Luxembourg Private Equity
& Venture Capital Association

Newsletter

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Editorial

Dear Member of the LPEA, dear reader,

Scanning through the news over the past six months private equity activity appears to be back on a growth track. Globally, investment volume in the first semester 2011 was up by almost factor two compared to the same period last year, supported by an easing in debt availability. Trade sales are on the rise and signs from the fundraising front are promising with a number of multi-billion raises announced as closed or progressing well. So no serious worries on that front it seems.

The picture is very different in the VC corner of the industry, at least in Europe. Lacking – fortunately ? - the current exuberance that seems to have taken the US VC scene by storm on the back of the Facebook, Groupon and Zynga's of this world and fuelled by fundraising and IPO stories unheard of since the .dotcom boom, the prospects of Europe's VC industry continue to be overshadowed by a dearth of capital. While not the only factor, the removal of regulatory obstacles that hamper the growth of the VC market is vital to increase successful VC investments. The currently proposed measures under the AIFMD are counterintuitive, to say the least, for this segment of the industry. I can only guess at this point but hope that the recent opening of a public consultation on a *European Passport for Venture Capital Funds* is a realization at the level of European policy makers of the potentially adverse impact the AIFMD could have on the future of the venture capital industry in Europe.

The LPEA has set up a task force to make its contributions to the consultation process. At the same time, intense work on the implementing measures under the AIFM Directive continues over the summer on the basis of ESMA's consultation paper that was just published.

On a different note, the LPEA successfully held its first annual meeting in May, which saw over 100 attendees, an inspiring keynote by the EVCA Chairwoman on the contributions of the private equity industry to the future growth of Europe and a lively debate on the opportunities and challenges from the Luxembourg perspective.

The second semester of this year will see a number of important legislative and regulatory initiatives on the national level concerning, among others, the Private Equity industry. Through LPEA's technical task forces, which regroup over 100 participants, we are well prepared to be make our contributions to these initiatives, which include the implementation of a Limited Partnership law, the transposition of the AIFMD, the creation of a carried interest scheme, just to name a few.

Last but not least, I would like to make you aware of the *Private Equity Footprint Survey* that the LPEA has mandated market research firm TNS Ilres to conduct over the summer. The objective is to collect, analyze and aggregate - for the first time ever - comprehensive sector specific data (both quantitative and qualitative) on the current scope and perspectives of the Private Equity industry in Luxembourg. The survey will be addressed to approximately 120 local firms and organizations, covering both the GP/LP community and the professional services sector, LPEA members and non-members alike. You will be receiving the questionnaire shortly. Needless to say that the findings of this survey will be a cornerstone to a better comprehension of the industry and crucial for our future activities. I therefore encourage you personally to dedicate the appropriate resources to this and provide your comprehensive responses and views in a timely fashion.

With best regards and my best wishes for a resourcing summer vacation.

Hans-Jürgen Schmitz
President of the LPEA

The global Private Equity market - trends and perspectives

Starting into the second half of 2011, economic uncertainty continues to tint the global economic recovery after the financial crisis. During the first half of the year, private equity investors had to navigate the repercussions of a number of macroeconomic and geopolitical issues, including the continuing deterioration of the Eurozone's sovereign debt situation and widespread political turmoil across North Africa and the Middle East. Amid economic turbulences, private equity activities continued to build on last year's recovery and provide positive perspectives for the months to come.

On the fundraising side, the first two quarters of 2011 counted for 212 PE funds closing at a total of USD 108 billion. With that figure, PE fundraising remained at a fraction of pre-crisis levels but is projected to pick up during the second half of 2011. On the investment side, PE activity continued to steadily increase thanks to improved conditions on the debt market and still several hundred billions of "dry powder" seeking for investment opportunities. Deal volumes are increasing and emerging markets further shift into the attention of PE houses. On the exit front, the first half of 2011 strongly emphasized the rebound of 2010 with 455 PE backed exits and an aggregated transaction size of USD 162 billion. Global aggregated transactions realized in Q2 2011 constitute a 5% increase vis-à-vis the respective post-crisis record of Q4 2010. In addition, PE backed companies executed some of the largest sponsored IPOs in history throughout the first half of 2011.

The private equity industry continues to evolve and PE houses face new challenges within a more regulated and globalized world. More than ever, PE houses now need to define a concise strategy as regards the shape and the size of their firm. The largest PE houses are expected to further diversify geographically, with increased presence in both the developed and emerging markets. Large PE houses will also continue to diversify their business lines into a range of new activities including advisory, capital markets and asset management.

Value creation at the portfolio level will remain a decisive key success factor for any PE house. In addition to normal practices, such as the importance of a comprehensive and thorough due diligence process and of the right management team in place, the use of operating partners is a growing practice and can be an important key differentiating factor in performance improvement. In that context, PE houses have become more sector-focused and this trend is expected to continue. Finally, the ability to proactively respond to and manage a growing stakeholder group will be increasingly in the focus of PE houses. Firms need to strengthen their business processes and have the adequate resources to ensure that they have the right information at the right time to satisfy the needs of LPs, regulators and other interested parties.

The next few years will be a decisive time for PE houses. Those ones that can successfully tackle three over-arching issues – emphasizing value creation in the portfolio, executing on the defined investment strategy and creating a professional back-office function – will emerge as the winners of tomorrow.

Alain Kinsch
Country Managing Partner, EMEIA Private Equity Fund Leader, Ernst & Young

What's new at LPEA?

Membership

Our Association has now 73 members out of which 31 are Full members and 42 are Associate members.

9 May 2011: Press conference, AGM/EGM, Keynote speech

At a well attended press conference the Executive Committee informed the press about the mission, the organization and the key initiatives of our Association.

All the resolutions submitted to our members were adopted at the AGM/EGM (mainly accounts 2010, budget 2011, restatement of the articles of the association,..). The Association had also the pleasure to welcome Uli Fricke, chairwoman of the EVCA, as our keynote speaker ("Private Equity and Venture Capital :Contributing to the growth and development of Europe").

Calendar

Board of Directors:
10 October 2011 (4 p.m.)

Events

IFE Private Equity in Luxembourg

Date: 25-27 October 2011
Location: Luxembourg

PE market in 2011/AIFMD/Dodd-Frank Act/Fatca/ Luxembourg: a European hub for alternative investments?

More information: www.ifebenelux.com

EVCA Venture Capital Forum

Date: 17-18 October 2011
Location: Budapest

Returning to good times

More information: www.evca.eu

EVCA Corporate Venturing Capital Workshop

Date: 18-19 October 2011
Location: Budapest

The aim of the workshop is to combine excellent keynote speeches with interactive discussions

More information: www.evca.eu

In the spotlight

Report on Nordic PE event in Stockholm

The LPEA participated at the Nordic Private Equity Congress on 31 May in Stockholm, Sweden. It was the 7th annual event organized by Unquote, a leading European private equity research specialist. The Nordic region comprises some of the most successful economies in Europe. The currently 164 private equity firms based in the region constitute a significant part of the global market, EQT Partners, Nordic Capital, Altor, CapMan Capital Management and Herkules Capital being examples of some of the largest Nordic private equity firms.

According to Unquote the Nordic private equity model seem to be working very well and some of the key factors to its success are a significant number of fund managers with very good track record, the regions good level of corporate governance as well as the fact that an extensive network of industrial advisers are available in the region. However, when it comes to the choice of jurisdiction for the funds, the Channels Islands has, at least until now, been the preferred choice.

The topic of the LPEA panel discussion, moderated by Hans-Jürgen Schmitz, was thus "Structuring Nordic private equity via Luxembourg private equity vehicles". The panel participants from Deloitte, Ernst & Young, Linklaters and Pandomus guided the audience through the competitiveness that Luxembourg offers in terms of fund domicile, tax treaty network and international work-force. The panel discussion also briefly mentioned Luxembourg's position in terms of the AIFMD, two case studies describing the advantages of the SIF and the SICAR and a testimonial from Positron, a Norwegian private equity firm that recently set up a private equity fund in Luxembourg.

Overall it was a good event. However, some of the event's participants (GPs, LPs and service providers) found the structuring edge of the LPEA session a bit unusual compared to the other discussions which were more focusing on the investment management. It will take time and effort to convince the Nordic private equity players to change their habit of using Channel Islands structures. Perhaps the AIFMD as well as the demand from the Nordic tax authorities for more tax transparency might bring more Nordic business to Luxembourg?

Charlotte Lahaije-Hultman
Partner, Pandomus

About LPEA

LPEA is a non-profit organization serving a threefold mission:

- Towards its members, represent and promote the interests of Private Equity and Venture Capital players based in Luxembourg.
- Towards Luxembourg, support government and private initiatives to enhance the attractiveness, competitiveness and efficiency of the Luxembourg economic, legal, regulatory and operational framework as an international hub for carrying out Private Equity and Venture Capital business and/or servicing the industry in all its dimensions.
- Towards the European Venture Capital and Private Equity Association (EVCA) and other relevant international industry bodies, represent the interests of the members of the LPEA and the industry as well as Luxembourg as a place for doing Private Equity and Venture Capital business.

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