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The magazine of the Luxembourg Private Equity & Venture Capital Association

LPEA

CREATING A HUB FOR INNOVATION:

ROUNDTABLE
VENTURE CAPITAL IN LUXEMBOURG

The magazine of LPEA
Editorial: Paul Junck, Jérôme Wittamer, Nicolas Bernhardt, Luisa Deas, Anja Grenner, Valérie Tixier, Jane Wilkinson.
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www.capitaassetservices.com

Contact us

Bruno Beernaerts
Managing Director
Tel: + 352 44 09 29
Email: bruno.beernaerts@capita.lu

Livio Gambardella
Client Director
Tel: +352 44 09 29
Email: livio.gambardella@capita.lu

www.capitaassetservices.com

DEAR PRIVATE EQUITY PROFESSIONALS,

As incoming chairman, I am delighted to welcome you to this fourth issue of Luxembourg Private Equity & Venture Capital Association's ("LPEA") proprietary publication, "capitalV". This edition focuses on Luxembourg's Venture Capital scene, which is the subject of our cover story. Our biggest incubator, Technoport hosted an LPEA roundtable discussing our success in creating a hub for innovation and what else is needed to move Luxembourg forward.

We have a number of interesting articles including interviews of 3TS Capital Partners and b-to-v Partners, a look at trends, products and a regulatory article.

LPEA will continue delivering value to our much enlarged member based, implement its strategy to develop Luxembourg as the European PE hub and further its role as a credible playing in Luxembourg and abroad.

Kindest regards

Jérôme Wittamer, Chairman
Paul Junck, Managing Director
Luxembourg Private Equity & Venture Capital Association

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AT THE FOREFRONT OF WORLD-CHANGING TECHNOLOGY

FROM OFFICES IN CENTRAL AND EASTERN EUROPE, VENTURE INVESTOR 3TS CAPITAL PARTNERS IS HELPING TO BUILD TECHNOLOGY, MEDIA AND TELECOMS BUSINESSES THAT WILL SHAPE THE FUTURE, SAYS MANAGING PARTNER PEKKA MÄKI.

Interview of Pekka Mäki, Managing Partner, 3TS Capital Partners

> "OUR AIM IS TO APPLY REGIONAL TALENT TO OPPORTUNITIES WORLDWIDE."
>
> PEKKA MÄKI

WHAT IS THE INVESTMENT FOCUS OF 3TS?

Pekka: We are one of the leading private equity and venture capital firms in Central and Eastern Europe, including all the newer EU member states and neighbouring countries such as Turkey. We have offices in Budapest, Prague, Bucharest, Vienna, Warsaw and Istanbul, and specialise in investing in the broader TMT sectors including technology & internet, media & communications and technology enabled services ("TMT").

We mostly focus on growth funding for companies, which have revenues in the millions of Euros, as well as buyout investment. Although our offices are in Europe, we are an international firm, with two thirds of our investments in "global challengers" and one third in "local leaders". We have chosen to domicile our funds in Luxembourg.

WHERE ARE THE ORIGINS OF 3TS CAPITAL PARTNERS?

Pekka: 3TS was originally established in 1999 when three European investors decided to establish an Eastern European fund. In the beginning 3TS focused solely on Eastern European markets, but we have since been fortunate to develop several international, globally successful companies. We are on the way to becoming an international technology investor with special focus on our home markets in Eastern Europe and the German-speaking region.

The key people at 3TS were all previously involved in private equity and venture investments; their experience is the backbone of our firm. The name originates from the three founding partners: 3 for 3i plc., T for the team

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and S for the Finnish innovation fund Sitra and initially we obviously benefited substantially from extensive co-operation with 3i and Sitra, which was terminated once we became independent.

WHAT MAKES 3TS'S INVESTMENT APPROACH DIFFERENT?

Pekka: What sets us apart is our focus on TMT investments and our team's more than 20 years of experience in the CEE region, along with the region's broad pool of innovative managers and talented engineers.

Our aim is to apply regional talent to opportunities worldwide; our global approach means the companies usually have sales offices in Western Europe, Asia and the US even if some operations remain in the CEE region. None of our global competitors understand the CEE markets better than we do and we can leverage this to the benefit of the portfolio companies.

THE LAUNCH OF YOUR LATEST FUND IS A SIGNIFICANT DEVELOPMENT

Pekka: The first closing of our TCEE Fund III with €103m was one of the largest first closings of a European technology fund in 2013 and sent out a strong signal about the state of business in the region.

The fund, launched as a Luxembourg regulated vehicle in 2011, brings our assets under management to just under

€300m. 3TS plans to continue to make TMT growth and buyout investments in the future, typically making an initial investment of between €2m and €8m plus follow-on capital over time.

WHY HAVE YOU CHOSEN TO DOMICILE YOUR GENERAL PARTNER STRUCTURE AND YOUR FUNDS IN LUXEMBOURG?

Pekka: Over the past 10 years, Luxembourg has developed into the prime choice for private equity and venture funds. Our experience in the Grand Duchy with our previous three funds has been overwhelmingly positive, and over time we have become familiar with the country's financial environment. In addition, the choice of Luxembourg is ideal for our international marketing activities and is important for our global institutional LP investors.

3TS HAS MADE SOME VERY SUCCESSFUL DEALS?

Pekka: One notable investment has been LogMeIn, a Hungarian software firm that offers cloud-based remote connectivity services, and in which we were the first institutional investor. We supported LogMeIn to move its headquarters to Boston and after substantial growth five years later to list on the NASDAQ as LOGM.

Avangate, a software e-commerce enabler from Romania established itself in the Netherlands, set up its global management team in the Silicon Valley and is now on course to become a global leader in the sector. Although these two companies and many others have already been exited by us, we are proud to have played an important role in their development.

WHAT ADDED VALUE DOES 3TS BRING TO ITS INVESTMENTS?

Pekka: The feedback we receive from CEOs whose companies we've helped bring to maturity has always been about the way we handled the company's needs. At 3TS we believe that a successful investment is 50% money and 50% human capital, networks and support.

It's about bringing in the right type of advisors and experts to redefine a strategy, work on tactical planning and executing the plans properly. We are a hands-on firm, not just a passive financial investor.

AND WHERE ARE THE OPPORTUNITIES FOR THE NEXT THREE YEARS?

Pekka: From our experience, opportunities in the TMT universe take no account of borders. We find good software, internet and services companies in every country – it doesn't matter where you are. Building a global internet business is less capital-intensive than it was five or ten years ago. In the last decade people have spent a fortune on physical infrastructure - now you can simply rent the capacity you need. This bodes really well for the future of 3TS - we can continue to base our companies core operations in Europe but have sales offices spread across the world.

We see great opportunity in the development of software for enterprises and media-orientated marketing services. We are also focusing closely on healthcare technologies and services, a sector in which software development is extremely promising.

The future of the TMT sector in CEE and indeed the world at large is very bright and we're excited to be at the forefront of innovations that will shape the future.

CROWDINVESTING – MAKING THE PRIVATE EQUITY INDUSTRY ACCESSIBLE FOR EVERYONE?

IN THE YEAR 2000, RIGHT IN THE MIDDLE OF THE TECH BUBBLE CRISIS, B-TO-V WAS FORMED, IN ST. GALLEN, SWITZERLAND. THE IDEA WAS TO CREATE A CROWDINVESTING PLATFORM WHERE YOUNG START-UP COMPANIES, ANGEL INVESTORS AND EMPLOYEES COULD MEET AND FIND EACH OTHER.

Interview of Dr Christian Schütz, b-to-v partners AG, St Gallen
by Anja Grenner, LPEA member*

GIVEN THAT ANGEL INVESTORS USUALLY ACT DISCRETELY AND TEND TO WANT TO SEE AND MEET THE COMPANIES THEY INVEST IN, IS CROWDINVESTING REALLY A GOOD IDEA?

Christian: at that time, the idea of a large, rather anonymous platform was pushed back in favour of a more focused investor circle, the so called b-to-v Circle of Investors – entrepreneurial private investors that were willing to invest but did not necessarily have the time to analyse deal-flow themselves. So, over the course of the last 14 years a network has built up consisting of entrepreneurs, with deep industry knowledge and willing to bring in their own network of contacts.

Since 2006 b-to-v has been active in Luxembourg via two SICARs with ca. EUR 60m funds under management. The aim of creating these funds was the investment into young companies with lead investors of our b-to-v group, including other institutional investors. The idea works well: a group, working as a team, simply produces better ideas and finally better investment results – the ultimate goal of crowdinvesting.

BUT IS THE MARKET MATURE ENOUGH FOR THIS CONCEPT?

Christian: In terms of the due diligence you require specialists who are able to judge if an idea and a company has a potential to succeed. The "intelligence of the crowd" is not a myth but reality, but how do you garner this and use it effectively – this is an exciting topic. Crowdinvesting also has a lot of potential from the standpoint of private investors. At the same time – it may sound strange – private investors who are not experienced with direct investments have to be protected against themselves. Each investment has to be backed by a professional. For example, b-to-v looks at up to 50 investment opportunities per week and has invested in over 100 portfolio companies! The simple but logical conclusion is that crowdinvesting only works in cooperation with qualified investors.

IN PRACTICE – WHAT IS ALREADY OFFERED BY THE MARKET?

Christian: In Israel and the US, Crowdinvesting platforms such as OurCrowd or Angellist give capital-seeking

"HERE IN EUROPE, WE HAVE NOT INVESTED ENOUGH IN OUR START-UP COMPANIES – BUT YOU NEED TO DO IT RIGHT."

CHRISTIAN SCHÜTZ

companies access to professional and private investors. Today, if a company seeks equity investments in Europe through online platforms, this is only possible under restrictive conditions. Let's look at Germany, for example, where such platforms must provide an IPO prospectus ("Börsenzulassungsprospekt") if they want to enable a company to get significant equity funding from a crowd of investors. This is very expensive. The issue of not being able to provide equity is simply that follow-on investors often do not accept such limitations. There is no way around regulation but if it does not meet the needs of all parties, effects like adverse selection may hinder a very good idea: if only companies with limited prospects find their way onto the platform, it helps neither the investor, the company nor the platform.

WHICH KINDS OF COMPANIES WOULD ACTUALLY USE THESE PLATFORMS THEN?

Christian: Today, many companies who are otherwise unable to raise capital and / or are very-early stage companies use the European crowdinvesting platforms. This may lead to an adverse-selection-problem, i.e. the platforms feature the less attractive start-ups while the coolest teams still raise capital through venture capitalists and large investor networks.

AS WE KNOW ALREADY FOR INSTITUTIONAL INVESTORS THE SEED BUSINESS IS DIFFICULT ENOUGH, PRECISE INVESTMENT CRITERIA AND FOCUS ARE REQUIRED.

There is high risk in early stage investment and the drop-out rate is enormous; many investors on current crowdinvesting platforms will lose money … more money will be burnt than

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made … and this is a shame, because here in Europe, we have not invested enough in our start-up companies – but you need to do it right. In this sense, crowdinvesting is essentially the right principal, but obviously, if the strategy is to distribute as much money as possible over a number of different platforms, it will not work in the long-term. Far more useful is the use of relevant investment criteria. This has been a part of b-to-v's learning curve over the last 10 years, many investors in crowdinvesting will likely learn the same way.

One of the major issues today is also that those start-ups that need considerable amounts of money, for example in the biotech or medtech industries, do not get enough. They require not only the initial investment but also follow-on investments before returning cash to investors. If these investments cannot be financed properly, early exits, so called fire exits, are "pre-programmed" with low returns. As this is often the case for institutional investors, they shy away from venture capital investments. Crowdinvesting platforms would be great for this, but again, it needs professional investors to identify the promising companies and lead the investments.

WHAT CAN B-TO-V BRING TO THE TABLE?

Christian: Firstly, we are a venture capital firm with a track record of more than 10 years of venture capital investments. Secondly, we are arguably the largest private investor network in the EU today.

OUR CRITERIA ARE THE FOLLOWING:

1. Nonconstraining Equity financing must be possible
2. Not only first-round investments but follow-on investment rounds must be able to be financed – one-off investments in early-stage simply does not work. This is why institutional investors have often failed – they had no budget for follow-on investments
3. Professional structures need to be created where investments of individuals can be done alongside with professional investors

THESE CONDITIONS – HOW DO YOU PLAN TO PUT THEM INTO PRACTICE? DO YOU HAVE ANY PLANS ON THE CROWDINVESTING SIDE?

Christian: interestingly enough, in Luxembourg we have found a good environment for crowdinvesting. Entrepreneurs are not looking for hundreds of investors – we have identified a structure to bundle investors so that the entrepreneur has only one contact person. b-to-v can bring the network of investors and good target investments together. And via b-to-v, private investors can co-invest with professional investors. Others do not have a validated investor circle, in that sense b-to-v is unique. Good investments attract professional investors, who in turn attract smaller, less experienced investors – they just need the lead of professionals.

And Luxembourg is open and able to learn. It is looking at how crowdinvesting works in the US, with good conditions for investments. Whether crowdinvesting in the classic sense or not – there are many difficulties to be faced – the standard contractual arrangements are not possible – these are the issues to be discussed when setting up such a structure and discussions are ongoing. So far, no European regulator has been able to create a framework that works – but we are positive that Luxembourg is on the right track!

*** Anja Grenner, Associate Director, EY Luxembourg**

LUXEMBOURG: CREATING A HUB FOR INNOVATION

LUXEMBOURG IS A GREAT PLACE FOR START-UPS – THERE'S A LOT HAPPENING. ON JULY 9TH, LPEA ORGANISED A THOUGHT LEADERSHIP ROUND-TABLE AT THE TECHNOPORT IN BELVAL, LUXEMBOURG'S BIGGEST BUSINESS INCUBATOR, WITH REPRESENTATIVES FROM THE LUXEMBOURG VENTURE CAPITAL SECTOR. SO WHAT HAS CONTRIBUTED TO LUXEMBOURG'S SUCCESS? AND WHAT IS REQUIRED TO MOVE THIS GROWING SECTOR TO THE NEXT LEVEL - TO MAKE LUXEMBOURG EVEN MORE ATTRACTIVE FOR ENTREPRENEURS, START-UPS AND INVESTORS?

Jane Wilkinson: How would you assess the current Luxembourg ecosystem for start-ups?

Diego De Biasio: It's getting better and better. Since 1998 we have accepted 94 companies in our incubator. 29 of these companies have raised €49m from external investors over the past 13 years. Nine of them received financing from venture capitalists such as Mangrove, DFJ, Advent Life Science, Index Ventures and Seventure. Out of the 94 companies, 34 graduated from the incubator successfully from which 10 have been acquired by international corporates. The fact that recent investors are coming primarily from France, the UK, the US, Belgium and the Netherlands is a testament that there is some leading innovation developing here in Luxembourg. We also noticed that the local investment scene has evolved over the last years with the emergence of new players.

Jane: Alexander – you have been a venture capitalist and entrepreneur based in Paris and the US, spending some time

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Jane Wilkinson
Partner at KPMG - Moderator

Diego De Biasio
CEO of Technoport, the biggest incubator in Luxembourg

"THIS IS A GREAT PLACE TO TAKE A BUSINESS FROM LOCAL TO GLOBAL"

in Silicon Valley, arguably the start-up centre of the world. What brought you to Luxembourg?

Alexander Rhea: Actually it was PwC, a major business actor here in Luxembourg, which asked me to move here in summer 2011 to head up and grow a new innovative project of theirs, the PwC's Accelerator. PwC's Accelerator is in the business of assisting fast growing innovative companies in becoming global in scope, a major challenge if not the major challenge for any innovative company. My dual background of having invested both in Europe and in Silicon Valley was a shoe-in for heading this challenging project, in a market just waiting to be tapped into. In July 2014, together with PwC's assistance, I have set up New Angle Capital (NAC), a separate entity from PwC, here in Luxembourg. NAC invests on behalf of HNWI (high net worth individuals) and corporates into private equity opportunities. Setting-up an investment house here in Luxembourg was a natural next step for me after my very enriching experience at PwC's Accelerator. Being here in the centre of Western Europe allows you to have a pan-European approach to dealflow which is quite unique in this business. Also Luxembourg, with such a concentration of cultural diversity, really lends itself to supporting smaller start-ups to go from a local/regional state to becoming a true global corporation in just a few years. As this quick internationalisation – taking successful ideas global –has become one of today's biggest challenges, Luxembourg has definitely a card to play here.

Jane: Thomas – you have also chosen to set up your business, Cross Seed Ventures in Luxembourg.

Thomas Hartwell-Krämer: Yes – I originally came to Luxembourg several years ago to work for a Big4 firm, and have subsequently set up Cross Seed Ventures. No-one has mentioned yet the fact that Luxembourg has some very attractive corporate and fund vehicles to structure investments – that is indeed one of the things Luxembourg is famous for – the investment fund environment – and rightly so. It is relatively easy to set up a business in Luxembourg, and in particular the back office, which is an advantage. There are challenges though building a core team with the necessary technical expertise – the country's talent pool is not currently overflowing.

Jane: Jean-Yves – you are a director of the Luxembourg Business Angel Network and chairman of the board of The Impactory, a coworking space and business incubator where creative people come to share their knowledge, discuss projects, ideas and learn from others. There are few people in Luxembourg who are as involved in start-ups and VC as you are.

Jean-Yves Hergott: There is a lot of help available for start-ups and entrepreneurs in Luxembourg. There are a number of incubators, co-working spaces and support networks such as The Impactory, the Technoport, or the Future Lab as well as agencies such as Luxinnovation and the Luxembourg Innovation Clusters initiative. We set up the Impactory to bring together entrepreneurs, who would otherwise be sitting at home trying to create and transform their ideas alone – the co-working space and support that is available at The Impactory allows entrepreneurs to network, test ideas, and generally feel supported. That is a key for new start-ups. The Impactory fills the initial gap, followed by organisations aiming at more developed projects which are hoping to raise VC finance. This kind of business may look to the Technoport for support as well as towards programmes such as PwC's Accelerator or KPMG's K-Start which offers pro bono professional services support to young businesses.

Jean-Yves Hergott
Managing Director of Victlda. Entrepreneur and business angel.

Thomas Hartwell-Krämer
CEO of Cross Seed Ventures

Alexander: Yes, but if I may, I can tell you that by experience the top priority on any entrepreneur's mind is to raise capital. So unless Luxembourg can be seen as a destination where obtaining some sort of local government or state backed funding through either an incentive programme and/or a matching programme, all these incubation programmes that the Luxembourg scene has to offer will never know the attractiveness they deserve.

Jane: Where do you see the challenges to the continued development of Venture Capital in Luxembourg? Diego – your experience shows that investors are generally coming from outside the country and we know that investors often want their portfolio companies "in their back yard" rather than "on the other side of town" – Can you say that keeping our successful start-ups in Luxembourg is not always easy.

Diego: yes and no – I believe that Luxembourg has still a lot to offer and investors look also at that. We never completely 'lost' a company because of that – all those that got VC money, even if from abroad, kept operations in Luxembourg. The few ones that completely left the country where mainly some of those that got acquired by foreign corporates after they left the incubator – but this falls mainly under 'normal business practices'.

Alexander: At PwC's Accelerator we were very much aware of the various European jurisdictions Luxembourg is up against. I know for instance that we were all very impressed at Enterprise Ireland, a very determined government agency when it comes to helping finance young fast growing companies in Ireland and helping them in their internationalisation effort. Anyone that goes on this agency's website cannot help notice the wealth of available financial aid and fund matching programmes as well as coaching programmes offered by this organisation. What is certain is that Ireland has made attracting innovation from all over the world to their country a top, if not the top government priority.

Luisa: It is interesting to see that Luxembourg does have the Future Fund which should be officially launched in the coming months. The Luxembourg Future Fund, which is a partnership between the SNCI (Société Nationale de Crédits et Investissements) and the EIF (European Investment Fund) should contribute to reinforcing financing available for promising local businesses and start-ups.

Alexander: The Future Fund is for sure a great step in the right direction, but the game-changing step will be to attract actual investors and/or investment teams here to Luxembourg. And when I speak of investment teams being located in Luxembourg, I mean having the entire decision making team here in Luxembourg. Companies that come to

Luisa Deas
Business Development Executive at Allen & Overy

Alexandre Rhea
Managing Partner at New Angle Capital, venture capitalist since 1995

look for financing in Luxembourg should be able to speak to no less than half a dozen funds. Why can't we have our own Sand Hill Road here in the Grand-Duchy? My opinion is that such attraction can happen but will happen only through an important incentive program – I am thinking about the example of the FSI (Fond Stratégique d'Investissements) in France – recently renamed BPI France – which now finances on average 25% to 50% of the entire capital commitments of all established French institutional venture capital/private equity funds. Nobody disputes the fact that if France is second only to the UK when it comes to VC activity in Europe, it is thanks to the continued commitment of BPI France to back VC/PE investment teams. As a VC firm operating anywhere, it would be very attractive for me to move my entire investment team to Luxembourg if I knew that the Luxembourg government offered some sort of sponsoring and/or matching program when raising my next fund.

Thomas: I absolutely agree with Alex – nothing like "lead money" to make the rest of the money flow.

Jean-Yves: Beyond access to venture capital, there are also some interesting tools which are used by our Silicon Valley friends. For instance many companies are now having access to serious pockets of angel money and/or crowdfunding platforms which often include financing companies through convertible loans which is an interesting alternative especially when still too small for VC funds. In Europe we still have much catching up to do. For instance, seed investors are still too rare and often too risk averse which results in many young companies remaining too small for VC investors because they do not generate enough revenues.

Alexander: That's true – the environment in Silicon Valley goes way beyond capital financing by VC funds. If you have a great company in the making, everyone over there will favour equity over cash. Employees, landlords, and all types of service providers will all be open to taking equity rather than all cash. Law firms in Silicon Valley are famous for offering their services free or at reduced rates to start-ups in exchange for equity. Also banks, funds, law firms, consultants, and incubators regularly host events to promote interesting start-ups. This is a great way for start-ups to get noticed by the community, polish their presentation skills, meet corporates for potential partnerships, etc…It is like the entire community is investing! That is an interesting concept.

Diego: What we also need is more involvement of bigger corporations. Technoport has recently been accepted within programs like the PayPal Start-up Blueprint program or the Amazon Web Services program for start-ups. We also became Network Partner for the Microsoft Bizspark program. But these are global programs. What I would like to see is other local and national big corporates connecting more to the start-up environment to support their development. This would add another layer to the overall attractiveness of the startup environment in Luxembourg.

Jane: Thomas – you mentioned availability of talent as being a potential issue.

Thomas: Indeed, universities are one of the greatest sources of talent for start-up businesses. I know that Luxembourg is slowly building the talent pool through the university.

Jeans-Yves: yes – the University of Luxembourg campus is already a great place to source talent, albeit, still pretty small for the moment. In countries like the Netherlands, VC companies have offices near every university in order to be able to pick the best talent – this is particularly prevalent in places like the Netherlands.

Thomas: Sweden and Denmark as well….

Jane: It is not by chance then that Sweden, Denmark, as well as Germany and Finland, are at the top of the EU Innovation Union Scorecard – but what is really interesting is the fact that Luxembourg is ranked 5th which is a great recognition of the success stories related to the different entrepreneurship initiatives we have.

Jane: What are the key sectors which will produce the next great successes for Luxembourg? If I gave you a crystal ball, what would you see for the future?

Diego: Luxembourg is getting more and more attractive – we've had 84 applications in six months in 2014 and 23 were from outside the greater region area. There is increased dynamism among start-ups, entrepreneurs and other organisations in Luxembourg. ICT remains the major sector of application but we see that it touches different sectors like life science or connected devices. We also have several environmental projects, which is in line with the policy of the government. Personally I also hope to see more industrial projects, but I know that these require even higher investments.

"IT'S VERY INTERESTING TO NOTE THAT LUXEMBOURG IS RANKED 5TH IN THE EU INNOVATION UNION SCORECARD"

Jane: Do you think the concept of the 111 company – one person, one day, one euro, will ever happen in Luxembourg?

Thomas: I certainly hope so – having a start-up friendly legal system is key. There are already great vehicles and a few more developments, like Diego said, to make the environment more friendly to start-ups would be great.

Alexander: If I summarise my thoughts, Luxembourg is a place with a great quality of life, high-end data centres, multi-cultural workforce and some great initiatives supporting entrepreneurs. Attracting more investment and reinforcing support for innovation and entrepreneurship initiatives will contribute to moving Luxembourg to the next level.

Jane: So watch out Silicon Valley – here comes Luxembourg!

IN SHORT

- There are some great initiatives already in Luxembourg supporting local start-ups to move quickly global.
- Initiatives like the Technoport and The Impactory as well as the multi-cultural environment and flexible tool kit of corporate vehicles are contributing to make Luxembourg a growing hub for innovation and entrepreneurship.
- The government should develop incentives for venture capital firms, to attract more investment teams here to Luxembourg.
- Talented individuals must be given a reason to set up their business or to stay in Luxembourg. Lead money generates co-investors.
- Luxembourg needs to send out a stronger message that it is a very competitive place to be for entrepreneurs with many advantages over other jurisdictions.

BAMBOO FINANCE - A PIONEER IMPACT INVESTOR WITH TRACK RECORD

BAMBOO HAS BEEN USING LUXEMBOURG AS A HUB FOR INVESTING IN MICROFINANCE BASED ON PRIVATE EQUITY FOR MANY YEARS. EXPANDING ITS UNIVERSE OF INVESTMENT, BAMBOO IS NOW VENTURING INTO PROVIDING ACCESS FOR THE POPULATION ON EMERGING COUNTRIES TO CLEAN TECHNOLOGIES.

Bamboo Finance SA, member of LPEA, is registered in Luxembourg where it has found a supportive environment for its growth and the development of its investment funds. The Bamboo Group includes four wholly owned subsidiaries in Switzerland, Colombia, Kenya and Singapore which it uses as hubs of its regional investment management teams.

Bamboo Finance is a Swiss-based private asset manager investing in emerging and frontier markets.

It intentionally restricts its investment universe to those companies whose core business improves directly the living standards of low income communities. This is why it considers itself as an "impact investor". The existence of clearly identified social, economic and environmental benefits on low income communities from the companies it targets constitutes the first screen of its investment process. Thereafter, Bamboo Finance behaves as a pure profit maximizer. Bamboo does not believe in any intrinsic trade-offs between social, environmental and financial returns. Bamboo does not consider "impact investing" as a separate asset class, but as a clear and transparent definition of its investment strategy. Bamboo Finance cares about effecting such change in people's lives and about making our planet a better place. This is the core of its mission. It therefore tracks precisely and concretely the effects of its investments beyond the pure financial returns. But this does not come at the expense of rigorous processes and profit maximizing investment strategies.

Since 2007, Bamboo Finance has deployed about $175M of capital in 46 companies operating in 30 countries. It has

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since realized exits from its private equity portfolios, returning to date close to 30% of the capital it had called from its investors, with gross $IRR rates ranging from 18% to 39%. Its portfolio companies are improving the daily life of over 10 million poor people by enabling them to get access to better, more accessible and more affordable education, healthcare, housing, financial services and clean energy.

Bamboo sees the rapid emergence of disruptive business models all over the world and firmly believes in the future growth of its investable segment. Bamboo is now embarking on the launch of its second generation of funds. It will continue to invest in inclusive financial services and will keep fostering the creation of regulated deposit taking financial intermediaries which it considers both a key value

creation strategy and a very meaningful social undertaking. Based on its past investing experience and its analysis of the markets where it invests, Bamboo Finance has also decided to dedicate a private equity fund to focus on companies developing solar energy access to off grid rural populations, a sector which it considers as a rapidly growing one, where significant value creation opportunities go hand in hand with major social and environmental benefits for the targeted populations and the planet as a whole. Finally, it will not be long before it launches its second generation multi sector global impact fund which it will specifically structure to appeal to a very large range of individual investors.

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ESG: THE GROWING ELEPHANT IN THE PRIVATE EQUITY ROOM

Jane Wilkinson, LPEA Member*

In the aftermath of the global financial crisis, Private Equity players are facing a significant shift in industry dynamics. They must address their reputation problems while demonstrating their ability to create value in difficult market conditions. Whilst the whole financial industry and the EU commission are well advanced in their reflections on long-term investments and investments in the "real economy", private equity firms are only beginning to seize the opportunity to shift from a "traditional value creation model" essentially based on financial return creation to a model factoring ESG (environmental, social, governance) issues throughout the investment process, from initial due diligence through to exit.

Although the interest of PE houses for ESG integration varies from indifferent to very enthusiastic, it is now becoming clear that an increased number of PE players, both GPs and LPs are now looking and applying ESG integration, with the final aim of creating additional value to their deals. The 2013 Pitchbook Private Equity ESG survey notes that now almost 80% of LPs are expressing increased concerns around ESG issues. It is Europe that is leading the way with around 60% of LPs considering ESG issues before committing to a new PE fund, as opposed to only 20% in North America.

This trend is also notably reflected in the number of private equity-focused firms that are signatories to the United Nations Principles for Responsible Investment ("UN PRI"). As of the end of 2013, there was more than 130 General Partners ("GPs") and more than 130 Limited Partners ("LPs") as members of the PRI Private Equity work stream of the UNPRI.

The drivers for such a craze can be articulated around four main points:

- **Increased Investors' requirements:**
  long-term investors, such as pension funds, now include specific ESG requirements in their mandate putting pressure on investees;

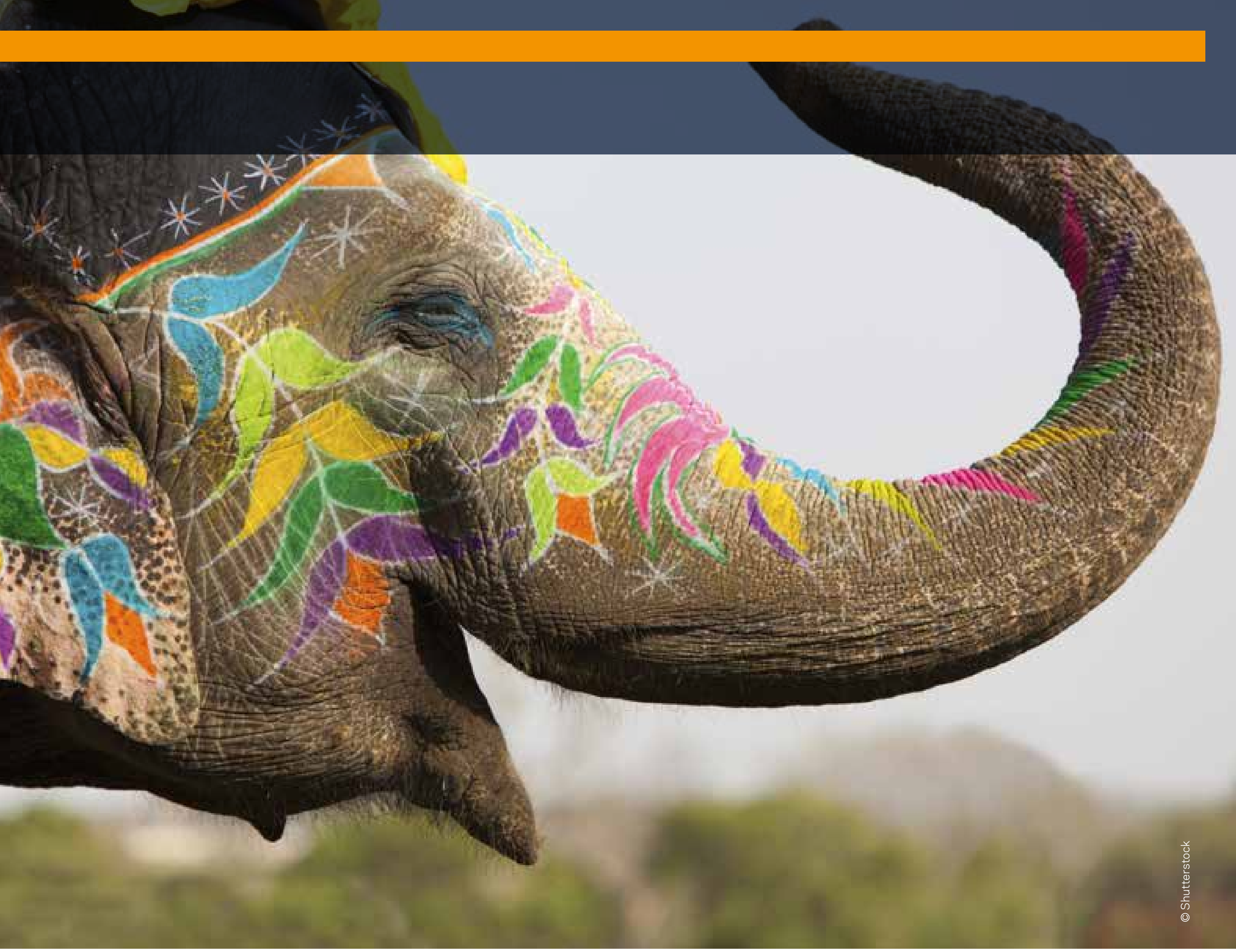
- **Fundraising differentiator:**
  demonstrating responsible investment practices may be an asset in the competitive fundraising market;

- **Improved risk management:**
  reputation risks and costs linked to an ESG-related incident may be significant and negatively impact the value of company;

- **Cost-savings opportunities:**
  ESG initiatives may reduce the use of resources such as power, water and fuel and therefore reduce bills' costs.

Concretely, there are several ways to integrate ESG factors into the investment chain. Several toolkits and checklists have been developed by industry players[1] to assist GPs integrating ESG sector-specific analyses into their due diligence process. Frontrunners engage with target companies during the acquisition phase to help them set-up an ESG programme. Some even jointly define specific ESG indicators to measure and monitor the ESG performance of the target companies they invest in.

1 A list of industry tools can be found in the publication by the UNPRI « Integrating ESG in private equity – a guide for General Partners », dated 2014



"IGNORING THE ESG TOPIC WILL BECOME INCREASINGLY PROBLEMATIC FOR GPs'"

JANE WILKINSON

Whilst integrating extra-financial aspects in the investment decision seems wise, it is also fair to recognize that not all ESG risks require immediate attention and may not all be material to financial performance. Therefore it is important both for GPs and LPs to be able to prioritize issues based on the level of importance of such issues and also based on their term horizon to make sure that the time they will invest in including ESG will yield results.

What is now very clear though is that ignoring the ESG topic will become increasingly problematic for GPs raising new funds.

*** Jane Wilkinson, Partner, KPMG Luxembourg**

PRIVATE DEBT FUNDS - AN EVOLVING ASSET CLASS

THE CURRENT LOW INTEREST ENVIRONMENT COMBINED WITH YIELD HUNGRY INVESTORS WHO CONTINUE TO FEEL THE PRESSURE TO PUT CAPITAL TO WORK IN MORE CREATIVE WAYS HAS CREATED DEMAND FOR BOTH INVESTMENT AND SPECULATIVE GRADE PRIVATE DEBT FUNDS.

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Nina Kleinbongartz
LPEA Member

Phil Godley, FCA
LPEA Member

THE DEATH OF BANK FINANCING

The global financial crisis in 2008 caused European banks to naturally reduce their appetite for lending to corporates, real estate borrowers, SMEs as well as lending into leveraged buy-out and other M&A activity. Their future desire and ability to lend was to be reduced even further, underpinned by the regulatory changes and structural reforms that were implemented across Europe in the aftermath of the crisis. The resulting dearth in bank financing clearly presented a problem for the market and therefore, since 2009, lending to European borrowers has no longer been the preserve of banks, thanks largely to the diaspora of their former employees to set up new, private real estate debt funds taking advantage of the dislocation in funding requirements. With each year that passes we see the number of private debt funds increasing, with no signs of that trend slowing at this time.

THE CHANGING MARKET

In the first few years following the crisis, there was much talk about how the pending 'maturity wall' would be resolved. In 2011 Standard and Poor's estimated the refinancing requirements of debt held by banks affected by the crisis to be $8,000bn over the four years to 2015. A good proportion of this debt has now been refinanced by those companies who were of sufficient size to raise a corporate bond. The low interest rate environment has made such issuance very attractive and demand has been strong. The issuance of such non-investment grade non-convertible corporate debt, often termed 'high-yield', has ballooned over the last five years with $1,303bn of issuance in the US over the last five years, an average of $260bn against historical averages of $141bn.

However, those SMEs and others such as real estate borrowers who have been unable to raise a bond have had to source alternative financing. Many of those lenders who are essentially good credits and able to service their debt have either sourced alternative finance or negotiated with their banks to 'amend and extend' their loans. Although it is nearly six years since Lehman Brothers failed in September 2008, European banks still currently hold about 91% of outstanding European commercial real estate debt. Those lenders who have been unable to service their debt will have found that their new lender is likely to be a fund managed by distressed debt specialists acquiring large portfolios at significant discounts from the banks who will have written down such portfolios during the years of the crisis.

The funding gap appears therefore to be systematically resolving itself and is being increasingly filled by private debt funds and other non-bank lenders, with significant growth in the number of new market participants. Insurance companies and pension funds, in search of enhanced yield, have been increasing their exposure to this sector but may well find that there are future limitations imposed upon them as a result of Solvency II. At a retail level, there is the growth in "crowdfunding" or peer-to-peer services.

In the US market, these non-bank sources make up nearly a quarter of SME and real estate finance and the European market will likely follow this trend. Expectations are that non-bank lenders will increase market share to 15% in the UK and around 8% in Europe over the next few years. This figure may well be higher given that the rate of bank deleveraging is hard to predict, evidenced by 2013 sales of non-core loans by banks being 40% higher than in 2012.

Debt fund managers will be encouraged about future deal prospects from bank de-leveraging which may arise after decisions are made in the wake of the Eurozone-wide Asset Quality Reviews in September 2014, as well as stricter Basel III capital requirements for banks and resulting stress testing that is currently on-going.

As the number of private debt funds increases and European economies strengthen and grow, the competition in the market will continue to increase across senior and junior lending opportunities as banks become more interested in piecemeal lending to suitable deals. The main result of this increased competition has been the reduction in spreads for lenders and an increase in leverage multiples. Whichever way these changes are viewed in the market, it is clear that private debt funds are now an established part of the financing landscape and will continue to grow in importance.

A common trend in SME and real estate lending is for private debt funds to provide a single 'unitranche' loan to borrowers, i.e. not distinguishing between senior and junior debt. Historically debt funds focused on a particular tranche due to the nature of transactions i.e. they provided junior debt under a bank's senior loan in sponsored real estate and LBO transactions or acquired syndicated senior debt from banks. As private debt funds have enabled the disintermediation of banks they now focus on being a single lender to borrowers.

This single lender proposition came about as private debt managers, particularly those who established their funds post 2009, faced unexpected resistance from the banks in allowing access to borrowers who needed financing but where the banks were unable to lend. The managers wrongly assumed that the banks would partner with the asset managers to ensure the continuation of finance to their corporate customers. Managers believed that this would have been a good solution allowing banks to maintain goodwill with their clients. However banks did not want to form such partnerships fearing the transfer of their banking relationship to the private debt funds. Accordingly asset managers had to establish their own origination platforms typically approaching corporate advisors to gain distribution to target borrowers.

Today, these 'unitranche' asset managers are very effective lenders with strong origination platforms, good distribution and the ability to provide whole loan financing. Sometimes such loans may be 'split' internally amongst different funds managed by the manager to allow the continuation of senior and junior fund strategies but we are seeing an increasing trend in 'direct lending' funds. For example ICG closed its first direct lending fund at €1.7bn, Hayfin closed its first one at €2bn with a further €1bn into managed accounts. GSO, Blackstone's own debt manager, now has $65bn under management and continues to grow.

Interestingly, since the beginning of 2014, there is now a trend where banks are actively approaching these asset managers to partner with them to provide banking services to borrowers such as hedging and short term facilities such as RCFs. The relationship between banks and asset managers remains dynamic.

FUND STRUCTURING - TRENDS AND CONSIDERATIONS

As the private real estate debt fund opportunity has become more established, so the trends in structuring those funds have become more evident. In practice, many of the new structures remain closed ended private equity style funds and resemble those of the mezzanine funds raised during the early to mid-2000s. This is as a result of the three main considerations applicable to fund structuring, namely i) investor preference, ii) tax efficiency and iii) regulatory considerations.

INVESTOR PREFERENCE

Apart from investors that have long seen sub-investment grade debt as an opportunity, the recent and on-going low interest rate environment across Europe has seen an increase in new investor types to the market in search of yield. These new investors have differing requirements resulting in a variety of fund structures in the past few years.

Investors usually prefer a fund domicile that is familiar to them and also one that presents a stable economic and legislative environment. Indeed, some of the larger investors have found that the most advantageous and the most flexible solution is to request a separately negotiated managed account structure, wherein economic as well as operational terms, including domicile, can be tailored specifically to that investor. This typically takes the form or a single corporate entity established in Luxembourg.

TAX EFFICIENCY

The key goal when structuring debt funds remains minimising tax leakage within the core investment structure and any feeder elements. It is important that this should include consideration of withholding tax, local tax on financing margins as well as VAT on items such as management and advisory fees.

Tax transparency at the investor contribution level is important to the considerations of fund structures but, equally important, is the mechanism by which income flows are able to pass from underlying special purpose vehicles, used as asset holding companies, to the top of the fund and ultimately the investors.

Luxembourg has proved to be the jurisdiction of choice for those special purpose vehicles given the country's comprehensive list of nations with whom it has a double tax treaty arrangement.

Finally, the market should also note that the OECD's Action Plan on Base Erosion and Profit Shifting may result in changes to acceptable fund structuring solutions in future. The OECD is due to provide an update on this project later this year.

REGULATORY CONSIDERATIONS

There are two main areas for real estate debt fund managers to consider in terms of regulatory challenges, the Alternative Investment Fund Managers Directive ("AIFMD") and the EU's Shadow Banking "roadmap for tackling risks" consultation process.

Under AIFMD, in order for the manager of a private debt fund to qualify as an AIFM, that manager will need to be responsible for portfolio and risk management. For these purposes, it will need to evidence to the relevant regulator that the individuals on the board of the manager (or general partner where relevant) have the appropriate expertise in relation to private debt or similar investments.

The EU's stance on shadow banking and how exactly they plan to regulate alternative providers of credit in future will require attention. At this stage, expectations are that more detailed reporting requirements will be required from fund managers. Considerations around whether unregulated funds such as the SLP are able to originate loans pursuant to banking laws must be properly addressed during the current period of uncertainty with appropriate legal advice and open communication with the regulator.

CONCLUSIONS

The demand for non-bank financing will remain strong and will likely increase in future with a move to the US model where non-bank financing is much more prominent. Unless there is a real shift in bank appetite, the need for private debt funds will continue to grow.

As that market continues to grow, competition will increase but the regulatory and operational requirements to run these types of funds will also increase. The need to work with lawyers, accountancy firms and specialized service providers with the necessary experience and expertise will be important to the successful launch of such funds.

*** Nina Kleinbongartz, Director, Private Equity**
*** Phil Godley, Head of Debt**
Sanne Group

AIFMD — NAVIGATING THE DISTRIBUTION MAZE

Nicolas Fermaud, LPEA Member *

The AIFMD has divided non-European fund managers into two categories: those large enough to spread the implementation costs of a fully-fledged European operation over a large number of products and those who cannot do so. Most of the former are now taking full advantage of the benefits of the distribution passport while the latter are – often – still undergoing a cost-benefit analysis to determine the best distribution strategy for them.

Potential strategies include:

- relying on private placement rules (for as long as those exist)
- the set-up of de-minimis structures
- the use of platforms
- "rent" an AIFM.

We discuss these options in this article in the context of phase I of AIFMD's implementation ending 2015, or any later point in time if and when the passport is extended to non EEA managers.

PRIVATE PLACEMENT REGIME

Some non-European fund managers targeting a limited number of European jurisdictions prefer to keep the non-European structure they are familiar with and to market it on the basis of the private placement regime. Article 42 AIFMD sets out the minimal requirements for such regimes which has been gold-plated in a large number of jurisdictions (although not Luxembourg), notably to impose a custodian to the AIF.

Non-European managers that seek to employ a private placement scheme will at least need to:

- update disclosure documents to ensure that the minimum information requirements are met (readers should note that such information must include a complete disclosure of preferential treatments granted to some of the investors, eg. via side letters);
- update investors on a regular basis (more relevant for hedge funds than for private equity/venture capital funds);
- file information on a regular basis with all regulators of the EEA jurisdictions in which they market a fund;
- ensure that a memorandum of understanding exists between (i) the fund jurisdiction's regulator and all regulators of the EEA jurisdictions in which the fund will be marketed and (ii) the manager's jurisdiction and all regulators of the EEA jurisdictions in which the fund will be marketed. In addition, tax exchange information mechanisms in line with article 26 OECD model convention have to be in place when phase II starts;
- specific disclosure and strategy restrictions (ie. anti-asset-stripping rules) applicable to investments in non-listed EEA companies (particularly relevant for private equity houses).

DE MINIMIS RULES

AIFMD contains de minimis thresholds (that is, EUR100m including leverage or EUR500m for unleveraged funds with a minimum lock-up of five years) under which a manager is subject to a fairly straightforward registration regime as opposed to a fully-fledged authorisation regime.

It can be tempting for non-EEA managers to establish a European AIF/AIFM structure with assets under management (AUM) under the above mentioned threshold. Indeed, while small AIFMs do not enjoy the benefit of the passport, such structures could allow the non-European fund manager to avoid:

1. the difficulties linked to the absence of an AIFMD compliant cooperation agreement between relevant regulators;
2. being "dragged" into full AIFMD compliance because such a manager manages an EEA AIF if and when phase II starts; and
3. disclosing that manager's compensation (as would need to be done if marketing is undertaken in accordance with article 42 AIFMD).

In this context, two anti-abuse provisions need to be carefully looked at: the letter-box provision and the aggregation with other structures sponsored by the same PE house.

While the letter-box anti-abuse provision should not, strictly speaking, be applicable to sub-threshold structures, the key is having the appropriate substance. Indeed, it is the view in certain jurisdictions that portfolio management, risk management and senior management are an inherent part of the AIFM's duties and should be performed (subject to delegation possibilities) by the AIFM even in sub-threshold structures. Non-compliant structures risk being prevented from entering a particular jurisdiction and/or sanctions imposed under local AIFMD implementation laws.

The second structural pitfall is whether or not the AUM of that structure should be aggregated with the AUM of other AIFMs "operated" by the same sponsor for the purpose of measuring whether it meets the thresholds.

Indeed, the ambiguous wording of article 3.2 AIFMD: "AIFMs which either directly or indirectly, through a company with which the AIFM is linked by common management or control, or by a substantive direct or indirect holding, manage portfolios of AIFs whose assets under management in total do not exceed (...)" may be working as an anti-avoidance mechanism itself by aggregating all AUM of a particular group.

The first difficulty posed by this wording, which was rightfully pointed out during the legislative process, is that it does not rely only on established European law group concepts, but on an undefined concept of "linked by common management". Furthermore the word "through" seems to indicate that the test is akin to the "piercing the corporate veil" test in group structures.

The second uncertainty is that this wording seems to imply that AUM can be aggregated between AIFMs. We doubt that such reading is correct. A counter-argument to that can be found in Article 2, 1(a) AIFMD Regulation, according to which the AIFM must "identify all AIFs for which it is appointed as the external AIFM or the AIF for which it is the AIFM" and then aggregate values of the AIFs. There is no express aggregation rule of AUM values between AIFMs other than to clarify which AIFM integrates the value of delegated portfolios.

While practice (and possibly ESMA's 2015 report) will bring clarification, it seems, that for the time being, it would be prudent for fund managers to take a conservative approach when assessing whether the "regulatory veil" can be pierced.

Again, in that respect, having the appropriate level of substance for each AIFM set-up by a PE house is paramount.

USE OF PLATFORMS

In this model, the non-EEA fund manager will only have a mandate to manage assets that are allocated to a particular compartment or sub-fund of a larger, already existing platform, typically sponsored by a large credit institution. The non-EEA fund manager will also be responsible for the marketing of such compartment/sub-fund. White label platforms have been popular with the hedge fund industry where the portfolio management can be delegated to an outside firm. For private equity structures where the decisions are typically retained at board/GP level, this model is probably less well-suited since the non EEA manager is usually not entitled to seats at board/GP level.

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"RENT"- AN- AIFM

In this model, the AIF, set-up by the non EEA manager, appoints an AIFM as a third-party service provider. The external AIFM will exercise senior management functions (as defined by AIFMD) and risk management and/or portfolio management. Benefits of this option for the non EEA manager include:

- the possibility to revoke the AIFM, like any other service provider, at any point (assuming that another AIFM can step-in)
- the possibility to choose the other service providers of the fund (custodian, legal advisor, etc.)
- using its own branded private placement memorandum (PPM)
- driving – to a certain extent – the business acceptance threshold that investors have to pass to be accepted.
- a relatively short time to market.

This last option is probably the favoured route for PE houses.

In conclusion, AIFMD's implementation has caused profound upheaval in the way non EEA PE houses attract and access European capital. Navigating the maze, however, is possible. Fund managers can establish new, or upgrade their existing, European infrastructure to operate their own AIFM or, they can implement the solutions highlighted in this article. Those passing the cost along to their investors are also likely to split the costs between their European and non-European investors so that only the former support the AIFMD costs (for instance by creating parallel investment vehicles). In any event, careful analysis of the domestic implementation in a particular EEA member state is required and recourse to major pan-European counsels is highly recommended.

*** Nicolas Fermaud, Counsel,
Allen & Overy New York**

DISCOVER ANOTHER LUXEMBOURG

LUXEMBOURG IS CERTAINLY WELL KNOWN FOR ITS FINANCE INDUSTRY, HOWEVER, AS DETAILED IN THE PUBLICATION LUXEMBOURG: WHERE ELSE? FROM THE LUXEMBOURG CHAMBER OF COMMERCE AND PWC, THE COUNTRY PRESENTS A NUMBER OF OPPORTUNITIES IN MANY OTHER, SOMETIMES UNEXPECTED, FIELDS.

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Nicolas Bernhardt and Valérie Tixier, LPEA members *

HEALTH SCIENCES AND TECHNOLOGIES

Developing a project in the field of diagnosis and medical research

Luxembourg is becoming a preferred location in Europe for world leading scientists and industrial players in the field of personalised medicine. This is mainly due to the advanced research projects supported by numerous international partnerships at all levels and a unique public-private interaction environment and strong governmental support of life sciences and healthcare research.

Developing and centralising IP

Luxembourg is the ideal location to benefit from an attractive tax regime, as well as to save up to 80% of the net income received.

Ensuring fundraising for start-up companies

As one of the leading European financial centres with a high presence of asset managers, private banking, diverse private equity and venture capitalist funds, Luxembourg emerges as a dedicated location for raising international funds and organising corporate structures. In addition, some public bodies, like the Ministry of the Economy and Foreign Trade, the National Research Fund and the SNCI, may decide to co-finance your project.

Using IT capacity, a catalyst for discovery

Luxembourg has developed numerous advanced information technology infrastructures with a multitude of services to offer (storage facilities, managed connectivity, IT managed services, etc.) and has one of the best developed national fibre networks within Europe.

Leading areas of University research competencies in Luxembourg

Luxembourg will be at the centre of a health sciences and technologies hub. It will gather in the Greater Region 15 universities and 14,000 medical students within high profile biomedical research institutions and international research consortia.

Tapping into the European pool of resources to recruit

The development of international research projects, high salaries for scientific and expert staff and the overall quality of living confer Luxembourg a special attractiveness in Europe when it comes to recruiting future researchers. 82% of researchers in Luxembourg are foreigners.

LOGISTICS & TRANSPORT

Putting the European distribution centre at the heart of Europe

The central location of Luxembourg turns out to be an ideal and efficient distribution hub to the European market with no less than 500 million consumers. Luxembourg confers direct access to the major consumer markets and to a wealthy population within an accessible range and multilingual workforce.

Tapping into larger markets thanks to a fast and connected logistics network

Luxembourg's Airport Cargo Centre is committed to safe, efficient and speedy ground handling allowing jumbo freighter planes to be compliant with customs and able to unload at a record speed of as low as 90 minutes. What's more, its ideal location enables trucks to reach the open road in a minute and any European city in twenty-four hours.

Developing added-value logistics activities

Luxembourg presents a unique value proposition in Europe for high value services thanks to direct routes to more than 90 world destinations. Rapid goods and customs processing ensure a fast delivery to European clients, specialised service providers in high value, luxury and medical devices goods and a favourable regulatory and tax environment.

Developing green logistics

The future of logistics is intimately linked with the development of sustainable modelling and environmentally friendly solutions. Since 2007, to comply with ecological constraints, an innovative railway service in Europe has been developed. It permits intermodal (road and freight) transport without unloading between Bettembourg (Luxembourg) and Perpignan (France).

No VAT prefinancing on imports

Importing goods into the EU generally triggers a VAT liability in the country of importation, unless the goods are placed under a specific suspensive customs regime. Most EU countries ask for payment of the VAT due on import. In Luxembourg, no cash payment of the VAT on import occurs. Therefore, no cost is linked to the pre-financing of import VAT in Luxembourg with minimum administrative burden.

Simplified administrative tasks with the fiscal representation

Since 1 January 2008, Luxembourg has introduced the system of fiscal representation for VAT purposes. With this particular system, foreign traders do not need a fixed establishment in Luxembourg to import goods in the country. They may use the service of a fiscal representative that carries out the necessary VAT formalities and pays any VAT due in Luxembourg on their behalf, without having to obtain their own VAT number.

Toward a paperless environment

A paperless trade and customs environment has been developed by Luxembourg Customs authorities, in cooperation with the European Commission to reduce pressure on administrative procedures and trade transaction costs.

Luxembourg is also taking part in the IATA e-freight project that aims at removing the paper documents accompanying air freight shipments by replacing them with electronic processes.

AUTOMOTIVE INDUSTRY

Thanks to the central location and outstanding technologies, car manufacturers based in Europe (like BMW, Daimler-Chrysler, Fiat, Ford, PSA, Renault-Nissan, Toyota, VW, etc.) use products that are "made in Luxembourg". Automotive components are also exported to assemblers in the USA and in Asia.

Being in the prime location for Tier 1 and Tier 2 suppliers

Luxembourg's highly competitive business environment is particularly favourable for specialised Tier 1 and Tier 2 suppliers, which provide almost two-thirds of an average car's added-value. Luxembourg offers suppliers the ideal strategic location. Close to 50 assembly lines of Original Equipment Manufacturers (OEMs) in a radius of 600 km allow relationships to sprout and collaboration to take place.

Setting up your European distribution centre

Luxembourg's long-established routes across Europe help optimise distribution performance by allowing being close and therefore timely in your delivery to a multi-customer base. All car manufacturers in France, Germany and the United Kingdom, as well as assembly lines in Belgium and the Netherlands, can be supplied from Luxembourg on a same day delivery basis.

Benefit from Luxembourg's research expertise

REA, a specialised department of the PRC Gabriel Lippmann, intends "to be fully at the service of the world of

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automobile equipment manufacturers and attentive to their needs" and is a potential partner of automotive suppliers to develop research projects. The REA department has developed strong synergies with several key public and private players. Its areas of expertise cover:

- the development of new products for the automotive sector;
- the improvement of the quality of products for the automotive sector;
- the development of new production processes;
- the improvement of the production processes of automobile equipment manufacturers.

Distinctive Intellectual Property environment
Many multinational companies across the board in manufacturing industries need to protect revenues coming from patents and licenses. The legal and regulatory context pertaining to the protection of intellectual property allows international companies to design tailor-made solutions.

A COMMITMENT TOWARDS R&D AND INNOVATION

Sizing up the weight of innovation in future economic growth, Luxembourg's Ministry of the Economy and Foreign Trade, together with Luxinnovation, the National Agency for Innovation, has deployed a programme called 'Luxembourg Cluster Initiative', which aims at establishing both research and business-based structures for innovative companies and institutions and at creating synergies between them.

Among all the Clusters, five are managed by Luxinnovation:

- Biohealth Cluster for the promotion and development of health science and technologies in Luxembourg;
- EcoInnovation Cluster encouraging sustainable development and environmental technologies;

- Materials Cluster for the creation of expertise in Luxembourg in the fields of surface treatment and new materials. The Cluster works in a transnational perspective with the collaboration of entities from Lorraine, Champagne-Ardenne and Wallonia;

- InfoCom Cluster for all information and communications technology activities;

- Space Cluster for all space related technologies like satellite systems, earth observation and space telecommunications.

Luxembourg offers a full range of custom-made investment incentives designed to give new ventures a head-start and, in particular, to foster R&D and innovation. Financial support may be granted for the funding of specific investment and R&D projects to complement equity and bank financing. The common incentives framework grants aid of up to 25% of the R&D investment. However, on specific matters the level of aid can be higher.

The eligibility requirements depend on two major elements, which are the type of beneficiary and the nature of the project. If each incentive's scheme has its own specificities, the beneficiaries generally include enterprises (SMEs or large companies) or research centres that are legally registered in Luxembourg.

In the middle of this area, Luxembourg, which has been heavily investing in high value industry, has become an increasingly attractive location for best talents.

*** Nicolas Bernhardt, Relationship manager, ING and Valérie Tixier, Partner, PwC**

Much of this article is based upon the PwC / Luxembourg Chamber of Commerce publication "Luxembourg: where else ?"

WHAT	WHEN	WHERE
LPEA Stockholm roadshow	**August 20, 2014**	Stockholm
Istanbul Finance Summit	**September 15-16, 2014**	Istanbul
Capital Creation	**September 8 - 10, 2014**	Monaco
LPEA New York roadshow	**October 9, 2014**	New York
BVCA Summit	**October 9, 2014**	London
IFE-LPEA: Private Equity Luxembourg	**October 21, 2014**	Luxembourg
LPEA Board of Directors meeting	**October 27, 2014**	Luxembourg
EVCA Venture Capital Forum	**November 6, 2014**	Berlin
Super Investor 2014	**November 18 - 21, 2014**	Paris
ALFI: European Alternative Investment Funds Conference	**November 25 - 26, 2014**	Luxembourg
EVCA Investor's Seminar	**December 2-4, 2014**	Beijing and Seoul, Asia
German Private Equity Conference	**December 5, 2014**	Frankfurt am Main
LPEA Munich roadshow	**December 2014**	Munich