PRIVATE EQUITY INSIGHT/OUT

EXPON CAPITAL:

THE FOUR MUSKETEERS OF VC

The Revival of the IPO	Investing in the Future of Healthcare	12 Hints for a Successful PE Career

Issue 18, May 2021

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THE LUXEMBOURG VOICE OF PRIVATE CAPITAL

DEAR READER,

We are proud to present you the latest edition of our Private Equity Insight/Out magazine, which focuses this time on **Venture Capital** and features different local practitioners and experts active in this field. Next to the cover story dedicated to the successful Expon Capital team, we also deep dive into this fascinating world thanks to Alexander's (2be.lu), Yannick's (Mangrove Capital Partners), Laurent's (Ilavska Vuillermoz Capital), Debbie's (Bioqube Ventures), Pascal's (Middle Game Ventures) and Nicolas Milerioux (Encevo) input.

Concerning the education, attraction of talents and professionals, the LPEA Winter Academy 2021 closed its program early April with 104 participants, 6 modules, 22 sessions and 25 brilliant trainers. The summer 2021 edition is nearly ready and will propose a bunch of new modules and themes so stay alert, the brochure will be out soon. Our first Job fair, held in March attracted more than 200 visitors (students and professionals) interested by the opportunities provided by our industries and hosted 24 exhibitors, members of the LPEA. These encouraging results have inspired our team to pursue the "career adventure" and to plan a second event in Q4 2021.

Recently the association has also been quite active on the public affairs front with the organisation of a dedicated webinar hand in hand with Invest Europe and our "ambassadors" who are part of the strategic working groups. Our association also responded to some official consultations and will soon again participate in important regulatory discussions.

Many webinars, technical articles are also in preparation and will be led by our various Technical Committees, Clubs and Co-Chairs. For example the "Tax – Young PE Leaders" Committee has worked hard on many different topics and has shown its appetite to further enhance our sector with constructive discussions and reviews. We are happy to highlight this group of motivated professionals next to other interesting topics including the exit solutions (IPOs), AML/CFT due diligence and digitalization.

Enjoy you reading, stay safe and see you very soon.

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Stephane Pesch
CEO, LPEA

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Claus Mansfeldt
Chairman, LPEA

THE MAGAZINE OF THE LUXEMBOURG PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION
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SUMMER TRAINING ACADEMY

We are delighted to present you the 3rd edition of the LPEA Training Academy which is scheduled to start on the 14th of June. We pursue this promising adventure with a summer session which will only include new modules never offered before.

- Foundations of Valuation for PE by Astorg and EY
- ISG (Impact, Social and Governance) by Tiime and ILA
- Private Market Expert Bootcamp by Cyril Demaria
- Multi-Strategy and FoF by EIF and Swancap
- PE Risk Management by KPMG, CA-Indosuez, Avega and Cyril Demaria

CPD points will be available for most of the modules.
Stay tuned for the announcement of the dates and modules in our newsletters and on our official website.
We wish you a happy learning experience and expect to see you soon!

LPEA JOB FAIR: 1ST JOB FAIR IN LUXEMBOURG DEDICATED TO PRIVATE EQUITY

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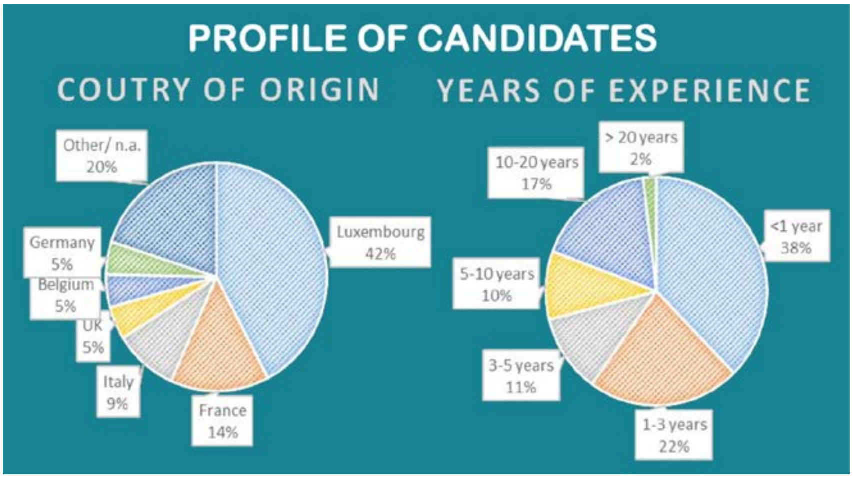
On the 23rd of March LPEA hosted the first Job Fair exclusively dedicated to Private Equity and Venture Capital jobs. The "Career Adventure Day" took place online and featured job vacancies from 24 members of the association.

The job fair welcomed candidates with and without professional experience, already based in Luxembourg or willing to move to the country. They had the opportunity to organise one-to-one meetings with the association's members, who presented their firms. This season the Job Fair exhibitor firms included: Alter Domus, Apex, Arendt & Medernach, Astorg, Atoz, BNP Paribas Securities Services, Caceis, DLA Piper, Elvinger Hoss, European Investment Fund, EY, Ilavska Vuillermoz Capital, Intertrust, IQEQ, KPMG, Luxempart, Nordea, Ocorian, PAI, PwC, RSM, Sanne, TMF and Vistra.

This initiative follows the creation of a dedicated Human Resources Club at the LPEA to support members of the association in the attraction and recruitment of talents interested in private equity, venture capital, private debt and infrastructure investments. The next Job Fair will take place on October 7th 2021.



EQT RAISED €15.6 BILLION FOR ITS' NINTH FLAGSHIP FUND

EQT IX targets primarily control and co-control equity investments in mid-to-large sized companies with attractive market positions, significant potential for revenue and earnings growth, strong cash flows and a solid platform that can retain and attract high-quality management. EQT IX will seek to make equity investments typically ranging between EUR 150 million and EUR 1,200 million. The fund will apply a thematic, sector-based investment approach, focusing on key trends and themes in its core sectors – Healthcare, TMT, Services and Industrial Technology targeting portfolio companies primarily in its core European markets as well as the US.

LPEA 10TH ANNIVERSARY BOOK

LPEA is ready to present the "LPEA 10th Anniversary Book". This exclusive publication is a celebration of the association's hard work over the years and its entrepreneurial spirit. It features some of the association's friends' and members' success stories and personal messages along with lovely photos made for this special edition.

IQ-EQ ACQUIRES CONCORD TRUST COMPANY

IQ-EQ, an Astorg portfolio company based in Luxembourg, announced that it has signed terms to acquire Concord Trust Company ("Concord"), a leading independent U.S. based trust company, headquartered in South Dakota and with offices in South Dakota and New Hampshire.

This strategic transaction, the first for IQ-EQ in the U.S. Private Wealth space, adds further strength and depth to the company's growing U.S. operations and provides a well-established entry point to promote the firm's globally renowned Private Wealth business to the highly attractive U.S. market. It follows closely on from IQ-EQ's successful acquisitions of U.S. based Constellation Advisers LLC (January 2021) and Blue River Partners LLC (June 2020).

HLD EUROPE ACQUIRES PHOTONIS FROM ARDIAN

The Luxembourg investment holding company acquired a high-tech company with 80 years of experience in design and manufacture of electro-optical components and high-precision sensors. Photonis is known for the manufacture of light-amplifying tubes for night vision goggles, which are used by the armed forces of many countries. With a turnover of around EUR 150 million in 2020 and almost 1,000 employees, this world leader in this field (and the only European player) is currently present in more than 50 countries. With the support of its new shareholder, Photonis will be able to pursue its technological innovation and development of new applications both organically and through acquisitions.

VC Special

EXPON CAPITAL: THE FOUR MUSKETEERS OF VC

RODRIGO SEPÚLVEDA SCHULZ, JÉRÔME WITTAMER, MARC GENDEBIEN AND ALAIN RODERMANN, THE FOUNDING PARTNERS OF EXPON CAPITAL, A LUXEMBOURG BASED VC WITH A GLOBAL FOOTPRINT.

INTERVIEW by **Stephane Pesch**
CEO, LPEA

Alain Rodermann, Rodrigo Sepúlveda Schulz (in the screen), Jérôme Wittamer and Marc Gendebien

Stephane: Let's first talk about the history and philosophy of Expon Capital and your team.

Rodrigo Sepúlveda Schulz: My favourite book is "The Three Musketeers" by Alexandre Dumas. A similar story happened with us. D'Artagnan wanted to be a musketeer, I wanted to start a venture capital firm. In 2014 I went around the world meeting a lot of people. At the time, the lawyer I had in NYC started drafting some articles of incorporation for a VC fund which I wanted to start. He recommended to do that in the Cayman Islands. One of the persons I met during my world tour was Alain Rodermann whom I knew from my previous life as an entrepreneur, as I had pitched his previous VC firm. Alain said "That is not a good idea. Come see me in Luxembourg and I will introduce you to one of my partners and we'll explain why Luxembourg is a better option". A few weeks later we met over lunch at the Schueberfouer fair in Luxembourg with Alain (Athos) and Jerome (Aramis) who wanted to set up a fund as well with their colleague Marc (Porthos). They asked me if I wanted to join forces with my own VC fund project and be a musketeer together with them; and that is how Expon Capital was started. We joined forces in summer 2015, and I met Marc (Porthos) then.
We had to decide the name of the company. That summer I went to an executive program at Singularity University where I studied all exponential technologies disrupting our world. The program chair, Salim Ismail, had written a book that we had to read during the course, describing how some firms have a linear growth and others follow an exponential one. The book (Exponential Organizations) had studied about a 100 unicorns. It provided us with a very interesting and differentiated framework, allowing us to build criteria for exponential firms applied to venture capital. The team also knew and talked about the Law of Accelerating Returns so a nat-

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ural bond formed between us around this concept and that is how the name of our firm came about.
Before we started, we needed to set up our guidelines. The main criteria from the book we decided to be based on was an MTP (Massive Transformative Purpose). Massive for us became the scale of a continent (companies targeting at least 500 million) or bigger; transformative – using technology at least 10 times better than anyone else; and purpose – aligned with the 17 UN Sustainable Development Goals (SDG). If our company could impact massively one of the UN SDGs with technology, that would be a proper purpose for us.

Jérôme Wittamer: Our approach to risk return is something else that is very specific and rather unique in the industry. In some way we have a Private Equity approach to our business as we invest in high intrinsic-value businesses.

Marc Gendebien: We know the type and level of risk we are taking. I started my career as a fund manager investing in public markets, and learnt at the very beginning that managing the return is not enough, you have to manage the risk as well.

Alain Rodermann: There is a broadly used strategy in Venture Capital: to build a portfolio of 20 companies with disruptive technologies 10 times better than anything else, each potentially making a 10X return, with only 1 that might end up delivering the home-run. People tend to think that this is the only strategy in VC, while it is mainstream, there are many others. We decided to develop our own strategy with a reduced risk, making our VC fund very attractive even for risk averse investors. The portfolio is built with companies from different geographies, technologies and stages of development, and the money is deployed progressively when risk is objectively reduced.

JW: We spent a huge amount of time for portfolio construction before we went to raise money. It took us 6 months to do all the mathematical modelling before we started. Our investors believed in us and our strategy and now, years later, we proved that the model works. We wanted to prove and we succeeded to prove that you can make VC market returns and a positive impact at the same time. You don't have to trade one for the other. We don't have all our firms exited or liquid, it is too early for that as our portfolio is still young (<3Y). However, we already have three companies which became liquid last year, four more on the way to liquidity, so almost half of the portfolio is on a very clear path towards liquidity, something investors deeply value and appreciate.

IN SOME WAY WE HAVE A PRIVATE EQUITY APPROACH TO OUR BUSINESS AS WE INVEST IN HIGH INTRINSIC-VALUE BUSINESSES.

Jérôme Wittamer

Stephane: Could you share more details about your portfolio?

AR: Usually what you read about VC is that they try to build a portfolio of 20 companies out of which you will have 2 or 3 very big exits that will bring the entire return. And you will have a number of companies going bankrupt. And this is not the way we decided to work. We have a dual strategy. First we identify late stage companies and create a "pocket" where the returns become quite predictable. You can't do 10X or 100X with a late stage company, but they bring a solid foundation. And then we invest in early stage companies which will bring the performance. Not all of them of course will succeed and there will be many uncertainties. We deploy the capital progressively. So when we invest let's say 1 million in an early stage company, we keep at least 10 times more for the future. What we discovered with our strategy is that we don't have bankruptcies. Early stage companies perform better than we expected.

Stephane: What is your proportion between early and late stage?

AR: Portfolio allocation was born out of our mathematical modelling. We can clearly say that we are a late stage venture fund with more than 85% of money being deployed at late stage (Series B and onwards).

Stephane: You are also very aligned with the UN SDGs as you just mentioned, does that make you a "sustainable" fund?

RSS: I would like to mention that the four of us were entrepreneurs before. We understand how entrepreneurs think, their challenges. In addition to that, Expon Capital itself is a start-up. When we decided what we wanted to do, we adopted the term "tech for good" for lack of a better label. Terms like "impact" or "sustainable" are not well defined and can be confusing. In one of the courses Jérôme and I went to recently at INSEAD, there was this term BOP (bottom of the pyramid) used all the time; sustainability seems to just address the BOP for many people. The professor insisted that most impact investments happen "with concessions", meaning no or lower returns, long time lines etc. And we told him – no, venture capital can make an impact without making concessions.

JW: Discovering one's path in this domain and subject is a journey. But we've known since the beginning that making an impact at scale matters for us, and it only makes sense if it does so over the long run (sustainably). Otherwise, why bother? That can only be achieved if the business we invest in is going to generate healthy profits in a sustainable way. Now apparently, we seem to have built an impactful portfolio. Indeed, we had a guest sitting in this very office days ago, who's working for an impact-investment firm known globally. After seeing our portfolio, he told us "You guys are an impact fund, you should say so".

A couple of examples of these would be Verse, a company from Spain we invested in. They provide the service of sending money one-to-one. One of the UN SDGs indicators (target 10.c) says that we need to find a way to low-

Rodrigo joined the interview online from Paris

RODRIGO RECOMMENDS:
Sir Ronald Cohen
"Impact"

WE REVIEW ABOUT 2.000 OPPORTUNITIES IN A YEAR AND END UP INVESTING IN ABOUT 1 OUT OF 400 OF THEM.

Rodrigo Sepúlveda Schulz

er remittance fees levels. For example, Western Union takes a lot money for a transfer. Verse takes zero fees. We sold it to Square Inc.
There is Pliops, an Israeli company, which designs semiconductors. Their technology allows to reduce the energy consumption of the worlds' largest data centres by up to 90%. And data centers consume over 5% of the world's energy today (growing towards 20% in next decades).
MG: Another company we invested in is Wefarm. They are based in London and connect 2,5 million farmers in the horn of Africa in Kenya, Tanzania and Uganda, who exchange knowledge via more than 80 thousand messages a day.
JW: And a last example is a social reader for e-books for kids and universities called Glose. The mission of the founder was to make the library of Alexandria available and free for kids around the world, helping them read better and learn faster. Today any kid, who has a smartphone, can choose from 5.000 free books (among the best ever written) in English, Spanish and French to read. The company was acquired by Medium, bringing Glose's mission to the 170 million readers on the Medium platform. Every deal we do is to go and find a massive impact potential.

JW: There is also Dott, which provides micromobility. Renting an e-bike or an e-scooter to city dwellers is now economically profitable, and makes a substantial contribution to the CO2 emission reduction by taking cars out of city centers; it also helped with social distancing during the pandemic. This company is highly successful today, but when we invested in them years ago, some key questions remained. And this is a part of our job, to identify future trends that promise to have a substantial impact and generate large capital gains.

Stephane: Last year you came up in the news with two sound exits. Is this is a trend (early exits)?
JW: PE and VC funds have a 10-year term, so you usually get liquidity between the 5th and the 10th year. We already started exiting some portfolio companies, but this is not exactly what we seek in order to deliver the returns we want to deliver to investors. These companies were not mature.
MG: We had two exits last year. Verse was acquired by Square a $120 billion market cap company listed on NYSE. The second one was Glose which was acquired by Medium. Both these companies have very strong visions for their business and a strong leadership. That made them succeed and that made it easier to convince the acquiring companies to buy them.
RSS: In both of last year's sales we were the first or the only European investor in those companies. Think about it. We are in Luxembourg, they are based in Paris and Barcelona. They tried to raise new rounds of financing in

VC Special

Europe and they couldn't. They are very successful and were the first European companies acquired by Square and Medium.

JW: In Pliops (a data storage accelerator) we were the only non-Israeli investor as well.

MG: They were also difficult to get, remember? I would say we felt the due diligence was made on us and not only the other way round.

I think we continued to build upon our experience over the years, and we see opportunities and potential where others might not.

JW: There has been a number of news recently that our portfolio company Spire is going public this Summer a SPAC transaction valuing the firm at $1.6 Billion. They raised $475 million as part of the SPAC transaction. That should give them all the firepower they need to accomplish their mission to support net-zero. Spire analyses weather data which is needed to understand global warming and support solutions to improve the situation for the whole humanity.

But there is one thing to remember. When VC portfolio companies go public, it does not mean that VCs get the cash in the bank right away.

Stephane: Is being based in Luxembourg a limitation regarding access to deals?

AR: Yes, it is definitely possible to have a front office in Luxembourg and have a global impact. We will end the portfolio construction of Expon I this year and are about to initiate the process for our second fund, Expon II, shortly.

We also decided to act locally for a local impact, by managing the Digital Tech Fund (DTF), backed by corporate and public investors from Luxembourg. It aims at fostering the start-up ecosystem in Luxembourg. It deploys money at seed and Series A stages and its goal is to build an efficient local ecosystem. It also generates more accessible knowledge in the country in order to attract and have more entrepreneurs in the future. The portfolio is made of companies headquartered in Luxembourg and others from abroad which were convinced to come and operate in Luxembourg. This is also another way to diversify and manage risk. When investing at early stage, you usually expect more losses, but this local portfolio is very solid. Luxembourg-born companies tend to be quite different from those from other countries. Many target B2B and go international from the get go, with senior entrepreneurs experienced in their field.

MG: We met the professional that Jerome mentioned earlier, the one who works for a reputable impact fund. He also sees DTF as an impact project, because developing a start-up ecosystem is very positive for the country. You allow anyone to start their own company, you allow younger people to make their dreams and ideas come true, you support and develop expertise for the country and so on. It may not seem obvious to all but that impact that we are creating it is a big one, locally.

YES, IT IS DEFINITELY POSSIBLE TO HAVE A FRONT OFFICE IN LUXEMBOURG AND HAVE A GLOBAL IMPACT.

Alain Rodermann

DIGITAL BUSINESSES ARE AT THE CORE OF OUR STRATEGY. WE BELIEVE THAT DIGITALIZATION OF PROCESSES WILL BE A KEY OPPORTUNITY FOR THE COMING 10 YEARS.

Alain Rodermann

Alain Rodermann

Watch LPEA's "The Luxembourg PE/VC Stories" episode with Jerome Wittamer!

Jerome Wittamer

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AR: There are already companies which are developing well and expanding to other countries, so we are very happy about where the DTF is going. For example Salon-Kee, manages a service for hairdresser appointments, or Next Gate Tech (data company reducing errors in asset management industry) are preparing for the next round of financing. Passbolt, which is an open-source cybersecurity company quite unique in Europe, doing password management in Europe and expanding exponentially.
MG: We also have Finarta, a platform for art dealers. With no fairs organised lately, they are making tremendous inroads.
JW: The bottom line as it relates to our global fund platform is that Luxembourg has never been an issue as it relates to deal flow. We review roughly 50 deals a week, originating from all over the world, and both volume and origin have been relatively stable over the years. We could easily get to a 100 per week, but we want to focus more on quality deal flow. We mostly invest in entrepreneurs whom we know or have known for years or who were introduced by fellow investors. This makes up about 80% of all deals.
Stephane: How do you choose the teams and founders you work with?
JW: They are definitely the reason why we are successful. Our most important quality is probably our capacity to identify the most extraordinary entrepreneurs. When you meet them, you realise right away that they stand out. They are typically intense, curious, not arrogant, ready to learn and listen, they have high ambitions and at knack for executing their vision.

WE'VE KNOWN SINCE THE BEGINNING THAT MAKING AN IMPACT AT SCALE MATTERS FOR US, AND IT ONLY MAKES SENSE IF IT DOES SO OVER THE LONG RUN.

Jérôme Wittamer

RSS: We review about 2.000 opportunities in a year and end up investing in about 1 out of 400 of them. We explained also during the LPEA Academy classes (dedicated VC Foundation module presented by Expon Capital), that diversification in a portfolio is a very important element. There is one thing in terms of diversification which we have not achieved yet and are trying hard to do: we would love to have more women CEOs in our portfolio. We have CEOs from so many different countries, but in all the deals that we see, there are few women. We truly hope this will change in the near future.
AR: There is no such thing as a unique profile for the "winning entrepreneur". Sometimes their strength can be a weakness for the investment. Imagine a serial entrepreneur with her 5th start-up on the way and who is already rich. Will she be willing to spend another 10 years on a single new project? It could be incredibly successful, but the entrepreneur would often look for a fast exist and not wait for the full maturity of the project, which would

Marc Gendebien

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WE HAD TWO EXITS LAST YEAR. VERSE AND GLOSE. BOTH THESE COMPANIES HAVE VERY STRONG VISIONS FOR THEIR BUSINESS AND A STRONG LEADERSHIP.

Marc Gendebien

be the interest of the investors. On the other end, there are first time entrepreneurs ready to fully dedicate 15 years of their time to build a company to higher levels of maturity and thus extract more return for investors. There is no single recipe but success in entrepreneurship needs a set of ingredients: a fantastic product, a big market, a great team and luck!

MG: Alain always says that he likes to do the deal when he dreams about it at night.

AR: True! If you don't dream about the deal, you will not have enough resources to materialize it. I need to fall in love with the project, but the other members of the team are here to challenge it in order to see how solid the opportunity is, poke holes in the rationale. That's what we do on Mondays. If it still stands after hours of tough questions, then we move forward and sometimes go for it.

Stephane: What steps shall we take as a country to improve the start-up ecosystem even further?

JW: We think one of the key things missing is Tax incentives. Every citizen should be incentivised to support innovative companies by benefiting from a tax credit whenever they make an investment in a start-up. Luxembourg is the only country in the EU which doesn't have a tool that is actually used by its taxpayers. Years ago, the European Commission issued a paper and recommendations explaining to governments how such schemes should be structured, and I think our government has no excuse not to put something similar in place. Today money is flowing to real estate. Warren Buffet's partner, Charlie Munger famously said: "Show me the incentive and I'll show you the outcome". Anyone looking at the outcome in Luxembourg (real estate prices have reached unimaginable levels), you understand what the incentive is. And if you see no booming start-up ecosystem, it means that the incentive is missing.

Stephane: What can be done in terms of education?

JW: We think coding classes could really impact Luxembourg's future in a major way and transform the country completely. A lot is already being done. We can afford to be more ambitious. Imagine we would educate 15.000 kids every year on how to code, where would it bring us in 5-10 years? It would transform the country. You don't even need teachers for that today, AI already offers solutions.

Stephane: What areas are you looking at for future investments?

AR: Digital Businesses are at the core of our strategy. We believe that digitalization of processes will be a key opportunity for the coming 10 years.

JW: Definitely in digital health. There are many other areas offering good opportunities: energy, climate.

MG: We are also looking at foodtech and agritech, because there are still so many challenges to overcome.

AR: We like the New Space industry as well, a sector with still too few investors. The success of our portfolio company Spire Global will probably increase Investors interest in Space Start-ups.●

VC Special

2BE.LU:

A NICHE-ORIENTED VC

INTERVIEW WITH ALEXANDER TKACHENKO, FOUNDER OF 2BE.LU VC FUND AND CO-CHAIR OF THE LPEA VC CLUB.

By Luis Galveias
COO, LPEA

Luis Galveias: The trigger for this interview was your recent exit from Arthur Online. Can you tell us more about that investment?

Alexander Tkachenko: I think it was about 2016 when I saw the first wave of SaaS businesses (software-as-a-service) moving into property sector with a focus on platform type of businesses, connecting customers with buyers. That year I saw a simultaneous development of PropTech business in different countries. For any platform business to be successful whether Facebook or Airbnb there should be a market need for an IT solution that will effectively connect different parties. For example, Facebook as a platform connects people to each other and advertisers with its target audience – all with the help of technology.

So, I noticed Arthur Online which was developing a platform that allows tenants connect with landlords. On a single platform you have all types of legal documents, information about the technical maintenance and on the back office you have functionality for the landlords such as accounting. Many different types of services connected in one place. A very useful tool for property managers to handle the relationships with tenants, because on a standard unified platform you can see all your contracts, when they are running out etc. At the same time it's quite interesting for people who rent apartments because if the light doesn't work they just write a comment and a technician is sent immediately.

LG: What was special about Arthur Online?

AT: Arthur online's journey was quite interesting it was run by quite a senior team who have already built and sold businesses before. They had their own properties, which they managed, and saw a problem on the market.

Arthur online team came up with a solution which they first used themselves to manage their properties. Then their friends started asking if they could use the platform too because it was convenient. I think it was quite an interesting profile showing how someone saw a problem, felt the pain, started to address the problem, and decided to scale it up to a build a successful business.

LG: At which stage did you get in?

AT: Seed stage. It was already commercialized and running on a small scale. There were also a number of angels from E100, the London Business School's Angel Club. I saw the presentation, and then we decided to invest and became one of the largest investors.

LG: What can you tell us about the exit?

AT: It was not a Skype style exit. The buyer, a bigger firm in the same sector, acquired the technology, the team and access to the UK market. At the time of acquisition, Arthur was managing less than 100,000 units and the acquiring firm had over 10 million properties, so for them the SaaS is a necessity. So I think it's a great match.

LG: What drives you into technology, why do you like it?

AT: I think we live in very interesting times when you can see how the application of technology, over the course of our lives, really changes industries and lifestyles. When I was young, there was no Internet, it existed, but it was not that widespread, there were no mobile phones. And I could see how both of these changed the world. I'm personally fascinated by it. There are two types of attitude to technology if you are a venture capital investor. There are those who are trying to go after very big problems, but typically, that requires quite significant resources. As an example, going to Mars is a huge tech-


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I THINK WE LIVE IN VERY INTERESTING TIMES WHEN YOU CAN SEE HOW THE APPLICATION OF TECHNOLOGY, OVER THE COURSE OF OUR LIVES, REALLY CHANGES INDUSTRIES AND LIFESTYLES.

Alexander Tkachenko

nological endeavour. And there are VCs like 2be.lu, whose investment is targeted at a niche of the bigger market which is being transformed.
In the case of Arthur online, it was changing the relationship between the property owners and tenants, moving it online and creating a unified space to manage that relationship. Once that is done, once you have a large number of properties and people on the platform, it becomes a very strong business. I think that Arthur online is indeed a good example of a niche market that can fundamentally change a particular process.

LG: How did you personally add value to your investments?
AT: The VC is a very exciting and multifunctional job. Ideally you add value where the teams don't have enough expertise. You try to advise in particular areas, and you try to connect to people that may help companies grow.

LG: Is it better to invest alone, or you prefer to be connected to other VCs?
AT: Of course, when we invest in different countries or regions, it's always worth having partners in those regions. With some we invested for a number of years in multiple deals, with others we see a shared philosophy.
Cooperation is very important in early stage investing. I also have VCs from other countries, notably from Eastern Europe, reaching out to me here in Luxembourg.

LG: What brings VC from Eastern Europe to Luxembourg?
AT: I've been talking to a number of VCs from that region. For many of them, expansion or setting up a fund in Luxembourg is interesting in terms of their geographical expansion and access to different jurisdictions rather than just their home country. To many, it's a possibility to structure their funds better. So it's a combination of factors
In my view, an addition of professional venture capitalists to Luxembourg would be good for the local ecosystem. Therefore, I am spending quite some time trying to explain to people how I see the opportunities, why I think Luxembourg is a good market, and why they should at least try and visit when it's possible and have a look for themselves.

LG: Are they attracted by the potential targets they can find here, potential investors?
AT: When the conversation starts, it's more about the desire to expand geographically, rather than knowledge about the ecosystem of the start-ups here or the presence of investors. Typically these people are still quite connected with investors in their countries. They might be thinking that some companies from their portfolio may benefit from establishing operations in Luxembourg. I'm trying to explain that there is a vibrant ecosystem in Luxembourg, with potential targets for investments and that indeed some of their portfolio companies may find it beneficial to set up operations in Luxembourg.

LG: What is fascinating about the Luxembourg ecosystem today?
AT: The last year was quite difficult, although that's probably the time when some of the VCs did the deals

of their lives, especially at the beginning of last year when some of the companies were raising cash at any valuation.
I personally would like to focus on the Luxembourg market and try to select companies based or moving here or the companies that we see in other markets that will benefit from setting up their European operations in Luxembourg. Obviously then we can help them to scale up. The latter is already a more mature stage, but at the same time, speaking with the University of Luxembourg, with the SnT (Interdisciplinary Centre for Security, Reliability and Trust), we see a number of the initiatives that have been developed in this area.
I see a lot of government support to the ecosystem and it's very encouraging.

FOR MANY OF EASTERN EUROPE VC, SETTING UP A FUND IN LUXEMBOURG IS INTERESTING IN TERMS OF THEIR GEOGRAPHICAL EXPANSION AND ACCESS TO DIFFERENT JURISDICTIONS RATHER THAN JUST THEIR HOME COUNTRY.

Alexander Tkachenko

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LG: Any particular sectors that you will be looking for?

AT: The focus of the first fund was platform businesses. I think we've also got some expertise in artificial intelligence and blockchain, and understand these markets well.
I would say that we will focus on those technologies, but add one or two extra verticals.

LG: You mentioned the first fund. So I wonder if there's a second fund coming?

AT: For now it's only the first fund. Obviously, anyone running a fund at some point is starting to think about the second fund but we will need some time to work on the thesis, and then bring it to the investors.

LG: Any closing remarks?

AT: LPEA is a great initiative. I think it is doing a great job in terms of servicing the needs of the industry and connecting people. I will try to do my best to support it. From the moment we joined - four years ago - and now, LPEA is a totally different organisation.
As the co-chair of the VC Club, I am trying my best to attract more VCs to Luxembourg.
There are very interesting opportunities here and once people see the opportunity we can sell other stuff. VC ecosystem rarely appears by chance. We need to work hard to structure everything and make things possible.
We try to analyse how the current system works, whether there are successful schemes to support VCs in other countries, and what are the measures that worked in other markets and can be implemented here. ●

Guest article from "Yannick Oswald's blog", the most read European VC blog counting 2000 subscribers and over 100.000 reads in 2020.

HOW TO CHOOSE YOUR VC?


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By **Yannick Oswald**
Principal at Mangrove Capital Partners
www.yannickoswald.com

After a stellar Q4 2020, our company Wix has become Israel's most valuable company. Let that sink for a moment. This means that Israel's most valuable company has been founded just a bit more than a decade ago.

'Wix's revenue jumped 38% year over year to $283M. The website-creation platform added 185k net premium subscriptions in Q4, bringing its total subscriber count to 5.5M as of the end of 2020. Wix's total registered user base, meanwhile, climbed 19% to 196.7 million. The demand for a web presence is higher than ever before,' the Wix CFO explained.

If you listen to the CEO of Wix, this is only the beginning. While most see in Wix (only) a website builder, what the company really does, is powering the Internet...

MY GOAL IS THAT, IN THE NEXT 5-7 YEARS, 50% OF ANYTHING NEW BUILT ON THE INTERNET WILL BE DONE ON WIX...

Driving Alpha: From idea to IPO and beyond...

More importantly, though, I think Wix illustrates so well how a VC firm should work with founders. While we let one of the company's first financing round, we were also the last VC that sold his shares in the company, and kept on investing in the company across funding rounds. And yes, we are still on the company's board, 7 years after its IPO on the Nasdaq.

Picking a VC is hard. Make sure you like their "style".

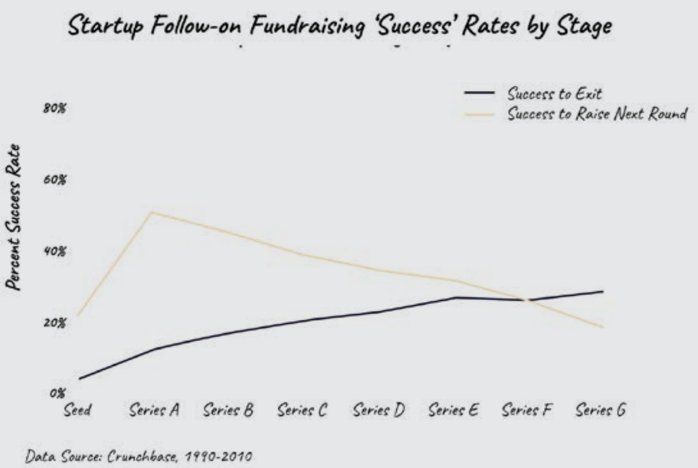
One area that entrepreneurs, and co-investors to a certain extent, should take some time to understand is how VCs and their teams 'tick'. 'Choosing a VC Is like a Marriage. But meeting and pitching VC's is not like Dating... In dating, you hope that your first experiences with another person are a decent indicator of what the future holds. But in VC, that is only sometimes true and often is a false indicator. I know many VCs that are amazing partners to founders in thick and thin. But their reputation with founders that pitch them is mixed. Conversely, it's very common that investors seem wonderful to work with when trying to get access to a deal, but then act totally different once they are on board'.

So, if pitching a VC isn't really like dating, how is a founder supposed to figure out who the right person is to work with?' You don't really have much to go on to decide who would make a good fit. Reputation of firm? Of partner? Network? Yes, of course, but it is much more than that. And it is so important, especially at the seed stage. This is one of the reasons I am writing this blog. To help entrepreneurs quickly assess if they like my 'style', and if my firm might be a great 'fit' for them. So, read on...

1 A Patient and Passionate Partner: 'Our DNA'

The journey of Wix has not always been up and to the right. Fundraising wasn't always obvious, and a bunch of VCs even sold their shares along the way... But the journey of those rocketships rarely is, even if the tech news headlines can make you believe so sometimes, especially in the recent months.

Let's look at the data of one example: Follow-on Fundraising (based on a sample of 35k startups). As the graph below shows, the startup journey is a rocky one, until the end. Not surprisingly, the success rate to exit a business increases as a startup progresses through financing stages. But, there will be many instances where follow-on funding isn't that easy.

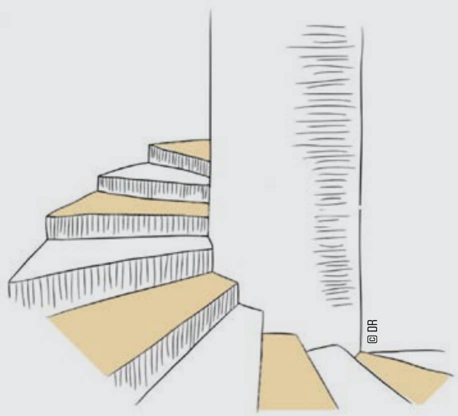


Raising a Series A is usually the most challenging moment (20% avg success rate), especially for the 'non-obvious' plays. Notice the considerable increase in the success to raise a next round from 'Seed to Series A' (20%) to 'Series A to Series B' (50%), and direc-

Guest article from "Yannick Oswald's blog", the most read European VC blog counting 2000 subscribers and over 100.000 reads in 2020.

tional reversal to Series B (44%) - resulting in a kink in the line plot above. The intersecting lines tell us that a Series F startup is as likely to exit as it is to raise a Series G. One step further, the story changes. This makes sense. After a certain point, a successful company can sustain itself, not needing further capital injections.

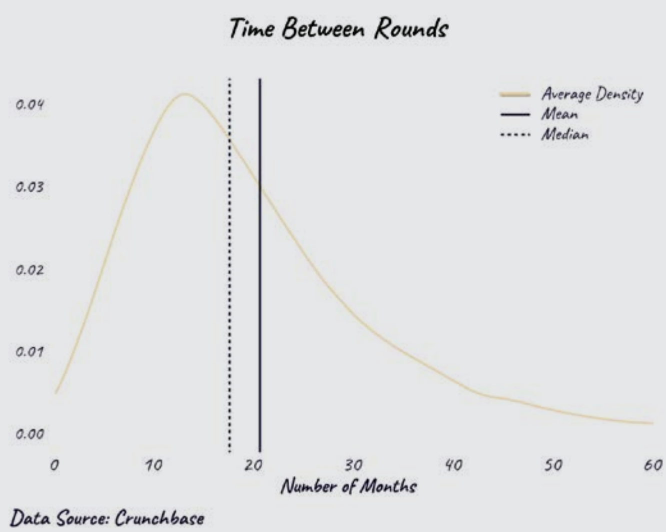
This is one key reason why it is so important to choose the right seed investor, one that is an active (also financial) supporter from seed to A, but also beyond. Make sure your seed investors are 'real believers', regardless of the current 'mood' of the market, and truly understand the value you are creating. Most, and that's ok for later-stage investors, are different. They are purely financial investors: They assess traction based on the usual clear KPIs and results, to see if you can drive financial performance now, first and foremost. Unfortunately, things don't work that way, definitely not at the early stage, and sometimes not later on. Make sure you have a partner for the entire journey, one that has your back...



2 A Committed Partner: 'All in, or nothing'

A great VC should want to lead your round. Leading a round means taking on responsibility. While I am (from time to time) cool to share a round with a great firm and partner I like to work with, I don't like 'party rounds' where there are, for example, more than 3 investors participating equally. It is just unclear who is in charge, resulting inevitably in a lack of commitment. I have seen this, and I don't want to invest like that. It is just not my style, and it does not drive great financial performance in the long run. If you allow me to put my name on your cap table, I will be all in.

Let's have a look at the data of another example: Time Between Rounds (based on 14k materialized financing sequence events). The median indicates a time range between rounds of 15 to 19 months, while the averages even suggest a range from 18 to 22 months.



Having great seed investors means having passionate, but also honest, partners who know when to push you, and when to hold you back... Building a product takes time. Finding the right talent takes time. And, as it turns out, fundraising often takes time, too. A great investor will be able to 'read' your company's

HAVING GREAT SEED INVESTORS MEANS HAVING PASSIONATE, BUT ALSO HONEST, PARTNERS WHO KNOW WHEN TO PUSH YOU, AND WHEN TO HOLD YOU BACK...

Yannick Oswald

journey and help you spot the right timing for key events. Very often, founders don't think that they are ready for the next step. It is an investor's job to convince them otherwise, and actively help them reach it faster.

The level of involvement you get from great seed funds is unprecedented compared to VCs that don't like to take on ownership. And this simply because their interests are so much more aligned. When a good seed investor, that partners only with a few companies, wants to lead a round, it means you've got the whole fund behind you. They will be 100% on board in helping you drive the future of your company. Their fund economics are such as they are incentivized to help you become their next big success story. Raising your next funding round is only one out of many steps along your joint journey.

3 A Smart Partner: "The true value of what you are building needs to be understood"

Great seed investors are the guys that will be on your side, ideally be your first call, from the very early days, until you make history. They need to understand your business so well, that they are able to stick with your company when the chips are down, but also see clear when things are going 'so well'. Many people can't do it. It is hard. They are impatient. They want the easy and quick money.

Let's get back to the Wix example. 'We had opportunities to sell Wix. In 2011, we received a very serious offer to sell, at a value of $400M, and we came to the founders and told them we did not believe it was right to sell. At the time - before the IPO - the founders and we had much bigger stakes in the company, and we were looking at a lot of money for each one of us. We had an interesting conversation, which turned into a question of confidence between us and them. We told them, 'You can be worth much more.' So, they decided not to sell, and the rest is history. Giving such a strong recommendation is only possible if an investor truly understands the value of a business.

So, picking a highly committed and dedicated early-stage investor ensures you, the founder, will have a partner who thinks about how to handle critical topics, and not only early on.

4 A Humble Partner: "Cheerleaders", and just good people...

We are not passive investors. On the contrary. We partner with very few companies only, and aspire to be 'their first call'. Building companies is hard, and you can't be a great, active partner if you are spread thin across too many.

A great seed investor also knows who the true stars are. And it is not them, but the entrepreneurs. It is about your company, and your employees. Make sure the people you let onto your cap table live by that.

Finally, I always ask my founders when they talk to investors if they think they would get along well, and feel if they are 'just good people'. There will be many tense moments in a startup's journey, and going through them with nice people makes it a hell of a lot easier. Being a CEO can be a lonely job. You always feel the need to be self-confident and make sure others don't sense any self-doubt. You'd love to tell your employees that you're going through tough times but you don't want it to affect them, of course. But you want to be able to tell your VCs that you're nervous or that you're worried that something might affect your next funding round, for example. So, when you partner with a firm, it is also crucial to assess the individual partner(s) involved with your company directly. It is this person, first and foremost, that you will be working with on a daily basis. ●

VC Special

ILAVSKA VUILLERMOZ CAPITAL:

A LUXEMBOURG INVESTMENT COMPANY ON THE FAST TRACK

INTERVIEW WITH LAURENT HENGESCH AND ALAIN WILDANGER, FOUNDING PARTNERS OF ILAVSKA VUILLERMOZ CAPITAL.

By **Natalia Koltunovskaya**
Head of Communications, LPEA

Natalia Koltunovskaya: Who are you, and how were you created?

Laurent Hengesch: Alain and I met for the first time on a bus in Tehran in 2017. We are both Luxembourgers, I am 31, and Alain is 40 years old. Alain has got an investment banking background, having worked for the Oil&-Gas department at UBS in London. I had worked for M.M.Warburg & CO Bank when I met Alain.

Alain Wildanger: When we met, we discovered a shared passion for investing. We then decided to put our equity together into a joint structure and made the first investment into a third-party AIFM called ONE group solutions, which is now is a fast-growing ManCo. After we invested all our equity, we still had access to some great off-market deals, which we wanted to share with potential LPs.

NK: Where does the name come from?

LH: One day before the notarization of our company, we were still looking for a name. I had been waiting for Alain on Bistrot beim Renert's terrace in Luxembourg City to brainstorm our new company name. When he arrived, I asked what the name of his grandmother was, he said "Ilavska", I said, mine is "Vuillermoz", shouldn't we call it "Ilavska Vuillermoz Capital" I asked? We also thought that no one could spell Häagen-Dazs, but there would be a day when people know how to spell our company's name. Finally it took us a minute and we decided to name the company after two strong independent women of our families.

NK: What's the size of your current fund?

AW: We plan to grow to EUR 50m AUM for our VC sub-fund 1 during the following months.

NK: FinTech, InsurTech, RegTech, eCommerce companies – tell us about your investments, why you chose this area?

LH: The financial industry is one of the last large industries that have not been completely disrupted by the digital revolution. Many traditional bankers do not understand that tech companies are agile enough to take advantage of any piece of regulation. They also continue to believe that customers still trust banks. However, since the 2008 financial crisis and due to never-ending financial scandals, customers have a massive appetite for alternative finance. Banks are often no longer seen as partners but rather as pure providers looking after their interests and short-term profits.

Since Alain and me are a part of the millennial generation, we have a deep understanding of highly innovative, fast-growing, and disruptive financial technologies. Why? Millennials (23–38 years old in 2020) are the largest generation in the workforce today. Infamous for their distinct behavior traits and values, they have transformed core business models in many consumer-based industries, from fast fashion to higher education. Brought up in an era of instant gratification, Millennials do not have the patience to physically make a trip to their local branch and wait to speak to a relationship manager for advice on savings and retirement planning like their parents did. The majority of Millennials access their bank accounts and carry out routine functions on-

Alain Wildanger (Founding Partner), Laurent Hengesch (Founding Partner) and Georges Bock (Partner)

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HAVING GROWN UP WITH TECHNOLOGY, MILLENNIALS EXPECT TO CARRY OUT ALL THEIR BANKING ACTIVITIES ON THEIR MOBILE PHONES WITH MINIMAL FUSS. AND THEY DON'T HAVE ANY PATIENCE FOR A BAD USER EXPERIENCE.

line, rendering physical bank branches less relevant than ever before.

Having grown up with technology, Millennials expect to carry out all their banking activities on their mobile phones with minimal fuss. And they don't have any patience for a bad user experience. TechCrunch says that this year, 90% of smartphone users will make a mobile payment. Mobile payments, a subset of digital payments, are set to break the USD 1 trillion record this year. It is the future of banking. That's why we invested in Germany's most valuable fintech N26 Bank. 88% of traditional financial organizations fear losing revenue to FinTech companies in personal loans, money transfers, and payments. Ernst & Young says that approximately 25% of SMEs globally have adopted FinTech services for financing, banking, and financial management. With a promising future and continuous innovation in the field, FinTech is the right choice for us to invest and gain maximum return for our LPs.

NK: Early to late-stage venture rounds of companies in Europe?

AW: We do mainly later-stage primary transactions. If we feel that a product has potential and that the management team behind it perfectly fits, we also invest in earlier stages. That only happens in more exceptional cases.

NK: Who are your main investors?

LH: As our focus is later-stage VC, we are an attractive fund for conservative investors that want to diversify into VC slowly. Our investors are HNWI, as well as European Family Offices and some Institutionals. Furthermore, we are the only Luxembourgers running such a fund in Luxembourg, which can be appealing for Luxembourg-based LPs.

NK: What kind of expertise can you bring to your portfolio companies?

AW: We've made some tremendous pre-fund investments into companies like Investify, Penta Bank and N26 Bank, which are each market leaders in their field. We are always offering our portfolio companies to interconnect for them to synergize and provide cross-selling opportunities. On top of that, they benefit from our access to the local financial marketplace and our broad network.

LH: Georges Bock, who's been with KPMG for nearly 30 years and has been the Managing Partner of KPMG in Luxembourg, joined our fund as partner and board member. Georges has got extensive expertise in Banking, Investment Management and Structured Finance, as well as in Capital Markets and related regulations, taxation in both local and international terms. He is known to have actively contributed to Luxembourgs ecosystem in various groups and organizations.

NK: You are aiming to become the leading Luxembourg based VC Fund in Europe. How? What is your strategy?

LH: Which VC fund doesn't? (laughs) We won't only focus on VC and not only on FinTech. Our fund is structured in a way that our first compartment will be Financial Technology, Insurance Technology, and Regulatory Technology only. The majority of our target assets are secured already. The moment we close our first compartment, we want to use our network and brand to facilitate other types of investments with new teams we want to employ. We don't see ourselves as a VC fund in the traditional sense, but more like a PE/VC firm with an opportunistic and activistic approach. ●

VC Special

INVESTING IN THE FUTURE OF HEALTHCARE


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By Debora Dumont
Managing Partner,
Bioqube Ventures

Key growth drivers in the healthcare sector

Our modern world is confronted with a growing aging population with individuals 65 or older representing more than 25% of the total population in many European and Asian countries. It's no secret that the number of patients with cancer or chronic immune related diseases is increasing as is their need for health care-related products and services.

As people are getting older, the cost of healthcare is growing and as such the authorities are more and more focusing on new technologies and therapeutic developments. Although healthcare spending growth rates have slowed over the past few years, largely because of the economic recession and sluggish recovery, budgets and costs have risen. This increasing financial burden represents a need for products that can reduce costs through better outcome and results versus current therapies or technologies.

Furthermore, we are experiencing a period of unprecedented scientific progress with plenty of disruptive emerging technologies. For instance, genomic research holds the potential to unlock even more secrets about how disease progresses and allows new, more effective drugs to be developed. It also allows for personalized treatment and can significantly improve patient outcome as well as reduce healthcare costs.

On another level, the ever-increasing computational power is revealing unexpected correlations or predictive markers in big healthcare datasets, resulting in new targets, better selection of lead compounds and better identification of the right patients to treat.

Then there is the promise of digital technology to improve diagnosis and disease management itself by earlier identification of alarm signals, inappropriate treatment or complications.

The aforementioned trends and technological/scientific evolutions have resulted in a great performance of the healthcare sector with major business development transactions and increasing valuations and more money raised in private and public markets than ever before.

Without any doubt, the healthcare sector represents an attractive investment opportunity. Investing in healthcare does not only generate interesting returns for investors. It also allows them to diversify their portfolio and make a true difference for patients, as their investments represent the critical smart capital to turn promising ideas into life-saving drugs.

Biotech Venturing in Europe

There are three factors that make Europe's biopharma market attractive to investors: strong hot spots across geographies, modalities, and therapeutic areas; powerhouse research and industry expertise to support basic science and innovation; and an abundance of high-caliber talent.

The European biotech industry is attracting more investments than ever before. Witness to that are the spiking of European Series A investment (almost doubling 2019 dollars to \$1.1B in 2020), the launching of new large funds by established fund managers (eg. BioGeneration Ventures, Forbion, LSP) and the welcoming of new funds to the industry (eg. Bioqube Ventures, Jeito Capital, Pureos).

European VCs active in the life sciences sector are performing well. In its Annual Report 2019, the European Investment Fund declared life sciences as the top-performing sector in its

INVESTING IN HEALTHCARE DOES NOT ONLY GENERATE INTERESTING RETURNS FOR INVESTORS. IT ALSO ALLOWS THEM TO DIVERSIFY THEIR PORTFOLIO AND MAKE A TRUE DIFFERENCE FOR PATIENTS.

Debora Dumont

European VC portfolio.
One of the drivers of this increased VC activity is the healthy M&A culture as the acquisition of biopharma startups is the main strategy for driving innovation in big pharma. The landscape of willing buyers, prepared to buy earlier, continued to boost company-building VCs
Indeed, several VCs have adopted a model in which new companies are founded and built (semi) internally. US based VCs like Atlas Ventures, Flagship Pioneering and Third Rock Ventures pioneered this model. Several European VCs (eg. Advent France Biotechnology, Bioqube Ventures, BioGeneration Ventures, Medicxi, Novo Seeds) have adopted this venture creation model either as a core activity or as an additional investment strategy. Venture capitalists can benefit from higher returns as they take significant ownership as the founders of these companies while this model can boost the translational power of biopharmaceutical innovation in Europe and bolster the ecosystem.

Impact of COVID on global biotech industry

The global recession apparently passed biotech by. Venture financing hit an all-time high of over $23 billion—up over 60% on an already strong 2019. More than $11 billion worth of new biotech funds were raised.
The pandemic triggered an almost doubling of precommercial deals involving private infectious diseases companies, but this was from a low baseline of only 10 deals or fewer each year since 2010. Financing also spiked in 2020, reaching over $670 million but still not close to the $3.5 billion raised by cancer companies.
Overall, biotech's savior role in the pandemic attracted a stampede of private and public investors alike—including some deep-pocketed newcomers. The cash wasn't only backing companies developing COVID-19 vaccines or therapies—though many in this group benefited. Instead, the pandemic apparently reinforced the requirement for long-term, value-based investors of any kind to have exposure to life sciences, including biotech.

About LPEA Member Bioqube Ventures

In 2020, Bioqube Ventures launched the Bioqube Factory, a VC fund with a mission to advance scientific innovations into breakthrough therapies for patients.
The fund is active in Europe with a focus on the Benelux, France and Germany.
Bioqube Factory is backed by a balanced mix of investors, including the European Investment Fund, regional institutionals, family offices and high net worth individuals. Additional value is brought to the Bioqube Factory portfolio by the two strategic investors J&J and Genmab that provide guidance and offer access to expertise by opening up their network.
One of the more unique features of the fund is its outspoken dual investment strategy. Besides more classical syndicated investments in first and subsequent rounds, the fund has earmarked part of the fund for the so called "Create" model. In this Create model the fund initially provides project financing to de-risk innovations prior to building new companies. A common problem in early-stage projects, is the inability to translate scientific innovations into investible cases. Bioqube's Create model was built to fill the translational gap by bringing in funding, development and management expertise in a hands-on approach alongside the scientific founders to reach the next value inflection point.●

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VC Special

CORPORATE VENTURE CAPITAL IS HERE TO STAY

© DR

By Nicolas Milerioux
Head of Venture Capital at Encevo
and co-chair of the LPEA/LOIC CVC Club

and Luís Galveias
COO of LPEA

In recent years Luxembourg has seen an increase of the Corporate Venture Capital (CVC) activity. For those less familiar with the concept, CVC consists of established companies investing in start-ups.

To shed some light on such activities, LPEA hosted a webinar in collaboration with the Luxembourg Open Innovation Club (LOIC), powered by the House of Start-ups. During the discussion we learned that this corporate investment may be comprised of different forms and objectives.

The discussion gathered a mix of local and international corporates: BGL BNP Paribas, Chanel, Encevo, Paul Wurth and the POST Luxembourg, who openly shared experience and brought to light not only track records and lessons learnt, but also positive outlook on such activities in the years to come.

First, investment in CVC can be direct through minority participations, like Paul Wurth, Chanel and Encevo sometimes do on an ad-hoc basis (BGL BNP Paribas Development will do that soon as well). However, it can also be indirect, through venture capital funds, like POST Luxembourg did with the Luxembourg Digital Fund and Orbital Ventures. BGL BNP Paribas Development recently joined this group by launching its own investment initiative. It means that corporates can either or both be co-investors or LPs for non-corporate venture capital funds.

Conducting CVC-type activities, regardless of their depth or form, is particularly relevant for mature companies to track innovative trends in their respective industries and, when business units see opportunities in sight, create long-lasting, active relationships at the right moment in time.

Even though the CVC's activity usually means direct investment in the firm, tangible value can be extracted from such exchanges for competitive market watch and on positive values for the corporate culture. In turn, early stage companies benefit from long-run industry experience.

For Luxembourg in particular, CVC activities imply potential strategic partnerships with domestic and relocating early stage companies. It is also an obvious support for the local ecosystem including incubation structures (Paul Wurth Incub and Technoport in particular). Until recently BGL BNP Paribas also hosted the Lux Future Lab.

All panellists finally concurred that the Luxembourg entrepreneurial ecosystem has significantly gained maturity in the past decade supporting greater variety of start-ups, therefore enlarging the pond to fish from. However, corporates would still like to see more seed stage funding, as those are usually prior to their investments.

Luxembourg being a small country comes with the advantage of having a very collaborative ecosystem between corporates. The LOIC is a good example of how to bring "open innovators" as well LPEA is in bringing venture capital investors together. We are confident that this is just the first step towards a broader CVC movement in Luxembourg. In addition, LPEA and LOIC have recently launched an initiative to join forces on this journey. ●

CVC-LIKE ACTIVITIES ANCHOR TANGIBLE BUSINESS RELATIONSHIPS, BETWEEN EARLY STAGE COMPANIES AND LUXEMBOURG-BASED CORPORATES. THIS IS A STRONG BUILDING BLOCK FOR A START-UP FRIENDLY NATION AND POSITIONS LUXEMBOURG AS A DEAL-MAKING (AND NOT ONLY DEAL-STRUCTURING) PLACE. I'M THRILLED TO SEE MORE AND MORE CORPORATES EMBARKING ON THIS JOURNEY.

Nicolas Milerioux

A NEW VC COMING TO LUXEMBOURG

By **Pascal Bouvier**
Managing Partner & co-founder,
MiddleGame Ventures

My partners and I went on a fundraising walkabout for two years and finally completed our first close in December 2019. I moved to Luxembourg in January 2020. Our fund invests in early stage European fintech startups and time had come for me to say goodbye to the USA which I had called home for over 20 years, to properly focus on the European startup market.

After two arduous fundraising years, I naively thought our life would be smooth sailing going forward, with the odd investment here and there and the appropriate congratulatory LP meetings. Little did I know how erroneous this belief turned out to be.

Having spent the past twelve years scrutinizing the technology stacks of many fintech startups, I awoke to the stark reality of having to build our own tech stack, I mean the set of tools and service providers needed and required for the good functioning of a venture capital fund.

We had to choose an accounting firm for our operating company and our carried interest vehicle, a fund services provider for our general partnership and the fund, an auditor for the fund, a bank for the depositary services as well as the provisioning of all bank accounts for all entities, and our AIFM for the required licensing with CSSF. We had to select an independent director for our general partnership and operating company, and navigate the intricacies of domiciliation, company registrations, tax reporting. Finally, we had to operationalize the flow of funds in and out of our fund's bank account and set up the required supporting documents. Lest I forget, we had ensure that, from the start, all service providers would work smoothly together, while ensuring the proper and timely reporting to our LPs.

Let me assure you that for a first-time fund, this ended up being a daunting proposition. The level of intricacies tied to meeting the requirements of an LPA, while adhering to Lux GAAP and valuation methodology, and ensuring tax authorities are kept in the loop with the added constraint of doing everything by the book from a regulatory point of view was novel to us. The venture capital industry in the USA is a simpler beast in comparison.

In hindsight, I would have wished for a steady hand to guide us with operationalizing our fund. Lawyers speak the law, accountants speak in terms of debits and credits, fund services providers speak yet another language, bankers rarely speak, auditors I yet have to understand their language. One has to be adept at translating with ease from one language to another as you compare, analyze and select each service provider... and you need to continue to play a multi-lingual gateway bridge to ensure all service providers work well together and share the same toys without throwing any tantrums.

A steady and experienced hand able to tie contractual documents together and third party teams together would have been the ticket. I am always attracted to SaaS revenue models in the fintech world. Wouldn't it be nice if there was a venture capital tech/operating stack in a box I could subscribe to? I realize the venture capital industry, fund formation wise, is not the biggest of market opportunities and will have to shelve my dream for an all-in-one solution. Yet, short of such a silver bullet, the next best bet would be a comprehensive resources database, listing out not only all service providers by category, but also best practices, pitfalls to avoid, dos and don'ts, hacks, tricks of the trade. An interactive and practical database (a Reddit meets Linkedin for venture capital). Who knows, this resource might even help bring other venture capital firms to Luxembourg. Count me in to contribute should the idea be picked up. ●

WOULDN'T IT BE NICE IF THERE WAS A VENTURE CAPITAL TECH/OPERATING STACK IN A BOX I COULD SUBSCRIBE TO?

Pascal Bouvier

LPEA COMMITTEES & CLUBS

YOUNG PE LEADERS TAX COMMITTEE

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Steve Idrissou
Atoz Tax Advisers, co-chair of the Tax YPEL Committee

Raphaele Kamoun
Norton Rose Fulbright, co-chair of the Tax YPEL Committee

At the origin

In June 2017, the LPEA launched a ground-breaking initiative to change the future of the PE/VC sector in Luxembourg by creating the "Young Leaders" committees.

The aim of the "Young Leaders" committees was to assemble and empower members from both asset managers and service providers. The objectives were to address different subjects and develop new initiatives in view of answering to the challenges perceived by the younger generation of PE/VC professionals.

On 18 July 2017, the Young Leaders Tax Committee ("YLTC") held its first meeting at the Deloitte premises with its first co-chairs (Sara Huda and Cécile Henlé) and members (Audrey Legrand, Jacques Wantz, Florent Trouiller, Gaspar Lopes Dias and Frederic Selleslagh).

Who

The YLTC is currently composed of 20 young professionals (with 5 to 10+ years' experience) from assets managers and investors (BNP Paribas, CVC, EQT, European Investment Fund) and law/tax advisory firms (Allen & Overy, ATOZ Tax Advisers, Baker McKenzie, Clifford Chance, Deloitte, DLA Piper, EY, KPMG, Linklaters, Loyens Loeff, Norton Rose Fulbright and PwC).

What

The role of the YLTC is to assist the Tax Committee in the completion of its objectives (see https://lpea.lu/about/committees/ for more details on these).

In this context, we meet, exchange ideas and brainstorm technical issues and solutions we face in our daily practice with like-minded professionals. We also take the time to gather in a more informal way to socialise and start building relationships with professionals that we would probably not meet otherwise.

A non-exhaustive list of the technical topics discussed during our 2020/2021 meetings can be found below:

- General international tax: Practical consequences of debt waiver
- ATAD 1: Qualification of income deriving from amortized loans under the interest limitation rule
- ATAD 2: Practical cases on reverse hybrid mismatches
- DAC 6: Practical feedback and returns of experience under the form of a round table
- Transfer pricing: Practical impact for Luxembourg of the Transfer Pricing Guidance on Financial Transactions report issued by the OECD on 10 February 2020
- Case law: Practical outcome of the European Court of Justice case law C-749/18 on the Luxembourg tax unity regime
- Operational: Overview of the structuring and remuneration model between fund, general partner, AIFM and investment advisors

To encourage the members to share their experience, the discussions are made on a no name/no-opinion basis, and do not engage our respective firm.

When

We meet every 6 weeks. Before COVID, the meetings were hosted in the premises of our members. During COVID the meetings are held by video conference.

Projects

During the year 2020, the YLTC has prepared and communicated to the Tax Committee the following papers:

- "Proposal of 13 COVID-19 dedicated tax measures for the Luxembourg alternative investment fund industry" on 24 April 2020
- "Preliminary review of the GloBE proposal tax impact on the Luxembourg alternative investment fund industry" on 4 May 2020.

Some of our members have also been speakers or moderators for technical webinars organised by the Tax Committee in 2020.

The agenda for the year 2021 includes, among others, the preparation of technical notes on key tax topics selected by the Tax Committee.

How to apply

Professionals interested in joining the YLTC should fill in the following application form. ●

Andrea Addamiano
Baker McKenzie

Emre Akan
DLA Piper

Lionel Ancion
Baker McKenzie

Benjamin Brugerolle
KPMG

Alban Demoulins
CVC

Quentin Donetti
EY

Oliver Exall
Linklaters

Antoine-David Freymann
Clifford Chance

Marie Furet
Deloitte

Tom Hamen
Loyens Loeff

Julien Henrion
CVC

Franz Kerger
Allen & Overy

Boris Lemiegre
EQT

Elien Poelmans
EQT

Guillaume Roux
PWC

Guillaume Schaefer
Baker McKenzie

Thijs Van Dongen
European Investment Fund

Alexandre Warnier
BNP Paribas

THE "GLOBE" AND THE LUXEMBOURG PRIVATE EQUITY INDUSTRY

A PRELIMINARY OVERVIEW OF THE LUXEMBOURG CORPORATE TAX CHALLENGES RELATED THERETO

By **the LPEA Young Tax Leaders**

Supported by U.S. Treasury Secretary Yellen, the U.S. Treasury's actions toward a global minimum tax escalated on 7 April 2021 with the publication of the "Made in America Tax Plan" ("MATAP")[1]. The MATAP report echoes the Global Anti-Base Erosion report for a minimum taxation ("GloBE"- also referred as "Pillar Two") published by the Secretariat of the Organisation for Economic Co-operation and Development ("OECD") on 14 October 2020 ("Pillar Two Report")[2].

The GloBE is designed to impact highly digitalized businesses but praises also to ensure that all internationally operating businesses pay a minimum level of tax. This article aims at providing a high-level overview of the GloBE (A) implementation, (B) mechanism and (C) key points of attention for the Luxembourg Private Equity industry.

A. The GloBE implementation

The international tax landscape is periodically shaped and reshaped through financials crises and changes in ways to run business models. In September 2013, in response to the financial crisis of 2008, the OECD and G20 countries adopted the now well-known 15-point action plan to address base erosion and profit shifting ("BEPS") thereafter consolidated into reports in November 2015.

In the context of monitoring and completing the implementation of the BEPS minimum standards, the tax challenges arising from the digitalization of the economy have been set as a top priority. Further to an initial interim report issued in March 2018, members of the OECD/G20 initiated Inclusive Framework[3] agreed to examine the proposals regarding the digitalization of the economy in two pillars in January 2019. Pillar one ("Pillar One") is focusing on nexus and profit allocation while Pillar Two (or GloBE) is focusing on a global minimum tax. Following a public consultation run end of 2019, the Pillar Two Report has been approved on October 2020.

B. The GloBE mechanism

To get synergies with the Country-by-Country reporting rules, the GloBE should apply to MNE groups – and their constitutive entities – that have annual consolidated revenue of EUR 750 million or more in the immediately preceding fiscal year in domestic currency. The definition of a MNE group should rely on the requirement to prepare consolidated accounts.

In order to allow the implementation by way of modifications to existing tax treaties and domestic legislation, the GloBE proposal relies on the following four components.

ON 9 APRIL 2021, THE FINANCE MINISTER PIERRE GRAMEGNA SUPPORTED THE MATAP INITIATIVE FOR A GLOBAL MINIMUM CORPORATE TAX TO BE IMPLEMENTED WITHIN THE OECD FRAMEWORK.

First, the income inclusion rule would tax income of a controlled foreign corporation or foreign branch if that income were subject to tax at an effective rate that is below a certain minimum rate.
Second, the switch-over rule that would permit a residence jurisdiction to switch from an exemption to a credit method where the profits attributable to a permanent establishment or derived from immovable property are subject to an effective tax rate below a certain minimum rate.
Third, the undertaxed payments rule relates to outgoing payments. It would operate by way of denying a deduction or introducing a withholding tax for payments to "related parties" that are not subject to tax at or above a certain minimum rate.
Fourth, the undertaxed payment rule would be complemented with a subject to tax rule that would subject a payment to withholding and adjusting tax treaty benefits on certain items of income where the payment is not subject to tax at a certain minimum rate.
The GloBE effective tax rate of a MNE group should be computed by dividing the amount of covered taxes by the amount of net income as determined under the GloBE rules (which include notably adjustments on intra-group flows, etc). At the time of implementation of the GloBE, it should be confirmed whether the minimum rate would be set by each country individually or through a global consensus.
It is worth noting that the Pillar Two Report includes a list of entities that are excluded from the GloBE rules. Such list includes investment and pension funds, governmental entities such as sovereign wealth funds and international and non-profit bodies, which typically benefit from an exclusion or exemption from tax under applicable domestic tax law[4].

C. The GloBE key points of attention for the (Luxembourg) Private Equity industry

In order to qualify for the GloBEexclusion, an investment fund has to satisfy certain criteria (e.g. designed to pool assets, invests in accordance with a defined investment policy, fund or management of the fund should be subject to regulatory oversight, etc).
The definition of investment funds also includes any entity that is almost exclusively or wholly-owned by a qualifying investment funds (or other excluded entity) and that does not carry on a trade or business but is established and operated to hold assets or invest funds for the benefit of the investment funds (or other excluded entities). It is then expected that hold-

PRIVATE EQUITY FUND INDUSTRY, AS WELL AS THE ALTERNATIVE INVESTMENT FUND INDUSTRY IN A WIDER VIEW, IS A KEY ACTOR WHEN IT COMES TO FINANCING BUSINESSES ON A WORLDWIDE SCALE.

ing companies of a Luxembourg qualifying investment fund could also be out of the scope of the GloBE. In that context, a careful monitoring of how the carve-out conditions will be implemented in practice should be done. Many investors in investment funds are tax-exempt or otherwise benefit from low tax rates (e.g. pension funds). In this context, the application of the definition of "related parties" might trigger withholding tax (e.g. on dividends) or limitation of expenditures deductibility (e.g. interest expenses) paid to tax-exempt investors considered as "related parties". It will therefore be key when implementing the GloBE rules to ensure that payments to such tax-exempt investors are excluded from the scope of the undertaxed payments rule and subject to tax rule. In the same vein as the law of 23 December 2019 implementing the Anti-Tax Avoidance Directive 2017/952 (i.e. ATAD 2), it could be envisaged to treat investors in investments funds as being de facto non "related parties". Similar considerations hold true for investors that are in principle taxable but benefit from favorable tax rates on investment returns.

The GloBE treatment of tax transparent entities should also be monitored. Luxembourg funds could indeed be structured through tax transparent partnerships. In such case, it should be clarified how non qualifying tax transparent investments funds will be treated from a GloBE perspective since limited partners could in that case not be considered to be in the same MNE group as the portfolio companies.

Alternative investments remain a high-risk business. Hence, for multi-invested funds, it will be important to allow profits from one investment to be offset against tax losses from other investments.

Finally, with view to the relatively high Luxembourg's statutory corporate income tax rate, the set-up of a minimum tax over a percentage of the domestic corporate income tax rate should limit the impact of the GloBE in Luxembourg.

Conclusion

Considering the envisioned pressure on public economies due to the economic crisis and the recent convergence of the US with the MATAP report, the rules on minimum taxation as per Pillar Two are likely to be introduced. On 9 April 2021, the Finance minister Pierre Gramegna – as other EU states representatives - supported the MATAP initiative for a global minimum corporate tax to be implemented within the OECD framework.

By its nature and modus operandi, the Private Equity fund industry, as well as the Alternative Investment fund industry in a wider view, is a key actor when it comes to financing businesses on a worldwide scale. Over the last decades, Luxembourg has successfully built a stable social, economic, legal and tax framework enabling international investors and asset managers to invest in and operate via Luxembourg investment fund platform on a reliable basis. In this context, it will thus be key to monitor that the implementation of the Pillar Two does not hamper the development of the Private Equity / Alternative Investment fund industry while ensuring fair standards to fight against tax evasion. ●

1. See https://home.treasury.gov/news/featured-stories/made-in-america-tax-plan-report
2. See https://www.oecd.org/tax/beps/tax-challenges-arising-from-digitalisation-report-on-pillar-two-blueprint-abb4c3d1-en.htm
3. Set-up in 2016 and composed of 139 members as at February 2021.
4. Please refer to pages 31 to 34 of the Pillar Two Report for further details

STRUCTURING INCENTIVE SCHEMES FOR FUND MANAGERS AND EXECUTIVES


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By **Elodie Duchêne**
Partner Corporate M&A, Baker McKenzie

What are the advantages of the set-up of an incentive scheme?

Rewarding management has proven to be a key element at allowing funds and companies to get the odds on their side as to the success of their business and to retain talents. Management incentive plans permit to give the management a slice of the cake, thereby aligning investors' and executives' objectives of performance and growth in the value of the assets while strengthening their relationship.

Although such schemes are often tailor made and specific to the relevant business and the result of negotiations between the investors and the management team, there are several common factors and considerations to take into account when implementing a management incentives program such as the general structuration of the deal, the type of instruments in place, as well as, the tax treatment of the instruments used.

To meet its objectives of motivation of the fund's overall performance and of retention tool, the incentive plan shall not be overcomplicated and shall clearly enable the management to see the likelihood of payout and the possibility to get a share of the value created and a valuable return.

Choice of the instruments: equity, cash, others?

The management can either invest along with the main investors through the same instruments which are generally composed of shares and debt instruments or be incentivised through cash, equity like instruments or contractual arrangements. Luxembourg law offers a wide range of tools and instruments for incentive schemes.

The grant of shares is a common option used in Luxembourg to incentivise the managers and executives, whilst the holding of equity type of instruments may present tax advantages compared to cash income, the subscription for shares also implies challenges.

One of the constraints lies in the fact that the beneficiaries shall pay the acquisition or subscription price of the shares which may cause complexity. However in practice several options exist to solve this issue such as, without being exhaustive, the set off of the subscription price against certain fees payable to the beneficiaries, the grant of loans at a favourable interest rate by the main investors in the fund to the executives and managers investing, etc. Luxembourg

THE INCENTIVE PLAN SHALL NOT BE OVERCOMPLICATED AND SHALL CLEARLY ENABLE THE MANAGEMENT TO SEE THE LIKELIHOOD OF PAYOUT AND THE POSSIBILITY TO GET A SHARE OF THE VALUE CREATED.

Elodie Duchêne

law allows for the issuance of free shares but only to certain individuals (employees or management of the issuing company and affiliated companies), such instruments can therefore not always be used.

Another challenge with the equity structuration is to define the political and economic rights attached to the shares, and this may lead to intense negotiation to agree for example on the vesting and good/bad leaver conditions. Luxembourg law offers a high flexibility to structure the economic rights and the way the proceeds will be distributed among investors and management and the ranking between them. The distribution waterfall is a central element in the setting up of an incentive through the grant of shares and needs to be well structured at inception. At exit, main investors are usually entitled to receive in priority the return of the invested capital and a preferred return until a certain threshold is achieved (e.g. IRR, hurdle rate) then the right of the carried interest / promote holders and of the others investors will come into play.

Various types of shares can be issued by the Luxembourg companies to tailor incentives schemes to their needs such as, among others, preference shares with minimum guaranteed return paid in priority compared to ordinary shares or tracking shares enabling to base the incentives on the performance of certain assets only, which may be of interest to compensate specific executives working exclusively on an investment.

In terms of political rights it will be important to define the degree of involvement of the management in the governance and decision making process. Here again Luxembourg companies have at their disposal various tools to restrict the involvement of the management if so desired. The shares granted to the management are often subject to transfer restrictions and/or lock up to ensure that the investors will keep the control on these shares but also as retention tools, these shares may also be non-voting. Incentive schemes also generally includes call and put options mechanisms.

Instead of subscribing for a specific class of shares of the investment vehicle, the scheme may also be structured through a special purpose vehicle and the management will receive shares of this vehicle which is in turn a shareholder of the investment company. This structure has the advantage to avoid the administrative burdensome of convening each separate beneficiaries to the shareholders meetings of the investment company, the beneficiaries being pooled in a separate vehicle.

Rather than equity, certain group prefer using other types of instruments allowing management to receive a share in the value depending on the success of the investment without being a direct sharehold-

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er in the structure and without participating to the share capital. For instance we can mention phantom shares, warrants, debt instruments, convertible bonds, beneficiary shares, the latter are not part of the share capital and can be issued against performance of services and freely tailored in terms of political and economic rights. Incentives may also be granted in the form of sweet equity such as options, performance rights or right to acquire further shares at a lower price to motivate the management team.

Taxation is a crucial and essential criterion in the structuration of incentives as mitigating the tax burden for the beneficiaries is key, and the type of instruments or vehicles used may have a significant tax impact for them. The beneficiaries may be domiciled in various jurisdictions, therefore, the tax treatment of the incentive scheme should be assessed in each jurisdiction. Thus, the choice of the instrument or vehicle will also depend on the country of residence of the beneficiaries. Capital gains generally enjoy a better tax treatment than any other type of income in most jurisdictions. This may explain why the grant of share like instruments is so popular in terms of incentives. Nonetheless the quality of the beneficiaries (employee / manager) might impact the qualification of the grant of shares that could be considered as a deemed employment income or directors fee. Many jurisdictions have developed set of rules aiming at requalifying certain schemes into ordinary income taxable at higher rates. Free shares awarded to managers may be considered as taxable income (in-kind). Back in July 2013 when transposing the Alternative Investment Fund Manager Directive, Luxembourg had also implemented a preferential tax regime for carried interest for Luxembourg resident beneficiaries. The regime appears to be ineffective since it requires a number of conditions to be met in order to benefit from the preferential treatment which seem incompatible with the reality of PE/VC players.

The 2018-2023 agreement of the government of coalition was foreseeing an assessment of the current regime to determine whether some improvements could be made in order to increase attractiveness of the Luxembourg market to front office functions of the PE/VC industry value chain. A structural tax reform to take place in 2021 was announced by the Minister of Finance, Mr. Gramegna, in July 2019. The Covid-19 outbreak has obviously influenced the market conditions leading to the postponement of the announced structural tax reform, that could have included new measures aiming at the improvement of the existing regime, to a later stage.

Thanks to its toolbox, Luxembourg remains an interesting jurisdiction that offers the possibility to accommodate multiple needs from foreign countries perspectives while mitigating inefficiencies.

IT IS ALWAYS THE RIGHT TIME TO IMPLEMENT AN INCENTIVE SCHEME.

Elodie Duchêne

When implementing incentive schemes?

Given the benefits of incentive schemes as to the performance of the funds and attainment of a successful exit, as well as, their benefits for the management it is always the right time to implement an incentive scheme.

Due to the economic downturn caused by the sanitary crisis, one could think that it is not a good time to implement incentive schemes. However, it is certainly more important than ever to retain key people especially in view of the end of the crisis and the expected economic upturn. Funds and companies need to ensure they have the right people and that they can retain them to face the next challenges. ●

PE EXIT STRATEGIES – THE REVIVAL OF THE IPO OPTION

THE RECENT HIGH VOLUME OF IPO ACTIVITY (SPAC AND NON-SPAC RELATED) HAS FURTHER UNDERLINED THE FLEXIBILITY PE SPONSORS ENJOY BY USING LUXEMBOURG VEHICLES TO EXIT INVESTMENTS.


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By **Jacques Graas**
Partner,
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and **Paul Péporté**
Partner,
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Last year's strong resurgence in initial public offering (IPO) activity is continuing in 2021[1], encouraging many PE investors to re-examine the benefits of pursuing an IPO as an exit strategy.

And with so many PE funds having an established presence in Luxembourg, with structures already in place that are readily convertible into listing vehicles, the spotlight has returned to Luxembourg as a highly flexible European hub for structuring and executing IPO exits, with the shares eventually admitted to the main trading venues in Europe and/or the U.S.

As the focus returns to the IPO market, how can sponsors make sure they are ready to take advantage of initial share listings as an exit option?

No PE investor wants to commit upfront to a single exit strategy. Market conditions and the underlying performance of the business will dictate whether an IPO is the appropriate direction to go. Selling the business to a strategic buyer or to another PE house through a secondary buy out may well be a better bet.

But to ensure an IPO exit remains on the table as an option it is vital for sponsors to plan carefully – and well in advance.

Indeed, it's a process that needs to start at the time the initial investment is made, even if the point of exit is a couple of years down the road.

Initial considerations

Importantly, the vehicle needs to be structured in a way that protects the sponsor's ability to pursue an IPO, unimpeded. That means having a shareholder agreement in place that includes in particular easily enforceable drag along clauses to pull all involved parties, including management and other shareholders, down the IPO path.

Strong covenant undertakings will also be needed setting out the exit options and the giving the sponsor the freedom to appoint investment banks to launch and underwrite the IPO process.

Since the vehicle is likely to be heavily financed by debt provided by banks, financing agreements must also be framed in a way that ensures banks have the security they require with-

USING A LUXEMBOURG VEHICLE FOR THE IPO OFFERS A RANGE OF ADVANTAGES, FROM A REGULATORY AND CORPORATE LAW POINT OF VIEW.

out such security potentially blocking an IPO.

Moving to implementation

Using a Luxembourg vehicle for the IPO offers a range of advantages, from a regulatory and corporate law point of view.

Three issues are at the forefront at the time a decision to pursue an IPO is taken:

- Corporate Restructuring: The first is proceeding with the corporate restructurings required to make the target company "IPO-ready". This may in particular result in a conversion of the existing holding company into a public limited liability (société anonyme), which is the main corporate form used for equity listings, and implement necessary amendments to the articles of association.

Luxembourg's corporate law system offers sponsors significant flexibility in this regard. With no specific (mandatory) corporate governance code in place, business owners in particular have greater freedom to devise a suitable corporate governance structure. Moreover, organising annual general shareholder meetings is far less onerous a task than in other jurisdictions and the set-up of the share capital is not subject to the restrictions imposed in some foreign jurisdictions (e.g., no minimum nominal value, no limit as regards authorized capital amounts).

- Prospectus Approval: One of the most vital tasks is preparing the public offer and listing prospectus – where the Commission de surveillance du secteur financier (CSSF) is the competent authority.

With prospectuses running to many hundreds of pages, this involves detailed due diligence to present a full picture of the business's material contracts, its main operations and three years of historical financial statements. Where new operations have been added to the business through M&A activity, the prospectus may also need to present pro-forma financials of how this has impacted overall financial performance.

The CSSF is a powerful but investor protective regulator with a big prospectus review team and, typically, it can deliver the initial detailed set of comments in as few as ten working days – considerably faster than the 20 working days set out by European law. Prospectuses approved by the CSSF can be submitted in English, German, French or even in Luxembourg language.

- Choice of Listing Venue: It is typical to rely on a Luxembourg holding company as the listing vehicle for an IPO and to proceed with such IPO on a market outside of Luxembourg (throughout the EU but also NASDAQ/NYSE and Asian markets).

This approach is possible to the extent that under the EU's Prospectus Regulation, approved prospectuses can be passported to other jurisdictions within the European Economic Area without the need for further regulatory scrutiny, allowing the sponsor to choose the most suitable market(s) on which to list (typically where the business has its main centre of operations and is better known).

SPACS HAVE EXPLODED IN THE U.S. SOME USD88BN IS ESTIMATED TO HAVE BEEN RAISED IN U.S. SPAC IPOS IN THE FIRST QUARTER OF THIS YEAR, MORE THAN IN THE WHOLE OF 2020, ITSELF A RECORD YEAR.

A good recent example for that is last year's exit by Permira, Cinven and Mid-Europa Partners from Poland's thriving online retailer Allegro in the biggest ever IPO – organized through a Luxembourg listing vehicle – on the Warsaw Stock Exchange.

Impact of SPAC boom?

The rapid emergence of Special Purpose Acquisition Companies (SPACs) may well change the dynamics of the IPO market and the calculations sponsors and targets need to make.

These so-called "blank cheque" companies, launch an IPO to raise finance with a view to identifying and acquiring a target or targets, usually within a 24-month period.

As such they offer targets an alternative way to achieve a listing compared with the traditional IPO. And in some senses, the process is easier too.

Since there is no target at the point of the SPAC IPO, the prospectus is substantially lighter than would normally be the case, serving mainly to set out the credentials and investment strategy of the sponsor and outlining the risks for investors if no target is found within the lifetime of the scheme, as against detailed business descriptions and MD&A (for "management discussion and analysis") sections.

SPACs have exploded in the U.S. Some USD88bn is estimated to have been raised in U.S. SPAC IPOs in the first quarter of this year, more than in the whole of 2020, itself a record year. Multi-strategy asset management funds – as opposed to pure buy-out PE Houses – have readily joined the frenzy and we are beginning to see money raised in the U.S. being invested in targets in Europe and elsewhere.

Though the creation of SPACs is a trend that came later to Europe, starting mostly with vehicles incorporated and listed in the Netherlands, it is now gaining increasing traction in other jurisdictions, including Luxembourg. It looks likely to continue growing.

That begs the question – will SPACs co-exist with the traditional IPO as an alternative way to admit shares for trading on public markets? Or will they, increasingly, become the preferred route for taking businesses to the market? Another open question is whether the regulatory framework will, at some point, be adjusted to specifically deal with SPACs or regulators adopt restrictive approaches in respect of SPACs.

The next months will certainly provide additional insight on the SPAC impact, but regardless of the SPAC market development, it seems clear that IPO exits for PE investments will remain an attractive alternative and that Luxembourg vehicles are poised to continue playing a significant role in this regard. ●

1. Latest market data is confirming that listings on stock markets around the world are running at a record pace, with both deal numbers and values at their highest levels for the start of any year in the last two decades (source: Financial Times, https://www.ft.com/content/857c1286-d35e-404a-ae7c-8d04b7508810)

AML/CFT DUE DILIGENCE ON ASSETS – A SHIFT CHANGE FOR INVESTMENT PROFESSIONALS

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By **Stéphane Badey**
Partner,
Arendt Regulatory & Consulting

and **Stéphanie Castryck**
Head of Regulatory & Compliance Services,
IQ-EQ

AML/CFT due diligence on assets has become a hot topic for the regulators. While investor on-boarding has always been considered a priority in order to limit the risk of being abused and misused by money-launderers or potential terrorists, preventative measures to be deployed in the context of potential investments have not received the same level of attention. This has changed over the past three years and the trend will continue.

Initially, the legal framework in Luxembourg was not extremely clear for the global fund industry as to the nature of the performance of AML due diligence on assets. For a long time, the main reference on that matter remained point 309 of the CSSF Circular 18/698 ("Pursuant to Articles 3(7) and 4(1) of the AML/CFT Law, the IFM must also apply due diligence measures on the assets of the UCIs it manages"). More recently, the CSSF Circular 20/744 added new indicators of risk of tax fraud specific to collective investment funds, as part of the money laundering risks, in relation to specific transactions.

CSSF Circular 20-05 of 14 August 2020, amending the CSSF Regulation 12-02 of 14 December 2012 on the fight against money laundering and terrorist financing, has clarified this obligation for all professionals supervised, authorised or registered by the CSSF (Article 34(2). "(2) In the framework of investment business, the professionals shall carry out an analysis of the ML/TF risk posed by the investment and take due diligence measures adapted to the risk assessed and documented. Such analyses shall be formalised. The risk analysis on investments shall be reviewed annually and when particular events require it."
This obligation to perform AML/CFT due diligence over the assets, commensurate with the risks, is now

AS PER THE FATF GUIDELINES, THE REAL ESTATE BUSINESS IS MORE EXPOSED TO TRANSACTIONS INVOLVING MONEY LAUNDERING.

a critical pillar of the global AML/CFT framework for collective investment funds.

Over the past few months, further guidance has been issued through live webinars organized by the professional associations in Luxembourg and the CSSF. The latest releases from the CSSF ML/TF Sub-sector risk assessment dated January 2020 or the National risk assessment dated 15 September 2020 are also used by AML/CFT compliance officers to define the mapping of their ML/TF risks and their Risk-Based Approach (RBA), which will define the AML due diligence to be applied.

The RBA is the one core principle that has driven the AML regulation.

One has to consider other sources, such as the guidelines and reports issued by the FATF, the ESMA and the CSSF Guidelines to identify the criteria to be considered in such risk scoring exercise. The purpose here is not to provide an exhaustive list but the following examples can be highlighted:

As per the FATF Guidelines, the real estate business is more exposed to transactions involving money laundering. In addition, real estate investment and private equity business may involve other counterparties to monitor, which increases the risk for asset managers.

Consequently, and maybe sadly, such type of investments are traditionally considered as higher risk. It would however be wrong to conclude that all real estate or private equity investments are higher risk. Other elements must indeed be considered.

If the asset manager has recourse to a complex investment structure, involving one or more entities and/or one or more jurisdictions between the funds and the ultimate target investment, these factors increase the ML/TF risks. This is even more so if the jurisdictions involved are non-collaborative from a tax perspective. The tax component has become a key element since the law of December 2016 and professionals should consider the guidelines provided by the CSSF in its Circular 17/650 as amended in that context.

The business sector of the investment will also have an impact on the ML/TF risk. The CSSF and FATF have provided lists of business sectors that are more exposed to money laundering risk, such as agriculture, crowdfunding, crypto assets, debt (including loan origination), extractive industry, green energy, microfinance, sport investments etc.

Finally, the geographical risk factors obviously play an important role and the country risk exposure of the investments must also be taken into consideration.


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It is either one element or a combination that will define the ML/TF risk associated with an investment. While investments impacted by higher ML/TF risks should be monitored by better and commensurate mitigation measures, those subject to lower ML/TF risks may benefit from a simplified due diligence approach.

The AML/CFT due diligence on the assets or "Know Your Transaction" concept is organised around basic principles:

(i) Identification of the cash flows relating to your investments: where does the money invested by the fund go and where does it come from when you sell the investments?

(ii) Do you know your counterparty? Do you know if there is a politically exposed person (PEP) in the board of directors of the company in which you invested a major stake? Do you have an idea who are the ultimate beneficial owners of the target company and who may control it? Are you aware of any adverse media that may impact the director of the company to which you signed a loan agreement?

While it is not the purpose of this article to provide an exhaustive list of due diligence required to answer these questions (industry guidelines should be soon released for that purpose), it is important to keep in mind that funds are particularly vulnerable to abuse or misuse for different types of fraudulent practices – including for example Ponzi schemes, confidence or boiler room scams, and use of fictitious or shell companies.

In addition, it shall be noted that there is a notable exception to the RBA, which is the obligation not to make available funds to States, persons, entities and groups subject to restrictive measures in financial matters. This entails an obligation to screen the assets and parties related to the investments against Targeted Financial Sanctions lists, including restrictive measures against the proliferation and use of chemical weapons.

IT IS IMPORTANT TO KEEP IN MIND THAT FUNDS ARE PARTICULARLY VULNERABLE TO ABUSE OR MISUSE FOR DIFFERENT TYPES OF FRAUDULENT PRACTICES.

Proliferation is defined by the FATF as the illegal manufacture, acquisition development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials.

The CSSF also expects that an adverse media screening is done on the name of the company held in your portfolio.

It is the combined responsibilities of the board of the funds and the AIFM to ensure that procedures and processes have been put in place to mitigate AML/CFT risk relating to the assets either internally or by their delegates. As mentioned above, these can be summed up by:

1. Making a risk assessment and setting down in writing the results
2. Establishing on that basis AML/CFT due diligence measures
3. Establishing a screening process
4. Repeating the exercise at least annually. ●

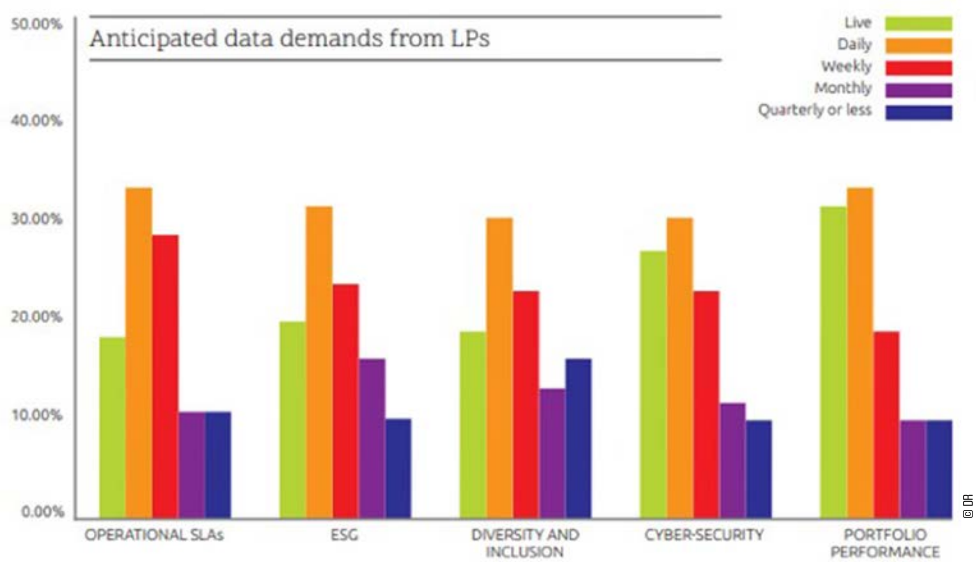
COUNCIL REGULATION (EU) 2018/1542 of 15 October 2018

A PARADIGM SHIFT IN PRIVATE CAPITAL – IS LUXEMBOURG EQUIPPED TO MEET INVESTOR DEMANDS?

By **Nick Maton**
Country Managing Director,
Intertrust Group Luxembourg

Over the course of December and January, Intertrust Group surveyed 300+ private capital CFOs and 100+ of their investors from around the world to ask them how they expect their roles to evolve over the next decade. The findings were compelling: today's investors are demanding secure real-time data on their investments and putting more and more pressure on CFOs to deliver.

Historically, the private equity industry has not been particularly tech-savvy. For decades, companies have relied on Excel spreadsheets combined with traditional accounting software that still required a lot of manual input. Data sharing between GPs and clients was done through the post or over email. However, more recently private capital funds have grown exponentially, attracting a rising number of mainstream investors who expect a sophisticated level of reporting. These investors have a strongly data-centric mindset; and when they bring that investment culture to the private markets, the relative lack of information leaves them less comfortable than they would like.



IN OUR SURVEY, SEVEN OUT OF 10 OF THE RESPONDENTS EXPECT THEIR INVESTORS TO BE LOOKING FOR ACCESS TO LIVE OR DAILY UPDATES ON BOTH PORTFOLIO PERFORMANCE AND CYBERSECURITY.

Nick Maton

In our survey, seven out of 10 (70%) of the respondents expect their investors to be looking for access to live or daily updates on both portfolio performance and cybersecurity. More than half (56%) of CFOs expect a need for daily or live updates on operational service level agreements (SLAs) and 64% on environmental, social and corporate governance (ESG).

Luxembourg, as the second-largest fund centre in the world, is following this global trend. Local CFOs feel a growing demand for data from investors, aggravated by the complex legal framework of the European Union. And as it is often the case, this investor appetite is accelerating more quickly than CFOs are able to adjust.

As private capital continues to become an ever more mainstream asset class, it will also attract a broader range of investors. It is this larger, more diversified investor base that is used to more transparency and will demand more detailed reporting. No longer are investors focussed solely on financial performance; they are now keen to ensure investment returns are not obtained at any price. ESG is one such example; with the introduction of the Sustainable Finance Disclosure Regulation (SFDR), there is an urgent need to establish new datasets and reporting practices, to satisfy new transparency requirements.

As the vehicle of choice in many parts of the world, Luxembourg investment funds face another challenge: as their geographical spread increases along with rising demands for data, it will be harder and harder to maintain data aggregation in secure, timely and transparent way. The ideal solution harnesses automated technology to streamline workflow and generate comprehensive data feeds. Current norms of data delivery will require a significant step up in the near future. Investors want to access their information on one portal that is auto-refreshed in line with typical reporting frequency; and GPs should use the best technology and tools to customise their reporting based on the clients' needs.

Ultimately, every fund CFO in Luxembourg will be confronted by the same question: "Do I develop in-house solutions or outsource?" No matter which option they pick, the CFO's priorities will be the same: technology, operations and accounting. Of course, it is not always possible to have a complete operational set-up in-house, which might make outsourcing the more attractive solution. Instead of racing to keep up with growing demand from investors, it enables CFOs to focus on their core function – raising and investing assets.

Given that Europe tends to adopt outsourcing as a strategy more than other regions, we expect this to be a trend in Luxembourg as well. Luxembourg continues to be a primary hub for funds and is home to 19 of the world's top private equity players. Many ambitious private capital firms agree that companies that facilitate transformation towards a digitalised service economy will do well. With this in mind, Intertrust Group is busy working with clients to digitise and automate processes, increasing efficiency in the exchange of information, as well as the availability and transparency of that information. The proprietary technology we're using helps us collate this data and make it available in real time.

One thing we do know is that the age of the spreadsheet is coming to an end. We are at the dawn of a new data-centric world, and this means a paradigm shift in private capital administration cannot be avoided. ●

Scan the QR code or visit intertrustgroup.com/the-future-private-capital-cfo to read "The Future Private Capital CFO: Evolving in a Digital Age" report.

HARNESSING DIGITISATION:

ACHIEVING A HARMONISED VIEW ACROSS ALL YOUR ASSETS

TODAY, FUND SERVICING TECHNOLOGY CAN GIVE YOU A BIRD'S EYE VIEW ACROSS YOUR LIQUID AND ALTERNATIVES PORTFOLIO.

By **Daniel Engel**
Relationship Manager,
Senior Vice President
Brown Brothers Harriman

One of the core trends in alternative investment is the technology and digital transformation that is currently taking place. This transformation is taking place across the entire fund life-cycle, with a range of positive impacts for investor experience, operational processes and investments – all of which are exposed to increasing pressures to reduce costs and increase transparency.

Thanks to new technologies that can now enrich alternatives data to rival the clarity and depth of oversight given for liquid assets, the benefits for asset managers to take a holistic approach to their data architecture can be significant.

The evolution of visibility across alternatives portfolios

Automation and scalability in the alternative sector has, historically, been a step behind traditional investment classes.

To take the example of the investor experience, the operational handling of subscriptions and redemptions into mutual funds has long since been highly automated, as has the investor know-your-client (KYC) process. However, alternative funds have only caught up in recent years with their traditional counterparts.

By leveraging systems that allow full visibility into the AML process including embedded 'decision trees' to defined risk ratings and related documentation requirements, both GPs and LPs can now use portals to access the status of account openings and the associated documentation reviews in real time.

This speaks to an ongoing trend across the industry; not so much a 'revolution' as a slow, but persistent, wave of change. While the speed of transformation is hard to predict, embracing technology will no doubt be one of the main drivers for growth in the coming years as institutional investors continue to allocate significant capital to the alternative segment.

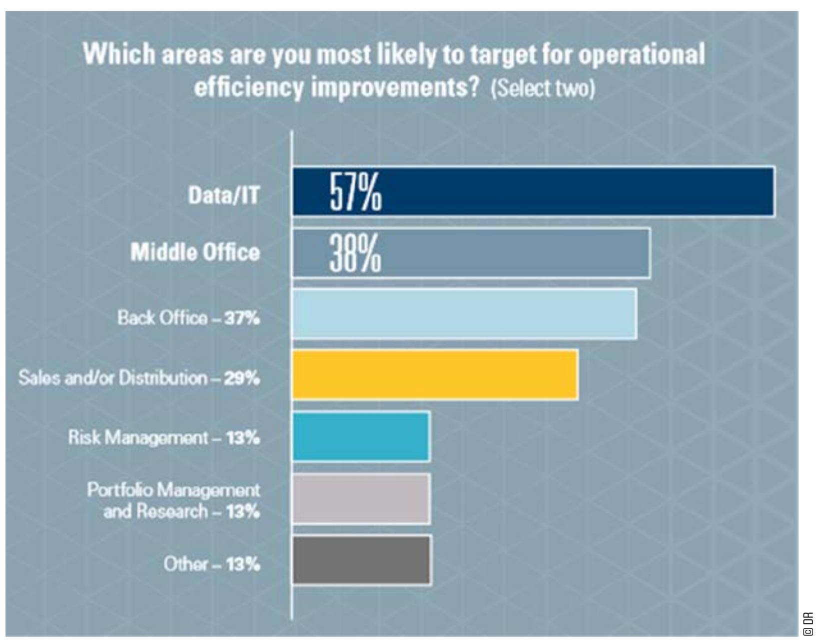
The growth of ELTIFs and PART II structures will also be driving the need for hybrid models, supporting investments in alternative structures by both retail and institutional investors.

Drivers of Change

These considerable investments taking place in technology will bring a whole range of opportunities for the industry. Two consistent drivers of change in recent years have been increasing investor demand, and ever-evolving and increasing regulatory obligations. The impacts of this include the following:

a) Asset managers adding both liquid and alternatives to their arsenals

Alternative asset managers are venturing into traditional asset classes



WHILE THE SPEED OF TRANSFORMATION IS HARD TO PREDICT, EMBRACING TECHNOLOGY WILL NO DOUBT BE ONE OF THE MAIN DRIVERS FOR GROWTH.

Daniel Engel

and traditional asset managers are broadening their portfolios by increasing their exposure across the alternative investment spectrum. There is increasing demand for administrators to be able to offer a full portfolio view, regardless of the liquidity profile of the instruments and investments held.

b) Increasing focus on ESG

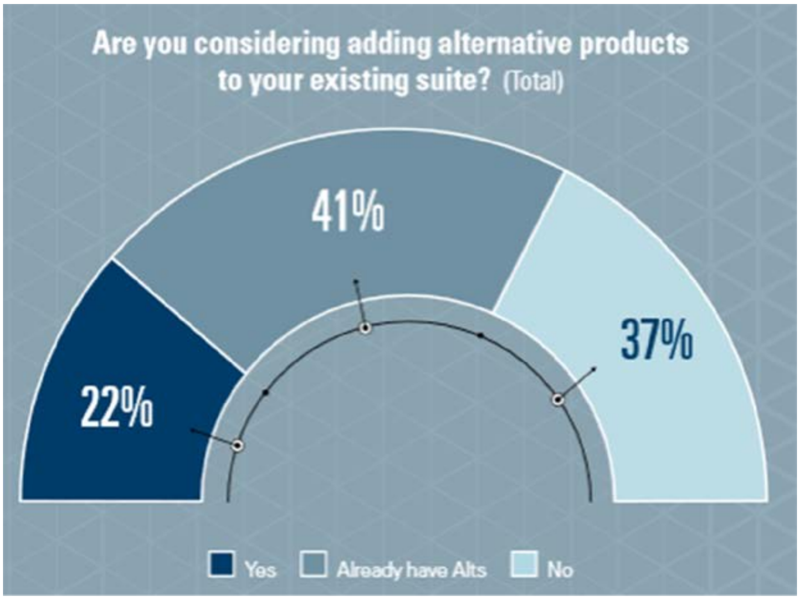
ESG is driving ever great requirements for data access and reporting. Institutional investors are clearly indicating that their focus on ESG investments is set to increase, but to meet this demand, asset managers will need to obtain quality data in underlying investments in a timely manner to support the ever broader range of regulatory and investor-driven reporting. The GPs with the right analytics processes and data assimilation tools will certainly be better placed to respond this trend - one that is quickly becoming the key disruptor to the industry.

c) COVID disruption driving change

While it will take years for the disruptive impact of COVID on the investment industry to be fully understood, it is already clear that the global pandemic has accelerated the trend of digitalization.

Notably, it has highlighted the importance of digitalizing previously paper-based processes and the increasing reliance on tools and technology frameworks to process deliverables.

Some administrators had already started their journey on the new way of working by increasingly leveraging technology, but the pandemic has certainly given an additional push in this direction.



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Benefits

Whilst digitization is at the forefront of GP's thinking and represents a major challenge, it is also presents opportunities for all players on the value chain.

Efficiency - these benefits range from documentation data rooms to workflow-based process-flow optimization. Rather than having to engage in lengthy email exchanges, managers will be just a click away from real time information, reducing time wastage and ultimately leading to cost savings.

Transparency - Leveraging online portals by both managers and investors will increase significantly the access to data and reports. Managers will be able to have a holistic view of their investments across asset classes - meaning that administrators will require platforms that can link to underlying systems that house the data for both liquid and non-liquid investments.

Technology will also permit increased transparency of processes, allowing managers to have a clear view of the current status of the process, notably investor onboardings, investor register updates and remediations, NAV cycles and depositary bank status updates. Investors will also be able to access data via dedicated portals, allowing them to access fund reports, capital statements and information relating to their register accounts.

Control & Oversight - Control functions are increasingly becoming central to asset managers and being able to demonstrate full control over outsourced functions is paramount to align and meet with regulatory demands.

New opportunities, new challenges – key considerations

Having said all of the above, there will no doubt be challenges associated with these changes.

One caveat of paramount importance is data quality. No matter how solid your underlying technology may be, a system is only as good as the quality of data flowing into it. In order to ensure high levels of quality, strong control process will be required, in particular at the point of capture.

This is especially true for complex structures and multiple participants impacting the overall value chain.

Needless to say, market forces are making such capabilities a necessity rather than optional but it remains to be seen if size is kind or niche players across the spectrum will have no choice but to adapt and align with the fundamental changes that are currently taking place. ●

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DIGITALIZING DATA FOR INVESTORS IN THE CIRCULAR ECONOMY

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WHAT IS THE CIRCULAR ECONOMY (CE)?

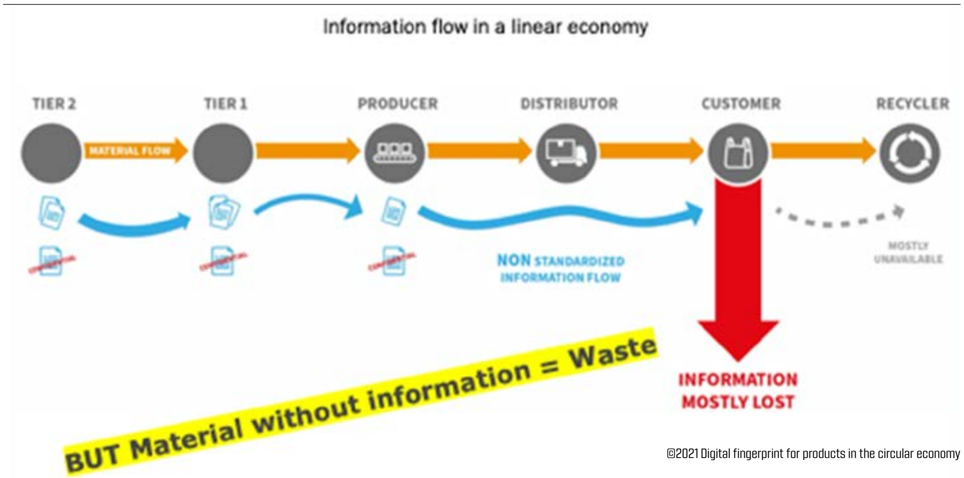
The concept of a circular economy originated in China decades if not centuries ago and was recently adapted by western countries. There are more than 100 definitions of the CE and one of the most commonly used is "An economy that is restorative and regenerative by design". A fundamental difference between the CE and traditional sustainability is its emphasis on positive regeneration instead of just reducing negative impacts on the ecology. This resonates well with companies and investors. While many refer to the CE as "Reduce, Reuse and Recycle", it goes far beyond that conventional minimization approach and instead focuses on healthy abundance. Therein are the business opportunities, estimated by many studies as being in the trillions of dollars.

Investment funds like BlackRock, Decalia, RobecoSam, Candrium, and Hermes, are beginning to offer Circular Economy funds as a step beyond traditional sustainability and a value proposition in itself, instead of only something to comply with. This brings up a dilemma.

Knowing the purity of gold that you invest in is easy because there are global standards, but it's a different story when it comes to products that make up buildings or other assets that funds invest in. If you're investing in buildings that are claimed to contain circular products or companies that manufacture those products, how do you know if the reporting includes circular criteria like composition thresholds, recyclability, recycled content? Is something designed for disassembly so the company you invest in could recover value from it?

So far, funds rely on high-level estimates like general building certifications or company-level assessments, or a maze of product sustainability certifications, but there is no standard data on circularity at the product level. Most green certifications focus on

Collecting circularity data is expensive, difficult and non-standardized



©2021 Digital fingerprint for products in the circular economy

The PCDS maintains circular data integrity along the pathway of the product

©2021 Digital fingerprint for products in the circular economy

energy or climate but not circularity. The UN Sustainable Development Goals SDGs are a popular new way of defining sustainability, but they do not include a category for circularity of products. Granularity is lacking. To try and solve that, a new generation of Circular Economy data platforms is popping up, but these each have their own proprietary standards that don't match each other, so exchanging data across platforms is problematic. It's a bit of a digital Tower of Babel.
The European Union is looking at a Product Passport, but this will probably contain an exhaustive list of every imaginable product characteristic and will take a few years to develop and more to implement. The same goes for the new EU taxonomy that aims to set a common language for sustainability risk-assessment. It's not really product-specific.

CIRCULAR ECONOMY: AN ECONOMY THAT IS RESTORATIVE AND REGENERATIVE BY DESIGN.

What do investors do while waiting for these tools to arrive?
Recently, the International Standards Organization ISO voted to develop a new standard known as the Product Circularity Data Sheet or PCDS. It's a digital fingerprint specifically directed at the circular economy characteristics of products. The standard will take a few years to develop, but it's based on a format created in Luxembourg and already being piloted with an international group of manufacturers and platforms. It's available to investors today.

AS WITH THE MATERIALS SAFETY DATA SHEET (MSDS) ON WHICH IT IS MODELED, THE PCDS IS "PLATFORM INDEPENDENT".

The PCDS is designed to reduce risk by improving the reliability of data on the circular aspects of products. Investors will be able to simply ask if a product or group of products they plan to invest in have a PCDS.

BRIDGING A DATA GAP FOR PRODUCTS IN THE CIRCULAR ECONOMY.

Luxembourg's Ministry of the Economy and consultancy Positive Impakt pioneered the solution, based on earlier research by the EU's Horizon2020 program and the innovation institute EPEA. Development started in 2018 in cooperation with Luxembourg's ISO-accredited agency ILNAS and multinational manufacturing companies & platforms.

What is It?

The PCDS is a digital fingerprint with standardized and trustworthy data about the circularity aspects of a product. The aim is to save time and costs across the supply chain by improving CE data-sharing efficiencies in an open format.
It's based on a template containing pre-set true/false statements that let manufacturers and platforms combine features of each component into a PCDS for an assembled product. For example, if a metal package has three coatings and a substrate, the data from those component PCDS' could be combined into one PCDS.
As with the Materials Safety Data Sheet (MSDS) on which it is modeled, the PCDS is "platform independent". The stand-alone format is designed so each manufacturer in a product supply chain will generate a PCDS for their product and make it accessible to customers via e.g. the corporate webserver.
The PCDS is not a scoring or rating mechanism. Instead, its data are inputs for other product schemes and platforms to do that. So, if an investor has its own particular ranking or evaluation scheme, it can use the PCDS as a basis to extract the data.

How does it work?

Each product assembler, manufacturer, refurbisher, or remanufacturer who makes or modifies a product can create a PCDS from a template, then store it and making it accessible to other stakeholders.
At any stage of the supply chain, manufacturers can pull multiple PCDS from suppliers and integrate the data into a new PCDS for their own products then provide this to customers.

How reliable is the data?

To assure consistency, the PCDS describes features as 'true' or 'false' rather than using non-structured data. This creates a level playing field for comparison. Manufacturers who publish a PCDS are responsible for the validity of the data, so it is in the interests of the manufacturer to assure accuracy. To further ensure this, the originating data are verifiable by an independent audit.
A Guide comes with the PCDS to show users and auditors the criteria used in each statement and the other standards that these relate to. In order to guarantee chain of custody of the data and maintain a record of changes, blockchain-type data protection will be implemented.

Actions for investors

If enough funds demand the PCDS, it will save all funds time and money developing their own methods. The investor doesn't have to complete a PCDS; the manufacturer that the fund invests in does that. The PCDS development group is looking for private equity funds that are considering starting circular economy investing and want to have reliable investment criteria. The PCDS could be combined with company-level or building-level circularity metrics to paint the whole picture for investors. ●

LPEA members who want to have a reliable benchmark like this could contact the LPEA secretariat.

THE SCSP AND ITS GAAP – A TALE COMES TO AN END… DOES IT?

MUCH HAS BEEN SAID ABOUT ONE OF THE MAIN PILLARS FOR LUXEMBOURG'S TREMENDOUS SUCCESS AS AN EMERGING-TO-LEADING FUND DOMICILE FOR PRIVATE EQUITY: THE INTRODUCTION OF THE SOCIÉTÉ EN COMMANDITE SPÉCIALE ("SCSP") IN 2013, EXPERTLY TIMED WITH THE IMPLEMENTATION OF THE AIFMD INTO NATIONAL LAW.

By **Nic Müller**
co-founder and member of the management team, Avega Capital Management S.A.

Its flexibility is most often cited: as a new form of limited partnership in Luxembourg modelled after the English limited partnership, the legal text governing its do's-and-don'ts spans only across a few pages, with most of the stipulations left to its constitutional document, the limited partnership agreement ("LPA").

This short article aims at raising awareness on sometimes forgotten or ignored legal requirements as well as giving a quick overview of some hand-picked critical situations that may arise for financial entities in that context.

A rule is a rule is a rule. But if there is no rule?

It is fair to say that even in the ninth year of its existence, the (almost) full absence of any hard rules that need to be followed causes some anxiety under practitioners: in a market that is still dominated by regulated fund products that have a long-standing history of laws, regulations, circulars and – to a certain extent – case law, putting all your efforts in trying to decipher the LPA without any accompanying legal reference is not a content that is easy to embrace. A key take-away we have learned in the meantime therefore is: ensuring that your LPA well crafted is time (and money) very well spent, and the more parties you gather around the table (on top of the GP and the main LPs), the better: your fund accountant, AIFM, auditor or depositary agent will help you in identifying clauses that may cause interpretation problems in practice.

Thousands and thousands of SCSp have been created since 2013. Whilst it is acknowledged that not every single SCSp is a fund in its own right, if you consider the use of SCSp within the Luxembourg toolbox as fund, general partner entity, limited-partner-of-a-general-partner entity, management participation plan, carried interest partner, co-investment pooling vehicle, […non-exhaustive list…], it can be safely assumed that the vast majority of SCSp have a strong relationship to Private Equity structures or other investment structures in the Alternative Investments space.

No interpretation needed … hopefully

With this abundance of opportunities, one might assume that every single possible arrangement has been looked at by fund and corporate lawyers in Luxembourg and overseas, together with internationally recognized tax specialists, auditors and accountants. Yet, even the most seasoned professionals would be very reluctant to take a stance, and rather chose to dance around the elephant in the room, when it comes to the question: which financial re-

THE SCSP LEGAL TEXT GOVERNING ITS DO'S-AND-DON'TS SPANS ONLY ACROSS A FEW PAGES.

Nic Müller

porting framework is applicable to the SCSp?
While an open and all-encompassing discussion between all parties was never held to the extent necessary, two main parties sharpened their knives beneath the surface: let's call them the "LUX GAAP" vs. the "ALL GAAP" crew.
The one line in the Law of 12 July 2013 about Alternative Investment Fund Managers ("AIFM Law") that causes all the rage is Art. 20(3) of the AIFM Law, which is a literal transposition of the AIFM Directive: "The accounting information given in the annual report must be prepared in accordance with the accounting standards of the home Member State of the AIF".

Mind the GAAP

The "LUX GAAP" crew considered this article to be a catch-all provision that forces any Alternative Investment Fund ("AIF") of any legal form to be reporting under what is commonly referred to as "LUX GAAP" – a framework which is often favoured for its flexibility. This does not necessarily appeal to large international asset managers that are used to being able to report under a reporting framework more relevant to Private Equity, such as an investor-defined framework ("LPA GAAP") if your reporting requirements are on the lean side, or US GAAP if you capture a broad international LP base.
The "ALL GAAP" crew argued instead that this article in the law is a pointer into the void – if the term "accounting standards of Luxembourg" needs interpretation in its own right, the "ALL GAAP"ers argue that one of the main laws in Luxembourg that govern accounting, the Law of 2002, pretty much starts with (French equivalent of) the words "Hey guys, this is a cool law, but does not apply to SCSp, ok?" (free/non-official translation).
A circular reference? A #REF! error? How can something so important (for accountants at least) be left subject to interpretation? You might be inclined to think that the "LUX GAAP" crew is mostly composed of local accounting specialists protecting their territory and the "ALL GAAP" crew mostly composed of specialists connected to the international world of private capital trying to promote the SCSp's flexibility to the maximum extent permitted by law.

Decision time!

The truth is that the discussion is much more granular and diverse, and arguments could be found for both sides, with the "ALL GAAP" crew probably emerging as the winning crew over time, at least judged by the financial reporting frameworks actually employed in practice.
Then the balance suddenly shifted in favour of the "LUX GAAP" hardliners with a small announcement by the Luxembourg financial regulator in January 2021 who interpreted Art. 20 much more narrow than most market participants had by this point in time. The motivation remains unclear, potentially the big US pension funds were surprised to get US GAAP accounts from their Lux vehicles and thought to be better off by getting LUX GAAP accounts, we will never find out.
Needless to say that the community now finally saw a real urgency to get together in order to have a proper discussion. As an outsider to the discussion and a non-lawyer, but avid reader of the legislative documents published by the Luxembourg parliament, it appears to me that a quick fix has been found by sneaking a little clarification in the legislative process that is supposed to implement the pre-marketing harmonization rules sometimes labelled as "AIFMD 2" – like "hey we're touching the AIFM Law right now, anything you want to fix while we're at it?". Not an ideal solution, as reference is now made to the European Commissions' equivalence decision which does encompass US GAAP, but also Chinese GAAP, and Korean GAAP ... But I'll stop moaning now! As an "ALL GAAP" enthusiast I might personally despise the fact that the SCSp now gets a specific mention in an article where it should not need to be mentioned at all, but as a practitioner I very much welcome the fact that at least some sort of compromise appears to be found ... for now ... ●

12 HINTS FOR A SUCCESSFUL PE CAREER IN LUXEMBOURG

WHEN CONTEMPLATING WHERE AND HOW TO START YOUR CAREER IN PRIVATE EQUITY, OR IN A BROADER SENSE, IN INVESTMENT FUNDS, THE OBVIOUS CHOICE IS EUROPE'S LARGEST FUND DOMICILE – LUXEMBOURG. FROM AFAR, THE FUND INDUSTRY'S LANDSCAPE CAN APPEAR OPAQUE AND CONFUSING. SO HERE ARE A FEW ASPECTS TO TAKE INTO CONSIDERATION WHEN SEEKING TO LAUNCH YOUR CAREER IN THE GRAND DUCHY.

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By **William Matthew Britten**
Business Development Director, Ocorian

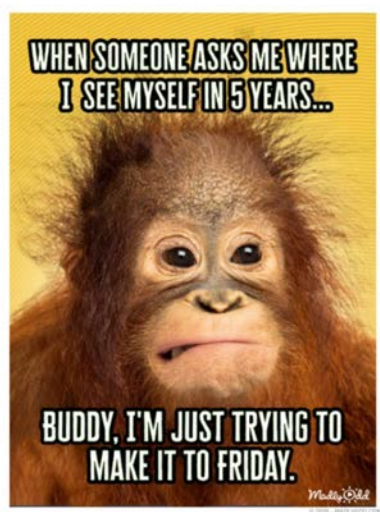
FIND A WAY IN. Check industry associations for inspiration and information on how to start your career (LPEA Careers Section or LFF). Audit firms offer great structured programs for students and young professionals to gain first-hand insights to kick-start their career. Smaller organisations have a less structured approach, but can often offer a broader spectrum of tasks with fewer specialised teams. As the investment industry in Luxembourg is highly specialised, I would recommend pursuing internships and trainings in as many different departments as possible. Experience with the different gears of the greater machine will allow you to develop a deeper more authentic understanding of the industry as a whole. You will not only gain experience that will compliment your education, but also form connections. An internship is an opportunity to learn the skills and behaviours along with the work values that are required for you to be successful in the workplace.

BE PREPARED. Research the company you are applying to, the people you will be meeting and which tasks the team performs. Be sure to know the fundamentals, even though in the beginning your attitude will be more important than knowledge. The industry associations, law firms and Big4 offer a vast amount of free literature and can be used to improve further your understanding of the industry.

UNDERSTAND THE VALUE CHAIN. UNDERSTAND THE PERSPECTIVES AND DRIVERS. In a fast-growing industry in an ever-changing environment, it happens that one can't see the forest for the trees. Companies are often too busy administrating themselves and the complex monster they have created. Claiming to be client-focussed without understanding who or what keeps on the lights.

In my first position in client and sales support, I worked closely with all the operational department and key decision-makers. This really helped me understand the entire process and value chain as well as pain points and bottlenecks in both the setup of funds and the decision-making process of organisations.

SHARPEN YOUR PROFILE. Finding a mentor is rare. Someone senior who can share their experience, someone who actually cares and will support you in getting ahead, even rarer. Yet, it will make all the difference. I was lucky enough to find someone who offered a very different perspective with a strategic vision and long-term approach towards their career and personal development. When I was asked where



FINDING A MENTOR IS RARE. SOMEONE SENIOR WHO CAN SHARE THEIR EXPERIENCE, SOMEONE WHO ACTUALLY CARES AND WILL SUPPORT YOU IN GETTING AHEAD, EVEN RARER.

William Matthew Britten

I see myself in five or ten years, at the time, I was so engaged with what was in front of me, my response was: "I don't even know, what I want for lunch!"

Gaining professional experience throughout the value chain, i.e. in back, mid and front office positions, will not only sharpen your profile, but enable you to understand the structure of organisations and each step along the way. In addition, work on developing relevant skills by joining a post-grad program or joining a charter such as the CAIA as early in your career as possible. This will demonstrate your ambition and dedication to study and learn while complementing your practical experience. As the cherry on top, you will also get to show off those sweet additional letters in your email signature and your business card. Personally, I greatly benefitted from regular coaching sessions and mediation trainings. They won't show up in your signature or CV, but have an immediate impact in your interpersonal communication and demeanour.

Luxembourg also offers a great self-development infrastructure with a variety of self-development and training organisations such as the LPEA Academy, House of Training or the Luxembourg Lifelong Learning Academy, where a vast array of financial courses are offered.

BE RESILIENT. CARRY ON. You will encounter bad apples along the way. The treatment of junior staff reflects directly on the personality of those in charge, often poorly. Conflicts due to rivalry, selfishness and envy are not uncommon. Along the way, colleagues will try to hold you back and wear you down. This can be intimidating and very difficult to deal with. Don't let emotions get in the way. Maintain a sense of honesty and integrity above all else. Be patient, time is on your side. Gain experience, reflect and learn, good or bad. Often more easier said than done. But in the end you will grow as a person and be stronger than you were before.

GET TO KNOW THE CULTURE. Be open to new and different cultures. The Grand Duchy has a proud national heritage and is well-known for being a multi-national hub. You will thus be working with an array of people from different backgrounds, so always be tolerant and respectful.

NETWORK. Engage in conversations and connect to stay in touch. Once you have demonstrated your capabilities, don't be afraid to ask for a reference or even a referral. Everybody knows somebody and will likely have good friends in other companies or business lines. Your next opportunity is just a call or text away. This will ease your way in, when aiming for your first professional role following your

HAVING A POSITIVE ATTITUDE, BEING ADAPTABLE, BEING SELF-MOTIVATED AND MOTIVATED TO GROW AND LEARN ARE KEY VALUES EMPLOYERS LOOK FOR.

William Matthew Britten

internship. Join and follow the community. Luxembourg offers plenty of networking opportunities such as industry events and after work gatherings.

FIND FRIENDS. BUILD A NETWORK. FORM ALLIANCES. Connect with likeminded early in both your careers ... and support each other on the way to the top. It's a long and winding road.

ATTITUDE, MIND-SET AND AMBITION. Stay dynamic and open-minded. Don't let the old ways hinder you from making your mark. Always look for improvements and solutions to make work and life easier. Lead by example and inspire others. Be an ambassador of the new ways and improvements. Be humble and support. You are not above things, tasks are not beneath you. No matter how fancy your business school was, no matter how hard your way was – you start right here. The more you support your colleagues, the more time they will have to teach you. So don't shy away from tasks. Be diligent and put the work in. Don't be afraid to learn new things or take on new projects. While this can be intimidating at first, you learn and grow with each task tackled as long as you give it your all. Having a positive attitude, being adaptable, being self-motivated and motivated to grow and learn are key values employers look for.

SELF-MARKETING. Don't miss the opportunity to demonstrate that you have what it takes. Don't underestimate the impact of social media. Gain visibility, both within your own organisation and externally via engagement in working groups. Use platforms like LinkedIn to connect and learn.

FIND BALANCE. PERFORM SELF-CARE. A turning point for me was when I realised it was only up to me how much I would let my professional life consume me as a person. Finding balance is key. The industry can be ruthless and will chew you up, if you don't find a way to deal with the pressure.

PUT THE WORK IN. Long hours, high pressure and tough deadlines are common companions when working in private equity. You will need to grind, just remember: "It's a long way to the top if you wanna rock 'n' roll." - AC/DC

Private Equity is about creating value and making an impact, ideally a positive impact leading to sustainable long-term growth. Understanding this and applying the same values to your career will help you excel. Just keep in mind, good things take time. We know of course that time is relative. If you're willing to work harder and longer, and you ensure this is recognised, you will reach your destination faster. ●

ABOUT LPEA

The Luxembourg Private Equity and Venture Capital Association (LPEA) is the most trusted and relevant representative body of Private Equity and Venture Capital practitioners with a presence in Luxembourg.

Created in 2010 by a leading group of Private Equity and Venture Capital players in Luxembourg, with 308 members today, LPEA plays a leading role locally actively promoting PE and VC in Luxembourg.

LPEA provides a dynamic and interactive platform which helps investors and advisors to navigate through latest trends in the industry.

International by nature, the association allows members to network, exchange experience, expand their knowledge and grow professionally attending workshops and trainings held on a regular basis.

If Luxembourg is your location of choice for Private Equity, LPEA is your choice to achieve outstanding results.

LPEA's mission towards its members is to represent and promote the interest of Private Equity and Venture Capital ("PE") players based in Luxembourg and abroad.

LPEA's mission towards Luxembourg is to support government and private initiatives to enhance the attractiveness of Luxembourg as an international hub for carrying out PE business and/or servicing the PE/VC industry in all its dimensions.

In summary, LPEA is the go-to platform where PE practitioners can share knowledge, network and get updated on the latest trends of the industry across the value chain.

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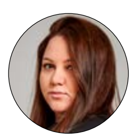

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