

The Luxembourg
Specialized Investment Fund



EDMOND DE ROTHSCHILD
INSTITUTIONAL & FUND SERVICES



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The Luxembourg Specialized Investment Fund

Introduction

Luxembourg has always been internationally recognized as a fund label of excellent repute and over the years has become the second largest fund centre in the world after the US. Whereas in the past the setting up of a Luxembourg fund was not accessible to all financial institutions, things changed on 13 February 2007 with the implementation of the Specialized Investment Funds (SIF) law.

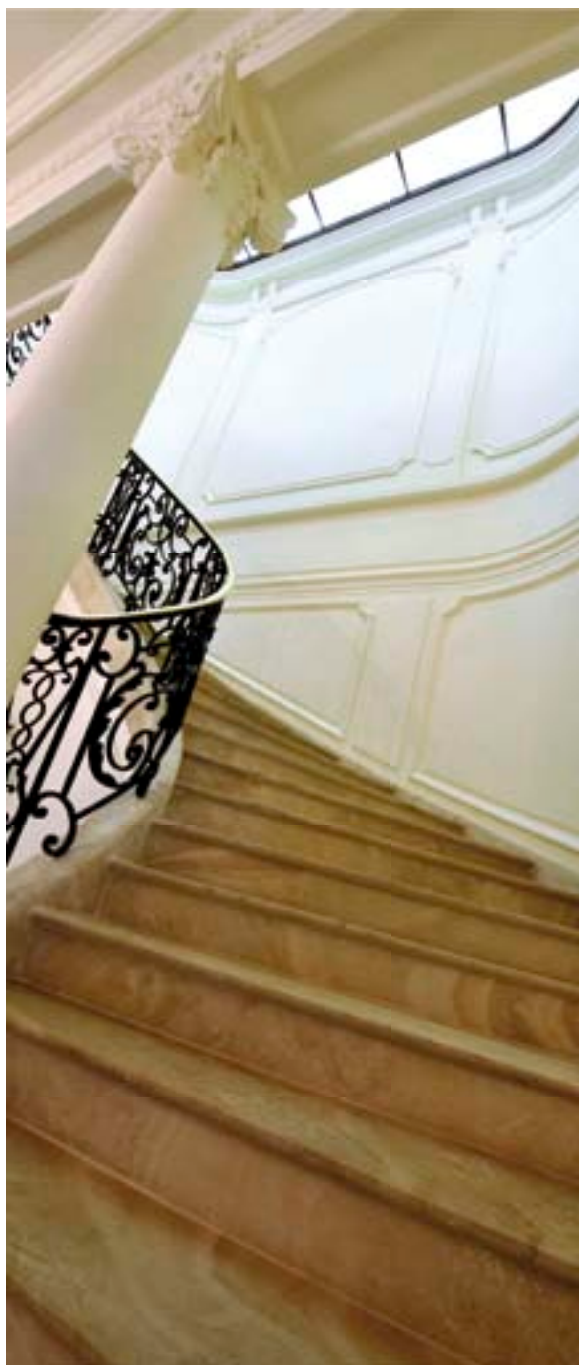
In recent years, Luxembourg's financial centre has also enjoyed a steady growth in the domiciliation and administration of alternative investment vehicles. The SIF law creates a favourable environment for the launch of new funds for institutional, professional and "well-informed" investors.



Tax treatment

The SIF tax regime continues the proven and tested tax regimes governed by the 1991 law and the 2002 law.

- ▶ CSSF filing duty is fixed at EUR 2,650 for a stand alone SIF and EUR 5,000 for a SIF umbrella.
- ▶ The CSSF's annual fee is fixed at EUR 2,650 for a stand alone SIF and EUR 5,000 for a SIF umbrella.
- ▶ Exempt from corporate income tax, capital gains tax, net worth tax, and municipal business tax.
- ▶ No withholding tax on distributions made by the SIF to its investors.
- ▶ Annual subscription tax computed at a rate of 0.01%.
- ▶ Possibility for corporate forms to benefit from the tax treaties concluded by Luxembourg.
- ▶ Possibility to opt for a tax transparent form, e.g. a common fund (FCP), or a corporate form depending on an investor's requirements.
- ▶ Management services provided to a SIF are VAT exempt.



Eligible investors:

The SIF law substantially broadens the investor base to include a qualifying investor concept. The legislator has set certain criteria for the identification of such qualifying investors who accept or require a lower level of protection as a result of their status, experience, or special acknowledgement of the risks they incur by investing in a lightly regulated fund vehicle.

A fund created under the SIF law may be sold to “well-informed” investors. A “well-informed” investor can be any one of the following types of investor:

- ▶ an institutional investor,
- ▶ a professional investor,
- ▶ any other type of investor who has declared in writing that:

he/she/it will invest a minimum of EUR 125,000 or,

he/she/it has a certificate provided by a bank, a MIFID firm, or a UCITS management company which states that the investor has the appropriate expertise, experience, and knowledge to adequately understand the investment made in the fund.

Available legal forms

The SIF may be structured as an open-ended legal entity, a SICAV, as a closed-ended legal entity, a SICAF, or as a contractual form FCP which must have a management company.

These different entities may create sub-funds, each with a different investment policy and ring-fenced.

A SICAV or a SICAF may be created as:

- ▶ a Public Limited Company (SA);
- ▶ a Private Limited Liability Company (SàRL);
- ▶ a Partnership Limited by Shares (SCA);
- ▶ a Cooperative Company organised in the form of a Public Limited Company (SCOSA).

Setting up a SIF

No prior authorization from the CSSF is required. However, the constitutional documents, choice of custodian, and information regarding the directors and officers must be submitted to the CSSF within one month of the formation of the fund. The CSSF subsequently informs the SIF whether or not it has been granted authorization.

The SIF (or its management company in the case of an FCP) is required to draw up an issuing document. The issuing document must include the information necessary for investors to be able to make an informed judgment about the investment proposed to them. The issuing document and any modifications thereto must be communicated to the CSSF.

Minimum fund size and paid-up capital

The SIF must reach a minimum size of €1.25 million within twelve months of incorporation.

While the issued shares of a SICAV must be fully subscribed, only 5% of the amount of the subscription per share or unit must be paid up in cash or by means of a contribution other than cash. This will facilitate structures such as private equity funds to make capital calls over a period of time.

Requirements:

► Central administration

The central administration and the registered office must be located in Luxembourg.

► Custodian bank

Must be a Luxembourg bank or a Luxembourg branch of a bank domiciled in an EU Member State. The role of the depository is the same as for other funds with reduced responsibility (custody of the assets, day-to-day administration of the assets for an FCP).

► Prime broker

No specific requirements are defined in terms of the registered prime broker (residency, honourability, etc.).

► Promoter

There is no need for a promoter.

► Managers

Managers are not subject to the approval of the CSSF.

► Directors

Directors of the fund or of the management company must justify their reputation and prove their professional experience in relation to the SIF's profile.

NB: No substance requirements for the management company.



Investment restrictions

The SIF can invest in a broad range of assets, including hedge funds, private equity, real estate, art, derivatives, etc. The SIF law does not specify any detailed investment restrictions or leverage rules. It simply states that a SIF should comply with the principle of risk diversification.

SIF investors also include "sophisticated and professional investors", leading to a more flexible risk spreading principle.

The offering memorandum should include some quantitative limits to support this risk spreading principle and to enable appropriate investors to make a judgement on the risk of the investment.

The risk spreading principle is respected if:

- ▶ a maximum of 30% of the assets/commitments is invested in similar securities issued by the same body (30% applies to both long and short positions) ¹ ;
- ▶ the use of financial instruments/derivatives: the risk spreading principle should be maintained through to the underlying assets. The counterparty risk linked to OTC ² transactions should be limited, based on the level of quality and expertise of the counterparty;
- ▶ these rules apply to all SIFs (exemptions can be granted if duly explained);
- ▶ additional rules might be required depending on a SIF's specific investment strategies.

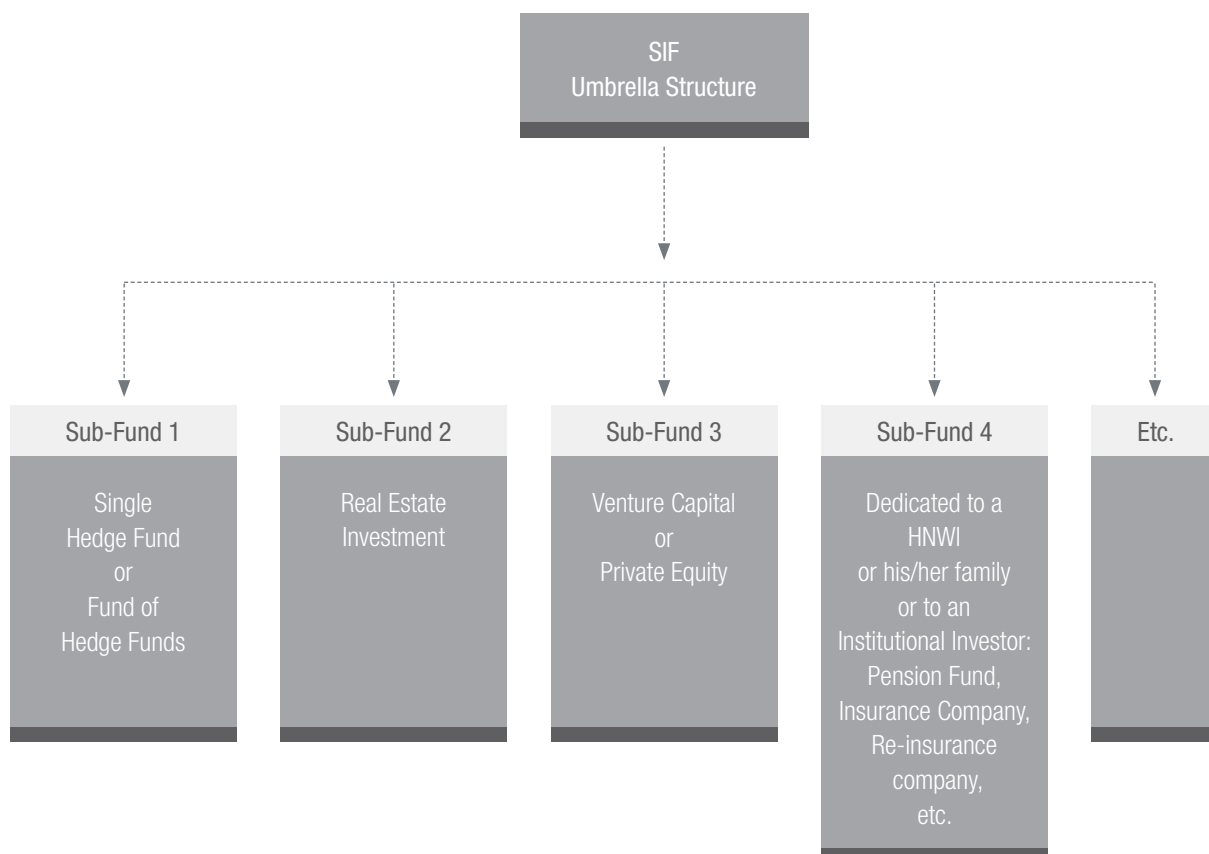
¹ Not applicable to securities issued or guaranteed by OECD member countries or public institutions or to investments in target UCLs respecting equivalent risk principles.

² Over The Counter.

Practical case

Each sub-fund is segregated for bankruptcy or liquidation purposes.

Sub-funds can have distinct investment policies, management fees, performance fees, entry fees, NAV frequencies, etc.



Reporting and valuation

SIFs are subject to light reporting requirements:

- ▶ annual report certified by a registered auditor to be made available within 6 months of the end of the period to which it relates;
- ▶ monthly and annual information submitted electronically via CCLux to the CSSF (for statistical and supervisory purposes);
- ▶ no semi-annual report required;
- ▶ no disclosure of schedule investments;
- ▶ no long form report;
- ▶ no consolidation is required.

The valuation of the assets must be based on the fair value, determined in accordance with the procedures laid down in the management regulations (FCP) or articles of incorporation (SICAV). The subscription price and redemption price are freely determined and the frequency of the NAV calculation should be at least once a year.





Highlights of the law

- ▶ A lightly regulated onshore structure.
- ▶ No prior formal approval by the CSSF³ required (filing must be completed within a month of the launch).
- ▶ Enlarged scope of eligible investors and possible legal forms.
- ▶ No licensing requirements for promoters or investment managers.
- ▶ Very wide range of eligible assets and securities.
- ▶ No quantitative investment limits stipulated (by law), although the principle of risk spreading still applies (max. 30% of assets invested in similar securities issued by the same body).
- ▶ NAV calculation at least once a year.
- ▶ Annual report must be produced within the 6 months following closing (no semi-annual report or activity report).
- ▶ Reduced responsibility of the custodian.
- ▶ No taxes on capital gains, profits or income; annual subscription tax at a rate of 0.01%.
- ▶ Access to Luxembourg's double taxation treaties⁴.
- ▶ No consolidation requirement.

³ Commission de Surveillance du Secteur Financier.

⁴ List of Luxembourg's double taxation treaties whose benefits extend to SICAVs/SICAFs as a result either of the interpretation of the text itself or due to the express agreement of the contracting country.

The Edmond de Rothschild Group

Based in Geneva, the Edmond de Rothschild Group has a presence in most of the world's leading banking centres, with 2,000 employees, 30 offices in 17 countries across the globe, and EUR 100bn in assets under management.

Wherever our clients are located, the same high standards of quality apply: our clients can rely on the first-class service and support which have been the Rothschilds' trademark over seven generations.

Traditions and legends can only survive if nourished by constant innovation, intelligently brought to bear in the achievement of excellence. This is how the Edmond de Rothschild Group has translated its heritage of the past seven generations into a vision of the future.

Edmond de Rothschild Group upholds the fundamental values of finance - experience, skill, integrity, trust, and confidentiality. This corporate culture is applied with unbending discipline to a single purpose: to dedicate the experience of seven generations to the management and administration of private and institutional portfolios.

The Group's presence in Luxembourg dates back to 1969, when Banque Privée Edmond de Rothschild became the first Swiss bank to establish a branch in Luxembourg. This branch developed into Banque Privée Edmond de Rothschild Europe, the foremost subsidiary of a Swiss bank in Luxembourg.

Taking advantage of Luxembourg's position as the leading fund administration hub in Europe, Banque Privée Edmond de Rothschild Europe has become the centre of expertise for fund administration for the entire Edmond de Rothschild Group.



Fund Services: Overview and Strengths

Our fund services division, which is largely third party client oriented, is among the most reputable and innovative in Luxembourg.

Besides traditional funds, we have vast experience in providing high quality, value-added services to specific and complex investment vehicles (i.e. funds of hedge funds, single hedge funds, private equity, and real estate funds).

Banque Privée Edmond de Rothschild Europe (BPERE) is a one-stop shop providing setting-up, custody, administration, registrar, and domiciliary services for your fund.

Having been in the fund administration and custody business for over 30 years, BPERE has acquired extensive experience in administering third party funds. We are constantly seeking to anticipate future market requirements.



Domiciles

- ▶ Luxembourg (UCITS IIIs, SIFs, SICARs, and other UCIs)
- ▶ Cayman Islands
- ▶ British Virgin Islands
- ▶ Italy

Structures

- ▶ Single and umbrella funds
- ▶ Multi-manager structures
- ▶ Institutional and dedicated funds
- ▶ Funds of hedge funds and hedge funds
- ▶ Pooling/cloning structures
- ▶ Real estate funds
- ▶ Wrapping structures
- ▶ Private equity and venture capital funds
- ▶ Unit-linked products
- ▶ Art funds
- ▶ Wine funds
- ▶ Master custody

Key Figures

- ▶ Assets under administration (EUR) over 40bn
of which alternative assets under administration over 14bn
- ▶ Funds and sub-funds under administration over 500
- ▶ Personnel dedicated to fund services 300

Certified*



* Level II for custody & fund administration since 2003.

Why choose Edmond de Rothschild Institutional and Fund Services as your service provider?

- ▶ Seven generations of bankers that place the interests of their clients above all other considerations.
- ▶ Not an industrialized process: a tailor-made approach coupled with an outstanding reputation.
- ▶ One-stop shop: an integrated system for custody, fund administration, transfer agency, and domiciliary and corporate secretarial services.
- ▶ Execution desk for cash and securities.
- ▶ Dedicated, multilingual contact persons and backups.
- ▶ Fully automated pooling, multi-manager, and cloning structures.
- ▶ Dedicated desks for hedge, private equity, and real estate funds.
- ▶ SAS 70 Level II compliant since 2003 (custody and administration).
- ▶ Interface with StatPro (performance attribution and contribution reporting, VaR reporting, etc.).
- ▶ Automated compliance monitoring (VIGIL): to assist boards of directors and/or fund managers to comply with investment policies and legal restrictions.
- ▶ Preparation of marketing sheets along with regular updates.
- ▶ Internet-based workstation (BPLINK): real time and Windows-based.
- ▶ Index control: besides the various pricing controls, this tool enables the detection of pricing errors prior to sending out the NAV.
- ▶ Value added custody services for HNWI or institutional accounts.

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NOT JUST A SERVICE PROVIDER
BUT A PARTNER

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