

Private Equity Funds A special breed of animal

Private equity funds are used as a turntable to attract money from (institutional) investors and then invest the proceeds in underlying companies known as targets. The targets can be companies that are looking for additional capital to support their growth or (leveraged) buyouts.

The idea is that the private equity fund holds the targets for a number of years, after which it can divest the shares, based on an "exit strategy". Typical exit strategies are a stock exchange introduction (IPO) or a sale to a strategic acquirer, also known as a trade sale.

The value is created by the fund manager's ability to originate good targets, to improve the profitability of the targets, and to find the best exit strategy within the life cycle of the fund.

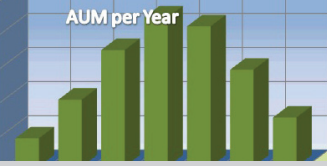
Many private equity funds focus on a specific geographical region, industry sector or investment strategy. Real estate funds are often grouped under this category as well, as they have many characteristics in common with private equity funds. Private equity funds can also be used to structure and protect the investments of family groups and thus facilitate the control and succession planning of such groups.

Challenges

Private equity funds face different challenges than do mutual funds or alternative investment funds. Unlike other funds, private equity funds need to accommodate the life cycle of the targets.

The challenges present themselves at the beginning and middle of the life cycle of the fund as well as at the end: The targets cannot be purchased in one go, they must be bought as and when good opportunities present themselves. When the assets are divested, the fund will receive large amounts of cash. In the interim period, the fund will have no liquidity to speak of. The liquidity will be locked up in the assets.

It is also typical of private equity funds that the portfolio often consists of not more than a dozen investments. The investments require a substantial amount of time and involvement by the investment manager of the fund. Too many investments mean that the attention of the manager is spread too thinly over the various assets.



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The fund can choose to live with a large amount of cash when the money is not invested, but especially in times of low interest rates, the low return on investment will depress the fund's performance. Since the manager is often compensated on a performance fee basis, it is not in the interest of the manager to leave large amounts of liquidity in the fund.

The preference not to have excess liquidity in the fund is addressed in a number of ways:

Investment stage: Private equity funds tend to work on the basis of capital commitments: Investors agree to invest a certain portion of their commitment on the basis of capital calls.

Interim stage: The money is locked up in the assets of the fund. The investor does not have the right to redeem his shares. This can be done by imposing a lock-up period or by charging penalties for early withdrawal.

Exit stage: Private equity funds are often organized as closed-end funds, which have a predetermined redemption date. The redemption date can be deferred at the sole discretion of the fund in order to avoid forced sales of the underlying assets. Alternatively, the sales proceeds can be distributed during the life of the fund.

Legal Forms

Private equity funds can be organized in various legal forms and in many different jurisdictions. To give a few examples:

To accommodate US taxable investors, private equity funds are often organized as partnerships. These partnerships can be US based or offshore.

In Europe, a legal form that is particularly suited for private equity funds is the Luxembourg SICAR. The SICAR is aimed at qualified investors, including institutional investors as well as private individuals who fulfil certain conditions. Since the SICAR is aimed at qualifying investors, it can benefit from a lighter form of supervision by the Commission for the Supervision of the Financial Sector.

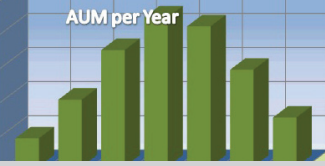
Malta is another suitable jurisdiction for funds within the European Union. Private equity funds in Malta are typically set up in the form of professional investor funds, commonly known as PIFs. PIFs are governed by a flexible set of rules and there is no requirement to appoint service providers based in Malta.

Amicorp Fund Services

Fund Setup

With our expertise in all types of private equity funds, including venture capital funds and buyout funds, and our understanding of the economic drivers of funds, Amicorp can help you structure your fund in a way that ensures successful operation and avoids pitfalls.

Once all parameters of the fund have been determined, we implement the fund structure on a turn-key basis, in close cooperation with top law firms in the jurisdiction of choice. We also assist in the opening of escrow accounts.



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Fund Administration

When acting as the administrator of the fund, Amicorp can provide:

Fund Accounting Services

- Valuing the fund's investment portfolio based on the applicable accounting standards;
- Calculating management fees, performance fees (carried interest) as well as distribution hierarchies ("waterfalls");
- Providing quarterly financial reporting; and
- Preparing the annual financial statements and coordinating the audit thereof.

Investor Services

- Performing investor due diligence;
- Maintenance of the shareholders or participants register;
- Processing of all commitments, capital calls, distributions and transfers;
- Managing the escrow account;
- Keeping investors informed of the fund's progress on a regular basis; and
- Providing tax estimates to investors.

Legal and Corporate Services

Amicorp keeps the fund in good standing and ensures compliance with local regulatory requirements:

- Providing the registered address and domiciliation;
- Maintaining all principal corporate records and appropriate registers;
- Reporting to local authorities; and
- Preparing board resolutions.

Contact

Amicorp will be pleased to assist you and to support the success of your private equity fund. For more information please contact:



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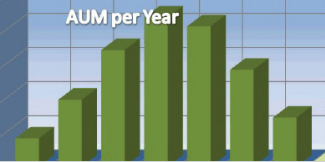
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