KPMG

Private Equity Forum

KPMG in the Crown Dependencies

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Speaking today

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Introduction & moderator

Zeynep Meric-Smith
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PE funds in the digital age

Paul Eastwood
Director, Tax
KPMG in the Crown Dependencies, Jersey

OECD and EU tax policy developments for PE funds

Barry Ryan
Director, Private Equity Group
KPMG in the Crown Dependencies, Guernsey
KPMG UK

PE asset valuation trends

Tony Mancini
Partner, Tax
KPMG in the Crown Dependencies, Guernsey

ID Register showcase

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PE funds in the digital age

Zeynep Meric-Smith

Partner, Head of Private Assets Consulting
KPMG UK

Growth in alternatives continues taking new shapes and guises

Increased appetite for direct/co-invest vs LP/indirect investments

Private firms staying private for longer

Demonstration of ESG credentials across manager and underlying investments

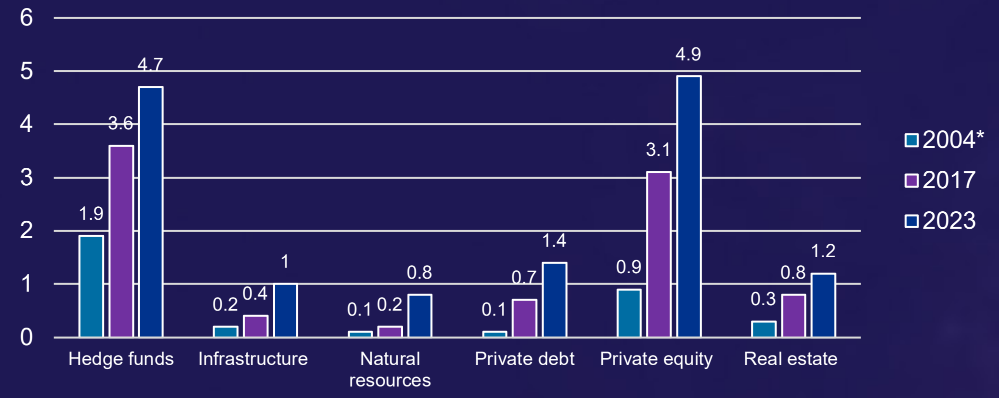
Growth of "evergreen" funds

Institutional investors giving bigger ticket sizes to smaller number of managers

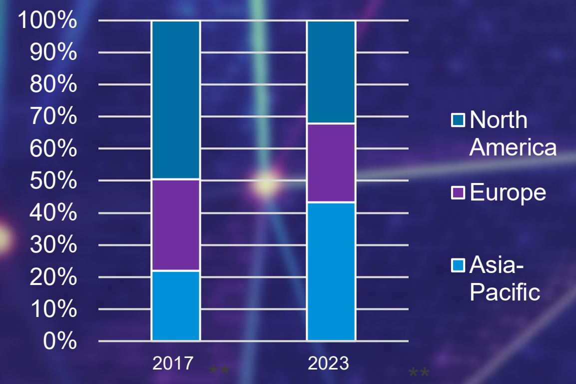
FinTech tie-ups to access new distribution channels/"Retailification"

Liquidity challenges between fund vehicle and underlying asset

Hedge Funds and PE retain the majority of the Private Assets market but their growth is slower compared to Infra and Debt



NA remains largest region but APAC has had fastest growth with CAGR of ~30%



Managers face a number of structural challenges in response to these developments

OPERATING MODEL

TECHNOLOGY

ORGANISATION

DATA

Our industry is responding to these challenges driven by tech-enabled transformation

Data-driven insights & value creation

Performance optimisation through technology

Strategic outsourcing

ESG & Stewardship

How we help our clients

We are a dedicated team within our Wealth & Asset Management business and leverage our global network of subject matter specialists and consultants to support GPs, LPs, Investment Managers and Asset Servicers with optimising their operational performance, building scalability and leveraging leading-edge technology and data capabilities to optimise their business operations front-to-back office.

Technology and data-enabled transformation capability

This is what we do. We support clients with complex change programmes, including system selection and implementation, post-merger/acquisition and integration, divestment and underlying value-creation. We also work with managers to define and implement **target operating models** and help them **identify the right strategic long-term outsourced partners** to support them on their growth journey.

Private Assets sector know-how

Our specialists work across the industry with your peers and your clients to help scale businesses for growth. They can work closely with your with business representatives in a meaningful way to engage and challenge current ways of working, processes and operations to help optimise your performance and allow your people to focus on high-value adding activities.

Global industry insights and Point-of-View

We have **insights through leveraging our strong global network** across Tax, Accounting and Deals Advisory alongside Consulting to provide a point of view of how others deal with similar challenges. In addition, we maintain **alliances with leading technology and FinTech/PropTech/InfraTech vendors and service providers** in the market to support your value-chain.

PE tax update - recent developments at the G7 and OECD

Paul Eastwood

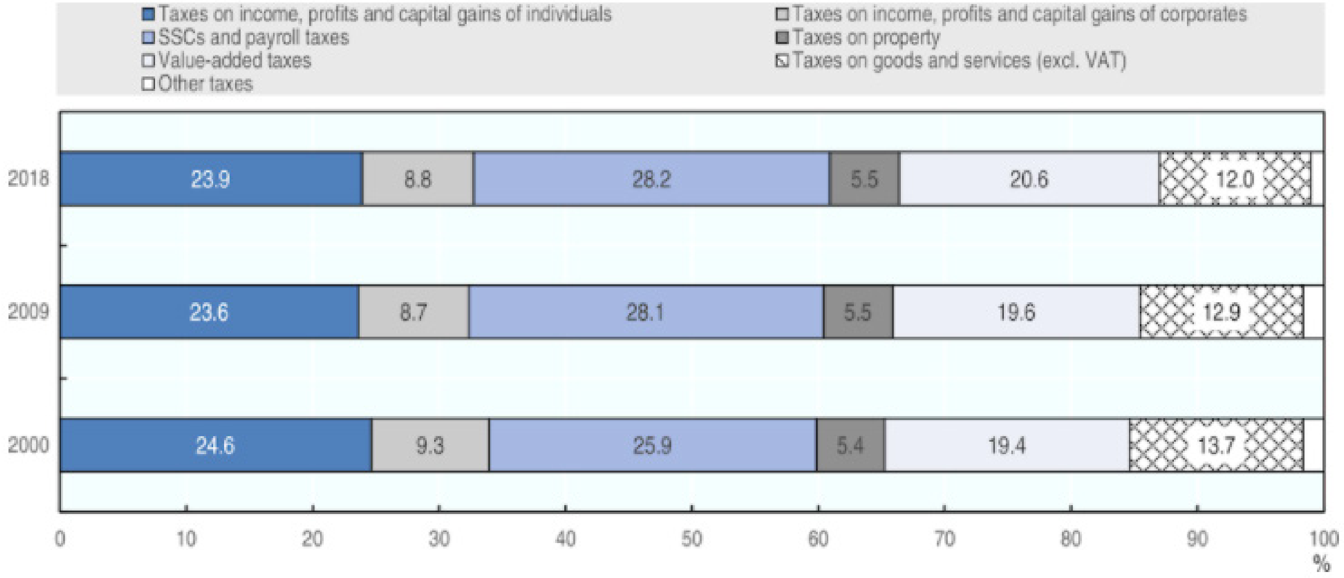
Director, Tax
KPMG in the Crown Dependencies, Jersey

An evolving tax world

Critical point in the evolution of the international tax landscape

Key themes:

- Basic international tax architecture that no longer accords with the modern world of commerce
- Major economies arguing over profits / taxing rights
- COVID and impact on government balance sheets – “burning platform”
- Sense of disgruntlement: growing inequality and that the tax burden is increasing falling on to “workers”

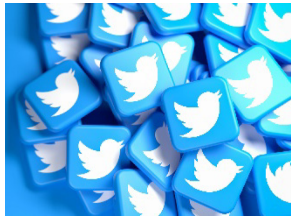


Source: OECD Revenue Statistics Database.

An evolving tax world - OECD/G20/IF

Taxation of Digital Economy – key battleground

- Pillar One – ensure large and highly profitable Multinational Enterprises, including digital companies, pay tax wherever they have significant consumer-facing activities and generate their profits
- About where tax should be paid (“nexus” rules)
- And on what portion of profits they should be taxed (“profit allocation” rules)
- Broadly an argument between big economies
- Top 100 companies
- Likely small impact for IFCs
- But indications it will be a “minimum standard”



An evolving tax world - OECD/G20/IF (continued)

- Pillar Two – critical for zero-tax jurisdictions
- Global Anti-Base Erosion ("GloBE") Proposal
- Seeking to ensure that all internationally operating businesses pay a minimum effective level of tax
- Addresses "remaining BEPS issues"
- Building on US tax reforms
- G7 announcement
- But increasingly organised developing nations
- Not all jurisdictions must tax at 15%

A view of the future

— Eventually the OECD will find a way forward on the Taxation of the Digital Economy

— Meeting of the Inclusive Framework this week

— G20 Finance Ministers – Venice 9-10 July 2021

— Pillar 1 little impact

— Pillar 2 (*as currently formulated*) unlikely to be an excessive threat to private equity in IFCs in itself:

€750m threshold for consolidated group revenues

exclusion of collective investment vehicles

calculation of taxable income for Pillar 2 purposes

— Watch for next steps by the EU – May 2021 paper on business taxation in 21st Century

A view of the future (continued)

Remember the importance of non-tax matters:

- Well/appropriately regulated
- Rule of law
- Politically stable
- Cluster effect
- Track record of jurisdiction
- Ability to deliver

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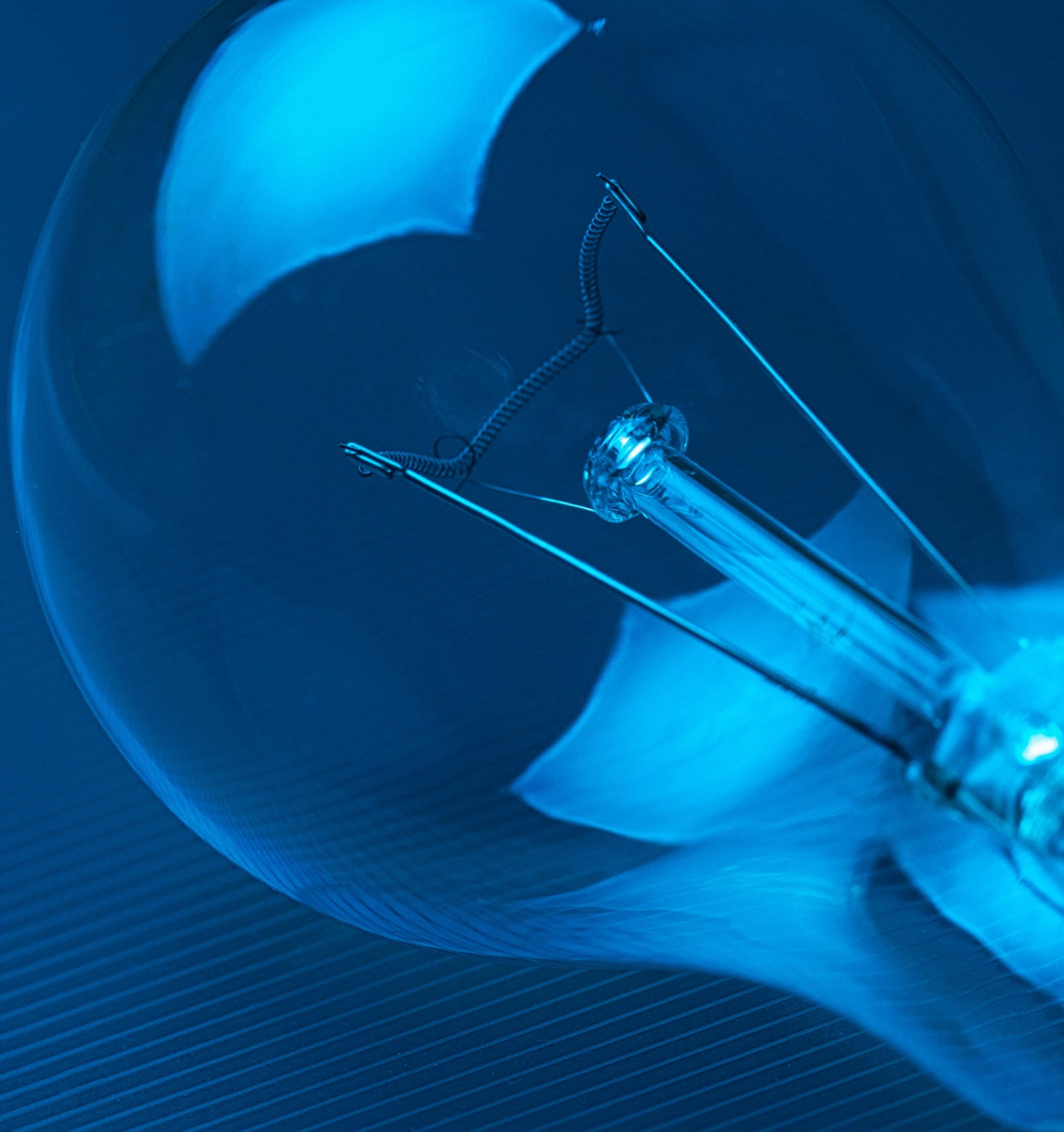
PE asset valuation trends



Barry Ryan

Director, Private Equity Group, Audit
KPMG in the Crown Dependencies, Guernsey

Market and valuation drivers - challenges remain

Volatility of stock markets – what's a suitable comp and are current multiples sustainable

Arriving at maintainable Earnings / EBITDA – LTM v Adjusted LTM v NTM 21 v 2022 forecasts

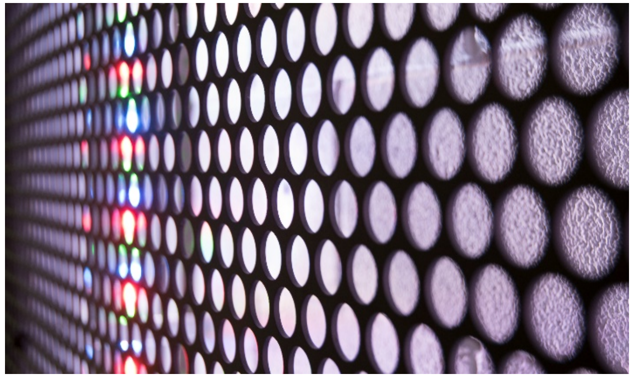
Increased use of DCF methodology

Monitoring and measuring accuracy of earnings inputs

Market and valuation drivers - challenges remain

Calibration of comps and use of points of difference analysis – all the more necessary in supporting conclusions

LP perspective – when is Q3 rolled for cash a suitable proxy for Q4?



On-going reminders as we emerge from the pandemic

Update financial projections to reflect the latest conditions

- re-examine estimated future cash flows and earnings
- consider the specific drivers and assumptions
- has the disruption a temporary or permanent impact?

Continue to evaluate comp sets and market multiples

- ensure that the financial metrics adopted are consistent and comparable
- re-examine points of difference and amend compset / discount / premium as appropriate

Robust valuations

Evaluate the business

- update and consider impact of the drivers of value: revenue/ customers, operating expenses, etc?
- any liquidity, solvency, and/or covenant concerns?

Continue to evaluate appropriateness of recent transaction values as an input

- assess how the target company has been affected by the pandemic
- understand rationale for the transaction and clearly document and challenge implied premium / discounts in a calibrated approach

Structural matters

- Company liquidity will remain critical in impacted markets
- When is cash not free
- Increasing complexity around deal structuring
- Increasing frequency of intra house transaction
- Increased use of buy and build strategy
- Shifting tax and regulatory landscapes

Environmental, Social and Governance ("ESG")

ESG investing has increased as environment and climate change have taken on more significance for LPs and governments in major markets

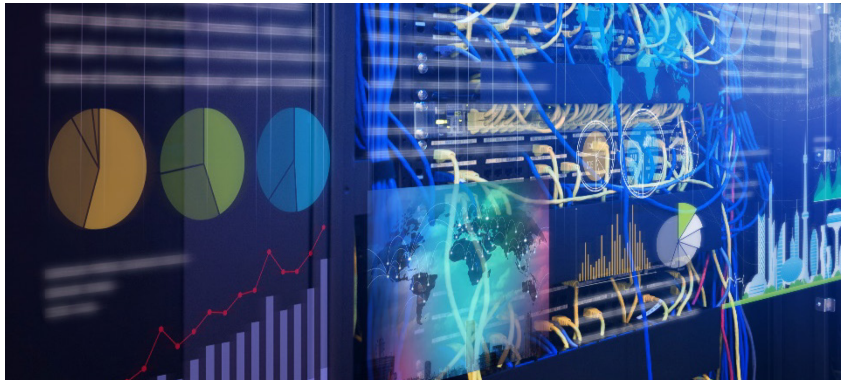
ESG reporting is becoming more of a priority for regulators and has the opportunity to offer differentiation for PE investors

ESG is increasingly being seen as a value driver

IPEV Guidelines update - lets hypothesise!

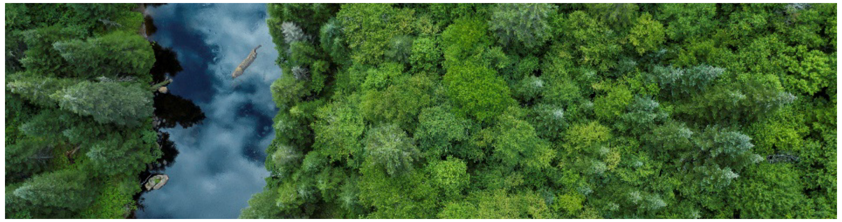
Venture & early stage

- more focus on and guidance on early stage and venture investments
- possible guidance on price of recent investment / funding round for these investments and more granularity over milestone analysis



ESG

- guidance / focus on factoring in ESG metrics into valuations



Accelerated valuations

- drive from regulators and investors to get valuations earlier
- considerations / guidance as to processes to enable - particularly around fund of PE funds

ID Register showcase - a PE centric background checking tool

Tony Mancini

Partner, Tax
KPMG in the Crown Dependencies, Guernsey

The challenges for the PE Industry

The accelerating growth in the investment and wealth management market has coincided with increased regulation of the financial services sector. In particular, PE funds and managers face a number of rules on how they should be organised (e.g. AIFMD), what they should report (e.g. FATCA/CRS), what reviews they must carry out (EU 4th AML Directive) and how they protect personal data of their clients (GDPR).

KYC/AML

- Identification data on individuals and entities
- Identification of beneficial owners and other controlling persons of entities.
- Proper certification
- Sanctions monitoring and adverse media
- Changes in circumstances
- Risk Assessments

FATCA/CRS

- Identification of individuals and classification of entity account holders
- Identification of controlling persons of entity account holders
- Annual reporting to tax authorities
- Changes in circumstances and data retention

The centralised online service solution

The solution is The KPMG ID Register where a complete KYC data set is created (known as a profile) for investors and other entities, which is shared securely with those who need it and used to report for FATCA/CRS. The KPMG ID Register makes CDD and reporting quicker, easier and more cost effective.

KPMG in the Crown Dependencies has teamed up with The ID Register to jointly deliver a complete and robust solution: a digital due diligence service, built on a single repository of verified documentation and backed up by worldwide FATCA/CRS reporting through KPMG's global network.

The KPMG ID Register allows you to:

- Collect KYC data and information necessary to report for FATCA and CRS
- Share one profile rather than complete multiple forms that ask for similar information
- Comply with the KYC requirements and submit FATCA and CRS reports in multiple jurisdictions
- Secure information in our encrypted and tested service

Some of The KPMG ID Register functions include:

- Live KYC profile available 24h to fund administrators and service providers indicated by the user
- Indicative risk assessment
- Ongoing sanctions, PEPs and adverse media screening
- Entity classification for FATCA and CRS
- FATCA and CRS reporting under schemes required by various jurisdictions

Features of the service

FATCA and CRS Reporting

Financial Institutions around the world are required to submit annual reports for FATCA/CRS to authorities in their respective jurisdictions. The KPMG ID Register utilises KPMG's AEOI Reporting Tool and allows validation and conversion in line with local regulations and technical requirements.

Media Screening

The KPMG ID Register automatically runs media screening. This enables you to maintain up-to-date knowledge about the client and streamline decision making processes of client acceptance and review bodies in your organisation. Media screening functionality uses open sources and its methodology is comparable to other leading search engines.

Indicative Risk Factors

The KPMG ID Register can support your classification process and become part of your risk policies and procedures. It filters indicative risk factors for every profile and provides a preliminary risk assessment that can be used in support of your client acceptance and screening processes. Risk factors are selected on the basis of global AML/KYC standards and are therefore universal. This is particularly useful for clients operating in a number of jurisdictions.

Sanctions

The KPMG ID Register screens each profile against international sanctions lists and lists of Politically Exposed Persons using global standards. Up-to-date sources operate in live time and therefore any changes are implemented instantly.

Questions?

Moderated by Nick Stevens

Thank you for attending