



cutting through complexity

ADVISORY

Liquidation Services: Unlocking Value for Investment Funds

Restructuring

kpmg.lu

KPMG in Luxembourg



Reasons for liquidation

Generally, the most common causes of liquidation for fund promoters and administrators are:

1. Insufficient critical mass

Funds need a certain critical mass of assets under management in order to operate profitably. For some funds the recent financial crisis resulted in a significant decrease of assets under management that made it uneconomical to continue activities.

2. Funds undergo restructuring

For example, by way of mergers where one portfolio is contributed to another (e.g. Part II to Part I), thereby necessitating the liquidation of the fund being contributed.

3. Sector deterioration

Investors are no longer pursuing, or are exiting, certain sectors. Examples include new economy investments, telecommunications, Internet, etc...

4. Regional economic deterioration

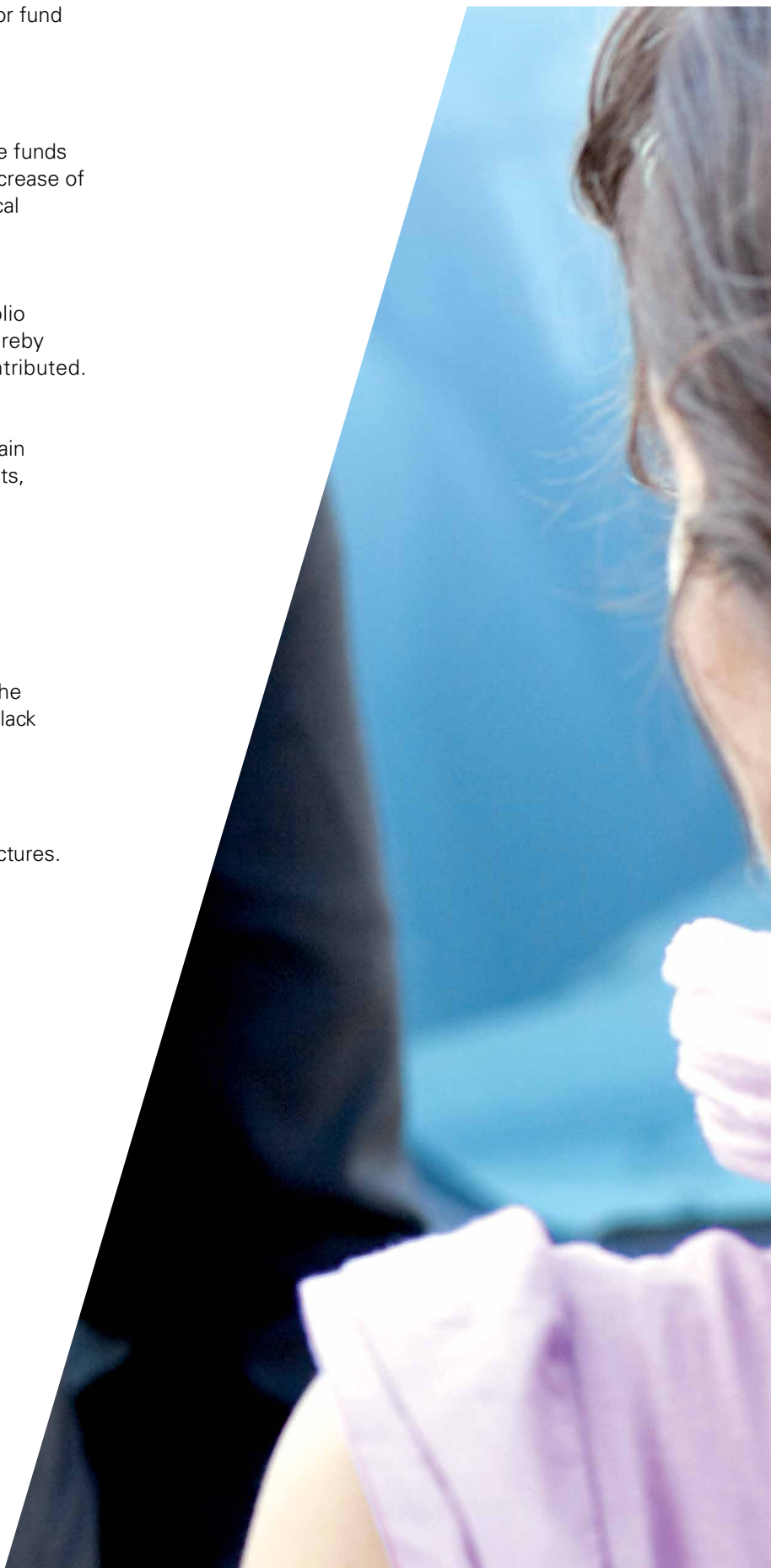
The financial situation of certain regions is no longer attractive to investors.

5. Over-abundance of products

There are too many products on the market and/or the shelf life of a fund comes to term generally through lack of investor interest and marketability.

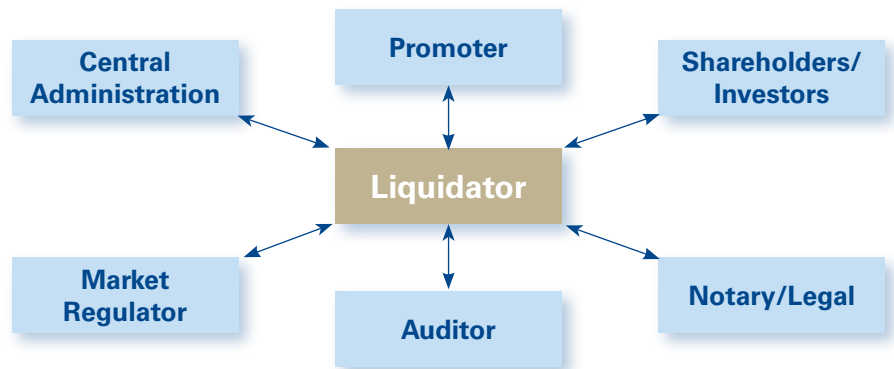
6. Substitution by other products

Traditional funds have to compete against a growing number of new products like ETFs or derivative structures.



The central role of the liquidator

In a solvent liquidation the liquidator coordinates, communicates and manages the interests of the different stakeholders.



Who should act?

In the past, the liquidation process was a responsibility of the fund's directors or the central administration. However, the use of a third party adviser as liquidator has become more and more common. There are many benefits in adopting this alternative, but one of the strongest arguments is clearly the indisputable independence of an external advisor.



Other reasons to appoint a third party liquidator include:

- Avoid actual or potential conflicts of interest
- The central administration is duly compensated for its work once the liquidation is initiated. Previously this may not have been the case, as liquidation duties could have been perceived to be part of a fund administrator's mandate
- Depending on the complexity, an orderly liquidation process requires careful and time consuming preparation. Fund administrators have to ensure they follow their regular daily operations with the same diligence even in times of significant organisational change
- Extensive experience in dealing with legal requirements and regulatory obligations in a liquidation environment is required

Methodology

KPMG undertakes the liquidation process in close cooperation with the central administration of the investment fund that is placed into liquidation. The main stages of the liquidation can be summarised as follows:

| Phase | Plan and prepare | Launch process | Monitor and manage | Closure and follow-up |
|--------------------------|--|---|--|--|
| Main work streams | <ul style="list-style-type: none"> Pre-liquidation planning and confirmation of the timing for liquidation provisions | <ul style="list-style-type: none"> Initiation of liquidation Potential analysis of specific transactions close to the date of initiation Potential analysis of related party transactions and of significant redemptions | <ul style="list-style-type: none"> Administration control Realisation of assets | <ul style="list-style-type: none"> Payment of creditor claims and distribution to shareholders Relationship management with shareholders, regulatory bodies, and auditors Reporting and finalisation of liquidation |
| KPMG assistance | <ul style="list-style-type: none"> Communication with all parties Formal appointment before a notary at the Extraordinary General Meeting of shareholders Preparation of all information for submission to shareholders in advance Forecast the net asset value, solve rounding issues | <ul style="list-style-type: none"> Termination of all contracts between the fund and third parties (custodian agreement, transfer agent agreement, advisory agreement, etc.) Management of assets (such as bank balances) in a prudent but efficient manner (generate revenue from assets) Deregistration from the official quotation at the Luxembourg Stock Exchange and communication with the "Administration de l'Enregistrement" | <ul style="list-style-type: none"> Realisation of assets on regulated markets and/or through market makers Distribution of surplus assets to the stakeholders as quickly as possible, i.e. authorise advance distribution of cash whenever possible Treatment of specific requirements such as distributions in kind, or asset contribution of the investment portfolio to another fund Deal with HR issues such as termination of employment contracts or social plan | <ul style="list-style-type: none"> Satisfy retail investors with efficient communication and in treating potential complaints Confirmation that all distribution and networking matters are closed in all relevant countries |

Our commitment is to adequately address critical expectations of all stakeholders in order to bring the liquidation to a satisfactory completion. Our resources and knowledge can add significant value to the process. Our goal is to provide a seamless, efficient and transparent execution of all required steps in a liquidation.

Benefits for all stakeholders

| | Process related | Ethics and integrity | Priority focus |
|----------|--|--|---|
| Benefits | <ul style="list-style-type: none">• Release directors from their legal responsibilities• Clear division in terms of risks• Control over the entire liquidation process (costs and risk mitigation)• Ability to call in experts and specialists while retaining control• Maximise liquidation value | <ul style="list-style-type: none">• Liquidator acts with full independence and without any conflicts of interest | <ul style="list-style-type: none">• Maximise speed – avoid delays through inadvertent non compliance or consultation• The liquidation is treated as a priority• A dedicated team manages all relevant tasks |

Why KPMG?

KPMG Expertise

- Our practitioners are a diverse and unique team of professionals with a detailed understanding of Luxembourg and European regulatory environments, an in-depth knowledge of the implications of liquidations and a track record of delivering successful exit and wind-down assignments
- We have dedicated experienced professionals in Luxembourg with significant experience in orderly wind-ups of local and cross border European companies and advising on liquidation matters

KPMG's Approach

- We bring our extensive experience to assist management in the planning and implementation of wind-downs navigating multi-jurisdictional social, legal and commercial factors, whilst at the same time minimising the risks of financial and reputation damage

Sector Expertise

- In Luxembourg, KPMG has a dedicated group of approximately 350 people working exclusively with investment funds, investment advisors and investment administrators (of total staff of above 900 across all lines of business). This includes over 300 professionals in our audit practice and over 50 professionals in our tax and advisory practice
- We are organised by lines of business: asset management, banking, insurance and industrial corporates

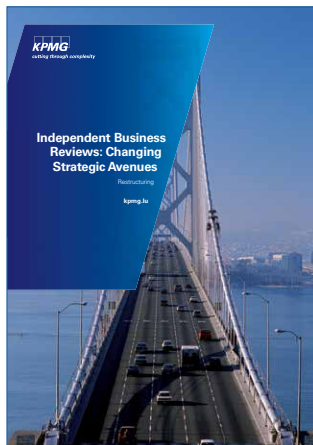
We have sector specific skills that, combined with local knowledge and experience, enable us to deliver complex cross-border services in Europe to a consistently high standard.

Our other publications and services



Life settlement advisory

Life settlement remains in its infancy and inappropriately structured portfolios, longevity risk and valuation uncertainties pose significant risks to investors. An efficient restructuring can assist in resolving short-term liquidity shortages and optimise investment portfolios to manage medium and long-term liabilities.



Independent Business reviews

An Independent Business Review (IBR) is a financial review based on facts and figures that provides an unbiased view on a company's forecasts. A deep and thorough analysis will develop or refine a structured plan with strategic options for the different stakeholders. An IBR may be tailored to very specific situations in order to provide strong practical support in implementing approaches. IBRs may be requested by commercial banks holding secured debt, management, private equity firms, investment banks, bondholders and any creditor which holds an interest in a company.



Advisory services for the Luxembourg Financial Sector

Finding a way through a crisis is challenging. With the right guidance the task can be made easier, but speed of response is essential. The earlier a problem is identified and resolved, the better chances the company has to turn its performance around.

**Your contacts
at KPMG in Luxembourg**

Zia Hossen

Partner

T: +352 22 51 51 7238

M: +352 621 87 7238

F: +352 22 51 71

E: zia.hossen@kpmg.lu

KPMG

9, allée Scheffer

L-2520 Luxembourg

T: +352 22 51 51 1

F: +352 22 51 71

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