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The magazine of the Luxembourg Private Equity & Venture Capital Association

LPEA

THE DYNAMIC IDENTITY OF NEXUS

Royalton Partners' move to Luxembourg P.11

A new dawn for European Venture Capital P.14

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The magazine of LPEA
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LPEA: FROM AN IDEA TO A REFERENCE

By Jérôme Wittamer, Chairman of LPEA

LPEA is a relatively young organisation created by a small group of leading players in the Luxembourg private equity and venture capital (PE/VC) industry. As we celebrate the association's fifth anniversary in 2015 we can only be proud of the successful path we have set. Counting over 120 members today, recognised by national and European peers and considered amongst the country's highest instances as the reference representative for the industry, LPEA has certainly met the most demanding expectations for an emerging trade association.

Armed with the credibility and visibility earned over the years, LPEA is now in a strong position to defend and support the growth of its industry. Over the course of 2014, the association's members conducted a strategy exercise with this in mind, which the association is now executing. Here is an overview of the key items the strategy implies:

ENHANCED DIALOGUE

LPEA actively promotes a deeper dialogue between general partners, service providers, government, political constituencies and the Luxembourg Regulator CSSF. In addition, LPEA demonstrates it cares for local business development through its involvement in the real economy (eg. business, academia, innovation centres, trade associations, etc.) and foreign counterparts.

THOUGHT LEADERSHIP & BEYOND

The unique expertise LPEA's members contribute to our technical committees can be seen in the high quality of our publications, events and other initiatives. LPEA intends to further strengthen its thought leadership on all PE/VC related developments, namely by actively contributing and proposing new and improved policies for an attractive and dynamic legal, tax, judiciary and regulatory framework.

LUXEMBOURG, THE EUROPEAN PRIVATE EQUITY HUB

Luxembourg is an early adopter of the highest international standards. As demonstrated with UCITS, this has proven to be the country's best tool to not only position itself at the forefront of the most competitive nations hosting PE/VC activities but also to showcase its compliance leadership vis-à-vis international regulations. It is an established fact that few jurisdictions, if any, can match the combination of advantages that Luxembourg offers. Few have reached a critical size of AIFMs allowing the regulator and professional services firms to reach a level of understanding and expertise necessary to deliver outstanding service. While we will always aim at improving and never accept the status quo, Luxembourg is clearly at the very edge. Therefore, we intend to carry on and further deploy our marketing efforts with a view to attracting new players to the market.

We thank you for your support and would be delighted to see you join our efforts building together Europe's leading PE/VC hub!

DEAR PRIVATE EQUITY PROFESSIONALS,

Luxembourg Private Equity and Venture Capital Association (LPEA) is celebrating its 5th anniversary this February amid a community that keeps growing steadily in a market rich with potential.
On the back of a small group of actors in 2010, our industry was able to build a reputable representative body which is now heard in the country's highest instances.
Capital V is a window on Luxembourg's private equity and venture capital industry. The four previous editions illustrated part of the common story we have been building over the past 5 years.
We will never thank enough our members for their contribution to the current issue, as well as to all those that keep supporting LPEA's work on a regular basis, making Luxembourg Europe's leading private equity hub.
Enjoy the reading.
Cordially,

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

PRIVATE EQUITY IN LUXEMBOURG

STABILITY IS OUR NUMBER ONE STRENGTH

© DR

INTERVIEW WITH
OLIVIER COEKELBERGS*,
LPEA MEMBER.

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WITH 2014 ENDING, HOW DO YOU SEE THIS LAST YEAR FOR THE PRIVATE EQUITY INDUSTRY, IN GENERAL TERMS AND IN LUXEMBOURG IN PARTICULAR?

Globally, the Private Equity industry had a good year. Despite divergent growth levels across developed economies, key performance indicators of the industry such as fundraising, M&A and IPO market activity showed very positive trends for 2014. As a fund centre and an acquisition platform for the Private Equity industry, Luxembourg benefited from these positive trends with robust activity throughout the various levels of the PE value chain. One should not ignore the impact of the AIFM regulation which brought considerable new business to the market place.

FROM AN ECONOMIC POINT OF VIEW, THE EU IS STILL SUFFERING FROM LOW ECONOMIC GROWTH. WHAT WAS THE IMPACT ON THE PE INDUSTRY AND HOW IS IT RESPONDING TO THE CHALLENGES OF THIS LOW-GROWTH ENVIRONMENT?

The EU economy is clearly struggling to gain traction, due to the slowness to implement the reforms needed and an overall lack of agility. Besides the indirect impact that a slow economic growth has on investor confidence and other stakeholders within the economy, it has a direct effect on the ability of the PE funds to make profitable investments in the EU and generate good returns. Low economic growth results in fewer opportunities to improve profitability in portfolio companies. Consequently, it becomes more difficult and takes longer to increase the value of portfolio companies to bring them to the right stage for exit. There is unfortunately no magic solution to this issue. The ability to identify those companies that will be the winners of tomorrow and deploy actions improving their earnings has historically been the unique route to succeed. This is also true in a low-growth environment, but requires even more patience and focus.

AIFMD FUNDAMENTALLY CHANGED THE PE INDUSTRY IN THE WAY IT OPERATES. HOW WAS LUXEMBOURG AFFECTED SINCE IT IS HOME TO MANY PE FUNDS AND UNREGULATED ENTITIES? WHAT CHANGES CAN YOU SEE SINCE ITS INTRODUCTION IN 2013?

Firstly, I do not believe that AIFMD has greatly altered the fundamentals under which the PE industry operates. Acquiring a company at a good price, developing it and selling it at a higher price was, in the past and will continue to be in the future, the way PE funds work; AIFMD has not and will not change that. I would rather say that AIFMD has changed the way PE firms and their funds are structured. We have seen a large number of managers reengineering their operations through Luxembourg with additional people and structures. Overall, we see a positive trend with more PE business in Luxembourg, in particular from PE houses resident in non-EU countries with existing or potential limited partners in the EU. I however believe it is probably too early to conclude whether Luxembourg will be the big winner from AIFMD as i) some key questions are still open, ii) other countries also want to attract new business from this regulation and are massively investing to make it happen and iii) the tax aspects are also going through major changes which will also impact the final outcome.

WHICH ADVANTAGES DOES LUXEMBOURG HAVE VIS-À-VIS ITS COMPETITOR JURISDICTIONS AS A DOMICILE FOR PE FUNDS?

In my view, there is one really tangible advantage that nobody could dispute: the stability of the country. Over the years we have seen that political elections and other external factors have not fundamentally changed the landscape for the PE industry or impaired the rating of the country. Luxembourg is a stable and safe place to run Private Equity activities and there are few countries that can boast such stability, especially in the on-shore and regulated world of today.

WITH AIFMD, LUXEMBOURG INTRODUCED THE SPECIAL LIMITED PARTNERSHIP STRUCTURE, THE "SLP", WITH THE OBJECTIVE TO MAKE LUXEMBOURG MORE ATTRACTIVE FOR PE HOUSES FROM THE ANGLO-SAXON COUNTRIES. THESE COUNTRIES ARE MORE FAMILIAR WITH PARTNERSHIP CONTRACTS THAN FUNDS IN THE LEGAL FORM OF COMPANIES. WERE EXPECTATIONS MET SO FAR?

There is no doubt that the SLP was the missing part of the puzzle to attract more Private Equity funds and we can clearly state that the SLP is a success for the country. Going forward, for the success story to be complete, we would need a couple of the largest Private Equity houses structuring their flagship funds with a master incorporated as an SLP in Luxembourg. The Luxembourg PE community is working at this and I am optimistic to see concrete results soon.

BY NOW, LUXEMBOURG HAS BEEN EVOLVING INTO A WELL-ESTABLISHED PLACE FOR PE FUNDS, SIMILAR TO UCITS FUNDS WHEN THEY WERE INTRODUCED IN 1988. IS THERE STILL ROOM FOR IMPROVEMENT?

As long as there will be PE Funds incorporated in another country, there will indeed be room for improvement for Luxembourg! …

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IN A NUTSHELL, WHAT ARE LUXEMBOURG'S KEY STRENGTHS IN RELATION TO PRIVATE EQUITY FOR YOU?

As I said, stability is the number one strength. The possibility that Luxembourg offers to structure funds, AIFM and the acquisition structures in one country is also a major strength that we should not ignore. Finally, the Luxembourg PE community to which the LPEA, my competitors and I belong already is a strong catalyst to strengthen the position of the country globally.

***Olivier Coekelbergs is Partner and Private Equity Leader at EY Luxembourg.**


MANAGING OUR
PRIVATE
EQUITY
FUND,
WITH A
TALENTED
SUPPORT
BY OUR SIDE.
Depositary
Fund Administration
Corporate Administration
Global Accounting & Consolidation
Reporting
AIFM Support
Shareholder Services

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ROYALTON PARTNERS' MOVE TO LUXEMBOURG: FIRST HAND TESTIMONIAL

THE REASON ROYALTON PARTNERS MOVED TO LUXEMBOURG WAS THE INTRODUCTION OF THE AIFMD REGULATORY FRAMEWORK.

© DR

Nigel Williams, Chairman of Royalton Partners

Royalton Partners migrated to Luxembourg from Cayman in May of 2014 and became an authorized AIFM. This authorization encompasses the performance of both the portfolio and risk management functions for private equity AIFs. Moreover, Royalton Partners currently has an application to extend the authorization to manage real estate AIFs pending with the CSSF, the Luxembourg regulator.

WHY BECOME AN AIFM?

Simply put – to gain the EU wide marketing passport!

Although there are transitional arrangements in place, post-2018 without access to an AIFM authorization, the marketing of an alternative investment fund in the EU will be virtually impossible.

Our expectation at Royalton Partners in 2010 was that we would next go fund raising in 2014/15, having had a final close of our latest, third fund in the fourth quarter of 2009. Many of the transitional exceptions were scheduled to be over by this time. We therefore believed that, we were faced with a stark choice – apply to become an AIFM, or plan to run off the firm. Off course, the advent of the third party AIFM platforms, such as the one offered by Royalton Partners, meant that there was a third option. But at that time, we had not yet seen this opportunity.

Back in 2010, a few days after the European Parliament passed the AIFMD, the EVCA organized a conference at short notice in Brussels at which Commissioner Barnier spoke. He stressed that the aim of the new legislation was to bring the European alternative investment fund industry on shore, so that EU investors invested in EU funds, managed by EU managers, under the oversight of EU regulators. He compared the EU to the US where to be an alternative fund advisor, a registration with the SEC is required and most domestic funds are domiciled locally, in such places as Delaware. He made it clear, that if the legislation did not have the desired effect, further measures would be taken to make sure the alternative fund industry came on shore to the EU.

After Commissioner Barnier had left the conference, a number of major EU institutional investors deliberated and many declared that once the new AIFMD regulatory arrangements were in place, they would only commit to funds managed by regulated AIFMs.

Hence, my partners and I looked at each other and ▶▶▶

▶▶▶ thought we had little choice but to seek to become an AIFM. We realised that the days of a Cayman management company, with a main investment office in Warsaw, managing a Guernsey fund being marketed into the EU where numbered.
Later, we realised that once we had an AIFM license, we could effectively rent this license to non EU alternative managers and smaller EU managers who would need access to the AIFM passport to raise funds in the EU but who had decided not to seek a license themselves.

"WITH THE INTRODUCTION OF THE AIFMD WE REALISED THAT THE DAYS OF A CAYMAN MANAGEMENT COMPANY, WITH A MAIN INVESTMENT OFFICE IN WARSAW, MANAGING A GUERNSEY FUND BEING MARKETED INTO THE EU WERE NUMBERED."

WHY LUXEMBOURG?

Once we had done our homework, Luxembourg was the clear choice.
In the course of our investment history, the funds we have managed have owned a bank, specialising in real estate mortgages and we currently own an insurance company. So, we have experience with financial regulators in the CEE region. Prior to moving to Prague, in 1990, I had been a co-founder and the CEO of Williams Cook Lott and Kissack one of the UK government bond brokers regulated by the Bank of England. In short, as firm we have a certain level of regulatory experience.
Royalton Partners was and is a PE firm focusing on the Central and Eastern European (CEE) region. The firm was founded in Prague where Roman Babka, now our Chief Risk Officer, Ivan Vohlmuth and I stated working together in October 1990. As the firm developed, we grew our Warsaw office as Poland is the largest country in our investment region. Naturally, we might have sought a license in Poland or the Czech Republic. But Poland has not yet transposed the AIFMD into local law and the Czech financial regulator, similarly to most CEE countries, through no fault of its own, just has not had the long experience of regulating alternative fund managers. In addition, since we invest throughout the region we did not want to be perceived as regulated by any individual country and be subject to its changing priorities. We could have set up in London, but there is some uncertainty about the UK's membership in the EU - to migrate the firm, only to migrate it again did not make sense. So if not in our investment region and not in Europe's financial capital, then where? Luxembourg was the obvious choice.
Firstly, one thing was clear – the CSSF has the experience in overseeing the second largest fund domicile in the world, after the US. The country has long decided to make financial services one of the cornerstones of its economy and developed a robust regulatory framework, which strikes the right balance between effective supervision of market participants and practicalities of day-to-day operations. Luxembourg transposed AIFMD as one of the first countries in Europe.
Secondly, the new SCSp partnership structure is available, which resembles the Anglo-Saxon limited partnership.
Thirdly, there is no VAT charged on management services in Luxembourg, which would otherwise be charged to investors.
Fourthly, our expectation was that our next fund would be a Lux AIF.

HOW DID THIS CHANGE OUR FIRM?

Royalton Partners moved from an unregulated to a fully regulated environment and this will obviously raise the level of protection for LPs. We have separated the investment decision process and risk management, set aside regulatory capital and implemented transparent internal policies and procedures. Notably, we are also able to offer AIFM solutions under our Third Party AIFM Platform to non-EU alternative asset managers, and smaller EU managers.

THE RIGHT CHOICE

In conclusion, we believe that Royalton Partners made the right choice by becoming an authorized AIFM; we are preparing to raise our next CEE fund and building our third party manco business.

A NEW DAWN FOR EUROPEAN VENTURE CAPITAL

A DECADE AND A HALF HAVE PASSED SINCE EUROPEAN VENTURE CAPITAL HAS BEEN HIT BY THE TECHNOLOGY CRASH IN 2000, WHEN THIS MARKET SEGMENT WAS WHIPPED OUT LIKE THE FLAME OF A TINY CANDLE IN THE WIND. EVER SINCE, EUROPEAN VENTURE CAPITAL WAS ANALYSED FOR ITS MANIFOLD DISEASES, RANGING FROM UNAMBITIOUS ENTREPRENEURS, TO UNDERFUNDED VENTURE CAPITAL FUNDS, RISK AVERSE GPs, SUBCRITICAL SIZE AS AN ASSET CLASS, AND UNATTRACTIVE PHILANTHROPY-LIKE RETURNS… TO NAME JUST A FEW.

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**Uli Grabenwarter,
Head of Venture Capital, European Investment Fund**

Since then, numerous attempts have been made to bring Venture Capital back to the European landscape of Private Equity. Industry organisations, policy makers and Member States have multiplied their certainly well-intended efforts to reanimate this ailing link in the chain of the financial market segments.

Over these years, the stakeholders struggling for a functioning European Venture Capital market have been relentlessly called to provide evidence that this is indeed a viable asset class. An almost impossible task to complete if one considers that before having emerged from the ashes of the technology crash on 2000, Venture Capital was first bull-dozed by the buyout segment with artificial and predominantly leverage-fuelled return benchmarks and took the next hit as a non-material collateral damage in the outburst of the global financial crisis in 2008.

Despite all that, European Venture Capital has lived up to the challenge: Today we do have successful serial entrepreneurs in Europe; Europe has brought forward multiple Venture Capital-backed companies that have made it into the league of unicorns and global leaders in their market segments; we have general partners that have returned serious money, perfectly capable of competing with the buy-out segment on a risk-adjusted return basis.

One would think that it ought to be time to party for the Venture Capital industry in Europe and to enjoy, if not an easy ride, then at least manageable fundraising challenges. One would also think that an industry that, against all odds, has proven its right to exist would at least be entitled to an operational and regulatory environment that recognises its value for the European economy.

Alas, this is not the case. Whilst entrepreneurs and Venture Capital firms have taken on a true battle for survival, the lip services on the political front proclaiming how important venture capital is for Europe's knowledge-based economy have unfortunately been left without action on the regulatory front.

Instead, we have entered an equity-investment-hostile regulatory environment in Europe that has pushed institutional investors out of the market and has reduced the size of the European Venture Capital industry to some 3bn EUR p.a. of funds raised, half of which is basically public money.

The regulation of the alternative investment markets has loaded the Venture Capital market segment with requirements eroding the net IRRs of funds through disproportionate cost levels, to which the threshold exemptions for smaller fund managers in reality make little difference.

In the vast majority of Member States within the European Union, Venture Capital funds still can't rely on suitable fund structures that work for cross-border fund raising.

Policy action supposed to foster the development of a flourishing European Venture Capital space has not become more market compatible since the 2000 crisis but has instead increased its focus on preventing the abuse of policy support rather than seeking to maximise the market impact of policy action.

And who knows, with the abolishment of the private placement regime debated for 2018, it may well be that funds in Europe soon won't even be able to market themselves and may instead need to wait for investors that are willing to "force" their money on them.

It is time to rethink where we want to go from here. Europe is struggling on all fronts of economic development: unemployment remains at historic peaks, state finances are in distress, economic growth lingers around stagnation, investment levels and consumer spending are at historic lows. While we are debating ways of pouring money into the system through policy action for stimulating economic growth, we should be spending an equal amount of time looking at how it can be used.

"AN INDUSTRY THAT, AGAINST ALL ODDS, HAS PROVEN ITS RIGHT TO EXIST WOULD AT LEAST BE ENTITLED TO AN OPERATIONAL AND REGULATORY ENVIRONMENT THAT RECOGNISES ITS VALUE FOR THE EUROPEAN ECONOMY."

For that purpose, it may be useful to reconsider the perspective with which we look at policy action. If we provide policy support to a given market segment, we shouldn't expect that very market segment to be fainting in gratitude for the generosity of policy action. If policy support for a market segment is put in place, it is because we as a society are to be thankful for the benefit we can derive from such market segment's impact on the economic prospects of our continent. In the case of Venture Capital, we have sufficient proof that without a functioning Venture Capital ecosystem, there is no way we can retain world-class research in Europe, there is no way we will be able to maintain any competitiveness in a knowledge-based global economy, there is no way we will be able to retain corporate activity in Europe because the purchase power of the European continent will vanish with the economic decline we will face.

New governance for a united Europe which promises to grasp Europe's last chance to succeed has been put in place a few months ago. May it embrace what is at the heart of a successful Venture Capital investment: taking risks in order to succeed!

THE DYNAMIC IDENTITY OF NEXUS

LPEA TALKED WITH PETER GILLE, CEO OF NEXUS, WHO HAS RECENTLY MOVED TO LUXEMBOURG COMMITTED TO PUT THE COUNTRY IN THE SPOTLIGHT OF PHYSICAL AND DIGITAL CONVERGENCE.

One can say a company is committed to grow in Luxembourg when its CEO moves in with his wife and three daughters. That's what happened with neXus and its leader Peter Gille. After spending 8 years as CEO of this Swedish-based company he decided Luxembourg was the place to grow the three decades-old business.

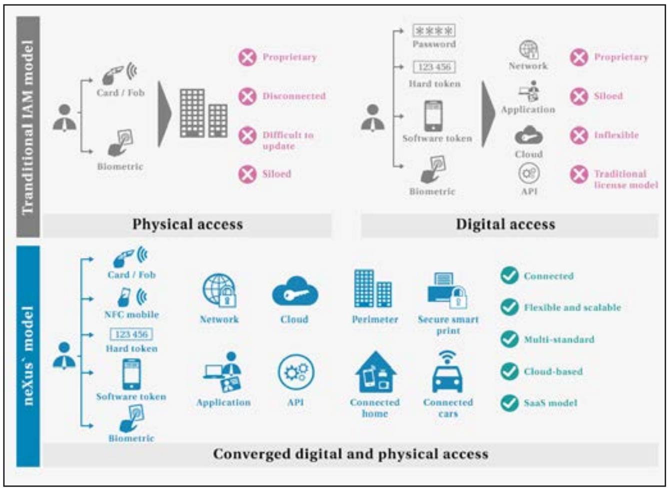
NeXus business today is significantly different from the one that saw this spin-off emerge from the Uppsala University. Initially focused in technology for the automotive and defense industry, the company surfs today the wave of big data and security by developing services that fall in the pure concept of "Industry 4.0".

BRIDGING PHYSICAL AND DIGITAL WORLDS

As way of introduction, "Industry 4.0" is by many considered as the 4th industrial revolution and is expected to be a reality in the next 10-20 years. NeXus could seem to be ahead of its time but that's how first movers take leading positions. The fact is technology is there and clients, either manufacturers or service providers, are eager to use it.

Working today with 30.000 customers in Europe and India from the automotive, pharmaceutical and financial services sectors among others, neXus is in the edge of Dynamic Identities. In a nutshell, NeXus' provides a platform that bridges the digital and the physical worlds towards greater convergence in a framework of increased security (see graphic). With objects, people and data in constant move, neXus creates a dynamic identity for each end point and keeps track, connects and provides security to the information shared.

Like many of us, Peter Gille carries a plastic badge which gives him access to the building he works in and to his office. Behind this standard card there are end points such as the person, the building and the administrator of the building. NeXus' technology goes a step further by adopting a holistic approach and offering all necessary formats, standards, protocols and algorithms from a centralised platform. The difference between yours and Gille's ID badge is that his can also book a hotel room, check in at his next flight to Stockholm, unlock a rented car and much more. All this by providing to each instance the

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data it is authorised to receive by the platform, disregarding the different systems all these services may be using.

“WITH OBJECTS, PEOPLE AND DATA IN CONSTANT MOVE, NEXUS CREATES A DYNAMIC IDENTITY FOR EACH END POINT AND KEEPS TRACK, CONNECTS AND PROVIDES SECURITY TO THE INFORMATION SHARED.”

WHY LUXEMBOURG?

Surely neXus would not need to move to Luxembourg to find a central location in Europe, especially knowing many of its clients and partner companies are based in Germany. What brought Peter Gilles, his family and his team (already six staff in Luxembourg) was the ambition to create the company's cloud services centre in Luxembourg.

The business goes hand in hand with research and it's easy to understand why the existing partnership with the University of Luxembourg was one of the key factors contributing to this change. According to the CEO, “the country's digital infrastructure also played a key role as did the advanced legislation on data and digital security and the easy access one can find in a cooperative government committed to the digital economy”.

GROWING IN LUXEMBOURG

NeXus' history goes back to 1984 when it disconnected from Uppsala University and quickly grew to become listed in 1999. The internet boom however impacted the company and was again made private in 2009 by three Swedish investors Michael Olsson (Chairman of neXus' Board), Kenth Eriksson (Vice Chairman) and Leif Johansson who invested through the joint venture Itum Invest.

After hiring Peter Gille, coming from Oracle, in 2006, the company recognised it had only 25% of the technology ▶▶▶

"IT'S FROM LUXEMBOURG THAT THE COMPANY WANTS TO FIND NEW INVESTMENTS BUT ALSO NEW INVESTORS TO FUND ITS EXPANSION STAGE."

▶▶▶ needed to reach its objectives. Leveraging on banking loans and cashflows the company entered into an acquisition stage from 2010 to 2014. During this period the company saw its revenues increase by 150% as it welcomed PortWise (Sweden, 2010), Cortego (Sweden, 2012), vps (Sweden, 2012), PAS Card (Sweden, 2012), INTRAPROC (Germany, 2013), SE46 (Sweden, 2014) and INTEGID (Germany, 2014) to the group.

Today, Gille recognises "technology driven acquisitions are a closed chapter" and stresses the need to penetrate new markets. With 90% of business coming from the Nordics and Germany, plans are to "target DACH countries, still the Nordics but also France and India". Further expansion will then come from North Africa, Eastern European countries and Southern Europe.

It's from Luxembourg that the company wants to find new investments but also new investors to fund this expansion stage. Supported by the PwC Accelerator, neXus has already been provided with access to key investors in Luxembourg and abroad and is committed to finding new partners to grow.

Peter Gille is already feeling at home in Luxembourg and enjoying the easy life of a cosmopolitan city where speaking English poses no problem. Surrounded by countryside and somewhat "close to the Alps", this is the place where he intends to settle for some time and to watch both his kids and business grow.

*Interview conducted by Luís Galveias, LPEA.

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EQUITY BRIDGE FINANCING: KEY TAKEAWAYS

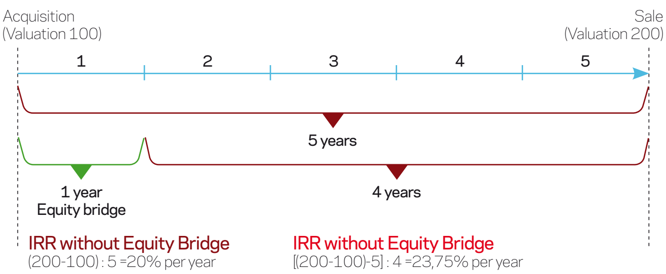
EQUITY BRIDGE FACILITIES – ALSO KNOWN AS SUBSCRIPTION LINE FACILITIES OR CAPITAL CALL FACILITIES - ARE SHORT-TERM LOANS, SECURED ON THE LIMITED PARTNERS' COMMITMENTS OF INFRASTRUCTURE, PRIVATE EQUITY, REAL ESTATE OR OTHER FUNDS, USUALLY TAKING THE FORM OF REVOLVING FACILITIES.

© DR

Alexandrine Armstrong-Cerfontaine, LPEA Member*

The facility is granted the fund's level (subject to legal and regulatory limitations applicable to the fund) or a special purpose finance vehicle held by the fund, with a guarantee from the fund. In this short note, we explore a number of key features of equity bridge facilities.

Why is Bridge Financing attractive? Capital calls are delayed, providing greater flexibility to the fund's management company to control profitability. The equity bridge facility is used by the fund for the purpose of financing one or several projects or, if necessary, paying the costs (advice or others) that can appear if the acquisition failed. The delay to call capital from investors improves the IRR at exit as the cost of the equity bridge facility is lower than the rate anticipated by investors, as provided in the example below:



How much do funds borrow? Lenders generally compute the maximum amount to be made available to the borrower as a percentage of the commitments of qualifying investors (e.g., 80% of AAA rated investors' commitments) subject to a haircut (e.g., 20% standardly applied to those investors with a participation greater than 20% of the total commitments). Qualifying investors include financial institutions, corporate or public pensions plans, investors with assets superior to an amount as determined by the lender, investors approved as meeting rating agency requirements set-out in the facility agreement and such investors considered as qualifying investor at the discretion of the lender.

What are the key finance terms? The illustrative table below provides a sample of equity bridge facilities we have worked on in October and November 2014:

Financial covenants are frequently set with a debt to qualifying investor undrawn commitment of 1:1.1/1.5, debt to aggregated NAV and qualifying investor undrawn commitment of 1:2.0/2.5, with the facility to be covered at all times by 1.5x the unfunded commitments of the fund's investors.

Facility / commitment and duration[1]	Margin[2]	Commitment fee[3]	Arrangement fee
£100m Facility/ 3 years	1.7%	0.35%	0.75%
$15m Revolving Facility and Documentary Credit Issuance Facility / 3 years	2.25%	0.50%	1.00%
€500m Multi-Currency Revolving Facility / 1 year	2.25%	N/A	0.35%
€75m Multicurrency Revolving Facility / 2 years	2.25%	0.50%	0.50%
€250m revolving facility / 3 years	1.80%	0.25%	0.20%
€130m Uncommitted and €170m (parallel funds) / 2 years	1.85% and 1.85%	N/A and 0.50%	0.25% and 0.45%
€200m revolving facility / 3 years	1.65%	0.35%	0.60%
$75m revolving facility / 364 days	1.50%	0.45%	0.50%

Specific representations and undertakings[4] Borrowers/ guarantors (if any) will represent that the excused undrawn commitment of the investors do not exceed the undrawn commitments of investors and that there are no other creditors of the fund/borrower SPV other than the manager. Furthermore, specific covenants include:

I. the manager/fund's obligation to call a minimum amount from the fund's investors on an agreed frequency, information on the investors' commitments (e.g., failure to pay, exclusion events, key man events, excused investors) and subject to the security package, all information necessary to allow the lender to issue drawdown notices (e.g., amount of undrawn commitments by investor, address details, copies of applications);
II. no distribution by the fund while amounts are outstanding under the facility and/or if an event of default has occurred;
III. no borrowing during a key man event and where a change of control of the manager occurs;
IV. a negative pledge over the undrawn commitment of the investors; and
V. an obligation for payments of the undrawn commitments on a pledged bank account and an obligation to pursue defaulting investors and to request payment of the shortfall to the other non-defaulting investors.

Specific events of default[5] As for the representations and warranties, events of default always depend on the type of fund, and they generally include:
I. the removal of the manager, its insolvency;
II. the termination of the fund;
III. a cancellation threshold (usually 5-20% of undrawn commitments cancelled);
IV. an insolvency threshold (usually 5-20% of investors become insolvent);
V. a defaulting investor threshold (investors fail to comply with their obligations to fund their undrawn commitments);
VI. a transfer threshold (undrawn commitments transferred to a third party after the execution of the facility agreement); and
VII. an excused investor threshold (investors excused from complying with a drawdown notice).

Conclusion A detailed analysis of the investment structure and the context relating to the investors is always crucial in determining the key terms of the equity bridge to be granted to a fund, especially in light of the potential impact on the third-party lender's capital costs (e.g., separation of risks and recovery and resolution planning for credit institutions). In addition, a regulatory due diligence is also necessary on the fund and its investors to assess whether bridge finance is to be preferred to investment finance, to define the duration of the financing, and generally review the impact of the financing on the fund's investors (e.g., Solvency II on the fund's financing and current insurance regulations).

1. Capital calls are generally sent to the fund's investors 10 to 20 days prior to the repayment date of the facility.
2. 1, 2 or 3 months interest period, or any other period as agreed with the lender, payable at the end of the interest period or capitalised.
3. Borrowers generally prefer an uncommitted facility to limit borrowing costs.
4. In addition to the standard LMA representations and warranties.
5. In addition to the standard LMA events of default.

*** Alexandrine Armstrong-Cerfontaine is Partner of King & Wood Mallesons**

LUXEMBOURG LIMITED PARTNERSHIP, A SUCCESS STORY?

A YEAR AND A HALF AFTER THE DATE OF CREATION OF THE NEW LUXEMBOURG LIMITED PARTNERSHIP, THE SUCCESS OF THIS NEW STRUCTURE IN THE LUXEMBOURG TOOLBOX HAS SHOWN CLEAR SUCCESS.

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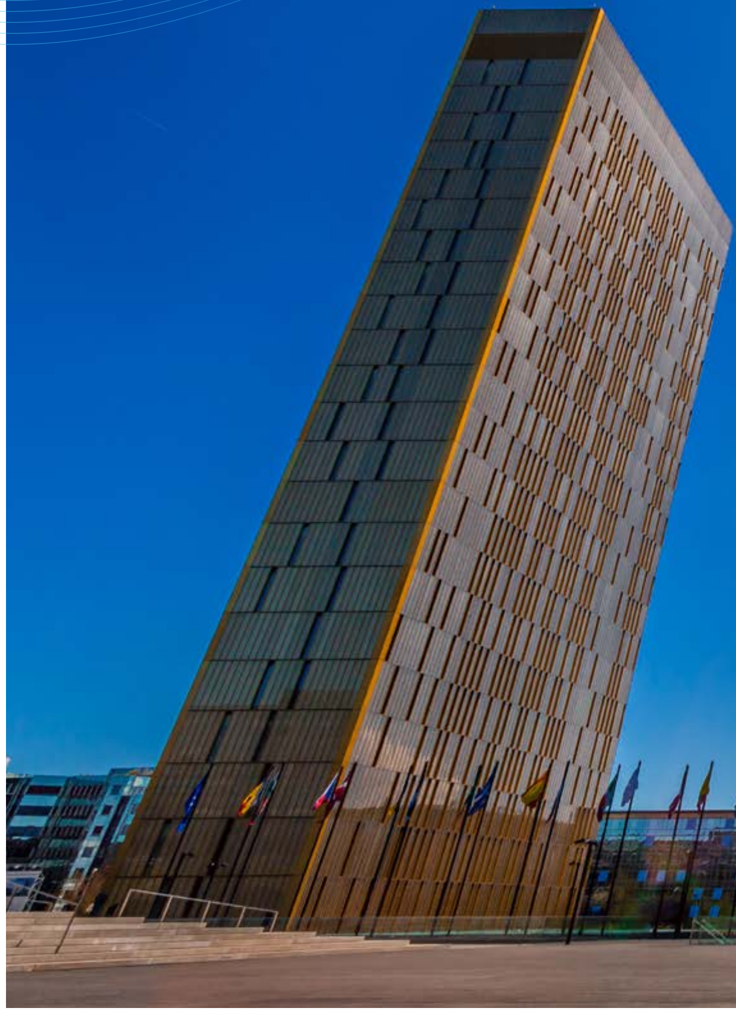
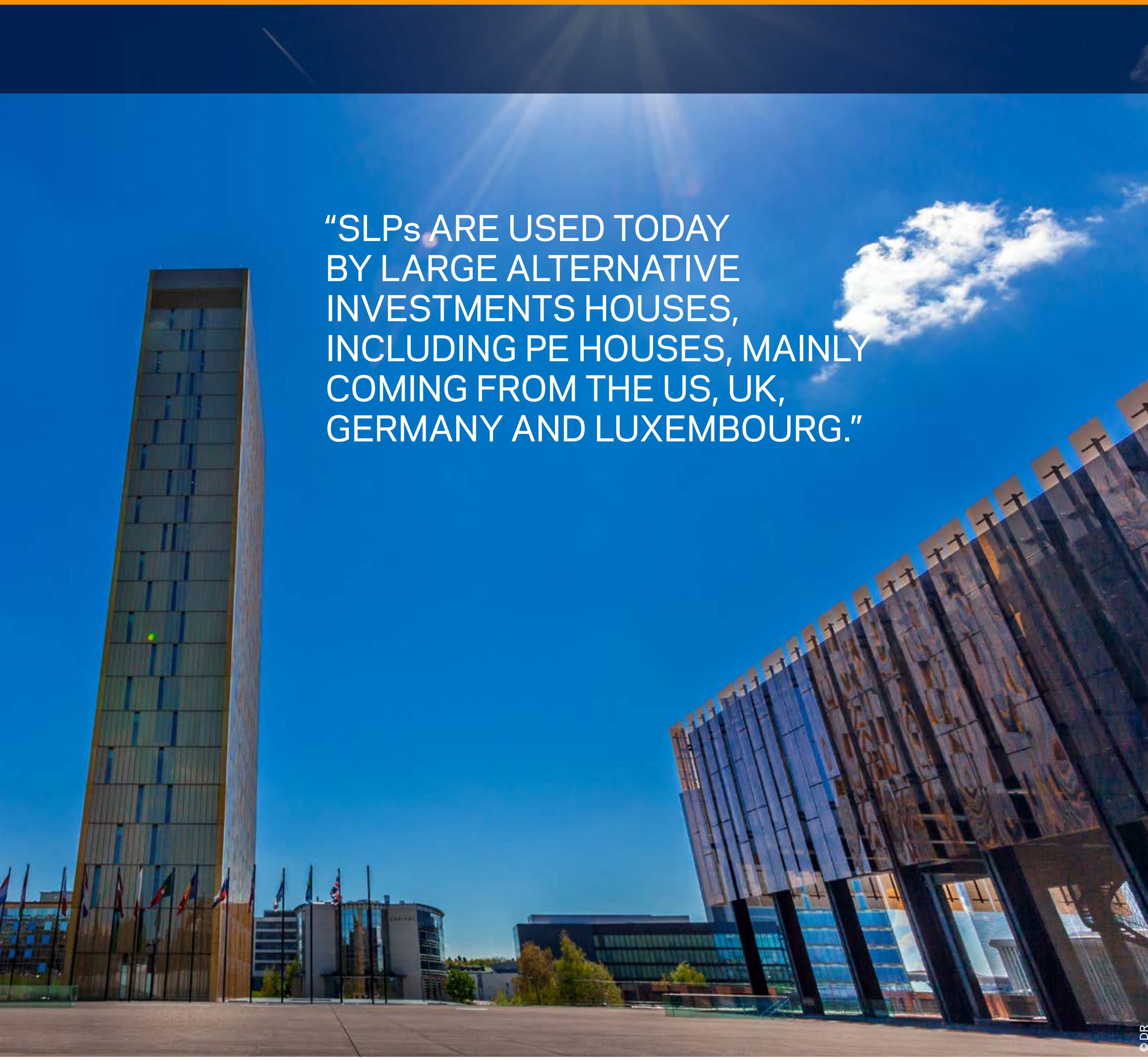


As of 31 December 2014, 419 special limited partnerships ("SLP") have been set up. Over the last 2 months of the year, around 40 new SLPs have been created per month. This are the second highest number in one month since the creation of the SLP in July 2013 (48 were created in December 2013). Growth in number of SLPs is constant and 2 digits number per month. These numbers do not take into account common limited partnerships with legal personality.
SLPs have been set up by diverse market players. Private equity and venture capital players represent a material part of international actors who already choose using the SLP in the set-up of their funds.
As on-shore twin brother of the UK LPs, the SLP is indeed addressing various needs of Private equity and Venture capital players.

This is first a valuable solution for main onshore EU fund structure with a SIF wrapper or without product wrapper. With an EU AIF, it is the gateway to AIFMD passport for distribution, private placement route proving more and more to be burdensome and only temporary solution.
SLPs are also set up as feeder funds. The high legal flexibility and the tax transparency also make it a first choice for carry and management pooling vehicles. A number of SLPs set up as of today are also joint-venture vehicles not falling under the definition of AIFs.
The confidentiality for limited partners, the absence of minimum general partner profit shares requirement, the limitation of cases of claw-back on capital repayment and distribution, the management safe harbour rules are examples of features placing the Luxembourg SLP ahead of or at



least on the same line as its Anglo-Saxon competitors.
Based on publicly available information, we observe that SLPs are used by large alternative investments houses, including PE houses, mainly coming from the US, UK, Germany and Luxembourg. While most structures created in the first year are more designed for specific purposes, the latest activity demonstrate that more and more fund managers are using the vehicle for their new fund structure.
Numerous new SLPs are in pipeline for the coming months with a notable increase of interest demonstrated by non EU actors including large players from the US.
Experience gained by all actors involved, clarification to come on few uncertainties remaining on practical application of the new law[1] and increasing number of precedents may certainly make 2015 an even more successful year for the Luxembourg Limited Partnership.

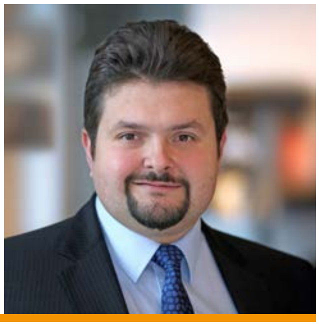
1. An administrative circular issued on 9 January 2015 confirmed the tax treatment of SLPs falling under the definition of AIFs and set up without product wrapper. This circular thus removes the previous uncertainty relating to the Luxembourg tax treatment of funds set up as un-regulated SLPs.

***Christine Casanova is PwC Director and Valérie Tixier PwC Partner and PE Funds Leader.**

FOR MORE INFORMATION
on Luxembourg LPs, you can also consult LPEA's "Limited Partnership in Luxembourg – A Comprehensive Q&A for all practitioners" available in www.lpea.lu

SECURITISATION VEHICLES AIFMD IMPACT

SUPPORTED BY AN INNOVATIVE LEGISLATIVE FRAMEWORK FOR SECURITISATION, SECURITISATION VEHICLES SUBJECT TO THE SECURITISATION LAW DATED 22 MARCH 2004 HAVE BEEN INCREASINGLY USED, PARTICULARLY IN THE CONTEXT OF THE CONTINUED SUCCESS OF PRIVATE DEBT FUNDS.



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Marc Meyers,
LPEA Member*

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The AIFM Law dated 12 July 2013 which transposed the AIFMD in Luxembourg regulates AIFMs and prohibits such managers from: (i) managing any AIF in the EU, or (ii) marketing instruments in AIFs to investors in the EU, unless authorisation is granted to the AIFM. The AIFMD defines an AIF as a "collective investment undertaking, including investment compartment thereof, which raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors".

The AIFMD and the AIFM Law do not apply to securitisation special purpose entities (SSPE). This note will cover the meaning of SSPE under the AIFMD and provide an outline on the scope of the securitisation exemption under the AIFMD.

SECURITISATION SPECIAL PURPOSE ENTITIES

SSPEs are defined as entities whose sole purpose is to carry on a securitisation or securitisations within the meaning of Regulation EC/24/2009 of the European Central Bank (ECB), and other activities which are appropriate to accomplish that purpose. The EU Commission has emphasized that the reference to an SSPE should be interpreted narrowly. Given the risk of misuse of this exemption, the EU Commission supported the idea of the development of guidelines by ESMA to avoid circumvention of the AIFMD. As a result, it cannot be excluded that new more restrictive guidelines may be adopted.

According to Regulation EC/24/2009, "securitisation" means a transaction or scheme whereby an asset or pool of assets is transferred to an entity that is separate from the originator and is created for or serves the purpose of the securitisation and/or the credit risk of an asset or pool of assets, or part thereof, is transferred to the investors in the securities, securitisation fund units, other debt instruments and/or financial derivatives issued by an entity that is separate from the originator and is created for or serves the purpose of the securitisation, and:

a. in case of transfer of credit risk, the transfer is achieved by the economic transfer of the assets being securitised to an entity separate from the originator created for or serving the purpose of the securitisation. This is accomplished by the transfer of ownership of the securitised assets from the originator or through sub-participation, or the transfer is accomplished by the use of credit derivatives, guarantees or any similar mechanism; and

b. where such securities, securitisation fund units, debt instruments and/or financial derivatives are issued, they do not represent the originator's payment obligations.

The same regulation defines "originator" as the transferor of the assets, or a pool of assets, and/or the credit risk of the asset or pool of assets to the securitisation structure.

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SCOPE OF THE SECURITISATION EXEMPTION

Both the ECB and the CSSF have provided useful guidance for assessing the concept of an SSPE.

Transactions in which a securitisation vehicle uses the proceeds derived from the issuance of securities to grant a loan to a third party may fall outside the definition of "securitisation" in terms of Regulation EC/24/2009. In addition, the definition of a securitisation undertaking used in the Securitisation Law is different from the definition of an SSPE in the AIFMD, the AIFM Law and Regulation EC/24/2009.

According to the ECB Guidance Note and the CSSF FAQ on securitisation, entities which primarily act as a "first" lender (originating new loans) are not considered as being engaged in securitisation transactions within the meaning of Regulation EC/24/2009. Accordingly, loan origination(s) may affect the possibility for a securitisation undertaking to be considered as an SSPE for the purpose of the AIFMD exemption.

Independently from the qualification as an SSPE for the purpose of the AIFMD, the CSSF considers that securitisation undertakings which issue only debt securities should not constitute AIFs for the purpose of the AIFM Law.

According to the CSSF FAQ concerning the AIFM Law, each collective investment vehicle should perform a self-assessment to determine whether or not it falls within the definition of an AIF within the meaning of the AIFM Law. It is the responsibility of the management body of any collective investment vehicle to self-assess whether or not it is to be considered as an AIFM under the AIFM Law.

***Marc Meyers and Vassiliyan Zanev are Partners of Loyens & Loeff Luxembourg S.à r.l.**

CIRCULAR ECONOMY OR HOW TO UPCYCLE YOUR BUSINESS

THE CIRCULAR ECONOMY HAS ALWAYS BEEN AROUND AND HARDLY UNNOTICED. SINCE LONG AGO, AGRICULTURE'S BIOLOGICAL PROCESSES HAVE BEEN EXPLOITED IN THE RESOURCES CYCLE FROM SEED TO CROP, THEN TO CATTLE AND BACK TO COMPOST & SEEDS. TODAY THOSE PROCESSES ARE RE-DISCOVERED AND ADAPTED BY OTHER INDUSTRIES.

For example, a German paper mill is applying the circular concept with a service and technology driven approach. Steinbeis' Returnity Cycle provides clients with high-quality office and magazine papers which are often made from the same recycled paper it sold to the same clients in a previous order. Steinbeis converted a standard paper recycling business into a closed-loop customer cycle of disposal, recovery and reutilisation as a basis to supply customers – who become simultaneously suppliers – with savings across the board and without using primary raw materials.
Douglas Mulhall, business developer on circular economy implementation with the Hamburg based EPEA Internationale Umweltforschung, which co-developed the service with Steinbeis, says we have long passed the concept stage and "Circular Economy is today a success story for business. We see it in the marketplace, often at the hands of big businesses applying it at scale.
Circularity goes beyond Corporate Social Responsibility, Recycling, Ecology or even Servicizing. It primarily focuses on positive economic impacts and using materials as services so that residual value is maximised, even after the product or service has been rendered. By implementing a circular service approach, companies aim at managing the full usage cycle of a given product so that by the end of its

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Douglas Mulhall
Researcher at Rotterdam School of Management

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"VALUABLE ASSETS THAT ARE NOW WRITTEN OFF AS GARBAGE COSTS CAN BE REVALORISED IN MANY BUSINESS OFFERINGS AND RECOGNISED IN A COMPANY'S BALANCE SHEET."

first use its components can be re-used, re-purposed, or up-cycled to their original form.

The re-usage of raw materials at their full quality has positive economic impacts and a security advantage. Designing materials for multiple uses and cycles leads to major savings and new business cases, but it also protects businesses dependent on rare materials they otherwise don't control.

Tarkett is a leading example of circular economy on our door step. The flooring production business has its Research Center in Luxembourg and a high commitment to sustainable products as a business case. It works on the basis of "Cradle to Cradle" product design methods and has today several programmes in place to collect used and non-used flooring to return it to its original granular form. The private equity backed firm which is also listed in Euronext Paris has recently acquired DESSO, another flooring player with similar circularity concerns in what can be a sign of businesses gaining increased conscience of the economic potential to be realised with effective resource re-use.

So what's the opportunity for Luxembourg's private equity industry? According to Mulhall, "in addition to equity firms investing in pioneering businesses already optimizing their resources, our institute is co-developing with the equity industry a New Balance Sheet' for business. Valuable assets that are now written off as garbage costs can be revalorised in many business offerings and recognised in a company's balance sheet". With under-recognised assets lying in GP's portfolios, investors can find new grounds to realise value in businesses.

Luxembourg can play an even greater role in the implementation of circularity. Mulhall and Katja Hansen, also from EPEA, are currently working with the Luxembourg EcoInnovation Cluster for a national strategy to make Luxembourg a proving ground for scaling up circular businesses. To support that, they say "Luxembourg's high-performance financial industry, has an underlying opportunity to host an international matchmaking platform for circular businesses and investors". Our readers will be among the first to learn more about those initiatives through LPEA updates.

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STANFORD UNIVERSITY'S LEGENDARY STARTUP COURSE LANDS IN LUXEMBOURG

WHAT WOULD YOU DO IF SILICON VALLEY'S BRIGHTEST ENTREPRENEURS AND INVESTORS CAME TO LUXEMBOURG TO SHARE THEIR BEST TIPS ON HOW TO START YOUR COMPANY?

This is exactly what is going to happen, thanks to technology and Stanford University's openess. Sam Altman, President of Y Combinator, has been dealing with startups since he founded Loopt in 2005 at the age of 20. Through Y Combinator alone, over 500 companies have received investment and coaching such as Scribd, Reddit, Airbnb or Dropbox. With such cumulated experience on how to start – and grow – global startups, Altman converted his lecture at Stanford University into the world's most famous online class for entrepreneurs.

Together with some of the most successful startup entrepreneurs of this generation such as Peter Thiel (Paypal, Facebook, LinkedIn, Yelp, Palantir), Reid Hoffman (LinkedIn), Brian Chesky (Airbnb) and Alfred Lin (Sequoia Capital) among many others, Altman delivers this brilliant course called "CS183B". The course takes you on a journey where successful product/service ideation are explained, how to best assemble your team and execute your billion dollar idea.

HOW TO "START A STARTUP" IN LUXEMBOURG

Jonk Entrepreneuren Luxembourg (JEL) and the Luxembourg Private Equity & Venture Capital Association (LPEA) decided to bring the course to Luxembourg with the help of LuxInnovation - The National Agency for Innovation and Research, the Chamber of Commerce and the Lux Future Lab, The objective is to make it possible for entrepreneurs based in Luxembourg to learn from the very best and further improve their chance of success. Research has shown that if determination is key, competence and skills can always be enhanced by learning from others the lessons that have proven some degree of relevance and replicability across businesses and regions.

With the first session scheduled for March 18th in the new premises of Lux Future Lab entrepreneurs and students will be able to following the lecture's videos and have the opportunity to have an interactive session on the subject with guests from Luxembourg's innovation and investment ecosystem.

Jerome Wittamer, the initiator of the project as board member of JEL and LPEA will be the first guest speaker - as technology investor and entrepreneur in the last 20 years, of a series of meetings aimed at contributing to a better preparation of the nation's entrepreneurs. A number of investors, entrepreneurs and innovation facilitators will join the open class in the following sessions. Access to the sessions is free of charge and can be booked through www.luxinnovation.lu.

HOW TO START A STARTUP SESSIONS

Venue: Lux Future Lab

Sessions dates :

- 18/03/2015, 17:30
- 25/03/2015, 17:30
- 01/04/2015, 17:30

Registration: www.luxinnovation.lu

ABOUT LPEA

The Luxembourg Private Equity and Venture Capital Association (LPEA) is a member-based, non-profit trade association established in 2010. LPEA represents, promotes and protects the interests of the Luxembourg private equity and venture capital industry.

LPEA's role includes representing the interests of the industry to regulators and standard setters; developing professional standards; providing industry research; professional development and forums, facilitating interaction between its members and key industry participants including institutional investors, entrepreneurs, policymakers and academics.

LPEA is a member of Luxembourg for Finance and the European Venture Capital Association (EVCA).

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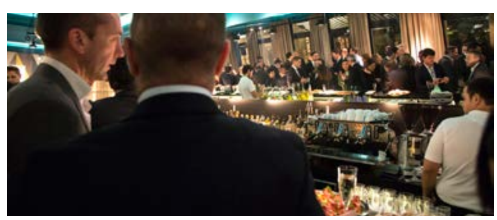
WHAT	WHEN	WHERE
Super Return International	24-26 February	Berlin
LPEA Roadshow	5 March	Zurich
How to Start a Startup	18 March, 25 March, 1 April	Luxembourg
Breakfast Conference on Transfer Pricing	19 March	Luxembourg
LPEA Roadshow	20-21 April	London
Breakfast Conference on PE & Insurance	April	Luxembourg
LPEA Roadshow	May	Stockholm
LPEA Roadshow	2 June	New York
LPEA Roadshow	September	Paris
LPEA Roadshow	October	New York
LPEA Roadshow	November	Frankfurt

NEW YEAR'S EVENT

LPEA hosted its New Year's Event on Monday 26 January in Luxembourg to an audience of members and friends of the association. In addition to the annual meeting which every year gathers the association's community over a networking event, this was also the occasion to celebrate LPEA's 5th anniversary and to update on the past and future initiatives of the association.
The event gathered many of the founding members and was hosted by Jérôme Wittamer, President of LPEA and Paul Junck, Managing Director, who invited the co-founder and former President Hans-Jürgen Schmitz on stage to cut the cake celebrating the first five years of the association.



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The 2,400 year old ancient book of Chinese ceremonies, called Zhou Li (The Rites of Zhou), is one of the oldest sources referencing parasols.

A different perspective

Globalization, new competitors from growing economies, massive shifts in the availability and sources of capital, deregulation and reregulation, and the impact of new technologies are just some of the factors that are radically altering the business landscape.

Hogan Lovells is a global legal practice. We listen to our clients, tailoring our advice based on a deep understanding of their needs. An understanding that is founded on our knowledge of their markets and industry sectors.

Hogan Lovells exists to help clients with all their most important matters – worldwide. We believe that our ability to see business from different perspectives enables us to help clients effectively in today's and tomorrow's challenging business climate.

Ask us to look at your business from a different perspective.

The Luxembourg office of Hogan Lovells was launched in August 2013. The three Luxembourg partners are experts in the area of investment funds, tax, corporate, finance, capital markets as well as insolvency law, and have among others a thorough experience in the private equity sector.

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