

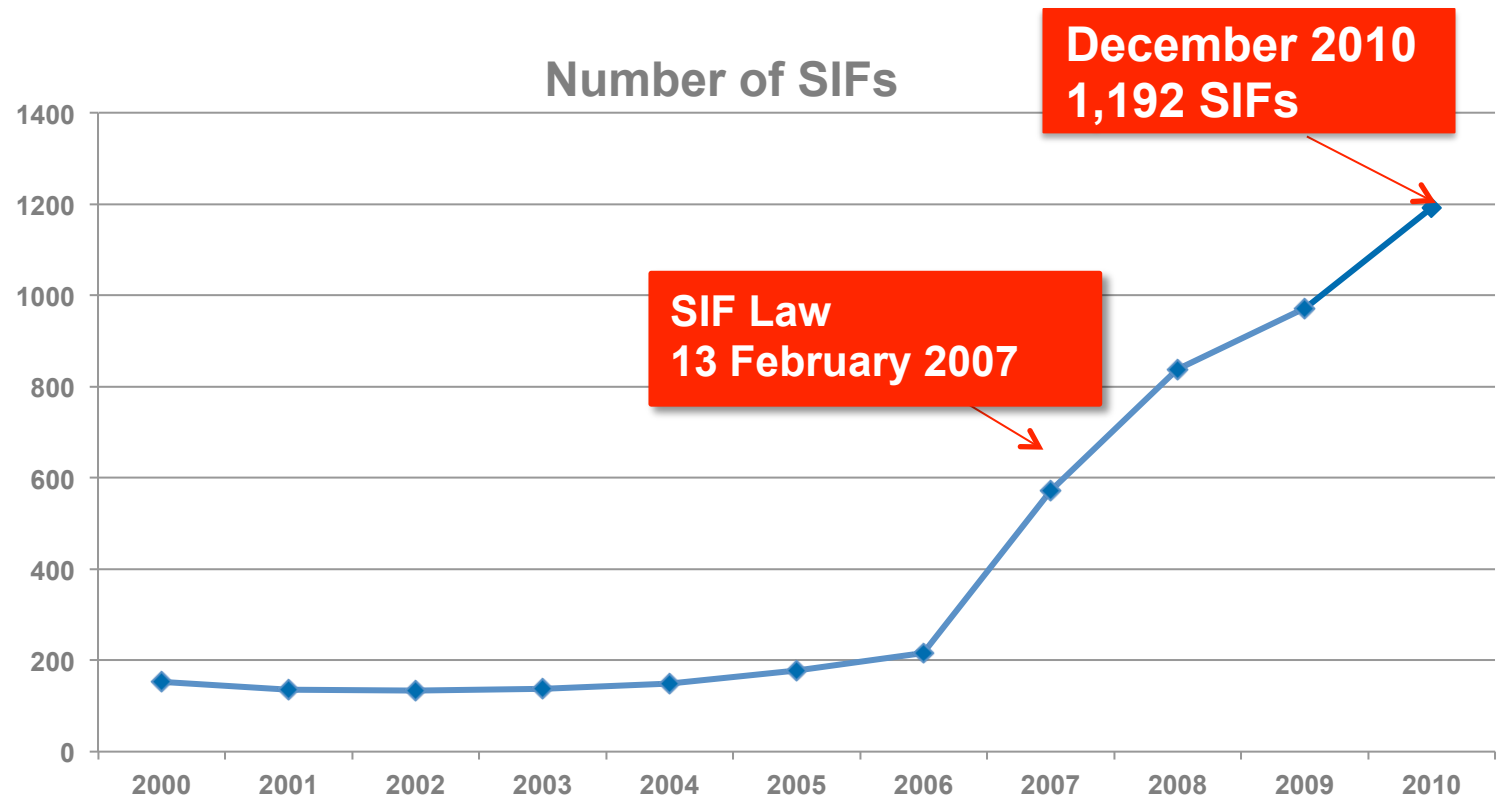
LUXEMBOURG, THE EUROPEAN HUB FOR REGULATED ALTERNATIVE INVESTMENT FUNDS

Moderator: Michael Hornsby, Partner,
EMEIA Real Estate Funds Leader, Ernst & Young

- Sven Rein, Vice President, Brown Brothers Harriman
- Gilles Dusemon, Partner, Arendt & Medernach
- Raymond Krawczykowski, Partner, Deloitte
- Han Ming Ho, Head of the Funds Practice, Clifford Chance

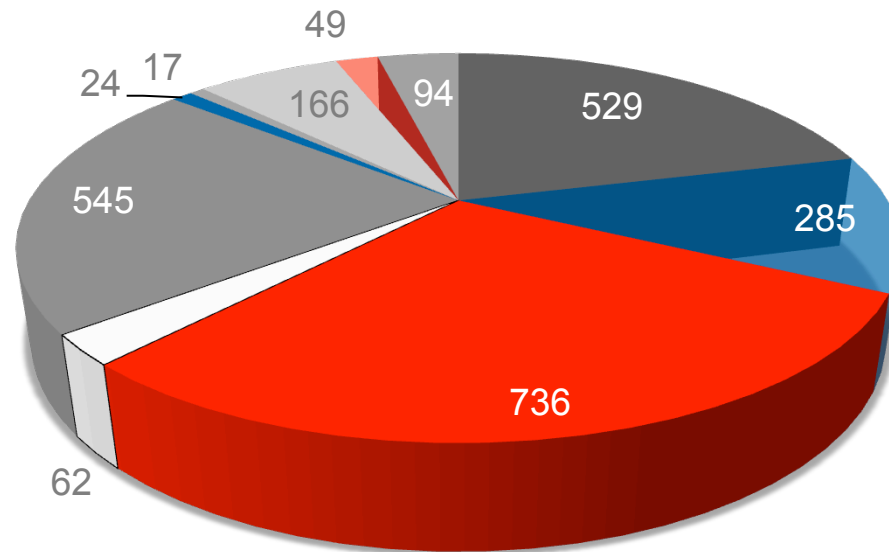
THE FUND PRODUCT – THE SIF SUCCESS STORY

- Strong growth under the SIF Law since February 2007



DIVERSITY OF SIF INVESTMENT POLICIES

SIF investment policies in 2010



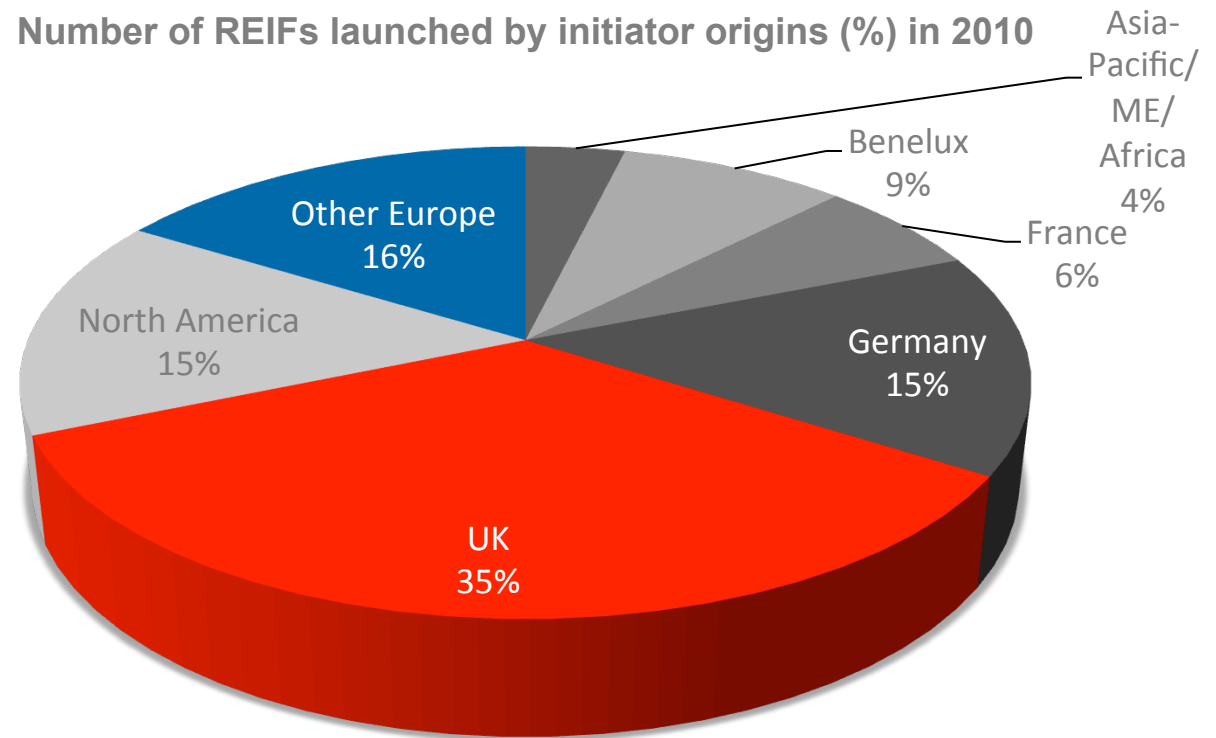
Entities

- Fixed-income transferable securities
- Variable-yield transferable securities
- Mixed transferable securities
- Non-listed transferable securities
- Fund of funds
- Cash
- Venture capital
- Real estate
- Futures and/or options
- Other assets

Figures as at 31 December 2010, Source: CSSF Annual Report 2010

GEOGRAPHICAL DIVERSITY OF PROMOTERS

Number of REIFs launched by initiator origins (%) in 2010



THE EUROPEAN HUB FOR REAL ESTATE, PRIVATE EQUITY AND HEDGE FUNDS

Private equity

- Over 300 private equity funds
- Over US\$37 billion of private equity fund assets administered in Luxembourg
- Growth of 850% over last 5 years

Real estate

- Over 212 real estate investment funds
- Over US\$30 billion of real estate investment fund assets administered in Luxembourg
- Growth of 500% over last 5 years

Hedge funds

- Over 1,700 hedge funds and funds of hedge funds
- Over US\$190 billion of hedge fund assets administered in Luxembourg
- Stabilization (despite the crisis) between December 2008 and 2010

A GLOBAL ALTERNATIVE INVESTMENT FUND CENTRE

MARKETPLACE



- Central location, with highly qualified multi-lingual workforce
- Good connections to other European financial centres
- Stable government with strong political support for the financial services industry
- Leading investment fund financial centre in Europe and #2 globally
- Responsive, pragmatic and accessible regulator and tax administration

LEGAL / TAX



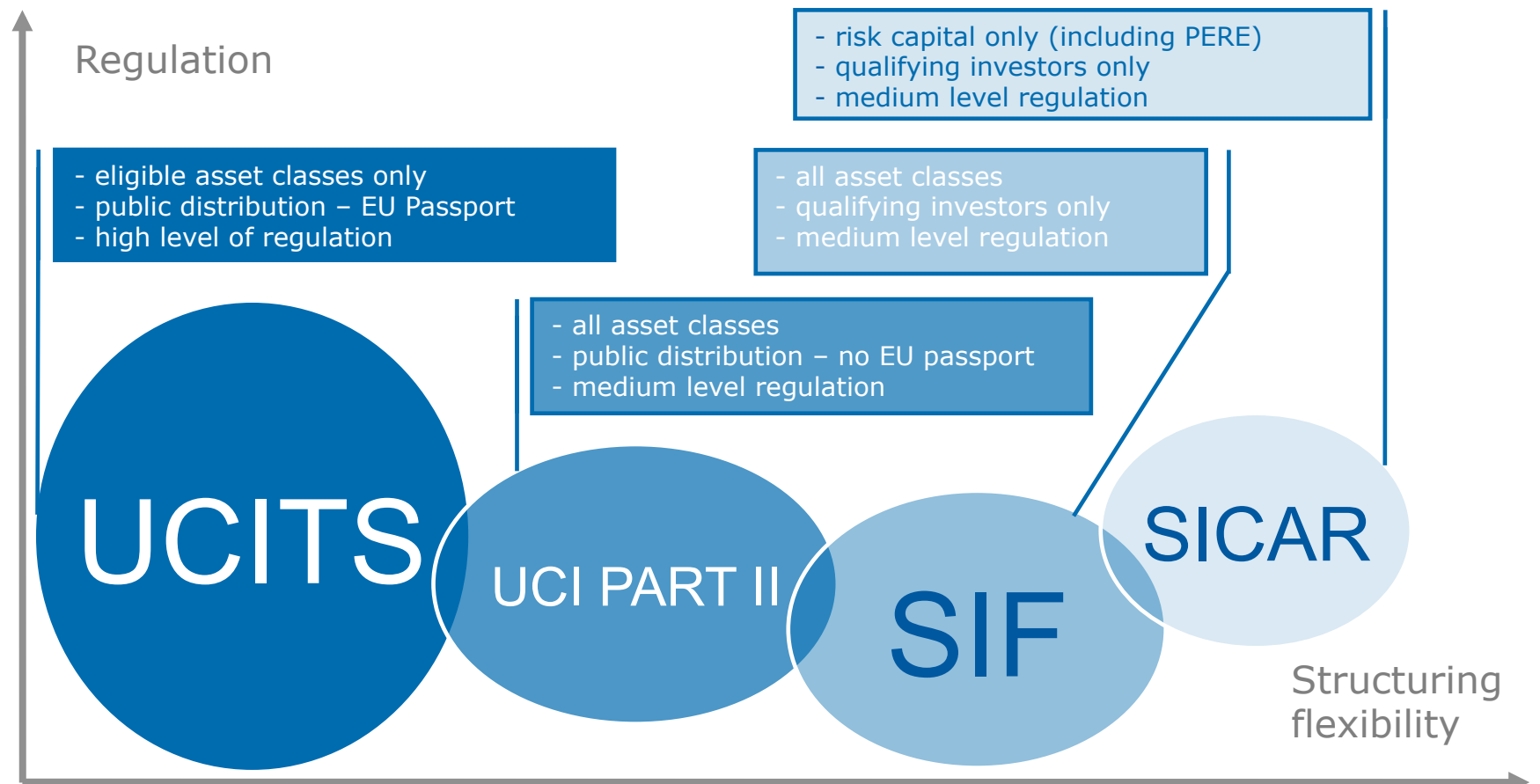
- Stable, flexible and predictable onshore legal and tax regime for investment in AIFs through:
 - **Unregulated**
 - Financial holding company (**SOPARFI**)
 - **CSSF Regulated**
 - **UCITS** (equities, REITs)
 - **UCI Part II**
 - Specialised Investment Fund (**SIF**)
 - Risk Capital (**SICAR**)
- Strong investor protection

EXPERIENCE

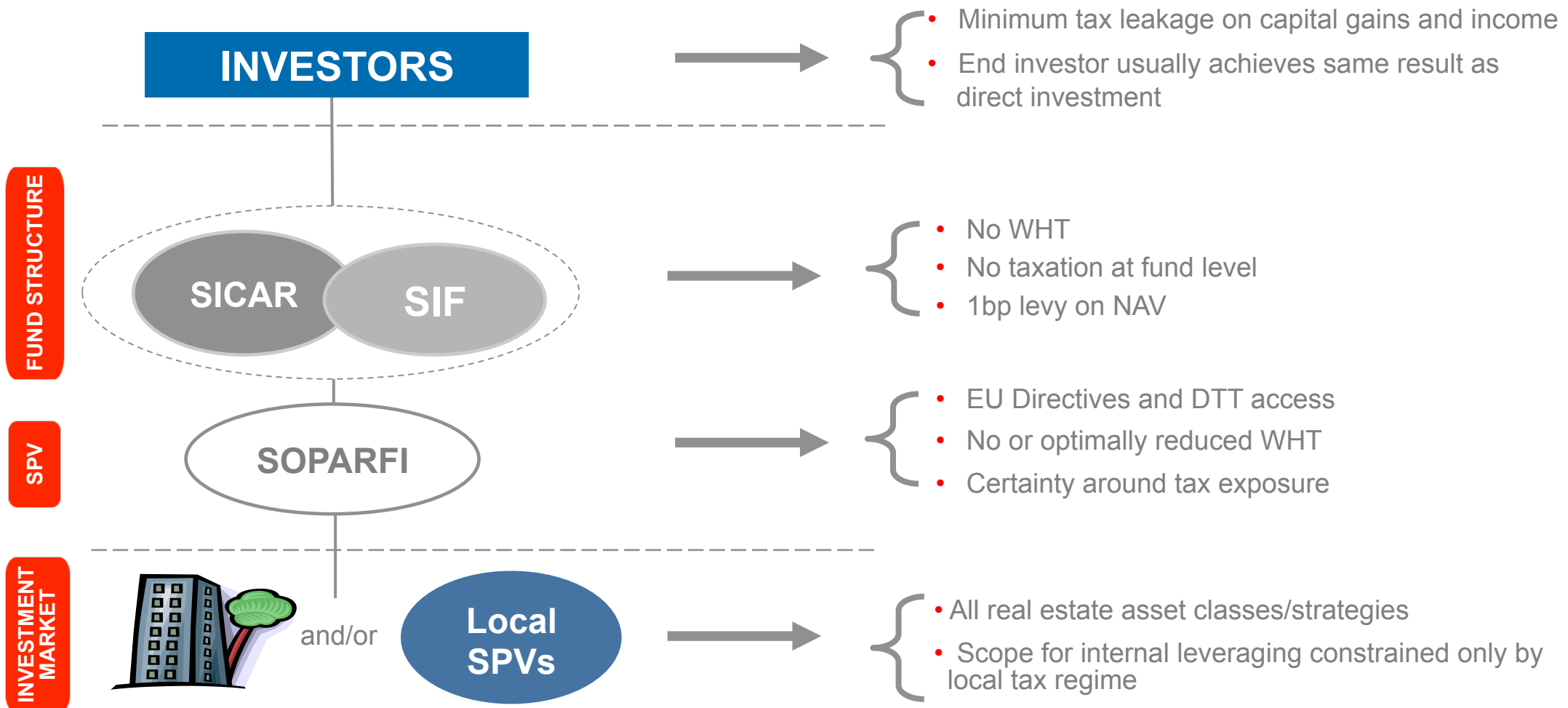


- Over 20 years experience in structuring global alternative investments
- Strong industry involvement through ALFI Committees, including dedicated training
- Increasing specialisation in banks and central administrators
- Estimated over 2,000 professionals in unregulated sector alone
- Recent establishment of Independent Directors Association

PRODUCTS



TAX NEUTRALITY



KEY OBJECTIVES

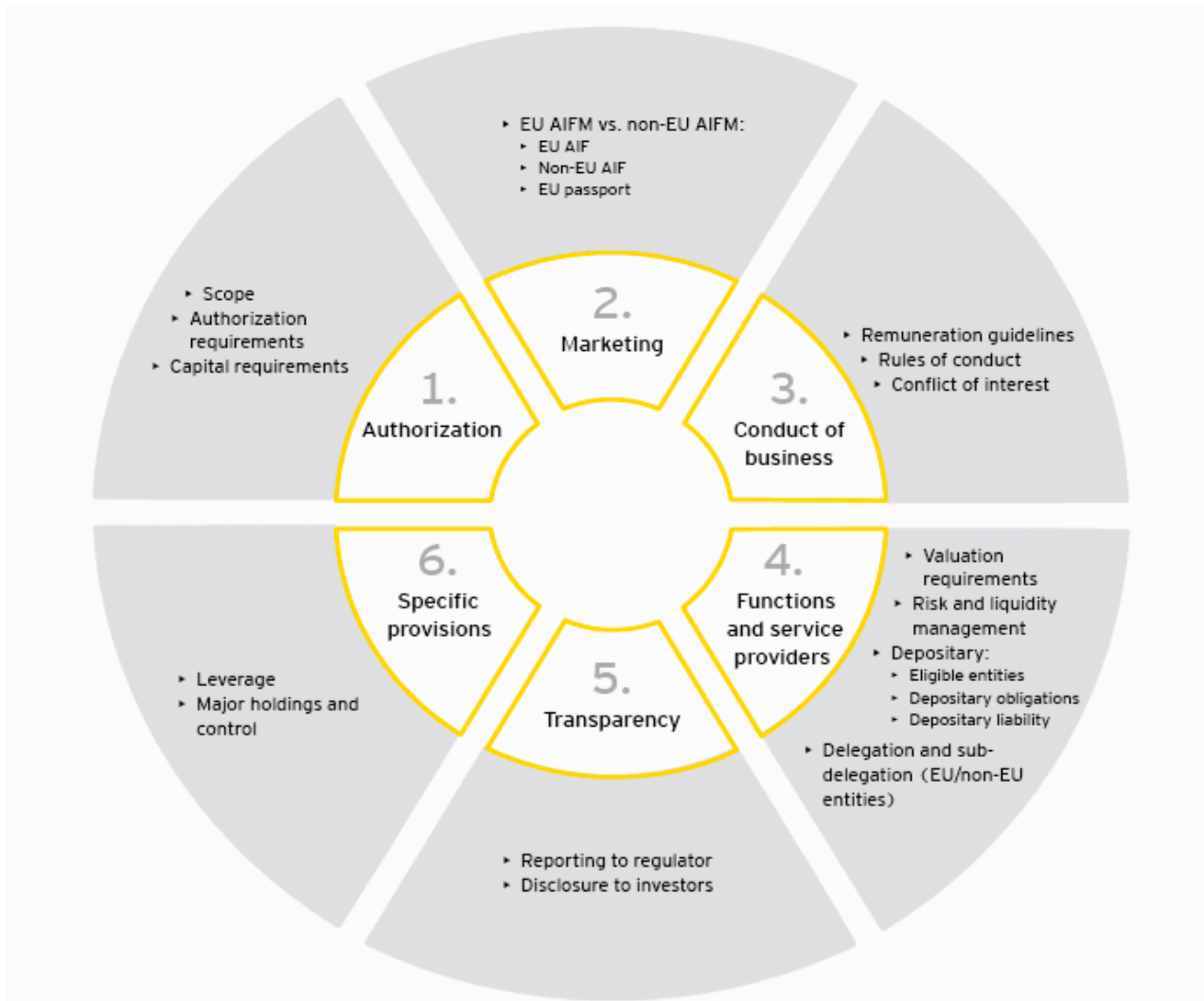
Key objectives

- Extend appropriate regulation and oversight to all actors and activities that embed systemic risks
- Improve financial stability
- Ensure that the Alternative Investment Fund Managers (AIFMs) are subject to a regulatory framework
- Increase transparency towards regulators and investors, and public accountability for the actions of AIFMs
- Enhance investor protection
- Develop the EU internal market in the area of alternative investment, i.e., passports enabling AIFMs to offer their management services and market their AIF throughout the EU

What does the AIFMD regulate?

- Direct regulation of AIFMs
- Indirect regulation of AIFs
- Creation of a European market for alternative investments via passports for management and marketing activities

KEY PROVISIONS



At the level of the AIFM

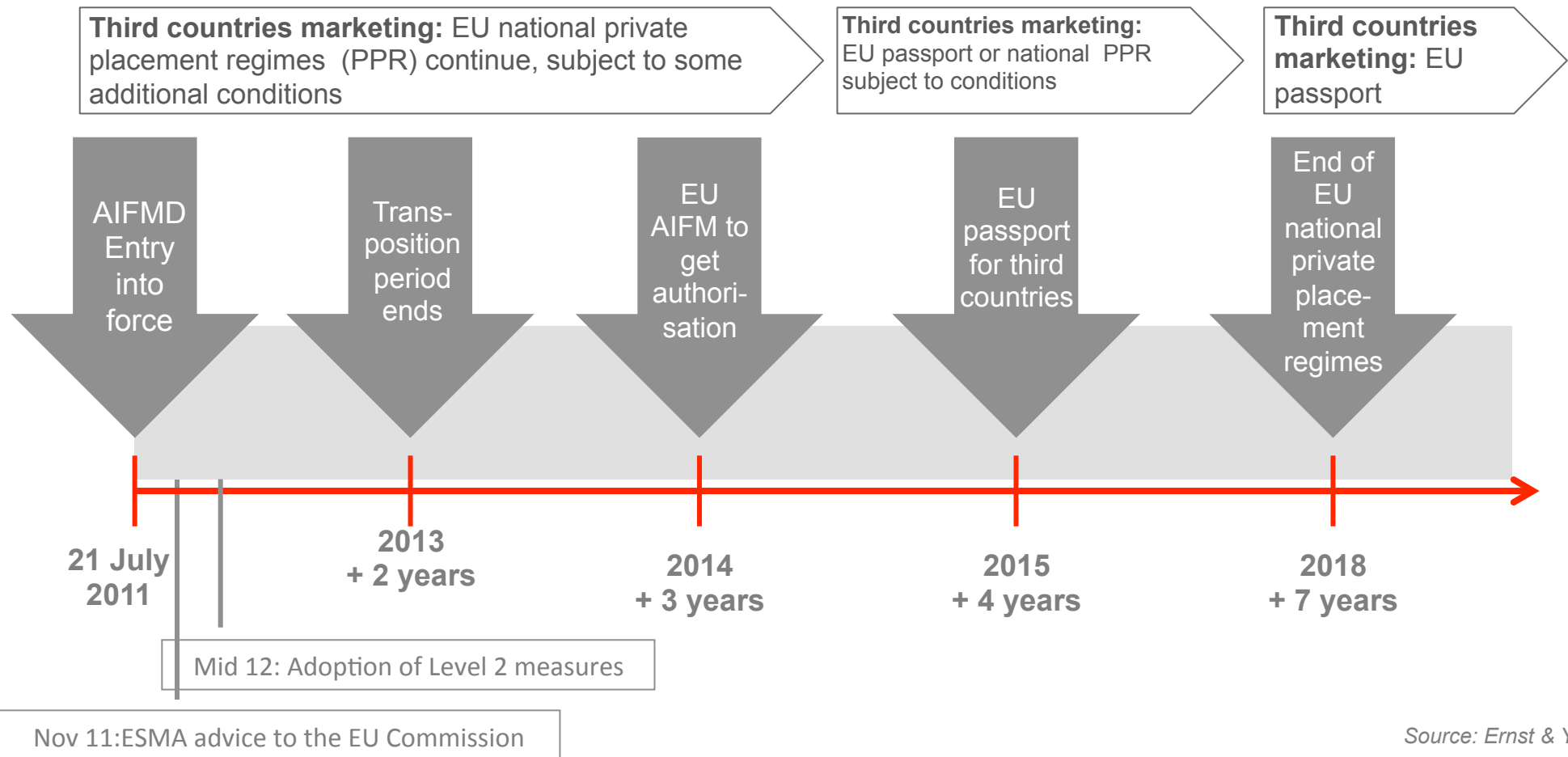
- Authorization
- Capital
- Conduct of business, including remuneration
- Conflicts of interest
- Risk management
- Delegation
- Marketing provisions

At the level of the AIF

- Liquidity management
- Valuation
- Depository
- Transparency
- Leverage
- Controlling interests
- Marketing provisions

TIMELINE

Since December 2010 (issuance of CESR/ESMA call for evidence), we have entered the Level 2 process. The European Commission may also review the application and scope of the AIFMD four years after implementation.



Source: Ernst & Young

SCOPE MATRIX

Manager	Product	Investors	In Scope
EU	EU	EU	YES
Non EU	Non EU	Non EU	NO
EU	EU	Non EU	YES
Non EU	Non EU	EU	YES
EU	Non EU	EU	YES
Non EU	EU	Non EU	YES
EU	Non EU	Non EU	YES/NO *
Non EU	EU	EU	YES








* If the Manager is a sub-advisor, has risk and portfolio management responsibilities and is "appointed by or on behalf of the fund", then the sub-advisor is considered an AIFM. However, if the sub-advisor are only a delegate of the person "appointed by or on behalf of the fund" then the sub-advisor is not be the AIFM.

Source: Brown Brothers Harriman

EU DISTRIBUTION POST AIFMD

EU AIFM / EU AIF	<ul style="list-style-type: none">• Distribute under EU Passport (from 2013)
EU AIFM / Non-EU AIF	<ul style="list-style-type: none">• Distribute under National Private Placement Regimes (until at least 2018)• Distribute under EU Passport (from 2015)
Non-EU AIFM / EU AIF	<ul style="list-style-type: none">• Distribute under EU Passport (from 2015)• Distribute under National Private Placement Regimes (until at least 2018)
Non-EU AIFM / Non-EU AIF	<ul style="list-style-type: none">• Distribute under National Private Placement Regimes (until at least 2018)• Distribute under EU Passport (from 2015)

LUXEMBOURG DEGREE OF READINESS

Lux AIF (UCI/SIF/SICAR)		Highest compatibility standard
Lux AIFM		Highest compatibility and « UCITS ManCo » track record
Prudential supervision		Already standard
Depositary requirement		Already standard
Transparency requirements		Already standard
Delegation		Already standard
Passporting capabilities		Luxembourg sets global standard for distribution/placement
Support services		AIFMD anticipation

MARKET DEVELOPMENTS AND PROSPECTS

- **Some recent initiatives:**
 - **Ensure provisions of the AIFMD are efficiently implemented and practically interpreted in Luxembourg over the broad range of alternative fund products**
 - **Development of new products, e.g., Limited Partnership (LP) and REIT (vehicle regulation)**
 - **Consideration of introducing an optional AIFMD “light” regime for smaller managers**
 - **Consider improvements to the tax regime for Luxembourg funds and management companies**
 - **Review tax regime for carried interest**
 - **Invest in expanding existing professional education and skills development specifically for alternative funds**

THANK YOU !

- **Useful internet links:**
 - www.alfi.lu
 - www.cssf.lu
 - www.efama.org
 - www.lff.lu
- **Slides can be downloaded at www.lff.lu**