



cutting through complexity

FINANCIAL SERVICES

# KPMG's Global Alternative Investment practice

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KPMG INTERNATIONAL

# ►► The growth of the **alternative investment industry**

Investors are increasingly looking to alternative investments since they offer the potential for enhanced return from a broader, non-traditional investment approach while reducing overall portfolio risk. The latest estimates on global assets under management (AUM) confirm the steady re-emergence of the alternative

investment management industry since the 2008 financial crisis.

At KPMG, our Global Alternative Investment practice is focused on hedge funds, real estate funds, private equity funds and infrastructure funds. Our member firms combine their depth of local knowledge with our global cross-border experience to

provide fund managers with the clarity and confidence to succeed. We have more than 800 partners and 10,000 professionals serving alternative investment clients in 60 major fund centers globally, complemented by KPMG's audit, tax and advisory services and network of member firms across the globe.





# ► Shifts in the **industry landscape**

## **Growing demand for diversification**

The ongoing low rate environment has investors considering alternative investments to provide diversification and to optimize the risk adjusted performance of their portfolios. Advisors are interested in alternative investments

as they look to reduce volatility and manage downside risk in their investors' portfolios. Alternative investments provide diversification by investment strategy, portfolio manager, industry sector, geography and liquidity needs.

## **Expanding investor group**

Institutional and ultra-high net worth investors have become the core customer for alternative investments and demand is expected to continue to rise. While not always a major portion of their portfolio, pension funds and insurance companies have increased their overall allocations to alternative investments. Historically, there have been high net worth alternative investors. However to grow this segment, managers need to meet the higher expectations of these investors, requiring an investment in distribution strategies and more investor and advisor education.

## **Optimizing for growth**

Although growing AUM and net new inflow figures are encouraging, alternative investment fund managers face a number of challenges, which have put more focus on achieving an optimal business and operational model to meet financial goals.

- Investors are demanding increased transparency, which means more frequent and enhanced reporting, with greater access to information delivered across multiple channels. Increasing scrutiny on fees has led fund managers to focus on developing efficient operations.

- Internally, fund managers encounter a range of challenges, from a weak knowledge base among their salesforce (sparking a need for education and training), to reputational risk, budget constraints and operational complexity.
- Heightened regulation has increased the barriers to entry into the alternative investment management market and elevated operating costs. Having now assessed the many complexities that recent regulatory changes, such as the Alternative Investment Fund Managers Directive (AIFMD), have brought to the industry, fund managers have uncovered issues that require addressing. These include changes to systems and distribution, communications and reporting, among others.
- Cost management is one of the few controllable profit drivers and it often includes product rationalization, tax optimization, shared services and outsourcing.

## **The importance of data and analytics**

With the immense and growing amount of data that is now available, there is an opportunity to utilize and build value for the funds. Better business decisions are dependent on gathering, analyzing and interpreting data. New requirements and reporting needs rely on data architecture, quality data and strong data governance. Data can support product strategies and assist with predictive capabilities. At the same time, the threat of cyber-attacks demands prioritization of data privacy and protection.



**Our member firms combine their depth of local knowledge with the cross-border experience of our global network to deliver practical, effective and insightful advice across a range of alternative investments funds. We serve four primary fund categories:**

## **Hedge funds**

With the objective of providing investors with uncorrelated returns and robust risk management, hedge fund managers are being challenged to deliver consistent performance. KPMG member firms work with a broad mix of industry participants, including managers and their funds, investors, administrators, custodians, prime brokers and regulators across the hedge fund sector to deliver clear

and practical advice that helps clients enhance value and investment returns.

KPMG professionals have the credentials and practical insight to help clients seize opportunities and overcome the obstacles they face throughout the fund lifecycle, from market entry and start up, to ongoing business performance, through to exit strategy.

Increasingly hedge fund investors and regulators are demanding greater

transparency, institutional robustness and enhanced risk management. This creates organizational, operational and technological challenges for hedge funds that raise the costs and complexity of managing and growing an asset management business. Our professionals understand that approaches to hedge fund management vary from one jurisdiction to the next and they can help deliver clear, practical guidance to a global industry.

## **Real estate funds**

As a result of improving economic growth and favorable policies, real estate investments have emerged as a preferred option for investors on a global hunt for secure income streams. Real estate investments have also evolved since the rise of real estate investment trusts (REITs) as a source of liquidity in the real estate market. New sections of the market are now being monetized and securitized, and are proving popular with investors who seek risk diversification and long term capital growth.

Real estate investors have become more pro-active since the financial crisis, and they expect more detailed and frequent reporting. KPMG's global network of real estate professionals serves all segments of the real estate industry including REITs, real estate operating and service companies, lenders and intermediaries, and institutional investors and advisors.

As investors turn to emerging markets for higher returns and new investment opportunities, developing a better understanding of the cultural, legal,

political and operational complexities of competing in these markets is critically important. With various investment vehicles offering different degrees of risk and returns, KPMG's real estate professionals can help real estate fund managers meet a long list of challenges including identifying market place opportunities, clarifying for investors and developers alike the complexity in loan structures, and helping to understand the relevant regulatory and tax environments.

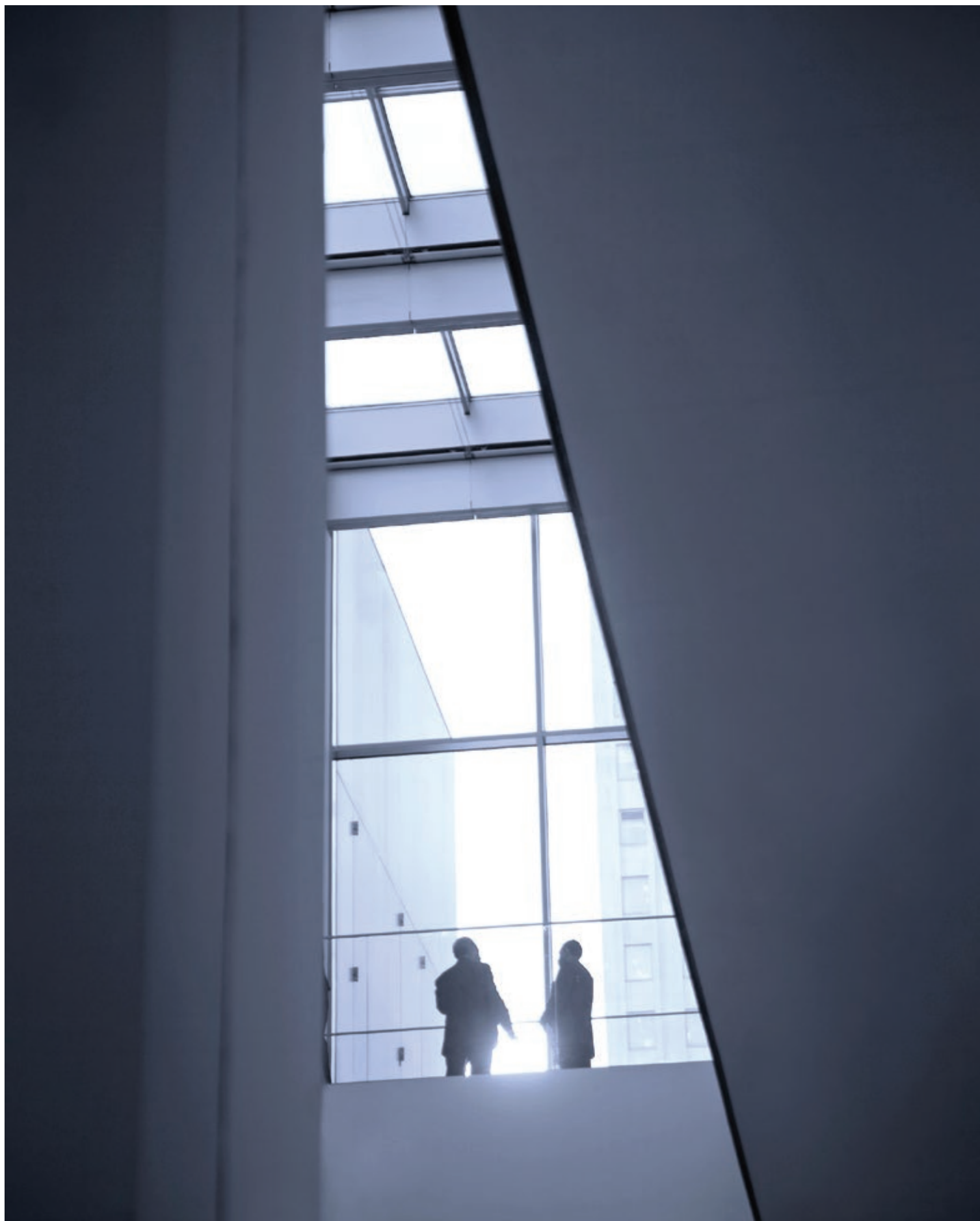
## **Private equity funds**

With an ever more competitive merger and acquisition (M&A) market, private equity firms recognize the challenge of finding attractive opportunities at realistic valuations. Additionally, they are under intense pressure to deliver enhanced performance and value in what is likely to be a period of modest macro-economic growth. Fund managers therefore require a better understanding of the targets pre-acquisition to reduce risk and fully understand the profit enhancement

potential. Once purchased, private equity firms have to ensure they have the right strategies, skillsets and networks to deliver effective intervention during their period of ownership.

KPMG's global network of specialist private equity professionals leverage our deep industry and sector knowledge to assist clients in thoroughly understanding target companies from financial, operational

and strategic perspectives. Once the deal is done, we apply our knowledge and discipline to work with the private equity house and management team to deliver performance improvement. Ultimately success is measured by the last stage in the value creation process – effectively realizing the value created. KPMG member firms can help clients ensure assets are well presented to the market, realizing value and reducing process risk.





## Infrastructure funds

As an alternative asset class, infrastructure investments are a complex investment area that requires significant funding and expertise by the investor. Although there is opportunity to grow the infrastructure asset class with institutional investors, there is also an emerging trend for some institutions to invest directly. The long-term nature of infrastructure projects ideally matches the long life of pension liabilities and can hedge the sensitivity of pension fund liabilities to rising inflation.

As infrastructure increases in importance as an asset class to investors who require greater portfolio diversification, the challenge will be continuing to find attractively priced projects. Historically, infrastructure investors have largely focused on developed markets. Diversification benefits and higher return expectations are driving investors to a wider range of infrastructure investments. These include renewable and gross domestic product (GDP) linked assets and emerging market infrastructure.

KPMG's Global Infrastructure Investment practice is well positioned to assist investors, with the benefit of our strength across the various sub-sectors and geographies and our in-depth knowledge of the infrastructure asset pipeline. We combine our understanding of the different investor and financier needs, local and international tax considerations, accounting and regulatory constraints to successfully create appropriately designed infrastructure fund vehicles and transactions.



# ► KPMG's Global Alternative Investment **practice services** in the fund cycle

## Creation and setup

- |   |  |   |   |   |  |
|---|--|---|---|---|--|
| <ul style="list-style-type: none"> <li>• Creating tax effective structures</li> <li>• Remunerating individuals</li> </ul> | <ul style="list-style-type: none"> <li>• Business strategy and modelling</li> <li>• Accounting structures</li> </ul> | <ul style="list-style-type: none"> <li>• Project management</li> <li>• Investor identification</li> </ul> | <ul style="list-style-type: none"> <li>• Tax planning and structuring advice</li> </ul> | <ul style="list-style-type: none"> <li>• Tax accounting methods advice</li> </ul> | <ul style="list-style-type: none"> <li>• Structuring of listed and unlisted funds</li> </ul> |
|---|--|---|---|---|--|

## Acquisition

- |   |  |  |  |   |   |
|---|--|--|--|---|---|
| <ul style="list-style-type: none"> <li>• Sourcing deal flow and raising debt</li> </ul> | <ul style="list-style-type: none"> <li>• Financing structures</li> </ul> | <ul style="list-style-type: none"> <li>• Market research</li> <li>• Due diligence</li> </ul> | <ul style="list-style-type: none"> <li>• Modelling</li> <li>• Pricing and negotiation support</li> </ul> | <ul style="list-style-type: none"> <li>• Mergers and acquisitions taxes advice</li> </ul> | <ul style="list-style-type: none"> <li>• Transfer pricing advice</li> </ul> |
|---|--|--|--|---|---|

## Ownership of investments

- |   |   |   |  |
|---|---|---|--|
| <ul style="list-style-type: none"> <li>• Tax compliance</li> <li>• External audit of managers and their funds</li> <li>• Technology strategy and operations</li> <li>• Valuations</li> <li>• Transfer pricing</li> <li>• Regulatory advice</li> <li>• Governance and internal controls</li> </ul> | <ul style="list-style-type: none"> <li>• Reporting (financial/investor/investment performance)</li> <li>• Operational due diligence</li> <li>• Pensions assurance services</li> </ul> | <ul style="list-style-type: none"> <li>• Risk management (framework, systems, measurement, analytics)</li> <li>• Business strategy</li> <li>• Operating model design</li> <li>• Management consulting services</li> <li>• Internal audit</li> </ul> | <ul style="list-style-type: none"> <li>• Management and operational improvement of underlying real assets</li> <li>• Coordinated federal, state and foreign tax advice</li> <li>• Capital allowance valuations</li> <li>• Compliance and reporting services</li> <li>• Advice on legislative developments and updates</li> <li>• General partner tax services</li> </ul> |
|---|---|---|--|

## Refinancing

- |   |   |   |   |
|---|---|---|---|
| <ul style="list-style-type: none"> <li>• Tax structuring</li> </ul> | <ul style="list-style-type: none"> <li>• Accounting advice</li> </ul> | <ul style="list-style-type: none"> <li>• Debt capacity</li> </ul> | <ul style="list-style-type: none"> <li>• Model reviews</li> </ul> |
|---|---|---|---|

## Realization

- |  |  |  |   |   |
|--|--|--|---|---|
| <ul style="list-style-type: none"> <li>• Repatriations to investors</li> </ul> | <ul style="list-style-type: none"> <li>• Valuations</li> </ul> | <ul style="list-style-type: none"> <li>• IPOs</li> </ul> | <ul style="list-style-type: none"> <li>• Due diligence</li> </ul> | <ul style="list-style-type: none"> <li>• Tax structuring</li> </ul> |
|--|--|--|---|---|



# ► Involvement and **commitment** to the industry

**KPMG's member firms are active participants in many industry organizations, sponsoring conferences and participating on various committees. This enables KPMG to engage in industry dialogue and advocate on behalf of clients' interests. These organizations and sponsorships include:**

## Globally

- Alternative Investments Management Association (AIMA)
- Managed Funds Association (MFA)
- Lead sponsors of Fund Forum International since 1994

## Americas

- In Canada: GAIM Fund of Funds, Connecticut Hedge Funds Association, Investment Funds Institute of Canada, Investment Industry Regulatory Organization of Canada, Canadian Private Equity & Venture Capital Association (CVCA), Association for Corporate Growth (ACG), National Association of Real Estate Investment Trusts (NAREIT) and Real Estate Investment Trust Conference (RealREIT) and sponsor of World Alternative Investment Summit Canada (WAISC).
- In the US: AICPA Investment Companies Expert Panel, AICPA Commodities Task Force, Association of Foreign Investors in Real Estate (AFIRE), Investment Company Institute (ICI), National Council of Real Estate Investment Fiduciaries (NCREIF), National Investment Company Services Association (NICSA), Pension Real Estate Association (PREA), Private Equity Growth Capital Council (PEGCC), Securities Industry Association (SIA), Securities Industry and Financial Markets Association (SIFMA), Wall Street Tax Association (WSTA).

## AsiaPacific

- In Australia: Fund Executives Association Ltd (FEAL), Financial Services Institute (FINSIA), Australian Centre for Financial Studies (ACFS), Centre International Finance and Regulation (CIFR), Hedge Fund Association (HFA), Australian Venture Capital and Private Equity Association (AVCAL).
- In Hong Kong: Hong Kong Venture Capital and Private Equity Association (HKVCA), Hong Kong Securities Institute (HKSI), Hong Kong Trustee Association (HKTA), Asian Association for Investors in Non-listed Real Estate Vehicles (ANREV) and the Asia Pacific Real Estate Association (APREA) and sponsors of the Hong Kong Investment Funds Association Conference (HKIFA), Asia Venture Capital Journal Conference (AVCJ), Private Equity and Real Estate Conference (PERE) and the PEI Asia Forums.
- In China: Asset Management Association of China (AMAC), China Association of Private Equity (CAPE), Shanghai Private Equity Associations, Beijing Private Equity Associations, China Private Equity and Venture Capital Association and China Association of Real Estate Fund (CAREF).
- In India: India Private Equity and Venture Capital Association (IVCA).
- In Japan: Association of Real Estate Securitization (ARES).
- In Singapore: Investment Management Association of Singapore (IMAS) and Singapore Fund Administrators Association (SFAA).





## Europe, Middle East, Africa and Offshore locations

- Across Europe: European Fund and Asset Management Association (EFAMA), European Sustainable Investment Forum (EUROSIF), European Public Real Estate Association (EPRA), Investors Non-listed Real Estate Vehicles (INREV), European Private Equity & Venture Capital Association (EVCA) and lead sponsors of RE-Invest Summit at MIPIM Europe.
- In Bermuda: Bermuda Business Development Association's Asset Management Committee, Bermuda CFA Institute and Council of Institute of Chartered Professional Accountants of Bermuda.
- In the Cayman Islands: Cayman Islands Society of Professional Accountants (CISPA), Hedge Fund Association (HFA), CFA Institute and sponsor the Cayman Alternative Investment Symposium (CAIS).
- In Channel Islands: Jersey and Guernsey Fund Associations and Jersey and Guernsey Societies of Chartered and Certified Accountants.
- In Germany: German Investment and Asset Management Association (BVI).
- In Ireland: Irish Fund Industry Association (IFIA) and Financial Services Industry Association (FSIA).
- In Luxembourg: Association of the Luxembourg Fund Industry (ALFI), Luxembourg Association for Risk Management (ALRiM), LuxReal, Luxembourg Institute of Directors (ILA and CSSF).
- In Malta: Malta Fund Industry Association (MFIA), Institute of Financial Services Practitioners (IFSP) and Finance Malta.
- In the Netherlands: Dutch Fund and Asset Management Association.
- In Switzerland: Commission of the CISA SFAMA Swiss Funds & Asset Management Association, Friends of Funds and Liechtenstein Investment Fund Association.
- In the UK: Association of Investment Companies (AIC), Financial Conduct Authority (FCA), Investment Management Association (IMA), British Property Federation (BPF), Property Finance Forum (PFF), Association of Real Estate Funds (AREF) and Investment Property Forum, British Private Equity & Venture Capital Association (BVCA) and lead sponsor of FT UK Property Summit and British Property Federation's Annual Conference.

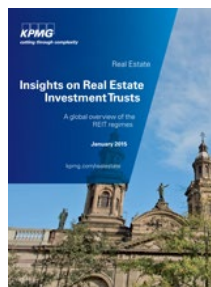


# ►► Industry insights and perspectives **around the world**



## Growing Up: A New Environment for Hedge Funds

The hedge fund industry is in the midst of a transformation. The growth environment is constantly changing and, as result, managers have become more focused than ever on improving operation effectiveness, increasing alignment of interest and delivering value to their investors. This report looks at the new strategies, new products and services that are changing the market dynamics.



## Insights on Real Estate Investment Trusts

The popularity of REITs demonstrates the strong and growing demand for tax efficient, liquid and transparent vehicles for investing in real estate. In this annual update, the KPMG Global Real Estate practice provides a guide on REITs or their local equivalent in all the major jurisdictions. The report covers key regulatory, tax and legal rules for REITs in 20 countries.



## AIFMD Transposition Update

By regulating alternative investment fund managers rather than the funds themselves, AIFMD has taken a radical new approach to investor protection, which, in turn, has created new complexities, costs and considerations for those operating in this sector. This update covers the transposition specifics for Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Spain, Sweden and the UK.



## INSIGHT: Population

The latest edition of *INSIGHT* magazine, KPMG's Global Infrastructure flagship publication, explores the topic of population and investigates how the world is dealing with an unprecedented shift in demographics, including the challenges cities, governments and developers face as urban area density and resources become strained. This edition also features a special report on Asia Pacific, a region at the center of the demographic shift now underway.



## Investing in the Future

At KPMG, we believe the investment management industry faces major challenges as well as major opportunities. In this report, we discuss the implications the investment managers should consider addressing in response to the global megatrends that will affect the sector in the next 10 to 15 years.



## Frontiers in Finance

Published semi-annually and available online, this is KPMG's financial services flagship publication, which brings together the insights of our firms' professionals around the world to provide informed perspectives on the critical issues facing financial services organizations. [kpmg.com/frontiersinfinance](http://kpmg.com/frontiersinfinance)

## Awards

Hedge Fund Service Awards 2011, 2012, 2013, 2014



MENA Fund Managers Fund Service Award 2014



Euromoney's Real Estate Awards 2014

"Best Advisor for Taxation Services Globally"

Hedge Fund Review Awards 2014



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Contact us to learn how KPMG's Global Alternative Investment practice can help you navigate the complex business issues affecting your investment and fund decisions.



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