



cutting through complexity

FINANCIAL SERVICES

Global Hedge Fund Credentials

kpmg.com

KPMG INTERNATIONAL



Bringing **bold ideas** to an evolving market

Now, more than ever, hedge funds must seize opportunities and mitigate risk. This is a time where the bold will grow and thrive in the face of complexity. Being bold is about taking intelligent action, calculated risks, and making practical investments.

At KPMG, our member firms' experienced professionals know what it takes for hedge funds to succeed in an increasingly complex world. They have the credentials, the curiosity and the courage to help their clients be bold enough to turn old thinking into bold thinking.

Whether it is providing Audit, Tax or Advisory services, our member firms' professionals bring a consistently high level of insight and practicality to the hedge fund sector to deliver clear, pragmatic and bold advice in order to help clients enhance value, reduce costs and deliver greater returns.

Our network of Hedge Fund professionals understand the issues and challenges that clients face throughout the fund life-cycle; from formation and capital accumulation to realization and exit.

And with a global network of more than 6,000 professionals in 60 jurisdictions – all of whom focus solely on serving investment managers and funds – our member firms provide their clients with the resources necessary to address their most complex challenges.

KPMG member firms' hedge fund clients expect to receive bold solutions and practical, experienced and independent advice no matter where their organization operates or invests.

Industry issues

Industry 'institutionalization'

The days when hedge funds catered almost exclusively to high net worth individuals and family offices are long gone. Today, investors in hedge funds are more likely to be institutions, such as charitable foundations, public and private sector pension funds, insurance companies and university endowments.

Indeed, institutional investors now represent a clear majority of all assets under management by global hedge funds. Interestingly, this trend is even more pronounced among the industry's largest hedge funds (measured by the number of employees) as the larger institutional investors gravitate towards larger fund managers with more institutionalized operations and brands that hold a higher level of recognition within the industry.

As a result, we are witnessing an expanding gulf between the boutique hedge fund firms and the industry's larger players. However, this does not mean that institutional investors are completely ignoring the smaller players. In fact, our experience shows that the smaller players are also finding innovative ways to adapt to the ongoing changes in the marketplace in order to survive and thrive.

Between the large and the boutique managers are the mid-sized players, some of which are large enough to attract institutional money, but perhaps lack adequate scale to create the type of robust, in-house operational infrastructure many institutional investors require.

As a result, many of these mid-sized managers are struggling to satisfy the compliance and transparency requirements of these new institutional investors.

A trend towards increased transparency

Investors have also become more demanding with respect to transparency and due diligence since the financial crisis. In part, this trend is being driven by the large institutional investors who tend to have highly comprehensive reporting and due diligence requirements. In response, hedge funds (particularly the larger ones) have begun adapting their philosophies, policies and staff headcounts, particularly with respect to due diligence, transparency and governance.

This shift is also highly symbolic of the hedge fund industry's willingness to adapt not only its operational policies, but also its very culture, with some players becoming significantly more open and forthcoming with key information (including details around positions, compositions of portfolio assets, etc.) in order to appeal to their institutional investors.

Adapting to a changing regulatory landscape

While the global hedge fund industry is making significant changes, both operationally and culturally, additional changes are being forced by rapidly evolving new regulations which now bring hedge funds under scope.

Globally, regulators have been working toward a G20 agenda of introducing new registration and reporting rules for hedge fund managers, with the Alternative Investment Fund Managers Directive (AIFMD) in the European Union and the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States, both seeking to increase the flow of information from managers to supervisors. Changes to the regulations

around short-selling and over-the-counter derivatives clearing have also significantly impacted hedge fund managers. The wide-reaching Foreign Account Tax Compliance Act (FATCA) in the United States is likely to pose additional problems.

As a result, many hedge fund managers appear to be perplexed with the perceived overlap among financial regulators around the world. At the same time, the complex legislative timelines and consultation processes make it difficult for many funds to plan and execute their organizations' responses to the changing regulations.

And then, of course, there is the matter of cost which can be high and include everything from investments in technology to bringing on new staff members with compliance-related skill sets.

So while many hedge fund managers seem to have come to grips with the fact that they have intractably moved into an era of increased regulation, there is a broad recognition that enhanced regulation will require substantial investments which – ultimately – will either reduce the margins for the hedge fund managers or (more likely) be passed on to the customer in the form of higher management fees.

KPMG member firm professionals work with a broad mix of managers, administrators, custodians, prime brokers and regulators across the hedge fund sector to deliver clear, valuable and practical advice that helps clients enhance value and investment returns.



A range of **effective services**

MARKET ENTRY AND START UP

Creation and set-up of hedge fund management businesses:

- Business strategy and modeling
- Creating tax effective structures
- Regulatory advice and authorizations
- Structuring (tax, accounting)
- Product design and launch
- Management incentivization
- Client service operating model strategy
- Fund product profitability and rationalization
- Project management

Business expansion through mergers and acquisitions and acquisition of fund investments:

- Target identification
- Due diligence
- Market research and commercial intelligence
- Negotiation, structuring and pricing
- Financing structures
- Tax structuring
- Special Purpose Vehicle establishment

BUSINESS PERFORMANCE

Business as usual activities:

- External audit
- Global Investment Performance Standards (GIPS) attestation
- Attestation of internal controls and services
- Organization Control reports (formerly SAS 70)
- Internal audit services
- Accounting advice
- Tax advice, compliance and reporting
- International tax
- Valuations
- Strategic and process advice
- Sourcing strategy
- Corporate governance
- Regulatory and compliance advice
- Business advisory
- Transfer pricing
- Residency reviews

- Performance and cost optimization
- Portfolio management (e.g. front office tools and portfolio analytics)
- Risk management and control
- Operational due diligence
- Fund accounting and financial reporting
- Administrator selection
- IT strategy
- Fraud risk management
- Independent forensic testing

EXIT STRATEGY FORMULATION AND EXECUTION

Selling your investment management business:

- Sale mandates
- Valuations
- Vendor assistance
- Tax structuring
- IPOs

A powerful **global network**

KPMG's Investment Management network includes hedge fund and asset management professionals in tax, audit and advisory. And, with member firms in more than 150 countries and experienced Hedge Fund practices in virtually every major investment center, clients can expect to gain local insights and global experience to help them deliver consistently high-quality results and value.



Who we serve

Global	3 of the world's Top 5 hedge funds Many of the world's major Institutional and Managed Accounts Platforms
Europe	8 of the Top 10 European hedge fund managers
UK	8 of the top 20 listed asset managers

Our global network of hedge fund professionals understand that approaches to hedge fund investment and management vary from one jurisdiction to the next.

Involvement and commitment **to the industry**

KPMG member firms are active participants in the industry and are involved in a wide range of industry groups, trade associations and regulatory bodies. Some examples of these include:

Americas	<ul style="list-style-type: none"> The US firm is actively involved with many industry organizations, conferences and committees including: the Alternative Investments Management Association (AIMA), the Managed Funds Association (MFA), the AICPA Investment Companies Expert Panel, the AICPA Commodities Task Force, the Investment Company Institute (ICI), the National Investment Company Services Association (NICSA), the Securities Industry Association (SIA), the Securities Industry and Financial Markets Association (SIFMA), and the Wall Street Tax Association (WSTA).
Asia Pacific	<ul style="list-style-type: none"> KPMG member firms in Asia Pacific are principal sponsors of the Financial Services Council (FSC) Annual Conference and members of the Asia Pacific Alternative Investments Management Association (AIMA).
Europe, Middle East & Africa	<ul style="list-style-type: none"> KPMG member firm professionals are members of the European Alternative Investments Management Association (AIMA), the European Fund and Asset Managers Association (EFAMA) and the International Organization of Securities Commissions (IOSCO).

A recognized **leader**

Our member firms' success in the hedge fund and investment management industries has been recognized by some of the world's leading associations and publications. Some examples of these include:

HFM Awards 2011 and 2012	<ul style="list-style-type: none"> For the second year in a row, KPMG member firms won the award for 'Best Audit Services' at the HFMWeek European Hedge Fund Services Awards. 	Global Investor/ISF Awards 2011	<ul style="list-style-type: none"> KPMG member firms are proud to have been named the 'Accountancy Firm of the Year' at the Global Investor/ISF Awards 2011 which recognizes outstanding contributions to the asset management and servicing sectors.
2011 Fund Domicile Service Provider Awards	<ul style="list-style-type: none"> KPMG member firms were voted the 'Best Audit Provider' at the 2011 Fund Domicile Service Provider Awards which acknowledges excellent service within the funds industry. 	Hedge Fund Journal Awards 2011	<ul style="list-style-type: none"> KPMG member firms were recognized as one of the leading service providers to the European Hedge Fund industry at the Hedge Fund Journal's third annual awards ceremony.

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

Some examples of KPMG

International publications include:

The evolution of an industry: The 2012 KPMG/AIMA global hedge fund survey

This paper features analysis of KPMG International's and AIMA's recent survey of 150 global hedge fund managers and highlights their insights and opinions on a range of issues that are changing the face of the industry, including a shifting investor base, an increased focus on operational infrastructure and the implications associated with a continuing wave of global regulation.

The value of the hedge fund industry

This report provides an exploration and summary of the value provided by the global hedge fund industry to investors, markets and the broader economy. The report is presented in two parts: a quantitative analysis of hedge fund performance based on index data from 1994 to 2011, and a review of recent literature by leading hedge fund observers on the value of the industry.

Feeling the heat

KPMG International surveyed 15 countries from across EU and non-EU jurisdictions to measure the industry's sentiment towards the EU AIFMD and explore the impact it could have on the alternative investment management businesses.

Alternative options: Hedge fund re-domiciliation trends in evolving markets

A report by RBC Dexia and KPMG International examines the potential for hedge fund managers to create EU-domiciled hedge funds to complement their Cayman Islands or other offshore offerings, and notes that the QIFs and SIFs are gaining popularity versus the UCITS framework.

Transformation: The future of alternative investments

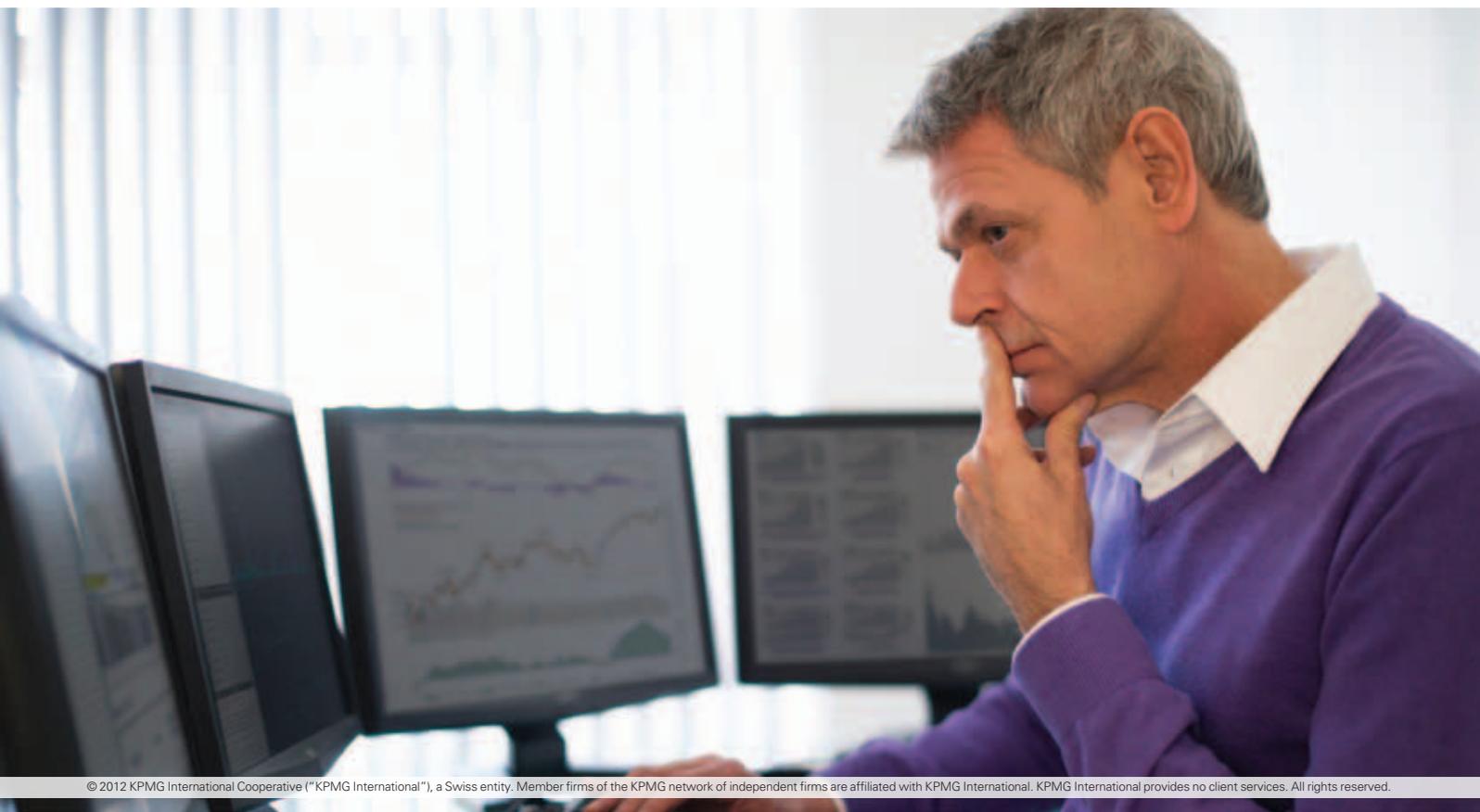
An in-depth report on the transformational change within the alternative investment industry as it enters a period of significant growth,

set against scrutiny from regulators and institutional investors. The report investigates how, in light of significant market volatility and regulatory uncertainty, alternative investment managers, institutional investors and administrators are adapting their business models to maximize chances of success.

Evolving investment management regulation: Meeting the challenge

KPMG International recently conducted a study into the changing regulatory landscape around the world. In the report, our regulatory specialists take a holistic view of recent regulation to identify the real impact on the industry. The report goes on to look at the practical challenges that investment managers will face as they strive towards global compliance.

Please visit our website for more
www.kpmg.com



Contacts

Robert Mirsky

Global Head, Hedge Funds

T: +44 20 76945981

E: robert.mirsky@KPMG.co.uk

Europe, Middle East and Africa

Ravi Beegun

KPMG in Luxembourg

T: +35 222 51 51 6248

E: ravi.beegun@kpmg.lu

Brian Clavin

KPMG in Ireland

T: +35 31 4101252

E: brian.clavin@kpmg.ie

Neale Jehan

KPMG in the Channel Islands

T: +44 14 8174808

E: njehan@kpmg.com

Kjell Norling

KPMG in Sweden

T: +46 8 723 9422

E: kjell.norling@kpmg.se

Feargal O'Reilly

KPMG in Ireland

T: +35 31 4102384

E: feargal.oreilly@kpmg.ie

Winand Paulissen

KPMG in the Netherlands

T: +31 306 582431

E: paulissen.winand@kpmg.nl

Dan Roman

KPMG in the UK

T: +44 20 76945726

E: dan.roman@KPMG.co.uk

Gregoire Winckler

KPMG in Switzerland

T: +44 20 76945726

E: gwinckler@kpmg.com

Asia Pacific

Seiji Kamiya

KPMG in Japan

T: +81 3 3548 5107

E: seji.kamiya@jp.kpmg.com

Bonn Liu

KPMG in China

T: +85 228267241

E: bonn.liu@kpmg.com

Jacinta Munro

KPMG in Australia

T: +61 3 9288 5877

E: jacintamunro@kpmg.com.au

David Waller

KPMG in Singapore

T: +65 6213 3007

E: davidwaller@kpmg.com.sg

Americas

Sanjay Agarwal

KPMG in Curacao

T: +5999 732 5176

E: ssagarwal@kpmg.an

Craig Bridgewater

KPMG in Bermuda

T: +1 44 129 55063

E: cbridgewater@kpmg.com

John Budzyna

KPMG in the US

T: +212 954 3079

E: jbudzyna@kpmg.com

Anthony Cowell

KPMG in the Cayman Islands

T: +1 345 914 4338

E: acowell@kpmg.ky

Peter Hayes

KPMG in Canada

T: +1 416 777 3939

E: phayes@kpmg.ca

Maurice Holmes

KPMG in the US

T: +212 954 3083

E: mlholmes@kpmg.com

Mikael Johnson

KPMG in the US

T: +1 212 954 3789

E: majohnson@kpmg.com

Lino Martins da Silva Junior

KPMG in Brazil

T: +55 21 3515 9441

E: lmjunior@kpmg.com.br

Noel Mizzi

KPMG in Malta

T: +35625631014

E: noelmizzi@kpmg.com.mt

Andrew Stepaniuk

KPMG in the Cayman Islands

T: +1 345 914 4315

E: astepaniuk@kpmg.ky

kpmg.com

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