

The Latest Developments in Private Equity Funds in France

June, 2001



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Characteristics

- French Private Equity Funds give opportunities to invest all over Europe:
 - A French Fund for Private Equity is called Fonds Commun de Placement à Risques (FCPR)
 - 40% in unlisted securities worldwide.
 - Or 50% in European unlisted securities to give tax advantages to investors (fiscal fund).



Tax advantages of the “fiscal” FCPR

- French individuals:
 - They are exempt from French tax on any distributions from the FCPR reinvested in the FCPR. They are also exempt from French tax on capital gain realized when the FCPR shares are sold or redeemed after the initial five years blocking period.
- French companies:
 - A corporate investor is not taxed when the FCPR realizes the capital gain but only when the gain is redistributed or when the investor redeems or sell its shares in the FCPR, provided that the investor has held its FCPR shares for more than five years. The capital gain is taxed at a level of 19%.



Tax advantages of the “fiscal” FCPR

- Foreign investors:
 - Usually they are not subject to capital gains tax in France unless they own 25% or more of the capital of the company being sold. For ordinary income, it depends on the source of the income received and on the tax convention between France and the country of residence of the relevant investor.
 - For underlying assets of the fund not in France, taxation will depend on tax conventions between the country of the investor and the country of the asset.



Legal environment

- Articles 22 to 22-3, Act of 12/23/1988, amended on 06/25/1999, establishing abbreviated procedure FCPRs (private equity funds)
- Articles 10 to 10.3 of Decree 89-02, 96-02, 96-03 et 98-05 amended on 12/30/1999
- Amendment of COB regulations 89-02 and 98-05
- Publication of 2 COB guidelines pertaining specifically to FCPRs on July 28, 2000
- Recent compliance code adopted by the industry and regulatory authority



Compliance Code

Private
Equity
French
Funds

- The management of private equity portfolio must be done exclusively in respect of shareholders' interest.
 - Prevention of conflict of interest.
 - Showing out rules of investments between all FCPRs managed by the same company.
 - Rules of co-investment.
 - Mode of asset disposal.



PRIVATE EQUITY

Two kinds of FCPR to have access at Private Equity in Europe:

Two kinds
of FCPR

- FCPR “allégés”
- FCPR “non allégés”



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FCPR “allégés”: (mostly now for LBO, Venture)

Two kinds
of FCPR

- Main characteristics: tendency to “align” characteristics with Limited Partnerships.
- Dedicated to qualified investors.
- No need of Prior Approval by French COB.
- Tax Efficiency: if 50% in European unlisted securities, tax exempt institutions from major countries carry on tax exemption (USA, Canada etc...)
- Most of key clause asked by the international institutions for partnerships (US Pension Funds, UK institutions etc....), can be included in the articles of Association of French FCPR



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Retail Funds or FCPR “non allégés”

Two kinds
of FCPR

- Recent development of regulation promoted retail Private Equity Funds:
 - FCPI: Fonds Commun de Placement Innovation
 - Tax deduction of 25% of Amount invested by individual, up to €22,867.
 - Gain exemption of capital gain
 - Constraint:
 - 60% to be invested in innovative French companies and in European companies from 1/1/2002
 - Investor must keep its shares five years.
- Amount under Management : €2 billion
- Individual clients over 100.000

Source : Anvar



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Retail Funds or FCPR “non allégés”

Two kinds
of FCPR

- FCPR of FCPR: Private Equity Fund of Fund
 - new regulation from end of 1998 to 2001
 - new product successful for retail and diversification of underlying Private Equity Assets over Europe, and access to LBO Funds for private Individuals
- Units links for Life Insurance Contracts:
 - 5% into a FCPR gives a Life Insurance policy (DSK Insurance) a tax favorable status.



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Growth Opportunities

Two kinds
of FCPR

- French FCPR as a privileged Fund for Worldwide institutions to access the European Private Equity Market.
- Retails Funds to be recognized as a normal diversification for high net worth individuals success of more global FCPR (or FCPR of FCPR).

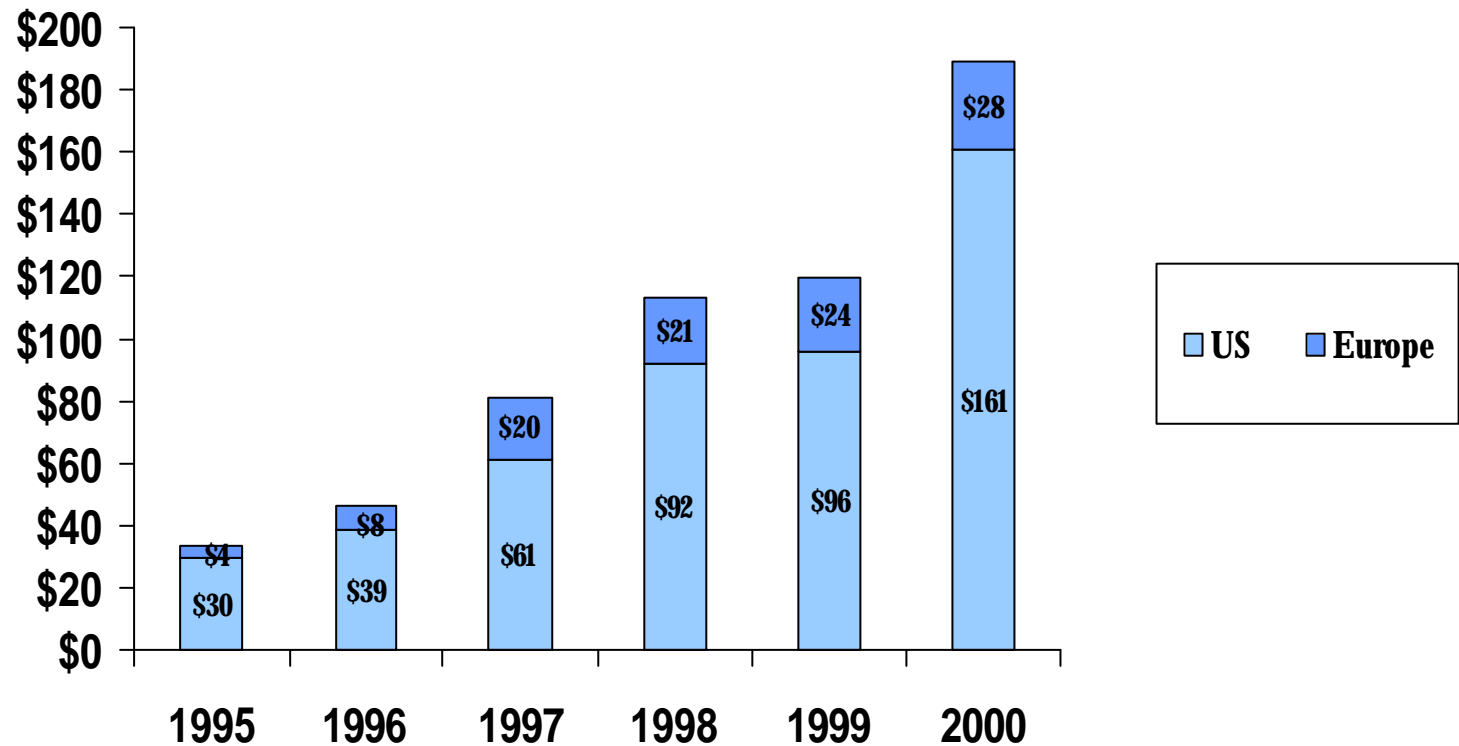


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What Growth opportunities in Europe ?

Market

Private Equity Commitments (in \$ Billion)

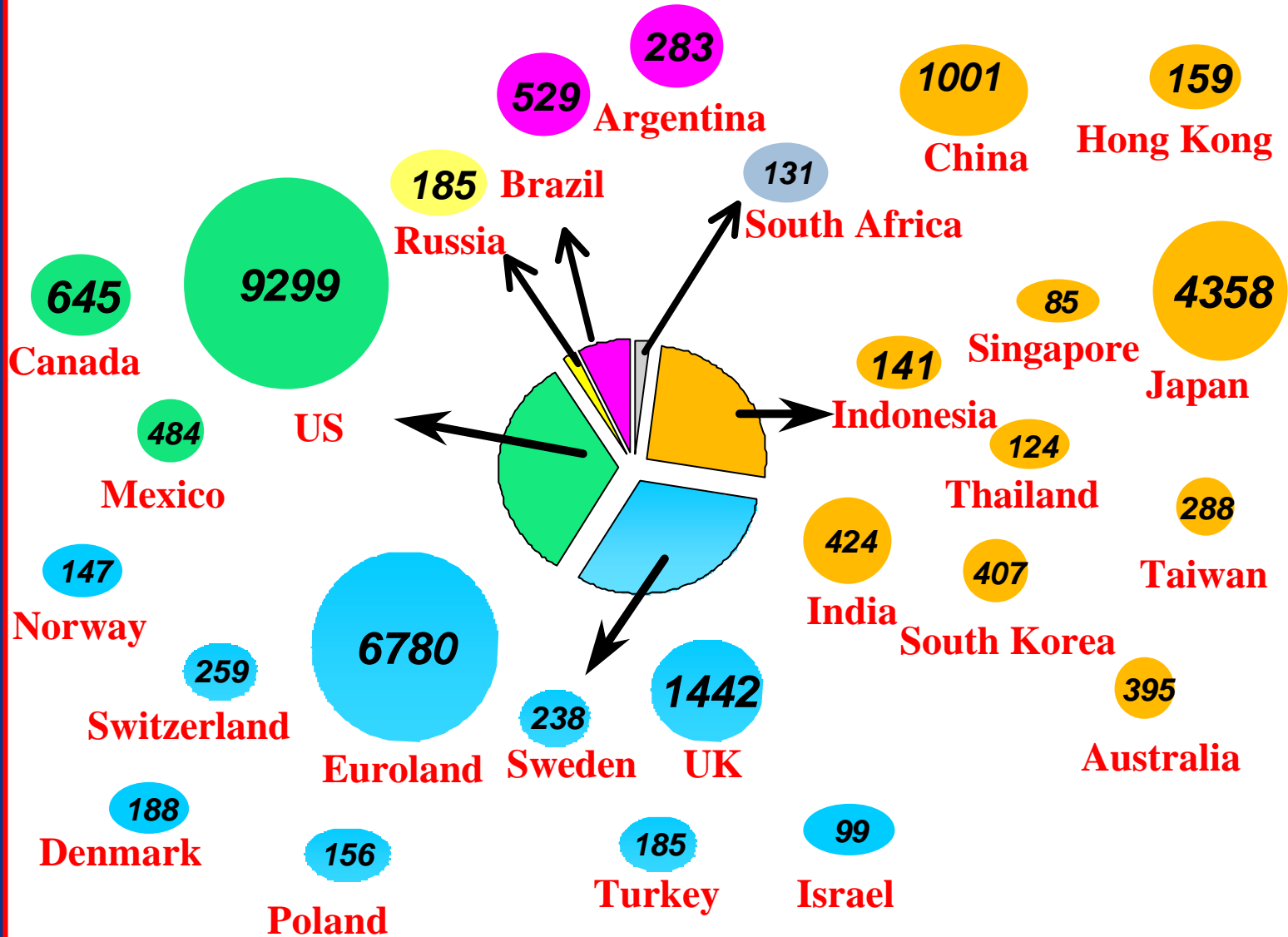


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Source : the Private Equity Analyst, EVCA

GDP Nominal (USD bn)

Market

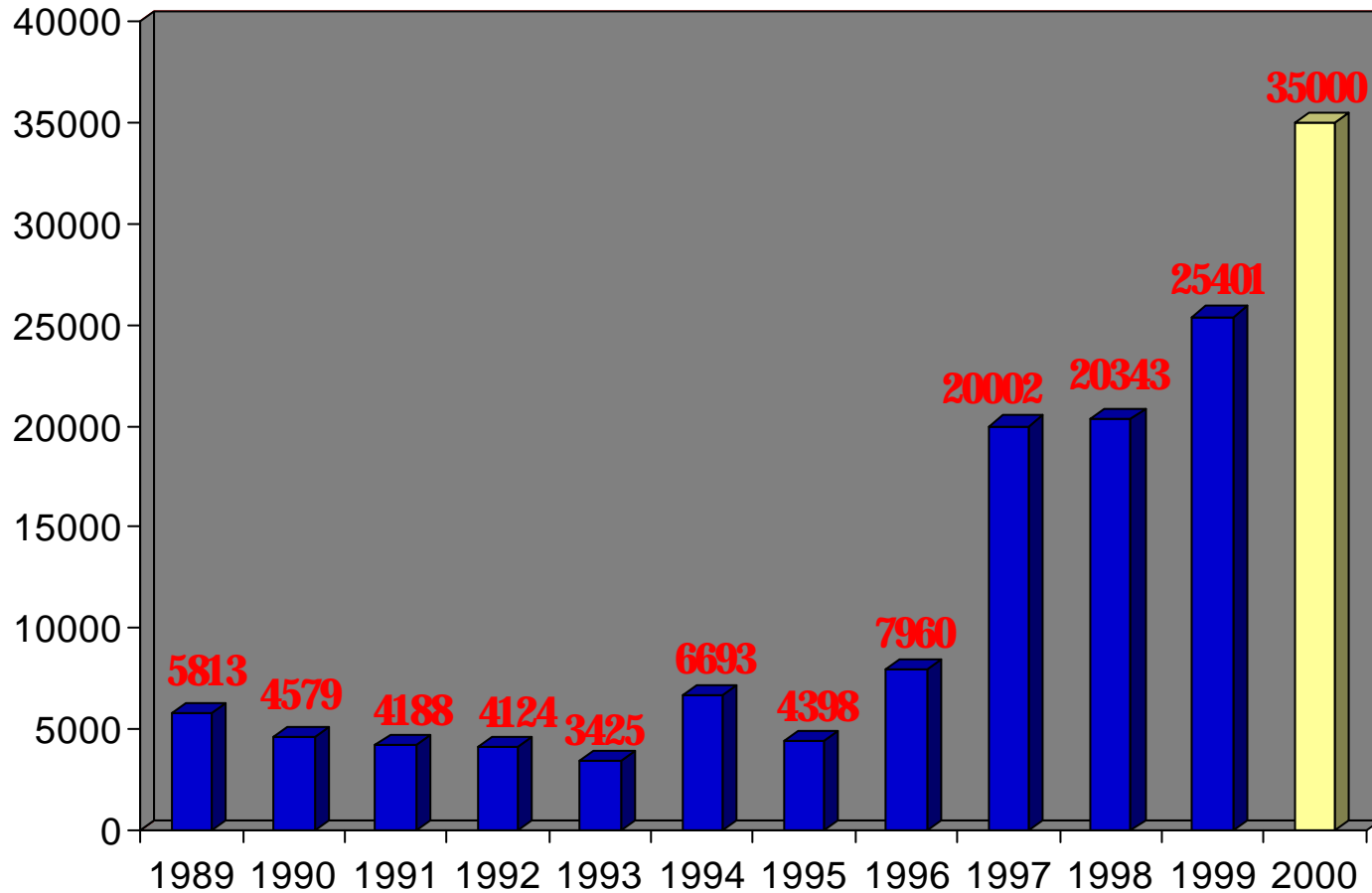


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Europe: a fast growing Market for Private Equity

Market

Invested amounts in 1999/2000



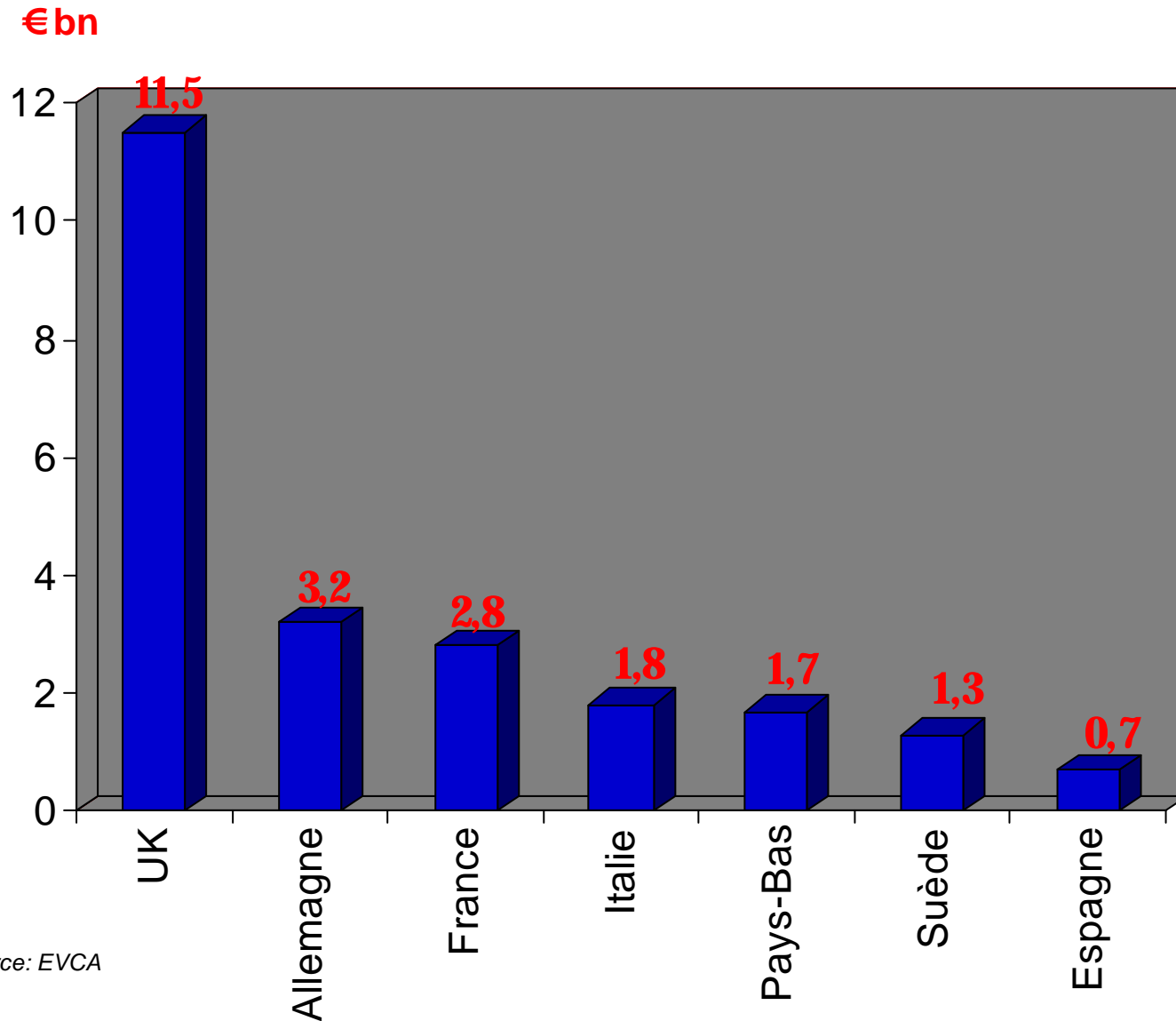
Source: EVCA Investors Conference - Press Meeting 15 Mars 2001 - Geneva



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Euroland: growth should be the highest in Europe

Market



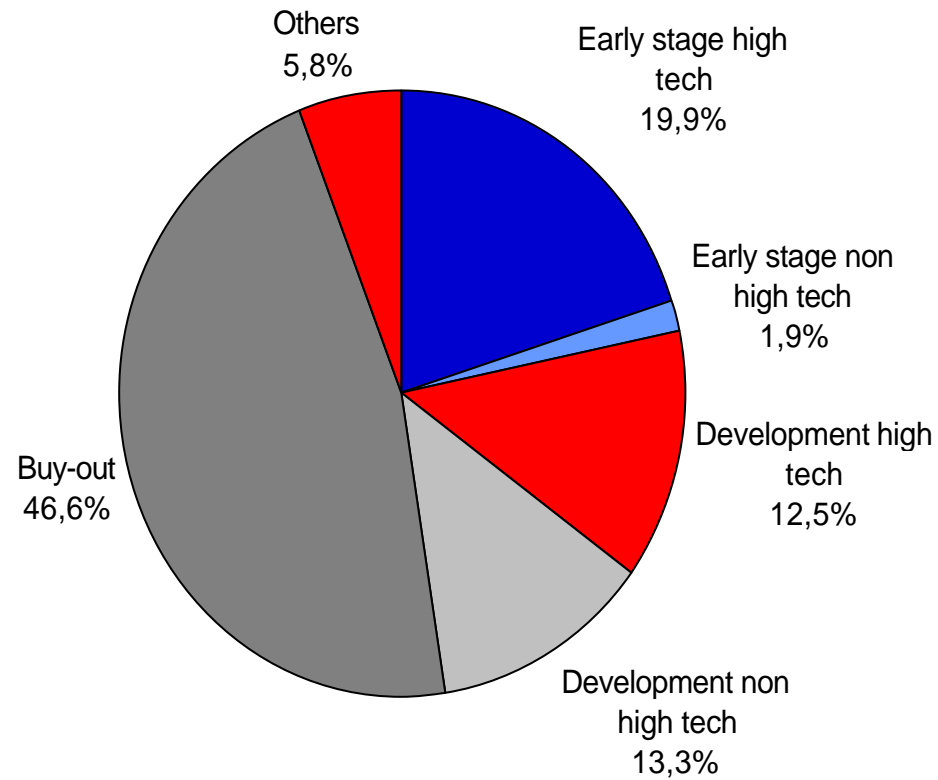
Source: EVCA



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Euroland: Split of Private Equity Assets

Market



Source: EVCA



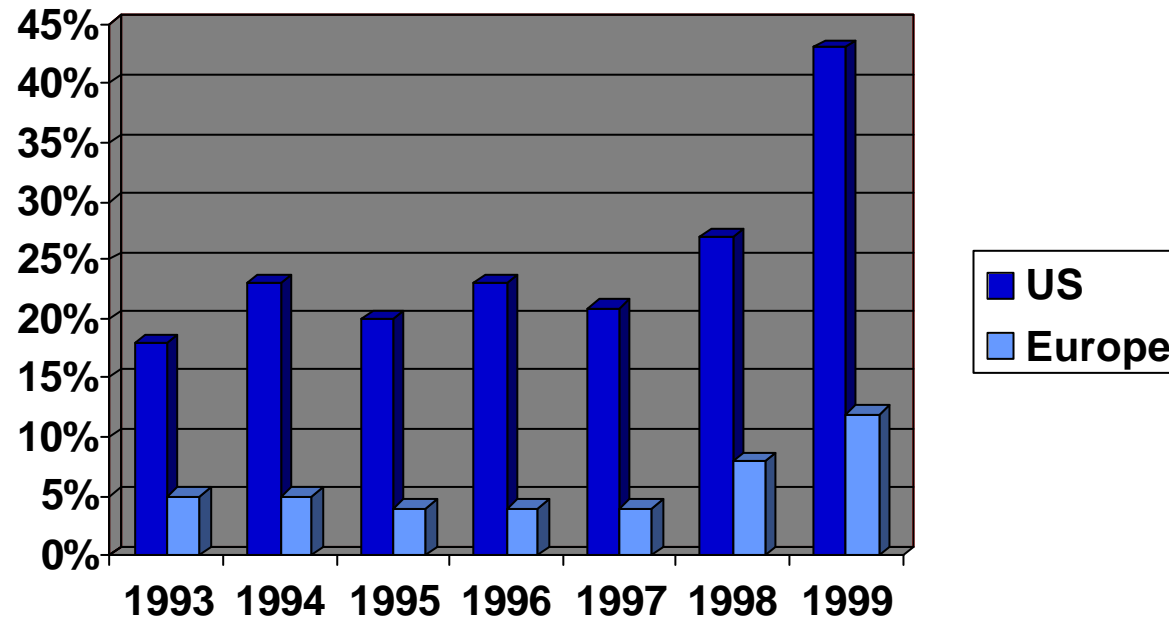
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Euroland: growth should be the highest in Venture

Market

- High-tech venture capital is expected to account for 33% of European Private Equity within the next five years

% Venture in Private Equity



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- High levels of private equity allocations by US pension funds will create demand for euro-denominated private equity funds

Market

	<u>Equity</u> <u>Alloc. %</u>	<u>Equity</u> <u>\$ mil</u>	<u>Assets</u> <u>\$ mil</u>
<u>Corporate Pensions:</u>			
Walt Disney	25.0%	\$575	\$2,300
GTE	15.0%	2,571	17,143
KeySpan	15.0%	270	1,800
Bayer (US)	15.0%	360	2,400
BP Amoco	10.0%	500	5,000
American Airlines	10.0%	550	5,500
Coca Cola	10.0%	102	1,021
IBM	10.0%	440	4,400
Michelin Tire (US)	10.0%	180	1,800
General Electric	7.8%	6,000	77,000
Exxon	5.0%	565	11,300
Dupont	5.0%	880	17,600
SC Johnson	4.9%	16	325
<u>Insurance Companies:</u>			
AMP Society (max)	10.0%	10,300	103,000
SunAmerica (AIG)	10.0%	1,000	10,000
American Bankers Insurance	5.0%	150	3,000
Liberty Mutual Insurance	5.0%	1,500	30,000

	<u>Equity</u> <u>Alloc. %</u>	<u>Equity</u> <u>\$ mil</u>	<u>Assets</u> <u>\$ mil</u>
<u>Endowments/Foundations:</u>			
Denison University	44.9%	\$151	\$336
Princeton (Nassau Capital)	25.0%	250	1,000
Yale	20.0%	999	4,996
Mayo Foundation	15.0%	405	2,700
MacArthur Foundation	10.0%	320	3,200
Cornell	8.0%	220	2,750
<u>Public Pensions:</u>			
Washington State	15.0%	6,200	41,332
Oregon State Treasury	15.0%	4,200	28,000
Virginia Retirement System	15.0%	5,100	34,000
Massachusetts PRIM	8.0%	2,080	26,000
Michigan Department of Treasury	7.5%	3,075	41,000
San Francisco City & County	7.0%	553	7,900
California Public Employees	6.0%	7,800	130,000
District of Columbia Retirement	5.0%	250	5,000
British Columbia MOF	5.0%	1,205	24,100
Florida	5.0%	4,176	83,523
Wisconsin	5.0%	2,700	54,000



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Source: 2000 Asset Alternatives Inc.