MAPLES GROUP

THE INTERNATIONALISATION OF ALTERNATIVE FUNDS

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Global private capital has followed a steady growth trajectory in recent years and has now reached record levels. According to Preqin's Global Private Equity and Venture Capital Report, total assets under management ("**AUM**") have reached US$2.83 trillion as of June 2017, an increase of US$248 billion since the end of 2016.

At the same time, regional distribution of this AUM has shifted considerably. Whereas North America had historically accounted for the majority of private capital investments globally, Asia, Europe and the rest of the world have steadily grown their share over the last decade and a half. Acknowledging these market dynamics, private equity general partners ("**GPs**") are increasingly looking internationally to both source deals and raise capital from limited partners ("**LPs**") as a means of growth and achieving attractive returns.

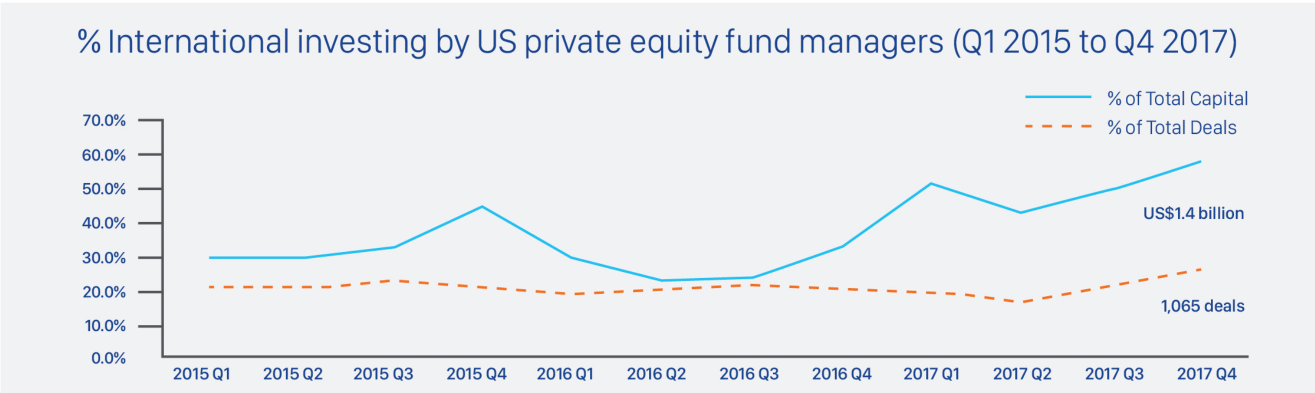
Sourcing Overseas Investments

A recent McKinsey study illustrated the continued rise of private equity deal valuation multiples, noting that median acquisition prices have increased from 5.6 times EBITDA in 2009 to a record 10.7 times EBITDA in 2017. With multiples reaching record highs, GPs are looking for increasingly creative ways to acquire assets at attractive prices. While some of these strategies have included targeting larger deals that have less competition, taking control of a company through the debt structure, or acquiring lower cost bolt-on assets to a platform company, many GPs are pursuing opportunities in other markets that are perceived to be less competitive than the US.

From 1969-2009 the S&P 500 and MSCI World ex-USA Index provided similar annualised total returns of 9.85% and 9.53% respectively. However, from the beginning of 2010 through April 2017, the US has produced much stronger returns of 13.3% versus just a 4.7% annualised return for the rest of the world. Recognising the noted historical returns and assuming mean reversion, some investors are expecting that better returns will be derived internationally in the near future.

Private equity GPs have also uncovered regional distinctions that apply to some market segments that can be utilised to invest at attractive price points. For example, anecdotal evidence has illustrated the differences between the European and US venture capital markets. In Europe there is less available capital to support venture capital backed start-ups and they must quickly shift their focus to becoming profitable and self-sustaining. Their US counterparts, however, can focus more aggressively on revenue growth and market share. These differing frameworks and priorities may therefore create different buying opportunities for US companies that are willing to look at portfolio investments abroad.

Certainly, the volume and magnitude of international investments by North American GPs has accelerated in recent years. The Maples Group's analysis of PitchBook's Private Equity Database showed that in 2015, North American GPs had committed roughly 20% of their deals and 30% of their capital to international investments. In late 2016 and into 2017, this increased rather significantly with the number of international deals surpassing 25% and invested capital doubling to close to 60%.



Raising International Capital

While GPs continue to look internationally for portfolio investments, there have also been massive demographic and economic shifts with international investors holding more capital and recognising opportunities in the US. These investors have been looking for safe havens with the most attractive risk-adjusted returns and have found a number of US-based fund strategies that meet these criteria. While international investors are all generally driven by diversification, there are trends specific to certain regions that the Maples Group has visibility into given its global footprint. For example, Middle Eastern investors tend to favour real estate, looking for US dollar properties with reputable names and high quality tenants. Asian investors on the other hand, have been seeking attractive opportunities in the global secondary market as well as early stage fintech and artificial intelligence related investments. Mainland Chinese investors have also demonstrated interest in real estate investment opportunities in North America, Europe and Australia. European investors have been more agnostic to strategy, instead investing with brand name GPs with a broad portfolio who are complemented by firms with expertise in specific sub-strategies to take advantage of perceived opportunities.

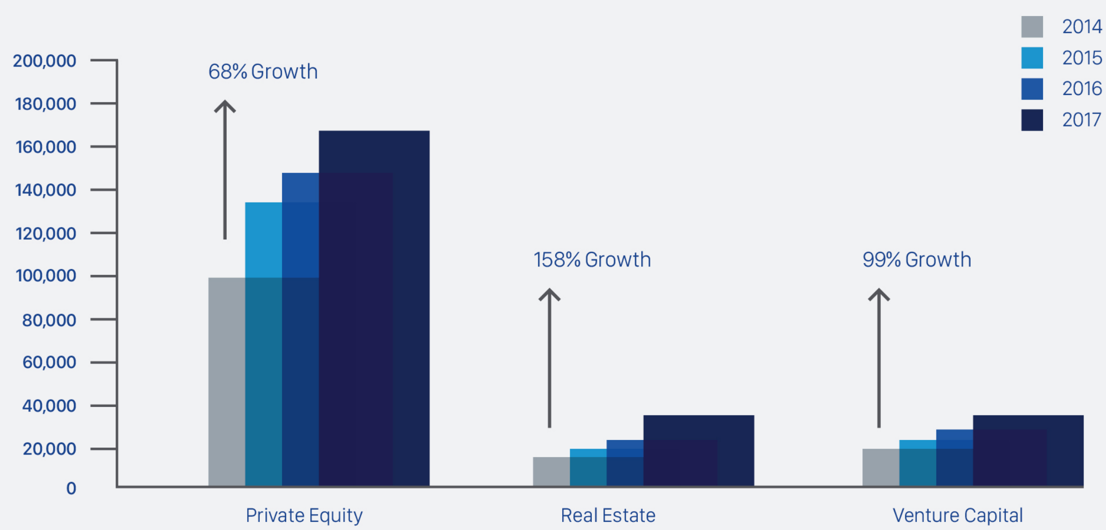
Quantitative research supports this trend as well. Convergence, a data, research and advisory firm providing trends and insights into the alternative asset management industry, conducted a proprietary analysis with the Maples Group of its database of private equity funds in 2017 to illustrate the growing internationalisation of US private equity funds.

From 2014 to 2017, the number of non-US investors in alternative investments increased overall with some sectors showing significant increases. Real estate, for example, saw the greatest increase with non-US investors growing 158% from just 13,700 investors in 2014 to 35,500 investors in 2017. Over the same period, non-US investors in private equity funds grew by 68% from 106,200 to 178,400 while non-US investors in venture capital funds grew by 99% from 19,500 to 38,800. Comparatively, the number of US-based investors also grew across all three fund types but at a slower rate for real estate, at 122%, and venture capital, at 91%.

Growth of non-US capital in private equity, real estate and venture capital

Similarly, the amount of international capital invested in these funds has also risen. From 2014 to 2017, non-US capital in real estate funds experienced the largest surge with growth of approximately 80% from US$123 billion to US$221 billion. Private equity funds realised a 47% increase from non-US investors, from US$872 billion to US$1.3 trillion, while non-US contributions to venture capital funds grew by 63% from nearly US$79 billion to US$129 billion. Growth of non-US capital outpaced the growth of domestic capital across all three fund types with US assets in private equity, venture capital and real estate growing at just 38%, 49% and 47% respectively.

Growth of non-US investors in private equity, real estate and venture capital



The Infrastructure to Support Internationalisation

While evidence suggests that there will be increased private equity investment internationally and an increasingly global investor base with capital up for grabs, competition is expected to remain fierce. GPs must think critically about how they can differentiate themselves in this crowded and rapidly evolving space.

From an investment perspective, GPs must set their strategy and identify the most attractive deals in their targeted markets. Beyond acknowledging the varied dynamics that marketing and operating in international jurisdictions presents, to truly capitalise on these opportunities, GPs must implement the appropriate cross jurisdictional structures to enable investment and maximise efficiency. Structuring advice is provided by experienced third party tax and law firms. Resulting structure charts and step plans can then be provided to a third party administrator with the expertise, experience and infrastructure to effectively support the establishment and management of entities across jurisdictions for the duration of a fund's lifecycle.

Private equity GPs face a myriad of compliance and disclosure requirements; this is exacerbated in the international arena, which brings unique challenges from a legal, regulatory and operational perspective. GPs must work with their legal counsel to draft fund documents that can support the identified international investor base and are then utilised to create the entities that enable the efficient management of their structure and movement of funds.

GPs must also recognise that promoting funds to international investors and taking on foreign capital is quite unlike selling to LPs the US. The expectations of international investors may be different from their US counterparts and vary around the world. While Asia and the Middle East have long been sources of capital for US GPs, gaining access to European investors has grown in complexity with the introduction of the Alternative Investment Fund Managers Directive ("**AIFMD**"). Launching non-US domiciled funds and related entities also requires compliance with due diligence, investor classification and annual reporting under various countries' local legislation enacted to enforce the Intergovernmental Agreements of that country with the United States for it's Foreign Account Tax Compliance Act ("**US FATCA**") as well as commitments to the OECD in regards to the Common Reporting Standards ("**CRS**").

Although the execution of these steps can be complex and time consuming to implement and manage, having the right partners can greatly simplify this process. A unique combination of international legal advice and comprehensive fiduciary, regulatory and administration support for the entities in a global private equity fund can be critical in addressing these operational pain points. Service providers that can offer a comprehensive, scalable and customisable set of services and support can add real value for both GPs and LPs.

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