FERRAIULI LLC

CORPORATE DEPARTMENT

November 13, 2014

NOTICE TO CLIENTS AND FRIENDS

Enactment of the Private Equity Funds Act

On November 12, 2014 the Governor of Puerto Rico signed into law the Private Equity Funds Act (hereinafter, the "Act"), which establishes the framework for the creation and taxation of (i) Puerto Rico Private Equity Funds ("PR-PEF") and (ii) Private Equity Funds ("PEF" or collectively with PR-PEFs, a "Fund" or "Funds"). The Funds are intended to provide a financing alternative to Puerto Rico companies that do not have access to public capital markets, such as start-ups. To achieve its purpose, the Act provides preferential tax treatment on income and capital gains derived from the Funds, among other benefits.

I. Statutory Requirements for Private Equity Funds under the Act

Under the Act, any partnership or limited liability company organized under the laws of Puerto Rico, the United States or any other foreign jurisdiction that invests in debt and/or equity securities of entities that, at the time of acquisition, are not publicly traded (hereinafter, "Non-Public Securities") can become qualified as a PR-PEF or as a PEF during each year that they comply with the following requirements:

1. Must have an office located in Puerto Rico.
2. Investors must qualify as Accredited Investors.
3. Within 24 months of its organization, the Fund must have minimum capital or legally binding commitments to contribute capital of not less than USD $10,000,000.00.
4. No later than four years after its organization, the Fund must operate as a diversified investment fund. Thus, no more than 20% of the Fund's contributed capital may be invested in one business.
5. All Funds must have a minimum of 80% of their paid-in capital invested in Non-Public Securities. The remaining 20% must be maintained in one of the following: short term Puerto Rico or United States government securities, reselling agreements, certificates of deposits, and/or deposit accounts with institutions insured by the FDIC, SIPC, among others.
6. A PR-PEF is a Fund that, no later than four years after its organization and at the end of each subsequent fiscal year, must maintain a minimum of 60% of its paid-in capital invested in Non-Public Securities issued by entities that derive, for the prior three year period, at least 80% of their gross income from sources within or from income effectively connected to Puerto Rico or in an exempt investment trust under the Puerto Rico Internal Revenue Code of 2011 (the "Code").
7. A PEF is a Fund that, no later than four years after its organization and at the end of each subsequent fiscal year, must maintain a minimum of 15% of its paid-in capital invested in Non-Public Securities issued by entities that derive, for the prior three year period, at least 80% of their gross income from sources within or from income effectively connected to Puerto Rico as further provided in the Act and the Code.
8. The Fund must engage a Registered Investment Advisor with an office in Puerto Rico. Also, at least one of the Fund's investors or limited partners must be appointed to an Advisory Board where matters pertaining to the Fund are discussed and evaluated.

Additional requirements for PR-PEFs and PEFs include:

1. Any participation or investment offer in a Fund must be properly registered with or notified to the Commissioner of Financial Institutions of Puerto Rico and must comply with Puerto Rico and Federal securities laws and regulations.

2. The Fund must inform its investors of its operating results quarterly (unaudited) and annually (audited). The audited annual report must include an Internal Return of Investment (IRI), breakdown of fees and expenses, a debt summary and a letter from the General Partner.

3. The Fund must hold annual meetings for its investors during which the General Partner shall share inform investors about the operations of the Fund.

An entity that meets the eligibility requirements mentioned above will be deemed a "Fund" for purposes of the Act once it makes such election and gives notice to the Secretary of the Treasury no later than three months after its date of organization.

II. Tax Benefits and Incentives for Private Equity Funds and its Investors.

Puerto Rico residents who invest in a PR-PEF may deduct up to 60% of the initial investment within a maximum period of fifteen years, provided that the maximum deduction does not exceed 30% of the investor's net income prior to the deduction. On the other hand, Puerto Rico residents who invest in a PEF may deduct up to 30% of the initial investment within a maximum period of ten years, provided that the maximum deduction does not exceed 15% of the investor's net income prior to the deduction.

The Fund, its Accredited Investors, its General Partners and the Registered Investment Advisors will be eligible for the following tax exemptions and reduced rates:

	Fund	Accredited Investor	General Partner	RIA
Dividend/Interest Income	Exempt	Fixed rate of 10%	Fixed rate of 5%	Fixed rate of 5%
Capital Gains	Exempt	Fixed rate of 10% Exempt if realized from Puerto Rico sources.	Fixed rate of 2.5%	Fixed rate of 2.5%
Sale of Ownership Interest	N/A	Fixed rate of 5% Exempt if the proceeds are reinvested within 90 days in a PR-PEF.	N/A	N/A
Capital Losses	Must inform Accredited Investor of their respective distributive share of losses.	Net capital losses, derived from investments made in companies that derive at least 80% of its gross income from Puerto Rico sources, may be deducted by Accredited Investors who are Puerto Rico residents.	N/A	N/A

Furthermore, the Act also grants Funds exemptions from municipal license taxes and real and personal property taxes. The Act also exempts the Funds from compliance with the Investment Company Act of Puerto Rico and the Puerto Rico Investment Companies Act of 2013.

This Notice to Clients and Friends has been prepared for information purposes only and is not intended, and should not be relied upon, as legal advice. To further discuss or obtain additional information about the Act, please contact us at your convenience.

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