to implement the strategy. To foster long-term finance the EU created the European long-term investment fund. An ELTIF is designed to provide finance of lasting duration to various infrastructure projects, unlisted companies, or listed SMEs that issue equity or debt instruments.



1. Raising capital towards European long-term investments in the real economy, in line with the European objective of **smart, sustainable** and **inclusive growth.**
2. ELTIFs must appoint a fully authorised AIFM
3. ELTIFs can raise capital from institutional and retail investors across the EU and the EEA with the EU passport (AIFMD rules)
4. Any AIF can apply for the ELTIF regime
5. Closed-ended structure, redemptions not possible during ELTIF's life-time, exceptionally after five years or ELTIF's half-life point for a defined amount

Source: ALFi guideline - The European long-term investment fund (ELTIF)

An ELTIF must invest at least 70 % of its capital in eligible investment assets within a maximum of five years of authorisation

Concentration and Diversification

Type of assets	Generic rule (per issuer/single asset)	Specific rule	Aggregate
Qualifying portfolio undertakings (mainly unlisted companies)	10%	20%	
Real assets	10%	20%	
Units or other ELTIFs, EuVECA and EuSEFs(1) (2)	10%	-	20%
SMEs	-	-	-
eligible assets for UCITS	5%	-	-

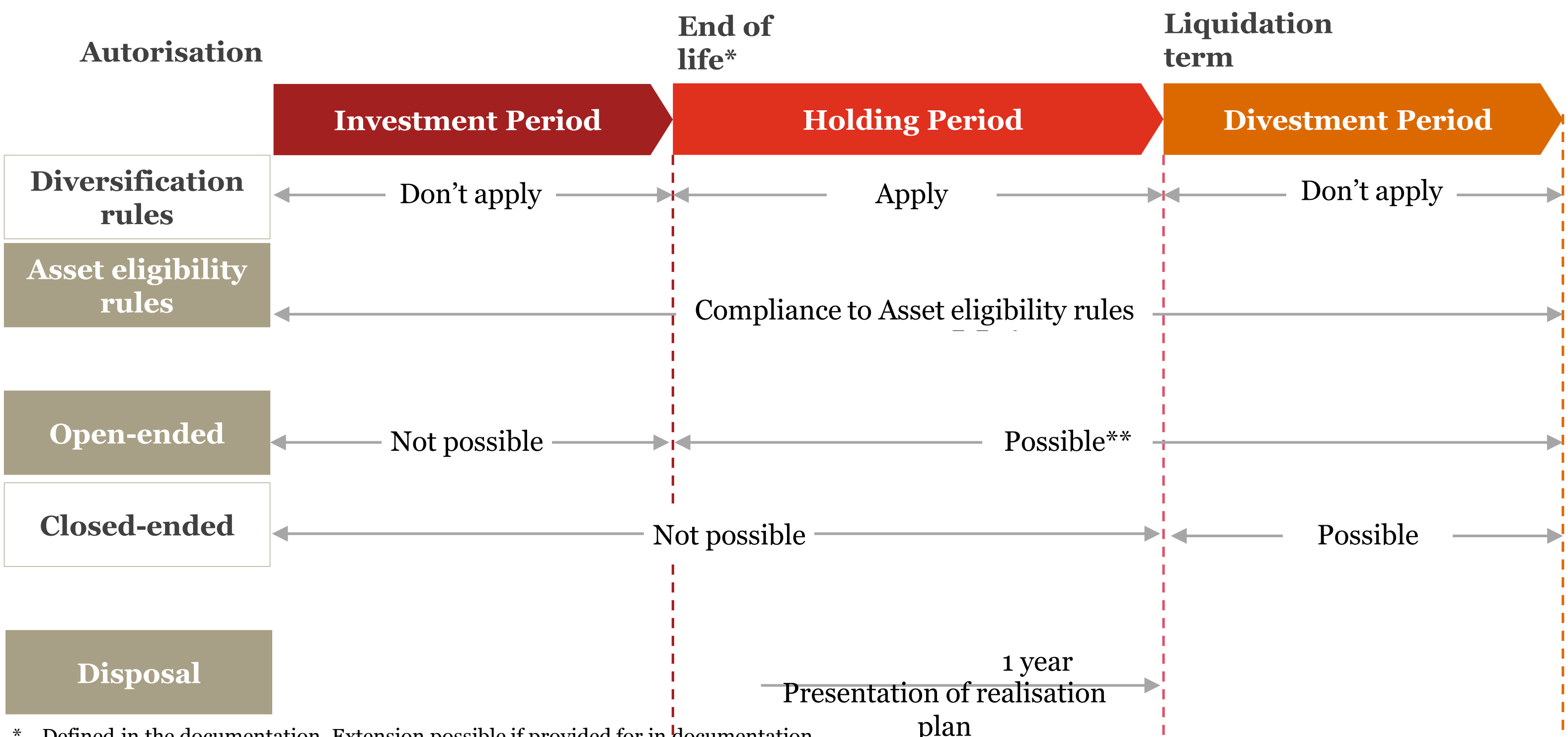
(1) EuVECA - European Venture Capital Funds
EuSEFs - European Social Entrepreneurship Funds
SMEs - small and medium-sized businesses

(2) An ELTIF cannot acquire more than 25% of the units or shares of a single ELTIF, EuVECA, or EuSEF.

% of ELTIF capital

Source: ALFi guideline - The European long-term investment fund (ELTIF)

Investors in ELTIFs cannot request the redemption of their units before the fund's end of life



* Defined in the documentation. Extension possible if provided for in documentation
** In Accordance with documentation

Source: ALFi guideline - The European long-term investment fund (ELTIF)

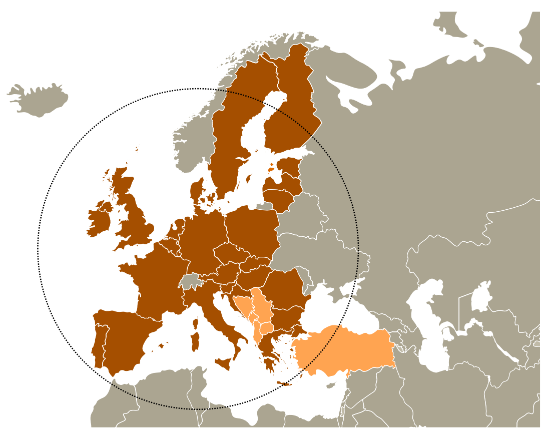
www.pwc.com

Legal and Regulatory requirements

pwc

The European Union governance model guarantees a mature asset and wealth management internal market

EU single market



Member States (28) Candidate countries (8)

Main feature

- 5 constitutive treaties over the past fifty years
- 1 single currency in 19 of the Member States
- Total population 508.2 Mio
- Unemployment rate 10%
- Average GBP per capita: 20,3 K

EU governance model

Body	Power	Composition
Commission	Right of legislative initiative	5-year mandate
Parliament	Debates and adopts EU legislation	751 MEPs 5-year mandate
Council of the EU	Debates and adopts EU legislation	28 Ministers 10 configurations
ESMA	Supranational supervision	Management board/ supervisory board

Common objectives

- ☑ Investor protection
- ☑ Preventing systemic risks
- ☑ Building an internal financial market
- ☑ Sustainable growth

Key focus areas (financial sector)

Asset management
- Retail investment funds
- Alternative investment funds managers
- Product distribution

Banking
- Capital ratio
- Banking services
- Investment services
- Product distribution

Insurance companies
- Product distribution
- Capital requirements

Markets
- Securities settlement
- OTC derivative reporting

Source: PwC Lux

The first UCITS Directive was adopted on 20 December 1985 and preceded by a long legislative process

December 1985	July 1994	July 1998	2009	August 2014
UCITS I	UCITS II	UCITS III	UCITS IV	UCITS V

The European framework ruling investments funds mainly concerns UCITS and has been built around a series of European Union directives, known as the ***UCITS directives***.

UCITS I – Directive 85/611/EEC

- Aim was to **facilitate cross-border offerings** of investment funds to retail investors;
- Allowed any fund authorised as UCITS in its home country to **market its units in other EU Member States** by simply notifying the host Member State;

UCITS II

- 1994/95 proposed amendments regarding cash funds, liberalization of depositary regime, fund of funds, master-feeder structures etc.
- No agreement of Member States (Council of Ministers)

UCITS III

- 1998 UCITS III package: new eligible assets (money market instruments, other UCI, bank deposits, derivatives etc.), minimum standards for management companies (share capital, risk control, rules of conduct etc.) Adopted in 2001;
- Implemented in Luxembourg with the Law of 20 December 2002

UCITS IV Directive 2009/65/EC

- **Current** legal regime; implemented in Luxembourg with the **Law of 17 December 2010**
- **Aimed to** reduce administrative burden, increase of investor protection & increase of market efficiency
- Key elements:

UCITS V &VI (Today UCITS V is already in place in Luxembourg and has been transposed in Luxembourg Law dated 12 May 2016

Status
- Published in the Official Journal of the EU on 28 August 2014;
- EU member states have until **18 March 2016** to transpose the directive into national law

Remuneration
- E.g. introduction of malus and clawback arrangements - will allow managers to claim back bonus payments made in previous years if certain violations have been discovered.

Depositary
- E.g. more onerous obligations regarding custody; stricter liability regime (similar to AIFMD requirements).

Sanctions
- E.g. national regulators now able to sanction when breaches have occurred; introduction of whistleblowing procedures.

Source: PwC Lux

Key topics of UCITS Directives

	UCITS I	UCITS II	UCITS III	UCITS IV	UCITS V
ORIENTATION	**FUND**		**ManCo**	**MARKETING**	**DEPOSITS**
CHARACTE-RISTICS	• Facilitate cross-border offerings of investment funds to retail investors	• Liberalization of depositary regime 1. Inclusion of cash funds 2. Master-feeder structures	• Expansion of investment possibilities – new instruments: 1. Money market instruments 2. Units of other UCIs 3. Bank deposits 4. Financial derivatives • Eased investment restrictions for tracker funds • Definition of minimum standards which a UCITS management company should comply (capital and risk control, rules of conduct, etc.) • Passport at ManCo level	• Introduction of passport for UCITS • New opportunities for market consolidation and rationalisation of UCITS structures: 1. Merging UCITS both on domestic and cross-border basis 2. Pooling of fund assets via master-feeder structures 3. Introduction of KIID (Key Investor Information Document) 4. Introducing of a regulator-o-regulator approach	• Clarification of the depositary's functions: 1. New rules on delegation of safe-keeping of assets 2. Harmonisation of the rules governing the depositary's liability • Introduction of rules on remuneration policies • Harmonisation administrative sanctions and measures for breaches of key provisions of the directive
ACCEPTANCE	✓ Adopted	× No common position from Member States × No implementation of UCITS II	✓ Adopted	✓ Adopted	× Not yet adopted
BENEFITS	• Broader investor base • Transparency • Liquidity	• Greater liquidity • Consolidation of multiple portfolios	• Reduce costs at EU level (AM level) due to removal of cost duplication	• Regulatory oversight (efficiency in reporting) • Accessible and simplified fund market	• Regulatory oversight • Alignment of processes (one single strategy)

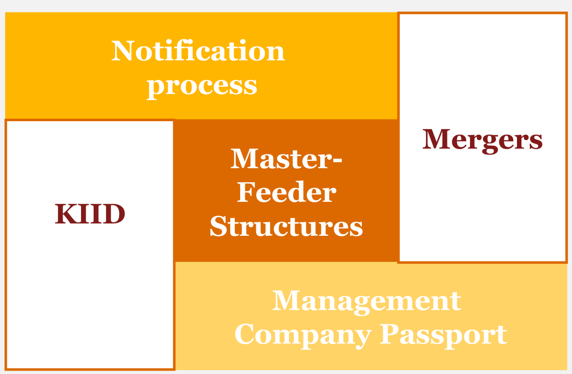
Source: PwC Lux

UCITS Directives – UCITS IV

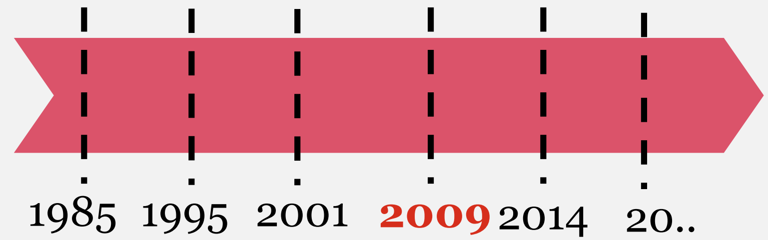
The main enhancements to the UCITS regime introduced in UCITS IV are Management Company Passport and cross-border merger of UCITS

UCITS IV

- Directive 2009/65/EC
- **Current** legal regime; implemented in Luxembourg with the **Law of 17 December 2010**
- **Aimed to** reduce administrative burden, increase of investor protection & increase of market efficiency
- Key elements:



UCITS Directives



1985:	UCITS I
1995:	UCITS II (*dead end*)
2001:	UCITS III
2009:	**UCITS IV**
2014:	**UCITS V** (implementation deadline expires in March 2016)
20…:	UCITS VI – consultation paper by European Commission (topics: money market funds, shadow banking etc.)

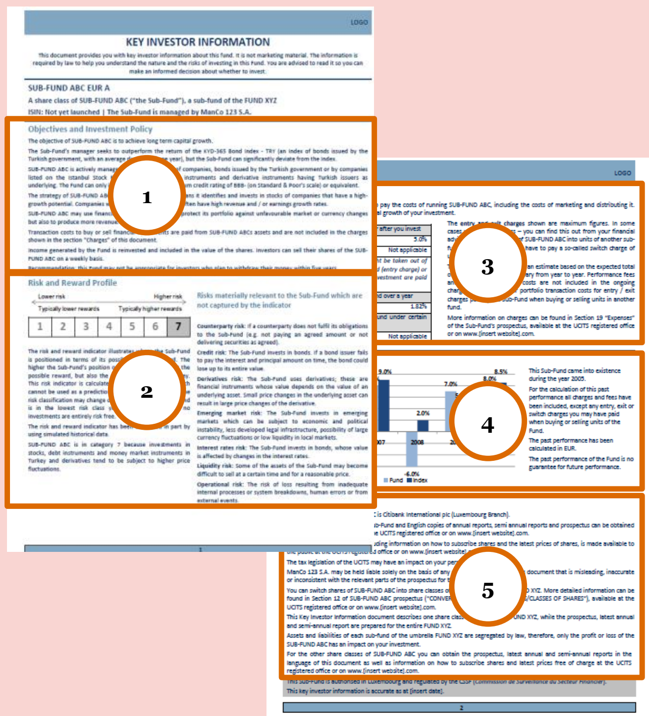
Source: PwC Lux

UCITS Directives – UCITS IV

The KIID* is designed as a concise document delivering critical information about the fund

KIID

(*) Key Investor Information Document
→ fund fact sheets with standardized content



1 Objectives and Investment Policy

- What is the aim of this investment fund / what will the investment consist of?

2 Risk and Reward

- What are the risks of this investment?

3 Charges

- What are the costs of this investment?
- What is included in the costs and how are costs calculated?

4 Past Performance

- How has the fund performed in the past?
- How is the past performance calculated?

5 Practical Information

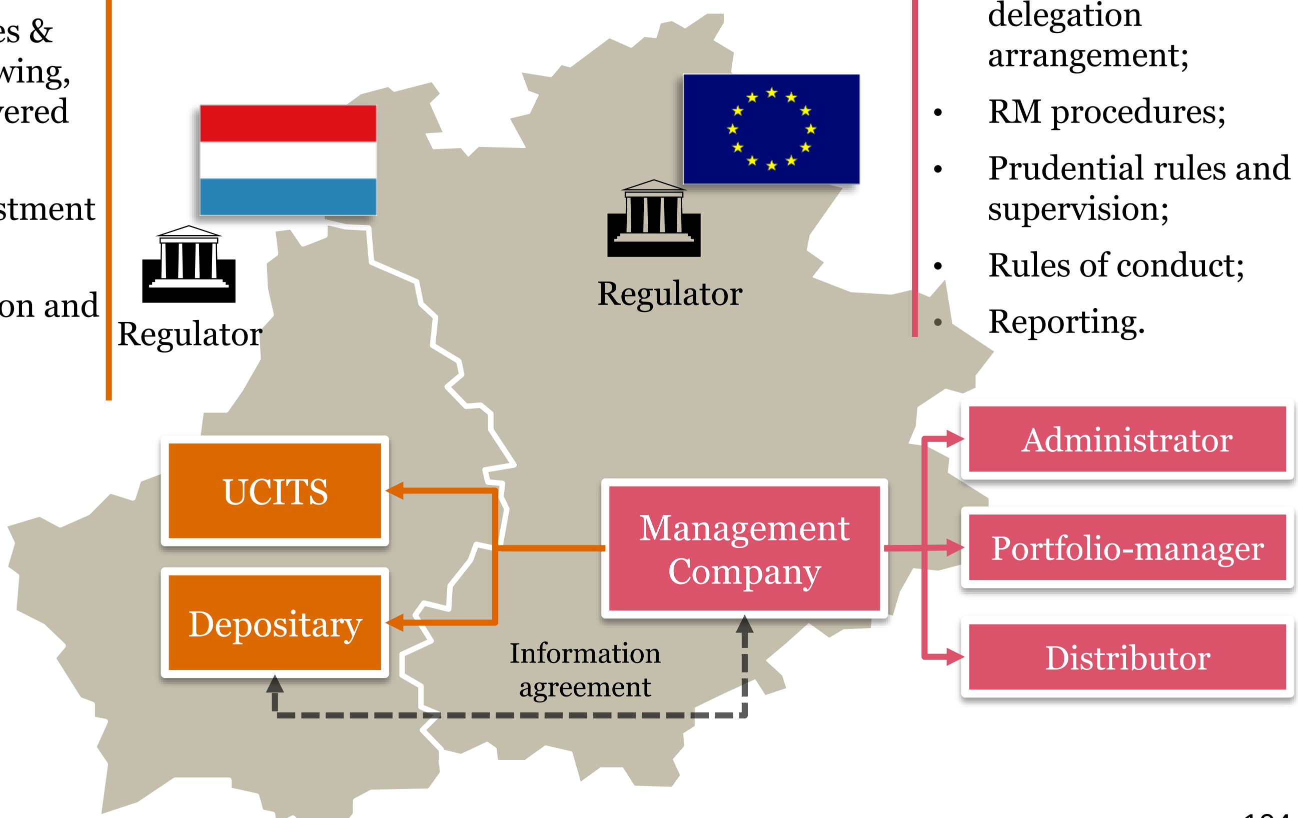
- Who is responsible for the investment / Where can I get further information?

Source: PwC Lux

UCITS Directives – UCITS IV

Under the management company passport portion of the UCITS IV legislation, UCITS may be managed by a ManCo authorised and supervised in another EU Member State

- Set up & Authorisation;
- Investment policies & limits (incl. borrowing, lending and uncovered sales);
- NAV errors / investment breaches;
- Merging, liquidation and restructuring.



- Organisation, incl. delegation arrangement;
- RM procedures;
- Prudential rules and supervision;
- Rules of conduct;
- Reporting.

Source: PwC Lux

UCITS Directives – UCITS IV

Main characteristics for a Management Company Passport

Can Management Company perform all functions?	- Chapter 15 Management Company core functions are the Portfolio management, the Fund administration and the Marketing, plus the Risk management - May provide additional services, as per the relevant Law - Performs itself its core functions or may delegate some of them. Can not delegate all core functions (no letter box entities) - Oversees the delegated functions
Management Company Passport	It permits management companies and AIFMs to manage UCIs in other EU/EEA Member States other than their Home Member State either through the "free provision of services" or the establishment of a branch. It allows them to perform in other EU/EEA Member States the other activities for which it has been authorized in its Home Member State (providing discretionary portfolio management or investment advice).

Source: PwC Lux

UCITS Directives – UCITS V

New depository rule, new remuneration rules for managers, new administrative sanctions

Depository

- Clarification on eligibility criteria to act as **single depositary;**
- Clarification on the depositary **safekeeping** function;
- Clarification on the depositary's **oversight** duties;
- Introduction of **delegation** rules;
- Reinforcement of **liability regime.**

Independence

- **Mandatory number** of **independent members** to the supervisory body**,** e.g. board of directors
- **Stricter rules for overlapping of management bodies**

Sanctions

- Increase of **investigative powers** and **administrative sanctions** of competent authorities
- Pecuniary sanctions can be up to at least **twice the amount of the benefit deriving from the breach**
- Or for **legal persons** up to at least **EUR 5,000,000** or where so provided under applicable law up to 10% of its total annual turnover
- For **natural persons** up to at least **EUR 1,000,000**
- **ESMA** to publish an annual report on all sanctions imposed (history of 5 years).

Remuneration

- Recognition of the impact of **remuneration schemes** to the financial crisis;
- Remuneration should be more clearly aligned to **investor interests** and supported by robust policies and procedures;
- Remuneration policy applicable to **identified staff** (to be aligned with AIFMD);
- **Disclosure** of remuneration practices in the annual report;
- **Performance fees** still allowed and **no 100% cap** on fund manager bonuses;
- **At least 40% of the variable remuneration** is to be deferred

ManCo/Depository (Independence, Sanctions)

ManCo (Remuneration)

Source: PwC Lux

UCITS Directives – UCITS V

Depositary duties

◎O: new requirement

Depositary must be a Luxembourg bank	Part I FCP	Part II FCP	SIF FCP
1) Custody of assets			
1.1 - Hold in custody all financial instruments that can be registered / physically delivered	◎	◎	◎
1.2 - Verify ownership of all other assets (which can not be held in custody) and maintain up to date record	O	O	O
2) Day-to-day administration of assets (collection of dividends, interest and proceeds of matured securities, the exercise of options)	O	O	O
3) Supervision/control of the UCI			
3.1 - Control of the NAV calculation	O	O	O
3.2 - Control of issue, repurchase, cancellation of units	O	O	O
3.3 - Control that the consideration to the fund's transactions is remitted within the usual time limits	O	O	O
3.4 - Control that the UCI's income are applied correctly	O	O	O
3.5 - Investment restrictions	O	O	O
4) Cash flow monitoring	O	O	O

Liability of Depositary

O : The depositary shall generally be liable to the fund, or to the investors of the fund, for all other losses suffered by them as a result of the depositary's negligent or intentional failure to properly fulfill its obligations. **(Obligation of means)**

◎ : There is an enhanced liability regime for 1.1:

In the case of such a loss of a financial instrument held in custody, the depositary shall return a financial instrument of identical type or the corresponding amount to the UCITS or the Management Company acting on behalf of the UCITS without undue delay. **(Obligation of results)**

Source: PwC Lux

UCITS Directives – UCITS V
Remuneration policy

Remuneration of UCITS Managers should be designed to:

Ensure **the protection of the interests of clients and investors** in the course of collective portfolio management activities and other services provided.

Promote sound and effective risk management, and discourage any risk-taking which is inconsistent with the risk profiles, fund rules of instruments of incorporation of the managed UCITS

Remuneration structures for fixed and variable components of total remuneration (restrictions on variable remuneration, deferral of a portion of variable remuneration).

Remuneration Policies should apply to those categories of staff whose professional activities may have **a material impact on the risk profile** of a managed UCITS

Source: PwC Lux

UCITS Directives – UCITS V
New sanction regime

1 Qualification of the breach

List of breaches

Breaches in relation to:
- Authorisation/ Licensing;
- Shareholding composition;
- Compliance with regulation (e.g. non-compliance with central admin or delegation requirements, ...).

2 Proportionality principle

Criteria

- Relevant circumstances to be taken into consideration (e.g. gravity and duration of the breach, degree of responsibility of the responsible person,...).

3 Sanction

Harmonized sanctions

- Order to cease;
- Public statement;
- Temporary ban;
- Pecuniary sanction (different levels).

\+ Additional publication unless would cause a damage to the market.

Source: PwC Lux

UCITS Directives – UCITS VI
Key impacts

EC's consultation paper issued on 26 July 2012:

1	**Eligible assets and use of derivatives**	Evaluation of the current practices in UCITS portfolio management and assessment of certain fund investment policies
2	**Efficient portfolio management techniques**	Assessment of current rules regarding certain types of transactions and management of collateral
3	**Over the counter (OTC) derivatives**	Treatment of OTC derivatives cleared through central counterparties, assessment of the current framework regarding operational risk and conflicts of interest, frequency of calculation of
4	**Extraordinary liquidity management rules**	Assessment of the potential need for uniform guidance in dealing with liquidity issues
5	**Depositary passport:**	Assessment of whether or not to introduce a cross border passport for the performance of the depositary functions set out in the UCITS Directive
6	**Money Market Funds (MMF)**	Assessment of the potential need to strengthen the resilience of the MMF market in order to prevent investor runs and systemic risks
7	**Long term investments**	Assessment of the potential need for measures to promote long term investments and of the possible form of such measures (including investments in social entrepreneurship)
8	**Addressing UCITS IV**	Assessment of whether or not the rules concerning the management company passport, master feeder structures, fund mergers and notification procedures might require improvements

Source: PwC Lux

The actual UCITS framework covers the Product and the Management Company passports

Harmonised framework?

YES → *Product*

YES → *Service providers*

Product

Eligible investors
- Retail
- HNWI
- Professional
- Institutional

Eligible assets
- Listed transferable securities
- Non-listed transferable securities
- MMI, UCITS and UCI equivalent, bank deposits
- ~~Real Estate~~
- ~~Private equity~~

EU passport available: YES → Harmonised notification process

Other common features
- Investment restrictions
- Master-feeder
- Cross-border merger

Service providers

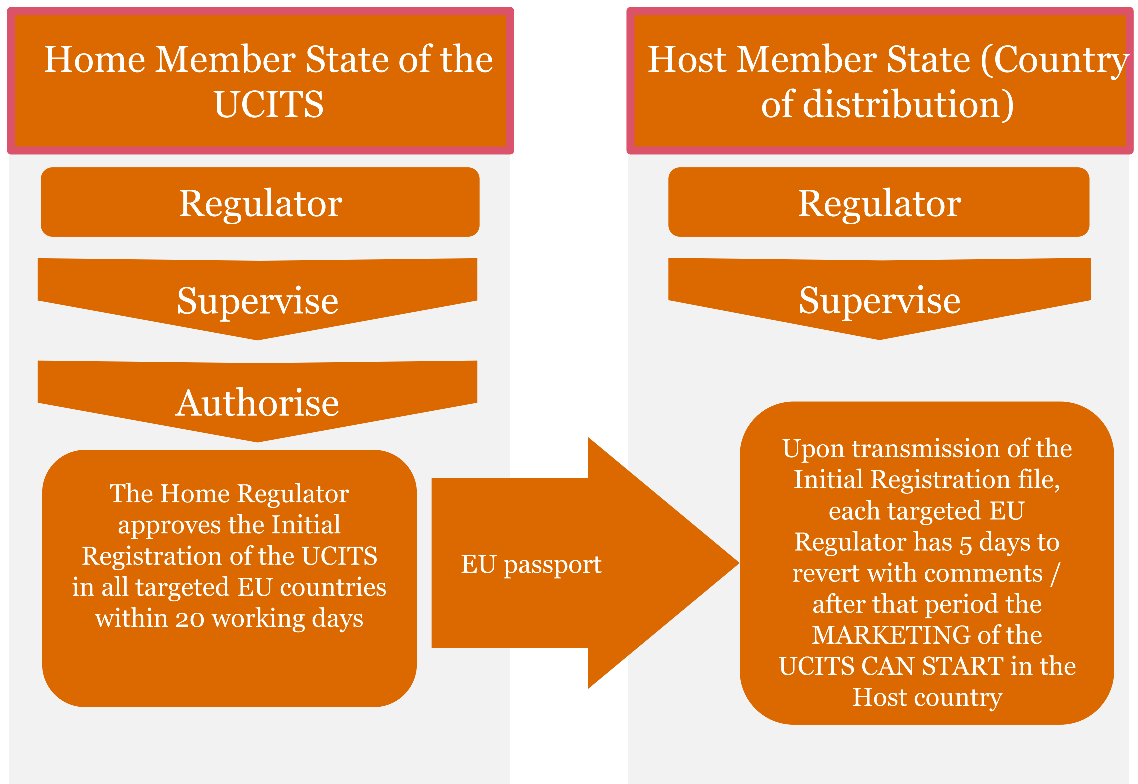
Entity	Core functions		Passport available?
Management Company	Portfolio management	Risk management	**YES** Harmonised notification process
	Fund administration	Distribution	
Depositary Bank	Safekeeping of financial assets	Record keeping of non-financial assets	**NO**
	Service providers oversight	Cash flow monitoring	

Source: PwC Lux

The UCITS Directive introduces the concept of "Product" passport to facilitate the distribution of UCITS in Europe

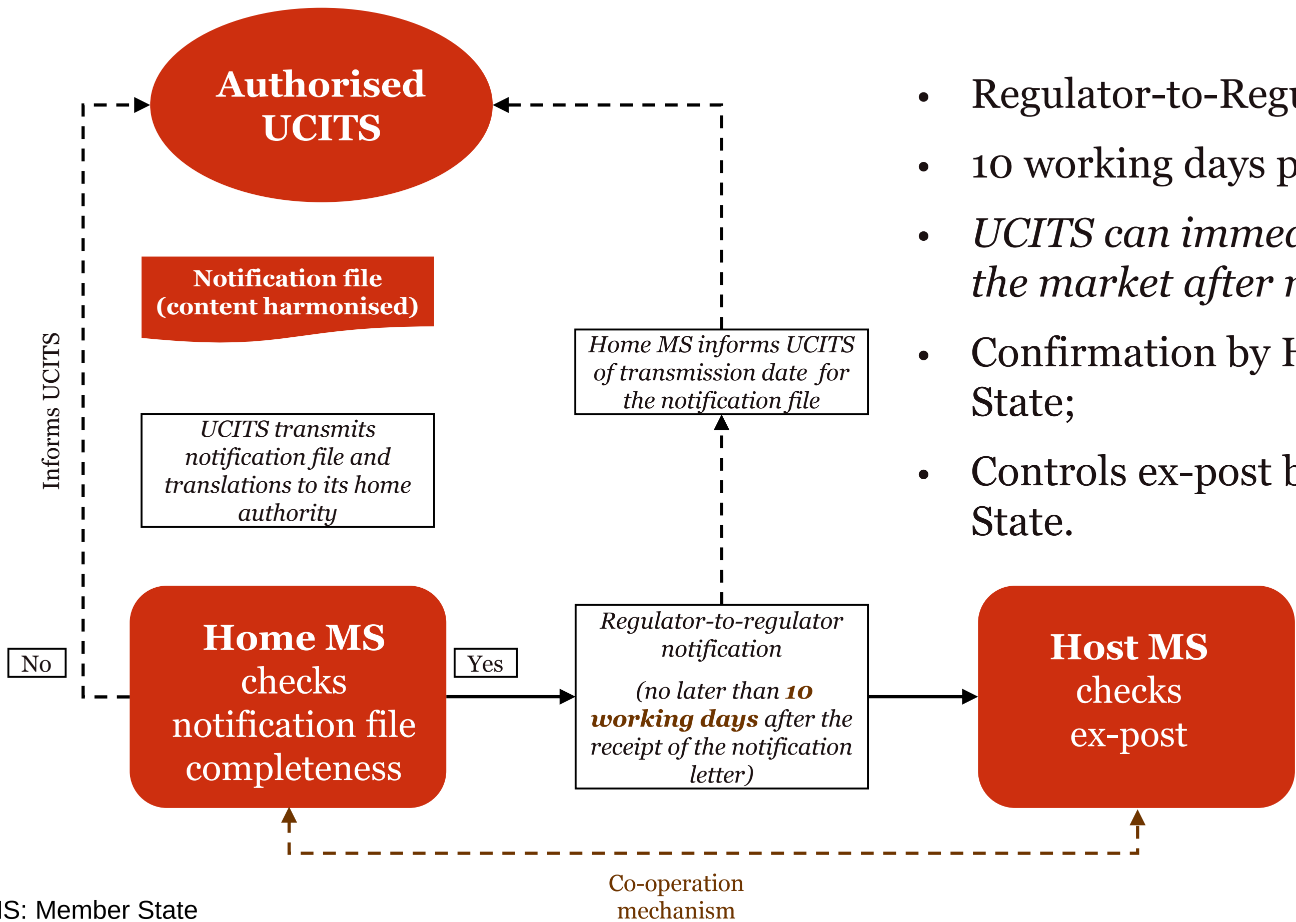
- The passport allows UCITS to distribute publicly their shares/units on a cross-border basis without having to satisfy a very high number of local regulations in each country of distribution (as it used to be before the UCITS Directives).

- Even though there are still some local requirements to meet, the initial registration process of UCITS in other EU Member States is a quick process (approval from the Home regulator of the UCITS within 20 working days).



Source: PwC Lux

The notification procedure simplifies the authorisation process for UCITS distribution in any other EU member state



- Regulator-to-Regulator;
- 10 working days process;
- *UCITS can immediately access the market after notification;*
- Confirmation by Home Member State;
- Controls ex-post by Host Member State.

MS: Member State

Source: PwC Lux

The ManCo passport permits management companies located in one member state to manage UCITS domiciled in another member state

Management Company Passport

Two <u>general aspects</u>:

(i) Regulatory requirements of the **management company's home state**, i.e. organisational requirements, rules of conduct …;

(ii) Regulatory requirements of the **UCITS' home state**, i.e. setup and functioning of the fund.

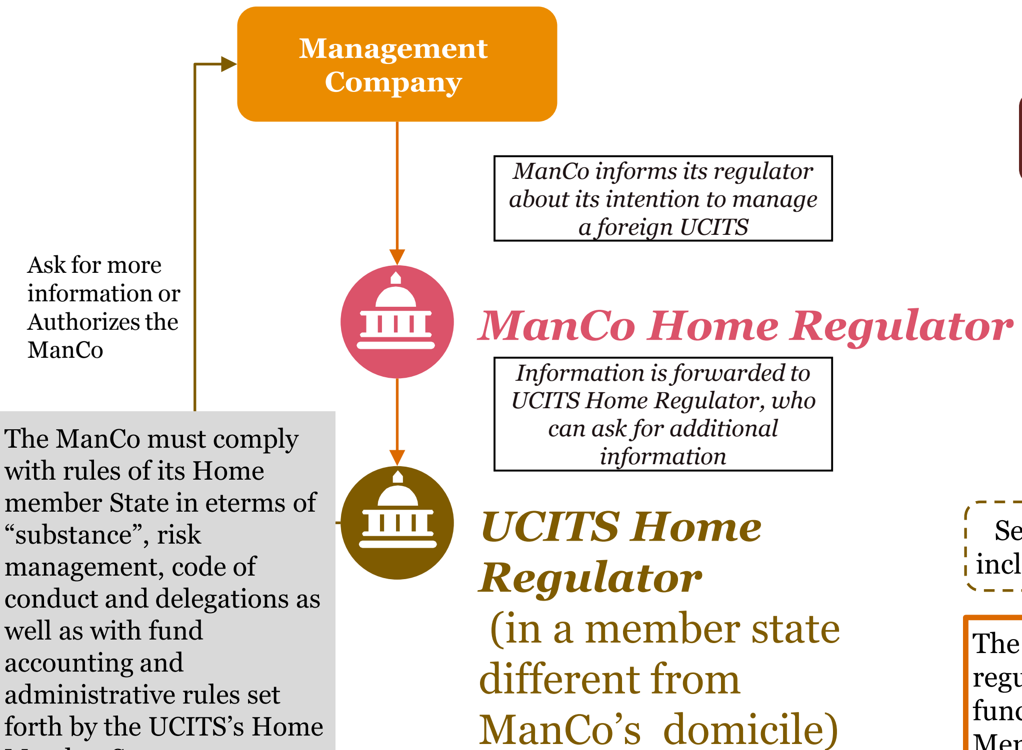
- **Condition:** management company needs to obtain a licence as management company in its home state and comply with the passporting procedures according to UCITS IV;
- Management company informs its regulator about its intention to manage a foreign UCITS;
- Information will be forwarded to the UCITS regulator (Fund Regulator), who will review the documents, but also reserves the right to ask for additional information if not satisfied.

Management passport	• Management company has permission to perform activities in a EU/EEA member state without prior authorization if such activities have been authorized in a EU/EEA member state. • <u>Cross-border management</u>: branch or free provision of services.
Product passport	• The product can be marketed to retail/professional investors in other EU/EEA member states. • <u>Cross-border distribution</u>: notification procedure.

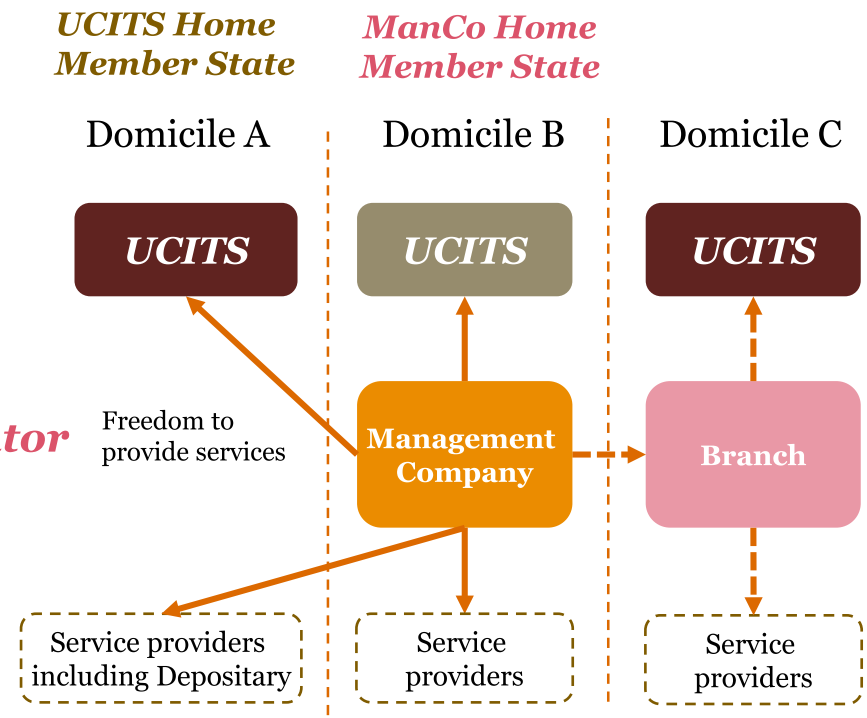
Source: PwC Lux

The ManCo passport can work by stablishing a branch of the ManCo in the other Member State or through direct servicing to the UCITS located abroad

The Management Company passport covers all the activities for which the ManCo has been authorised in its Home Member State, i.e, core functions and non-core functions



The ManCo must comply with rules of its Home member State in eterms of "substance", risk management, code of conduct and delegations as well as with fund accounting and administrative rules set forth by the UCITS's Home Member State.



The depositary shall enter into an agreement with the ManCo regulating the flow of information and procedures to perform functions and shall allow the Regulator of the UCITS's Home Member State to obtain information on request.

Source: PwC Lux

Luxembourg was the first country to implement the UCITS Directive into national law

- Since 1988, Luxembourg stays very reactive to adopt the legal environment to maintain his position in the financial sector.

UCITS Part I: Law of 17 December 2010 on Undertaking for Collective Investment (UCITS)

funds (AIFs) in the meaning of the Luxembourg **law of 12 July 2013** on alternative investment fund managers **(AIFM law).** Whereas the latter focuses on the fund's manager, the fund itself is governed by the relevant product laws.

UCI Part II: Law of 17 December 2010 on UCI

Collective Investment in Transferable Securities. The concept originally derived from the European Directive 85/611/EC, replaced by European Directive 2009/65/EC dated 13 July 2009, which provides a single regulatory regime across the European Union for open-ended funds investing in transferable securities such as shares and bonds. With a view to defining the highest levels of investor protection, the Directive regulates the organization, management and oversight of such funds, and imposes rules concerning diversification, liquidity and use of leverage.

AIFM: Law of 12 July 2013 on alternative investment fund managers (AIFM)

➢ Applies to managers of non-UCITS and encompasses:
Capital requirements;
Transparency and disclosure;
Operational and organisational requirements including

- Delegation;
- liability of the depositary;
- Remuneration;
- marketing.

*Exception: SICAV set up as SCSp (Special Limited Partnership)

Source: PwC Lux

Besides the Law of 12 July 2013, CSSF published the Circular 14/587 with new rules to depository banks and anticipate the transposition of the UCITS V Directive

Regulation	AIFMD	CSSF Circular 14/587	UCITS V
Funds in scope	AIFs	UCITS/Part II Funds	
Key Issues	**Safekeeping:** ▪ Increase liability for financial assets and reverse burden of proof ▪ Changes to financial asset segregation and sub-custodian level, incl. reconciliation ▪ Increased ownership verification obligation **Oversight** ▪ Uniform rules for all fund types (no discrimination of legal form, e.g. FCP/ SICAV) ▪ Increased information exchange and escalation process with AIFM ▪ Oversight of prime broker/ counter-party and safekeeping obligation **Cash monitoring:** ▪ Overview of all cash AIF's inflows and outflows and third party accounts ▪ Information of bank accounts opened by third party banks in the name of AIF	**Safekeeping difference to AIFMD:** ▪ Segregation of assets and ownership verification (level 0, level 1, level 2) ▪ No change of liability/burden of proof **Reinforced to AIFMD:** ▪ Confirmation about assets in custody held by third party/ sub-custodian ▪ Annual confirmation of due diligence performance by entity below custody chain ▪ Record keeping of assets not held in custody **Oversight reinforced to AIFMD:** ▪ Ex-ante and ex post controls ▪ Information exchange and reciprocal escalation procedure **Cash monitoring reinforced to AIFMD:** ▪ Reconciliation procedure ▪ Significant cash flow procedure	**In principle 1:1 transposition of AIFMD depository requirements onto UCITS –based on Level I text and Level II consultation** **Key differences to AIFMD** ▪ No possibility to discharge liability ▪ Governance requirements to be enforced and analysis of segregation rules per country of custody (ESMA consultation level II)
Status	Live	Transition	Level I September 2014/ Level II December 2015
End of transition	July 2014	March 2016	March 2016/September 2016

Source: PwC Lux

Luxembourg transposed the AIFMD into the law of 12 July 2013

Context AIFM: Law of 12 July 2013 on alternative investment fund managers (AIFM)

- Over the last 20 years Luxembourg has built up its position as the most popular domicile for undertakings for collective investments in transferable securities (UCITS). At the same time Luxembourg has developed a strong track record in alternative investment products and bespoke investment structures such as hedge funds and funds of hedge funds, private equity vehicles and real estate funds.
- **In 2004 and 2007 respectively Luxembourg created the Investment Company in Risk Capital (SICAR) and the Specialised Investment Fund (SIF)** in anticipation of a changing regulatory environment for alternative investment funds. An Undertaking for Collective Investment (UCI) established under Part II of the Law of 2010 is an investment fund that does not invest in transferable securities.
- The global financial crisis of 2008, most notably the Lehman and Madoff affairs, highlighted certain gaps in the regulatory framework of the alternative investment fund industry. As a result of a wider regulatory effort, the The Alternative Investment Fund Managers Directive 2011/61/EU was approved by the European Parliament. With the law of 12 July 2013 on alternative investment fund managers (the 'AIFM Law'), Luxembourg has transposed the European Directive 2011/61/EU on alternative investment fund managers ('AIFMD') into Luxembourg law.

« Commission de Supervision du Secteur Financier » CSSF

- Investment fund industry is regulated by the **CSSF "Commission de Supervision du Secteur Financier" ("CSSF")** which is a public institution that supervises the professionals and products of the Luxembourg financial sector. It supervises, regulates, authorises, informs, and, where appropriate, carries out on-site inspections and issues sanctions

Source: https://www.cssf.lu/en/documentation/regulations/laws-regulations-and-other-texts/news-cat/543/#c7489

The AIFMD aims to regulate funds / fund managers that were previously unregulated but which operated in the EU or were marketed in the EU

Alternative Investment Fund Managers Directive

- European Commission: AIFMs „had become very significant actors in the European financial system"
- Directive published in the Official Journal of the European Union on July 1, 2011 and came into force on **July 21, 2011**
- Applies to **managers** of alternative investment funds operating within, or marketing to investors in, the European Union
- **Luxembourg:** implemented into national law in 2013 (**Law of 12 July 2013**)
- Supplemented by *Level II Regulations* and *guidelines* published by the European Securities and Markets Authority (ESMA)

2011: AIFMD

Background

- Response to financial crisis 2008
- Harmonized regulatory framework
- Directive aims to increase transparency: AIFMs subject to stricter supervision and reporting requirements

Source: PwC Lux

The AIFMD implements new rules for the authorisation, operation and transparency of AIF managers' functions

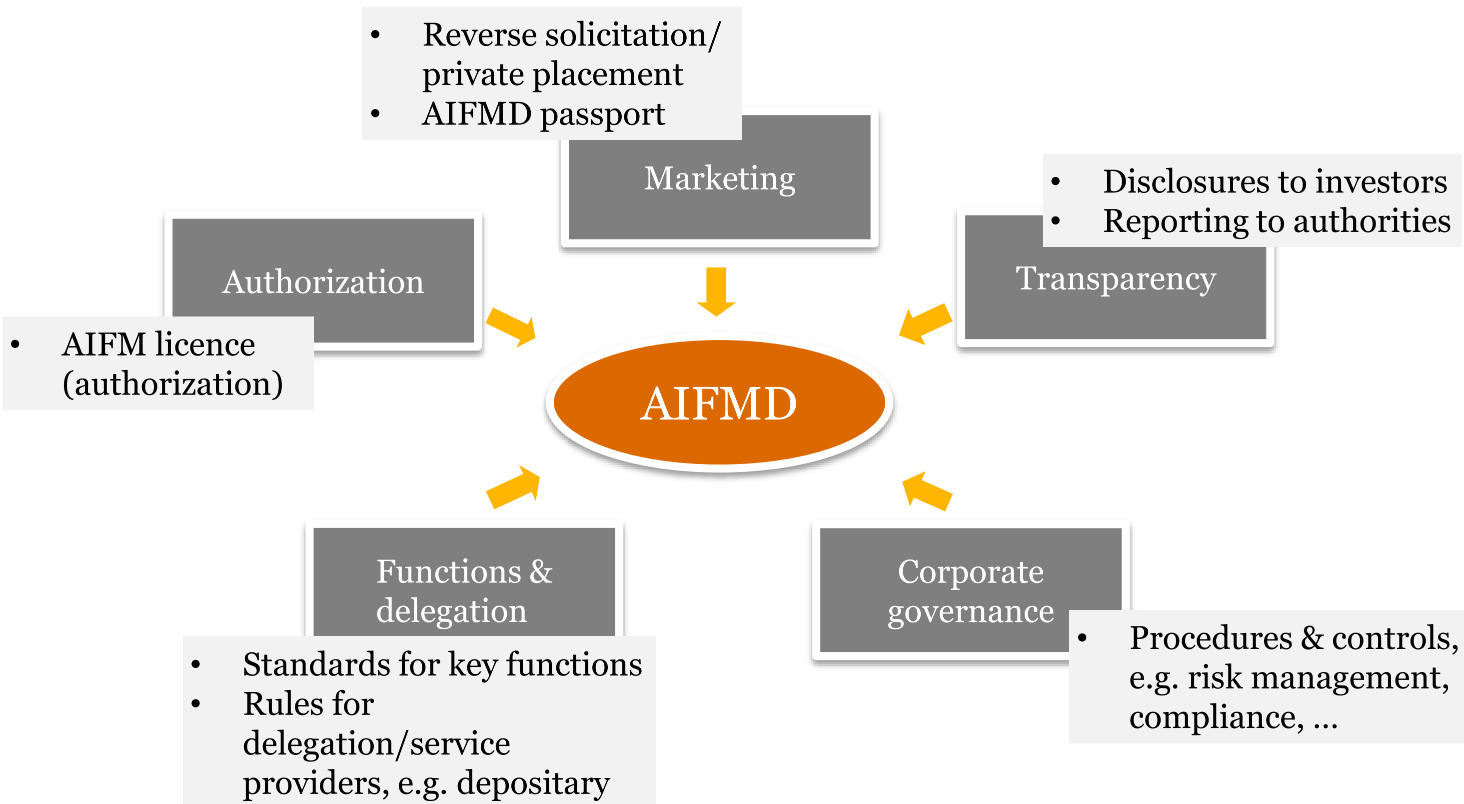
	July 2011	July 2013	July 2014	September 2015	2018
CHARACTE-RISTICS	• AIFMD enters into force	• EU Member States to have implemented the AIFMD and compliance with certain provisions for non-EU AIFMs marketing in the EU	• Authorisation by EU AIFMs and compliance with AIFMD must be obtained	• All non-EU AIFMs managing EU AIFs and non-EU AIFMs marketing AIFs to EU investors to be authorised by their "relevant regulator"	• ESMA may decide to abolish the national private placement regime

BENEFITS

- Integrating wider business objectives (managers can embed risk management in at the company level instead of only on portfolio risk management)
- Improving investor communication (investors want specific details of AIFMD compliance as part of operational due diligence. Desire to be well prepared and execute orderly implementation and on-going compliance processes)
- Improving formal policies and processes, operational due diligence

Source: PwC Lux

AIFMD Main aspects

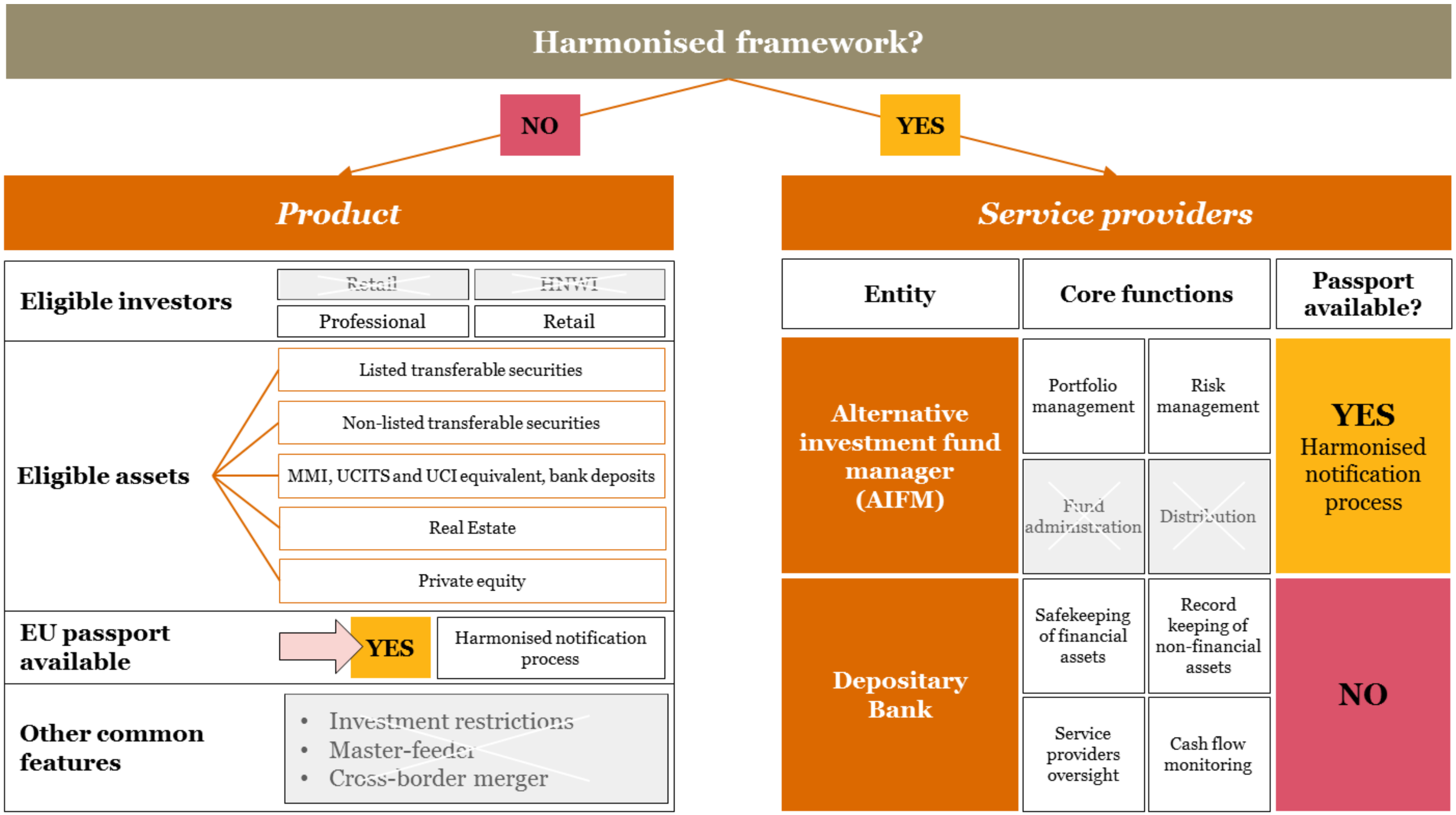


Some key characteristics related to the main functions described in AIFMD

Delegation of roles	• AIFMD allows the AIFM to delegate functions (e.g. portfolio management and risk management) • However, forbids AIFM from becoming a 'letterbox' entity – may be a qualitative or quantitative test by regulators to assess whether an AIFM is a 'letterbox' or not
Depositaries	• Every AIF must have a depositary • The depositary must be established in the same domicile as the AIF (if an EU AIF) • Non-EU AIFs must have a depositary – either in the same domicile as the AIF or the AIFM
Leverage	• AIFMs will be required to inform regulators of leverage limits for their AIFs • Regulators can impose leverage limits on AIFs for financial stability reasons • Methods of calculation of leverage allowed under AIFMD based on UCITS: commitment and gross method
Remuneration	• Remuneration requirements for AIFMs copied out of CRD III • Only applies to AIFM – not other firms who have been delegated functions
Third country aspects	• AIFMD restricts use of third country firms as delegates of the AIFM • Private placement regime may be removed across Europe in 2018
Valuation	• Valuation of AIFs must be performed by external valuer or internally, if 'functionally independent' from portfolio management role
Capital requirements	• Set capital requirements for internal and external AIFMs – dependent on AUM of AIFs • Additionally, AIFMs must hold further funds or PII as cover against professional liability risks
Risk management	• AIFMs must 'functionally and hierarchically' separate risk management from portfolio management • Must implement a due diligence process for investment strategies of an AIF
Additional activities of an AIFM	• AIFMD prohibits a MiFID firm from being an AIFM • However, AIFMD allows AIFMs to perform some 'MiFID' activities (e.g. portfolio management and investment advice)

Source: PwC Lux

The scope of AIFMD framework are the rules for AIF managers duties and a marketing passport for distribution in other EU member states



Strategy meeting

Source: PwC Lux

Under the AIFMD, European alternative fund managers can now avail of a marketing passport to distribute alternative investment funds (AIFs) within the EU

The AIFMD passport can be used if a fund promoter has an ***Alternative Investment Fund Manager (AIFM)*** based in an EU member state with a European domiciled AIF or alternatively the fund promoter establishes a European domiciled ***self-managed AIF*** (which is authorised both as the fund and the AIFM). From 2015, EU / non-EU AIFMs may also have the possibility of using the marketing passport for non-EU AIFs.

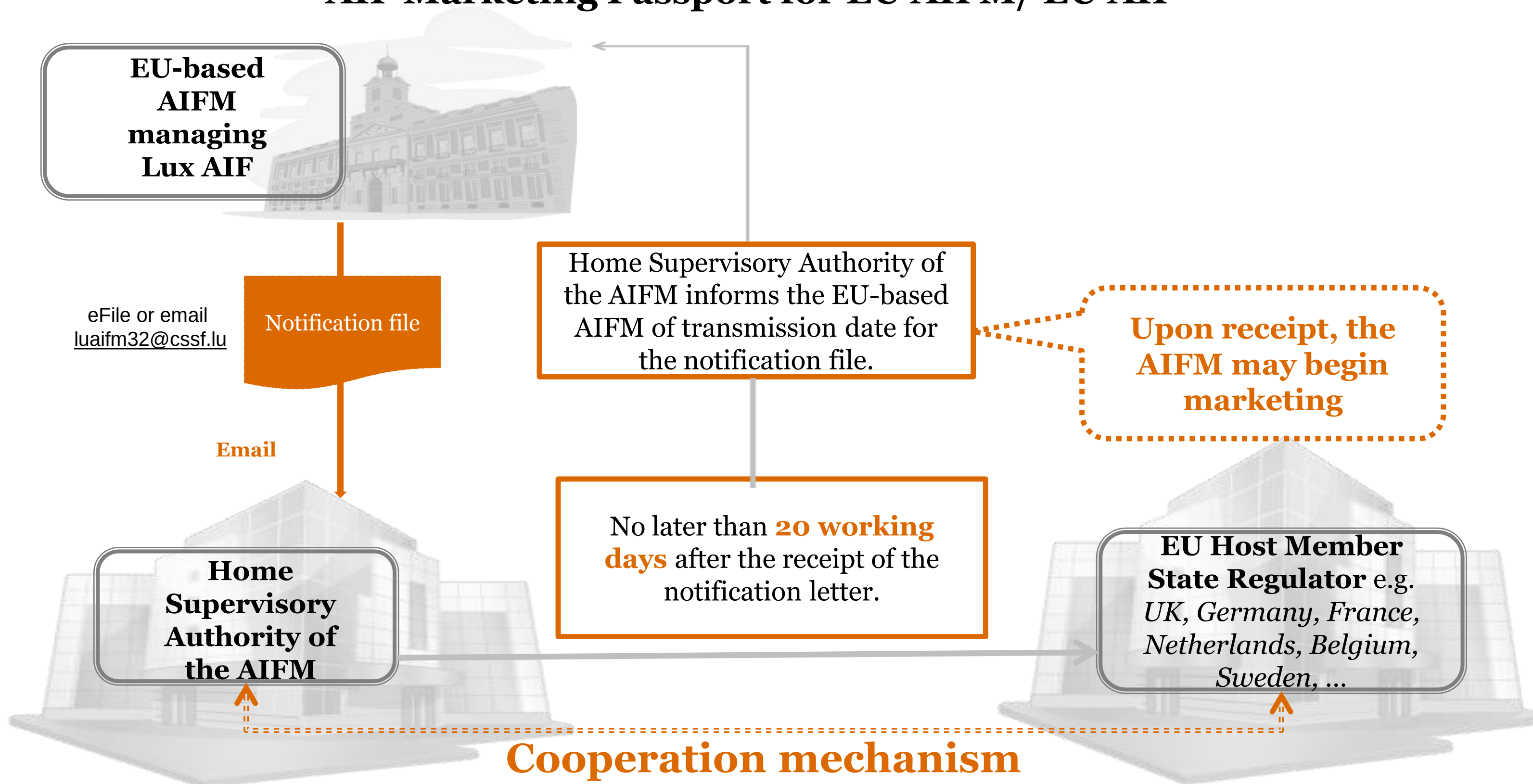
Domiciles / marketing	Does AIFMD apply?	Marketing Arrangements
EU AIFM/ EU AIF – marketed in EU	Yes	EU Passport (July 2013)
EU AIFM/ EU AIF – not marketed in EU	Yes	None
EU AIFM/ Non-EU AIF – marketed in EU	Yes	EU Passport (from mid 2015)*
EU AIFM/Non-EU AIF – not marketed in EU	Yes	None
Non-EU AIFM/ Non-EU AIF – marketed in EU	Yes	EU Passport (from mid 2015)*
Non-EU AIFM/ Non-EU AIF – not marketed in EU	Yes	None
Non-EU AIFM/ EU AIF – marketed in EU	Yes	EU Passport (from mid 2015)*
Non-EU AIFM/ EU AIF – not marketed in EU	Yes	None

*Dependent on assessment by European Securities and Markets Authority (ESMA)

Source: PwC Lux

The passporting procedure under AIFMD is similar to that as outlined previously for UCITS funds

AIF Marketing Passport for EU AIFM/ EU AIF



Source: Marketing notification (Professional investors) - EU AIFM managing EU AIF, Regulatory requirements of AIF Marketing Passport for EU AIFM/ EU AIF (Art. 32 AIFMD)’

Documentation to be provided in case of intended marketing within the European Union

Documentation to be provided in case of intended marketing

EU Member States other than the Home State of the AIFM
• A notification letter , including a program of operations identifying the AIFs the AIFM intends to market and information on where the AIFs are established; • The AIF rules or instruments of incorporation; • Identification of the depositary of the AIF; • A description of, or any information on, the AIF available to investors; • Information on where the master AIF is established if the AIF is a feeder AIF; • Any additional information referred to in Article 23(1) for each AIF the AIFM intends to market; • Where relevant, information on the arrangements established to prevent units or shares of the AIF from being marketed to retail investors, including in the case where the AIFM relies on activities of independent entities to provide investment services in respect of the AIF.
• Who is responsible: PwC draft it based on the information received from the client, makes the client reviewed the notification file and then sends it to the supervisory authority of the Home Member State for its approval. It has 10 days to approve/reject the notification file. Then, the notification file is transmitted by the Home Regulator to the Host one which has 5 days to confirm the good receipt of the document.

Source: PwC Lux

The aim of the passport is to harmonize rules at European level, But there are some specificities in each countries

Differing requirements per country

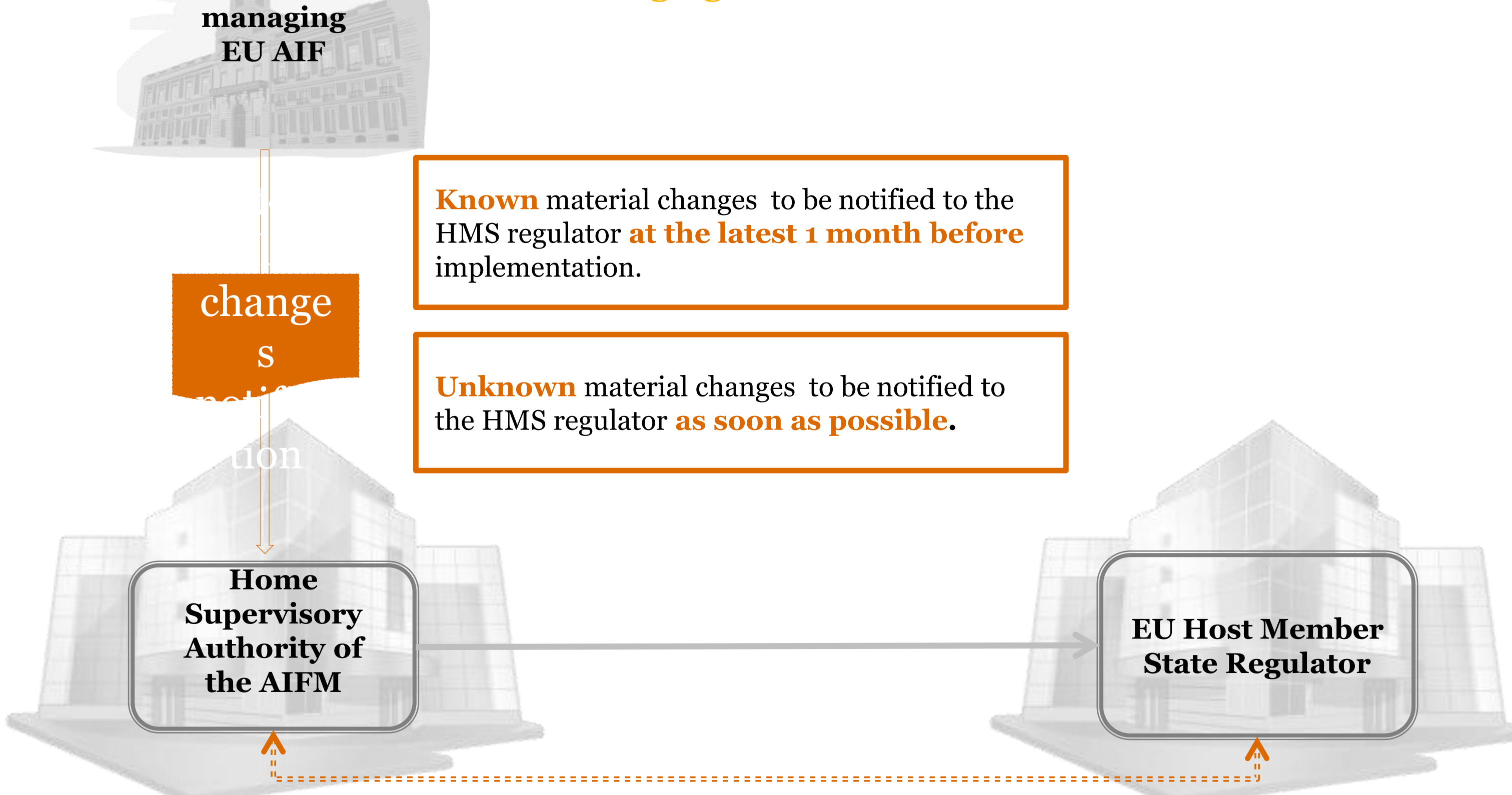
Examples
• Semi-professional versus professional investors in Germany; • Requirement to file marketing documents and prospectus before their dissemination to local investors (Germany, Italy); • Various regulatory fees for initial registration (and annual maintenance) by country, with some regulators requiring proof of payment to be inserted in the initial notification file, and others sending an invoice subsequently; • Some regulators have a restricted approach on the accepted conditions to prevent marketing to retail investors (cumulative conditions in Germany).

➢ There are some specificities in each countries such as naming or not local officials, regulators costs (registration and maintenance) whether for the UCITS or the AIFS.

Source: PwC Lux

Any change in the information sent to the Regulator should be notified

➢ **Material changes notification to the Home Supervisory Authority of the AIFM -EU AIFM managing EU AIF**

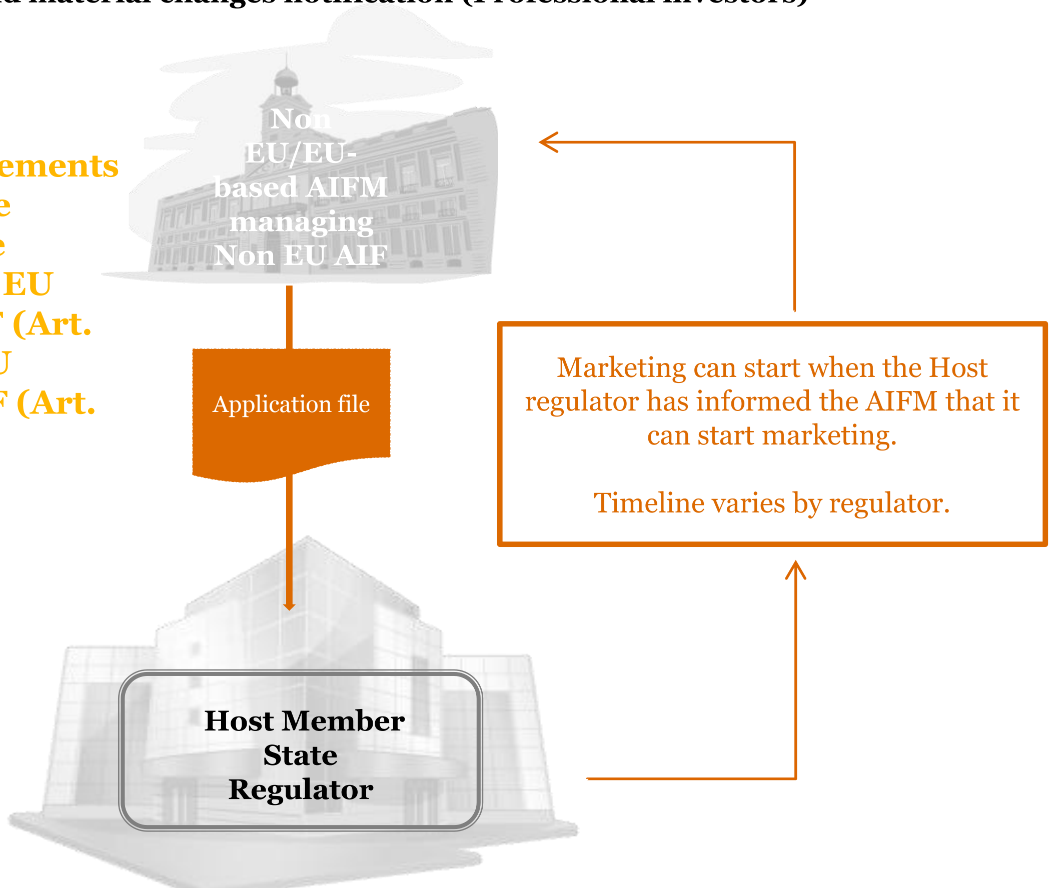


Source: PwC Lux

National Private Placement Rules (NPPRs) must be used by non-EU AIFMs that cannot avail of the European passport in order to market their AIFs in Europe

- **Initial notification and material changes notification (Professional investors)**

- **Regulatory requirements of National Private Placement Regime (“NPPR”) for Non EU AIFM/Non EU AIF (Art. 42 AIFMD) and EU AIFM/Non-EU AIF (Art. 36 AIFMD)**



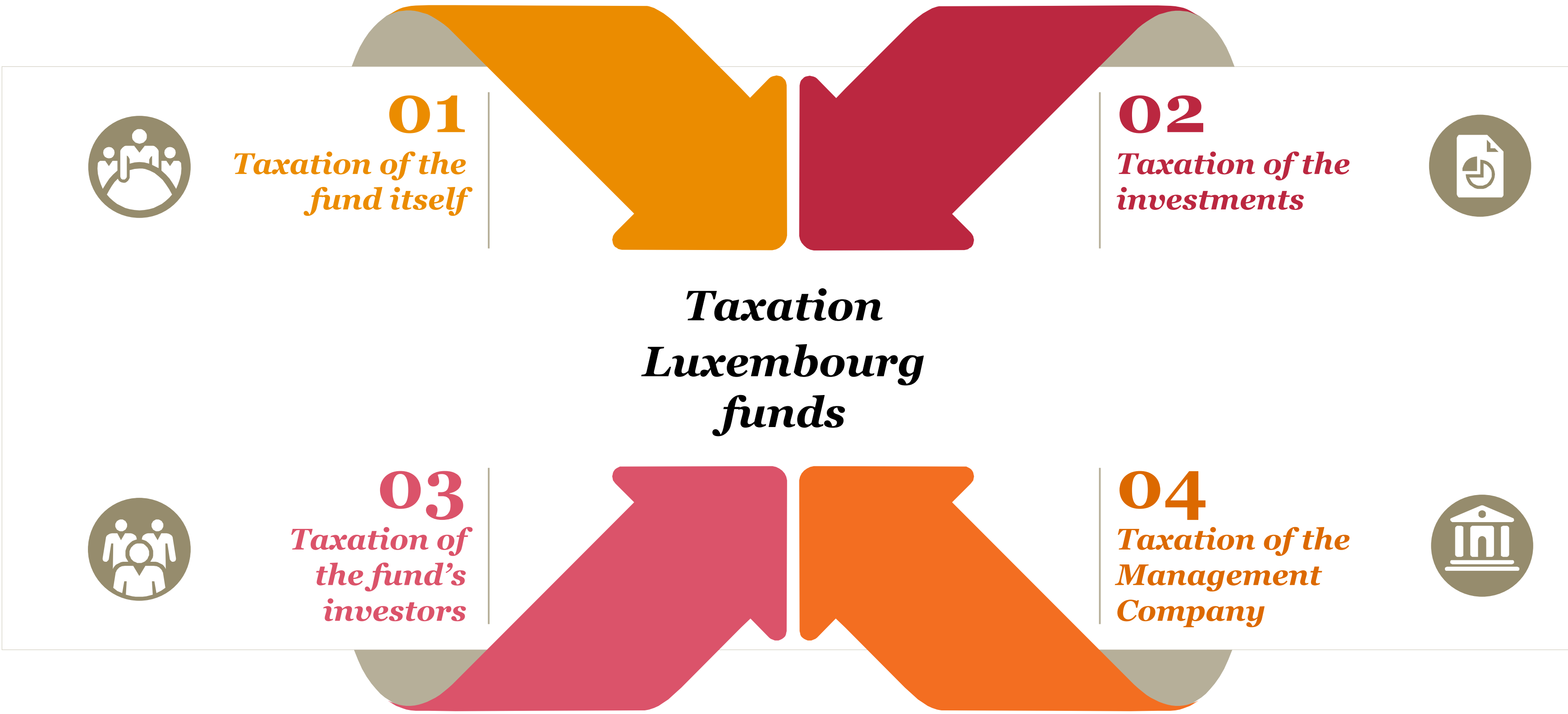
Note: individual member states may move to abolish or restrict the use of NPPRs, now that the AIFMD is in force.

Source: PwC Lux

www.pwc.com

Taxation

There are 4 relevant taxation levels for Luxembourg funds



Source: PwC Lux

Is a Luxembourg fund taxed at all?

Comparison with an operational company

	Operational company	Fund
CIT (Corporate Income Tax)	22.47%	N/A
MBT (Municipal Business Tax)	6.75%	N/A
NWT (Net Wealth Tax)	0.5%	N/A
WHT (Withholding Tax)	15% on dividends 0% on interest	N/A
Capital duty	75€	75€
Subscription tax	N/A	Yes

Source: PwC Lux

Subscription tax applicable to all Luxembourg funds, but some exemptions are available

Rate (%)	Conditions
0.05 %	Standard rate applicable to all UCIs (incl. UCITS)
0.01 %	• Specialized Investment Funds; • Invest exclusively in money market and placement of deposits with credit institutions; • Exclusively invest in deposit with credit institutions; • Compartments / share classes reserved for institutional investors.
Exempt	• Units held in other Lux UCIs subject to subscription tax; • Institutional only / money market and deposit / < 90 days weighted portfolio maturity UCIs; • UCIs/compts with securities reserved for investment in pension/retirement institutions or similar investments; • Microfinance; • Exchange Traded Funds (ETFs); • Funds dedicated to multi-employer pension vehicles or to several employers providing pension benefits to their employees.

Source: PwC Lux

Comparison between FCP and SICAV from a tax perspective

CIT rate: SICAV/FCP exempt from income tax;

Annual subscription tax: between 0.01% and 0.05% of net asset value (exemptions possible);

Net-wealth tax: exempt;

Dividend WHT: exempt from withholding tax on distributions to investors;

Capital gains: exempt;

Tax treaties: the FCP itself does not benefit from Luxembourg double tax treaties (except Ireland); unit holders may try to obtain access to treaty between their residence and source of the FCP's income.

Source: PwC Lux

DTT concluded by Luxembourg applicable to funds

Luxembourg

- The Circular L.G.-A n°61 of 12 February 2015 issued by the Luxembourg Tax Authorities ("LTA"), clarified the list of DTT applicable to Luxembourg funds, SICAVs **and** FCPs as follows:

  - 49 DTTs are applicable to Luxembourg SICAVs (44 as clearly stated in the DTT, 5 under LTA interpretation),
  - 7 DTTs are applicable to FCP when they are treated as individuals.

- As a consequence, in all that cases, LTA will issue certificate of residence – including for FCPs- based on the DTT provided that requested info (eg. CSSF attestation) are communicated.

Source: PwC Lux

DTTs applicable to Luxembourg SICAVs and FCPs

DTT applicable to SICAVs only

Armenia	**Kazakhstan**	San Marino
Austria	Laos	**Singapore**
Azerbaijan	Liechtenstein	**Slovakia**
Bahrain	Macedonia	Slovenia
Barbados	Malaysia	Spain
China	Malta	Sri Lanka
Czech Republic	Monaco	Taiwan
Denmark	Morocco	**Thailand**
Finland	Moldvavia	Trinidad and Tobago
Georgia	Panama	Tunisia
Hong-Kong	Poland	Turkey
Indonesia	Portugal	United Arab Emirates
Ireland	Qatar	Uzbekistan
Israel	Romania	Vietnam

DTT applicable to SICAVs and FCPs

Germany
Guernsey
Isle of man
Jersey
Saudi Arabia
Seychelles
Tajikistan

44 DTT applicable to Luxembourg SICAVs as clearly stated in the DTT, **5 under LTA interpretation**

Source: PwC Lux

Taxation of resident companies & resident institutional investors

1.1. Participation in a distributing SICAV/FCP:

- No withholding tax on distributions by SICAVs;
- Taxation on dividends and capital gains insofar as they are considered part of the investors' commercial income;
- Taxation rate of 22.47% for 2016;
- No access to participation exemption regime, i.e. no exemption of dividends received from the SICAV;
- Pension funds are exempted.

1.2. Participation in a capitalizing SICAV/FCP:

- Taxation only at transfer of securities;
- Income from transfer of a SICAV's units are considered capital gains.

In theory, FCP are considered tax transparent. However, generally, FCP follow the same tax treatment as SICAVs

Source: PwC Lux

Non resident companies & non resident institutional investors

2.1. Participation in a <u>distributing</u> SICAV/FCP:

- No withholding tax on distributions by a SICAV;
- Capital gains are not subject to tax in Luxembourg;
- Taxation on dividends and capital gains is assessed in the investor's country of residence according to the tax treatment applicable in this country.

2.2 Participation in a <u>capitalizing</u> SICAV/SICAF/FCP:

- Taxation only at transfer of securities;
- Capital gains are not subject to tax in Luxembourg;
- Income from transfer of units in a SICAV/ is taxed in the investor's country of residence, according to the applicable tax treatment.

In theory, FCP are considered tax transparent. However, in Luxembourg, their tax treatment is identical to the SICAVs. Tax treatment applicable to the investor depends on the interpretation given by the tax authorities of the investor's country of residence.

Source: PwC Lux

Taxation of Luxembourg Management Companies

Luxembourg tax implications

- Corporate Income Tax and Municipal Business Tax: 29.22%;
- Net Wealth Tax (0.5%);
- 15% WHT on dividends (reduced under DTT/EU parent-sub directive);

Points of attention :

- Transfer Pricing
- VAT (value-added tax)

Source: PwC Lux

VAT in the Investment Management Sector

1.Management services	Conditions in Luxembourg
Domestic funds benefiting from the exemption	Based on the Article 44, 1, d) are VAT exempt *"the management of the following vehicles:* ***(i)*** *Undertakings for collective investment covered by the law of 17 December 2010 on undertakings for collective investment, special investment fund covered by the law of 13 February 2007 on special investment funds, venture capital investment companies covered by the law of 15 June 2004 on the venture capital investment company (SICAR), pension funds covered by the law of 13 July 2005 on professional retirement institutions in the form of pension savings companies with variable capital (sepcav) and pension savings associations (assep), and subject to the supervision of the Commission de surveillance du secteur financier, and pension funds covered by the law of 6 December 1991 on the insurance industry and subject to the supervision of the Commissariat aux assurances;* ***(ii)*** *Undertakings similar to the ones referred to in point (i) of other European Union Member States and subject to the supervision of a supervisory body from another European Union Member State similar to the Commission de surveillance du secteur financier or the Commissariat aux assurances.*

Source: PwC Lux

VAT in the Investment Management Sector

1. Management services	Conditions in Luxembourg
Domestic funds benefiting from the exemption	***(iii)*** *Securitisation vehicles covered by the law of 22 March 2004 on securitisation and similar vehicles which purpose is to carry out securitisation transactions within the meaning of Article 1(2) of the regulation (EC) n°24/2009 of the European Central Bank of 19 December 2008 concerning statistics on the assets and liabilities of financial vehicle corporations engaged in securitisation transactions;* ***(iv)*** *Alternative investment funds ('AIFs'), as defined in Article 1(39) of the law of 12 July 2013 on Alternative Investment Fund Managers".*
Foreign funds covered by the exemption	Undertakings located in another EU Member State, which are similar in nature to the Luxembourg vehicles listed by the article and which are subject to the supervision of an EU body similar to the CSSF or the CAA. The management of non-EU vehicles remain however excluded from this exemption.

Source: PwC Lux

VAT in the Investment Management Sector

	VAT	Conditions in Luxembourg
2. Custody services	VAT treatment of custody services	VAT exempt except the control and supervision functions.
	Supervision & control functions of the custodian/trustee	VAT taxable at 14%.
3. Investment advice	VAT treatment of investment advice	VAT exempt
4. VAT recovery for Funds	VAT recovery	In principle no. The VAT recovery right should be analysed depending on the investment (e.g. carbon units).
5. VAT number for funds	VAT number for contractual funds	No. The fund & ManCo are deemed to be the same legal person, i.e. one VAT number.
	VAT number for corporate funds	Yes. Funds under a corporate form are regarded as VAT taxable persons and may obtain a VAT registration number.
6. Option to tax on management services for investment funds	Option to tax available? Also on cross-border basis	No

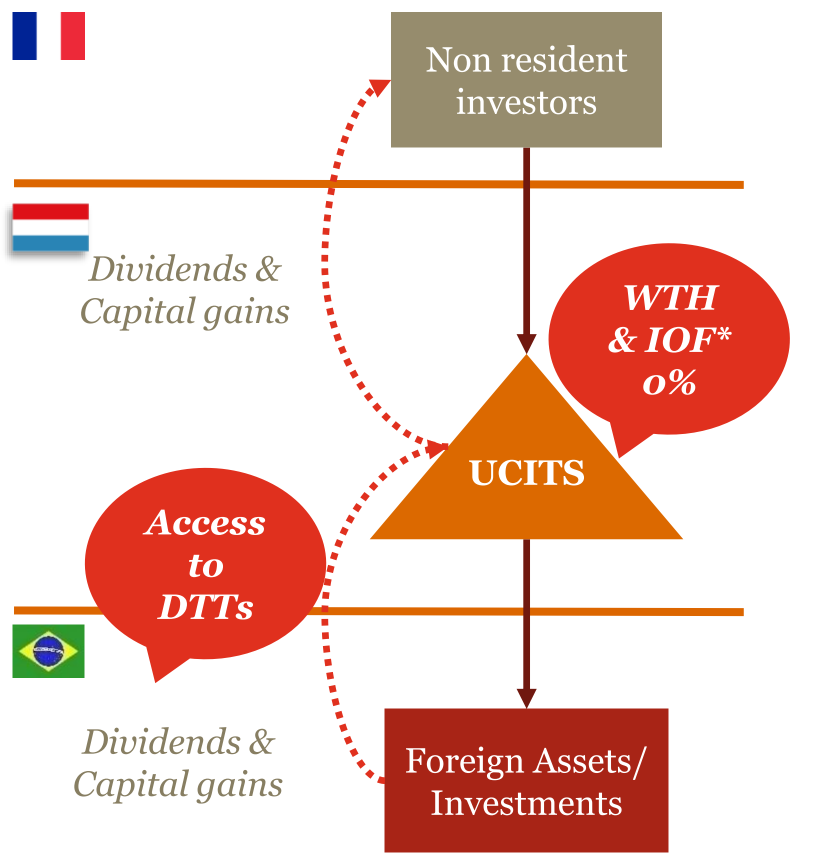
Source: PwC Lux

Main tax aspects for UCITS in Luxembourg

- From a tax perspective, the main characteristic of Luxembourg, considering it as the preferred UCITS domicile, is the possibility of transit of non-residents investments and the transfer of income and gains from assets and foreign investments without incidence of Income Tax. This is a consequence of four factors:

1. UCITS are not subject of Income Tax
2. UCITS have access to the DTTs benefits with countries where the foreign assets/investments are purchased/sold, or the WHT paid in foreign country can be reimbursed (for example, by the own investors)
3. The income, dividends or capital gains of non residents ae not scope of WHT.
4. There is no taxation over financial transactions, transfers or exchange operations.

- Moreover, the only tax costs in Luxembourg are (i) the Capital Duty and (ii) the Annual Subscription Tax, which are not significant. Thus, these costs don't affect the choice of Luxembourg as a domicile for funds.

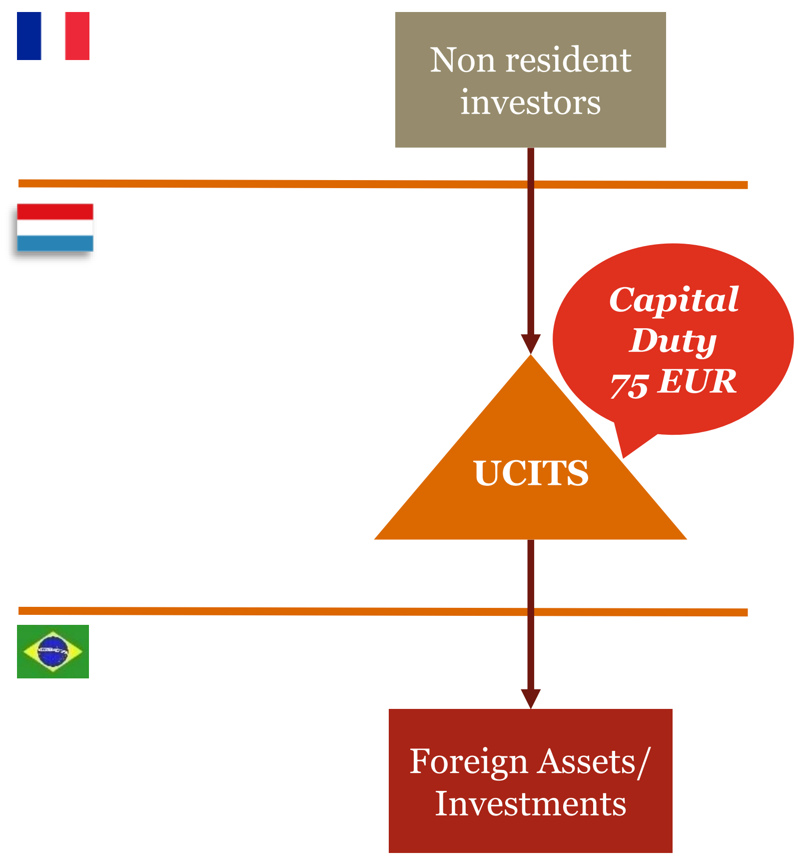


(*) IOF: Brazilian Tax over Financial Operations

Source: PwC Lux

Taxation in Luxembourg: Constitution

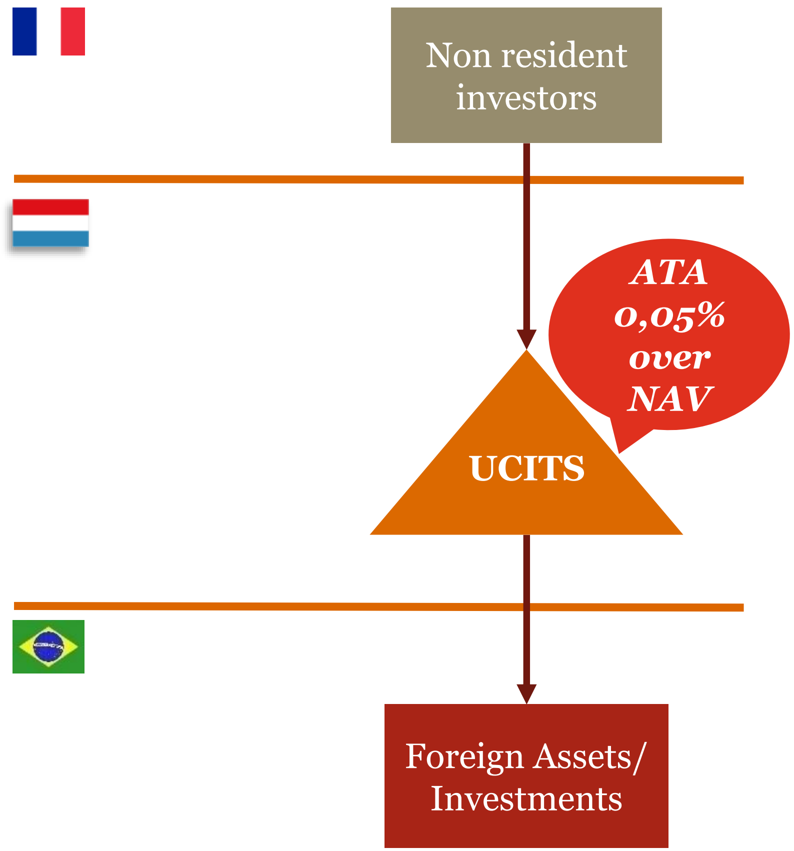
- In UCITS constitution, it is charged a registration tax ("Capital Duty)"
  - ✓ Fixed rate of 75 Euros.
  - ✓ The tax rate is applicable again (with the same value) in two situations: (i) changes in articles of the UCITS constitution document; (ii) transfer of domicile of the fund to Luxembourg
- There is no taxation over financial transactions, transfers or exchange operations of non-residents investors.



Source: PwC Lux

Taxation in Luxembourg: Maintenance (1/2)

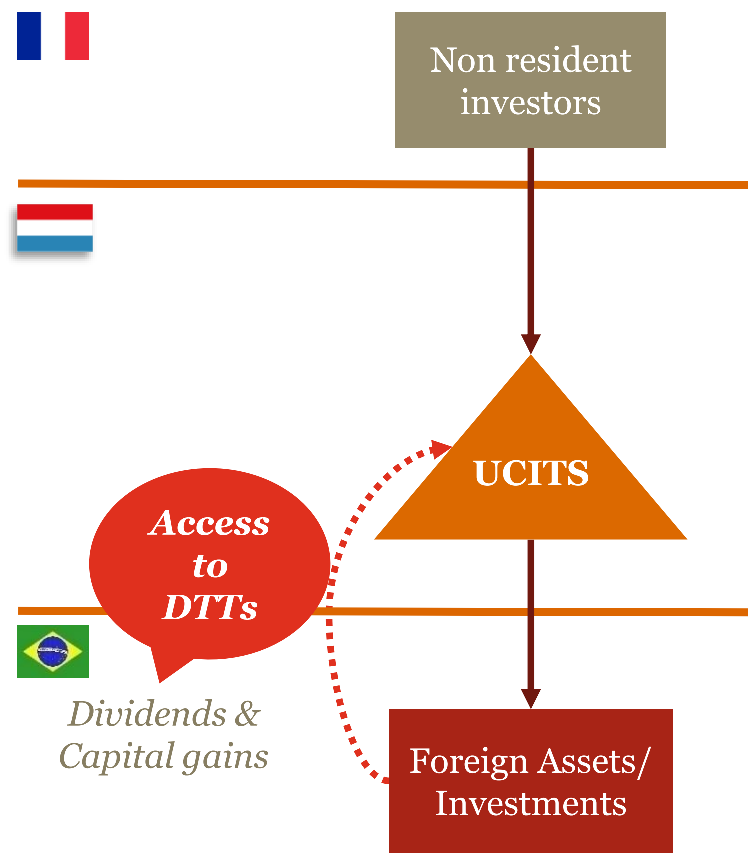
- UCITS are exempt of Luxembourg Income Tax, even for (i) SICAV/SICAF or (ii) FCP.
- UCITS are subject of the Annual Subscription Tax" or "ATA", over the NAV ("Net Assets Value") The general rate is 0,05%. However, there are certain circumstances where is applicable the tax rate of (i) 0,01% or (ii) exemption.
  - ✓ ATA is calculated and retained quarterly.



Source: PwC Lux

Taxation in Luxembourg: Maintenance (2/2)

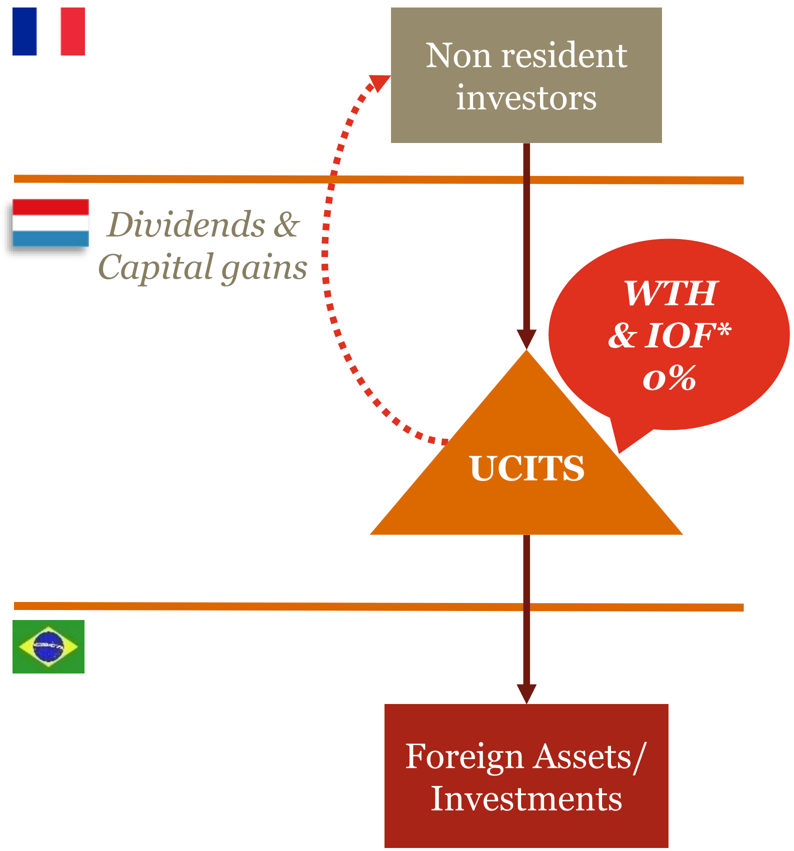
- Regarding gains or income from UCITS foreign assets/investments, in order to avoid double taxation (i.e., in the home countries of assets/investments) UCITS can access the benefits of Double Taxation Treaties (DTTs) signed by Luxembourg.
- Depending on UCITS legal structures: (i) DTTs are applicable for SICAVs, however for (ii) FCPs if it is not applicable for the fund, the own investors can access DTTs benefits when they are legitimated.
- The Luxembourg Tax authority issues tax residence certificates for the application of DTTs on behalf of the UCITS.



Source: PwC Lux

Taxation in Luxembourg: Distribution and/or Liquidation

- No withholding tax on UCITS distributions
- Gains realized by investors (e.g. in the redemption and / or sale of shares)are not subject of Luxembourg withholding tax.
- There is no taxation over financial transactions, transfers or exchange operations of non-residents investors.
- Investors are taxed in the investor's country of residence, according to the applicable tax treatment (e.g., individuals vs. legal entities, residents vs. non residents, access to DTTs, etc.)



(*) IOF: Brazilian Tax over Financial Operations

Source: PwC Lux

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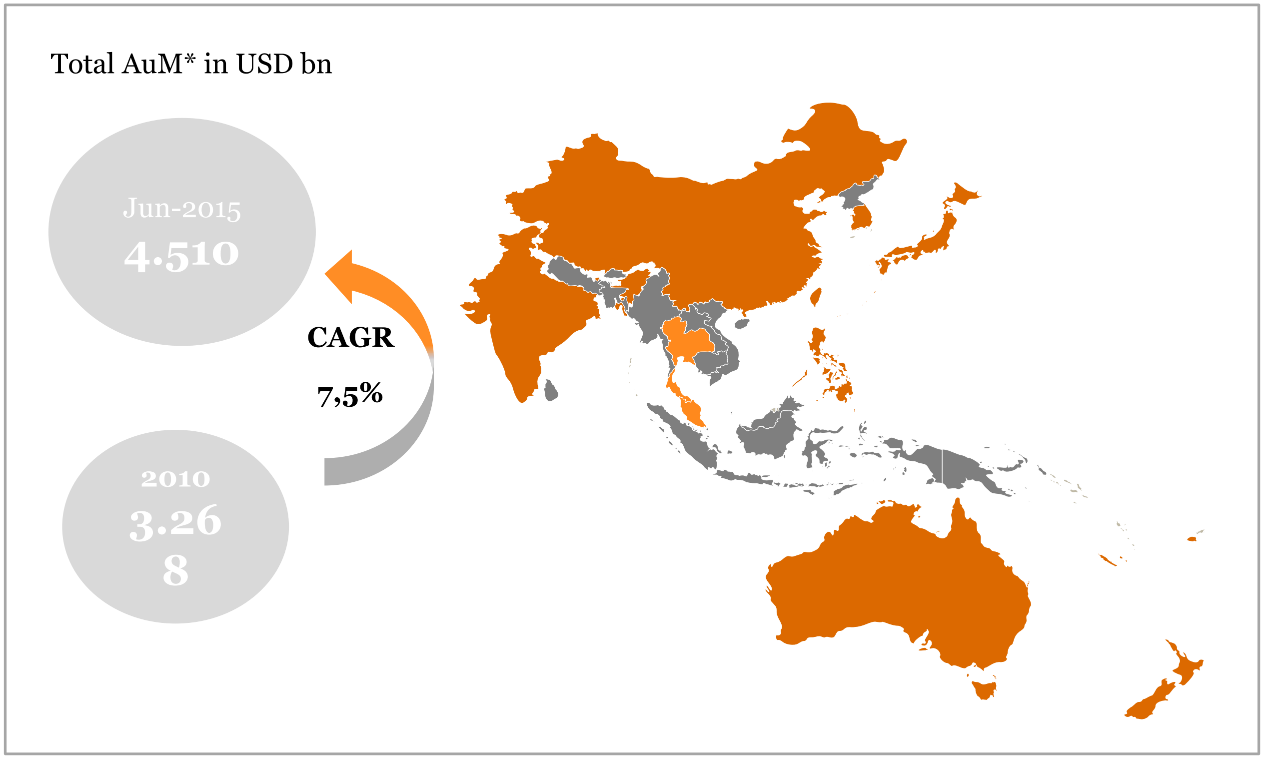
Asian Passports

Mutual funds in Asia Pacific has growth 7,5% a year

As of June 2015, Standing **USD 4.5 trillion** from **USD 3.2 trillion** in 2010, the Asia Pacific mutual fund assets under management ("AuM") have growth at an average anual growth rate of ***7,5%***

It is expected that Asia-Pacific's share of High Net Worth Individuals **(HNWI)** assets will increase to ***USD 22.6 trillion by 2020[1]***

Development of Asia Pacific mutual funds AuM



* Australia, China, Hong Kong, India, Japan, Malaysia, New Zealand, Pakistan, Philippines, Singapore, Spouth Korea, Taiwan, Thailand.

(1) PwC, Asset Management 2020 – A Brave New World

Source: PwC – Asin Passports, the coming of age

There are three fund recognition schemes in existence in Asia Pacific, and all of them are very recent initiatives

ASEAN CIS

Status:
Live 25 August 2014

Countries in scope:
Malaysia, Singapore and Thailand

Asia Region Fund Passport

Status:
MOC signed in April 2016, - 18 months to full implementation

Countries in scope:
Australia, South Korea, New Zealand, Japan

Thailand, Philippines expected to sign and Singapore is temporarily out of scope

Hong Kong – China Mutual Recognition

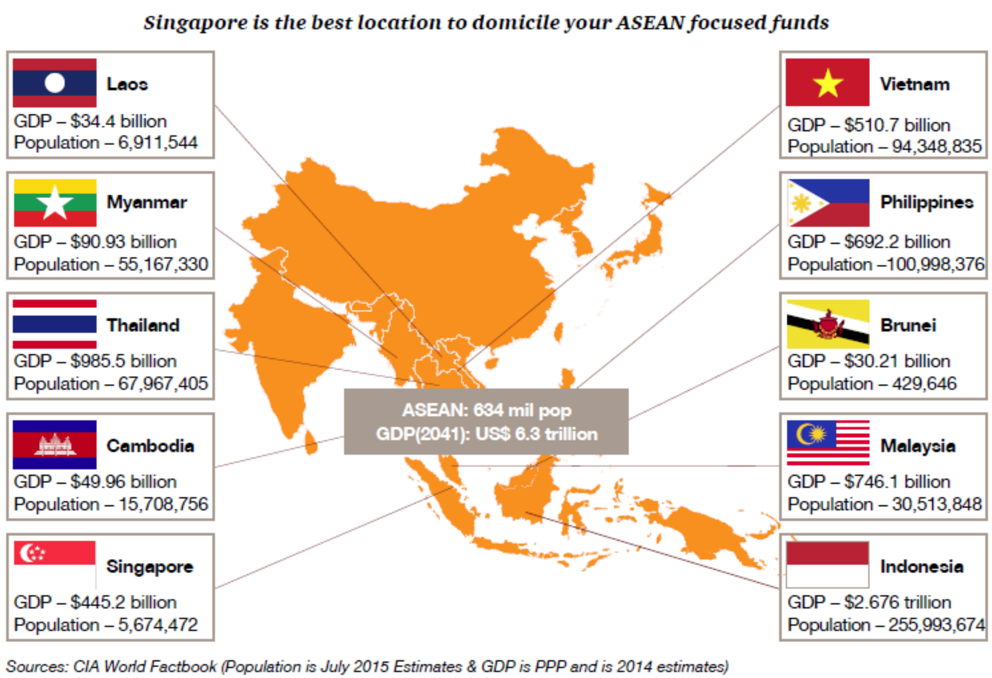
Status:
Live 1 July 2015

Countries in scope:
China, Hong Kong

Source: PwC Lux

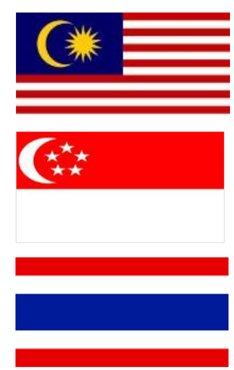
The ASEAN CIS is first fund passport scheme that has been in operation in Asia

The ASEAN CIS (ASEAN Collective Investment Scheme) is a product of the ASEAN (Association of South East Asian Nations) Economic Union, the AEC, and went live on 25th August 2014. Therefore, only **Malaysia, Singapore and Thailand** have signed up the program so far.



The AEC (ASEAN Economic Union) is composed by 10 countries

The ASEAN CIS constitution and mechanics has been inspired by the UCITS regime



Malaysia

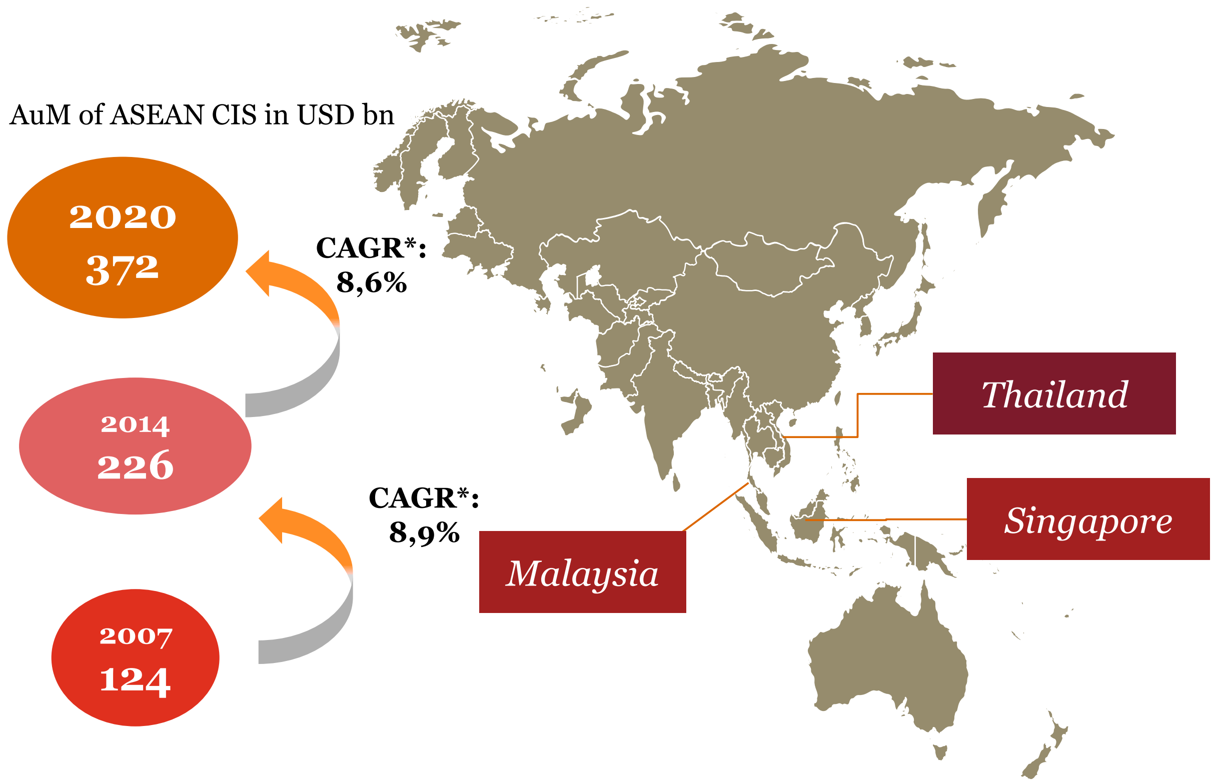
Singapore

Thailand

Source: PwC Lux

ASEAN CIS scheme AuM would be a growth from USD 226bn in 2014 to USD 372bn by 2020

PwC Market Research's projection of the ASEAN CIS scheme would be a growth from USD 226bn in 2014 to USD 372bn by 2020 at an average annual rate of 8,6%. What could potentially accelerate this scheme's popularity would be for more of the ASEAN economies to participate in the Scheme. In particular, the Indonesia Market would be a great potential for Malaysian Islamic fund managers to export their funds. However, this is still na ongoing discussion among the other countries and there have been no indications or signs of more economies showing interest to participate in the ASEAN CIS for now.



* CAGR: Compound Annual Growth Rate during the period

Source: PwC Market Research Center

The CIS Operator is the ManCo in UCITS, and there are strictly prohibitions for derivatives, lending and repo transactions in ASEAN CIS principles

ASEAN CIS key principles

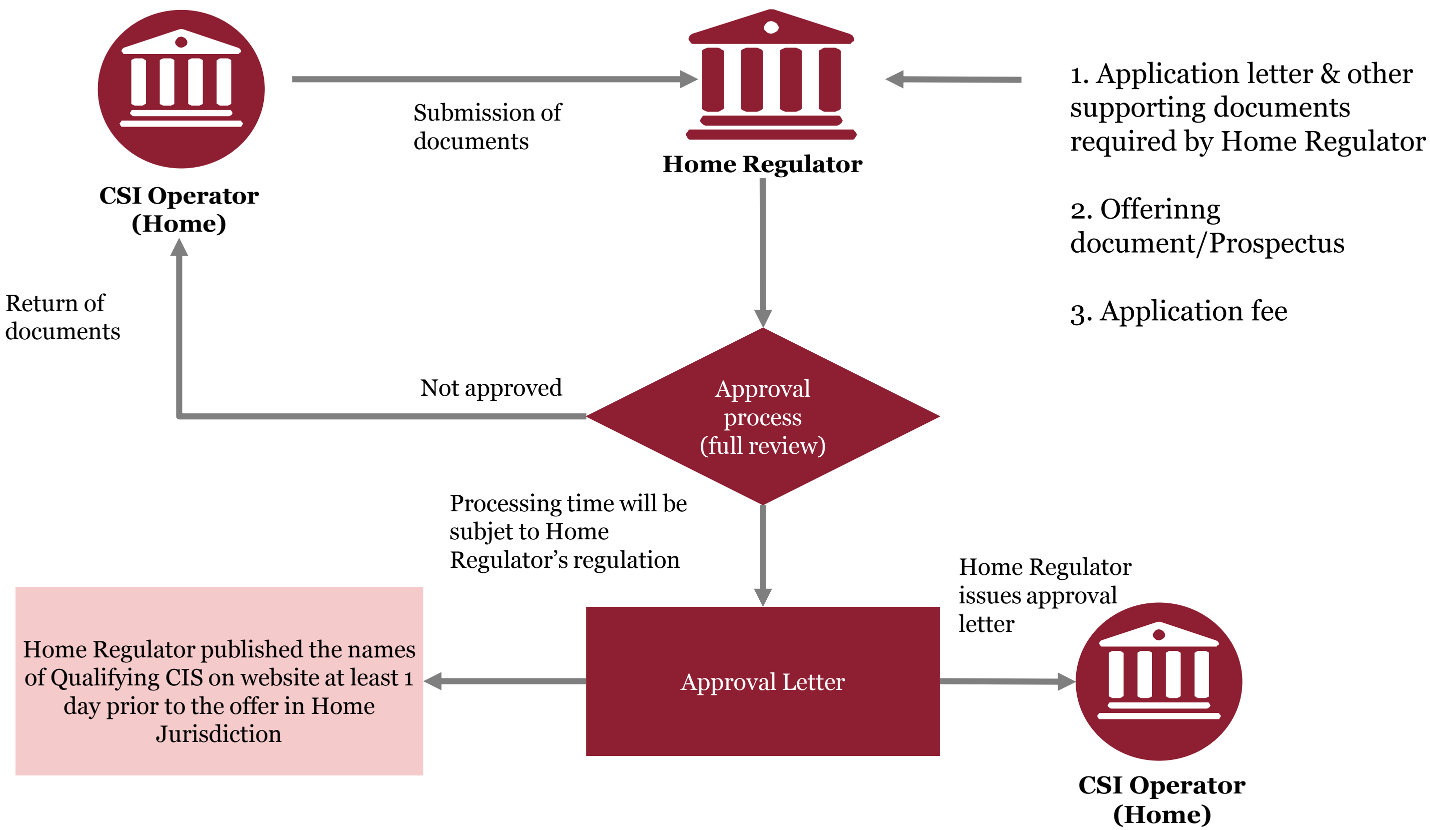
Approved for retail offer in home country	• Legal structures approved for CIS offered to retail investors (i.e. Authorised scheme approved by MAS)	
Common standards imposed on Qualifying Manager, Trustee and CIS	**Qualifying CIS Operator (locally regulated)** • Track record (5 years, US$500m global AUM) • At least US$1m capital • Competency & experience • Delegation restrictions	**Qualifying CIS Operator (locally domiciled)** • No performance fees • Transferable securities • Investments into other funds permitted • Limits on derivatives
Annual compliance audit	• Annual audit of the CIS Operator covering, at a minimum, compliance with the Common Standards	
Appoint local distributors and local representatives	• Use of locally licensed intermediaries in host country • May need to appoint a local representative • Subject to host country requirements on offer of CIS	

No performance fees | **No repo or SEC lending** | **Limit on delegation**

Source: PwC – Asin Passports, the coming of age

The registration process of CIS is based on the UCITS III model, where the Operator applies to host regulators (1/2)

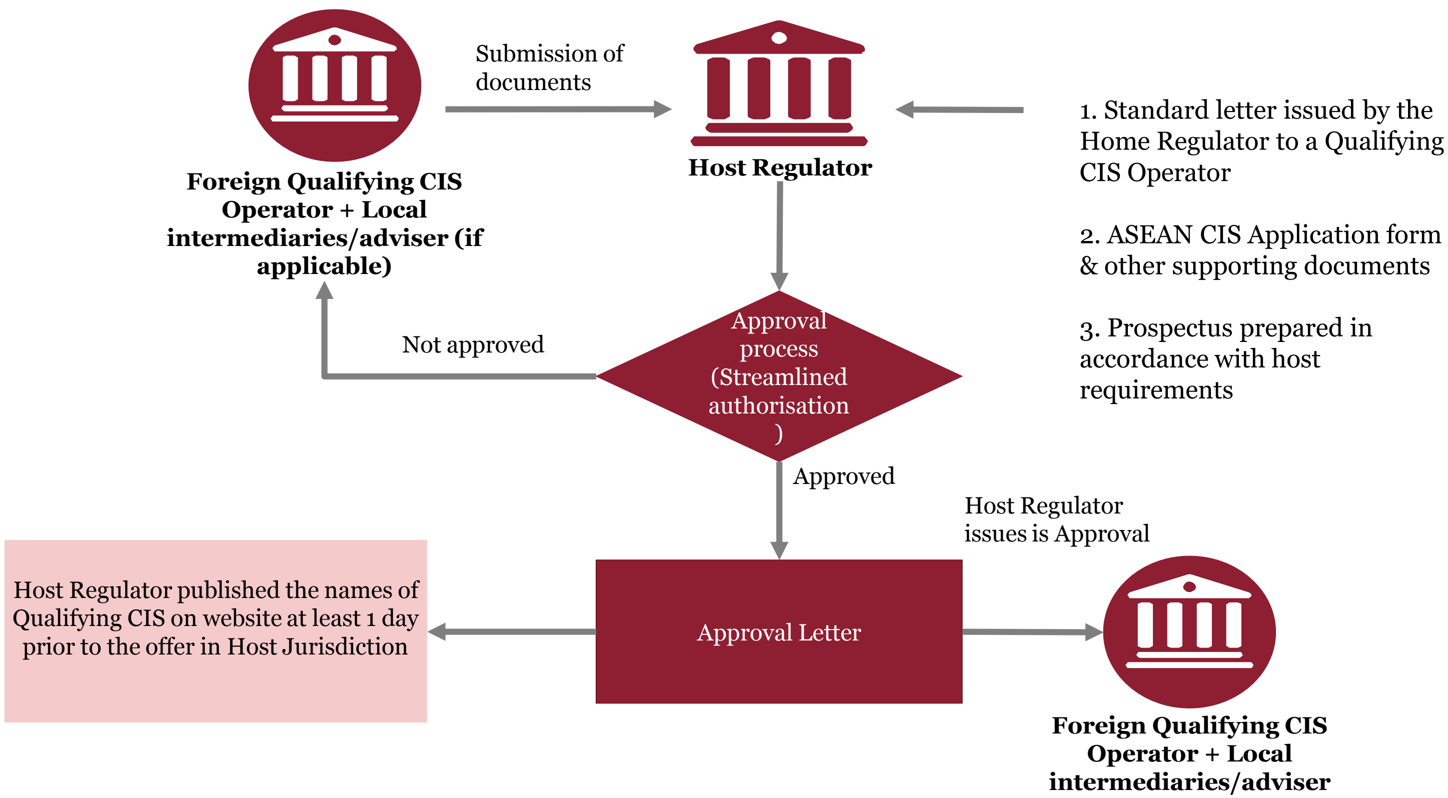
ASEAN CIS approval process – Home Regulator



Source: Handbook for CIS Operators of ASEAN CIS

The registration process of CIS is based on the UCITS III model, where the Operator applies to host regulators (1/2)

ASEAN CIS approval process – Host Regulator



Source: Handbook for CIS Operators of ASEAN CISs

There were 11 funds approved under ASEAN CIS (considering the end of 2015)

One of the reasons for ASEAN CIS slow start is that Thailand and Malaysia's foreign currency regulations are tightly controlled, which poses a challenge to distribute multi-currency share classes (non-Thai Baht and non-Malaysian Ringgit respectively) in these countries

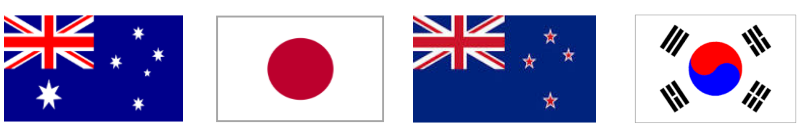
#	Home Country	Company name	Fund name	Asset Class
1	Singapore	Maybank Asset Management	Maybank Asian Equity Fund	Equity
2	Singapore	Maybank Asset Management	Maybank Asian Income Fund	Fixed Income
3	Singapore	Nikko Asset Management	Singapore Dividend Equity Fund	Equity
4	Singapore	Nikko Asset Management	Nikko AM China Equity Fund	Equity
5	Singapore	Phillip Capital	Phillip Income Funds	Fixed Income
6	Malaysia	CIMB-Principal AM	CIMB-Principal Asean total Return Fund	Equity
7	Malaysia	CIMB-Principal AM	CIMB-Principal Asia Pacific Dynamic Income Fund	Fixed Income
8	Malaysia	CIMB-Principal AM	CIMB Islamic DALI Equity Theme Fund	Equity
9	Malaysia	CIMB-Principal AM	CIMB-Principal Malaysia Equity Fund	Equity
10	Malaysia	Maybank Asset Management	Maybank Bosera Greater China ASEAN Equity-I Fund	Equity
11	Thailand	One Asset Management	One Stoxx Asean Select Diividend Index Fund	Equity

Source: PwC GFD Lux

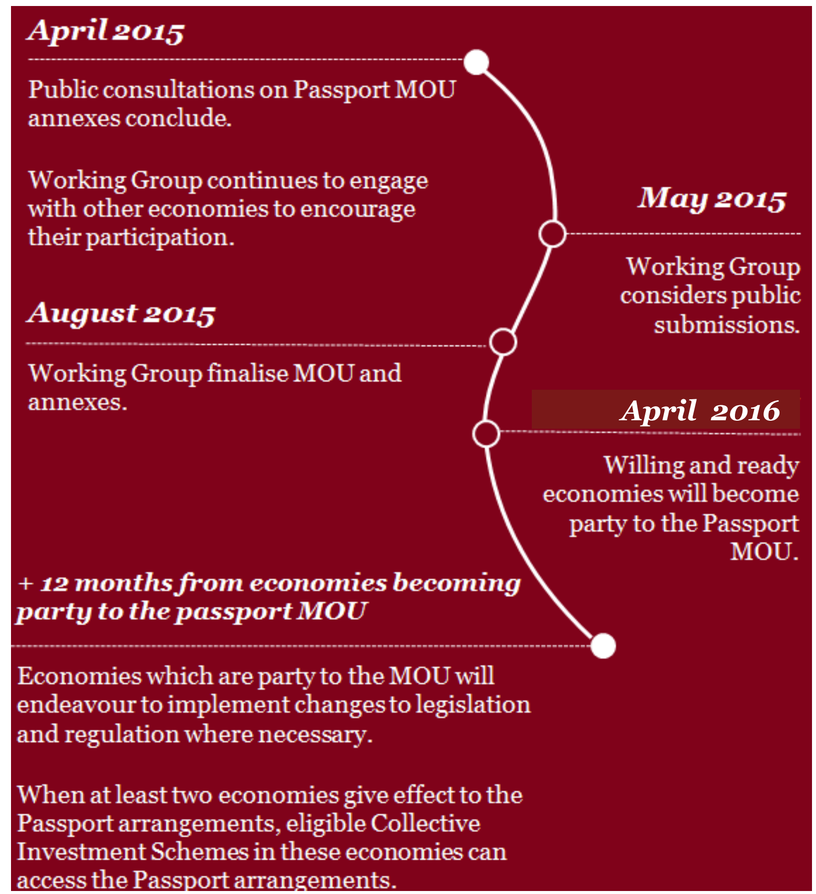
In Asia Region Funds Passport (ARFP), countries have up to December 2017 to implement the arrangements

On 28 April 2016, representatives from **Australia, Japan, Korea and New Zealand** signed the Asia Region Funds Passport's Memorandum Of Cooperation (MoC). Signing of the MoC is an outcome of more than six years of international negotiation on the passport arrangements. Participating economies have up to 18 months from the 30 June 2016 to implement domestic arrangements. Activation of the passport will occur as soon as any two participating economies implement the arregements under the MoC.

Australia *Japan* *New Zealand* *Korea*



The Philippines, Thailand and Singapore have also contributed to developing the framework in the working group.



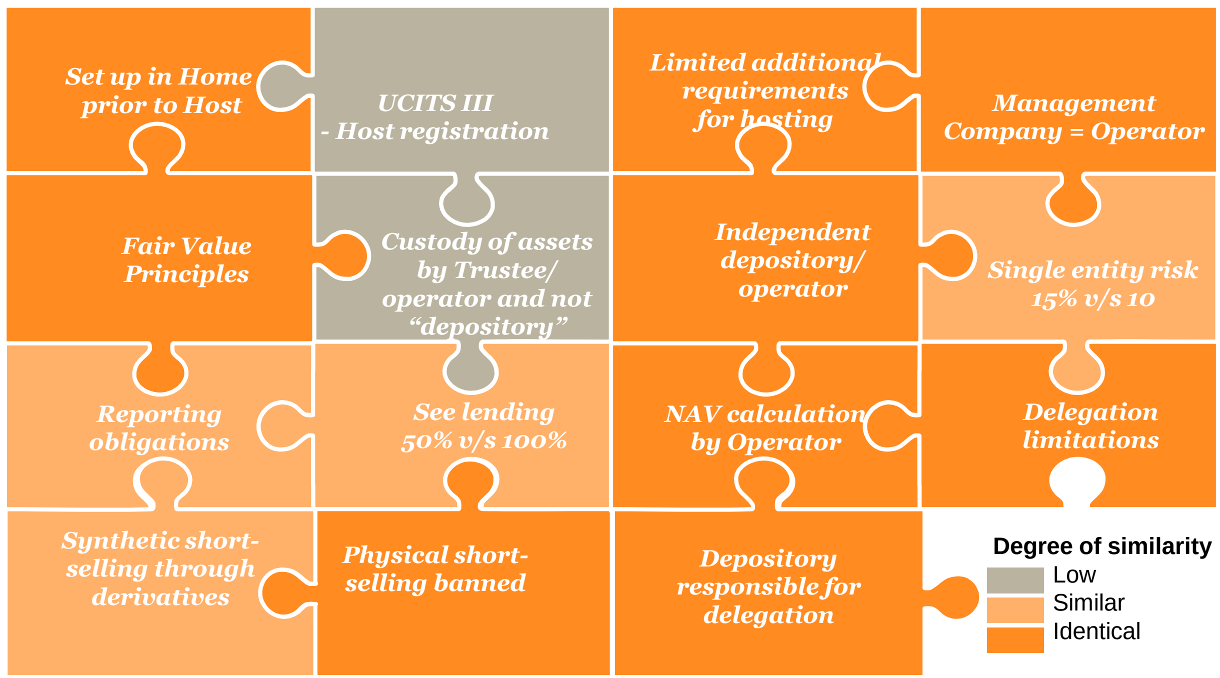
Source: PwC Lux

The ARFP also has your key principles based on UCITS model, but there are some differences related to ASEAN CIS

Main differences between ASEAN CIS and ARFP

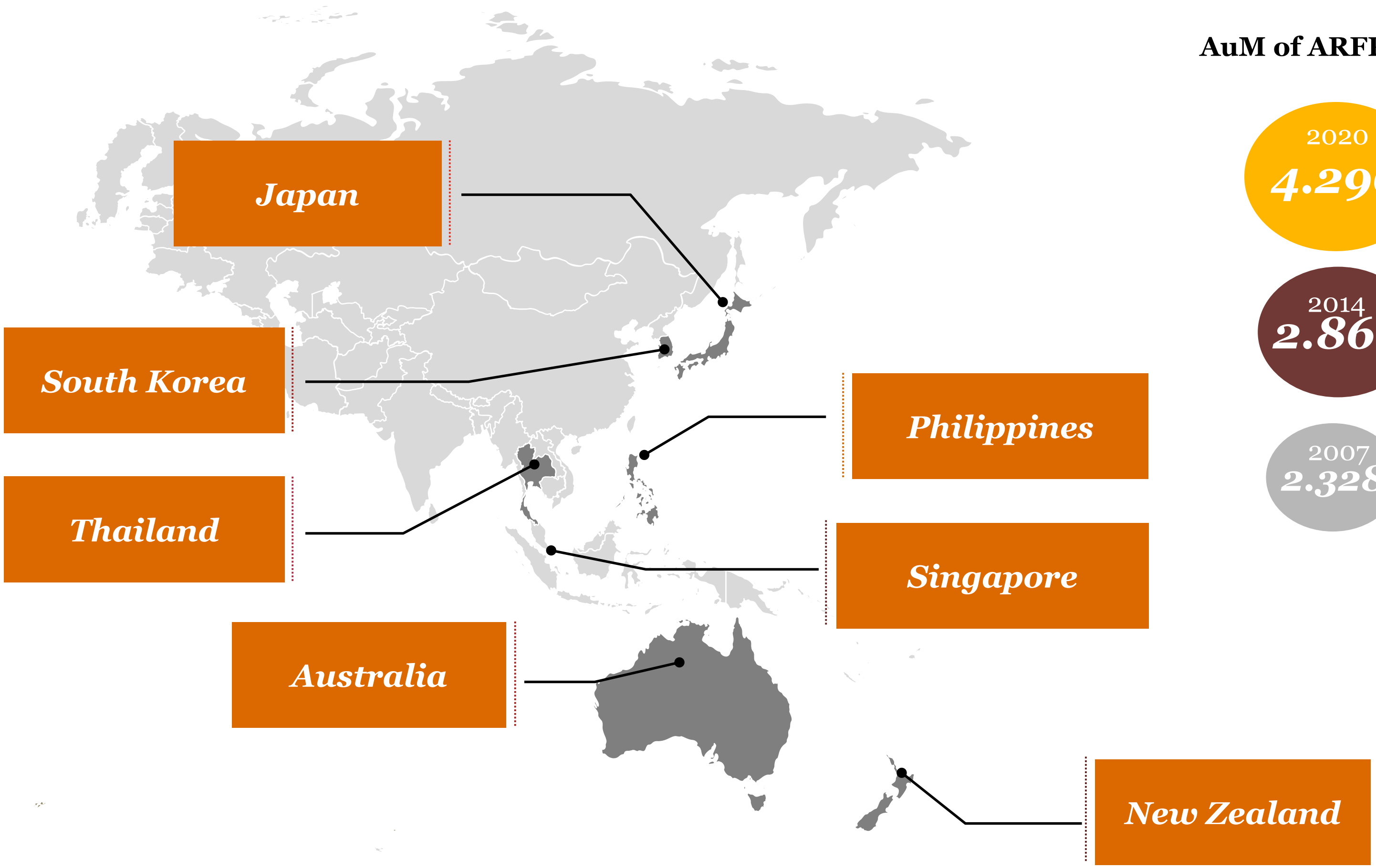
ARFP does not have any restrictions on stock lending and repurchase transactions or prohibition on performance

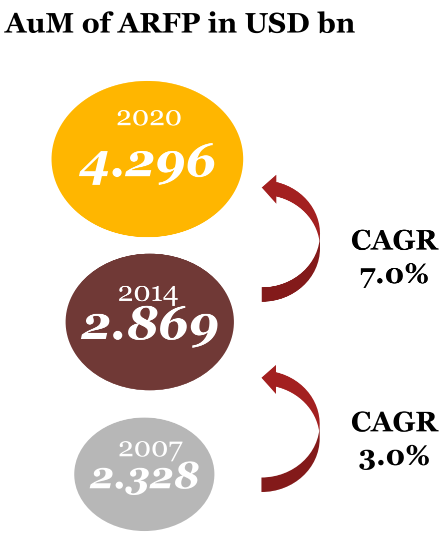
ARFP – UCITS comparison



Source: PwC – Asin Passports, the coming of age

The AuM of mutual funds in ARFP would grow at an average annual rate of 7% up to 2020





Source: PwC – Asin Passports, the coming of age

The China-Hong Kong Mutual Recognition of Funds ("MRF") is the opportunity to break into the asset management markets of China, Hong Kong and beyond

The Securities and Futures Commission in Hong Kong ("SFC") and the China Securities Regulatory Commission in China ("CSRC") jointly launched the Mutual Recognition of Funds scheme which has become effective since 1 July 2015. The scheme allows eligible funds to be distributed in each other's market through a streamlined vetting process.

	Hong Kong	China
Total AUM (including locally domiciled mutual funds only)	US$60 billion	RMB5,241.4 billion
Total number of mutual funds	1,126	2,027
Total number of mutual funds eligible for MRF	About 100	About 850
Number of mutual funds applied for distribution	**35** China-domiciled funds have received approval for distribution in Hong Kong	**6** Hong Kong-domiciled funds have received approval for distribution in China

Source: PwC GFD Lux

The MRF framework states that only domiciled funds managed by an SFC-licensed asset manager will be able to distribute in China, and vice versa

SFC requirements for entry to Hong Kong	CSRC requirements for entry to mainland China
Domiciled on the **Mainland**	Domiciled in **Hong Kong**
Fund registered with **CSRC**	Fund registered with **SFC**
Established and authorised for over **one year**	Established and authorised for over **one year**
Fund size not less than RMB 200 million	**Fund size** not less than RMB 200 million
Less than **20%** of assets in Hong Kong	Less than **20%** of assets in Mainland
Distribution to Hong Kong investors doesn't exceed 50% of total assets	**Distribution** to Mainland investors doesn't exceed **50%** of total assets
Investment management function remains on Mainland	**Investment management** function remains in Hong Kong
Must appoint a Hong Kong **representative**	Must appoint a Mainland **agent**

Source: PwC – Asin Passports, the coming of age

A final overview for Asian passports

	UCITS	Hong Kong and mainland China muual recognition	Asia Region Funds Passport	ASEAN Collective Investment Scheme ("CIS") Framework
First announcement	First adapted in 1985	January 2013	September 2013	October 2013
Distribution markets	Member states of EU	Hong Kong and mainland China	Singapore, Australia, South Korea and New Zealand	Singapore, Malaysia and Thailand
Lauch	Launched in 1985	2015	2016	2014
Highlight of conditions	- Minimum Capital requirements of EU1 250.000 - Invests in eligible assets includes transferable securities dealt on a regulated market, money market instruments, deposits, close-ended funds, financial derivatives. - No more than 10% of assets may be invested in transferable securities or money market instruments that are not listed on a stock exchange or dealt in another regulated market.	- SFC authorized funds domiciled in Hong Kong and CSRC authorized funds domiciled in China. - Value of securities issued by any single listed issuer may not exceed 10% of its net asset value. - Value of securities neither listed, quoted not dealt on a market may not exceed 15% of its net asset value. - Prohibition to invest in any real estate.	- Not yet disclosed - Joint public consultation on regulation and mechanism will be launched in 2014	- Must be licensed or registered by its home regulators. - CIS operator must have a track record of at least 5 years. - Asset managed by CIS operator and its related companies must have AuM of at least US$500m globally. - Trustee/fund supervisor must be domiciled and regulated in the same jurisdiction as that of the CIS they oversees. - CIS operator must maintain shareholder's equity of at least US$1m and in incremental of 0.1% for every dollar of AuM that is in excess of US$500m. - Consent to share information between home and host regulators. - The assets of a qualifying CIS must be segregated from the custodian's assets and other clients' assets. - Qualifying underlying investments may only consists of assets namely transferable securities, money market instruments, deposits, units in other CIS and financial derivatives.

Source: Are we ready? Hong Kong-mainland China mutual fund recognition – considerations and future outlook

Comparative Asian Passports versus UCITS and AIFs (1/4)

Eligible assets

Mutual funds	UCITS	ASEAN CIS	ARFP
Transferable securities	👍	👍	👍
Money Market instruments	👍	👍	👍
Bank Deposits	👍	👍	👍
Financial derivatives instruments	👍	👍	👍
Fund units	👍	👍	👍
Others	*Cash*	-	• *Currency* • *DR over gold*
Structured funds	**AIFs**	**ASEAN CIS**	**ARFP**
Private equity, real estate, hedge funds, commodities, etc.	👍	✖	✖

Sources: Memorandum of Cooperation on the Stablishment and Implementation of the Asia Region Funds Passport
Standards of Qualifying CIS
ALFI -Luxembourg investment vehicles: An overview of the legal and regulatory requirements

Comparative Asian Passports versus UCITS and AIFs (2/4)

Mutual funds	UCITS		ASEAN CIS		ARFP	
	Global limits	Per issuer	Global limits	Per issuer	Global limits	Per issuer
Transferable securities	100%	10/ 25/ 35%[1]	100%	10/35%[1]	100%	10/ 35%[1]
Money Market instruments	100%	10/ 35%[2]	100%	10/ 35%[2]	100%	10/ 35%[2]
Bank Deposits	100%	20%	100%	20%	100%	-
Financial derivatives instruments	100%	5% / 10%	100%	20%	100%	5% / 15%
Combined total exposure per issuer	-	Max 20%[3]	-	Max 20%[3]	-	Max 20%[3]
Fund units	30%	20/ 30%	30%	10/ 20%	30%	10/ 20/ 30%
Others	49%	-	-	5/ 15%	25%	-

Structured funds	AIFs		ASEAN CIS	ARFP
Private equity, real estate, hedge funds, commodities, etc.	Flexible[4]	10-30% or Flexible[4]	✖	✖

Sources: Memorandum of Cooperation on the Establishment and Implementation of the Asia Region Funds Passport
Standards of Qualifying CIS
ALFI -Luxembourg investment vehicles: An overview of the legal and regulatory requirements

(1) 25% for debt securities issued by a credit institution situated in an EU Member / 35% for government bonds
(2) 35% for government bonds
(3) Limit to be checked at group level
(4) Depends on fund's structure

Comparative Asian Passports versus UCITS and AIFs (3/4)

Administrator	AIFs	UCITS	ASEAN CIS	ARFP
Minimum capital requirement	**EUR 125.000** +0.02% > 500 MM AuM (1)	**EUR 125.000** +0.02% > 500 MM AuM (1)	**USD 1 million** +0.1% > 500 MM AuM	**USD 1 million** +0.1% > 500 MM AuM (2)
Minimum AuM	**NA**	**NA**	Min AUM **USD 500 MM** (3)	Min AUM **USD 500 MM** (3)
Timing in the market	**NA**	**NA**	**5 years**	**5 years**

(1) Minimum capital limited to EUR 10 millions
(2) Minimum capital limited to USD 20 millions
(3) Considering holdings and subsidiaries
NA – Not applicable

Sources: Memorandum of Cooperation on the Establishment and Implementation of the Asia Region Funds Passport
Standards of Qualifying CIS
ALFI -Luxembourg investment vehicles: An overview of the legal and regulatory requirements

Comparative Asian Passports versus UCITS and AIFs (4/4)

Documentation	AIFs	UCITS	ASEAN CIS	ARFP
Notification letter or Application form	👍	👍	👍	👍
Fund rules or its constitutional documents	👍	👍	👍	👍
Prospectus	👍	👍	👍	👍
Other	• *Additional marketing documentation*	• *KIID* [1] • *Financial statements* • *Service providers agreements* • *Business plan* • *RM policy*	• *Undertakings* • *Additional documentation according to each country regulation (e.g. Fund Fact Sheet)*	• *Additional documentation according to each country regulation*
Timing for approval	• *20 WD*	• *Home Regulator -15 WD* • *Host Regulator – 5 WD*	• *Depends on each country*	• *21 days*

Sources: Memorandum of Cooperation on the Establishment and Implementation of the Asia Region Funds Passport
Standards of Qualifying CIS
ALFI -Luxembourg investment vehicles: An overview of the legal and regulatory requirements

(1) Key Investor Information Document
WD – working days
RM – Risk Management

Observation

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