

PRIVATE EQUITY **INSIGHT**/OUT

PARTNERS GROUP **ENTREPRENEURS IN THE BOARDROOM**



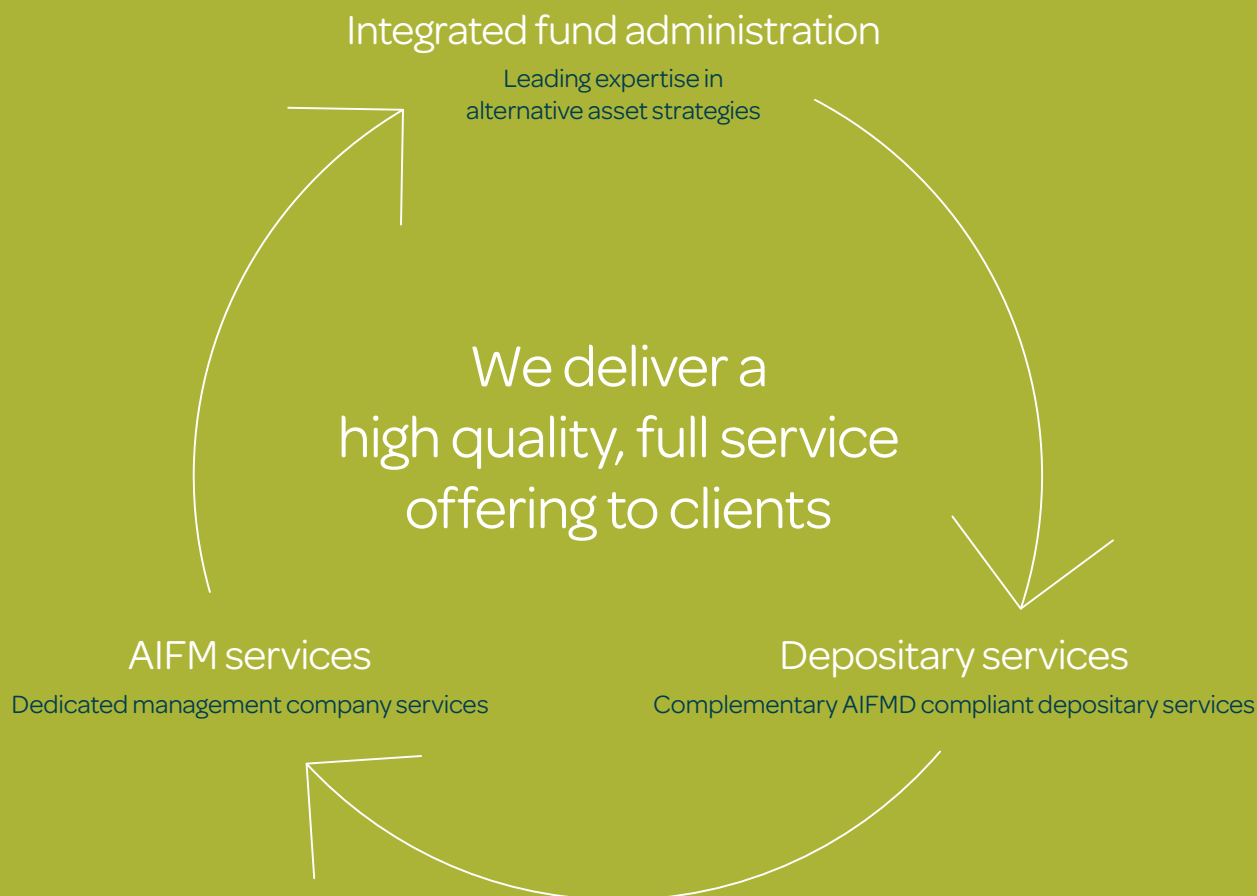
10th Anniversary
of LPEA

Tokenization
of VC Funds

CSSF 4.0:
Real-Time Supervision

Issue 15, February 2020

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DEAR READER,

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Welcome to the first PE INSIGHT OUT edition of 2020 and the – Roaring –Twenties! This edition is focusing on some of the recent success stories of PE/VC “happening in Luxembourg” with Partners Group, a listed multi-strategy investment firm that moved its AIF to the Grand Duchy in 2017, and VNX Exchange, which vows to be a pioneer in tokenisation. All on the back of continued growth across the board for our industry... And the kick-off of our 10-year anniversary celebrations, which start on 11th February!

The more the success, the bigger the challenge, which applies both to our association and the wider industry! You will find several examples of the efforts we deploy to rise to such challenge.

We are focusing even more on innovation and education, which is highlighted in the article of Claude Marx, the head of CSSF who focuses on innovation to ensure we are in the 4.0 era; as well as Myles Downey, who led a workshop for our PE4W Initiative to support Diversity in PE, and the write-up by Jonk Entrepreneuren.

Last but not least, PE is a people’s industry and our association is building up its resources with an enlarged team whose profiles are also included in this edition.

We wish you a happy reading, and look forward to sharing more news during our 10th Anniversary!



Rajaa Mekouar-Schneider

CEO
Luxembourg Private Equity
& Venture Capital Association



Claus Mansfeldt

Chairman
Luxembourg Private Equity
& Venture Capital Association

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THE MAGAZINE OF THE LUXEMBOURG PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

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LPEA TEAM

2019 saw the LPEA double the size of its executive staff to six people, with complementary skills and experience. In addition, we onboarded two Senior Advisors, which was a great accomplishment brought about by the growth of the PE / VC industry and the association, which now counts over 250 members. The enlarged team will drive the association closer to its 2025 Objective of reaching 500 members. If you have not met them yet, please join us in welcoming:

READ MORE
about Michaela
and Natalia's
recent move to
Luxembourg in the
"Lëtztlive" section
(page 39).

MICHAELA VISKUPICOVA, Events & Communications Manager

Michaela Viskupicova was hired by LPEA as an Events & Communications Manager in August 2019. She is a valued energetic member of the team, matching our ambition to upgrade the events we organise for our members. Michaela has several years of experience in organising PE/VC events across Europe and worked as a TV reporter in Slovakia.

STEPHANE PESCH, Director of Strategy and Planning

Stephane Pesch joined LPEA as Director of Strategy & Training in October 2019. He assists the CEO as part of the "Roadmap to 2025" Strategy Review. Stephane Pesch is a proud Luxembourgish with 15 years of experience in the investment funds industry, with great entrepreneurial spirit and a deep local network. He has been a long-term member of LPEA and is a well-liked professional in the sector.

NATALIA KOLTUNOVSKAYA, Head of International Development and Operations

Natalia Koltunovskaya became the Head of

Operations and International Development of LPEA in January 2020. She will design and ensure implementation of processes that will improve whatever we do to become even more efficient and relevant to our members and the public. Natalia has varied experience in journalism and entrepreneurship, having worked for world-class publications and having created an educational business in Japan, from where she relocated.

In addition to the wider team, the LPEA is also reaching out to new advisers who will help the organisation to navigate through critical subjects.

CHARLES MULLER, Advisor

Charles Muller, a well-known expert in the Luxembourg finance industry with 30 years of experience, will advise LPEA on policy matters and public advocacy. Skilled both in mutual and alternative funds and acting today as an independent director for funds and management companies, Charles is also a member of the Luxembourg Bar and the Directors Office and co-chairs the NGO "Finance and Human Rights" asbl.

JOHN HOLLOWAY, Advisor

John Holloway worked for the European Investment Fund for more than 40 years, 20 of which were spent as the Director of Private Equity Investments. Now retired from public service duty, John intends to remain close to his expertise – venture capital – and will support LPEA in implementing a strategy to further develop this segment of the industry in Luxembourg.

LPEA'S 10TH ANNIVERSARY!

The LPEA celebrates its 10th anniversary in 2020, an important milestone for our maturing and vibrant association, which saw the PE/VC industry grow multifold globally and become increasingly diverse in terms of types of strategies and investors.

Throughout the year, we will highlight the celebration at many of our events and produce additional media which will help us to record this moment that will also shape our future. As one of the key symbols of our First Ten-Year Anniversary, we chose to acquire a piece of art by well-known Luxembourgish artist, Jhemp Bastin. He works with natural materials, primarily wood, which helps us to emphasise our long-term effort and focus on sustainability that respects the natural ecosystem while crafting it to make it bright. This is also part of the LPEA's vow to support local culture in Luxembourg.



PRIVATE EQUITY IN LUXEMBOURG UPDATED



The LPEA's brochure "Private Equity in Luxembourg" is a valuable guide for all investors and fund managers who look to structure their investments via Luxembourg. We are pleased to launch a new edition for 2020, with all the latest updates with regards to regulatory news.

Together with this brochure, the LPEA has also updated and reprinted "Limited Partnerships in Luxembourg: a comprehensive Q&A for practitioners".

Both publications can be downloaded from the LPEA's website or obtained in print in our office or at our events.

E-mail lpea-office@lpea.lu to request some samples for your office.

PE4W MENTORING PROGRAMME

The Private Equity for Women initiative continues to welcome mentors and mentees who are willing to contribute to promoting women within the PE/VC sector. Men and women members of the LPEA are invited to volunteer and take the opportunity to join this great initiative, associated with #nowomennopanel.

LPEA INSIGHTS GOES B.I.G.



The LPEA Insights conference, the LPEA's flagship event bringing together investors and fund managers under one roof in Luxembourg, will take place this year on May 12th. The title of this year "B.I.G.", standing for "Buyouts, Innovation and Growth", represents the main trends observed in the sector and brings together 30 speakers from the US, Europe and Asia for a one-day conference that is designed for and by private equity practitioners. For more information visit www.lpeainsights.lu.

NEW TECHNICAL COMMITTEES LEADERS

Following the technical committees' revamp that resulted from LPEA's strategy review conducted in 2019, the leadership of some groups has changed. The leaders of our groups are now:

TAX

Giuliano Bidoli, BC Partners
Martin Hollywood, PwC

TAX/VAT

Marie-Isabelle Richardin, PwC

TAX/YOUNG LEADERS

Steve Idrissou, Atoz
Thijs van Dongen, EIF

MARKET PRACTICE & OPERATIONS

Laurianne Delaunay, Marguerite
Yves Courtois, KPMG

MARKET PRACTICE & OPERATIONS/ RISK MANAGEMENT

Hakan Har, BC Partners
Alan Picone, KPMG

LEGAL

Gautier Laurent, Cinven
Katia Panichi, Elvinger Hoss Prussen

LEGAL/AML

Pieter Leguit, Loyens & Loeff

LEGAL/RAIF

Silke Bernard, Linklaters
Pierre Reuter, Hogan Lovells

LEGAL/COMPANY LAW

Renaud Graas, Van Campen Liem

MARKET INTELLIGENCE

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Arnaud Bon, Deloitte

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Serge Saussoy, GBL

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ESG CLUB

Aurélien Roelens, Cube IM
Oriane Schoonbroodt, Label R

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Luxembourg is a vital location for Alter Domus and after more than 15 years of specialising in alternatives and focusing on our core clients, we're proud to be one of the country's largest fund administrators with more than 850 people working in our headquarters.

Globally, we count more than 2,400 employees across 20 countries with in-depth local knowledge and operational capabilities. The synergies between each office combined with our vertically integrated service framework ensures our clients can remain focused on their core business.



LUXEMBOURG START-UP OF THE YEAR IS... FOOD4ALL

Food4All received the first prize of Start-up Stories Awards by Maison Moderne, outrunning nine other promising start-ups. The young company convinced the jury that reducing food waste caused by retailers will benefit both sellers and consumers, not to mention the positive impact on the environment. Founded by Ilana Devillers and Xenia Ashby, Food4All's technology allows supermarkets to feature products reaching the expiration date and promotes them at reduced price. The application also inspires people with recipes for discounted food available in stores. With the mission to reduce food waste on a global level, Food 4All is one of the most promising start-ups in Luxembourg.

Besides Food4All, the finalists' list included:

- **Anote Music**, the first platform to buy and sell music rights;
- **Aqoona**, the digital platform for information exchange between nurseries and parents;
- **Lingua Custodia**, professional artificial intelligence translation of finance documents;
- **Zero.1**, the new LiFi technology helping to transmit larger amounts of data between devices using light;
- **Adapti**, a service to personalise customer experience online;
- **Asets-Lux**, smart engineering products for the steel industry;
- **Petit bambou**, a mobile app for meditation;
- **Rafinex**, an artificial intelligence solution to optimise working conditions;
- **Zortify**, artificial intelligence service to determine people's entrepreneurial potential.

GOVERNANCE.COM RAISES €3 MILLION

Luxembourg-based RegTech firm Governance.com raised €3 million to expand its digital governance solutions for financial institutions. Part of the funds will support the expansion of the team by doubling the number of employees.

The company facilitates the digitalisation of management tasks for the financial sector. It enables financial institutions to combine the seemingly impossible tasks of regulatory compliance, transparency and cost savings.

Governance.com achieved a third consecutive year of triple-digit growth, continued to expand its technology and launched several new solutions. Today, Governance.com serves Tier 1 banks and asset managers in Luxembourg, Ireland and Switzerland.

The pre-configured models enable clients to be immediately operational with cost-effective implementations. Moreover, their new robotic process automation technology can help increase compliance productivity by 25%, while ensuring that clients can always demonstrate regulatory compliance.

MIDDLEGAME VENTURES TARGETS NEW €150 MILLION FUND

MiddleGame Ventures, the Luxembourg-based fin-tech VC, has announced the MGV Venture Fund I, a new fund for early-stage lead investments in start-ups from Europe and North America. The fund has made its first close toward the target of €150 million and remains open to more investments until a final close later in 2020.

The fund recently made three significant investments: Nivaura, a capital markets digital platform; Railsbank, a banking-as-a-service platform and Gardenia Technologies, a big data analytics start-up. MiddleGame Ventures was founded by Pascal Bouvier, Michael Meyer, and Patrick Pinschmidt and received commitments from the European Investment Fund and the Luxembourg Future Fund.

LUXEMBOURG REGULATOR CSSF LAUNCHES FINANCIAL EDUCATION TOOL

The Financial Sector Supervisory Commission (CSSF) in Luxembourg presented new tools to improve citizens' knowledge of financial matters.

The CSSF launched a new portal www.letzfin.lu, two applications for smartphones "Lëtzin Budget" and "Lëtzin Pocket Money" and a game for teenagers which is called "Fingol, the Financial Game of Life". These new tools will educate people how to manage their budget and calculate credit, or how to save money for retirement. It will also provide some guidance to people who want to understand which offers are made to them on a daily basis.

All these products have been developed in Luxembourg by the CSSF, in collaboration with various partners, including the Luxembourg Tech School for the creative part, and with the financial support of the ABBL Foundation for Financial Education.

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We believe that smart solutions require an integrated approach. Our Luxembourg investment management practice is unique in combining fund, finance and tax capabilities.

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FINTECH, CYBERSECURITY AND SPACE IN THE PRIORITIES OF THE LUXEMBOURG FUTURE FUND

The Luxembourg Future Fund (LFF) organised its first Annual Networking Event showcasing the developments of the Luxembourg Future Fund and providing an opportunity to connect policy makers, fund managers, innovative blue chips, academics, current and future entrepreneurs, incubators and accelerators, and other key actors of the Luxembourg's ecosystem.

As of June 2019, the LFF had a portfolio that included investments in Fintech businesses CrossLend, Digital Origin Technology, LendInvest and Solaris Bank; in Cyber-Security firm Cyberhedge Europe and in the Space start-up Spire Global.

€150 million equity fund, set up set up in 2015 by the Société Nationale de Crédit et d'Investissement (SNCI) and the European Investment Fund (EIF); it combines a €120 million commitment from the SNCI with €30 million from the EIF, to be deployed over a five-year period. It invests in Venture Capital funds and co-invests in early and growth stage innovative technology SMEs in view of the sustainable development and diversification of the Luxembourgish economy.

There is a healthy pipeline of co-investment opportunities, both in the core CyberSecurity, FinTech and Space sectors as well as in a number of other promising ICT verticals, evidencing the development of development of Luxembourg's innovation ecosystem.

SUPERRETURN'S FIRST AWARDS RECOGNISE IQ-EQ AS "FUND ADMINISTRATOR OF THE YEAR"

SuperReturn, the world's largest private equity and venture capital event, elected IQ-EQ the new winner of their recently launched awards programme aiming to recognise and commend the companies driving private equity forward.

IQ-EQ, one of the success stories of Luxembourg's investor services, grew significantly over the previous 18 months, extending their worldwide presence and improving their products. In 2018, the company set their footprint in 23 new geographical locations and expanded employee numbers to +2,450 people globally. The combined value of the group's assets increased to \$400 billion from \$250 billion in 2018. This encompasses 600 funds worldwide, including the majority of the top private equity firms.



NEW SPACE FUND ORBITAL VENTURES

The government of Luxembourg has partnered up with eight other public and private companies to secure the €70 million to back Orbital Ventures, the country's first fund to support Space start-ups. The fund will give preference to innovative companies with products or services that already generate income or are ready to do so in the short term. Partners of this initiative include Promus Ventures, SES, BCEE, BGL BNP Paribas, BIL, OHB SE, POST Luxembourg, the Ministry of Economy and SNCI.

At the European level and per the initiative of the European Commission, we note the creation of the InnovFin Space Equity Pilot, a €100 million programme under InnovFin, specifically dedicated to supporting the innovation and growth of European SMEs operating in the sector of space technologies. The programme will invest in venture capital funds across the EU which support companies commercialising new products and services in the space sector.

2BE.LU LEADS FUNDING ROUND IN ARTHUR ONLINE

2be.lu Investments, a Luxembourg early stage VC fund, became the cornerstone investor in €1 million funding in Arthur management solutions.

Arthur, which is based in the UK, provides everything for real estate and property management. The platform currently has more than 70,000 monthly paying units across 30 countries. The software helps users with such basic financials as rent reconciliation, closing statements or late warnings and demands. According to Alexander Tkachenko, Managing Partner of 2be.lu, the new investment will give Arthur another boost, allowing both international expansion and growth of customer base in the U.K.

UNITY IS OUR FIRST STRENGTH

INTERVIEW WITH OLIVIER COEKELBERGS, RECENTLY APPOINTED
COUNTRY MANAGER OF EY LUXEMBOURG FROM JULY 2020.

Being appointed Country Managing Partner of EY Luxembourg is a huge achievement, which also shows that Private equity (PE) is a strategic division at the firm. How do you feel about it?

I feel good, super good!! I was promoted partner 10 years ago and I am now asked to lead the entire EY Luxembourg crew. While this appointment is the beginning of a new journey, it is also a great achievement personally and professionally and as you can imagine, it is also a major recognition for the PE sector in our firm. I feel very highly energized and eager to succeed in this role. I have a feeling similar to the one I had in 2012 when I was asked to take the lead on the PE sector.

EY is a founding and charter member of LPEA. Its evolution over the past 10 years is key to understand our association and industry. What were the key phases?

The growth of EY over the past 10 years has been driven by all our core industries, but clearly Private Equity has played a major role. Since 2010 our reve-

nue in Private Equity was multiplied by four. While this growth cannot be decorrelated from our brand and our pioneer role in Luxembourg, I would link this success to the growing success of the industry towards investors and would see three phases: First, the recognition of the resilience of PE backed companies and the PE business model which emerged after the financial crisis. This phase has contributed to the interest of investors for the industry. Second, AIFMD and the derived regulations have also accelerated the interest from investors with a perceived higher protection. Third, the global focus on tax and the implied requirements for substance in on-shore jurisdictions combined with political elements like Brexit have catalyzed the trend. Both LPEA and EY have been able to support the industry in different ways through these major challenges. I think this support has set the basis for the success of our organizations.

What is the vision you are bringing to EY for the next 5 years and the overall evolution you foresee to Luxembourg?

I will not reveal all my secrets... but clearly my agenda will be around the transformation of our business which will be much more technology-driven and the onboarding of the new generations of people into our ambitions. However, more importantly, I will maintain the unity, efficiency and intensity of our partnership. All the partners of EY are very proud of the smooth change in leadership which we concluded on



SINCE 2010 OUR REVENUE IN PRIVATE EQUITY WAS MULTIPLIED BY FOUR.

Olivier Coekelbergs, Country Manager,
EY Luxembourg

in a very short period. This unity is our first strength and my first duty will be to preserve it. I am extremely confident that the Luxembourg ecosystem will continue to grow, but all the organizations will have to adapt their model to the changing environment linked to technology and new generations.

What do you wish LPEA on its 10th anniversary?

All the best of course!! I wish the association will continue to put forward itself in the Luxembourg ecosystem and outside. While the association has achieved a lot in ten years, no one could deny the fact that there is still a lot to do, especially in the continuously evolving environment in which we evolve. More than ever and in light of the capital the industry attracts and will attract, it will be key for the PE industry to have a credible voice in front of all the stakeholders. I wish for LPEA to be an unquestioned voice for the industry.

What would you tell the other members of LPEA on the occasion of this anniversary?

The success of our association is first and foremost the result of a team work agnostic to any brand in the market. I think all the members deserve a great "Well done!" for this. I also think it will be crucial to keep such a dynamic in the future but make it evolve too. We all know that successful organizations are those who best adapt to changes. This statement is also true for LPEA and its members. So, well done, but please do not become complacent. ●



PARTNERS GROUP:

ENTREPRENEURS IN THE BOARDROOM

THE PRESIDENT OF LPEA, CLAUS MANSFELDT, TALKED WITH HERMAN KLEIN WASSINK AND WITH VANESSA CAMILLERI ABOUT PARTNERS GROUP STRATEGY AND GROWING PRESENCE IN LUXEMBOURG.



INTERVIEW by Claus Mansfeldt
President of LPEA

Claus Mansfeldt (CM): Herman, let's start with the broader picture of Partners Group and the evolution of your investment strategies, as well as a note on your own role, which I believe to be a multi-jurisdictional one.

Herman Klein Wassink (HKW): Let's start with where Partners Group is today. We currently have USD 94 billion in assets under management (AuM), with roughly 50% invested in private equity and the remainder split across private infrastructure, private real estate and private debt. We are a global investor with



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an entrepreneurial governance-driven approach towards creating value in the assets and companies we acquire. Our approach is to find good businesses and create value through internationalization, supply chain improvements etc... This is how we drive value out of the platform. We are consistent in our use of this same approach across all asset classes.

In terms of my role, I am responsible for the Benelux Client Solutions business, which is basically the fundraising business for investors in Benelux. On top of that, I'm also responsible for our European-wide insurance business.

CM: Just to complete the picture, Vanessa, your tasks are more closely related to the Luxembourg office, correct?

Vanessa Camilleri (VC): Absolutely. I head the Luxembourg office and the AIFM here. In a nutshell, I, together with my fellow Conducting Officers, ensure

OUR APPROACH IS TO FIND GOOD BUSINESSES AND CREATE VALUE THROUGH INTERNATIONALIZATION, SUPPLY CHAIN IMPROVEMENTS.

Herman Klein Wassink, Managing Director, Partners Group

that the AIFM operates in line with its legal and regulatory obligations. I have to say that we pride ourselves on being a globally integrated firm, where employees are also involved in projects which spread beyond the jurisdiction in which we are based.

CM: Speaking of your Luxembourg office, what is your setup here and how it has evolved over the last five years?

VC: Partners Group started with the first Luxembourg SICARs in 2005. I would say we were one of the first asset managers to have SICARs on the ground. Fast forward to 2008 when we established a presence here in the country and later obtained a PSF license. More recently, in March 2019, we obtained the AIFM license, a particularly important achievement for us.

CM: Going back to Partners Group's strategy, one part of your business is also linked to secondaries. Can you describe it further?

HKW: We take an integrated approach to private markets investing with three pillars: direct, primaries and secondaries. At this point in time, direct investing is the largest pillar and our main focus. However, primaries and secondaries are important complements to our direct investments in that they enable us to have all the building blocks necessary to create tailored portfolios for our clients with the bespoke risk/return profiles they seek. For example, by adding secondaries into a portfolio, we can add earlier cash flows as well as diversification.

CM: There is another component to the business that relates to liquid access to private markets, which is an interesting topic for us here at the association. How do you think we can make Private Equity more appealing to a broader audience of investors?

HKW: To appeal to a broader audience of investors, it is critical that private markets firms offer a range of products meeting different investor groups' re- ➔



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Serge WEYLAND

Head of Institutional & Fund Services and CEO
Edmond de Rothschild Asset Management (Luxembourg).



NEED MORE INFORMATION ?

Alessia LORENTI

Head of Business Development
Edmond de Rothschild Asset
Management (Luxembourg)

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→ requirements, rather than exclusively focusing on the illiquid limited partnership vehicles that are standard in our industry. Partners Group is known for being an innovator in structuring products for specific client groups – in fact, Partners Group has been managing private markets programs with liquidity features since 2001. At the core of our offering are several semi-liquid private markets strategies, which typically offer investors monthly or quarterly liquidity, subject to the careful management of the in- and outflows of these investment strategies. On top of that we also have listed Private Equity and Infrastructure strategies, as well as offerings for the defined contribution pensions markets in the US, UK and Australia.

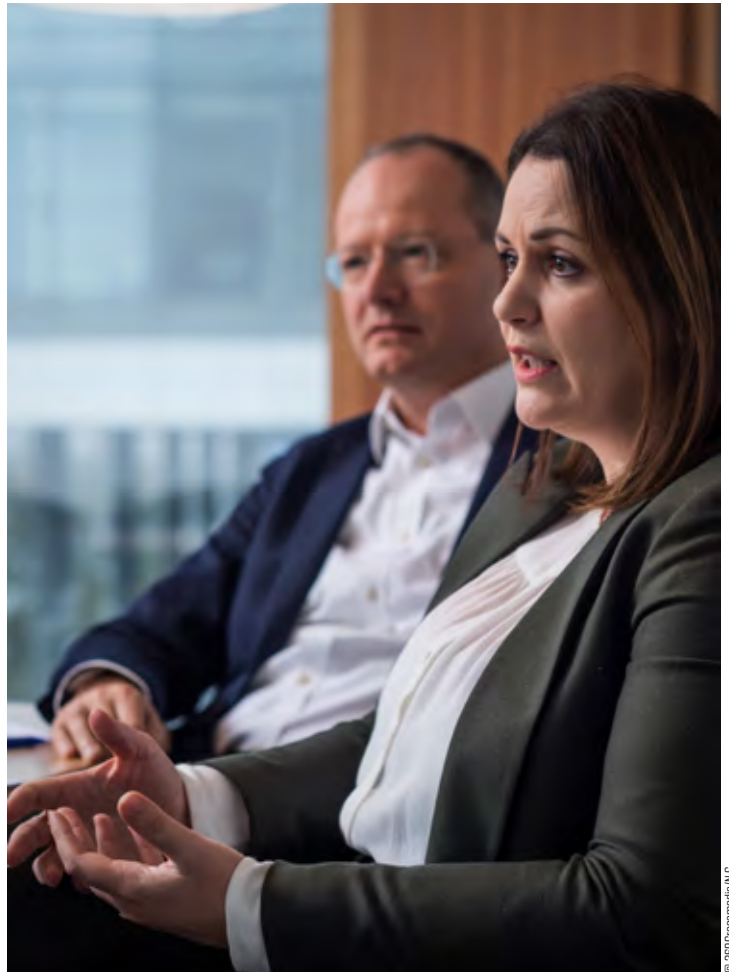
CM: Partners Group was one of the first private equity firms in Europe to be quoted on the stock exchange. Could you just tell us a little bit about the history of that and where you are today?

HKW: There were really two main reasons that we were originally listed back in 2006. The first reason was that the listing would pave the way for a generational transfer to secure the long-term success of the firm. The listing provided an independent and fair price to allow senior partners to sell their shares back to the company for those who were looking to leave the business or scale down their exposure. These shares could subsequently be allocated to younger employees via its stock option program. Secondly, it was also felt that going through the process of a listing would really help institutionalize further the business because it would force us to adhere to additional regulatory requirements and disclosures and therefore increase transparency towards a variety of stakeholders, including clients. Finally, having listed equity provides a tool for employee incentivisation and can, as such, facilitate increased corporate activity such as hiring of talents.

CM: As you say, listing also provides tools, such as stock options, to incentivise the team. How do you manage that together with the classical incentives for Private Equity, which typically relate to carry and the performance of specific funds?

HKW: Both are very important from a governance perspective and that is why we employ both techniques. We pool carry by asset class and we also have very widespread employee shareholder ownership – every new joiner is allocated PGHN shares.

VC: Our approach to compensation is designed to foster employee ownership and the alignment of interests between employees and our stakeholders, including our investors and shareholders. It is particu-



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WE PRIDE OURSELVES ON BEING A GLOBALLY INTEGRATED FIRM, WHERE EMPLOYEES ARE ALSO INVOLVED IN PROJECTS WHICH SPREAD BEYOND THE JURISDICTION IN WHICH WE ARE BASED.

Vanessa Camilleri, Senior Legal Counsel, Partners Group

larly important for employees to feel that they own the company and that they are contributing to the future of the firm. Despite us being listed, Partners Group is run as if it was one of our portfolio companies, with entrepreneurial governance always at the forefront of decisions.

CM: When you look back at Partners Group's evolution, did you start with a large base of Swiss institutional investors that were interested in Private Equity or High Net Worth Individuals (HNWI) that you know, and how did it evolve over time?

HKW: At the very beginning our client base was concentrated in Switzerland and Germany, but it quickly expanded into Europe and globally. The Swiss market →

→ was probably mostly institutional rather than HNWI, which followed a little bit later. The private wealth market is very well developed in Switzerland, but it is also very well developed in Luxembourg. We see very significant interest and growth in private markets investments here with private wealth Managers or family offices increasing their allocations.

CM: Is that translating into real commitments?

HKW: Yes, absolutely!

VC: We always had a global reach in mind and already from our initial fund structures – vintage 2004+, there were Guernsey and English structures. We always had the intention to reach a global market.

CM: You will be kindly participating in our flagship LPEA Insights Conference this year on the 12th of May, in which we will have a theme about “The return of the barbarians at the gate”, a reference to the origins of the largest buyouts of the 80s. Do you think that's an appropriate theme to reflect on again? Is big and aggressive and public to private, for example, a theme?

HKW: It's definitely provocative. As a description of the private markets industry at this point in time, I would say it is wide of the mark, as it refers to a time when the focus was almost exclusively on cost-cutting and financial engineering to generate returns. Today, most of the firms in our industry, including Partners Group, are strongly focused on value creation and how to grow a business, revenues and EBITDA. In fact, in our portfolio companies, the EBITDA grows by an average of roughly 15% p.a., the same rate at which employees grow, so it's not only about leverage and cost-cutting. It is more about bringing entrepreneurial drive to businesses.

CM: So shall we replace it by “saints at the gate”?

HKW: A better way of putting it would be “entrepreneurs in the boardroom”. Private markets today is very much about entrepreneurial governance at board level and working closely with the executive management. This is how you create value.

CM: I was just wondering how are we able to get this message across. How the industry has changed and it's really about value creation and investing in businesses rather than stripping them of value. That is really the heart of the business and getting that across to our constituents, to society, not just to our investors.

VC: Private markets have evolved and corporate social responsibility is often at the heart of our activity. I believe that society sees the benefits of private markets. We believe in rolling up our sleeves and do actual work at our investee companies. I suppose



PRIVATE MARKETS TODAY IS VERY MUCH ABOUT ENTREPRENEURIAL GOVERNANCE AT BOARD LEVEL AND WORKING CLOSELY WITH THE EXECUTIVE MANAGEMENT. THIS IS HOW YOU CREATE VALUE.

Herman Klein Wassink, Managing Director, Partners Group

that is the key difference we see between how a private markets company and a public market company are run. Private markets is not about turning up for four board meetings in a given year, but essentially doing work day in day out.

HKW: The industry can certainly do more to get this point across, because either in politics or media, this message is not always accurately conveyed. The industry, as a whole, has a good story to tell, and we should be open about that and make sure people understand that private equity really has changed in the last 20 years.



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CM: A very hot topic these days is the environment, the 'E' in ESG. How are you addressing this particular aspect, which is hugely popular and in the public eye? As a private corporation should you be responsible for saving the environment through your parameters or do you think governments should actually be doing that and you should operate freely? I'm afraid there is a tendency towards "greenwashing" in the Fund management industry and corporate industry.

HKW: We are fully on board with responsible investing. We have a responsible investment policy, which is public and featured on our website. The principles in the policy, which include doing no harm to society and the environment, are followed when we go in and take control of companies. We set specific ESG criteria, including ESG KPIs for businesses we own. To give you an example, we owned, and have recently sold, a catering business in the Netherlands in which we put a specific food waste reduction KPI, and that's the KPI by which the management is measured. We take it seriously because we think it is the right

thing to do and because it helps us create value and demonstrates our legitimacy to the beneficiaries whose money is invested with Partners Group. Then specifically, whether it should be a government or private initiative? I think it has to come from both, to be honest. If you leave it entirely to government, you probably get suboptimal and non-economically sensible regulations. If you leave it entirely to the private sector, you will probably ignore externalities, which are real but which are not currently priced in for us. There is a mid-zone where public enterprise and government need to work together on these things.

CM: As an organization, the LPEA is celebrating its 10th anniversary this year. We haven't been around quite as long as Partners Group, but we nevertheless have been part of a phenomenal growth of the Private Equity business here in Luxembourg and I'm just curious to have a comment from you as members of our association. What do you foresee? What would you wish for the association or the community in Luxembourg over the next ten years?

VC: One of our wishes would be for the LPEA to assist the industry in contributing meaningfully to regulatory proposals as well as to act as an environment where peers can brainstorm and discuss alignment. This is particularly the case in Luxembourg where I suppose other than having the industry being the common denominator, there is also the regulatory ambit which we share with each other.

HKW: I'd say that there's a lot of capital in Luxembourg but we are still in an early stage of seeing that capital invested in private markets. The LPEA can play a role in trying to bring together investors and fund managers present in Luxembourg. It would be good for the portfolio, for the returns and also for diversification. We hope that will be the context in which the LPEA will thrive.

VC: We have a mantra which we go by and that is that 'we are responsible for dreams.' By that we mean that we are ultimately responsible for the wishes, the future and the prosperity of all our investors. That is actually what guides us and it's actually a good link to our corporate social responsibility towards society at large.

CM: Just a quick and last question regarding your future in Luxembourg

VC: Luxembourg is one of Partners Group's fund jurisdictional hubs. It is also where we have our AIFM. It is therefore a jurisdiction which, along with many others for us as a global firm, is key to the smooth running of our business. ●

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TOKENIZATION OF INVESTMENTS IN VC FUNDS

INTERVIEW WITH ALEXANDER TKACHENKO, AN ENTREPRENEUR AND VENTURE CAPITAL INVESTOR WHO CAME TO LUXEMBOURG IN 1997 TO WORK FOR A JAPANESE ELECTRONICS COMPANY AND STAYED HERE SETTLING HIS VC FUND - 2BE.LU AND AN INNOVATIVE PLATFORM FOR VC INVESTMENTS - VNX EXCHANGE.

Can you please, first of all, explain us your background and how a Russian national ends up creating a VC in Luxembourg? (2be.lu)

I came to Luxembourg to develop marketing in the former Soviet Union for a Japanese electronics company and have since mainly lived in Luxembourg. For most of my professional life I have been creating new products and developing new businesses so venture investing and supporting entrepreneurs seemed like a natural development. In 2014 I founded 2be.lu – an early stage Venture capital fund. In the following five years the fund invested close to EUR 14 million in 17 portfolio companies.

What is your preferred investment strategy as a VC investor?

2be.lu invests in seed/post seed rounds and continues to invest up to

B round. Investment focuses on electronic platforms, e-commerce and companies developing artificial intelligence and blockchain technologies. We have a very clear selection process, investment verticals and investment strategy and we stay focused on it. The upside: understanding of the verticals and situation in each portfolio company, close relations with the teams. The downside: you have to say NO to many opportunities.

How did you realize the VC industry, so often linked to funding innovation, was actually in need of new solutions?

Many innovations are inspired by personal experience. While running 2be.lu, I could see that although VC as an asset class is interesting to investors not many are prepared to commit capital for 10-12 years. Not surprisingly a large part of the money for VC industry comes from the patient investors such as government institutions or pension funds. That in itself is not a bad thing except that for the large investors it is easier to work with large VC funds which in turn invest in startups of the appropriate size – later stages of the likes of Spotify, Uber, AirBnB... Again not a bad thing but most job creation and innovations are happening in small and mid-size companies, which are typically too small for the large funds. And the issue of long investment period and illiquid nature of VC makes it difficult for smaller funds to

A LARGE PART OF THE MONEY FOR VC INDUSTRY COMES FROM THE PATIENT INVESTORS SUCH AS GOVERNMENT INSTITUTIONS OR PENSION FUNDS.

Alexander Tkachenko



→ attract smaller investors. So, in reality, it is rather hard to raise money for small and medium-sized startups.

So the idea was to try to make the VC investments more liquid. As is often the case, things happen by chance. At the time when I started to think about possible solutions, one of our portfolio companies developed a blockchain platform for the secondary sale of electronic tickets which gave me the idea to see if that could be adopted for VCs. At the same time, blockchain technology itself came into prominence. Another curious coincidence was that in 2018, as I was starting to work on the idea, we were on the same panel at an LPEA organized conference with Michael Jackson, a former founding team member of Skype and a former partner of Mangrove. Michael mentioned at some point that he believed that blockchain technology may have a fundamental impact in the way financial markets work including the VC industry. I remember thinking to myself that maybe after all my idea was not so stupid. We are proud to have Michael as an adviser now.

After that process you finally created VNX Exchange. How can you best describe it?

VNX Exchange is a platform where VC funds leading investments can

WITH TOKENIZATION INVESTORS ARE LOCKED-IN IN A VC FUND FOR A SHORTER PERIOD OF TIME.

Alexander Tkachenko

syndicate deals. It allows VC funds to attract additional capital while increasing their return by charging a success fee from financial investors. Financial investors participate in a specific deal and since their investment is tokenized should have more flexibility on determining the

duration of the investment. We have launched the first offering which is available for investors on VNX platform and have several deals in pipeline for this year. VNX is in the process of developing a secondary market solution, which should give more flexibility and liquidity to financial investors.

What has been the reaction of VCs so far?

We are at the very early stage of the development. VNX platform was launched at the end of 2019, but we already received a number of inquiries



⌚ From left: Alexander Tkachenko (CEO and founder of VNX Exchange), Pierre Gramegna (Luxembourg Minister of Finance), Nasir Zubairi (CEO of The LHoFT), In-kyu Park (The Embassy of the Republic of Korea to the Grand Duchy of Luxembourg).

from interested funds. We think that after a few deals there will be a lot more VCs coming onto or interested in coming onto the platform.. However, we try not to run ahead of ourselves and focus on gradual growth this year.

Is Luxembourg a particularly attractive location to launch this platform?

Luxembourg has a second to none IT infrastructure and is one of the major financial centers in Europe. Government is doing a great deal to support and promote innovation. When the Prime Minister of the country is also

a Minister of digitalization it means that it is in the focus of policy makers. What's important is that it has been very consistent. In the past 10-15 years we've seen developments in the University of Luxembourg, Lux-innovation and Luxembourg House of the Financial Technology. Our own example is an interesting showcase as we partnered with SnT (Interdisciplinary Centre for Security, Reliability and Trust) of the University of Luxembourg on the security aspects of the platform, our office is in the LHoFT – which is really the center of the FinTech life and we discuss with Luxinnovation plans to scale up. So it is not surprising that Luxembourg established an ecosystem that is at the forefront of the important global trends in FinTech. And established ecosystems tend to make it easier for companies to operate. There is still a challenge though: startups in Luxembourg need more openness from the larger players to embrace

innovation, partner, integrate, invest. That should give an impulse to many more companies and VCs to set up in Luxembourg but I'm optimistic.

How have you seen the Luxembourg VC sector changing since you came to Luxembourg?

The VC sector was in its infancy in Europe in 1997. In those days it was mostly a US thing. I'm not sure that there was a VC fund in those days in Luxembourg. But the situation is rapidly changing in the last years and with fast developing FinTech Ecosystem as well as Brexit, Luxembourg may clearly attract a number of VC funds that would be interested to invest and support startups here. We at VNX hope it would be the case. Moreover, VNX could serve as one of the factors attracting them here. The presence of a platform that makes it easier for a VC fund to reach financial investors could be a serious consideration factor. ●



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VENTURE DEBT FINANCING FOR INNOVATIVE GROWTH-STAGE COMPANIES

VENTURE DEBT IS STRUCTURED AS DEBT FINANCING WITH EQUITY FEATURES, A CONCEPT FAR FROM THE TRADITIONAL BANK LOAN.



By Francisco Alves da Silva

Investment Officer at the European Investment Bank

First, it is complementary to venture capital financing, because it relies on a company's future performance, rather than on past financial history. It is typically unsecured, because start-ups generally do not own substantial assets that can be used as collateral. It targets companies where growth depends on intellectual property rather than on tangible assets. Venture debt offers the advantages of a long-term loan, with repayments aligned with a company's growth. The remuneration is linked to the success of the companies and can include royalties or stock options.

Venture debt optimizes the capital structure of a company with limited dilution of the current investors or the founders. It is patient capital that alleviates pressure on companies' cash flows. This allows companies to focus on growth instead of on raising money. Finally, it can help companies attract other investors. This type of financing is ideal for companies that intend to transform a pilot project into mass manufacturing, accelerate research and development or expand internationally. The targets for venture debt are companies with innovative products, services or business models, with substantial equity raised in

the past from institutional investors, with a sustainable and growth-oriented business model, and with professional management and established corporate governance.

The European Investment Bank (EIB) offers long-term venture debt to support growth-stage, highly innovative companies in cutting-edge technology sectors.

Since it started offering venture debt four years ago, the EIB has provided around €2.5 billion to more than 100 companies across Europe in sectors such as life sciences, biotech, software, 3D printing, robotics, clean technologies and artificial intelligence. The support has helped develop treatments for severe diseases and backed technologies that save water and energy and prevent food waste.

VENTURE DEBT OFFERS THE ADVANTAGES OF A LONG-TERM LOAN, WITH REPAYMENTS ALIGNED WITH A COMPANY'S GROWTH.

Francisco Alves da Silva, Investment Officer, European Investment Bank

These investments are expected to generate more than 13,000 high-quality jobs as well as around €24 billion in additional investments in European research and development. EIB venture debt is backed by the European Fund for Strategic Investments (EFSI), the heart of the Investment Plan for Europe, also known as the Juncker Plan.


We have made a long way since the first venture debt loan was issued four years ago, but there is still a lot to be done. The EIB will continue to play a major role in promoting investment in innovation across Europe. ●

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LOOKING BACK... AND FORWARD

"COME FOR 2 YEARS AND STAY FOREVER"; THIS APPLIES TO MANY OF US IN THE LUXEMBOURG INTERNATIONAL COMMUNITY AND MY NEARLY 30 YEARS IN LUXEMBOURG HAS BEEN PROFESSIONALLY AND PERSONALLY "TIP TOP".



By Denise Voss
Chairwoman of LuxFLAG

It's sometimes hard to appreciate how much growth we've been a part of in the Luxembourg financial centre over the last 3 decades; beginning with the wildly successful EU investment fund – UCITS – now the gold standard for mutual funds and held by investors resident around the world – to today's growing business for PE and other "alternative" asset classes.

As a leader of a fund management company and as the former chairman of the Association of the Luxembourg Fund Industry (ALFI) I've had a unique opportunity to work with the entire Luxembourg ecosystem, from the government to service providers to associations such as LPEA. Many of us have earned lots of frequent flyer miles traveling as a community around the world to spread the word about the Luxembourg financial centre "tool box", the recognised know-how and expertise built up here over the years and how the centre supports investors' financial goals.

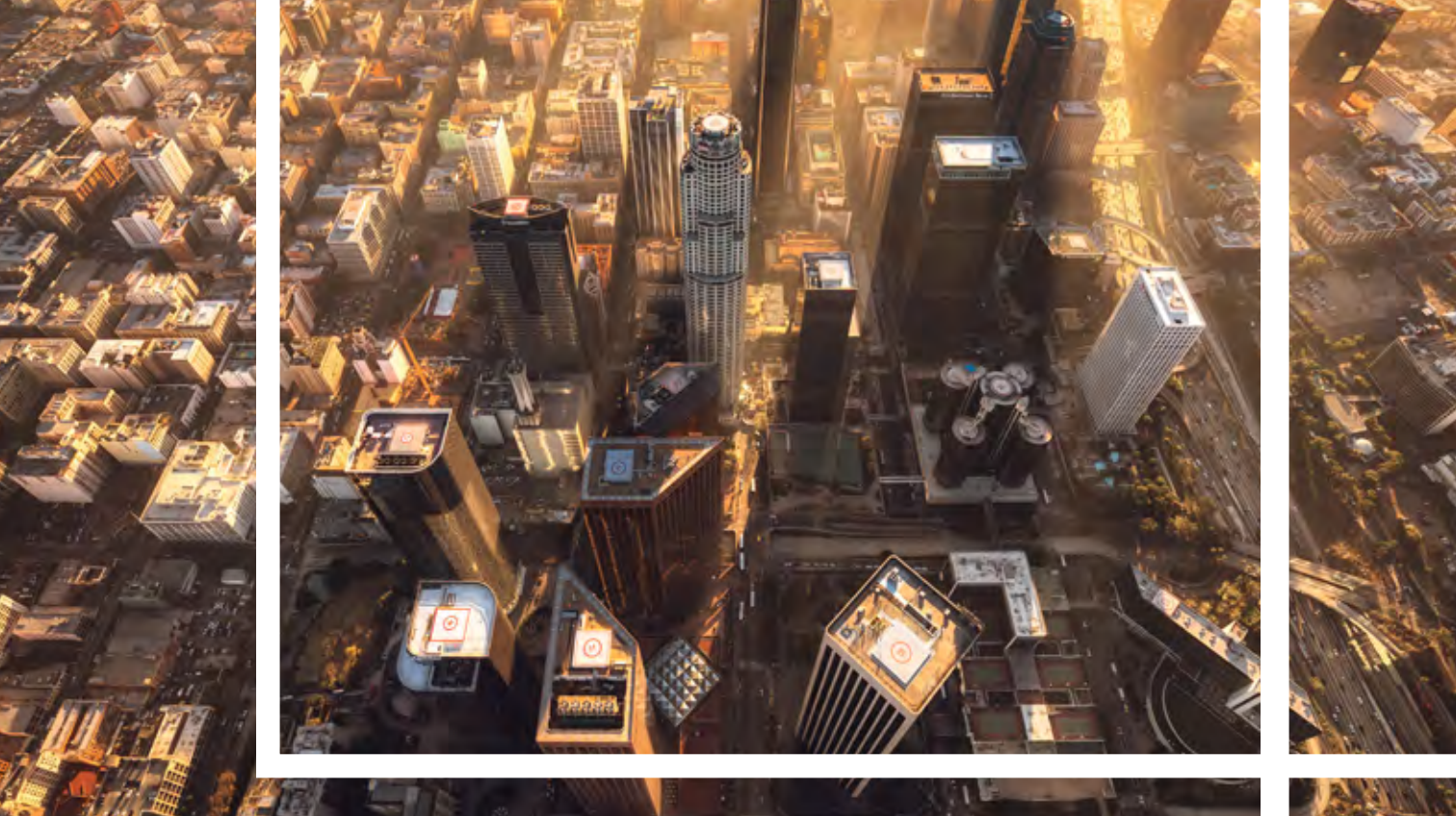
As a woman working in the financial centre there's been progress, but more is needed. It's been exciting to act as a role model and to encourage women in the industry to raise their hands and get involved; this is vital as the continued success of the financial centre relies on access to and development of all available talent.

In 2019 I was elected Chairwoman of LuxFLAG, an independent agency that supports the financing of sustainable development by awarding internationally recognised labels to investment products that provide investors with clarity; i.e. that what they are investing in "does what it says on the tin". This is particularly important given the amount of private financing needed to meet the Paris COP21 and other climate goals, as well as the UN Sustainable Development Goals. LuxFLAG also plays an important role in sharing best practices in sustainable finance through its Associate Membership programme; several members were featured in the 1st LuxFLAG Sustainable Investment Week in 2019. Feedback on the event was overwhelming positive and planning for a 2020 edition is coming soon! In the meantime, I and the LuxFLAG team look forward to working with Luxembourg actors such as LPEA to develop the Luxembourg sustainable finance ecosystem. Investors from all walks of life are demanding financial products that embed sustainability into their strategies and operations, for the benefit for all and the planet.

Last, but not least, congratulations to LPEA as it celebrates its 10th anniversary. Here's to working together as Private Equity travels on the journey to sustainable finance and a more sustainable world! ●

**THE CONTINUED SUCCESS OF THE FINANCIAL
CENTRE RELIES ON ACCESS TO AND DEVELOPMENT
OF ALL AVAILABLE TALENT.**

Denise Voss, Chairwoman of LuxFLAG



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EU REGULATION ON SUSTAINABILITY DISCLOSURE

A NEW EU DISCLOSURE REGULATION EU/2019/2088 ("DISCLOSURE REGULATION") ON SUSTAINABILITY-RELATED DISCLOSURES IN THE FINANCIAL SERVICES SECTOR WAS RECENTLY PUBLISHED. IT FORMS PART OF A RANGE OF NEW EU LEGISLATIVE MEASURES FOCUSED ON SUSTAINABLE FINANCE, AMONGST WHICH THE UPCOMING ADOPTION OF THE COMPREHENSIVE TAXONOMY ON SUSTAINABLE INVESTMENTS (FROM AN ENVIRONMENTAL / CLIMATE VIEWPOINT).



By Oriane Schoonbroodt

Co-chair of LPEA's ESG Committee
Co-Founder & CEO of Label R



and Aurélien Roelens

Co-chair of LPEA's ESG Committee
Investment Director & ESG Coordinator
of Cube IM

The intention here is to integrate ESG (Environmental Social and Governance) considerations into the EU financial policy framework and mobilize finance for sustainable growth. With this Disclosure regulation, the EU set out rules that will require most GPs, to disclose how sustainability risks affect the value of their investments. With growing concerns on ESG considerations, especially with the need to align with Paris agreement, across the civil society and the investment industry, the different legislative pieces also aim at fighting greenwashing (voluntary or due to limited knowledge). Here, the Disclosure Regulation intends to provide harmonized disclosure requirement for investment products, which promotes environmental and/or social objective.

THE REGULATION FORESEES NEW, **MANDATORY TRANSPARENCY REQUIREMENTS BOTH AT ENTITY/ ASSET MANAGER LEVEL AND AT PRODUCT LEVEL.**

Who: The Regulation applies to **all financial market participants**, including AIFMs, UCITS management companies, IORP, investment firms authorized under MiFID II providing portfolio management or investment advice, managers of qualifying venture capital funds, qualifying social entrepreneurship funds and financial advisers.

How: The regulation foresees new, mandatory transparency requirements both at entity/asset manager level and at product level. This includes mandatory disclosure by financial market participants on their websites about the consideration of adverse sustainability impacts arising from firms' investment decision, on the integration of sustainability risks in the investment decisions-making process, and on how remuneration policies are consistent with the integration of sustainability risks. In addition, pre-contractual disclosures shall include explanations on the integration of sustainability risks in the investment decision process and the assessment of the impact of those risks on the returns of the financial products.

When a financial participant/product promotes ESG characteristics, a demonstration of the extent the relevant ESG objectives are met has to be included in the periodic reports (e.g. annual for AIFM), as well as additional information within prospectus disclosures as well as on the website (e.g. information on the methodology to assess and monitor ESG criteria). All marketing communications shall be consistent with those mandatory disclosures.

Timing: Most of the Regulation enters in force on March 10, 2021, with product rules to be implemented by December 30, 2022. However, **the CSSF is already challenging asset managers** with ESG strategies to provide evidence of what has been done.

For GPs, the workload for incorporating this will depend on their ESG advancement - if they have already formalized and integrated operationally ESG considerations across the investment cycle (from initial DD to asset management) and in their risk managements (not trivial, ex: indirect impacts of climate-related risks). ●

THE CSSF SETS SIGHT ON REAL-TIME SUPERVISION

IN RESPONSE TO THE GROWING EXPECTATIONS EXPRESSED TOWARDS SUPERVISORY AUTHORITIES, THE COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER (CSSF) IS MOVING TOWARDS REAL-TIME SUPERVISION, THANKS TO THE CSSF4.0 STRATEGY. WHAT DOES THIS STRATEGY IMPLY? WHAT TO EXPECT? AND WHAT STEPS IS THE NATIONAL COMPETENT AUTHORITY TAKING? A DISCUSSION WITH CLAUDE MARX, DIRECTOR GENERAL AND JEAN-PIERRE FABER, DIRECTOR OF THE CSSF.



By Claude Marx
Director general, CSSF



and Jean-Pierre Faber
Director, CSSF

Growing expectations

“We do not live in an ivory tower”, Claude Marx starts, “we are fully aware of the civil society’s expectations, but also of those coming from the industry.” The 2008-2009 crisis was critical in raising public awareness of the risks in the financial markets.

Jean-Pierre Faber: “Our fellow citizens are wondering how this could have happened and say “never again”. Governments, which have also been impacted by the crisis, reacted by legislating. As a result, regulation is developing and becoming more complex. “And this naturally leads to new and more important expectations

towards those who must ensure the proper respect of these regulations, namely the supervisory authorities,” says Claude Marx. On the other hand financial industry professionals also have increasing demands towards regulators in terms of responsiveness. The world of finance, and the area of private equity and venture capital is no exception, is an ultra-competitive world which is evolving very quickly. This movement has accelerated and will continue to do so further through the increased use of new technologies: fintechs, artificial intelligence, big data and others. Everything is done to have the shortest time to market possible in mind. “The supervised entities would not understand that we at the CSSF were not following this trend. We must not forget that we also have a public service mission towards them”, underlines Jean-Pierre Faber.

Scaling up

The CSSF’s mission is to contribute to the financial market’s stability

THE CSSF4.0 STRATEGY'S THREE PILLARS ARE: **REVIEW OF KEY WORKING PROCESSES, UPSKILLING AND EXTENSIVE USE OF NEW DIGITAL TECHNOLOGIES.**

and to see to consumer protection, whilst providing the highest level of transparency where possible. "We have not stood idly by in the face of the challenges posed to us", Claude Marx points out. In the last five years, the NCA has massively invested in its workforces and now counts over 900 highly skilled agents. "However, it is inconceivable that the number of our employees continues to grow at the same rate," argues Jean-Pierre Faber. Another factor to consider is the increase in data the CSSF processes. This increase relates as much to the increase in the number of entities it has to monitor, as to the infor-

mation CSSF's agents have to verify due to increasingly stringent regulations. All these data can no longer be processed manually. Digitization is necessary. "Even though real-time supervision is merely a vision we are setting eyes upon, all these challenges must be addressed through a strategy that will enable us to improve our efficiency on a constant workforce basis, while not compromising on the quality of supervision performed by our institution. This is the purpose of the CSSF4.0 strategy", Claude Marx sums up.

Faster and leaner, but no less qualitative

The CSSF4.0 strategy's three pillars are: review of key working processes, upskilling and extensive use of new digital technologies. The recent signature of a cooperation agreement with the University of Luxembourg's Center for Security, Reliability and Trust (SnT) is a showcase. "This research project will use artificial intelligence to ex-

tract data from documents submitted to the CSSF as part of the fund approval process. If it succeeds, we will be able to rapidly identify which passages need in-depth review, as well as which passages can be automatically approved. This will enable us to process the data more quickly, while simultaneously improving the quality of our analysis," explains Jean-Pierre Faber. Lean management is also seen as pivotal to the changes the CSSF undergoes. "We have currently more than 30 lean management projects on the way. Thus helping save hundreds of hours of precious working time," says Claude Marx. As for training, each and every CSSF agent already takes some 70 hours of training per year in average, a figure that will need to be increased with the transformation project of the CSSF underway. In this context, the NCA will continuously rely on self-service training tools such as e-learning to streamline the competency set of its agents. ●

An aerial photograph of a European street scene. On the left, a canal flows alongside a row of buildings. A light-colored building with a gabled roof and a chimney is prominent. To its right, a darker building with a mansard roof and dormer windows stands. A paved street runs between the buildings, with several cars parked along the side. A few pedestrians are visible walking on the street. The scene is captured from a high angle, looking down the street towards the background.

Stibbe

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PRIVATE EQUITY SET TO ATTRACT INCREASED FUNDING IN 2020

AS HEADWINDS BUILD FOR TRADITIONAL ASSETS, WE EXPECT PRIVATE EQUITY TO ATTRACT MORE NEW CAPITAL IN 2020. HOWEVER, INVESTORS SHOULD CONTINUE TO EXERCISE CAUTION, AS SOME POCKETS OF HIGH VALUATION REMAIN, WRITES NILS RODE, THE CHIEF INVESTMENT OFFICER OF SCHRODER ADVEQ.



By Nils Rode

Chief Investment Officer
Schroder Adveq

Low interest rates and elevated public market valuations have been widely touted as potential headwinds to traditional asset classes. This has contributed to the rise in interest in private equity. Private equity is also positively aligned with another prevalent investor issue – ESG risks – due to its longer holding periods and greater control over investments.

As a result, we believe investor interest in private equity is set to remain strong in 2020. According to private markets specialist Preqin, 79% of investors in private equity expect to increase their allocation to the asset class over the next five years.

While there is always some cyclical activity in fund-raising activity, we also believe private equity is on a long-term growth trend and there seems to be little that will stop it. Private equity has long been an important contributor to value creation in the real economy and for investors' portfolios alike. It plays a key role in transforming businesses and creating new, fast growing companies. It can also better align the interests of investors with

portfolio managers, via capital commitments from the latter (which are rising).

Beware high capital inflows and high valuations in some parts of the market

Despite our optimism, the increased interest in private equity has created a “frothy” environment. This creates challenges for investors. In the past,

some periods with strong investor appetite have led to capital overhangs that in turn have dampened returns for certain vintage years. Today, there is a risk that these patterns repeat again. Large buyout fund-raising is significantly above its long-term trend (although to a lesser degree than in 2006–2008).

Large buyouts: annual fund raising (US/Europe) and long-term trend

Furthermore, “unicorns” have mushroomed in recent years. This has been driven by investments by non-traditional late-stage investors, such as the \$100 billion Saudi Arabia-backed Softbank Vision fund, which is comfortably the largest ever private equity fund.

The private valuations of many of these companies have been driven →



Source: Preqin, Schroder Adveq, 2019. Large buyouts: funds with fund sizes at or above €/\$2 billion
Past performance is not a guide to future performance. 2019 numbers are forecasts and therefore may change.



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ACQUISITION MULTIPLES FOR LARGE BUYOUTS HAVE RISEN TO HISTORICALLY EXPENSIVE LEVELS.

Nils Rode, CIO, Schroder AdvEq

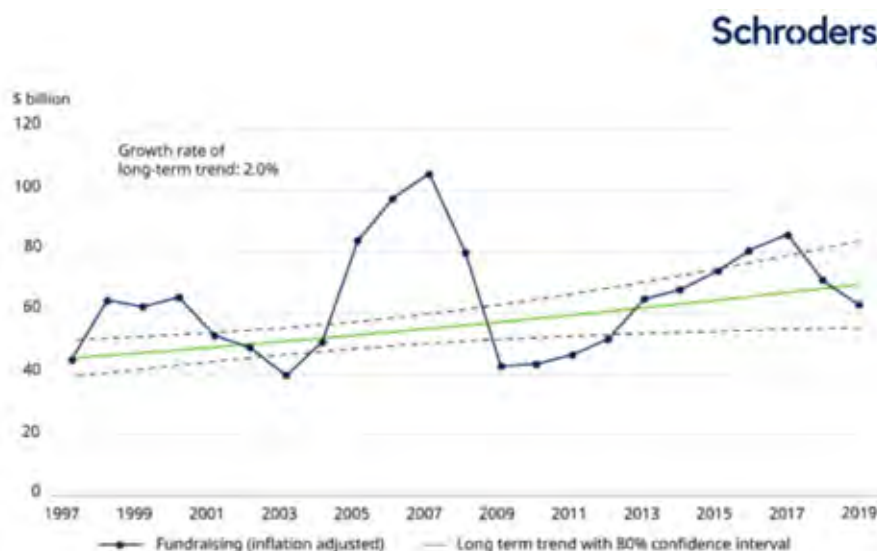
→ so high that they have ultimately disappointed when an exit into public markets has been sought. For example, Uber, Lyft, Slack and Pinterest, all darlings of the private world, are now trading below their IPO prices. WeWork famously had to pull its IPO entirely after failing to get sufficient interest, even at a cut-price level.

Generally, the private equity strategies most at risk from strong inflows of capital seem to be those that can accommodate large, single investments without investors hitting maximum ownership limits. These are typically larger funds.

Smaller end of the market less expensive

In contrast, market segments with high barriers to entry, in our view, show the healthiest market dynamics. Smaller deals represent a large investable universe, which can restrict access for some larger funds, as it is harder to deploy very large amounts of capital quickly.

For small/mid buyouts in the US and Europe, start-up investments globally and early growth investments in Asia, fund-raising trends have been stable or even been declining. This is a positive indicator for vintage year return expectations. Moreover, the current low-rate environment has allowed some fund managers to “scale up” and to raise significantly larger funds, thereby exiting these smaller market segments. This helps to further stabilize market dynamics at the lower end of the market.



Past performance is not a guide to future performance. 2019 numbers are forecasts and therefore may change. Source: Preqin, Schroder AdvEq, 2019. Small buyouts: funds with fund sizes below €/\$500m; mid-sized buyouts: funds with fund sizes above €/\$500m and below €/\$2 billion.

Small/mid buyouts: Annual fund-raising (US/Europe) and long-term trend

One consequence of these diverging fund-raising trends is that acquisition multiples for large buyouts have risen to historically expensive levels. By contrast, small buyouts have remained more reasonable. For 2020, we expect the lower end of the market (in terms of transaction sizes) to continue to provide the most attractive opportunities within private equity.

Smaller buyouts offer compelling value



Past performance is not a guide to future performance. Source: Baird 2019, S&P 2019, Schroder AdvEq, 2019

Investor emphasis on ESG-related topics to further increase in 2020

Investor emphasis on ESG characteristics and – to a lesser but increasing extent – “impact” investing, for private equity investment decisions is set to rise in 2020. This is becoming especially important in Europe, where heightened awareness of climate change and the European Commission's Sustainable Finance initiative are important drivers. We also expect ESG and impact investing to increase in importance in other parts of the world. ●

THE KEY TO A DIGITAL REVAMP? PEOPLE!

AS A FUND ADMINISTRATOR WE RECENTLY INTRODUCED TRANSFORMATIONAL PROCESSES THAT ARE DESIGNED TO HELP OUR CLIENTS DO THE SAME. AMONGST THE TECHNOLOGY, THE HUMAN TOUCH IS A CENTRAL FEATURE.



By Lee Godfrey
Managing Director
Western Europe
Intertrust Luxembourg

So many fund firms are now attempting to transform themselves digitally. By definition, technology is a crucial factor in this – but the ability to personally engage and empower employees should not be underestimated as firms seek to generate value-add opportunities. Our clients are in sectors that are rapidly changing due to regulations and politics, meaning that they need products and technology that are fit for purpose. Since it is also necessary to better understand and structure the organisation in order to meeting our clients' needs, it was crucial to make people across the organisation feel they could voice their ideas in order to enhance the end-user experience.

Transformation could change corporate models and it entails a more agile framework. Although digital transformation will have software at its centre, a transformation strategy really prioritises innovation for the future and learning from the past. This

requires a more open environment and an outcome-led approach based on flexibility and teamwork.

A role for ELLA

Continuous education and development are important, so we launched a company-wide online digital upskilling programme called e-Learning logically arranged (ELLA). With content organised into four buckets of competencies – Emotional Agility, Grit, Growth Mindset, Mental Agility, ELLA aims to educate individuals at every level of the company about the benefits of agile practice and also equip them with the latest digital tools. Employees are taught how to work more effectively with colleagues and clients in order to keep pace with their requirements.

The programme is not just about training in artificial intelligence, for example, but teaching people about

the importance of organisational change, collaboration and culture. This translates into a strong emphasis on soft skills, such as communications and leadership.

While future trends will format the programme, I also believe that taking the time to look back is critical to the learning process and to identify missed opportunities. We are introducing an “Agile” mindset and using the “retrospective”, often known as “lessons learned”, sessions to focus on continuous improvement. In these meetings teams assess, openly and honestly, how successful or unsuccessful a certain initiative has been, in order to identify desired alterations for the next iteration, driving continuous improvement.

Although I only joined Intertrust two months ago I feel a real creative buzz in the air. Client advisory boards have been set up and, more internally, there is an emphasis on collaboration, with regular open sessions where new ideas and potentially new products can be discussed rather than over email, ensuring the face-to-face interaction remains central.

When people talk about business transformation, they normally think about it in terms of technology and reallocating costs to find greater efficiencies – but really it is about capturing the hearts and minds of people. ●

CONTINUOUS EDUCATION AND DEVELOPMENT ARE IMPORTANT, SO WE LAUNCHED A COMPANY-WIDE ONLINE DIGITAL UPSKILLING PROGRAMME.

Lee Godfrey, Managing Director Western Europe, Intertrust Luxembourg

MENTORING: DISCOVER YOUR "UNIQUE INDIVIDUAL GENIUS"



MENTEES BEGAN THE PROCESS OF CONSTRUCTING THEIR "UNIQUE INDIVIDUAL GENIUS".

Myles Downey

Towards the end of last year, in November 2019, LPEA hosted a seminar on Mentoring for Women. The event was intended for mentees, rather than mentors, with the aim of helping the participants get the best from future mentoring relationships. Participants came from many organisation members of the LPEA. This focus on the mentee was and is significant for, too often, such relationships are driven by the mentor – following familiar, hierarchy and authority-based models such as teaching and management. Putting mentees in equal charge of the mentoring relationship is closer to what is required in the business world, in which they take their place: one cannot sacrifice agency and take one's place.

The first part of the seminar was much of what you might expect – what mentoring is, what the different kinds of mentoring are (sponsors, connectors, coaches), what to expect, how to get the best from it. But the second part was devoted to kick-starting the mentoring process. The idea that each person might have a 'unique individual genius' was proposed. To make it more palatable you might exchange the genius word with 'potential'. Of course, 'genius' is somewhat more challenging, as is intended to be. Behind the notion of genius, as used in the seminar, lies the observation that in a broadly compliant society we slip all too easily into roles, professions and jobs that are predetermined, and that once engaged in the pursuit of success, however that might be construed, many cease to think about themselves as people with real agency, personal authority and autonomy. This loss is a personal loss, but also amounts to a considerable loss in creativity, innovation, responsibility and



accountability, and thus a loss in performance, for any organisation.

And so the mentees began the process of constructing their 'unique individual genius' and also began thinking about their personal 'direction of travel', a purpose-driven sense of where one wants to be in the near future (for example, 5 years) to serve as a decision making parameter (for example, will this new role take me away from or closer to my direction of travel?). With this preparation the mentees are well positioned to be jointly responsible for their mentoring programmes.

While intended for women mentees, a number of mentors were present and also a few men. If you would like to understand more about the programme, would like to be a mentor or mentee, please contact (Luis assumes you would want to close this way). ●

By Myles Downey

Acknowledged authority on Performance, Coaching and Leadership. He is the author of three classics in the coaching and performance arena, "Effective Modern Coaching", "Effective Coaching" and most recently "Enabling Genius – a mindset for success in the 21st Century".

PRIVATE CAPITAL IN ITALY: TOPICS, TRENDS AND PERSPECTIVES

SINCE 1986, AIFI, THE ITALIAN PRIVATE EQUITY, VENTURE CAPITAL AND PRIVATE DEBT ASSOCIATION, INSTITUTIONALLY REPRESENTS AND PROMOTES THE PRIVATE CAPITAL ACTIVITY IN ITALY.



By Anna Gervasoni
Chief Executive, AIFI

The Association comprises about 120 financial institutions, both domestic and international, that professionally invest in companies. The Italian private equity and venture capital market is relatively small and new in comparison with other European countries, however in the last years it has grown significantly, reaching in 2018 an amount invested equal to 10 billion Euro, the highest amount ever seen in Italy. Even if quite small and with less general partners than in the other countries, venture capital is experiencing an important positive trend, both in terms of number of deals and amount invested, and it is supposed to further grow in the near future thanks to some public measures with the aim of fostering innovation. At the same time, the new private debt segment, which appeared in Italy in 2013, is now a well-established funding instrument for the Italian companies, complementary to private equity.

Generally speaking, private capital in Italy is mostly focused on small and medium-sized companies, in line with the Italian economic structure, which is based almost entirely on this kind of companies. However, every year we see also some large and mega deals made both in the buyout market and in the infrastructure sector, which is playing a very important role in the last years.





ABOUT AIFI

Other than the traditional role of a trade association, AIFI developed three initiatives designed to accommodate the needs of its different constituency:

The AIFI Institutional Investors Club brings together a group of representatives of investment institutions such as (inter alia) pension funds, insurance companies and family offices interested in strengthening contacts with AIFI members with the aim of developing an ongoing dialogue on institutional topics and regulatory issues. The Institutional Investors Club is committed to enhance understanding and awareness of investment opportunities in private equity, venture capital and private debt that might suit their long-term investment needs.

The Turnaround project aims to monitor the relevant regulatory framework of Turnaround by highlighting issues and formulating proposals with the support of professionals. Moreover, the turnaround group wishes to identify a perimeter of analysis in order to map turnaround investments in Italian companies.

Finally, the Corporate Venture Capital project brings together many important actors of the Italian economic landscape. Within the CVC context, medium and large enterprises contribute to innovation both through the participation to business accelerators and/or via the management of genuine venture capital activities. In fact, real innovation grows easily within contexts not influenced by existing structures which are, for their intrinsic nature, "change adverse". Through this initiative, AIFI wants CVC to gain space in Italy as a tool for companies to develop in innovative ways and, at the same time, to support new entrepreneurship.

THE NEW PRIVATE DEBT SEGMENT, WHICH APPEARED IN ITALY IN 2013, IS NOW A WELL-ESTABLISHED FUNDING INSTRUMENT FOR THE ITALIAN COMPANIES, COMPLEMENTARY TO PRIVATE EQUITY.

Anna Gervasoni, Chief Executive, AIFI

A large number of huge international funds are interested in investing in Italian companies, especially operating in the most well-known Italian sectors, such as fashion, food and furniture. On the other hand, it is important to note that innovative industries, such as biotech, medical, energy and especially ICT, are becoming more and more important

in the Italian private capital market and now represent the main target of investments.

In the world ranking, Italy is in the fifth for the manufacturing trade balance thanks to a huge number of high quality, innovative and export oriented companies that represent the perfect context in which private capital can grow and develop. ●

LETZLIVE

HOW TO MAKE YOUNG PEOPLE MORE EMPLOYABLE?

TEACH ENTREPRENEURSHIP IN SCHOOLS!

STUDIES SHOW THAT STUDENTS WHO RECEIVE ENTREPRENEURSHIP EDUCATION ARE NOT ONLY MORE LIKELY TO START THEIR OWN COMPANIES BUT ALSO MORE LIKELY TO BE EMPLOYED THANKS TO THEIR NEWLY ACQUIRED ENTREPRENEURIAL MIND SETS.



By **Stéphanie Damgé**

Directrice, Jonk Entrepreneuren
Luxembourg asbl

Jonk Entrepreneuren Luxembourg (JEL), a non-profit organization, offers 11 educational programs for entrepreneurship, employment and financial literacy, from primary school to higher education, to young people aged between 9 and 25. All programs are based on hands-on experiences and allow students to experience the working environment, to better understand the different opportunities and career paths, but also to develop entrepreneurial skills, competencies and attitudes that they will need to succeed. Business engagement is key, reason why each program requires the participation of business volunteers. They provide role models, mentorship and expertise by sharing their experience to young people and acting as mentors-coaches-facilitators-judges in different activities.

Today more than 12.000 young people participate annually in the programs thanks to the support of over 590 business volunteers. Programs like "Our Community", "Company Program", or "Fit for Life" are some examples of how to inspire and prepare young people to create, innovate and take responsibilities, helping them to develop their potential.

How to get involved?

Entrepreneurship education requires collaboration and multi-stakeholder partnerships, particularly between academia and business. Whether you volunteer, join us as a corporate partner, send a donation, sign up for e-updates, or join us on social media, we urge you to get involved. With your help, we can expand our reach. ●

For more information visit www.jonk-entrepreneuren.lu



© "Say-It", winning team of the Company Program of 2019

The Our Community ("notre communauté") program is a fun and interactive series of 5 lessons presented by a business volunteer to a whole class. SPupils aged 9-11 are led through a discovery of how people and businesses operate within a community. They learn about how an economy functions and to understand the use of money.

Fit for Life equips young people 14-16 with personal finance and student's education and career options based on their skills, interests and values. Through a series of 3 x 2 hours and interactive sessions, presented by a business volunteer, students gain an understanding of their role in the society and the economy as consumers, employees, taxpayers, investors and borrowers. At the end students will be able to apply their knowledge, to comprehend their needs and wants and make strong financial management decisions.

Under our Company Programme ("mini-entreprises") students aged between 16 and 19 find out what it's really like to set up and run a company. Delivered across an academic year, young people make all the decisions about their business, from raising the initial share capital through to designing their product or service to selling directly to customers and ultimately winding up the company.

LPEA'S TWO "JUST LANDED"

WE ASKED OUR TWO NEW TEAM MEMBERS WHO HAVE "JUST LANDED" IN LUXEMBOURG – MICHAELA VISKUPICOVA AND NATALIA KOLTUNOVSKAYA – TO SHARE THEIR FIRST IMPRESSIONS OF THE GRAND DUCHY AS A PLACE IN WHICH TO LIVE AND WORK.

Natalia Koltunovskaya

Moving to Luxembourg may seem difficult, especially when you land here after Tokyo with its 14 million people or Moscow, where every service is available 24/7. The moving decision took more than one year to form, and a hundred questions from others like "Why Luxembourg?" and "Where exactly is it?". But "Lux" turned out to be more international and welcoming than huge megapolises within a couple of hours' reach.



Here in Luxembourg, time management is easier, all the places are fast to reach and the process of getting to know people is smoother. Meeting your friends and squeezing them in your tight schedule does not become a big complicated deal anymore. And, in general, Luxembourg gives the impression of offering a much-balanced life to its citizens.

As a non-stop traveller, I am looking forward to my weekends in London and warm evenings in Tuscany. Being in the middle of Europe, Luxembourg gives you access to so many exciting places.

The common story here is: people are begging to leave in the first year but want to say for good after two. I have no idea how my Luxembourg story will turn out, but I've found the best job and one good coffee shop, so the aroma of freshly baked croissants accompanies me on my way to work, which I rate as a good start. As for the apartment, time will tell!



Michaela Viskupicova

Life can be unexpected, but I never thought that I would settle down in Luxembourg. If I hadn't found a job with the LPEA, I would probably never have considered moving to this country. I first came into contact with Luxembourg in my previous job with O100 Conferences: I organised conferences on private equity and venture capital around Europe, one of which was in Luxembourg!

I studied private capital ecosystems and didn't understand how such a small country could have its own voice in the PE sector so I decided to take a chance and to experience it for myself: a new chapter in my life.

In my first weeks, I compared everything to past experience because this is the sixth country in which I have lived and this is my eighth role in the events sector. The conclusion, after six months? Don't compare? I decided to develop my career in this sector several years ago and it's like digging a well: you have to be patient, humble and hard-working and only then will you find the "water". I left my comfort zone to start a new life here, in a country where a bicycle goes faster than a tram and where cheap restaurants are easier to find than good accommodation. #joke #sarcasm

But I've found an amazing team here, the most inspirational leaders and my colleagues are like a family to me. I can say "thank you Luxembourg", thanks for this chapter in my life. I believe I am at the right place at the right time. Since God has a sense of humour, Luxembourg should be my final destination. Let's be surprised.

PHOTO GALLERY



⌚ Speakers of the LPEA and LuxFlag conference "Trends in ESG Integration in Private Equity" in the context of the LuxFLAG Sustainable Investment Week. (22/10/2019).

⌚ Get together between the past and future team of LPEA (16/12/2019).



⌚ LPEA Reception in Paris (2/10/2019).

⌚ LPEA - LHoFT Start-up event (8/10/2019).



⌚ LPEA and BAI Conference in Frankfurt (Ministry of Finance) (7/11/2019).



⌚ LPEA & ASCRI Private Equity conference in Madrid. From left to right: Claus Mansfeldt (LPEA/ Swancap), Jose Zudaire (ASCRI), Rajaa Mekouar-Schneider (LPEA), Luc Frieden (EHP), Michèle Pranchère-Tomassini (Ambassador of Luxembourg in Spain) and Aquilino Peña (ASCRI/ Kibo Ventures) (20/01/2020).

UPCOMING EVENTS

PRIVATE EQUITY

**SUPERRETURN
INTERNATIONAL**
25-28 February 2020
Berlin

LPEA INSIGHTS: B.I.G.
12 May 2020
Luxembourg

LPEA LP-GP RECEPTION
17 March 2020
London

ICT SPRING
12-13 May 2020
Luxembourg

**PE INSIGHTS BENELUX
CONFERENCE**
19 March 2020
Amsterdam

**LFF SUSTAINABLE
FINANCE FORUM**
9 June 2020
Luxembourg

INVESTORS' FORUM 2020
25-26 March 2020
Geneva

LPEA AGM
10 June 2020
Luxembourg

LPEA & SECA CONFERENCE
26 March 2020
Zurich



GP Workshop on ATAD II hosted by Elvinger Hoss Prussen (24/10/2019).



Presentation of LPEA to a delegation of visiting students from Católica Lisbon School of Business & Economics (14/01/2020).



"Growing appetite for alternatives" panel during the LFF Mission to Milan. From left to right: Cesare Buzzi-Ferraris (Swancap), Katia Panichi (EHP), Rajaa Mekouar-Schneider (LPEA) and Thierry Lesage (Arendt & Medernach) (2/12/2019).



Closing drinks of the Sacred Heart University's "Private Equity Course" held in collaboration with the LPEA (14/11/2019).

OTHER CULTURAL AND SPORTING EVENTS IN LUXEMBOURG

Halsey
4 March 2020
Rockhal

Rusalka Opera
28 April 2020
Grand Théâtre de la Ville
de Luxembourg

James Blunt
5 March 2020
Rockhal

**ING Night Marathon
Luxembourg**
23 May 2020
Luxembourg City

**Jean-Marie Biwer:
D'après nature**
7 March-24 May 2020
Mudam

Summer in the City Festival
19 June - 13 September 2020
Luxembourg City

Luxembourg Film Festival
5-15 March 2020
Luxembourg City

Luxembourg's National Day
23 June 2020

**Explore Luxembourg
discovery day**
10 April 2020
Place d'Armes,
Luxembourg City

Sting
2 July 2020
Rockhal

Tokyo Diary
28 April-23 May 2020
Kulturhaus Niederaanven

e-Lake Festival
7-9 August 2020
Echternach

ABOUT LPEA

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

With over 220 members, the LPEA plays a leading role in the discussion and development of the investment framework and actively promotes the industry beyond the country's borders.

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

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

If Luxembourg is your location of choice for private equity, the LPEA is where you actually join the industry!

EXECUTIVE COMMITTEE



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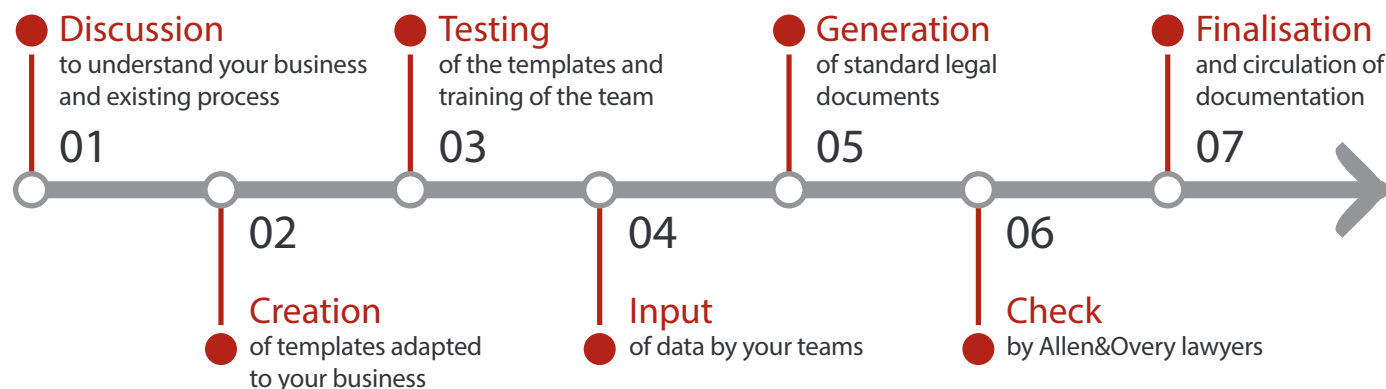


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Our Luxembourg office's commitment to the financial industry puts us at the forefront of the development of cutting-edge products and market trends, which in turn results in us providing a value-enhancing service to our clients.