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Issue 27, October 2023

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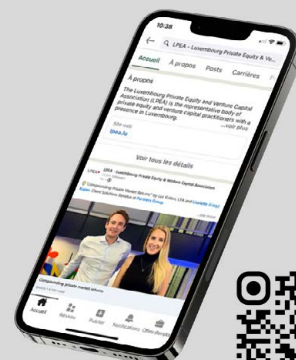

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Dear members, friends and partners,

We hope that you were able to enjoy some pleasant and restful holidays with your friends and family during this versatile and environmentally challenging summer.

We are now ready to tackle the last quarter of 2023, which will be jam packed with our Insights conference on October 19 at LuxExpo, followed by many other promising business trips including Milan, NYC & Miami (US roadshow), Singapore & Hong-Kong (Asian roadshow) and Helsinki (Slush). Rest assured, our various technical committees and clubs will also brilliantly fulfil their mission and work, prepare and propose lots of robust and interesting content via selected events and webinars.

This year is also a very important one due to the elections, which will result in the nomination/confirmation of new members of Parliament, the constitution of a majority, and the formation of a new government. It will be truly important, together wih PROFIL, the other financial associations, and our members and representatives, to share some concrete feedback including market sentiment, recommendations and constructive measures with the newly elected political decision makers, to enable the Luxembourg financial center and the PE/VC industry to continue the growing, thriving success story we've seen and experienced over the last decade. The past achievements (the evolution of our local model, the need to hire new profiles and skills, the ambition to add new sophisticated services on top) should rejoice us and make us really proud but let us not rest on our laurels.

We cannot afford such mistake and therefore need to further develop our strengths (toolbox, agility of our ecosystem), get rid of some existing obstacles (structural, inherited ones) and strongly re-inject all together the true Luxembourg mind-set, business friendliness, international openness, pioneering spirit and pragmatic execution.

We hope you enjoy this read and to see you again soon.

Stephane Pesch
CEO, LPEA

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Claus Mansfeldt
Chairman, LPEA

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LPEA Reaches New Markets in Miami, Singapore, and Hong Kong

Following its participation at IPEM Paris in September and the seminars that it organised in Milan, New York, and Miami, the LPEA will be traveling to Asia with a double header in Singapore and Hong Kong. The team will join a Luxembourg delegation headed to the Singapore Fintech Festival in mid-November and make the most of the trip by orchestrating a Singapore-focused conference - hosted by KPMG Singapore - on the 14th of November. The event will centre on how Luxembourg is fully able to act as a gateway for Singapore-based GPs, to distribute and fundraise from European Investors. The team will then travel to deliver another seminar – on the 16th of November – with the same message, designed for Chinese fund managers. The event will be hosted by HSBC and will feature the keynote speech by Silver Kung, a major PE figure in Hong Kong.

LPEA will conclude its 2023 travel schedule by joining a Luxembourg delegation composed of active members from the startup and VC communities, and head to Helsinki to attend the Slush conference.

Visit www.lpea.lu/events to know more.

New LPEA PE Tech Map leads to Matchmaking Event

The PE Tech Club of LPEA released a new tool that includes many of the market's available solutions for Private Equity and Venture Capital investors, managers, and asset servicers. The "PE Tech Map" is available on LPEA's website and allows visitors to filter existing solutions according to the type of need and displays the companies that provide those services. The tool helps both LPEA members and visitors navigate the increasingly complex ecosystem of tech solutions that have been designed for this sector.

On November 21st, the LPEA will also invite all stakeholders to a special PE Tech Solutions Day, where clients and providers of different solutions (e.g., valuation, deal flow, portfolio management, marketing and distribution, regulatory oversight, etc.) can book private presentations and take part in roundtables to discuss the challenges that involve technology adoption and integration.

More information

LPEA Academy

Since its launch in 2020, the LPEA Academy has brought together 485 participants around a variety of themes covering the entire PE & VC value chain.

This year, 140 participants chose from 11 modules, covering both foundation and advanced courses. The academy regrouped 55 speakers and approached the following subjects: Venture Capital, Private Equity, Private Debt, Secondaries, Multi-Strategy & Fund of Funds, ESG, Tax, Legal, Risk Management, Valuations, and AML/KYC.

All sessions took place during the lunch break and each course hour counted as 66 CPD hours.

Stay tuned for more, as the curriculum for the 6th edition (2024) will be released soon!

More information

The LPEA, CSSF, CRF, ALCO, L3A and LAFO sign an AML/CFT public-private partnership for specialised PFS

In order to further strengthen their collaboration in the fight against money laundering and the financing of terrorism in the specialised PFS sector, the LPEA, CSSF, CRF, ALCO, L3A and LAFO have signed a public-private partnership on 22 May 2023.

The fight against money laundering and terrorist financing (ML/TF) requires an integrated approach, in which public authorities and the representatives of specialised Professionals of the Financial Sector (specialised PFS) pool their knowledge and skills to detect, prevent and combat these crimes together.
Such a public-private dialogue helps to provide clarity on risks related to specialised PFS activities, define regulatory explanations, and aims to identify specific areas or issues where more regulatory guidance is needed.

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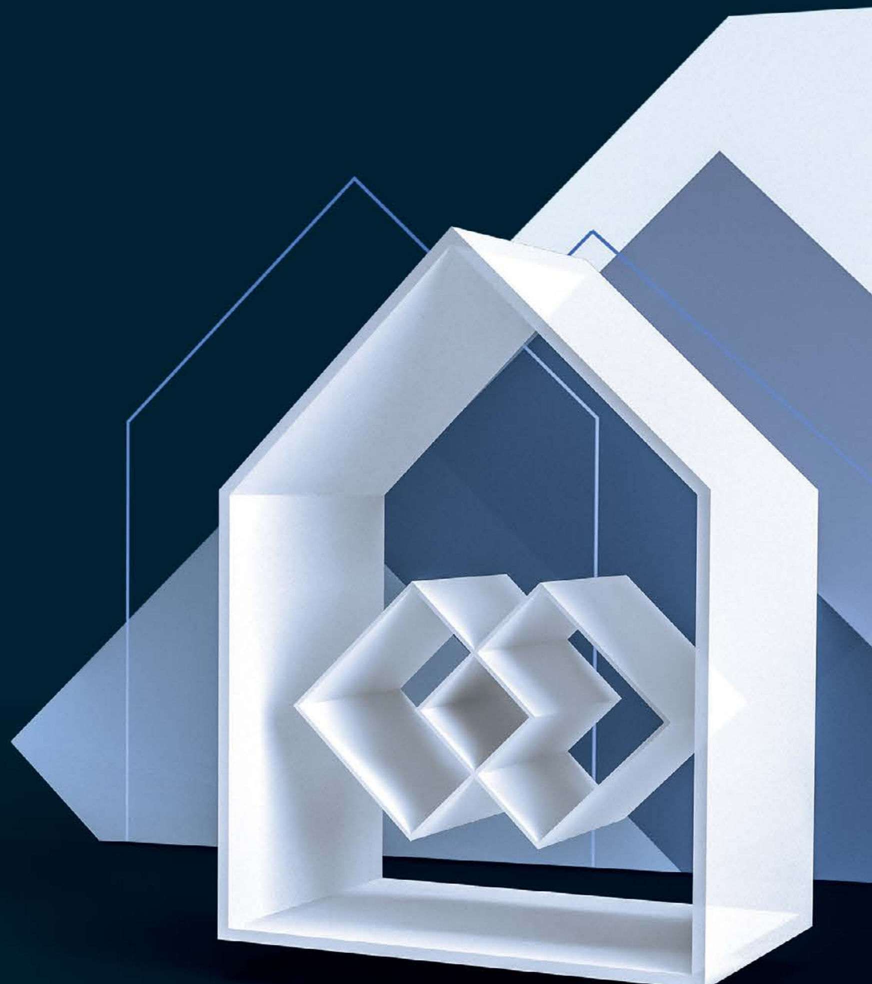

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Closing of Argos Wityu's first "Grey to Green" European buyout fund

Argos Wityu has closed Argos Climate Action, its buyout fund dedicated to decarbonising European SMEs. The fund hit a first close at EUR 120 million, reaching 40% of its initial target.

Argos Climate Action is an SFDR article 9 fund. It is the first milestone of the strategy to extend the Argos Wityu platform beyond the historical Mid-market funds. With this new fundraising, Argos Wityu now manages EUR 1.7 billion of assets.

Argos Climate Action capitalises on Argos Wityu's 30 years of experience in the European Mid-market. This innovative environmental transition strategy has been tailored to invest in companies with strong potential, which will gain a competitive advantage by strongly decarbonising their activities. It therefore aims at shaping European sustainable leaders through its "Grey to Green" environmental transition strategy, based on the conviction that funding the decarbonisation of everyday life companies can generate strong financial returns.

The ambitious objective of the fund is to reduce by 7.5%, each year, the carbon intensity of portfolio companies, while boosting their development.

Porsche Ventures 2.0 will Broaden Car Maker's Startup Activities from Luxembourg

Porsche AG is shifting into high gear with its corporate venture capital activities. The company has earmarked up to EUR 250 million for investments in new start-ups and the existing venture capital portfolio. The aim is to continue to provide fresh impetus for promising business models and technologies.

Porsche Ventures, the sports car manufacturer's venture capital unit, will also be converted into an independent subsidiary, Porsche Investments Management S.A., and based in Luxembourg. Medium-term plans envision launching a VC fund.

Porsche has been successfully involved in the start-up scene since 2016. The company has a direct interest in roughly 60 young companies and has invested in several venture capital funds around the world.

Golding Announces First Closing of its Current Secondaries Fund at over EUR 170 million

Golding Capital Partners has received capital commitments of EUR 172 million for the first closing of its "Golding Secondaries 2022" fund. A total of 85 percent existing and 15 percent new clients subscribed to the fund, which continues Golding's track record in secondary markets since 2012. The predecessor fund, "Golding Secondaries 2019", last closed at around 280 million euros at the end of 2021, markedly above its target volume.

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By Stephane Pesch,
CEO of LPEA

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Marcel Müller-Marbach (EIF):

EIF – The Ever Growing Backer of EU Businesses

Interview with Marcel Müller-Marbach, Head of Division Equity Investments, Legal Service at the EIF & Member of the Board of Directors of the LPEA

What is your role within EIF?

I am an in-house legal counsel, heading a team of 20+ lawyers that oversees all aspects of legal advice and legal risk management related to the EIF's equity business. With the EIF being a fund of funds, the core focus here is to invest in private funds. The range of eligible funds is very broad, ranging from small funds to those with a size of above one billion euros.

You have joined the EIF almost 20 years ago, how has EIF's equity business evolved since then?

First, the EIF's business volumes have grown significantly. By way of example, in 2004, the year I joined, the EIF has made 15 fund investments with an aggregate commitment of €358 million. In 2022, we invested in 119 funds totalling above €4 billion. Furthermore, our existing portfolio of investee funds has exponentially grown into the four-digit range. So, I believe that on the occasion of its 30th anniversary next year, the EIF will certainly have reasons to celebrate!

What were the biggest challenges you had to tackle over the last years?

How much time do we have for this (laughs)? It certainly has been a challenge to keep up with this pace reflected by the figures. In addition, in my function as a lawyer, I have also perceived the challenges of the regulatory framework within which the industry must operate, and which has become increasingly complex over the years. The EIF as an EU body is naturally in the spotlight when it comes to developing and adhering to best practices in complying with fund regulation and this requires a high degree of both technical expertise as well as commercial acumen.

Any specific opportunity and success you are particularly proud of?

The economy and especially the market segment that we operate in has gone through various severe crises since the start of the 21st century. In all these scenarios the EIF has acted counter-cyclically, very much in line with our role, responding with financial instruments and solutions to sustain the flow of small business financing across Europe. We have proven to be an agile player developing and implementing responses to help SMEs and mid-caps to sustain businesses and employment. At the same time, and this is not known by everyone, we have kept delivering on our statutory financial objective of generating a fair return to our shareholders, the EIF being the only EU body pursuing such an objective.

> **"What I am also particularly proud of is the EIF's transformation into a true asset manager."**
>
> Marcel Müller-Marbach

What I am also particularly proud of is the EIF's transformation into a true asset manager. Whereas in the "old days" we financed our investments exclusively with resources entrusted to us through mandates from our majority shareholders (EIB and EU), we are nowadays raising significant funds also from national promotional institutions (NPIs) and private investors throughout Europe and beyond.

You have been representing EIF on the LPEA Board for more than three years now, just having been re-elected for another three year term. First, congratulations to your re-election. Secondly, how has the relationship with the Luxembourg ecosystem changed over time?

Thank you Stephane, it is not only a true honour and privilege but also a great joy for me to be in a position that allows me to actively promote LPEA's cause.

When you refer to the Luxembourg ecosystem, I believe that LPEA's creation in 2010, with the EIF becoming a member as of day one, has had a significant impact on its formation. Luxembourg has for many years been recognised as an international hub for the PE/VC industry. However, it has been fairly recently only that successful additions to the toolbox - such as the development of the RAIF, to which LPEA has contributed - have led to a shift towards dealmaking substance in Luxembourg-based structures. Thus, relationship management for LPEA, its members and representatives these days goes much beyond former interactions that were primarily with and between service providers, public authorities and likeminded associations only- a very stimulating change.

Are their any suggestions you would like to share with other PE/VC practitioners, and the LPEA constituency?

After all these years in the industry I still consider myself as a student rather than a teacher and hence do not really feel called upon to make suggestions to others. I would instead like to refer to a quote from Winston Churchill that I personally find very inspiring: "A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty." Please, let us be optimists!

MORE INFORMATION

Creating opportunity: how EU financing supports small businesses

EIF Annual Report 2022

By **Uli Grabenwarter,**
Departmental Director, Equity Investments
& Guarantees at the EIF

Giving Technology Leaders a European Choice

The European venture capital market has made a quantum leap over the past two decades to establish itself as an attractive market segment for investors in alternative assets. Not only have European VCs closed the performance gap with their American peers, Europe also continues to offer best-in-class technology in many previously US-dominated industry verticals. With the acceleration of technology innovation in Asia and the maturing of the European tech start-ups ecosystem, competition for category leadership in technology verticals has become a global game. Europe has put itself on the map with many unicorn companies (EUR 1bn+ plus valuations) created over the past decade.
But has the European VC market fully graduated? Not quite. Showcasing world class technology made in Europe is one thing, retaining, with an appealing business environment, Europe's technology champions within Europe is another.
The track record of Europe in attracting and retaining global technology leaders is poor. Too big is the temptation to follow the blueprint traced by technology giants to move to the US, list on NASDAQ and become part of one of the many vibrant technology clusters on the East or West Coast. Other promising start-ups cannot resist the temptation of strategic buyers from the Asian geographies looking for next generation technology breakthroughs made in Europe.

> **"Within the next three years, ETCI has the ambition of putting onto the map 15 to 20 growth VC funds with EUR 1bn plus in size and a Europe–focused investment strategy."**
>
> Uli Grabenwarter

Often, this pattern starts with the choice of a tech company's VC investor in their late-stage financing rounds: American Growth VCs have every reason to replicate their patterns of success, acquiring tech companies anywhere in the world, partnering them up with their domestic business network, making them relocate to the US and listing them on NASDAQ or have them merge into a US tech giant at exit. But why are we not doing the same in Europe?
Europe, to date, doesn't have the means for this. Leading financing rounds of several hundred million euros or dollars requires VC funds that can digest such funding rounds within the diversification strategy of their portfolio. This requires funds of a size of EUR 1bn and above. Whilst the US record close to 60 such players, Europe has just a handful of funds playing in that league.

This is where the European Tech Champions Initiative (ETCI), founded under the leadership of EU Member States (including France, Germany, Spain, Belgium, and Italy) and the EIB Group comes in.
Within the next three years, ETCI, managed by the EIF, has the ambition of putting onto the map 15 to 20 growth VC funds with €1bn plus in size and a Europe–focused investment strategy. Its goal is to offer European tech champions a true alternative to US-led late-stage funding rounds and exit strategies directed to the US and Asian markets. ETCI backed funds will invest in pre- and post-IPO rounds where the scarcity of European capital is greatest.
At the same time, these funds will create a new value proposition for large scale investors seeking to invest in Europe. While investors seeking to deploy €150m and more in one investment, so far, had little choice to invest without dominating the investor base of funds, ETCI-backed funds will allow them to build a diversified European portfolio with tech exposure.
It is a long-awaited link in the value chain for European VC and a further step towards emancipation at global scale. The first closing of the ETCI was at a magnitude of EUR 3.75bn with a subscription period that is still open for other EU Member States to join.
Of course, the ultimate test for European technology businesses will be to attract investors also in the public markets. Here, Europe still has significant road to cover to overcome its market fragmentation that puts off analysts and investors alike. Maybe the next European project to tackle? ●

MORE INFORMATION

ETCI: European Tech Champions Initiative

European Tech Champions Initiative: Big tech made in Europe Videos

By **Adelaide Cracco,**
Head of Unit, Climate & Environmental Impact,
Equity Investments & Guarantees at the EIF

Funding European SME's Climate Actions

As one of the investment pillars of the European Union and largest providers of risk capital in Europe, the EIF has a key role in tackling climate change and supporting the green transition of the European economy. The EIF has been an early pioneer and one of the most active LPs in climate and environmental impact finance with its first cleantech fund investment dating back to the 2000s. At the time the market was still in its infancy, largely immature and ill-prepared for private equity financing. Thanks however to governmental policies and a growing awareness across industry and society of the impending emergency, sustainability is finally garnering the attention it deserves. The green financing gap is acute and vast, encompassing multiple climate, environmental and societal challenges as well essential industries. Every sector of the economy needs to transform and risk capital will be critical to bring about the change that is required. This is attracting a new and growing community of investors that perceive both the magnitude of the market need as well as its opportunity.
Importantly, and consistent with the developing nature of the market, the EIF is seeking to build a well-functioning and specialised climate and environmental fund industry with sufficient breadth and depth to address funding shortfalls in core strategic policy areas. The EIF is thus acting as an anchor investor to new specialised thematic funds that can provide strong value add to the market in addition to capital and working closely with its stakeholders to devise targeted investment programmes for key and critical industries, the RePowerEU and BlueInvest mandates being notable examples.
The EIF is also striving to ensure that SMEs and infrastructure projects have access to funding throughout all stages of their development by covering the financing continuum from business proof of concept through to company growth and expansion. Climate action and environmental sustainability necessitate both the development of game changing innovation and technologies needed for the future, as well as the scaling of existing products and solutions that can be deployed as of today. Similarly, it is supporting the expansion of climate and renewable energy infrastructure, fundamental to achieve net zero targets, taking on the financial and developmental risk of greenfield projects versus existing later stage brownfield projects.
As part of its mission to mobilise capital, the EIF has also just launched a Greentech fund of funds initiative which capitalises on its experience as one of the most active and longstanding LPs in the European clean tech industry in order

to provide private institutional investors with qualified and secerned access to the most relevant VC and PE fund initiatives coming out of Europe.
Impact is finally and fundamentally at the core of the EIF's climate and environmental policy objectives. The EIF has been a frontrunner in impact measurement and performance incentives and is also systematically implementing the EIB Group's climate action and environmental sustainability eligibility criteria to enable the classification of underlying fund investments according to their contribution towards the six pillars of the EU taxonomy.
Going forward, the EIF's climate and environmental objectives should be considered within the broader context of the EIB Group's positioning as the EU Climate Bank and its roadmap to direct 50% of its financing activities towards climate action and environmental sustainability by 2025. The EIF will thus further intensify its climate and environmental activities in the years to come, extending its reach across strategic underserved verticals and geographies which can help bring the EU closer to a carbon neutral, sustainable and resilient future. ●

MORE INFORMATION

Case-study - Sunroof: a world run on sun

Case-study - aedifion: decarbonising real estate digitally

Video: Helping companies solve their plastic challenges (AION, Norway) - backed by EIF with venture capital

Brochure: Players of Change – Tacking the Climate Crisis

"Every sector of the economy needs to transform and risk capital will be critical to bring about the change that is required."
Adelaide Cracco

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By **Rémi Charrier,**
Head of Division, Institutional Client Relationships, Equity Investments & Guarantees at the EIF

and **Clarisse Leduc,**
Relationship Manager, Institutional Client Relationships, Equity Investments & Guarantees at the EIF

Demystifying Growth Private Equity and Venture Capital to Institutional Investors

According to InvestEurope, European Private Equity (PE) and Venture Capital (VC) fundraising surged to €170bn in 2022 but only half of the funds came from investors from Europe.
When looking into investors preference, about two thirds of the funds (65%) went into buyout funds (in particular from pension funds) and only one third into growth and venture capital funds, where the main sources of funds were family offices and private individuals, funds of funds and asset managers and government agencies.
In our day-to-day work at the European Investment Fund (EIF), we indeed see a lot of funds, in particular the smaller ones, some very successful, still struggling to raise monies outside friends and family. Anecdotally, a German life science fund manager recently admitted not calling pension funds any longer given the recurring rejection they were getting. A recent study from Redstone reveals that German retirees, in particular, largely miss out on the substantial success of German and European startups, while their US counterparts benefit significantly: US pension funds hold an impressive €4.7 billion stake in German start-ups, whereas German retirees benefit from a modest €94 million share. What a shame!
Why are European institutional investors, in particular pension funds and

Rémi Charrier & Clarisse Leduc

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"Is it not the right time for European pension funds and insurance companies to invest more into the promising long-term European PE/VC asset class?"

insurance companies so reluctant to invest into growth private equity and venture capital?

Well, there seem to be fundamental perceptions and difficulties that limit the interest of European institutional investors:

- the European private capital market is highly fragmented and heterogeneous across countries with differing regulations and country specific peculiarities which make it difficult for investors to cover the entirety of the European market,
- certain regulations enforce punitive capital requirements in relation to PE/VC exposures. For instance, under Solvency II, the capital requirement for insurance companies varies from 33% to 50% whenever they invest their balance-sheet into PE/VC (some indicated that they cap their exposure to less than 2% in PE/VC because of Solvency II), and
- there is still a perception across European investors that lower-mid market PE and VC is too risky (versus buyout funds), as a lot of European investors faced significant losses in this asset class in the early 2000's. But on recent vintages and despite the Covid pandemic and the macro-economic situation (Ukraine war, rising inflation and interest rates), European VC Tech funds are generating an equivalent, if not better, return than their US peers.

The EIF plays a vital role in the pan-European PE/VC market acting as an investment advisor of diversified PE/VC funds of funds (e.g. the Asset Management Umbrella Fund (AMUF) and the Sustainable Development Umbrella Fund (SDUF)). Such fund of funds structures provide cost efficient access to Europe's high performing PE and VC managers and enable investors to tailor their allocations to different investment strategies.

Is it not the right time for European pension funds and insurance companies to invest more into the promising long-term European PE/VC asset class? ●

By **Joel Wajsberg**,
Mandate Officer, Mandate Management at the EIF

By **Ghislain Terrier**,
Investment Manager, Equity Investments & Guarantees at the EIF

Luxembourg Future Fund 2, impact on the ground

We are excited to highlight the new Luxembourg Future Fund 2 ("LFF2") investment initiative in cooperation with Société Nationale de Crédit et d'Investissement (SNCI).

This initiative now makes available up to EUR 200m for fund & co-investments with the aim of supporting the diversification and sustainable development of the economy in Luxembourg. It builds on the successful implementation of the existing LFF 1 initiative, which was launched in 2015 and now boasts a well-diversified portfolio of exciting VC fund and co-investments.

Under LFF 2, we are looking to invest into VC & PE funds (including hybrid debt equity investment strategies) and via co-investments into innovative companies, to continue to foster the development of Luxembourg's sustainable and resilient economy of tomorrow. Investments will be conducted across a wide range of sectors including climate technologies, fintech, cybersecurity, energy resilience, new space technologies, digital health and life science. By broadening the scope of this new initiative to include hybrid debt equity investment strategies, we have available non-dilutive instruments, thereby attracting a different type of company profile.

The LFF initiatives showcase the high degree of complementarity that exists between the EIF and national promotional institutions such as SNCI. Looking at the successful implementation of LFF 1, one could even consider it a perfect match. While the EIF brings its experience as one of Europe's most active LPs coupled with a pan-European policy perspective, SNCI together with the Ministries bring domestic expertise and experience with a particular focus on the needs of the Luxembourgish ecosystem. The cooperation is a great example of how European and local entities can come together to create real value and impact on the ground.

With LFF 2 now up and running we are actively seeking investment opportunities. Interested fund managers and/or companies (for co-investments) will need to demonstrate their "Luxembourg Sustainable Economic Substance" in order to be considered for an LFF 2 investment. These substance criteria will differ for fund and co-investments and will be assessed on an individual case-by-case basis. However, they will need to contribute towards the overarching LFF 2 objective of supporting Luxembourg's sustainable and resilient economy of tomorrow.

The new LFF 2 programme will feature the following two investment mechanisms.

LFF 2 Primary Fund Investments: LFF 2 will invest as a Limited Partner in venture capital and/or private equity funds (incl. hybrid debt-equity funds) in Luxembourg. Supported fund managers are expected to engage actively within the country' investment ecosystem and consider investment opportunities in Luxembourg.

LFF 2 Co-Investments: LFF 2 will also co-invest through Special Purpose Vehicles (SPV), managed by institutional type investment funds (incl. VC & PE funds, Family Offices etc.), into innovative companies that are looking to either establish their offices/operations in Luxembourg or aiming to expand existing operations/presence in Luxembourg. Companies supported via LFF 2 co-investments are expected to engage actively within the Luxembourg business ecosystem. ●


Joel Wajsberg & Ghislain Terrier

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> **"We are looking to invest into VC & PE funds and via co-investments into innovative companies, to continue to foster the development of Luxembourg's sustainable and resilient economy of tomorrow."**

MORE INFORMATION

Luxembourg Future Fund 2 Website

LFF case-study: Spire Global - data & analytics from orbit

LFF case-study: Cyberhedge: translating cyber-speak into CFO

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By **Stephane Pesch,**
CEO of LPEA

Interview with Marjut Falkstedt, EIF's Chief Executive, EIF objectives & strategy

We Are the Bridge between Policy Makers and Market Players

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What are the main objectives of your mandate?

First, let me say it was an honour to be appointed EIF Chief Executive on 1 January 2023 – whilst since then the European venture capital and private equity space has been undergoing a multitude of 'stress-tests'.

At the EIF, we believe these are part of a natural market correction – but we are attentive to the challenges and opportunities of the current investment landscape. Our annual VC and PE survey results (publishing in early October) will reveal more about the market sentiment across Europe, which I look forward to reviewing.

Internally, our objectives are best summed up by a quote from Michael Jordan, the well-known basketball player: "Talent wins games, but teamwork and intelligence win championships".

Together with the management team, we want to shape an EIF that encourages teamwork, collaboration, diversity. Where we look at our footprint and walk the talk when it comes to EU policies and values. The EIF's digital transformation is also a priority, staying at the forefront of innovations we are known to support.

Can you please describe the global investment philosophy and strategy of the EIF? Any specific changes to be expected?

The EIF's role has always been – and I can reassure you that it will remain – to listen, identify and pro-actively tackle market gaps and pursue EU policy priorities.

We intend to be an agile facilitator between policy and markets. We want to continue as an active ecosystem developer and leverage our expertise to make Europe more competitive and 'future-proof'.

Since the EIF's establishment in 1994, we've been the SME-financing-arm of the European Investment Bank (EIB) Group. We will continue this work: funding innovation, digitalisation, sustainability, social inclusion, culture, and more.

But the environment is moving fast around us, and we are constantly thinking about adapting our strategic orientation accordingly.

Empowering equity – getting more funding to women fund managers and mixed teams; and turning towards more (green) infrastructure related investments are among the tasks on our radars.

Our investment focus is also adjusted in conjunction with the priorities of the EU and the EIB Group as we support the objectives of both institutions.

What are your growth plans in terms of deployed capital, staff, partnerships?

EIF results for 2023 are on track. Beyond the numbers, we want to be perceived as relevant by the market. The demand for EIF support has remained high under both our equity and guarantee activities.

The signals we get indicate that fundraising is difficult for everyone now, including both established and emerging teams – which may speak in favour of an increased EIF role in the market, if needed. At the same time, we are fundraising ourselves for existing and new initiatives, whilst sharpening our impact methodology.

For our European Tech Champions Initiative (ETCI), and for our investment initiative targeting institutional investors (AMUF) advised by the EIF, we are welcoming commitments from EU Member States and pension funds / corporates, respectively.

As an organisation, the EIF has grown substantially in recent years, now counting around 700 staff members.

Which trends do you think will impact our industry the most?

Specialisation could be one, in my view. Considering the macro-economic context and looking at how our strategic orientation has shifted from a volume-driven approach to policy objectives, I think having a vision and sticking to it could be the make or break for many in the European VC and PE industry today.

Examples are gender-focused strategies and climate-related solutions, just to name two that are on my personal wish list – and where EIF teams have been seeing good investment proposals recently.

Backing Europe's tech sovereignty through investments in deep tech and disruptive innovations (AI, space, semiconductors, defence, cybersecurity, blockchain, or quantum computing) has gained considerable importance.

I like to mention social impact investments too, where the impact is as important as financial return. I want to believe that each of us can contribute to a greener and more inclusive Europe.

What are your strategic priorities in the upcoming years?

We will celebrate the EIF's 30-year anniversary next year, an opportunity to look at the success of helping over 2 million small businesses with access to finance. But also an occasion to reflect on where we can do better.

This might entail an adjustment of our product offering and some of our focus may shift. Either way, we aim to complement – rather than overlap – our financing activity with national promotional institutions and other key partners of the EIF.

We could increase our local presence across Europe, getting closer to the markets and entrepreneurs we are looking to support.

Delivering on our flagship InvestEU mandate and keeping our tech champions on home ground are two priorities firmly pinned to the top of our strategy. 'Made in Europe' should not be a buzzword, but a reality that we created by closing the funding gap for our startups and scaleups. ●

> **"The EIF's role has always been – and I can reassure you that it will remain – to listen, identify and pro-actively tackle market gaps and pursue EU policy priorities."**
>
> Marjut Falkstedt

MORE INFORMATION

Event Report: Empowering equity

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Interview with **Martin Krist**
Managing Director – Head of Luxembourg at Nordic Capital Management

by **Johann Herz**
Head of Events and Communication at LPEA

Nordic Capital Management: A Stronger Footing in Luxembourg

Nordic Capital is a private equity investor with a commitment to creating stronger, more sustainable businesses through operational improvement and transformative growth. Since its founding in 1989, Nordic Capital has invested EUR 22 bn in more than 130 companies and executed 91 exits.

Can you introduce Nordic Capital in a few words?

Nordic Capital focuses on selected regions and sectors where it has a strong track record and expertise in growing businesses. These currently include 50 high-potential investments within Healthcare, Technology & Payments, Financial Services, and, selectively, Industrial & Business Services. As an active owner, we target companies that can leverage our skills to realise unfulfilled growth and expansion potential, structural transformation, operational improvement and strategic repositioning. Furthermore, we help them become leaders in sustainable transformation within their respective industries.

Our team is composed of over 225 employees in 10 offices across three continents. Nordic Capital's most recent fundraise in 2022, Nordic Capital Fund XI, is its largest fundraise to date and closed at its EUR 9 bn hard-cap within just a few months. In 2022, Nordic Capital also raised its first mid-market fund, Nordic Capital Evolution Fund at EUR 1.2 bn.

Tell us more about your Luxembourg footprint?

We invest out of funds and vehicles established in Jersey and Luxembourg. The funds and vehicles and/or their managers are regulated by and under the supervision of the Jersey Financial Services Commission and the Luxembourg Commission de Surveillance du Secteur Financier, respectively. Each fund or vehicle acts through its respective GP or delegated Portfolio Manager and invests in portfolio companies through various acquisition vehicles.

The launch of the Luxembourg Fund Operation's office was a natural extension of the existing fund services business in Jersey. Whilst we have had a footprint in Luxembourg for 10+ years, the focus has indeed been gradually shifting towards the region.

In 2020, our flagship Nordic Capital Fund X was launched with parallel investor sleeves in Jersey and Luxembourg. For Nordic Capital, there were two rationales for this: One, the rising demand for onshore funds, depending on the investor domicile; two, Luxembourg continues to offer an attractive toolbox for private equity products. Given the success of that fundraise, the succeeding mid-market Evolution Fund was raised as a sole Luxembourg product in 2021. Whereas AIFM services were initially provided by a local third-party provider, we have established an in-house AIFM, in line with our general operating model, which was granted its license in June 2023.

The Luxembourg team is currently composed of eight people, all of whom have been recruited locally and have experience and an understanding of the Luxembourg market and alternatives industry. As we look to the future, Nordic Capital expects to see further and continuous growth in the Luxembourg team and in the mid-to-long-term, plans to make Luxembourg the hub of Nordic Capital's fund operations.

Nordic Capital focuses on key verticals and specific geographies. Can you elaborate on your investment strategy and process?

We are committed to investing in stable and attractive locations. This includes companies valued above EUR 300m as part of the main strategy but increasingly via the Evolution Fund, in mid-market, high-potential companies valued at EUR 50-300m. Being selective guarantees that Nordic Capital can contribute with genuine knowledge and operational expertise, therefore creating significant value within the companies it invests in.

The investment strategy is first and foremost about the characteristics and approach of the companies that Nordic Capital supports, understanding structural trends and shifts within our focus sectors – whilst avoiding investing in companies that rely on external factors or the macro-trends in the wider economy.

For us, the investment strategy is closely linked to Nordic Capital's active ownership approach. After identifying growth opportunities, we intend to power-boost a joint plan set up together with founders and management teams to make great companies even better. Our teams bring structure, capital, international sector and operational expertise and a strong external network to help management teams realise their business plans, accelerate growth, and develop in a sustainable way. Best-practice sharing within the portfolio has proven to be an efficient strategy.

Furthermore, we adopt a long-term view to ownership. Our goal is to create sustainable companies that can solve global challenges and leave a positive impact in the short term and, then, continue to do so when they take the next step in their growth journey.

"Our teams bring structure, capital, international sector and operational expertise and a strong external network to help management teams realise their business plans, accelerate growth, and develop in a sustainable way."
Martin Krist

Can you give us an example of value creation in your portfolio company?

In 2019, we acquired a majority share in ArisGlobal, a high-potential provider of innovative SaaS software. Together with the founding family, we developed a joint plan to accelerate the company's growth and provide better environmental health, social equity and economic vitality for future generations – and create a global leader in the space.

Nordic Capital has continued to support ArisGlobal in establishing a consistent track-record of profitable customer implementations, as well as transforming from a point solution to a more diversified platform. In addition, several strategic M&A transactions will continue to build ArisGlobal's offering across strategic areas. The company has benefitted from continued investments in R&D, cognitive computing, global delivery, sustainable operations, and commercial excellence. During our investment period, ArisGlobal has seen revenues increase by 53 per cent and the number of its employees has increased by 25 percent. This has enabled the company to further transform the industry and help more companies handle safety, development, compliance, and medical affairs in a better and more cost-efficient way.

ArisGlobal continues to further integrate ESG measures and, ultimately, reduce its climate footprint. In addition to lowering its carbon emissions, by utilising renewable energy and sending excess energy to the common grid, it puts as much effort into being socially responsible. ●

INSIGHTS
INSIGHT/OUT #27

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By **Martine Kerschenmeyer,**
Director - Limited Partner Services
at Advent International

Advent International: Can Luxembourg Cement the Investor Relations Function in Luxembourg?

Historically, General Partners (GPs) and asset management firms ran their European Investor Relations operations out of London, including the marketing and distribution of funds to European Economic Area investors. However, with the advent of Brexit, the landscape shifted dramatically. Passporting rights under AIFMD and MiFID were lost to the UK. Now, any marketing or even pre-marketing must occur from an EU-based country. Many GPs tried to anticipate the changes, even before they knew their full scope. Since Luxembourg was already at the forefront of services to the fund industry, it was well positioned to start promoting itself as the European centre for IR and fund distribution as the industry is looking for solutions.

The Evolution of Investor Relations

The Investor Relations role really started evolving in the early 2000s. Back then, only a few GPs had dedicated IR/fundraising teams. Mostly, there was just one person wearing multiple hats – answering investor questions, organising roadshows, crafting pitchbooks etc. Deal Teams, meanwhile, spent a good part of their time travelling around the world, building and maintaining investor relationships. The 'IR community' was in its infancy. It wasn't an official job with a job description and a clear career path. Then the global financial crisis struck, acting as a wake-up call. GPs recognised the inefficiency in investment teams spending excessive time on the road meeting investors multiple times a year. While engagement with clients remains vital, it was important that Deal Teams refocused on sourcing deals and working on their existing portfolio companies. At the same time, the realisation that, without capital, investments are impossible, really hit home. This slowly led to a more structured approach to IR, underscoring its importance.

What does the IR function entail?

In essence, IR is about positioning a firm to successfully raise capital regardless of the fundraising environment. This involves liaising with both internal and external stakeholders, creating robust fundraising processes, and maintaining deep, lasting relationships with investors. A crucial aspect is preparing and sharing accurate data and information about the firm's set up, programs, investments, track record, team and culture. Regular reporting and answering ad-hoc queries are part of the role. Many companies are still only beginning to establish these roles, often leaving newcomers unsure of exactly where they fit in, given each organisation operates differently.
Nowadays, IR divides roughly into two functions: client-facing investor relations/fundraising and project management/client servicing. The set-up varies; larger firms might segment these functions more distinctly. Having the right set up according to your size and offering plays a key role in providing a best in class service to investors, which should lead to a successful fundraising process.

How difficult is it to recruit these profiles?

As demand has grown, so too have challenges, due largely to a narrow talent pool, despite its growth over recent years. Speaking to people at a recent event attended by fellow professionals, I noticed that younger analysts today seemed more likely to choose the Investor Relations career path proactively, unlike previous generations who mostly stumbled into IR accidentally. Private Equity is also advertised much more on school campuses, so there is increased awareness about the sector and the career possibilities it offers amongst younger generations.

Ingredients for success in IR

Successful Private Equity fundraising requires a combination of technical knowledge and soft skills. The ability to convey complex ideas in a compelling way and with confidence is paramount, so a deep understanding of Private Equity is essential. Then there are the 'people skills' - building relationships, networking, understanding clients needs by listening not just to what they say but also what they don't say. Building a relationship based on trust is key. Remember, in this field, relationships might even outlast some marriages, so integrity is critical. Given the often competitive and challenging nature of fundraising, traits like resilience, energy, and persistence are also crucial for success.
The evolving landscape of Private Equity also demands adaptability. Firms must adjust to shifts in market conditions, investor tastes, and regulations. Those in fundraising, with their fingers constantly on the pulse, can guide their firms in staying relevant to investors. Take ESG and factors such as carbon footprint, alongside Diversity, Equity & Inclusion (DE&I). For firms, showcasing a genuine commitment to these principles isn't just a formality; it's increasingly becoming a deal-breaker in due diligence processes by investors. Finally, IR is a collaborative endeavor. The IR professional is the glue between the various internal and external stakeholders.

Does Luxembourg Fit the Bill?

As post-Brexit implications are becoming clearer, several GPs have been exploring a number of solutions from secondments, delegating distribution to redefining and re-attributing roles internally. Ultimately, the most viable solution might be hiring dedicated individuals for these roles and bringing them in-house.
Can Luxembourg provide or attract such talent? The country is making strides. Their move to ease job market access for accompanying spouses that are third-country nationals could be a game changer. It was a major factor when people evaluated and turned down job offers in Luxembourg. Increasing the number of International and English speaking local schools also adds to the attractiveness. Yet, challenges like the unaffordable housing market remain and infrastructure (roads, traffic) need attention.
And as business conversations globally and locally lean more towards English, a strategy focusing on English-speaking professionals, while also valuing additional European languages, would be savvy. Luxembourg could have a clear edge here.

> **"In this field, relationships might even outlast some marriages, so integrity is critical."**
>
> Martine Kerschenmeyer

Could Local Upskilling Be the Solution?

A frequent lament from recruiters and companies is the shortage of talent with the right skillset. This perspective may indicate a flawed hiring paradigm. While experience is invaluable, the intrinsic qualities of a candidate - their motivation, adaptability, and soft skills - are often more crucial. With digitalisation and artificial intelligence transforming the way firms operate, human-centric skills become even more critical. As a native Luxembourger working in IR for 20 years, mainly in London, I do think that Luxembourg has a clear edge with its multi-lingual local population. The key is to make the private sector attractive enough so local people take an interest while also attracting talent from abroad.
In summary, Luxembourg is well-positioned to become a significant hub for IR and fund distribution in the post-Brexit European landscape. Success hinges on innovative thinking in talent acquisition and enhancing local appeal for global professionals. ●

INSIGHTS

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By **Helene Noublanche,**
Investor Relations Manager
at Coller Capital

Coller Capital: An LP State of Play in the Secondaries Market

What are the expectations for the secondaries market?

Compared with the secondaries market in public equities (which comprises a large amount of stock exchange activity), the private capital secondary market is small. Even today, with market volumes at historically high levels, annual secondary transactions account for only around 1.4% of private equity's total net asset value[1].

We believe the secondary market has plenty of room for long term growth. From being a niche strategy in the early 1990s, secondaries have expanded rapidly, to become a mainstream feature of the private capital world. Coller Capital expects the market to continue growing and developing for years to come.

In the shorter term, we see the market opportunity becoming potentially highly attractive should the macro-economic environment continue to deteriorate, and investor nervousness persist. And there is certainly no shortage of things to be nervous about. The war in Ukraine, a high inflationary environment, and central bank interest rate hikes, are all causing stresses through a financial system built around the low interest environment of recent years.

The World Bank in its January 2023 Global Economic Prospects Report quotes "Global growth has slowed to the extent that the global economy is perilously close to falling into recession." Should the economy move into a recessionary environment, there may be significant consequences for LPs and GPs.

Although the market in 2023 is unquestionably competitive, Coller Capital's view is that the market remains broadly in balance as a consequence of:

- The limited amount of available buyside capital. We estimate that, at the start of 2023, there was sufficient dry powder to acquire 1.2 years' worth of market turnover at 2022's transaction volumes. The secondaries market remains undercapitalised, and in comparison, we estimate the primary market has far greater (3.3 years' worth of) dry powder.
- The increasing supply of quality deal flow. Whilst 2022 deal volumes were relatively subdued, with a significant number of transactions stalled amid market dislocation, the latter part of the year saw significant recovery. With traditional exit routes currently constricted, hold periods have increased and distributions slowed: we expect GPs and LPs' search for liquidity to result in an increase in secondaries volumes in 2023.
- Strong secondaries market fundamentals. The market continues to diversify and evolve, and a major restructuring of existing private capital funds is continuing at an accelerating pace: GP-led secondaries, which made up only a small fraction of annual transactions before 2015, now make up around a half of secondary volumes.

We expect secondaries volume to reach $110 billion in 2023 and have a long-term estimate for the market to reach $500 billion by 2030[2]. There are several reasons investors are selling in the secondaries market and we're finding that most LPs will use the secondaries market to rebalance their private equity portfolios and to increase liquidity.

> **"We expect secondaries volume to reach $110 billion in 2023 and have a long-term estimate for the market to reach $500 billion by 2030."**
> Helene Noublanche

Coller Capital 2023 Summer Global Private Equity Barometer results

Twice a year Coller Capital publishes its Barometer report[3] which offers a unique snapshot of global trends in private equity – this provides an overview of the plans and opinions of Limited Partners worldwide. Outlined below are the current challenges and opportunities facing LPs and trends that can be felt by IR teams across the private equity industry.

Investors approach to due diligence and travel

According to the Barometer, the level of diligence that investors undertake has increased over the past two years, with more European LPs increasing their levels of diligence than their peers in North America and Asia-Pacific. Due diligence for fund commitments is a key reason for LPs returning to travel levels not seen since pre-Covid days. Investors are also likely to travel to attend conferences and AGMs, with fewer LPs planning to return to their historical office commute.

When it comes to thefund investment process, three fifths of investors are finding negotiating terms a challenge, but less so assessing managers or accessing funds.

Negotiating terms and incentives

During the process of investing in a GP's fund, the negotiation of terms is still a challenge for the majority of LP institutions. This suggests that the balance of power between LPs and GPs has not shifted much in recent years.

Artificial Intelligence (AI)

The last few months have seen interest in artificial intelligence, in particular ChatGPT, increase exponentially. In the summer edition of the Barometer, we asked about AI within private equity and already investors were seeing the usefulness of AI to the PE transaction process.

Three quarters of LPs think that AI will be an important tool when originating private equity transactions in the next five years. The majority of LPs believe that AI will make a significant contribution during the deal assessment and post-deal portfolio company engagement stages. It will also be useful for due diligence requests as well as automatisation of KYC/AML.

Importance of ESG remains high despite the "Anti-ESG" movement in the US

The importance of ESG within private equity is still being taken seriously by LPs, despite the 'Anti-ESG' movement in the US, with three quarters of European LPs not expecting this to change the emphasis GPs place on ESG. European LPs are ahead of their global peers in their approach to hiring dedicated ESG teams within their organisations. ●

1. Source: Coller Capital and Preqin, as at January 2023.
2. Coller Capital, 2023
3. Coller Capital Global Private Equity Barometer, Summer 2023

Since its inception in 1990, Coller Capital has specialised in the secondaries market for private assets. The bedrock of Coller Capital's culture and investment philosophy has been a sustained focus on innovation, and the firm is recognised for making investments that have altered the scope of secondaries transactions. Coller Capital's team is composed of more than 260 professionals spread-out across six offices in London, Luxembourg, New York, Hong Kong, Beijing, and Seoul.

By **Hind El Gaidi,**
Chair of the Steering Committee of the Future Foundations Programme

And **Cara Browne,**
Representative of the LPEA within the Steering Committee of the Future Foundations Programme

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Mutualisation initiative for Luxembourg's Financial Services

Here in Luxembourg, Private market and Alternative Investment players are looking for strategic solutions to allow for more agile operational models when they face increasingly stringent requirements from their investors and regulators.
These challenges have ignited an analysis that hinges on removing internal and external redundancies in the operating model of private capital players.
This programme will endeavor to define the role of Luxembourg in private markets and the possibility to take the lead in Europe by driving further adoption of new technology and next generation financial infrastructure.
One key finding when bringing together market experts; a catalyst requirement to motivate the financial sector participants to co-invest and develop mutually beneficial resources.

Future Foundations Programme

The Mutualization initiative for Luxembourg's financial services center has emerged following the recommendation of the 'Haut Comité de la Place Financière' (HCPF) who proposed the formation of a working group focused on this project.
HCPF approved a dedicated initiative under the LHoFT to implement the recommendations.
Formally, this programme is to address the challenges financial institutions are experiencing as it relates to margin compression due to increasing costs and more competition.
The main objective is to develop mutualised utilities for the financial sector to mitigate the cost challenge as well as the increased inefficiency which, accompanies the collection of KYC documents which have proven to be an unscalable process for all.

The Programme, hosted by the Luxembourg House of Financial Technology, "LHoFT", contains a Steering Committee composed of key industry associations representing their members, namely ABBL, ALFI, ACA, LPEA, L3A and LuxCMA, complemented by the MinFin and CSSF as observers designed to foster collaboration and acceptance.
The Steering Committee will be supported by a Working Group of thematic experts and specialists from the industry appointed specifically for each initiative. The initial forecast for the duration of the programme will be 18-24 months with key milestones along the way.

Call for applications!

The LHoFT will launch a large campaign to promote the call for applications locally and internationally in Q3 2023.
There is a minimum requirement of one edition per year, when five applicants will be selected.

The LHoFT will collect applications and sort them based on business eligibility criteria.

I. Preparation

In the coming months, the business requirements and specifications will be defined and prioritised by the Steering Committee. The goal will be to identify the business needs, assign specific criteria and outline the high-level scope.

II. Participation benefits

The clear industry requirements and incentives through a proof-of-concept commitment and co-funding of EUR 300,000 are some of the initial benefits. Interested parties will be informed on additional monetary and non-monetary benefits that are embedded in the programme.

III. Evaluation

A jury, appointed by the Steering Committee, will set evaluation criteria and select five to ten applications to participate in the programme.
To be eligible for the programme, the applicants should be or become incorporated in Luxembourg.

IV. Bootcamp

A one-week (5-day) forum to run a detailed overview of the solution with advice and engagement from the industry stakeholders and experts.

The applicants must submit their final proposal within four weeks post Bootcamp.

V. Laureate selection

A winner will be selected by the Jury and will be eligible for a EUR 300,000 grant. A pitch day will be organised within 8 weeks of the Bootcamp, leading to the final selection.

Topics & Potential Utilities

Mutualising AML/KYC documentation across financial institutions in Luxembourg and potentially create waves worldwide and define a golden standard set of documents required for onboarding clients and investors.

Key target areas of interest would include:

- Reviewing legal and regulatory requirements by CSSF as they relate to licensing.
- The impact of Cybersecurity standards and certifications around Cloud Managed Services where an anonymised database capturing the standard data points.
- Establishing the template or model where stakeholders create their digital identity/ footprint to facilitate institutional needs with the required material to perform their imposed internal regulatory regime. The utility could operate or function as a clearing house or document repository.
- Communication interface with regulators such as the CSSF; transmitting documents between institutions and customers.
- Balancing liability, responsibility, and vulnerability within an open-source database.
- Pledges or commitments to ESG measures
- Utilisation of artificial intelligence capabilities to create digital "passports" at the European Union level. ●

> **"The objective is to develop mutualised utilities for the financial sector to mitigate the cost challenge as well as the increased inefficiency which accompanies the collection of KYC documents."**

Interested applicants can reach out to info@lhoft.lu for more information on the Programme or visit https://lhoft.com/events

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- Automated name screening process
- Provision of RC Mandate
- Ongoing compliance with regulatory duties
- Regulatory watch

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By **Silke Bernard,**
Global Head of Investment Funds
and Partner at Linklaters Luxembourg

Luxembourg's Modernised Investment Funds Rulebook

In June 2023, Luxembourg's investment funds toolbox received a long-awaited and very welcome upgrade to its legal and regulatory framework. The revised legislation brings the Luxembourg toolbox into a more pragmatic shape and offers even more flexible structures to professional and retail investors. This new rulebook is set to cement the country's position as a highly attractive and competitive financial marketplace.

The newly adopted changes to the various Luxembourg fund laws (RAIF, SIF, SICAR, 2010 law and AIFM law) are an essential milestone in the attempt to maintain and strengthen Luxembourg's attractiveness and competitiveness especially in the alternative funds space.

Further opening the door to retail investors

Parts of the amendments fit perfectly into the wider international trend commonly referred to as the retailisation (or democratisation) of alternative investment funds. In essence, this trend (including legislative and regulatory developments) brings investment opportunities previously only available to institutional investors to retail investors. A significant step forward in this process was the recent revamping of existing EU ELTIF legislation relaunching the structure with greater flexibility, lower entry barriers and relaxed investment rules. This summer's Luxembourg investment funds modernisation brings additional positive steps along that path:

The new rules lower the entry ticket for retail "well-informed investors" who wish to invest in Specialised Investment Funds (SIFs) or Reserved Alternative Investment Funds (RAIFs) EUR 100,000 (instead of previously EUR 125,000).

An important adjustment has also been made to the possibility to market RAIFs to well-informed investors on Luxembourg ground. While in the past this was not possible, the new legislation allows RAIFs to be sold to Luxembourg-domiciled well-informed investors that are not institutional or professional investors.

Part II SICAV funds rules have been revised in that the available corporate forms have been massively enlarged, thus bringing greater flexibility to the choice of sponsors structuring Part II funds. In addition to an SA (public limited company), sponsors can now chose further corporate forms notably including SCA (partnership limited by shares), SCS (common limited partnership) and SCSp (special limited partnership). The addition of these new corporate forms reflects the needs of financial sponsors to use partnership type structures that ensure (amongst others) the ring fencing of unlimited liability and allow them to align the governance of their Part II funds with their institutional products.

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> **"The new rules lower the entry ticket for retail "well-informed investors" who wish to invest in Specialised Investment Funds (SIFs) or Reserved Alternative Investment Funds (RAIFs) to EUR 100,000 (instead of previously EUR 125,000)."**
>
> Silke Bernard

Pragmatically reflecting market needs for fund launches

Further revisions include extending the time limit for raising the minimum regulatory capital to 12 months for Part II funds and 24 months for Specialised Investment Funds (SIFs), SICARs and Reserved Alternative Investment Funds (RAIF). These changes reduce the market pressure when launching alternative funds especially with a long fund raising and investment periods.

Depositary and reporting

Other amendments relate to the rules around the depositary termination notice period and the issue and redemption of shares during a period where no depositary is appointed.

Special focus on SICARs: greater flexibility

Most of the above revisions, extending time limits, to the depositary notice period and a reduction in the minimum threshold, also apply to SICARs, bringing them more consistently in line with the rules applicable to SIFs. This is particularly notable in delegation rules and the redemption of units. Special grandfathering rules for existing SICARs allow for a streamlined process to adhere to the updated rules.

Tax exemptions

Another highly attractive change is that the modernisation law also brings interesting a whole range of tax exemptions. Luxembourg has very successfully established itself as "the go-to" country for launching European Long-Term Investment Funds (ELTIFs). The Luxembourg legislator has now given another argument to sponsors wishing to opt for Luxembourg as a domicile of their ELTIFs: all ELTIFs, regardless of which regulatory regime or legal form they chose, will benefit from an exemption from the Luxembourg subscription tax. Likewise, pan-European personal pension products (PEPPs) will be subscription-tax exempt and certain money market funds will be able to benefit from a reduced subscription tax or be fully exempt if certain conditions are met.

Marketing: tied agents

The modernisation law also recognises the institute of tied agents as an option for marketing investment funds, thus offering additional opportunities to bring products to the market.

Other technical amendments

The modernisation law also includes a number of further technical amendments such as relating to liquidations and reporting to the regulator, or the valuation and issuance of shares by closed-ended Part II funds at a price other than NAV. Also, some inadequate formalities have been abolished such as the need for a notary deed to confirm a RAIF establishment where such establishment had already taken the form of a notary deed itself.

A new era built on a traditional foundation

The new rulebook entered into force at the end of July 2023. Significant developments in the alternative investment landscape lie ahead with Luxembourg focused on updating its toolbox in line with market needs and growing demand for retail investors to harness the opportunities of long-term investment projects. The new rulebook contains many important changes and improvements to the way investment funds can operate with greater flexibility and accessibility at its heart. Meanwhile, as Luxembourg ushers in a bright new modern era for alternative funds, the country's long-established reputation for solid investor protection remains unchanged. ●

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By **George Ralph,**
Global Managing Director & CRO at RFA

Michael Horvath,
Partner - Regulatory Advisor at PwC

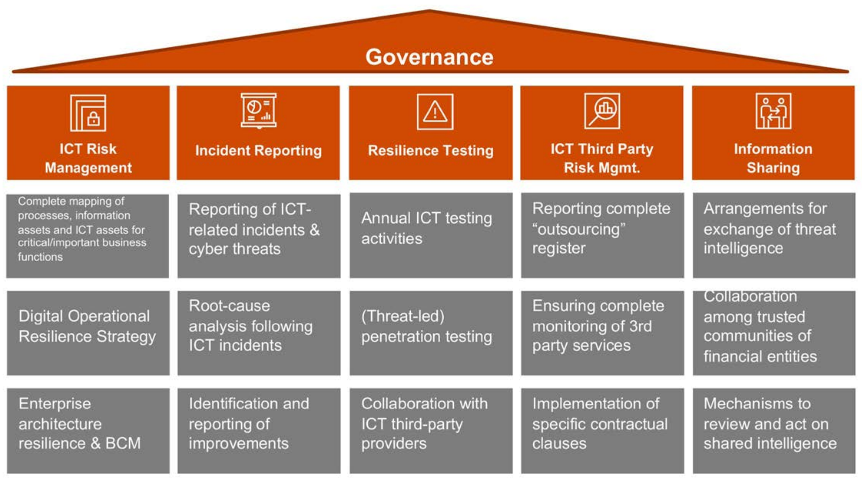
Vojtech Volf,
Manager at PwC

And **Olivier Carre,**
Deputy Managing Partner, Technology & Transformation Leader at PwC

The EU's Digital Operational Resilience Act for Private Equity Managers

What do you Need to Know and why is it Relevant to your Business?

Today, information and communication technology (ICT) plays a vital role in the Private Equity industry and the volume of data processed increases daily – with no end in sight. Alternative Investment Fund Managers have been largely unscathed by regulations that addressed digital operational resilience with respect to services provided and regulatory compliance, so far. This will change with the EU's Digital Operational Resilience Act ("DORA").



As of January 2025, around 22,000 EU regulated financial entities (e.g., banks, insurance companies, management companies, AIFMs, PSF [expected]) will be required to comply with uniform, regulatory standards that have two main objectives:

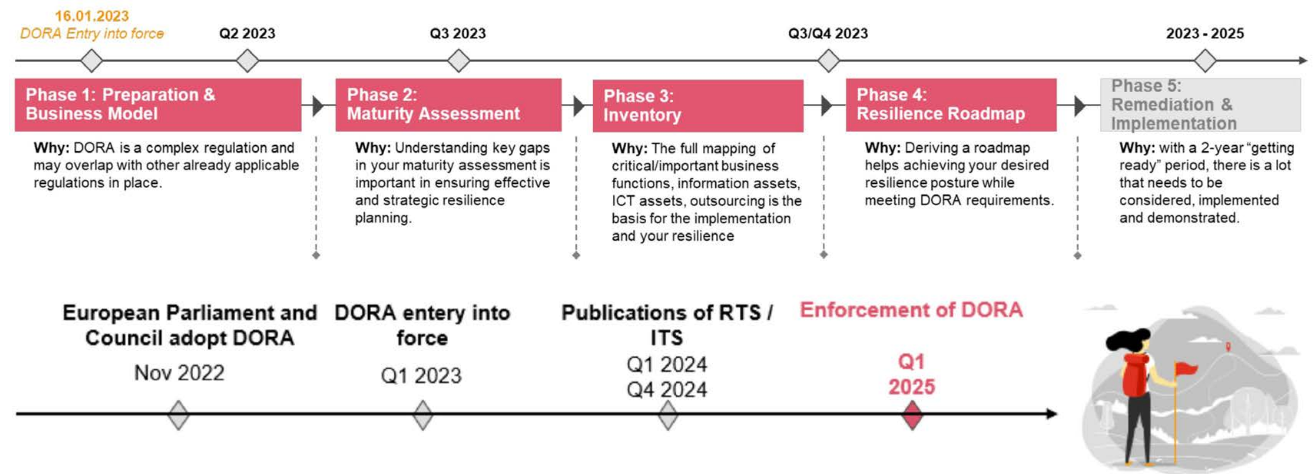
- In-scope entities will be required to build, assure, and review their operational integrity to ensure the continued provision of its financial services and their quality, including throughout disruptions; and
- Limit the risk of contagion within the EU financial system by prescribing a harmonised, minimum standard of digital operational resilience.

Why is this relevant to your business?

Operational resilience will become a key requirement in the due diligence on any business relationship and investment in the EU. ICT matters have always been of importance, but with DORA the resilience is extended to the interlinkage between business functions, ICT assets (IT tools), information assets (data), and the network/communications (e.g., cloud). As such, a Private Equity manager will be subject to DORA due diligence, as well as exercising DORA due diligence (including cyber resilience as required by EU directive EU 2022/2555, for a high, common level of cybersecurity across the Union) on investment companies and counterparties. DORA becomes a relevant investment risk or value driver, depending on the outcome of the due diligence.

What topics does DORA cover?

DORA establishes a sleeve of new topics for AIFMs as detailed below. Specifically, the expectation for skills and expertise, involvement and understanding of ICT at a local (management) level is highlighted in the Governance requirements detailed by DORA. The establishment of a new 2nd line control function for operational ICT risk is one of those requirements.



> **"We recommend starting in 2023, as some of the foundations that are required to implement a successful DORA project will require significant lead time, as well as business decisions on the service and business model set-up."**
>
> George Ralph

What is the expectation of the CSSF?

The CSSF has already been very active in this area and has issued a dedicated DORA readiness questionnaire to a sizeable number of Luxembourg regulated financial entities, which they were required to respond to by the end of June 2023.

The CSSF requested information with respect to the following topics:

- Level of awareness with respect to DORA
- Results of any gap analysis with respect to DORA (if already performed; if not, when is it planned)
- Challenges expected with respect to DORA implementation
- Budget and resources allocated for DORA implementation
- Level of readiness for each of the DORA topics (1 – 5).

DORA enters into force in January 2025 – how should you start?

DORA is an all-encompassing regulation that will challenge every organisation to its core. We recommend the following approach to our clients:

We recommend starting in 2023, as some of the foundations that are required to implement a successful DORA project will require significant lead time, as well as business decisions on the service and business model set-up.

ICT Assets and Resilience

Practically speaking, digital operational resilience means that in the world of finance, it's not enough for financial organisations to just protect themselves; they must now actively withstand disruptions, incidents, and cyberattacks. DORA focuses on ensuring the reliability and trustworthiness of financial services even when things go wrong. It's about safeguarding assets like data, software, and hardware, but it's more than that. DORA shifts the perspective; defence isn't the goal, it's about achieving resilience in the face of challenges.

As such, in-scope entities have to not only protect their Servers, Cloud Systems, and Endpoints; they must also focus more on protecting their data. This is critical in the wave of public cloud systems, data synchronisation services, and the shift to edge technology solutions.

At RFA we focus on pro-actively protecting the User Data, the Device, and the User Behaviour to ensure these standards are not only met but exceeded. But in-scope entities will need to evidence this; no longer just with reporting, but in the above-mentioned toolsets and structures, in the form of risk management strategies within these sitting policies, procedures, protocols and tools.

The structure and framework that firms implement will also need to be updated annually, showing third party supervisory controls and procedures, or more frequently if there is a major change or an ICT-related incident. ●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By **Antonis Anastasiou,**
Head of Product Development
at Alter Domus

The Retailisation of Alternative Funds

How the need for enhanced returns and the search for new avenues to raise capital has reshaped the alternative market dynamics.

2022 has been a difficult year for capital raising for PE funds showing a decline of 11% in comparison to the 2021 all-time high, according to Preqin data. This has been due to the decrease of LP commitments and Institutional investors reducing their exposure by approximately 3%. Interestingly, a new market has been forming by private individuals and wealth managers demand for diversification and higher returns. As such, GPs and Managers have been forced to seek fresh means of accessing capital to support new vintages.

Mix into this dynamic new regulatory enhancements which have enabled the creation of "Hybrid Funds". These are effectively the traditional alternative fund strategies we know however incorporating open-ended features and accepting retail investors. This 'retailization' of alternative funds is a term now widely utilized within the industry.

These favourable regulatory adaptations can be a game-changer. For instance, the European Long Term Investment Fund 2 regulation ("ELTIF 2.0") has been met with positive reactions from both investors and managers.

The new regulatory landscape and ELTIF 2.0

The adoption of the new regime in Europe was completed in April 2023 and comes into force in January 2024. This will replace the existing ELTIF regulation, which has struggled to find its place within the structuring toolbox of Fund Managers as a viable solution. Similar adoptions can also be seen in the rest of the world with the Financial Conduct Authority (FCA) developing the open ended LTAF funds, and in the US defining "accredited investors" which enables certain investors with a level of sophistication warranting a reduced need for protection to invest in alternative products.

The original regime however failed to obtain significant traction with only 83 funds launched. This was predominantly driven by the high level of restrictions which reduced the flexibility that alternative strategies need to flourish.

The much-anticipated ELTIF 2.0 regime has taken a step in the right direction by making it a more attractive vehicle for addressing the "retail market" for alternative asset managers. Key impacts on the PE world include:

- Funds can now be structured as open-ended Funds with a minimum annual subscription and redemption opportunity
- The removal of the 10 million minimum value threshold for eligible real assets; opening up investment opportunities
- The minimum threshold for investments into eligible assets has also been reduced from 70% to 55%

From busy to blissful

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- It's now possible to invest into other EU AIFs and not just other ELTIFs hence liquidity management can also be addressed through AIFs with similar strategies to manage the liquidity requirements
- Rules on distribution have enabled the use of a marketing passport across the EU and now allow for retail investors (additional restrictions apply if purely marketed to retail investors)

These "Hybrid Model" setups will require a shift in mentality and operations for both service providers and asset managers:

For Administrators this will require a variety of tools that are able to manage funds with open ended features which were primarily associated to the UCITS world. Additionally, there is a need for systems that can handle portfolio accounting for both illiquid and liquid assets.

For Depositories, the retail regime is geared towards optimal protection of the investors, insofar that only Banks can operate as Depositary for the ELTIF 2.0. This will open the road for specialized banks who will need to blend liquid and illiquid setups together to manage these hybrid funds.

For asset managers there will also be a steep learning curve in managing investors with liquidity requirements that PE firms are unfamiliar with. This could lead to the need for restricted redemptions, highlighting the complexity of incorporating such liquidity measures into their portfolio.

> **"The much-anticipated ELTIF 2.0 regime has taken a step in the right direction by making it a more attractive vehicle for addressing the 'retail market' for alternative asset managers."**
>
> Antonis Anastasiou

With these challenges comes the added value that such structures benefit:

1) GPs/Managers by paving the road to new distribution channels reaching both Private and Professional investors and

2) Pension and retail savings funds seeking diversification and better returns in an asset class which initially could have been out of scope.

The looming AIFMD 2.0 could however incorporate new limitations, but as of now the ELTIF 2.0 has been branded by many as the new UCITS for Alternative Funds.

The Luxembourg advantage and where we go from here

The success that Luxembourg has had over the last 30 years has undoubtedly enabled the country to become one of the most established Fund domiciles globally. The initial drive for this success was through the retail funds world in UCITS. The adoption of the AIFMD in 2013 has opened the space for alternative managers to replicate their strategies and develop a market for professional and institutional investors as well. This has further solidified Luxembourg as the go-to country for the launch and management of Funds. The level of stability, history and services available in Luxembourg also makes it a prime mover in the domicile of these new Hybrid ELTIF 2.0 Funds. It offers both the regulatory supervision and comfort for investors as well as a plethora of established names in service providers which have adapted over the years to meet clients' and investors' needs.

Additionally, within its own structuring toolbox, Luxembourg already has the approved UCI Part II Funds (17 Dec 2010 Law). These funds offer eligibility in all types of assets, however, distribution can only be to professional investors but could accept any type of investor into the fund. In theory, therefore, retail investors could also enter the fund.

With a broader product line and willingness to service these type of hybrid funds as shown by the adoption of the original ELTIF regime, Luxembourg clearly places itself as the primary location for the development of the ELTIF 2.0 Funds. This is further enhanced with a booming retail and alternative offering, a successful history, readily available staff, and first-class service providers. Ultimately, it has the expertise for the development and success of the retailisation of the alternative Fund Industry. ●

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By **François Masquelier,**
CEO of Simply Treasury

and **Vincent Marchand,**
Head, Innovative Business (Tech) Partnerships,
Cash Management Competence Center at BNP Paribas

Treasury Management of Spin-off and Carve-outs

No one could contest that there are an increasing number of spin offs over last years, with groups refocusing on core businesses. Private Equity investors have revolutionised the M&A business, often with a precise goal of an IPO in a near future. Carve-out businesses rapidly need a fully professional standalone treasury organisation. Setting up a dedicated skilled team and IT systems, with standalone financing arrangements within tight deadlines is key.

Increasing number of spin offs

Over last years, we have noticed a significant upsurge of corporate spin off operations. This trend is predicted to continue as businesses continue to face increasing competitive pressures and shareholder activism. Multinational companies tend to realign their portfolios and re-focusing on core activities to generate (more) growth, or to create more market capitalisation by simply dividing businesses in parts. In such a context, treasurers are often requested to organise the decoupling of the sold asset with the mother-company in a smooth manner.

Treasury organisation, the missing piece...

When we talk about carve-outs, the Newco's treasury is seldom considered or organised. This needs to be contemplated prior to the disposal to make it successful. By planning a post-sale solution, CFO's (of sell-side) can optimise the price paid. There are 2 ways: (1) digital and treasury autonomy implemented (often no one has time and resources to do it) or (2) recourse to a Treasury as a Service solution (TaaS) to enable decoupling (it is even more important in case they keep shareholding in asset sold). We must ensure its best financial and treasury management. If a company sells one asset, it will never transfer part of its treasury team to the disposed asset, nor the treasury IT licenses.

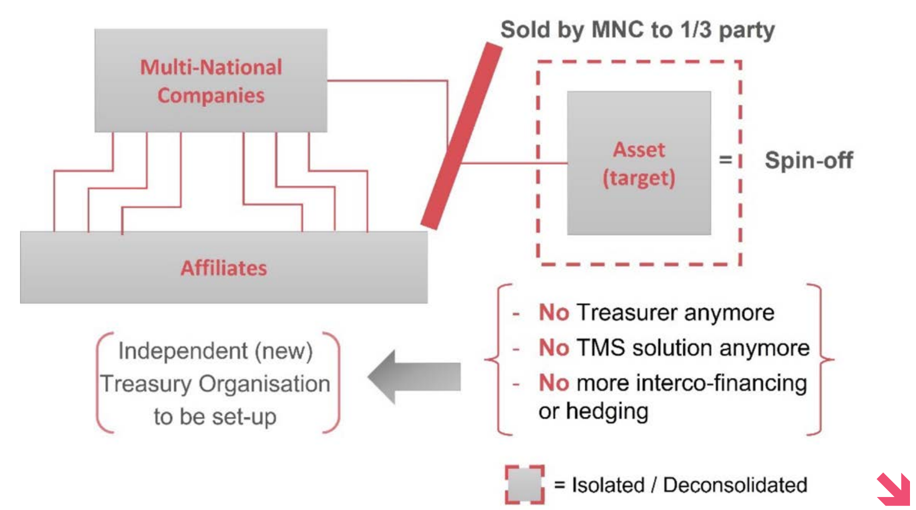
Treasury management of Newcos

From a treasury perspective, the essence of a carve-out is that the business being separated needs a fully functional and standalone treasury operation upon decoupling. It means setting up a fully dedicated and skilled team, best practices processes, appropriate IT systems, own bank accounts and standalone financing arrangements. One of the major problems is the limited amount of time teams have to reorganise a Newco. Deadlines and timing could be tight as an IPO is in the ultimate objective pursued by PE shareholders.

Solutions (if any) for a successful carve-out

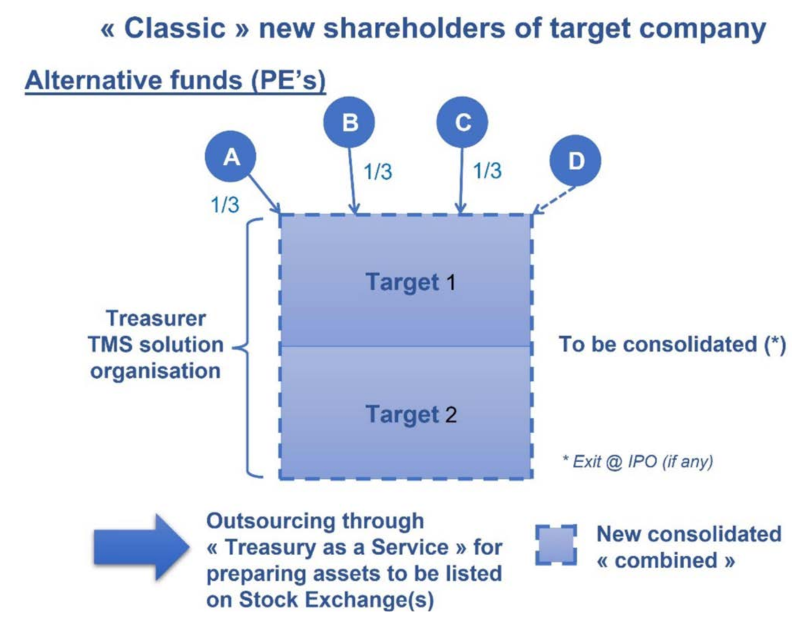
There is no recipe or standardised approach for such projects. In case of disentanglement operations, some classic issues always come back. CFO's could help acquirers with standard processes in place and strategies, or potential ways to outsource (or even in-source the Newco).

What « spin-off » means for treasury



Some advice:

- Definition of clear objectives (before negotiations).
- Design a treasury core model with third-party provider for spun-off companies.
- Form a treasury project organisation addressing all relevant functional areas or define it with experts.
- Contemplate cross-functional alignments with the other relevant stakeholders (e.g., Finance, Tax, Legal, IT) and manage critical interdependencies.
- Remain practical and set-up future structure to be in position to decouple operations as of day of sale/carve-out.



Key steps in case of carve-outs:

A. Plan the way you will decouple treasury activities to make the cut the fastest and safest as possible. The strategy may pass through a third-party outsourcing solution. These solutions can be used for acquired assets and for management of the Manco's own treasury operations. Ideally, everyone would love to copy-paste existing organisation. However, it is impossible technically and legally speaking. Once spun off, no one from the sale-side is ready to keep working for a third-party asset. Although temporary recourse to current IT tools can be considered, it is in practice difficult as the IT vendor must give consent or seller be ready to pay additional maintenance fees. Not only will the tools be cut, the central treasury team will no longer be available either.

B. Design future treasury operating model. The future core model must be defined with acquirer to avoid any hole. It will be the acquirers' duty to define the new organisation. Nevertheless, it is also the best interest of seller to make sure decoupling will be prepared. All these post-disposal logistic issues must be aligned with buyer to make it efficient. It remains a case-by-case strategy. Having a third-party solution may be well-appreciated by acquirer to ensure an interim period and then prepare future organisation. In some cases, the seller remains (partly) shareholder of the spin-off and may have an interest in maintaining a certain amount of control. In a JV, it may be also considered and decided, prior to the deal execution.

C. Forming a treasury project team is recommended to address all issues, avoid problems, and post deal complains by acquirer. Depending on the strategy, the design of the project may differ. The major issues are around: intercompany outstanding transactions, unwinding of financial instruments, external financing post-disposal.

D. Ensure cross-functional alignment with the other relevant finance departments and management of critical interdependencies. For example, incorporations of new legal entities, which may require opening of bank accounts, KYC procedures, implementing liquidity structures, and setting up of credit facilities, etc... The configuration of treasury systems by IT is the most critical issue. Tax department should provide treasury with clear guidance from on how assets and liabilities will be transferred to the spin-off company. This post-disposal organisation is part of the after-sale services sellers should consider carefully.

E. No one has time to implement the most optimal solution. Therefore, remain pragmatic and try to make it as easy as possible for the acquirer. The project is already challenging enough, without adding further complications. If well-organized and thought out, the seller can position itself for a successful deal. Given the time constraints, lack of resources, complexities of some situations and diversity of cases, recourse to a third-party solution may be a smart idea. An experienced external partner proposing a well-tested solution (and it exists) may be a crucial element for success. Successful spin-offs always contemplate treasury pre-deal.

To best position spinoff companies, sellers can certainly help negotiations by proposing solutions to make treasury transition smooth(er). It would be easy to claim that it is no longer your problem. A good deal includes these key financial decoupling elements, and treasury remains the most important factor. Outsourcing the interim phase before having time to set up a real comprehensive treasury organisation may help sell and buy-sides. If you want your spin-offs to succeed, create comprehensive roadmaps, establish project structure and execution, have recourse to a specialist to ensure the interim period without disrupting treasury management, consider the future, even if you are selling. By having a treasury vision and embracing best practices you increase your chances of a successful deal. Ensure that you incorporate best practices and capabilities by engaging your banks and technology providers. At the end of the day, the ultimate objective of spinning off is to separate from the parent company, including its legal entities, systems, and processes and to stop wasting the mother-company teams' time. Often a clean break is not possible. Therefore, a transition solution is recommended to avoid disrupting operations. As these types of situations will increase over time, recourse to a third-party treasury solution should be contemplated for successful carve-out from both sides. ●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By **Sheril James,**
CSR and Communications
Manager at APEX

The Shifting Landscape of Diversity and Inclusion in the Financial Services Industry

The financial services industry has witnessed a seismic shift in its approach to diversity and inclusion. Financial firms, previously dominated by a homogenous workforce, are now responding to changing client demographics, and promoting meaningful inclusion, diversity, and equity in a variety of forms.

The benefits of diverse teams are well documented in terms of decision-making and financial performance and have prompted a significant change in attitude. Companies are conscious that a diverse talent pool leads to a wider range of perspectives, ideas, and solutions, which ultimately translates into better outcomes for both clients and investors.

With equality gaining momentum across various sectors, gender diversity has become a focal point in the financial services. While progress has been made, there is still a long way to go to achieve true parity.

Empowering women in finance

Women have been historically underrepresented in finance leadership, but the journey to success is not merely about reaching the C-suite - it's about dismantling the barriers that impede progress for women much earlier in their careers.

To address this challenge, it's essential to mend the broken rungs on the ladder of progression. When we discuss gender diversity, it's easy to focus on the lack of women in the highest echelons of leadership. However, the real issue lies deeper in the career hierarchy as the percentage of women decreases as they ascend the corporate ladder. In 2017, the SKEMA Business School Observatory looked at female representation in 71 banks across 20 countries. The report found that women average only 38% of middle managers and 16% of executive leaders. Lack of representation is evident throughout the entire financial services sector, and it is why Apex Group launched its Women's Accelerator Program in 2022.

Businesses are actively committed to addressing this gender disparity by launching developmental initiatives for women. These programs seek to bolster female progression and diversity at all levels. Building a more equitable workforce involves nurturing talent from the ground-up. Such initiatives equip high performing female employees with the skills and tools necessary to advance in their careers.

The impact of these initiatives extends beyond skill development, it fosters a community of support and empowerment. Supportive networks are instrumental in breaking down the isolation that can hinder women's advancement.

> "Luxembourg, as a global financial hub, has demonstrated a strong commitment to gender parity. Recent statistics reveal significant strides in reducing the gender gap."
>
> Sheril James

Luxembourg's journey to gender parity

Luxembourg, as a global financial hub, has demonstrated a strong commitment to gender parity. Recent statistics reveal significant strides in reducing the gender gap. Government policies, including paid parental leave and childcare support, have encouraged women's participation in the workforce. Financial institutions in Luxembourg are embracing diversity and inclusivity, creating an environment conducive to women's career advancement.

According to PwC's Channel Islands Women in Work Index 2023, Luxembourg is at the top of the Index with the lowest gender pay gap in OECD countries.

On International Women's Day this year, the Luxembourg Women in Finance Charter was launched under the patronage of the Ministry of Finance. By signing the charter, financial institutions highlight their ambition to make the financial hub more inclusive and encourage representation of women at all levels.

With more than 60,000 women and men employed in the financial sector and related services, the financial services industry is one of the largest employers in the country and therefore plays a critical role in improving gender diversity.

Other initiatives

Internal mobility: Internal mobility is gaining fresh momentum. These initiatives aim to create an inclusive workplace where employees are empowered to explore various roles within the business, regardless of their background, gender, or ethnicity.

Internal mobility initiatives challenge the conventional hierarchical structure by allowing employees to move between departments and teams. This not only breaks down silos but also promotes collaboration and knowledge sharing across diverse groups.

Leadership commitment: Visible support from top leadership is crucial. Companies with senior executives advocating for diversity and inclusion tend to be more successful in fostering an inclusive culture.

Mentorship programs: Establishing mentorship and sponsorship initiatives can help underrepresented groups navigate their career paths and provide them with guidance and opportunities for advancement.

Transparency and accountability: Companies, including Apex Group in its inaugural Sustainability Report, are publishing diversity and inclusion metrics, signaling their commitment to progress and holding themselves accountable for achieving their goals.

Challenges and the road ahead

The financial services industry, while making strides in the realm of diversity and inclusion, still faces significant challenges on the path towards true equity.

The road ahead requires sustained commitment from financial institutions. Developing a comprehensive diversity and inclusion strategy, regularly measuring progress, and getting a buy-in from leadership are some of the essential steps, while collaboration among industry players and sharing best practices can foster collective advancement.

Championing and advancing diversity is not a one-time effort; it requires continuous commitment and investment to ensure long-term sustainability.

The finance industry is actively progressing towards diversity and inclusion with women's empowerment being a vital aspect of this transformation. The strides made by developmental gender initiatives underscore the importance of nurturing existing female talent and fostering equity in progression, thereby reshaping the industry for a more inclusive future.

As we move forward, sustained efforts, policies, and collective action will be pivotal in achieving true equality and inclusivity within the financial services industry and beyond. ●

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By **Allen Foley,**
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and **Anabela Lourenço,**
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More Than Just Service Providers: The Integral Role of iNEDs in Luxembourg's Private Equity Sector

Luxembourg's diverse population of independent Non-Executive Directors contributes to a local thriving private equity sector. In this environment, these directors play a crucial role in enhancing fund governance and driving strategic alignment. They bring professional expertise, an international perspective, and a commitment to continuous learning that positions Luxembourg as a hub for cutting-edge financial expertise.

Since the 2008 financial crisis, the role of iNEDs has significantly evolved. Year on year regulatory scrutiny has intensified, demanding more from these directors in terms of oversight and risk management. Financial expertise has become crucial, enabling iNEDs to scrutinise complex financial strategies effectively. The crisis also highlighted the importance of ethics and culture, placing iNEDs at the forefront of promoting ethical behavior. Board diversity has been emphasised, fostering better decision-making, and reducing groupthink.

The evolving role of iNEDs in Luxembourg goes beyond regulatory matters. They make significant contributions to areas such as risk management, tax governance, compliance, cybersecurity, environmental, social, and governance (ESG) considerations, and Sustainable Finance Disclosure Regulation (SFDR). Through specialised training workshops and groups, like the LPEA iNED club, iNEDs continually expand their knowledge base, adapt to regulation, evolving markets, and actively contribute to strategic development. This inherent commitment synergistically strengthens Luxembourg's competitive edge in the private equity landscape.

Furthermore, iNEDs bring a wealth of experience and expertise in various fields. Their insights and advice, based on past experiences, prove particularly beneficial for private equity funds investing in sectors where directors have specific expertise. This knowledge guides investment strategies and decision-making processes, leading to more informed and effective outcomes.

Unbiased governance and risk oversight

The core governance responsibility of these directors in a private equity fund is to provide impartial supervision and to constructively question the fund's operations and decisions. They offer an unbiased perspective to the board, scrutinising the fund's strategy and performance. By developing this insight they ensure that decisions are made in the best interest of all stakeholders, not just the fund managers. iNEDs play a vital role in aligning and balancing multiple interests within a private equity fund.

Consequently, the inclusion of iNEDs significantly enhances and balances the overall governance structure of a private equity fund. Their objective perspectives ensure compliance with regulatory requirements and adherence to best practices in corporate governance. Given Luxembourg's stringent regulatory environment, the role of iNEDs in upholding governance standards is particularly crucial.

Moreover risk management is an area where iNEDs also play a pivotal role. Their fresh perspective on risk factors, which may be overlooked by those deeply involved in day-to-day operations, is instrumental in identifying and managing risks effectively. This proactive approach helps prevent potential pitfalls and ensures the long-term stability of the fund. Specifically, iNEDs' active involvement in sound tax governance can contribute to potential cost efficiencies and facilitate smoother interactions with tax authorities.

> **“iNEDs fresh perspective on risk factors, which may be overlooked by those deeply involved in day-to-day operations, is instrumental in identifying and managing risks effectively.”**

Enhanced credibility, trust, and stakeholders' dynamics

In addition to their governance and risk oversight role, iNEDs bring valuable networks and relationships to a private equity fund. These connections can open new opportunities, such as access to potential deals, partnerships, or resources. In a competitive private equity landscape, these networks provide a significant advantage to funds.

Overall, the inclusion of highly qualified iNEDs in a private equity fund's board can markedly strengthen the fund's reputation, thus potentially serving as a key determinant in an investor-led Request for Proposal (RFP) process. This heightened reputation attracts investors and may serve as an influential factor in capital raising. In a sector where trust and credibility are paramount, the role of iNEDs in enhancing a fund's reputation cannot be overstated.

In managing investor relations, the role of iNEDs is also pivotal. They provide reassurance to investors regarding governance and oversight and act as a point of contact for investor concerns. This function is crucial in maintaining investor confidence and ensuring smooth investor relations.

Given their pivotal role in supporting investor relations and ensuring robust governance balancing the interests of all parties involved is another critical function of iNEDs. They ensure that the perspectives of investors, fund managers and portfolio companies are all considered in decision-making processes. This is especially important when managing risk, as different parties may have varying risk tolerances and perspectives on the best course of action.

In line with this responsibility, iNEDs provide independent oversight of performance reporting in a private equity fund. They ensure the accurate and transparent representation of the portfolio's performance, preventing any misrepresentation that could mislead investors or stakeholders.

When situations of disagreement or conflict arise between investors, fund managers and portfolio companies, iNEDs can act as neutral parties to help resolve the issue. They facilitate discussions, mediate disputes, and seek resolutions that serve the best interest of the entire fund. By acting as impartial arbitrators, iNEDs help build trust between all parties. This trust and cooperation are particularly valuable in situations involving risk, where collective efforts are crucial.

Laying foundations for long term success

During the launch of a new fund, iNEDs can offer invaluable leadership and guidance. With their experience and broad skill set, they provide insights in strategic planning, regulatory compliance, stakeholder communication and operational setup.

In particular, iNEDs can play a crucial role in setting up the operational aspects of a fund. They can help select and appoint service providers such as administrators, custodians, and auditors. Acting as go-betweens, iNEDs facilitate communication among lawyers, administrators, regulators, and alternative investment fund managers (AIFMs), ensuring alignment and timely completion of tasks. This role is particularly important during the early stages of a fund's life, where coordination and relationship management are paramount.

The involvement of iNEDs at an early stage can set the foundation for long-term success. Beyond the initial fund launch phase, their vigilant supervision over service providers, coupled with their constructive critiques, aids in upholding a high standard of service throughout the fund's lifespan.

Distinctive features of Luxembourg's iNEDs

The unique qualifications of Luxembourg iNEDs, along with their continually adapting skillset in line with changing regulation and needs, and their pivotal role in fostering relationships between fund stakeholders

"The community of iNEDs in Luxembourg is arguably a differentiating feature that elevates the global appeal of Luxembourg as a jurisdiction for setting up new PE structures."

are aligned to the specific characteristics of Luxembourg. This alignment accentuates Luxembourg's appeal as a preferred jurisdiction for establishing PE funds.

A key differentiator is the ability of these directors to navigate the country's complex and ever-changing regulations, which enables AIFMs to capitalise on Luxembourg's status as a gateway to European markets for fundraising and investments. Furthermore, Luxembourg's position as the world's second-largest hub for investment funds has endowed its iNEDs with extensive industry knowledge, covering a broad spectrum of investment strategies, including the most recent and innovative ones.

As a community they also possess a best-in-class risk and crisis management experience, thanks to the variety of strategies, Luxembourg's longstanding position as a leader in the fund management industry and its iNEDs strong collaborative networks.

Luxembourg's iNEDs also boast a multicultural understanding and global business networks, enriched by the country's multicultural environment, which is ideal for cross-border investment strategies and global investment operations. The country's position as a leading European hub for digital innovation and fintech has also enhanced the digital literacy of its iNEDs. In addition, Luxembourg's pioneering role in ESG investing standards has provided its iNEDs with a strong understanding of these issues.

Additionally, the benefit of Luxembourg's close-knit business community enables its iNEDs to effectively engage with a wide range of stakeholders, providing AIFMs with a comprehensive experience in a wide spectrum of Fund related matters covering, inter alia, legal, administration, risk, operations, banking services, investment, and audit. Finally, the multicultural nature of Luxembourg and its diverse INED pool further enhance an AIFM's ability to build a truly diverse and inclusive board, thereby further strengthening its decision-making prowess.

Consequently, it is evident that iNEDs contribute significantly to the governance of a PE fund, bringing a wealth of diverse skills and unique professional perspectives. Their independence of thought ensures that their advice is both honest and insightful, delivered with a level of personal engagement that further reinforces their value. This combination of expertise and integrity is instrumental in promoting and upholding governance standards within the context of their mandate.

As the financial landscape evolves, the iNED community in Luxembourg continues to adapt well to the changing needs of Boards. Beyond strategic and business development, there is now a growing emphasis on regulatory matters and risk management, and many forms of reporting to investors and regulators alike. This adaptability extends to a focus on diversity and inclusion, aligning the iNED community with modern corporate expectations.

As the scope of their responsibilities extends beyond internal governance, iNEDs can play a crucial external role. They aim to navigate complexities, occasionally influencing investor relations, while generally taking a more passive approach and responding to specific challenges or actions as needed.

The community of iNEDs in Luxembourg is arguably a differentiating feature that elevates the global appeal of Luxembourg as a jurisdiction for setting up new PE structures. This comparative advantage can be utilised by PE fund managers to appoint boards that are genuinely diverse and experienced, providing significant added value in the form of compliance, risk management, operational and functional expertise, international experience, and cultural awareness.

iNEDs in Luxembourg are not merely a regulatory requirement but a strategic asset, playing an indispensable role in shaping the success and integrity of private equity funds. Their presence signifies a commitment to excellence that is aligned with the high standards of the Luxembourg financial center. ●

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By **Eric Marchand,**
Managing Partner at Collyer Capital

Perspectives on Singapore and the Broader ASEAN Market

Singapore, a city state with a population of 5.6+ million and one of the highest incomes levels globally at USD 82,808 of GDP per capita, stands at the epicentre of the Association of South East Asian Nations (ASEAN) as a beacon of successful development, compliance to the rule of law and thriving business and trade. Recent geopolitical events and the pandemic have accelerated its secular increase in significance within Asia-Pacific, even globally, driven by Singapore's inherent attractiveness as a financial and business hub but also by its geographic location. This well-run economy and state sits in the middle of the world's fifth largest economic bloc with hugely promising GPD growth prospects at 4+% per annum on average until 2030. It is therefore interesting to look at Singapore as a hub on a standalone basis but also within a broader regional context and how the two combine to catalyse the ASEAN opportunity.

Singapore is fast becoming Asia-Pacific's global hub…

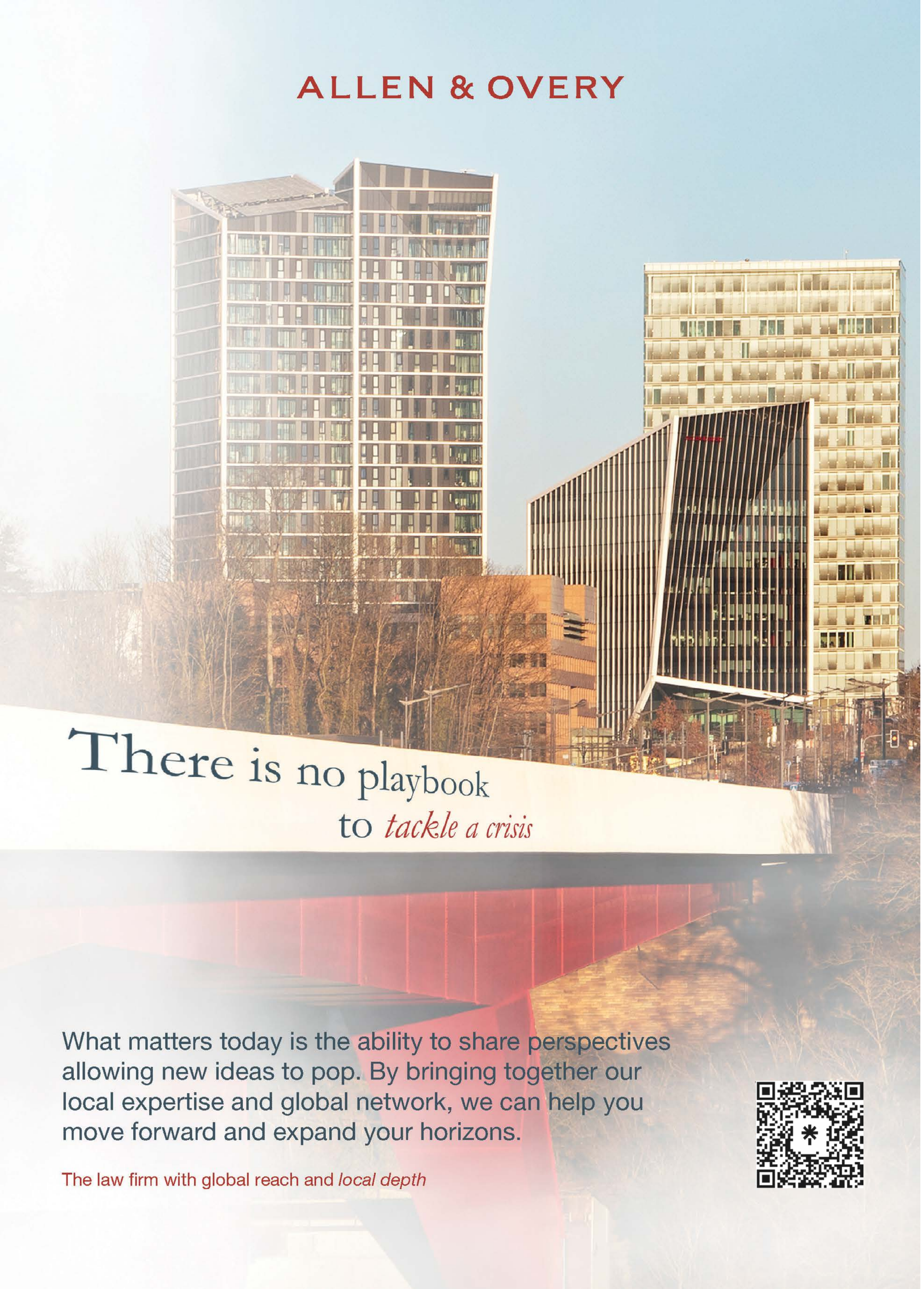
Its location at a maritime crossroads being Singapore's only real "natural resource", business and trade have historically been a bedrock of its economy. The country has significantly accelerated its development since independence, basing its success on attracting global businesses to its shores. It kickstarted by growing as an industrial centre then progressively climbing the curve and becoming a technology-driven services and advanced manufacturing economy. A growing number of companies across sectors now have their ASEAN, Asia-Pacific and/or global headquarters here.

Singapore's financial services sector has truly progressed over the last two decades, increasing in relevance versus Hong Kong. Leveraging on Singapore's tax and business-friendly reputation, the government and its regulator, the Money Authority of Singapore (MAS), have built a solid local ecosystem based on global best practices, the latest example of which is the launch in 2020 of Variable Capital Companies (VCC). These umbrella fund/sub-fund structures are admittedly a leaf taken out of Luxembourg's book and have been a huge success.

Over the years, on a standalone basis, Singapore has been orchestrating its rise to prominence as a global business and finance hub, recently accelerated by geopolitics currently at play. That said, its biggest opportunity may lie in its location once again, but this time more regionally, as the gateway to ASEAN.

…but its role and place in ASEAN may be the biggest asset…

ASEAN's attractive GDP growth forecasts, expected at 4+% per annum until 2030, are only topped by India. Although



recent supply-chain rebalancing away from China has further enhanced its manufacturing sector's secular growth, the macroeconomic story is dominated by domestic consumption upgrade and growth.

The ASEAN-6[1]'s young population (under 30's) exceeds 280 million, larger than the equivalent US and European demographics combined. In addition, this population will benefit from rising incomes expected to grow by 75+% on average by 2027 versus 2017 (excluding Singapore), thus growing the ranks of an ASEAN-6 middle class which should exceed 350 million by 2030. By then, it will be larger than the entire US population, yet only 50% of ASEAN's.

Granted, this "emerging middle class" narrative may cynically sound like a broken record to many experienced investors, however, the region's fundamentals may paint a different story this time. Compared to its developed market peers, ASEAN now seems geopolitically uneventful. An outspoken politician has come and gone in Manilla, Thailand has experienced a couple of military coups over the last decade, yet their economies remained largely unaffected. Looking closer at various ASEAN-6 economic and development indicators, inflationary pressures were contained, government debt levels remain healthy at 69% of GDP, ease of doing business is improving and currencies have been stable on a relative basis.

This optimistic picture of ASEAN's rise in global significance should not make investors blind to its intricacies and potential pitfalls, but Singapore's role as a gateway contributes to providing a viable and trustworthy access point to these complex markets.

> **"Over the years, on a standalone basis, Singapore has been orchestrating its rise to prominence as a global business and finance hub, recently accelerated by geopolitics currently at play."**
>
> Eric Marchand

… by catalysing access to growing but complex markets

ASEAN is more diverse than Europe on many standards (religions, cultures, development levels, currencies…). It comprises one of the wealthiest countries in the world but at the same time some of the poorest, therefore approaching it as a monolithic opportunity and risk set is ill-advised. At this juncture, looking at the regional investment opportunity, it is mostly constrained to the ASEAN-6, more frontier markets need to develop further before becoming truly relevant.

ASEAN's private equity market has been experiencing healthy growth, reaching USD 49 billion in 2021 with a limited penetration at only 2+% of GDP, hence the opportunity set will likely expand further. However, historical hindsight should help avoid throwing caution to the wind. Analysis ran across 2000 to 2018 vintage ASEAN-focused funds revealed that median performance was indeed strong at 18.9% net IRR but came with notable volatility at a 27.1% standard deviation, versus 15.5% and 15.7% respectively for European-focused funds over the same period. There are reasons to believe ASEAN's improving market fundamentals and business environment should have a long-term moderating effect on volatility, however, it is also sensible to assume that a diversified and balanced investment approach should deliver strong returns while significantly mitigating volatility.

Operating and structuring deals through Singapore, under its jurisdiction, can also naturally alleviate some risks as its arbitrations are recognised across the region but mitigation may come in more practical ways. ASEAN abounds with successful family-run businesses, and some of the larger ones control large swathes of its various economies, as such, they would generally have significant assets and business interests in Singapore. When investing across ASEAN, business and market risk may still lie within the various countries companies operate in, yet, counterparty risk may be lower by virtue of transactions being structured via Singapore.

By combining as a regional hub for deal structuring and wealth/asset management, Singapore uniquely contributes to reducing transactional risks in the emerging markets surrounding it. This region's already improving real risk / return arbitrage may therefore be more compelling than is perceived from the outside.

Conclusion

ASEAN, like any other emerging market, has its obvious attractions and subtle risks, yet there is general and specific cause for optimism. Firstly, data and events seem to support that ASEAN is at a critical juncture, ready to thrive as an economic force and investment destination, like China was well over a decade ago. In that context, Singapore's distinctive features provide an optimised risk-adjusting window into this region's broader opportunity set, which may indeed catalyse interest in ASEAN. ●

1. ASEAN-6 countries are Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.


By **Andrea Montresori,**
Co-Chair
PwC


And **Arnaud Bon,**
Co-Chair
Deloitte

LPEA

Central Intelligence Committee

At the origin

Since its inception, our technical committee has had different names, Intelligence, Market Intelligence, but we eventually settled for Central Intelligence Committee (CIC). Andrea inherited the co-chair seat from Marteen Verjans (PWC) in 2019 and Arnaud joined in September 2019 as the other co-chair. 2019 also saw the reshuffling of the group due to increasing volume of projects we took on and the growing size of the LPEA – we therefore increased the size of our ranks.

Who

The committee is now composed of seasoned professionals, including Nicolas Gauzes (Linklaters), and Sebastian Binard (Arendt) - our legal pillar - Alban Aubree (EY) & Mickael Tabart (KPMG) who supports us with audit and accounting framework, while Anthony Lorrain (La Lux) and Robert Steinmetzer (EIB) are our window on the investor's world. Veronika Zukova (Société Générale) and Claudio Pompei (BCEE) complete the team by sharing their banking and servicing insights. The group is now looking for pure PE & VC profiles that could feed our debates with first hand market knowledge.

What

Our mission statement has never changed: bringing specificities and trends of the PE&VC market space to the management of the LPEA and the market itself. We want to provide our community with relevant market knowledge so they can keep working at their best.
Our goal is to explore the market, understand the background and anticipate future trends. We use all tools available to make this possible.

How

Our signature work is the GP Survey, which captures the mood of the General Partners population in Luxembourg. As a qualitative-focused survey, it allows the association to identify trends and capture future opportunities for Luxembourg. In our Survey, you may see how Luxembourg is reinforcing its leading position as an alternative fund location.

Furthermore, as 2023 is an election year, the CIC wanted to gather data and make it available to decision makers to best plan for their strategy. To avoid launching an isolated initiative (and frustrating potential respondents) we took the opportunity to build bridges among market participants and lined up all four major investment management associations (L3A, ALFI, LuxReal, LPEA) to take the pulse of the market. We are happy to have federated the industry on common objectives and goals: making Luxembourg more competitive.
Our collaborative approach also applies within the LPEA, where we helped other technical committees to gather and analyse data relevant to their core activity.

When & how to apply

The CIC meets monthly but collaborates daily on a wide array of projects. ●

If you are interested in joining fill in the application form on the LPEA website https://lpea.lu/membership.

LPEA COMMITTEE FOCUS

"Our signature work is the GP survey, which captures the mood of the General Partners population in Luxembourg."


Andrea Montresori
Co-Chair
PwC


Arnaud Bon
Co-Chair
Deloitte


Alban Aubree
EY


Anthony Lorrain
La Lux


Nicolas Gauzes
Linklaters


Robert Steinmetzer
EIB


Sebastian Binard
Arendt


Mickael Tabart
KPMG

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Veronika Zukova
Société Générale


Claudio Pompei
BCEE

Conference *GPs and LPs perspectives in 2023: new approach(es) in a new market cycle?* Hosted by KPMG.

Mathieu Perfetti (Threestones Capital), Sébastien Sallee (CAIA Luxembourg), Martine Kerschenmeyer (Advent International), Matthieu Broquere (Cedrus & Partners) and Marc Sallet (Cathedral Advice) at the conference *GPs and LPs perspectives in 2023: new approach(es) in a new market cycle?*

Killian Lonergan (BBH), Edward Smith (Schroders Capital), Alexandre Hector (KPMG) and Tom Slocock (iCapital) at the *Luxembourg Private Equity Networking Cocktail in London.*

Andrew Ritchie (BBH), Alexandre Hector (KPMG) and Edward Smith (Schroders Capital) at the *Luxembourg Private Equity Networking Cocktail in London.*

Sophie Boulanger (KMPG), Viktoria Dimitrova (Arendt), Oliver Hoor (ATOZ) and Macide Candan (Elvinger Hoss Prussen) at the conference *Fund management services in the focus of transfer pricing: How to get it right?*

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AGM 2023

Claus Mansfeldt, President of the LPEA.

Stephane Pesch, CEO of the LPEA.

Robert Van Kerkhoff welcoming LPEA Members to BNP Paribas' Office.

Maria Karekla (Arendt), Goretti Negueruela (Pandoo) & Enkela Kosturi (Alter Domus).

Patrick Kersten (Startup.lu), Philippe Augustin (BGL BNP Paribas), Anna Gassner (Luther).

Luis Galveias (LPEA) & Valerie Tixier (PwC).

Olivier Wuidar (Van Campen Liem), Marcel Müller-Marbach (EIF), Patrick Mischo (Allen & Overy) & Tülin Tokatli (Pitch Me First).

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INSIGHT/OUT #27

LPEA Summer Party

Stephane Pesch (LPEA) and Claude de Raismes (Wendel Luxembourg)

Ian Atkinson (Governance.com), Jonathan Prince (Finologee), Alex Lawrence (Titanbay), Neil Scoble (Cascade) and Darren Robinson (Anderson Wise)

Nicolas Gauzes (Linklaters), Quentin Dupraz (Ilavska Vuillermoz Capital), Antoine Legros Saint-Jalm (Saint-Jalm Consulting) and Bertrand Manhe (Genii Capital)

SNeil Scoble (Cascade), Ekaterina Lebedeva & Merve Kirca (Loyens & Loeff) and Maciej Waloszyk (Cascade)

Wayne Zhan (IEE International Electronics & Engineering), Amanda Yeung (EY) and Jean-Luc Neyens (Link Fund Solutions)

Raphaël Eber (BDO), Kelly Anckenmann (Fuchs), Laura Totaro (Quintet), Ann Elisabeth Johnsen (Quintet) and Maxime Mathis (Quintet)

Oliver Benner (BIL)

Nairi Tarakdjian (LuxFlag), Judith Schleder (Silicon), Katerina Panayotova (APEX), Evi Gkini & Joana Barreiro (LPEA)

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LPEA Networking Cocktail at IPEM Paris

Rodrigo Delcourt (Arendt)

Petya Dimitrova (Atoz)

Georges Eischen, Ministre Conseiller, Chef de Mission adjoint, Luxembourg Embassy in Paris

Benoit Moulin (Domos FS), Mickael Tabart & Alexandre Hector (KPMG)

Amelia Rosenberg (Advent International), Paolo Gesess (United Ventures) & Martine Kerschenmeyer (Advent International)

Benoit Moulin (Domos FS)

© Photos: Julia Fihman

About LPEA

The Luxembourg Private Equity and Venture Capital Association (LPEA) is the most trusted and relevant representative body of Private Equity and Venture Capital practitioners with a presence in Luxembourg.
Created in 2010 by a leading group of Private Equity and Venture Capital players in Luxembourg, with 486 members today, LPEA plays a leading role locally, actively promoting PE and VC in Luxembourg.
LPEA provides a dynamic and interactive platform which helps investors and advisors to navigate through the latest trends in the industry.
International by nature, the association allows members to network, exchange experience, expand their knowledge and grow professionally, attending workshops and trainings held on a regular basis.
If Luxembourg is your location of choice for Private Equity, LPEA is your choice to achieve outstanding results.
LPEA's mission towards its members is to represent and promote the interest of Private Equity and Venture Capital ("PE") players based in Luxembourg and abroad.
LPEA's mission towards Luxembourg is to support government and private initiatives to enhance the attractiveness of Luxembourg as an international hub for carrying out PE business and/or servicing the PE/VC industry in all its dimensions.
In summary, LPEA is the go-to platform where PE practitioners can share knowledge, network and get updated on the latest trends in the industry across the value chain.

Executive Committee


Claus Mansfeldt
President
LPEA


Hans-Jürgen Schmitz
Vice-President
Mangrove


Nick Tabone
Vice-President
Deloitte


Eckart Vogler
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Expon


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Giuliano Bidoli
Member
BC Partners


Stephane Pesch
CEO
LPEA

Technical Committees

Legal
- AML
- AIFMD
- Corporate Law
- YPEL
- CMU
- Un/Regulated Funds
- Financing In PE

Tax
- YPEL
- VAT

Market Practice & Operations
- Risk Management

Central Intelligence
Fund Administration
Promotion Sounding Board
PE/VC Depositary Services
Pre-Marketing & Distribution

Clubs

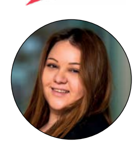
ESG
Private Equity For Women (PE4W)
Venture Capital
Large Buyout
Single Family Offices (SFO)
Wealth Management
Human Resources (HR)
Insurance
Corporate Venture Capital (CVC)
PE Tech
Independent and Non-executive Directors
Chief Financial Officer
Infrastructure
Private Debt

LPEA Team

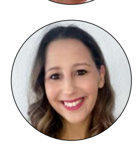

Stephane Pesch
Chief Executive Officer


Luis Galveias
Chief Operating Officer

Kheira Mahmoudi
Executive Office, Governance & Operations


Evi Gkini
Head of Business Development and Project Management


Johann Herz
Head of Events and Communications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Marketing & Events Officer

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Value Partners has been awarded as one of the 2022 Luxembourg Best Workplaces by the Great Place To Work Institute.
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