Extracts from 2015 Registration Document

1.3.2 PRIVATE EQUITY MANAGEMENT COSTS

MANAGEMENT COSTS OF PRIVATE EQUITY FUNDS

These costs can be grouped into four categories:

- Annual management fees paid to the fund management companies.
- Transaction fees and/or fees for monitoring portfolio companies,
- Administrative and operating costs not covered by the management fee,
- The performance fee paid to managers, referred to as carried interest.

1. **Annual management fee paid to the fund management companies**

   a) Management fees are calculated on the committed capital of the fund during the investment period (5-6 years). For the remaining 4-5 years, the fees are calculated either at a declining rate on the same base or at the same or lower rate on the amount of invested capital (at cost).
   During the investment period, the rates applied vary depending on the size of the fund. The rate for funds with over €3 billion is 1.5%, and 2% for smaller funds down to the €1.5-2 billion range.

   b) These management fees cover all the functions necessary for proper management of the fund, except for operating expenses, which are charged to the fund in addition to management fees.

2. **Transaction fees and/or fees for monitoring portfolio companies**

   The management companies invoice these fees directly to the portfolio companies and as such they do not appear in the accounts as costs borne by the funds.

   Transaction fees are invoiced when a company is acquired and/or sold by the fund and generally amount to 1 or 2% of the overall transaction amount. Monitoring fees are invoiced at a flat rate on an annual basis.

   Base and rate practices vary significantly from one management company to another. The prevailing market trend is that the fees paid directly by the portfolio companies are deducted from the annual management fees paid by the fund.

3. **Administrative and operating costs not covered by the management fee**

There are three types:

- Establishment costs of the fund, which may total several million euros.

- Fund administrative costs (custodian, statutory auditors, "Board of Advisers" and annual general meeting costs, as well as legal, insurance, administration, accounting costs, etc.).

- Abort fees: these are fees incurred to perform due diligence on investment opportunities (all types of audit, accounting, strategy, human, environmental, tax,

legal, etc.) for projects that are ultimately abandoned, regardless of the reason. For opportunities that lead to an investment, the fees incurred are included in the cost of investment and as such do not appear as fees charged directly to the fund, although it is ultimately the fund that pays them.

4. Carried interest

Carried interest is the remuneration that the managers of a private equity fund receive in relation to the fund's performance. It represents the portion of the fund's capital gain attributable to its managers, typically 20%, provided a minimum annual IRR (or hurdle rate), most often 8%, is reached; it is net of management fees. If the minimum IRR is not reached, no carried interest is due. If the minimum IRR is reached, carried interest is due on the entire capital gain, net of management fees.

Today there are two major practices:

- **The American practice**, which consists in calculating carried interest on an "investment by investment" basis, meaning that loss-making investments are segregated from profit-generating investments.
- **The European practice**, which calculates carried interest on the fund as a whole, with loss-making investments being deducted from profit-generating investments.

Specific case of private equity fund of funds

These funds bear two layers of costs:

- Direct costs, i.e. the four categories of costs, as explained above, with management fees and carried interest charged at significantly lower rates than that of funds that invest directly.

- Indirect costs, i.e. expenses paid by the funds in which the fund of funds has invested.

From an accounting perspective, only direct costs borne by the fund of funds are recognised. The indirect costs are accounted for in the net performance of the underlying funds.

MANAGEMENT COSTS OF LISTED PRIVATE EQUITY COMPANIES

Listed private equity companies are not a homogeneous group

Listed private equity companies have an unlimited lifespan, unlike funds, which generally have a 10-year lifespan and are designed to self-liquidate.

Naturally, these companies adapt their investment strategy and operations over time. As investments are made in unlisted companies with a long-term horizon, the time needed to transition from one configuration (resulting from the initial strategy) to another (reflecting the new strategy) is very long.

In addition, the origins of listed private equity companies are diverse. They may be traditional holding companies or financial companies that have chosen to adopt the private equity model, or companies created by asset management companies specialising in managing private equity funds, etc.

Private equity funds can be classed into clearly identified categories according to the fund's strategies, and the characteristics of the funds within each category are closely comparable. The same is not true, however, for listed companies. There are far fewer of them than there are funds, and they are generally more hybrids:

- in their operations (self-managed companies, i.e. the managers are employees of the listed entity, or companies managed like funds by a management company),

- in their investment processes: direct investment in companies, investment via their own funds in which other investors also participate, investment via funds managed by third parties. Note that these three processes can exist together;

- in the way in which the management teams are remunerated (method for calculating management fees and carried interest). The base used for calculating management fees is very heterogeneous – committed capital, gross amounts invested, statutory net book value, etc. – and rates vary depending on the nature of the investments. The same applies to the calculation of carried interest.

- in the way in which transactions are recognised for accounting purposes.

Management costs

Firstly, there are the same four cost categories as for private equity funds. In the administrative and operating costs category, the costs are generally higher owing to the company's listing;

and two additional cost categories:

- Interest expense: unlike private equity funds, which leave the responsibility of managing cash to their investors, listed companies must manage their cash and the associated risks. At the very least, listed companies must set up credit lines to manage the timing differences between generating proceeds from divestments and making investments.

- Taxes: the majority of funds are tax transparent. This is not the case, however, for listed companies, although the majority of them choose a favourable tax status (British trusts, French SCRs, companies based in Luxembourg or the Channel Islands).

Self-managed companies that employ management teams and bear all their own costs relating to investing, creating value and exiting investments by definition do not pay management fees. In the same vein, the carried interest allocated to managers can take a wide variety of forms, such as bonuses, bonus shares and stock options, etc.

Accounting policies and cost transparency

Companies investing part of their assets via funds can choose between two principal accounting methods:

a. A **fully transparent** presentation of financial statements, under which investments made via third parties are recognised as though they had been made directly. Under this format, the company presents gross investment performance on the one hand and all costs [1]on the other, whether these costs are borne directly by the listed entity or by the underlying funds.

b. A **net** presentation of the performance of investments made via funds, i.e. after deducting the management fees and carried interest paid by the funds. Companies adopting this accounting method therefore recognise only the following information in their financial statements:
   - management fees charged to the listed company,
   - administrative and operating costs not covered by the management fee,
   - carried interest, if any, paid by the listed company.

   Accordingly, the expenses and carried interest paid by the underlying funds is not directly visible in the listed company's financial statements.

c. Notwithstanding the above, companies investing part of their assets in funds they manage directly, as opposed to funds managed by third-parties:
   - recognise all expenses related to these funds in their statements if they invest via dedicated funds that they consolidate, or
   - recognise part of these costs, such as management fees, which might be found only in the notes to the financial statements.

Management cost comparison

Shareholders wishing to compare **total management costs** among the various listed companies face a daunting task as there is currently no transparency with regard to overall costs: Altamir is, as explained hereafter, an exception.

A mere **comparison of direct costs** can only be made if investors have a thorough understanding of the business model (investments made directly or via funds), the respective weightings of these two investment types, if both are used, the legal form of the entities and the accounting methods used.

Assuming that investors have been able to calculate the overall or direct costs of the companies they wish to compare, one question still remains:

Which denominator should be used to compare the expenses of one entity with those of another?

a) Denominator for the overall cost approach

The ratio: $\frac{\text{Total costs}}{\text{Net Asset Value}}$ is not appropriate

[1]Both management fees and carried interest

if the management fees paid by underlying funds are included in total costs, since the management fees are calculated based on the capital committed to the funds. There is a long lead time, generally three to four years, before this capital is put to work and a period of at least two years before an investment begins to appreciate in value. Consequently, costs increase, whereas for two or three years the NAV does not due to these investments (the J-curve effect).

For this reason, we recommend to choose the ratio used to compare the expenses of private equity funds that invest directly:

$$\frac{\text{Total costs}}{\text{Committed and invested capital}}$$

To use this ratio for a listed private equity company, two adjustments are necessary:

a) Interest and taxes (specific to private equity companies, see above) must be deducted from overall costs. *This adjustment is not necessary when comparing listed private equity companies with each other.*
b) To calculate the denominator, the total of direct investments at cost must be added to the capital committed to the funds. Note that committed capital may change during the year. In such cases, an average of starting and ending balances should be used.

b) Denominator for the direct cost approach

The following ratio is best suited: $\frac{\text{Total direct costs}}{\text{Average NAV}}$

where the average NAV is the average of the opening NAV and closing NAV.

1.3.4 ALTAMIR'S MANAGEMENT COSTS

A – Characteristics of Altamir

- Altamir is managed by its management company, Altamir Gérance, which is also the general partner. Altamir Gérance is advised on its investments by Apax Partners SA. Altamir has no employees.

- Altamir's management costs comprise:
  - annual management fees,
  - administrative and operating costs not covered by the management fee,
  - carried interest (performance-based remuneration).

  Since their creation, Altamir, Apax Partners SA, Apax Partners MidMarket and Apax Partners LLP have pursued a policy of deducting the transaction and monitoring fees charged directly to the portfolio companies from the management fees charged to the funds.

- Altamir's investment process is in a transition phase. Since its creation in 1995 until 2011, Altamir co-invested alongside the funds managed by Apax Partners SA. Since 2011, Altamir has invested primarily via the funds managed by Apax Partners

MidMarket and Apax Partners LLP. These funds are third-party funds in that Altamir Gérance has no economic ties with these two management companies.
As of December 31, 2015, direct investments still represented 64% of the portfolio at fair value and investments via funds represented 36%.
The transition phase is expected to last another three or four years and by the end, investments via funds should represent over 80% of the Net Asset Value.

- Owing to the policy change in 2011, Altamir has two layers of costs:
  - direct costs,
  - indirect costs, i.e. the costs of the Apax France VIII-B and Apax VIII LP funds, through which Altamir invests.

- From an accounting perspective, Altamir has opted for full transparency as described in chapter 1.3.2, unlike almost all other listed companies, which have opted to present the performance of their indirect investments net of management fees and carried interest.

B – Management costs

- **Indirect costs**, i.e. costs borne by Altamir for its investments via Apax France VIII-B and Apax VIII LP are identical to those paid by all other investors in these funds and are therefore in line with the market conditions as of the date the funds were created. The same applies to any funds in which Altamir will invest in the future.

  The management fees and carried interest for the Apax France VIII-B and Apax VIIII (LP) were paid or recognised in 2015 at the rates indicated below:

Management fees paid in 2015

Fund	Management fees
Apax France VIII (B)	2% incl. VAT on capital committed during the investment period
Apax VIII (LP)	1.5% incl. VAT on capital committed during the investment period

Carried interest recognised in 2015

Apax France VIII (B) and Apax VIII (LP)	20% of the realised or unrealised capital gain provided the 8% minimum annual IRR (hurdle rate), net of management fees, calculated from the first euro of capital gain.

Altamir has opted for an accounting policy under which it recognises any potential debts relating to carried interest, even if, in any given year, the hurdle rate is not achieved.
As of 31 December 2015, the IRR of both funds exceeded the hurdle rate.

- **Direct costs**
  As of 31 December 2015, 64% of the portfolio at fair value came from direct investments, i.e. investments made before the policy change in 2011. The manager was remunerated on the same basis as pre-2011, both in terms of management fees and profit-sharing. The same corrective mechanism has been applied to exclude the investments and capital gains deriving from investments made via funds from the basis of calculation.

Basis for calculating management fees

The calculation basis is the statutory net book value, which differs from Net Asset Value in that it does not include unrealised capital gains. The rate is 2% excl. VAT per year (1% per half-year).

Between 2005 and 2015, the statutory net book value, which served as a basis for calculating the management fees paid to Altamir Gérance, amounted to less than the committed capital, which would have been used as a basis for calculation if Altamir Gérance had invested via funds and not directly.

For example, if, in October 2006, Altamir had invested the €400m it dedicated to this fund via the Apax France VII fund rather than co-investing alongside it, the management fees, excluding VAT, charged to the fund would have been €7,037,000[2] in 2014 and €7,408,000[2] in 2015 respectively, compared to the fees paid by Altamir, totalling €7,024,000 and €7,016,000, which included also the remuneration on the capital invested via the funds.

Basis for calculating carried interest

In accordance with private equity industry common practice, the management team receives 20% of net gains (carried interest) as per the Articles of Association. This 20% is allocated as follows: 2% is allocated to the general partner, and 18% to the Class B shareholders, who are the members of the management team.

Since Altamir's inception, carried interest has been calculated based on adjusted statutory net income. This net income includes realised capital gains and unrealised capital losses (impairment of securities) but does not include unrealised capital gains, contrary to IFRS income, which is used to determine Net Asset Value (NAV).

Restated net statutory income does not include financial income from cash investments, nor does it include gains from investments made via the Apax France VIII and Apax VIII LP funds. It does, however, include total adjusted losses from previous years if the losses have not yet been offset (high water mark).

In line with the policy change introduced in 2011, Class B shareholders and the general partner do not receive carried interest on investments made via Apax France VIII-B and Apax VIII LP funds and future fee paying funds.

[2]These amounts correspond to the annualised average fee over the lifespan of the fund