

CAPITAL

The magazine of the Luxembourg Private Equity & Venture Capital Association

LPEA 

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Paymill, Spotcap, Zencap

ROCKING THE FINTECH WORLD

Finance Minister Pierre
Gramegna: "We believe in a
level playing field"

The world of Luxembourg
sparkling wines



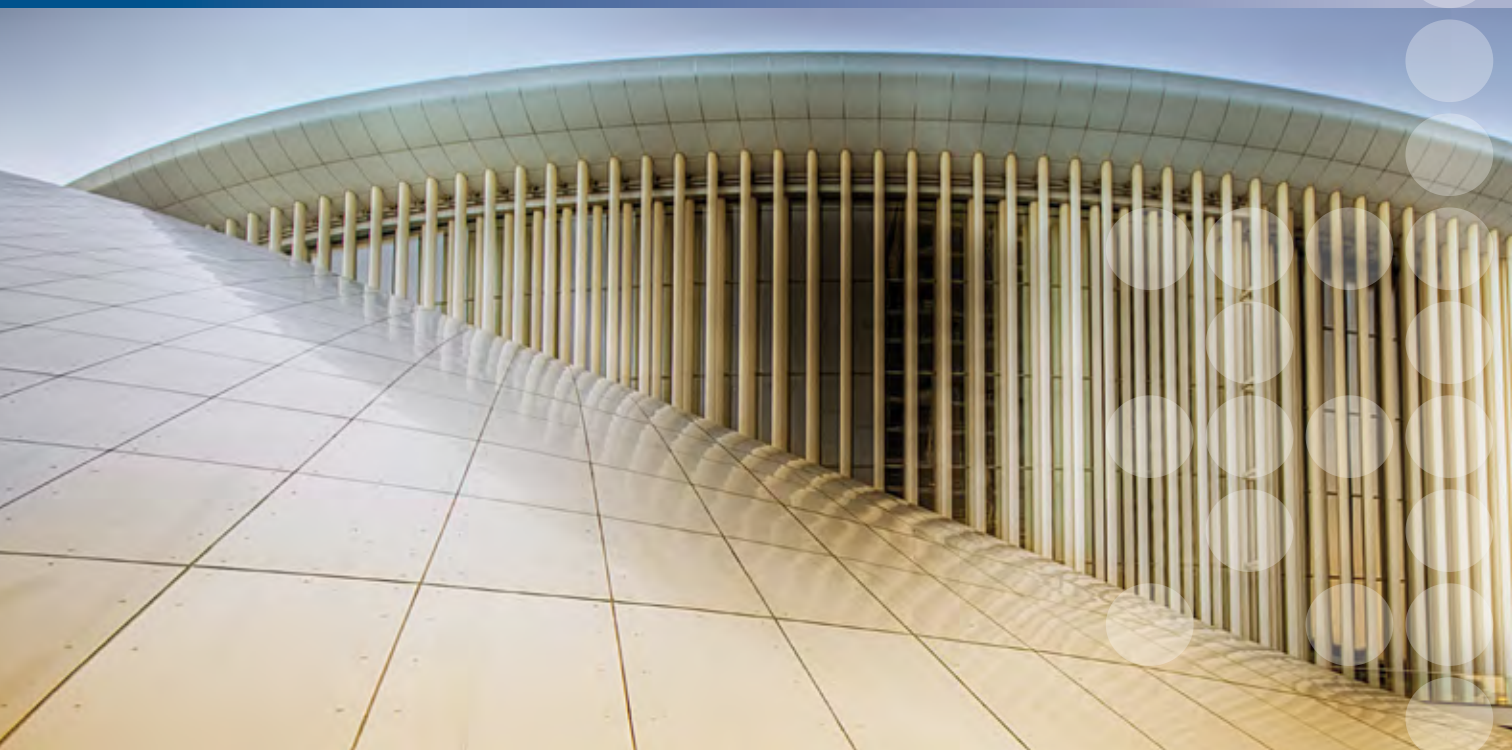
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**THE MAGAZINE OF THE LUXEMBOURG
PRIVATE EQUITY & VENTURE CAPITAL
ASSOCIATION**

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5. Editorial by Jérôme Wittamer and Paul Junck
7. Interview with Finance Minister Pierre Gramegna: “We believe in a level playing field”
10. How is the Luxembourg Presidency impacting business?
11. The future is now
13. Towers of strength and prosperity
14. EIF: a major player in the European Private Debt market
16. Turnaround with angel wings
18. Cover Story: Rocket Internet, Rocking the FinTech world
22. Why Spain is the hot spot for PE and VC investments
23. Regulatory and Tax, how Luxembourg allows US managers to kill two birds with one stone
26. A new gateway to farming: Crossroads of diversity
30. Bernard Massard and the world of sparkling wines
33. About LPEA
34. Event's Calendar

REBRANDING



LPEA'S NEW LOOK

In our previous issue, on the occasion of the celebration of LPEA's 5th anniversary, the association's President Jérôme Wittamer highlighted the progress already achieved by LPEA "from an idea to a reference". His words emerged from LPEA's strategy exercise which reflected the members' views on the association and produced guidelines for the coming years.

With the future in mind and a broad new chapter ahead of us, LPEA decided to convey a new branding which ultimately better reflects the association's constituency and goals which we now present to you.

As from September 2015, LPEA is represented by a new logo and a new set of colours and graphical tools. The rebranding keeps "LPEA" as the nomen-

clature of the association but changes its format to a more straight forward lettering. At the same time we introduce a pictogram which in its red and pink tones reflects the youth and audacity of a young association as much as the risk-taking attitude of the sector. While at first the square pictogram may resemble an arrow focusing on the unity of LPEA, if you look more closely you will notice different building blocks that represent the stakeholders of the association and the different services we can find in Luxembourg's private equity and venture capital "tool box".

The rebranding is the result of a half-year-long development accomplished by LPEA's Promotion Committee and Executive Committee with the expertise of the communication agency Mediation.

DEAR PRIVATE EQUITY PROFESSIONALS,

In this 6th edition of Capital V we bring you the views of three entrepreneurs from a sector that is pointed out by many as the way forward to Luxembourg: Fintech.

Given the need for diversification the country faces, Fintech is seen by many as the end result of Luxembourg's many useful features: very high-speed internet, secured data centres and a unique Financial sector's know how.

Are we ready for the shift in mindset that this will imply? Will the more traditional practices welcome this new world? If we want to continue to be a leader in finance, the answer must be "yes".

LPEA is also changing! Along with the celebration of our 5th anniversary, we are rolling out a new logo that represents our positioning and Luxembourg's PE/VC toolbox.

Enjoy the reading.

Cordially,

Jérôme Wittamer, Chairman
Paul Junck, Managing Director

Luxembourg Private Equity
& Venture Capital Association





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Finance Minister Pierre Gramegna

“WE BELIEVE IN A LEVEL PLAYING FIELD”

PIERRE GRAMEGNA SAYS LUXEMBOURG IS ON THE WAY BACK TO A BALANCED BUDGET, WANTS A LEVEL PLAYING FIELD ON TAX, AND IS A PERFECT TEST BED FOR FINANCIAL TECHNOLOGY.

What is the state of the national budget following the VAT rate changes?

Overall the situation is satisfactory. The effects of the ‘future package’ (“Zukunftspak”) measures start to be felt, as the IMF has just confirmed in its recent report. We are on track to return to a balanced budget for the central government by 2018, while maintaining one of the highest levels of investment in Europe – it will grow by 15% this year to nearly €2bn. And the growth trend is not restricted to investment; overall —

INTERVIEW

— state expenditure will increase by an average of 4% a year between 2014 and 2018. As regards VAT, rate adjustments were necessary to compensate in part for the expected loss of revenue from VAT on e-commerce, which is estimated at around €700m for the current year. However, let's not forget there hasn't been any across-the-board increase. The 3% rate on food and other basic necessities as well as books, medicine and cultural events still applies, and our rates remain the lowest in Europe.

Why has Luxembourg been singled out for criticism of its tax rulings?

I think this is no longer the case. At first we were subject to scathing media accusations based on documents stolen from a Luxembourg company. If the theft had taken place somewhere else, it would have been another country in the firing line. We needed to make a big effort to explain that tax rulings are not unique to Luxembourg – they are a well-established practice in most countries. Now the European Commission is looking at how tax rulings are established in all EU member states, while the OECD is working on a proposed global legal framework for business taxation. Luxembourg is actively contributing to these efforts because we believe in a level playing field where the same rules apply to everyone. Meanwhile, Luxembourg's progress on fiscal transparency, an area in which we have been subject to attacks, is widely recognised by our partners, even if old stereotypes die hard, especially for certain media. All we can do is continue our efforts to restore the country's positive brand image.

How will Luxembourg position itself in the new European and international tax environment?

Luxembourg isn't, and has never been, a tax haven – in 2013 the government's tax take was 39.3% of GDP – but we have always maintained a competitive tax framework to attract companies and enable them to grow. Upholding and indeed improving the competitiveness of our businesses is a prime aim of our

planned tax reform. Successive Luxembourg governments have manifested their commitment to fair tax competition between the countries because it's the only way of preventing a negative spiral of continuing and excessive increases in tax rates. As part of this commitment, Luxembourg is actively involved in the OECD-sponsored initiative on base erosion and profit shifting, which seeks to establish common rules that would implement a level playing field on a worldwide basis.

However, I should stress that the tax regime has only ever been one element among many that attract businesses to Luxembourg. Other factors, including political and economic stability, long-term planning, high-quality infrastructure, a flexible and responsive administrative system, a legal framework that responds to the requirements of the economy, the availability of a skilled multilingual workforce and the country's ideal geographical location are just as important.

How important for Luxembourg is the confirmation of its AAA credit rating?

The AAA rating is a guarantee of stability, a seal of approval shared with very few countries around the world, and thus a significant competitive advantage. The AAA rating highlights the strength of our public finances and investor confidence in Luxembourg's economy, and promises the creation of new jobs in the years to come.

What added value does Luxembourg offer Fintech companies such as Amazon, Rakuten, PayPal, Alibaba and eBay?

I have made the development of the financial technology sector one of my priorities. It already accounts for 150 companies and more than 10,000 jobs in Luxembourg, and its growth potential is enormous. Luxembourg benefits from an infrastructure that few if any of its competitors can match. Companies can find here some of the most efficient data centres in the world, a well calibrated legal framework, and a real ecosystem





“Luxembourg isn’t, and has never been, a tax haven, but **we have always offered companies a competitive tax framework.”**

Pierre Gramegna,
Finance Minister

at their disposal including specialist service providers, a network of nearby research centres, incubators and financing. In addition, our established financial industry offers an ideal research and development environment with hundreds of potential clients.

Could Fintech companies become competition for the traditional financial sector?

It’s interesting to see e-commerce specialists such as Rakuten obtaining a banking licence and launching activities, but I see them complementing rather than competing with established players. Traditional financial institutions cannot ignore the digital revolution and will have to adapt, and Fintech providers have an important role to play in helping our financial industry to diversify its offerings.

Article published in Duke 05 in September 2015

MORE INFORMATION

www.myofficialstory.com/pierregramegna
www.mf.public.lu

HOW IS THE LUXEMBOURG PRESIDENCY IMPACTING BUSINESS?

During the second semester of 2015, Luxembourg took over the Presidency of the Council of the European Union from Latvia. Despite not being a legislating institution, the European Council plays a critical role in Europe by setting the policy agenda and by adopting “conclusions” which identify issues of concern and actions to take. It is therefore worthwhile to highlight the policies that Luxembourg has put on the agenda for such a critical period for the EU.

Amid a slow recovery from an economic crisis, the rise of euro-scepticism and the more recent challenge of thousands of illegal migrants, it is no surprise that Luxembourg aims at focusing its mandate on bringing back the citizens – and their voice, to the core of the European project.

Given the inherent subject of Capital V – private equity and venture capital, we have highlighted below the main areas where Europe and its Council Presidency will be working towards a stronger economy:

➤ European Investment Plan

The so-called “Juncker Plan” is set to invest €315 billion during a period of 3 years starting in 2015. The initiative targets the real economy and aims at creating an investment friendly environment. The plan seeks to overcome current market failures by addressing market gaps and mobilising private investment towards innovation and risk finance for SMEs. Investors, notably private equity players, are invited to join project co-financing, on a risk-sharing basis with



the European Investment Bank and the European Investment Fund.

➤ Capital Markets Union (CMU)

The CMU, an important element in the Investment Plan, aims at creating deeper and more integrated capital markets. The initiative is intended to reduce the fragmentation in financial markets, diversify financing sources, strengthen cross border capital flows and improve access to finance for businesses, particularly SMEs. This is to be achieved by removing barriers to cross border investment, simplifying access to public markets and improving risk capital, notably for SMEs. Overall, the European Commission expects to make markets work more effectively, linking investors to those who need funding more efficient and less costly, both within Member States and cross-border.

➤ The Transatlantic Trade and Investment Partnership (TTIP)

The free trade agreement currently under negotiation is estimated to impact the European economy with an annual

growth of €119 billion (on average €500 per household) and is therefore perceived as a “free” growth package for Europe. TTIP will make it easier to invest across the Atlantic and overall will impact businesses at the competition level through lower custom duties and less restrictions on standards and regulations. While the discussions around the TTIP are expected to intensify in the second semester, the Luxembourg presidency plays an important role in the sensitive debate of the Investor-state dispute settlement (ISDS) and in the implementation of further transparency to the negotiations.

In addition to the policies above, the Luxembourg Presidency of the European Council has already made clear its commitment to focus on policies against fraud and tax evasion in the context of the developments led by the OECD and the G20. Such policies will contribute to greater transparency and establishing a level playing field for all.

THE FUTURE IS NOW

LAUNCH OF THE NEW LUXEMBOURG FUTURE FUND

After an initial announcement in 2012, the Luxembourg Future Fund (LFF) was finally launched on 20 April 2015.

The €150 million fund, designed to invest in businesses intended to shape the future of Luxembourg, is subscribed by SNCI - Société Nationale de Crédit et d'Investissement contributing €120m and by the EIF - European Investment Fund acting as Advisor bringing in the remaining €30m.

The fund, targeted towards innovative SMEs from early to growth stages in domains such as ICT and Cleantech, is composed of three different sub-funds which will (1) co-invest with other VC funds, (2) co-invest with business angels and family offices and (3) fund other funds financing the envisaged target group.

EIF's experience with an extensive net-

work of VC funds across Europe is expected to be a major source of deal flow for the LFF.

The international approach of the fund is well aligned with EIF's privileged pan-European overview. With circa 250 funds under management and a team of some 30 investment professionals most of whom are based in Luxembourg, EIF is certainly in a good position to recommend the programme to all those looking for a welcoming spot, e.g. in the ICT and Cleantech domains.

One of the specificities of the LFF is that it cannot invest in companies already established in Luxembourg.

The goal of the fund is to bring international spillover to Luxembourg by investing in businesses which aim to either

settle in Luxembourg (eg. open an office, develop a research centre) or to sign long term partnerships with key actors of the Luxembourg innovation ecosystem.

In addition to the inflow of new funds to SMEs, the local venture capital industry may well also benefit from the LFF.

Usually claiming a limited local deal flow, the programme will foster the development of new business activities in Luxembourg and bring over new fast-growing companies which may well turn into desirable investment opportunities.

The LFF is initially designed to be deployed during the next 5 years and is foreseen to be renewed if shown to be successful as experienced by the EIF in other countries. First investments are expected before the year-end.





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TOWERS OF STRENGTH AND PROSPERITY

IHS - TOWERS OF STRENGTH, MAY CERTAINLY BE ONE OF THE MOST VISIBLE INVESTMENTS OF LUXEMBOURG PRIVATE EQUITY IN AFRICA. AT LEAST IF WE CONSIDER THE COMPANY IS RESHAPING THE LANDSCAPE BY BUILDING AND MANAGING TELECOMMUNICATION TOWERS ACROSS THE CONTINENT.

Currently operating in Nigeria, Ivory Coast, Cameroon, Zambia and Rwanda, IHS provides shared towers to the growing mobile communications business in Africa, servicing major operators such as MTN, Orange or Etisalat. Growth has been fast. Since its inception 15 years ago, the company built over 25,000 towers (most in Nigeria), hired 1,000 engineers and has brought US\$5bn of investment into the continent.

In 2014, IHS's turnover reached US\$315m with an Ebitda of about US\$100m. The number of towers built by the company has continued to grow in 2014 to support the increasing need of infrastructure in Africa.

Those investments have been financed by a US\$2bn capital increase, the largest funding raised by an African company since 2010. The round was led by Wendel - represented in Luxembourg by Winvest Conseil, LPEA member, alongside IHS's shareholders, who are major financial institutions active in economic development and top-tier private equity companies. Among these are Emerging Capital Partners, the leader in private equity in Africa, IFC, part of the World Bank group and Investec. In addition, Wendel brought together four US and European family investors, including

Sofina Private Equity and Luxempart, both LPEA members, to invest alongside it in IHS.

IHS's business is in the core of the long-term trends that make Africa a strong growth region for telecom infrastructure: economic and demographic growth,

71% cell phone penetration rate and rapid modernization of mobile internet services. An opportunity that is now being explored by Luxembourg, the country which first sent communication into space and is now building telecommunication towers in Africa.



EIF: A MAJOR PLAYER IN THE EUROPEAN PRIVATE DEBT MARKET

INTERVIEW WITH JEAN-PHILIPPE BURCKLEN, HEAD OF EQUITY FUND INVESTMENTS

The European Investment Fund (EIF) is Europe's main provider of risk financing for small and medium sized enterprise (SMEs) and Mid-Caps. EIF delivers sources of funding including equity, debt and microfinance via financial intermediaries. EIF's shareholders are the European Investment Bank (EIB), the European Commission (EC) and public and private financial institutions. This combination of public and private shareholding gives EIF a dual focus: to support EU policy objectives, while acting as a market-oriented institution that delivers appropriate return on capital.

We met Jean-Philippe Burcklen who has been Head of Equity Fund Investments at EIF since September 2000. Burcklen oversees the lower mid-market activity and is responsible for investments and portfolio in private equity, mezzanine and debt funds including co-investments in companies, a new activity at EIF.

Burcklen and his team were instrumental in the creation in 2009 of the €1bn (doubled in 2013) Mezzanine Facility for Growth (MFG) programme funded by the EIB. Additionally in 2015, they have been mandated to manage a new programme funded by the EIB that focuses on investments in senior loan funds with a view to address the credit needs of SMEs and Mid-Caps in Europe.

We know EIF's involvement in supporting SMEs by investing into Private Equity funds. Could you explain why EIF is now turning to the Private Debt market?

Private Debt is not something new for EIF and we cannot limit our action in the Private Debt market to this new pro-

gramme even if it is extremely important and will have a major impact on and further improve the access to finance of SMEs.

First, EIF's guarantee and securitisation activity has been crucial for the debt market and has indirectly helped supporting hundreds of thousands of European companies.

In parallel, on the equity side, EIF, arguably the biggest fund-of-Venture Capital funds in Europe started developing a significant role in supporting European growth capital funds from 2003. Alongside the traditional instruments of the growth capital Private Equity industry, the need for different instruments expanding the support to SMEs and Mid-Caps soon emerge. Specifically I am referring to those companies or groups owned by shareholders that are not willing, for various reasons, to lose their influence or control, or not ready to welcome a significant external shareholder, or managers willing to take (or strengthen) their control. Hybrid debt/equity instruments proved to be an ideal response to this market need. However, even if deriving from the traditional convertible bonds often implemented by PE players, these products were also requiring strong "credit expertise" as they targeted investee companies with mid-to-low growth rate and limited default affordable. For the EIB Group (EIF and the EIB), these products were also representing an interesting alternative way of deploying less equity for the same impact, while keeping pure equity only for where strictly necessary. In addition another market need emerged for "technology mezzanine" or "venture debt" also perceived as a very effective funding source for high growth techno-

logy companies when injection of equity is not strictly financially required.

It seems however that EIF's Private Debt activity has intensified over the last 5 or 6 years:

Yes, for the reasons given above and particularly since 2009 when we launched the MFG programme, as an answer to the financial crisis of 2008, which clearly evidenced the undercapitalisation of the European SMEs and the need for significant equity and quasi-equity injections.

This programme helped a number of mezzanine players affected by the significant reduction of the volumes of deals sponsored by an equity fund to refocus and re-orientate their strategy towards more sponsor-less transactions. The programme attracted in 2011-2012 the interest of the German government that was at the time seeking solutions to address the forthcoming wall of maturity of the mezzanine platforms loans that was expected in 2014-2017.

We have thus been active in the private (junior) debt market for six years now and have backed more than 45 fund managers with commitments exceeding €1.6bn.

This shows that EIF is constantly analysing the need of its underlying markets, always trying to anticipate these needs, and then in close cooperation with our stakeholders (mainly the EIB and the EC) to help design and deploy new programmes and mandates.

The further development in 2015 of our Private Debt strategy with a new programme funded by the EIB and designed for funds distributing primarily senior debt to SMEs and Mid-Caps is another

example of our constant evolution. Beyond the difference in risk (from junior debt to senior debt) this new programme also allows us to work differently, associating our guarantee & securitisation team for high granularity (diversified) strategies and our PE team for low granularity (selective) strategies.

We are currently finalising our first deals, which have been approved by our Board of Directors and should be signed during the coming weeks.

So, this “senior debt funds” strategy appears to be more of an evolution, rather than a revolution, building on the convergence of our PE and guarantee businesses. We have identified 50 to 60 general partners (GPs) providing debt funds to SMEs in Europe with interesting deal flows. We want to make sure that SMEs and Mid-Caps have access to loan facilities that are not always easy to access through banks. Credit institutions are still very active in financing good risks and large corporations but seem to have less appetite for the low end of the mid-market.

EIF does not have as such a banking licence, is it an issue per se?

EIF does not distribute credit directly, but acts as a Limited Partner (LP) in a fund managed by a GP. As LP, EIF does not need a banking licence. The situation is different for GPs when it comes to loan distribution. Depending on the jurisdiction, this activity can be subject to all kinds of regulatory requirements even in some cases having banking license or working in collaboration with banks. The differences in local regulatory environments have generated different approaches (e.g. secondary acquisition in France, SPVs in Luxembourg, Minibonds in Italy, etc).

How should this move to the Private Debt market be read with the Capital Market Union initiative?

For EIF, the harmonisation of the legal and regulatory frameworks across Europe is key for an efficient roll-out of

our products (equity and debt). The development of a functioning EU ecosystem for SMEs and Mid-Caps seeking access to finance in VC and PE is one of the pillars of our action, targeting the stimulation of the activity of VC/PE firms and extending the reach of financial instruments to companies currently left without adequate access to finance.

When we decide on a new investment, it always has to be measured (beyond its expected performance) in terms of added value summarised by three criteria: market need, structuring input and catalytic impact. With its growing activity in Private Debt, EIF directly contributes to the Capital Market Union with additional and more diversified funding mobilised, with an accelerated dissemination of best-market-practice, with new operations under senior loan funds and the involvement of non-bank lenders. Simultaneously EIF modulates its action on the various EU countries overweighting those countries where the access to finance for SMEs and Mid-Caps is more difficult.

Are there any specific differences between the two asset classes in terms of expected returns, risk management, investment follow-up?

Clearly expected returns in Private Equity and Private Debt are not in the same range. Private Debt returns are expected (gross IRR) in the 5-6% range without equity kicker and reaching 8-10% with equity kicker. Two obvious consequences of such levels of return are the difficulty to properly address the “alignment of interest between LPs and GP” which is a key dogma in Private Equity, and the sensitivity of the global performance to a non performing investment is very high and a debt fund manager cannot afford to record too many defaults. In such a context we have to adjust our due diligence process and insist more on topics such as the selection process, track record, credit skill set and motivation of the investment team, without forgetting some Private Equity expertise in case the fund benefits from some equity kicker as well.



Jean-Philippe Burcklen,
Head of Equity Fund
Investments.

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Finally, we know that EIF is a European institution embracing the whole European market. But based in Luxembourg, you have maybe some thoughts on how Luxembourg is performing on the debt fund market. What comment would you have on their current position?

There is still a lot of progress to be made to improve the fund infrastructure in Europe. Access for new GPs for example is a key issue, so working around an easy toolbox is crucial. Luxembourg has developed a number of good scalable tools for the investment community. I was recently surprised to see an English Limited Partnership managed by a Luxembourg GP, notably because the procedure to obtain the passport was quicker in Luxembourg!

Interview by Alexandre Prost-Gargoz, Co-chair of LPEA's Promotion Committee and Partner of Deloitte.

TURNAROUND WITH ANGEL WINGS

INTERVIEW WITH JEAN-YVES HERGOTT, BUSINESS ANGEL AND ENTREPRENEUR, WHO HAS RECENTLY LED THE DEAL TO INVEST IN THE PROMISING FRENCH-BASED OPTICAL METROLOGY COMPANY TECHNOLOGIES.

Hergott is one of the active angel investors in Luxembourg and a well-known name within the local entrepreneurial community. After a career in R&D and having co-founded several businesses including Luxscan Technologies and the seed and startup focused fund Chameleon Invest, Hergott is now bringing some fresh air - and funds, to formally R&D focussed company VISUOL.

LPEA spoke with Hergott about the new investment but also about the overall angel investment landscape in Luxembourg.

How large and active is the business angel community in Luxembourg and who is the typical business angel we can find today?

Despite being always a very informal market with no clear figures, I can tell you that at LBAN, the Luxembourg Business Angels Network, today we have approximately 30 members, most of whom are quite active investors. It's a diverse community in which I identify two major types of participants. One group of entrepreneurs who have succeeded - mostly during the late 90's and another group characterized by high-level executive profile where we will find former and current CFOs, CEOs and other professionals with strong management experience.



With 50.000 professionals working in the financial industry, is there room to find more business angels in Luxembourg?

We know that there are many more business angels in Luxembourg and certainly many coming from the financial sector. At this stage, and given the direction our association seeks to take, we would like to encourage the participation of those professionals who can certainly bring a higher level of professionalism to our practices and surely bring in "executive" expertise that can help startups deal with growth challenges such as internationalisation, recruitment and governance. I am never-

theless concerned that many may be prevented from joining due to a possible conflict of interests with their day job.

Where are Luxembourg business angels investing today?

Business angels in Luxembourg invest mostly in the Greater Region and in the web sector but we see many also interested in impact investing, healthcare/ biotechnology, industry and even retail business. While usually business angels aim for global and scalable businesses (and therefore IT, web or fintech), our drive is also to impact the region hence to invest mostly in the great region and "down to





“We all invest with an eye on successful exits but **having fun is still our first reward, especially by creating value and sharing know-how.”**

Jean-Yves Hergott

One of your recent investments with other Luxembourg business angels, was in Visuol Technologies, a 20-years old French business. Are business angels tracking far more than young startups? Tell us more about this investment.

Visuol was indeed created in 1994 under the name Techlab which sold material for labs specially for the steel industry. In 2007 the company split to have VISUOL focusing on its current business field, the development and sale of quality surfaces control systems for the industry. Last year myself, with four other business angels of LBAN and three others from France looked closer into this company, and invested early 2015 in this optical measurement business to do something that can be very appealing for experienced business angels and entrepreneurs. It consists of “starting up” the company or, in other words, accelerating the business via investment, injection of know-how and better governance. In Visuol, as in other decades-long businesses, we need to refine and refocus markets and business which brings a big challenge but also immense passion to redraw the company from scratch. In private equity words, we’re doing a turnaround of the business, not with millions of Euros, but with angels wings.

earth” businesses, in more traditional sectors. Actually, besides investing in start-ups, we also see many investors targeting the “succession” stage, re-launching established businesses with a need for new business models or other critical improvements that can shuffle up the game. This is much in line with the regional focus of our investments. Luxembourg, being a small country in size, has limited deal flow so the Greater Region (bordering regions of Belgium, Germany and France), accessible in a short drive, is where many of us feel most comfortable to invest.

Is angel investment in Luxembourg taking any direct or indirect advantage of the country’s leading financial centre?

Luxembourg has multiple tax efficient investment structures. However this only applies to more “committed” investors who are those actually setting up these holding structures. If you are an individual doing investments without such structures you expose yourself to being taxed on your income tax as Luxembourg doesn’t have any kind of special regime for business

angels today. This is something we lose against other countries which have created adequate regimes for angel investments knowing the specificities - high risk & high economic impact, and is something we need to continue working on with the authorities.

What is your experience with Luxembourg based Venture Capital/ Private Equity investors?

We keep close contact with early stage VCs although recognising we live in different leagues. As I mentioned before, angels are more local while VCs, especially those based in Luxembourg, are naturally global and many also specialised in certain sectors. This means we are not seeking the same kind of deals and would be hard pressed to find a local VC fitting the sector or the stage of development we’re looking for. This leads us to most often look for VCs abroad which are more aligned with the business needs. I must recognise there’s still a gap that we should try to overcome on having Luxembourg early stage VCs funds more aligned with the region businesses’ needs.

Rocket Internet

ROCKING
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Distribution of market share among the major industry players

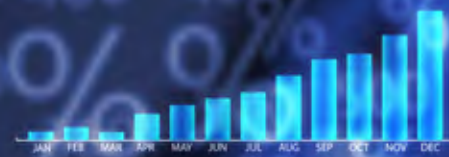


Distribution of market share among the major industry players (B&C and B&S, 1 was 74% and 20% percent respectively. A further change in the structure of the market will be observed by a more equal distribution of market share among players.

Projected sales of main products in 2013



Projected sales of main products in 2013

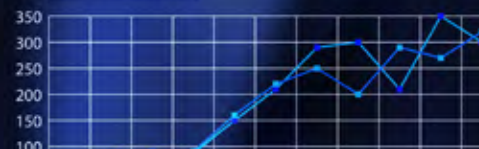


Share of market activity



Changes in the activity of the active and passive market is uncertain. Established positive trends in various market segments.

Passive market share



FINTECH IS OUT TO REVOLUTIONIZE AND RESHAPE THE FINANCIAL SERVICES INDUSTRY. LPEA HAD THE OPPORTUNITY TO INTERVIEW THE FOUNDERS AND CEOS OF THREE FINTECH STARTUPS, NAMELY PAYMILL, SPOTCAP AND ZENCAP. EACH OF THEM IS A COMPANY OF ROCKET INTERNET, THE GLOBAL INCUBATOR HEADQUARTERED IN BERLIN, WHICH EXPANDED ITS OPERATIONS TO LUXEMBOURG LAST YEAR.

FinTech is ramifying into every corner of the financial industry. Is FinTech complementing or taking the place of the traditional banking industry?

Paymill: The FinTech sector won't completely replace the traditional banking industry. But it will make them rethink their current models, since they will start to struggle if they don't keep up with their digital competitors in terms of flexibility.

Spotcap: There was a time when banks used lobbying to slow down fintech. Now, the trend leans towards cooperation. We have seen banks partnering with fintech companies, setting up venture funds to fund fintech companies, creating startup programs to incubate fintech companies, acquiring fintech companies and creating subsidiaries.

Zencap: To my mind, one thing is certain: The FinTech revolution will take the old world of banking by storm. And how will banks respond? My assumption: We will see some sort of Amazon phenom-



enon for the financial sector, offering a wider range of products within the next five years.

Are major established players of the financial industry able to create disruptive change within their organization? Or can fundamental change only be triggered by the outside, e.g. by start-up companies?

Spotcap: It's certainly possible but only very few will succeed. Disruptive change needs a certain mindset and environment. Fintech startups have the great advantage of flexible structures and agility. We don't need representative prime offices and countless employees to serve our clients.

Zencap: Paul Volcker, the former chairman of the Federal Reserve, said in anger over the financial crisis: 'The only useful banking innovation was the invention of the ATM.' We completely agree with this statement. For a long time,

banks have been stuck in complex restructuring processes which they fail to manage well. Fundamental shift cannot be triggered from the inside. You need people who think about financial services from a different angle, who recognize that innovative technology and Big Data are crucial to drive disruptive change.

The FinTech sector is much lighter regulated than the banking industry. Looking at tendencies such as the Bitcoin regulation - what is your opinion on the potential impact of an increased regulation to the FinTech industry?

Paymill: Indeed, the more participants and the more complex processes become - the more rules and regulations need to be set up. Service providers and customers will benefit from it. What's important for the FinTech sector are helpful guidelines and a common



FOUNDER AND CEO MARK HENKEL ABOUT PAYMILL

"Paymill is providing the technical infrastructure to process online payments on websites and mobile applications for small and medium enterprises in Europe - and that more easy than traditional providers. The Paymill API makes it easy to manage transactions in one place."

COVER STORY

— sense on several topics like EU regulations. But we hope those remain flexible or at least suitable to the digital environment.

Spotcap: In the end regulatory requirements will deter dishonest financial service providers from entering the market. This will be an advantage for us and other reliable financial service providers. If authorities enforced regulation, we would strongly lobby for it.

What are the exit route(s) of preference for FinTech companies?

Spotcap: I don't believe in the existence of one preferred exit route. There's always a whole spectrum of exit opportunities.

Paymill: To my mind, it would be cooperation: the innovative ideas of start-ups combined with experience, workforce and resources of incumbent players. It all depends on the size of the company. Once the company has achieved a certain level of growth IPOs are also an option for FinTechs once the market has matured.



FOUNDER AND CEO DR. MATTHIAS KNECHT ABOUT ZENCAP

“Zencap is a peer to peer lending platform which provides a direct connection between small business borrowers and lenders. It takes Zencap only 48 hours from loan application to credit decision. A small business owner can apply from anywhere without even leaving his or her office. It's like a bank branch in your living room.”

Luxembourg strives to become a leading hub for FinTech companies. As an entrepreneur - what are the Top 3 picks that could make you decide where to set up your next venture?

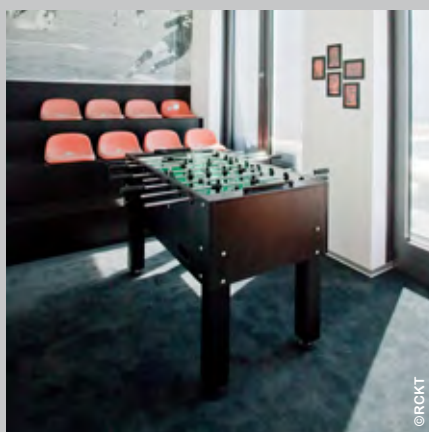
Zencap: In order to set up a FinTech venture, you need to consider the regulatory environment of a country. The competitive landscape is also an important criterion. For example, although other online lending platforms have launched before us, Zencap was the first one only focusing on SMEs in Germany. Another factor is rather an emotional factor than a hard fact. We decided to set up Zencap in Berlin because the city is

a melting pot of different cultures and a great place to live. We benefit from the diversity of our employees every day, and Berlin attracts an incredible inflow of highly talented people from around the world.

Paymill: Important is the access to people and resources, similar to what we see in London or Munich. Living costs also play a critical role. That's where Berlin has few peers in Europe, offering a mixture of infrastructure as well as an attractive cost of living. Last but not least is the regulatory environment in the country. Luxembourg is regarded as one of the most business-friendly countries in the world.

“Luxembourg is regarded as one of the most business-friendly countries in the world.”

Mark Henkel



If you had three wishes for free - which ones would be yours as a FinTech entrepreneur?

Spotcap: On top of the list is my wish and ambition to change the antiquated image of the financial industry. At Spotcap part of our mission is to show that the financial sector can keep up with times and reinvent itself. My second wish would be for the faster acceptance of fintech companies by traditional lending institutions. Technological progress will continue to transform the financial sector. I'm certain that collaboration between fintech companies and traditional financial institutions will give this transformation an additional boost and be mutually beneficial for both parties. Finally - and this is tech-related - I would love to have an API that is publicly available to third party providers. This way we could reach even more clients and provide our financing solutions wherever they are needed.

Paymill: I'd start with open-minded regulatory. Of course that requires open-minded politicians, so that's my second

wish. Keeping with this open-minded theme, I'd wish for the incumbent players to be both approachable and acceptive of the FinTech industry.

Zencap: For now, I could settle with only one wish: We are on our way to transform one of the last resorts in the global economy that has not been disrupted by innovative challengers yet. Banking won't look the same 10 years from now. To change an industry that is as old, as powerful, and that has turned as far away from its customers as the banking industry, we need the best and brightest to shape this change. I hope we can attract even more top talents to the FinTech industry that share our vision and convince strong partners to help us drive this change.

FOUNDER AND CEO TOBY TRIEBEL ABOUT SPOTCAP

"Spotcap is an online lending platform for micro, small and medium sized enterprises which has developed a dynamic decision process assessing real-time business performance to grant short term credit lines. Where banks look at historical financials going back five years, Spotcap is more focused on real time performance over the last 12 months. Consequently we can offer very competitive lending products, which are extremely fast to acquire."

Interview conducted by Michel Feider, partner private equity, and Carmen von Nell-Breuning, senior manager business development private equity, EY Luxembourg, on behalf of LPEA.

WHY SPAIN IS THE HOT SPOT FOR PE AND VC INVESTMENTS

INTRODUCTION

2014 was the turnaround year in which Private Equity and Venture Capital finally picked up again. While the PE market had been growing constantly for over a decade, the years following the banking crisis brought a major set-back which can be claimed to be over now. The first 6 months of 2013 showed even worse figures compared to 2012 in terms of volume of total PE investments, number and volume of deals. But since the second half of 2013 both exit and investment environment have considerably improved.

PRIVATE EQUITY FUNDS

For example, the number of PE investments in Q1 2014 were already twice as high as in Q1 2013. Fundraising also improved during that year; in total, 2014 saw €4,800 million being raised. A driving force in particular was the public-sector fund of fund Fond-ICO Global, which started to share out its €450 million to a number of funds such as Corffin, Diana, Espiga, Magnum, Oquendo, PAI, Portobello, Suma and Trilantic. This particularity of the Spanish market not only fueled the PE and VC industry in 2014 but is expected to continue to do so in 2015. A mirror of the opportunities available are the €3 billion being invested, a figure similar to the years before the banking crisis. The invested capital stands for a plus of 45% via 580 transactions, compared to 2013 data. The first half of 2015 saw lower figures with €726m invested, a decrease by 41% compared to the same period in 2014. However, this is simply due to the lack of any megadeal in the first 6 months. 70% of the invested capital in 2015 went into LBOs and expansion capital, in line with Spanish PE tradition. Interesting detail is the origin of the funds invested: 52% come from international investors, proof of the confidence and attractiveness of the Spanish market. Further support comes from Ardian, Cinven and EQT opening local offices. Another important factor for PE and VC

growth in 2014-15 is the ongoing regeneration of the exit market, either via Trade Sales or via IPOs, thereby freeing capital that can again be invested in new funds. Figures were already encouraging in 2014 but the first semester 2015 has beaten the record with €1.8 billion exited through 141 deals.

PRIVATE DEBT FUNDS

While macroeconomic conditions continue to show significant improvements and give hope for further growth over the next several years, reforms in the banking sector over the past few years have forced banks to shut down or merge - the number of financial institutions decreased from 50 in 2009 to 14 in 2012. This consolidation and the deleveraging process has led to less product coverage and diminished lending to local businesses. But the sector restructuring process also leads to a number of opportunistic situations to acquire loans and assets from forced sellers. Therefore, still more than in other countries, private debt funds have found their niche to finance growth or restructuring of the SME market in particular. Also, at least in the near future, there remains significant scope for private debt funds to provide financing and other specialized credit solutions – at the same time servicing the SME market and injecting much needed liquidity. Some believe that the Iberian market currently constitutes the most compelling jurisdiction in Europe for SME credit investing. These conditions are underpinned by specific structural adjustments and a massive overhaul of the financial sector, creating a distinctive opportunity for specialized credit investments in the region.

THE VENTURE CAPITAL MARKET

Not only private debt but also the venture capital market is attracting investors – although Spain has traditionally been a PE market investing in buy-outs and leveraged firms. Since 2014 again, public institutions that provide credits, international

VC funds as well as other players such as business angels, accelerators-incubators and other sources like crowd-funding platforms are boosting the VC industry in Spain. 14 VC funds were active in 2014, an amazingly high number, compared to 5 on average over the past years. Spanish start-ups are on the radar of national and international VC funds. Here again, Fond-ICO Global provided financing to private VC funds in 2014 so those could close their fundraising and start investing. Overall, this led to an increase by 26% in 2014 in available capital to VC-backed firms though less deals, in total numbers, were closed. A shift towards late-stage VC was also recorded, at the detriment of start-ups and other early-stage investments. Interesting as well that almost 8% of all financing received by Spanish PE and VC houses was provided by US investors, a figure reached in 2006 for the last time.

FUND VEHICLES

While the largest funds in the country are still domiciled abroad, there is a move from off-shore jurisdictions to on-shore and a clear tendency towards Spanish registered funds. The market, especially institutional international investors, are not yet used to Spanish AIF Managers (“AIFM”), but there is an increasing number of Spanish Risk Capital Companies (“Sociedades de Capital-Riesgo” or “SCR”) managed by local AIFMs. The move from off-shore to on-shore is triggered by a) compliance/regulatory requirements that make off-shore vehicles more difficult and 2) tax measures such as BEPS on an international basis and, locally, changes in the Spanish tax treatment under which the conditions for the SCR are regulated and advantageous for local structures: as a general rule, capital gains derived from transfer of shares in portfolio companies are 99% tax-exempted.

By Anja Grenner, Private Equity & Real Estate Leader at SGG S.A.



REGULATORY AND TAX, HOW LUXEMBOURG ALLOWS U.S. MANAGERS TO **KILL TWO BIRDS WITH ONE STONE**

U.S. MANAGERS TAPPING OR INVESTING INTO EUROPEAN MARKETS HAVE LONG BEEN USED TO LUXEMBOURG. IN THE CONTEXT OF THE IMPLEMENTATION OF THE ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE (THE AIFM DIRECTIVE) IN 2013 AND THE PROGRESS IN THE BASE EROSION AND PROFIT SHIFTING (BEPS) OECD INITIATIVE, LUXEMBOURG OFFERS THE POSSIBILITY TO SOLVE TWO ISSUES IN ONE STRIKE.

USE OF LUXEMBOURG MARKET PARTICIPANTS FOR AIFMD PURPOSES

During phase 1 of the AIFMD, only EEA-authorised Alternative Investment Fund Managers (AIFMs) marketing EEA-based Alternative Investment Funds (AIFs) have the ability to market those funds across the EEA on the basis of a European passport.

Non EEA managers – such as US managers – are left to rely on a few options such as: only relying on reverse solicitation (which is hardly a strategy), relying on private placement rules (for as —

REGULATORY

— long as they exist) or setting-up shop in the EEA (or upgrading their current presence) to obtain an AIFM licence. Obtaining and maintaining an AIFM licence requires a high level of compliance and substance: adequate human capital, technical systems, organizational policies and share capital are required. Anti-abuse provisions also prohibit the AIFM from delegating the performance of investment management functions (that is, risk management and portfolio management) to an extent that exceeds by a substantial margin the investment management functions performed by the AIFM itself.

Based on more than 25 years of experience in the UCITS world, Luxembourg market participants have developed further alternatives for US managers: the use of platforms and renting of AIFMs.

Platforms and “rent an AIFM” solutions are conceptually similar; as in both instances the US manager will partner with an established structure so as to allow him to have an EEA-based AIF with an EEA-based AIFM hence accessing the passport. PE market participants tend to favour the “rent an AIFM” solution over the platform.

Numerous Luxembourg-based AIFMs – a number of which are LPEA members – are now assisting US managers to comply with AIFMD regulatory requirements to access the passport.

Control related concerns of the US manager are typically dealt with by (i) having an appropriate framework agreement in place with the Luxembourg AIFM, (ii) the ability of the AIF – which remains ultimately controlled by the US manager – to terminate the AIFM appointment and appoint another AIFM and (iii) a put-in favour of the US manager over any equity interest which the Luxembourg AIFM would have in the AIF.

LUXEMBOURG PARTNERSHIP

In view of the AIF, the Luxembourg legislator took the opportunity of the implementation of the AIFMD into Luxembourg law to completely revamp the Luxembourg partnership regime.

Now, Luxembourg Limited Partnerships are organised, operated and capitalised in much the same manner as partner-



LPEA roadshow in New York City held on June 2nd 2015.

ships in major Anglo-Saxon jurisdictions. The legislator added further benefits: (a) the extent to which there is a separate legal existence (or not) – indeed Luxembourg has a common limited partnership (*société en commandite simple* - SCS) which has a legal personality and a special limited partnership (*société en commandite spéciale* - SCSp) which does not have legal personality and (b) the management of the Partnership – Luxembourg introduced express safe harbour provisions for LP involvement and the possibility to have managers

managing the partnership without incurring unlimited liability. According to market participants, those are very helpful additional features.

Further changes are ahead, with the Luxembourg legislator currently working on the introduction of a new Restricted Investment Fund regime. The proposed regime would add a further type of fund, not regulated by the CSSF provided that it is managed by an authorised EEA-based AIFM, with a legal regime close to that of the Specialized Investment Fund (SIF). The current proposal contem-



“The importance of economic substance for holding companies can only be heightened.”

tain actions of the BEPS action plan. As an illustration, action five aims notably at aligning taxation with the substance of transactions. Similarly, the BEPS action plan identified treaty shopping as one of the main issues and action six proposes to amend the OECD Model Tax Convention to include, amongst others, strong limitation-on-benefits provisions and general anti-abuse rules. The importance of economic substance for holding companies can only be heightened.

CONCLUSION

Ultimately, the substance requirements imposed from a regulatory perspective are very beneficial for tax purposes, and indeed tax and regulatory requirements are converging.

Accessing an AIFM in Luxembourg (with a Luxembourg AIF) allows US managers to avail themselves of the AIFMD marketing passport. At the same time, the fact that certain core functions cannot be delegated by the AIFM, such that the AIFM would need to have appropriate staff and infrastructure to be able to perform these functions itself, significantly decreases the likelihood that foreign tax authorities might successfully challenge the substance throughout the holding and financing structure beneath the fund level.

Nicolas Fermaud and Florent Trouiller are counsels in Allen & Overy. Nicolas Fermaud is the Head of the US-Luxembourg Desk in New York

plates a tax which could follow that of the SIF or the specialised company in risk capital (SICAR) for PE strategies.

USE OF LUXEMBOURG INTERMEDIARY INVESTMENT VEHICLES AND BEPS

US managers who do not operate a fund platform in Luxembourg are generally familiar with Luxembourg's corporate and tax framework for holding and financing companies. Substance for such companies is becoming a key topic in the current tax environment.

The Parent Subsidiary Directive² has recently been amended to introduce a general anti-avoidance rule (GAAR) which has to be implemented into domestic law before 1.1.2016. The GAAR targets (series of) arrangements which meet both the main purposes test and the lack of economic reality test. Existing holding structures which could be deemed to have insufficient economic substance could be impacted. Substance will also become crucial in light of the OECD's project on BEPS and has been specifically addressed in cer-

Luxembourg's financial centre

A NEW GATEWAY TO FARMING

WITH PRIVATE AND INSTITUTIONAL INVESTORS AROUND THE GLOBE INVESTING IN AGRICULTURAL REAL ASSETS TO IMPROVE DIVERSIFICATION AND RETURNS, LUXEMBOURG'S TRACK RECORD IN ALTERNATIVE INVESTMENTS IS ATTRACTING FARMLAND MANAGERS FROM EUROPE AND BEYOND.

THE APPEAL OF AGRICULTURAL REAL ASSETS

In the aftermath of the 2008 financial crisis, investors faced the challenge to rethink their investment portfolios. The low interest rate environment that has persisted since then across the developed world has added pressure as investors face the prospect of continued low returns and increased volatility in financial markets. In these circumstances, investors are moving towards alternative investments that stand between risky equities and overvalued bonds; and agricultural real assets like farmland can fit very well.

Agricultural real assets are linked with the long-term theme of resource scarcity and besides their positive correlation to inflation, they can provide a strong cash yield and offer low correlation to traditional assets. Managers and investors seem to agree on the prospects of this asset class: As of June 2015, there are almost 280 funds investing exclusively on this space - up from 54 funds in 2005 - and with total AuM over US\$50 billion, according to funds tracked by Valoral Advisors.

Institutional and private investors alike are increasingly allocating capital to the agricultural asset class. For family offices, as their portfolios have usually a long-term outlook, they can be best positioned in terms of pursuing trends that are likely to persist for the next ten years or even longer. And besides the economic benefits to their portfolio, some family offices find that the agricultural sector offers them the possibility to address socially responsible or impact investments: they can generate attractive economic returns and at the same time, they can do something positive.

SEEDING THE FUTURE OF FARMING FROM LUXEMBOURG TO EUROPE AND BEYOND

Luxembourg is well known as the leading European domicile for vehicles investing in international real estate; now the growing interest in farming assets can further strengthen the country's innovative role in real estate. There are already several funds domiciliated in the country that cover the full spectrum of the food and

agriculture asset class – from listed equities and commodities, through private equity and trade finance, to farmland and forestry.

One of the managers attracted by the Luxembourg's offering in real estate investment vehicles is Blue Harvest S.A., a Geneva-based wealth management company founded in 2009 by Jens Ohnemus. Mr Ohnemus, a Danish native with agricultural background and with a large trajectory in banking and wealth management, decided to invest in the land he knows best. The company will soon launch the Blue Harvest Danish Farmland Fund SCSp, seeking to raise capital for the acquisition and sustainable operation of agricultural farms in Denmark, with a focus on crop and animal production. Mr. Ohnemus explains that "the fund is a first for Denmark and plans to build a portfolio of sustainable producing farms across the country, providing investors an opportunity to invest in real, tangible assets that



“Institutional and private investors alike are increasingly allocating capital to the agricultural asset class.”

offer a diversified source of income and capital appreciation”. The Fund will be structured as a “Société en commandite spéciale” (“SCSp”) in Luxembourg, comparable with the Anglo-Saxon Limited Partnership. The corporate flexibility and tax transparency that this structure provides were among the main attributes that attracted the attention of Blue Havest’s management.

THE DANISH HEDGE

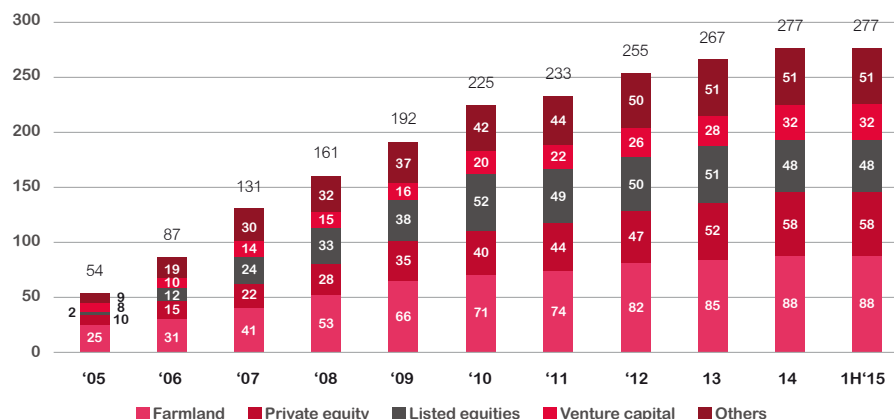
The fund had a warm reception so far – Mr. Ohnemus comments that “Denmark is an agricultural nation, with more than 60% of its territory devoted to agriculture”. The country is a net exporter of food, a global leader in animal welfare and with best in class environmental protection policies. And with its AAA rating, a strong economy, a stable parliamentary democracy and ranked first in Europe in ease of doing business, the country scores very high in the context of agricultural investments.

As Mr. Ohnemus says, “Today, Denmark is a top choice for farmland investments in Europe”. Whether investors go for developed farms in Europe or for more exotic farms in South America or Sub-Saharan Africa, Luxembourg finance industry can

play a key role in channeling resources to invest responsibly in producing increasing supplies of food for a growing population.

By Roberto Vitón, founding partner of Valoral Advisors

NUMBER OF FUNDS SPECIALIZED IN FOOD & AGRICULTURAL ASSETS BY TYPE OF ASSET - WORLDWIDE



LUXEMBOURG



CROSSROADS OF DIVERSITY

THERE ARE SO MANY SLOGANS WE COULD USE TO BRING OUT LUXEMBOURG'S CHIEF ATTRACTIONS. WHETHER IT BE "OASIS OF WEALTH", "CROSSROADS OF DIVERSITY", OR JUST "A LITTLE POCKET OF LOVELINESS".

The latter aims to translate "klein aber fein" – a German expression – which in the context of nation branding speaks volumes about the booster effect coming out of this tiny yet vibrant country. Little Luxembourg is capable of doing big things – like Apple did, once upon a time, from a garage. It seems that size is not a "sine qua none" for becoming big; many cutting-edge companies start small nowadays. Our

pocket-sized country has 'Duracel'-like potential and a proven track record for being first in class – be it for Europe, steel, satellites or finance.

IMPORTANCE OF BEING FOCUSED

Yet the sheer number of positive attributes is not a good thing for branding. The challenge is to get "the" message, which captures the spirit and essence of

the country in its entirety. It has to be transversal, as relevant for tourism as it is for finance and industry. And it has to resonate with everyone, Luxembourg residents as much as Luxembourg nationals – no easy task.

Sadly, the results of the recent referendum go against building a coherent message any time soon. What it revealed is a country with several faces, each looking in different directions mimicking Janus,



“Luxembourg has its roots in history, **boldly stating a desire** to remain independent.”

George Bock



the god of beginning and transitions. Residents find it easy to rattle off a seemingly endless list of strong points, praising a country where they are respected and feel at home. Native Luxembourgers, however, are slightly more reticent and have relatively low self-esteem when it comes to creativity, open-mindedness and entrepreneurship. “Mir wëlle bleiwe wat mir sinn” or “We want to remain what we are”: the national motto of

Luxembourg has its roots in history, boldly stating a desire to remain independent. In the present context, however, this motto takes on different undertones. Could it subtly hint at resistance to change?

The gap between how Luxembourg is perceived by the outside business world and its actual way of working is a further stumbling block to a coherent message. Politicians aspire to close the existing perception gap and show Luxembourg as a dynamic place to be. Luxembourg has a hardworking international community working like cogs in unison. With the current political momentum, it can grow to be a place where talents flourish, ideas spark and then go live. So how best to express this to the outside world?

BRIDGING THE GAPS – MIND THE GAP

In our country of hills and valleys, bridges play an important role. Luxembourg excelled in the past by bridging communities and nations. It is, after all, the birthplace of the European Union and the country that put “Schengen” in the agreement to have open borders in Europe. Today, with the Luxembourg presidency

of the Council of the EU, our small country is once more at the apex of the political and economic scene, trying to solve the Greek puzzle together with other EU members and at the same time welcoming with a grateful, muted nod, the confirmation that hard work has paid off with another triple A rating granted.

The bridge is a symbol for the nation which has built its reputation on being a reliable yet accessible partner. A compelling story built around connections, making things happen and staying unique. Could this be the key to successful nation branding?

Nation Branding is not a simple advertising campaign – it aims to extract juices about what the Grand Duchy of Luxembourg is best at, add innovative elements and create a beautiful waterfall of emotional stories and compelling images with a meaningful tagline around them.

This is a story that the private equity sector could pick up on, by adding its unique twist and making the most of what we’ve got already.

By Georges Bock, Managing Partner of KPMG Luxembourg

BERNARD MASSARD AND THE WORLD OF SPARKLING WINES

“We always
conduct a very
strict policy on
the quality
of our products.”

Antoine Clasen

Bernard-Massard is Luxembourg's first sparkling wine but also one of the country's finest still wine producers through its three estates, Bernard-Massard, Clos des Rochers and Chateau de Schengen. Founded in 1921 by a Luxembourgish cellar master, Jean Bernard, who learnt his skills in Champagne before returning to his home country, the company is still family run and owned by the Clasen family. Today, Bernard-Massard is one of Luxembourg's most renowned wineries and certainly the main exporter of Luxembourg wine with a presence in over 20 countries around the world.

LPEA HAD THE OPPORTUNITY TO INTERVIEW ANTOINE CLASEN, SALES & MARKETING DIRECTOR AT BERNARD MASSARD



“We have the luck to be in a field producing a product that is meant for sharing good moments.”

Antoine Clasen

What do you think is the key factor of Bernard-Massard's success story?

I think there are two major factors that allowed us to build our brand over the years, qualitative consistency and being at the right time in the right place. We always conduct a very strict policy on the quality of our products, from the vine to the bottle and invest a lot of time and funds to be up-to-date in growing and production processes. Also, especially for our sparkling wines, branding is a key factor because more than the appellation, we have decided to invest for creating a

strong brand through distinctive quality, a coherent design for recognition and marketing activity for awareness.

You have recently stepped into your family's business. Was that an easy process? To your mind, which core capabilities do you bring to Bernard Massard?

Joining a family business is a challenge as such, as you are stepping into an existing structure with your views and ideas but have to face the legitimacy question towards the employees, the clientele, the shareholders. What gives you the right to



run a company just because you are the boss's son... You have to earn your space and since I joined the company in 2011, this is what I strive for every day. What do I bring to the company? Well, that I prefer others to answer. But what I would like to bring is my creativity, my enthusiasm for wine – obviously that is important in a company like ours – sharing it with people. On the other hand, I tend to be quite stiff when it comes to numbers and crunching them once in a while is very important in my opinion.

What do you think makes a wine a good wine?

A good wine, independently of where it comes from and what its price is, is a balanced wine. Harmony between fruitiness, alcohol, structure and acidity are important to me. For the rest, there is a big part of subjectivity.

What do you like most of your job?

Variety. In my job, there is no day like the other, sometimes for worse, often for better. We have the luck to be in a field producing a product that is meant for sharing good moments. And that allows you to meet a lot of people from a lot of different horizons. It starts with the vineyard, it ends with the final customer in Luxembourg and around the world that often share a same passion for wine. It's quite easy to get up in the morning, trust me.

Interview conducted by Carmen von Nell-Breuning, senior manager private equity business development, EY Luxembourg, on behalf of LPEA.

Luxembourg – the other facets of the country

WINEGROWING IN LUXEMBOURG

Luxembourg may be a small country but it is not only the financial industry that has created its own brand and reputation worldwide but also the wine industry. When you visit the 26km along the Moselle river that Luxembourg shares with Germany, you will discover numerous wineries producing excellent wines and cremants in a vineyard area that covers 1,287 hectares only. Cremants, representing an astonishing 15% of the entire wine production, are the oenological flagship of Luxembourg which represents the country at any event. But at the same time Luxembourg represents 15 grape varieties to be discovered by wine lovers.

Sandwiched between Germany and France, Luxembourg has developed its own wine style. On its limestone, Keuper and clay marl soils it is the pinot grape varieties that turn out best, which is reflected in the main varieties grown: apart from the most common one, the Rivaner or Mueller-Thurgau, a hybrid bred in the Swiss canton of Thurgau in the 1880 by Mr. Mueller, based on Riesling and Madelaine Royal (26%), which has been constantly decreasing in grown quantity, the pinot varieties Auxerrois, Pinot Gris, Blanc and Noir (51% all together) are the most widely represented and are

more and more replacing the “table wine” grape variety Rivaner. These are complemented by Riesling (12%) and Elbling (7.5%), the famous grape already cultivated by the Romans in the Moselle valley more than 2000 years ago, and a number of more exotic grapes like Gewürztraminer and Chardonnay (also a Pinot grape).

The main producers of wines in Luxembourg are its cooperatives which nowadays market their wines successfully under the single label of Domaines Vinsmoselle, encompassing the traditional wineries of Greiveldange, Grevenmacher, Remerschen, Stadtbredimus and Wellenstein as well as the POLL-FABAIRe Crémant Development Centre in Wormeldange.

With more than 300 winemakers they produce some 60% of all Luxembourg wines, while 50 private wine growers, represented by its association “Privatwënzer”, successfully elaborate and market their own wines. The association and its oenologists have assisted the private growers in boosting both quality and marketing to place their wines not only with the local gastronomy, commerce and end consumers but also with international wine importers and restaurants throughout Europe.



Winegrowing is still done by hand by the Privatwënzer – note that only 9 out of the 375 wine growers own and cultivate more than 15 hectares - and these usually around their own estates. The cooperatives, however, purchase grapes from all around Luxembourg, so they cannot only blend wines from different soils and climates but can also produce wines from specific prestigious lots and terroirs.

A propos terroir wines: Luxembourg was at the forefront when creating the quality label “Charta Schengen”. Being the synonym for a borderless European Union, winegrowers on the German, Luxembourg and French Moselle may elaborate their best wines to become a “Charta Schengen wine”. From Luxembourg, 4 wineries elaborate these label wines, from France there are 2 and 1 from Germany. These winegrowers commit to respecting rigorous restrictions in the production process, such as the

orientation of the vineyard, a minimum slope angle, defoliation, a maximum yield per acre, the vinification process and its marketing. Once they have undergone a severe organoleptical exam by an independent jury, they can finally market these wines. As with all other Luxembourg wines and cremants, around 2/3 of all exports end up in Belgium... Last but not least, Luxembourg's oenotourism has been developing strongly over the past years: apart from annual events such as the open-door weekends where all wineries are open to the public, its wine village events, guided tours through the vineyards along the Moselle, wine-tastings, the Riesling ralleys, and many more invite wine amateurs and lovers to discover Luxembourg's wineries and vineyards.

By Anja Grenner
The author is member of the LPEA at SGG S.A. and runs an own wine business in Luxembourg as a certified sommelier.

ABOUT LPEA

The Luxembourg Private Equity and Venture Capital Association (LPEA) is the representative body of private equity and venture capital professionals in Luxembourg.

With over 120 members, LPEA plays a leading role in the discussion and development of the investment framework and actively promotes the industry beyond the country's borders.

Luxembourg disposes of a stable tax regime and is today at the forefront of international PE regulation providing a flexible, secure, predictable and multi-lingual jurisdiction to operate in.

LPEA provides a dynamic and interactive platform for its members to discuss and exchange information and organises working meetings and networking opportunities on a regular basis.

If Luxembourg is your location of choice for private equity, LPEA is where you actually become a player!

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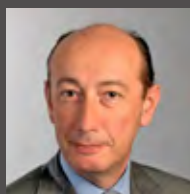
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EVENT'S CALENDAR

**MULTIPLE
DATES**

SEP-DEC 2015

LUXEMBOURG

How to Start A Startup

21-24

SEPTEMBER 2015

BEIJING, SHANGHAI,
SHENZHEN

LFF Mission to China

28

SEPTEMBER 2015

PARIS

LPEA Roadshow



16

OCTOBER 2015

AMSTERDAM

**PE Conference
BENELUX**

20

OCTOBER 2015

PARIS

LFF Mission to Paris

22

OCTOBER 2015

BERLIN

EVCA VC Forum

13

NOVEMBER 2015

NEW YORK

LPEA Roadshow

DECEMBER 2015

MUNICH

LPEA Roadshow

15

DECEMBER 2015

LUXEMBOURG

**Warranties and
Indemnities Insurance
Conference**

19-20

JANUARY 2016

LUXEMBOURG
**European Alternative
Investment Fund
Conference**

4

FEBRUARY 2016

ZURICH
**Investment Funds
Conference
LPEA Roadshow**

23-26

FEBRUARY 2016

BERLIN

**Super Return
International**

16-17

MARCH 2016

GENEVA

**EVCA Investor's
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APRIL 2016

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