

# GP Survey 2021

November 2021

Luxembourg Private Equity  
& Venture Capital Association



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# Objective



The LPEA GP Survey is being conducted by the LPEA since 2011 with the objective of characterising the Luxembourg Private Equity sector, notably through its General Partners (GPs).

The survey identifies the type of GPs present in Luxembourg, which investment strategies they are committed to, how they structure their operations and define their presence in Luxembourg and what is their perspective on the different elements of Luxembourg as a Private Equity hub.

The results of the survey give a snapshot of the Luxembourg PE and VC industry and provide valuable inputs which are shared with public authorities in the context of LPEA's public advocacy efforts.

A detailed survey is shared with all the survey's contributors while a simplified version is publicly shared by the LPEA.

# Quality of the input



The GP Survey was distributed to members and non-members of the LPEA, all of which managers of private equity and venture capital funds. The pool of respondents is composed of a diverse mix of strategies, Assets under Management (AuM) and countries of origin as reflected in the collected data.

The questions were designed by the LPEA Central Intelligence Committee and have in many cases been asked in previous editions of the survey – the latest one being conducted in 2018. When relevant and possible, a comparison is featured.

Answers received have been screened for consistency and anomalies to ensure quality of input from participants.

*“We thank all contributors to the survey for their time and effort in contributing to the continuous development of the Luxembourg Private Equity and Venture Capital ecosystem.”*

Stephane Pesch, CEO of LPEA

# Executive Summary



The PE industry continues to experience significant changes coming from regulatory developments and new legislation, all of which emerging from international bodies such as the European Commission and the OECD.

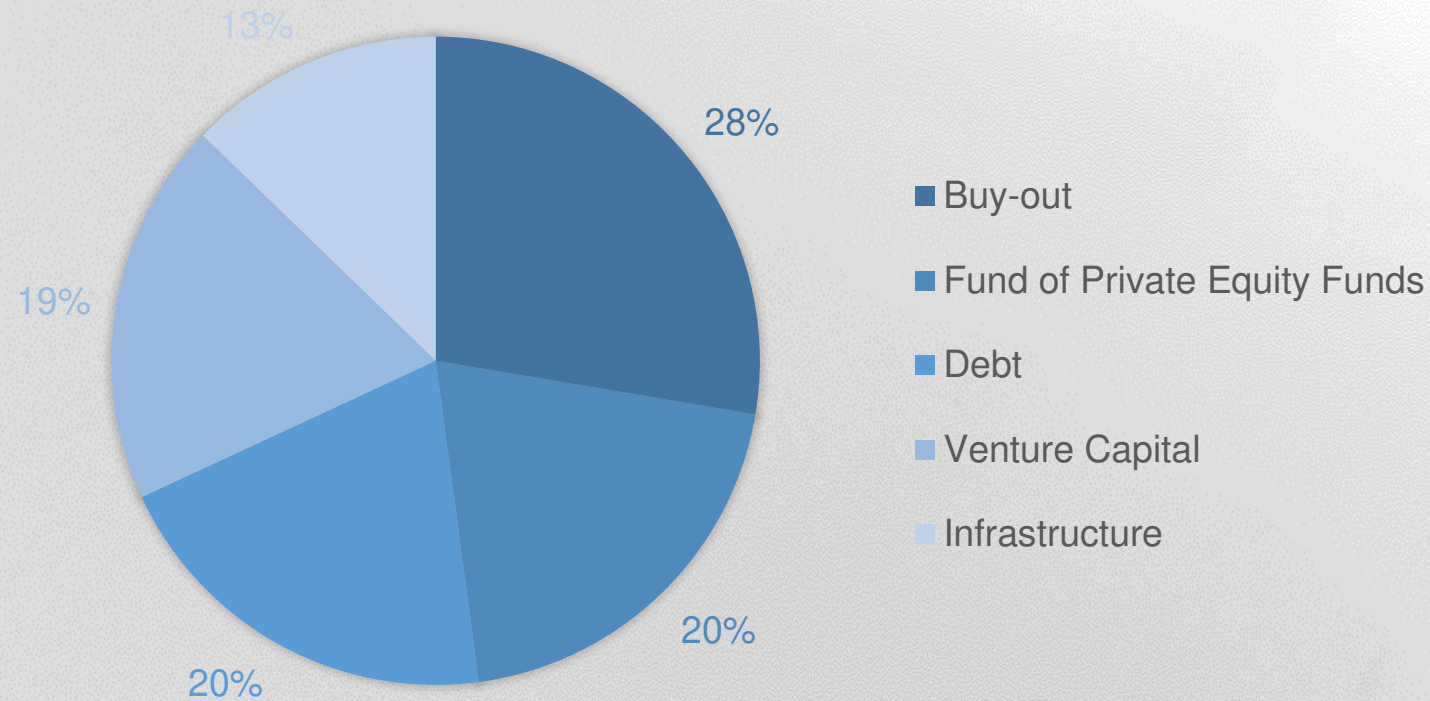
Luxembourg in particular has seen a positive impact with the growing number of GPs present in the country both as a result of its sophisticated legal framework fully adapted to the AIFMD as well as the impact of the final outcome of the Brexit process which led many players to reinforce their presence in Luxembourg and non-European GPs to adapt their model and strategy accordingly.

## Survey highlights:

- Luxembourg is reinforcing its leading position as an **alternative fund location**. The number of Funds and Fund Managers structured in Luxembourg continues to increase year on year;
- The **RAIF** (Reserved Alternative Investment Fund) and the unregulated SCSp (Special Limited Partnerships) represent over **50% of PE's investment vehicles**. These two options are used for all strategies;
- Two third of GPs that responded to the survey are now operating a **fully authorised AIFM** (vs. half of them three years ago);
- Luxembourg's best asset remains the **stability** of its business environment;
- The market has witnessed an increase in **substance** with an average head count of 9.6 FTE;
- 65% of new hires being **highly qualified staff**;
- **ESG** is a key concern and is already translated into specific policies for 83% of surveyed GPs.

# Investment Strategy

## Average investment strategy allocation of surveyed managers

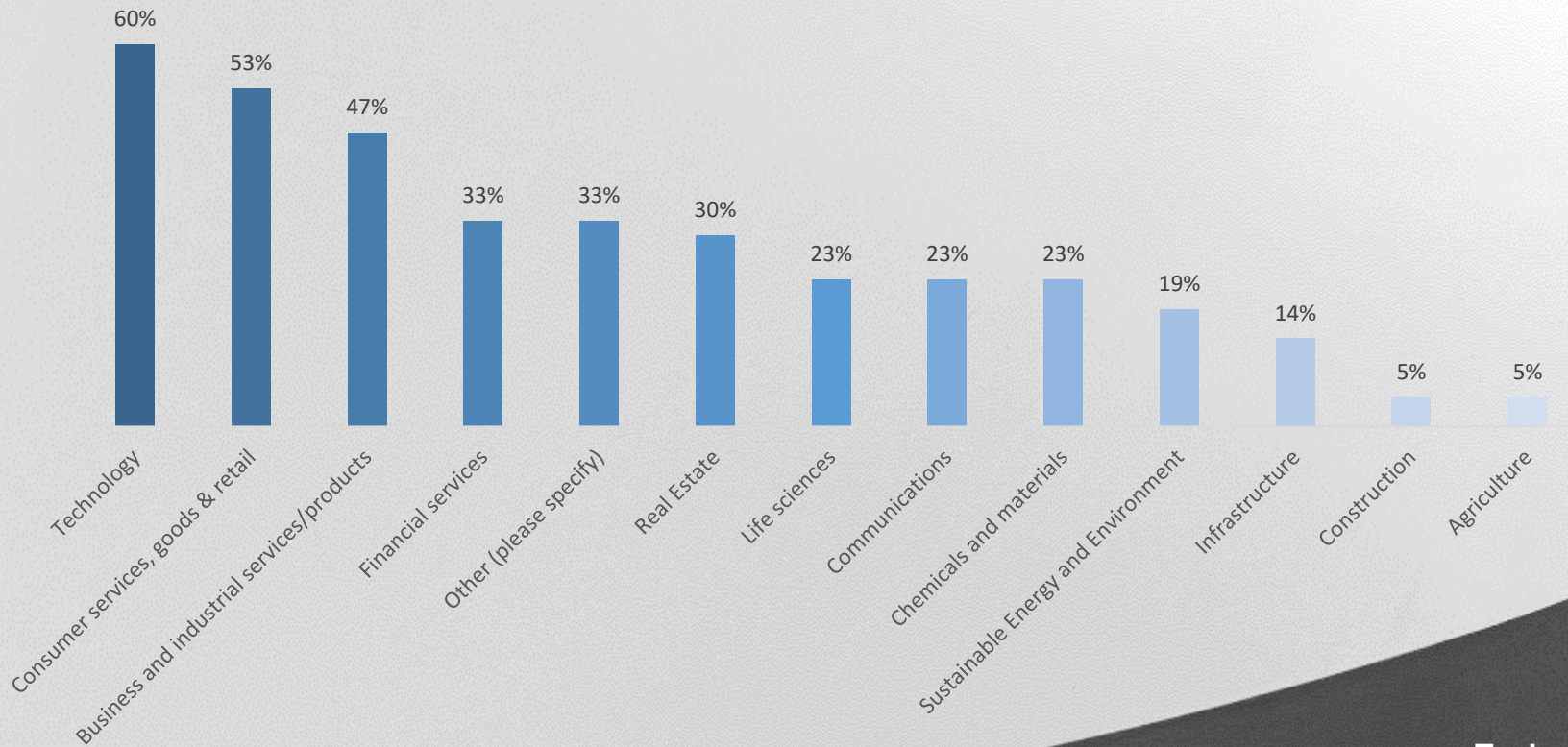


Similarly to the previous edition of the GP Survey, there is **no dominant investment strategy** in Luxembourg. Most significant changes reflect an increase in Venture Capital and Debt strategies which grew from 12% to 19% and from 13% to 20%, respectively.

Buyout is nonetheless the most common strategy and is present in the allocations of 53% of surveyed participants. 55% of respondents also reported having a single investment strategy.

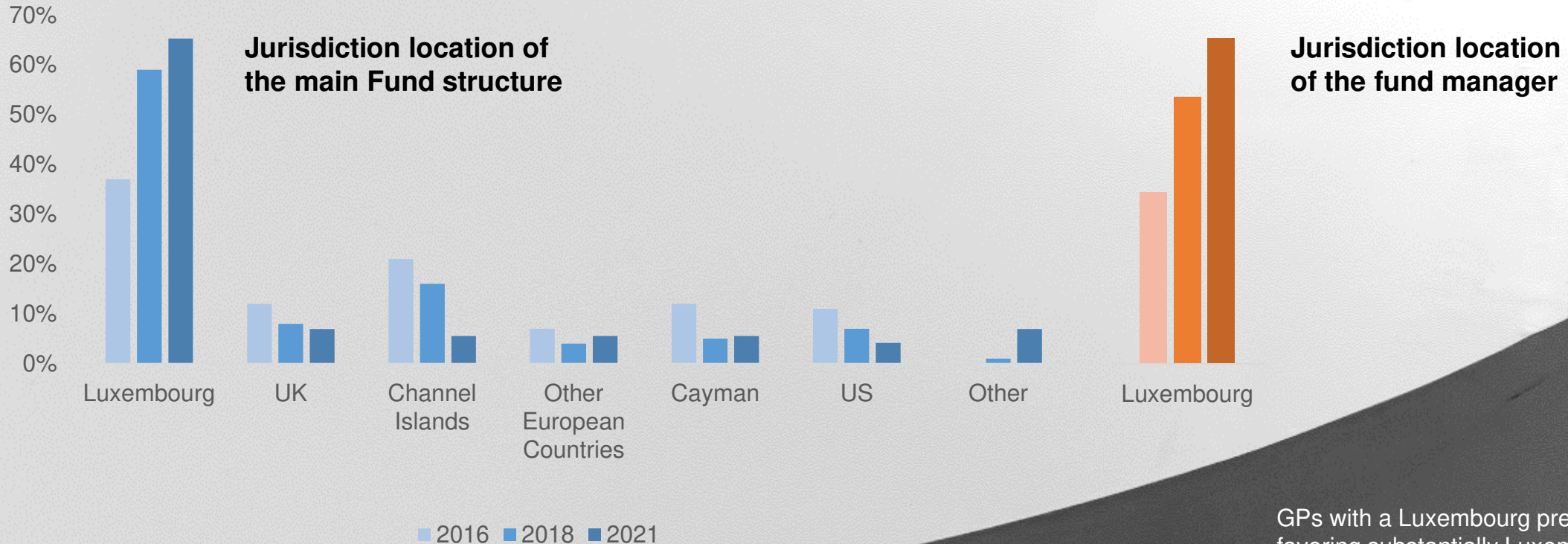
# Sector Focus

## Sector of Investment Focus



**Technology** and **Consumer Services, Goods & Retail** attract most investments of Luxembourg based PE funds with over 50% of them being exposed to these two sectors.

# Jurisdiction Presence



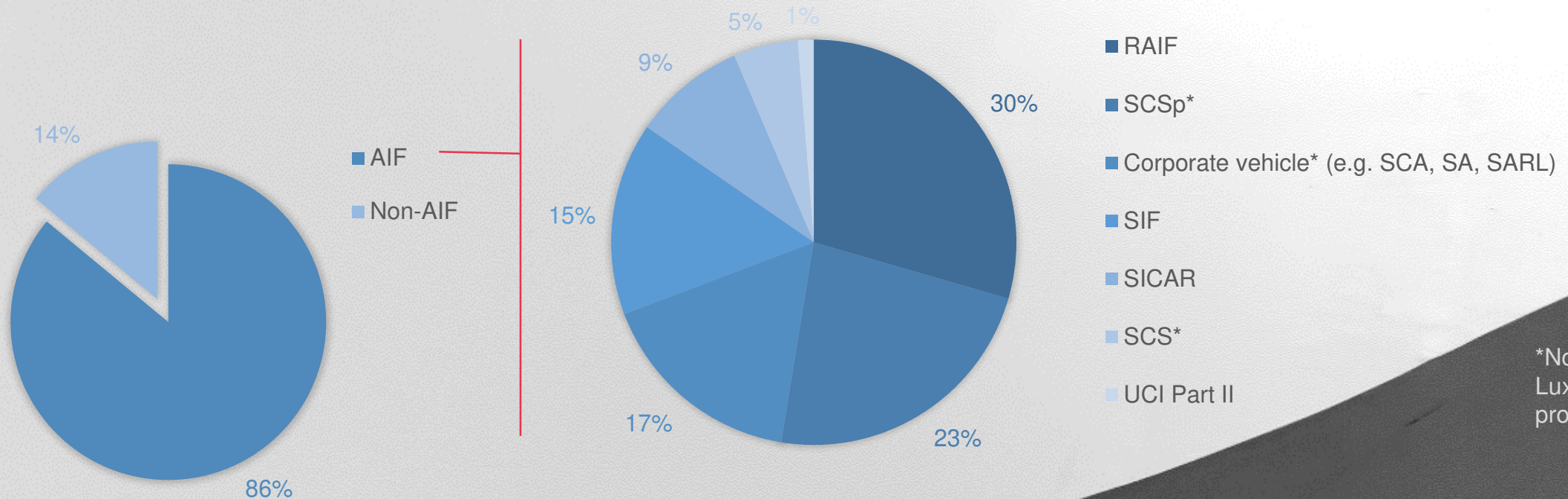
GPs with a Luxembourg presence have been favoring substantially Luxembourg as a jurisdiction to launch new investment vehicles.

The number of PE/VC managers which are fully authorised Luxembourg AIFMs already represents 2/3 of respondents.



# Adopted Legal Structure

## Legal form of Alternative Investment Funds (AIF) in Luxembourg



14% Have a minimum part of their structures as non-AIF which in most cases is represented as SPVs.

**Alternative Investment Funds** are prevalent among fund managers in Luxembourg and represent 86% of existing structures.

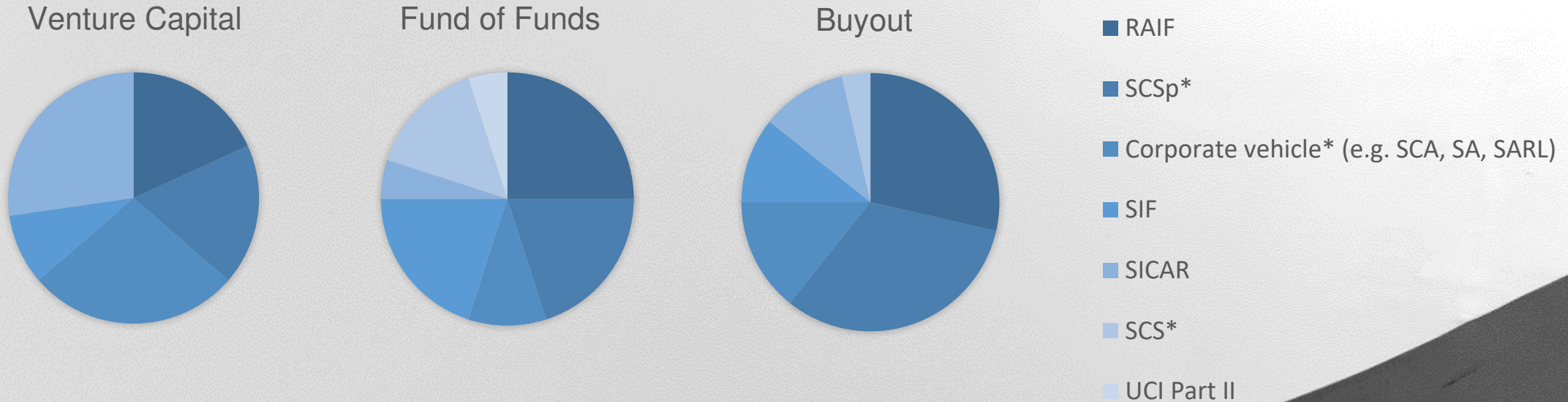
\*Non-subject to Luxembourg product law.

Similarly to our previous survey, there is a widespread use of different types of structures which represents well the importance of the Luxembourg “**toolbox**”. Not surprisingly, the adoption of the **RAIF** (Reserved Alternative Investment Fund) nearly tripled from 11% in 2018 to 30% in 2021.

The RAIF and the unregulated SCSp (Special Limited Partnerships) represent over 50% of PE’s investment vehicles.

# Adopted Legal Structure

## Legal form of AIFs in Luxembourg per investment strategy

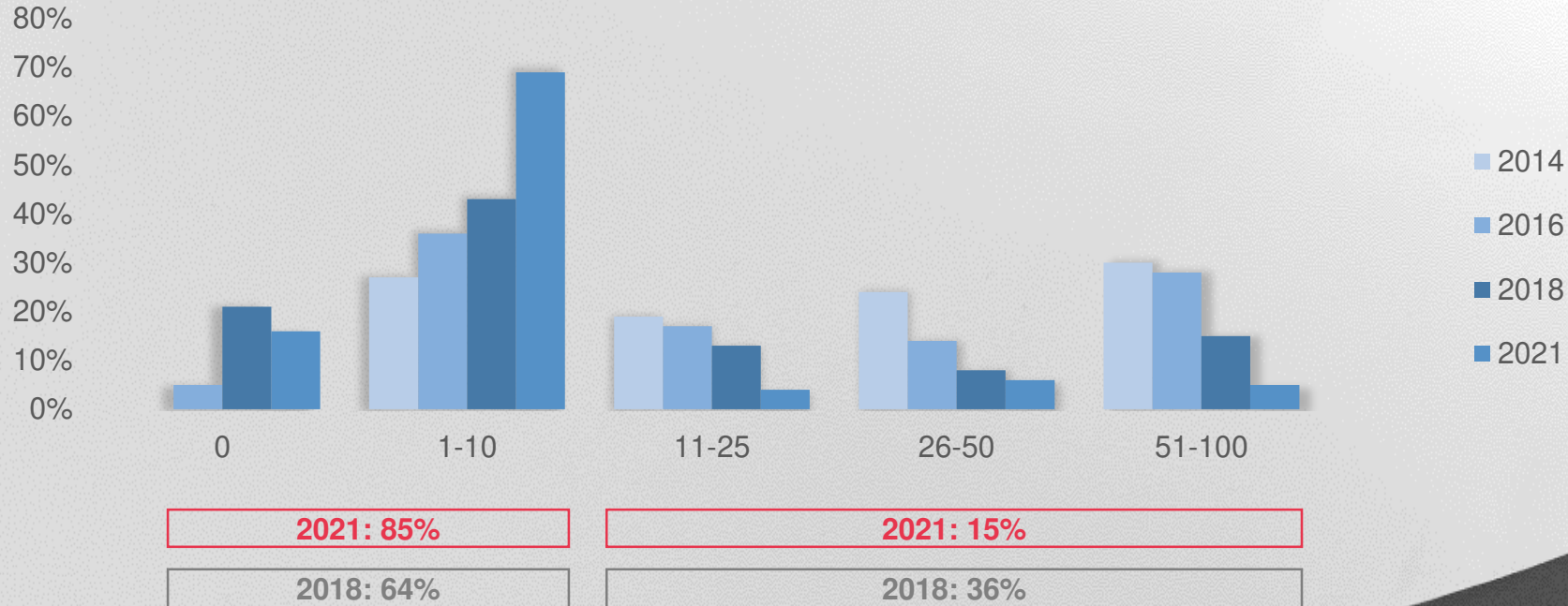


\*Non-subject to Luxembourg product law.

**Venture Capital** firms have a preference for unregulated corporate vehicles such as SCA, SA and SARL and for SICAR structures. On the other hand, **Buyout** firms privilege SCSp and RAIF.

# Number of Managed AIFs

## Number of AIF managed per Fund Manager

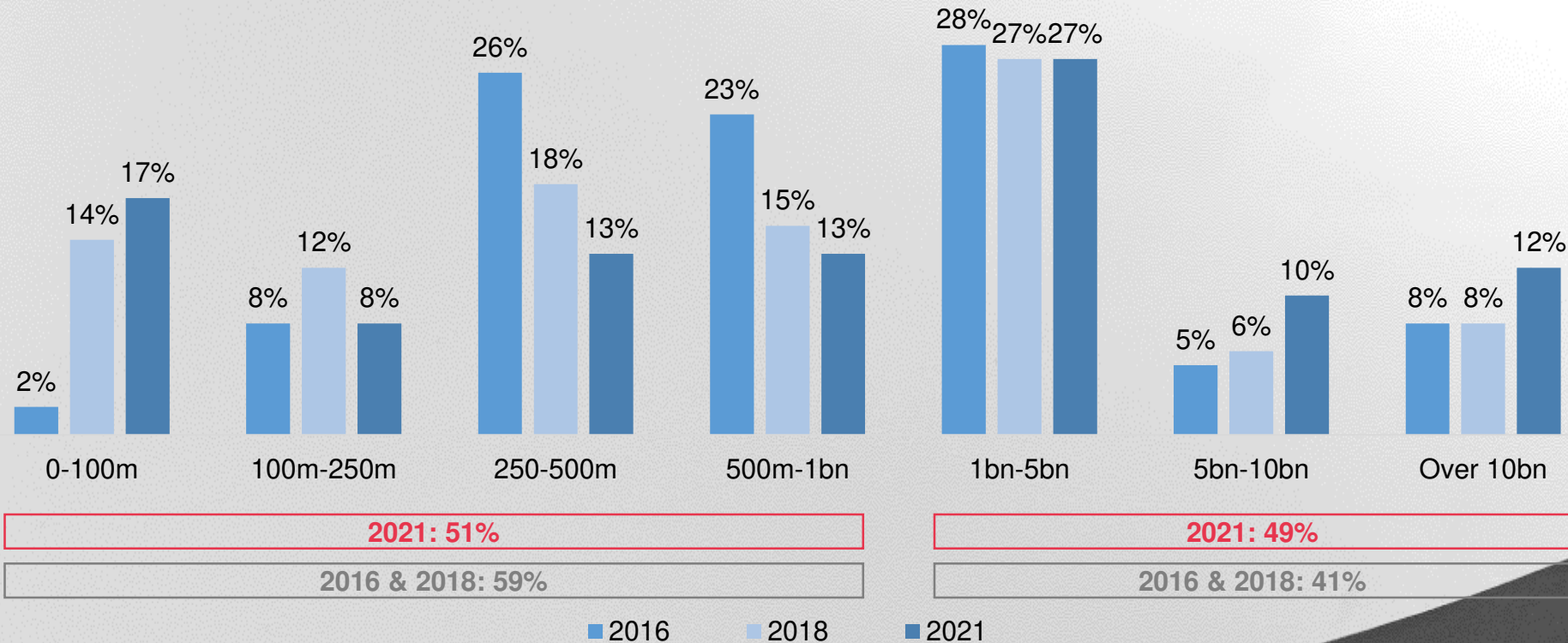


The management of 1 to 10 **AIFs** has increased consistently over the years from 27% in 2014 to 69% in 2021.

The fact that 85% of surveyed GPs manage up to 10 AIFs shows how the market is fragmented and home to a greater number of smaller players.

In fact, 37% of surveyed GPs only manage between one to three funds with VC managers managing only up to six funds.

# Assets under Management (AuM)

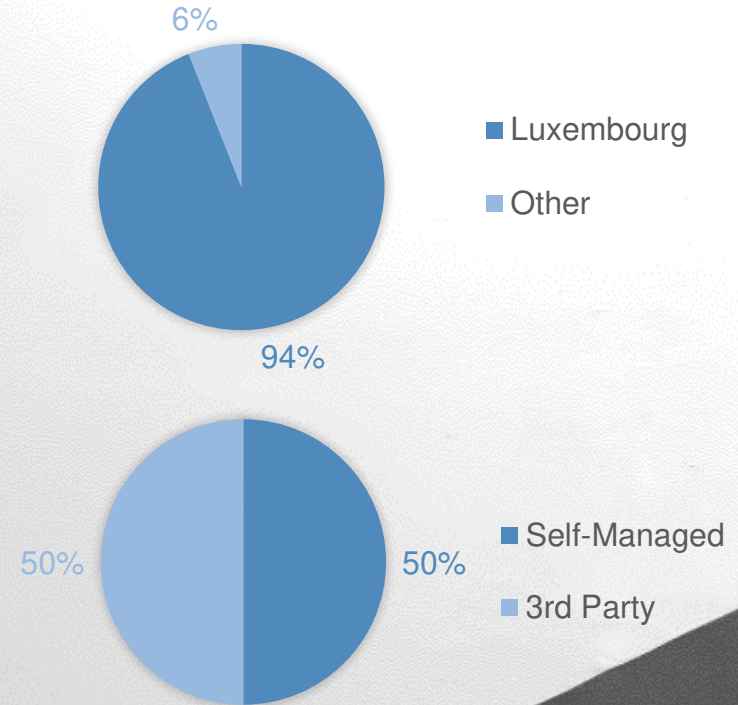
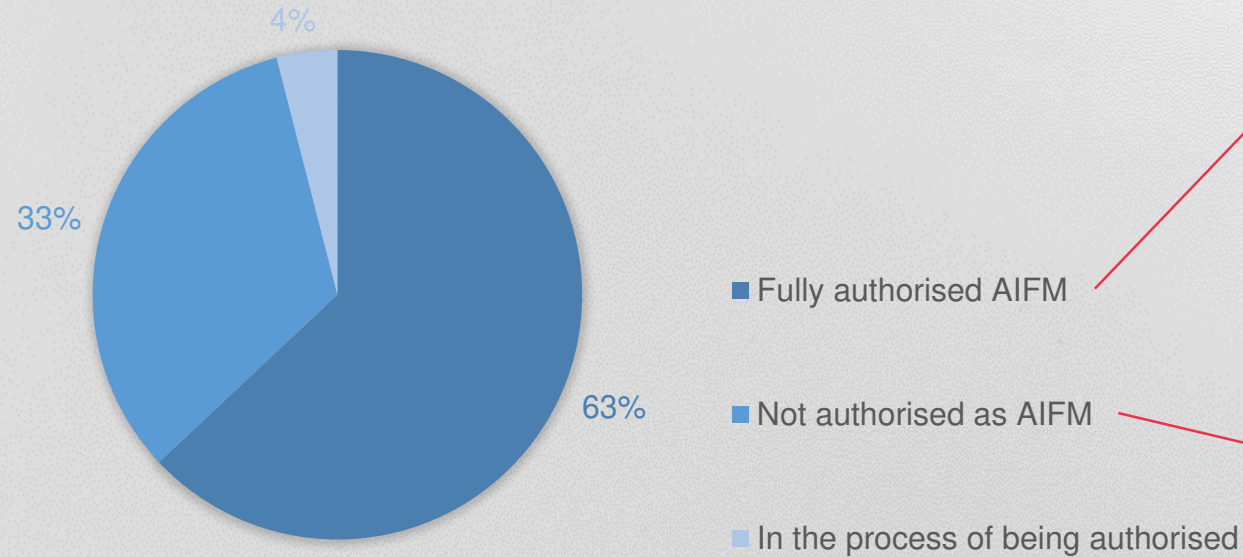


Half of Luxembourg based GPs manage up to EUR 1bn. Holdings exceeding EUR 1bn increased since 2018 which is very much aligned with the overall industry growth of AuM and size of Funds.

We observed a significant increase in the population of Funds **above EUR 5bn**, evidencing the trend of Luxembourg becoming a reference jurisdiction for large managers. On the other hand the proportion of mid-sized funds between **EUR 100m and EUR 500m** decreased significantly amongst the Luxembourg PE fund population.

# AIFM Licence

## Status of AIFM licence



The majority of GPs (63%) currently hold an AIFM license, a figure that increased from 47% in 2018. Among those holding a license, 94% are authorised in Luxembourg.

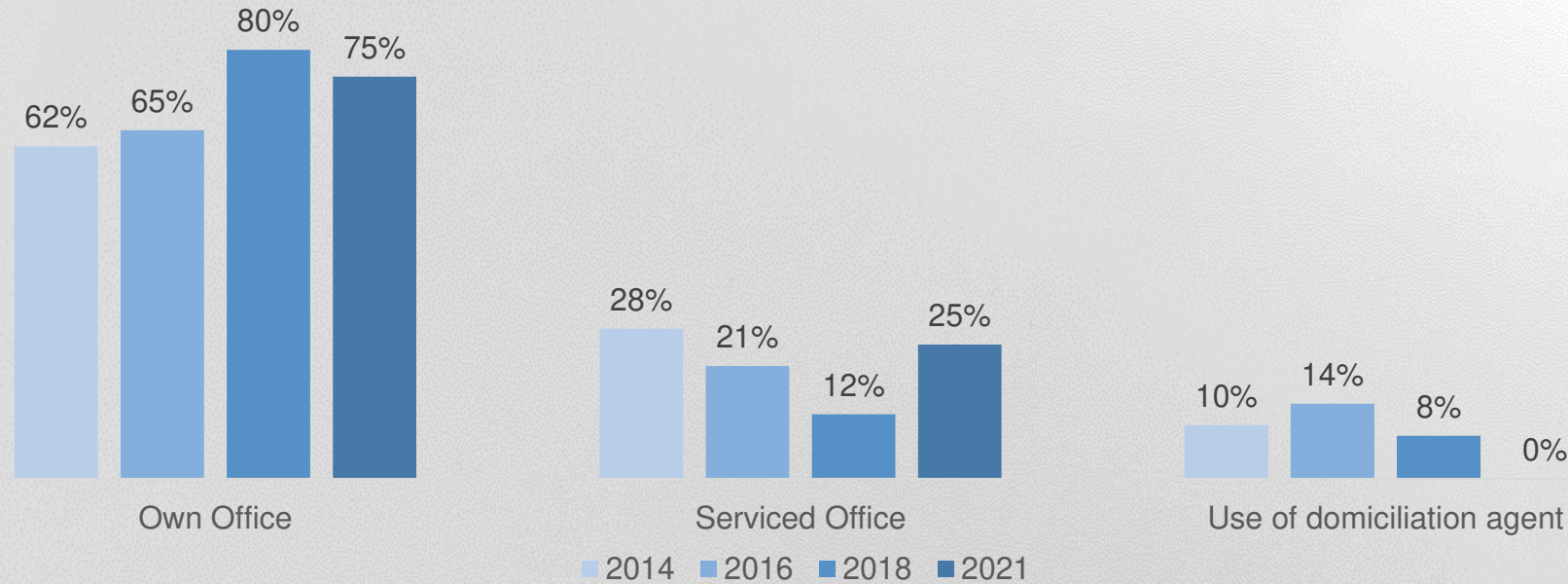
Half of the non-authorized players are using a third party AIFM.

*"We use an in-house UK AIFM and a third party Lux AIFM"*

*"Our group has a second entity who has the AIFMD license and acts as Lux AIFM."*

# Substance: Office Premises

## Type of Office



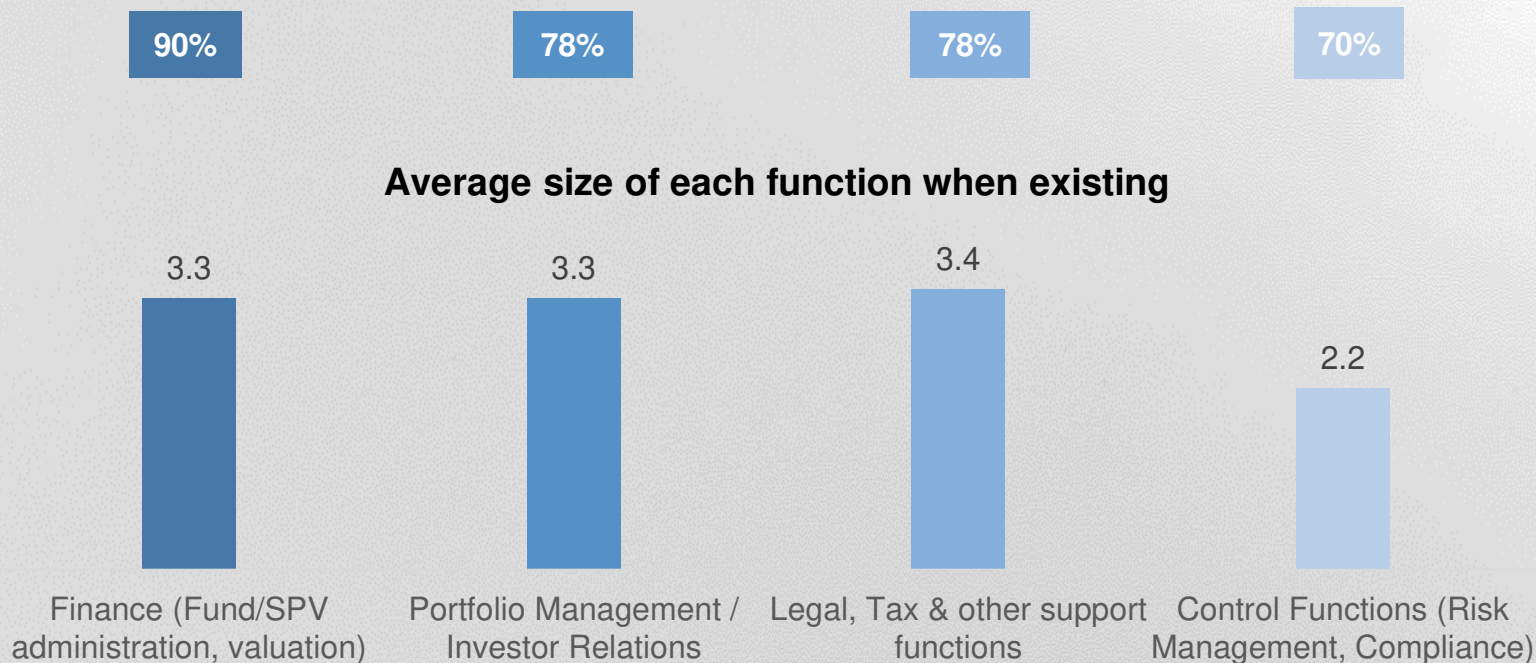
82% of Buyout funds have their Own Office in comparison to 71% of VC funds and 67% of Fund of Funds.

The type of office space has always been an important indicator of the substance and long term commitment of GPs towards Luxembourg.

For the first time in our survey, none of the participating GPs is registered at a **domiciliation agent**. We note however a significant rise in the preference for **Serviced Office** space. Such difference may be due to the continuing rising prices of commercial properties and rents in Luxembourg and/or the arrival of small and mid size players going for more flexible solutions.

# Substance: FTE

GPs declaring having the respective functions.



Average GP size in FTE

9,6

AuM > EUR 1 bn

14.4

AuM < EUR 1 bn

4.6

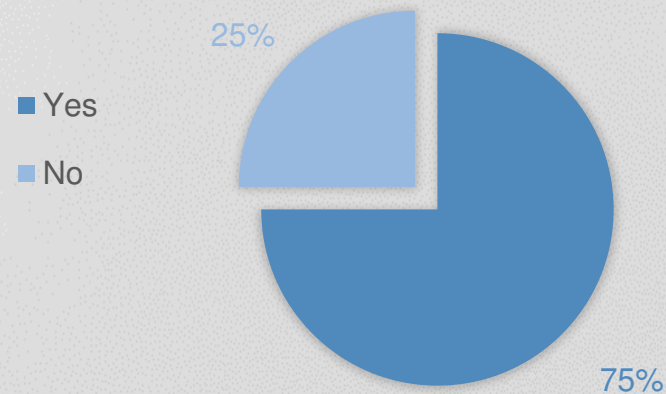
Reported **Full Time Employees (FTE)** span across the different types of roles in GPs.

90% of GPs have **Finance-related roles**, and close to 80% of respondents reported having what is usually considered as control functions.

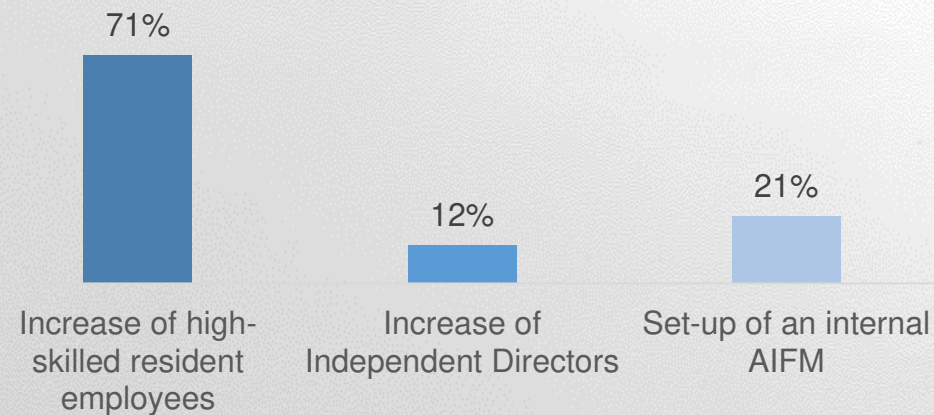
GPs, on average, remain small and agile structures with 9,6 FTE.

# Operational substance in Luxembourg

Substance has increased



Means used to reinforce substance



Increase in **substance** was reported by 3/4 of respondents which in most cases translated in the increase of high-skilled resident employees.

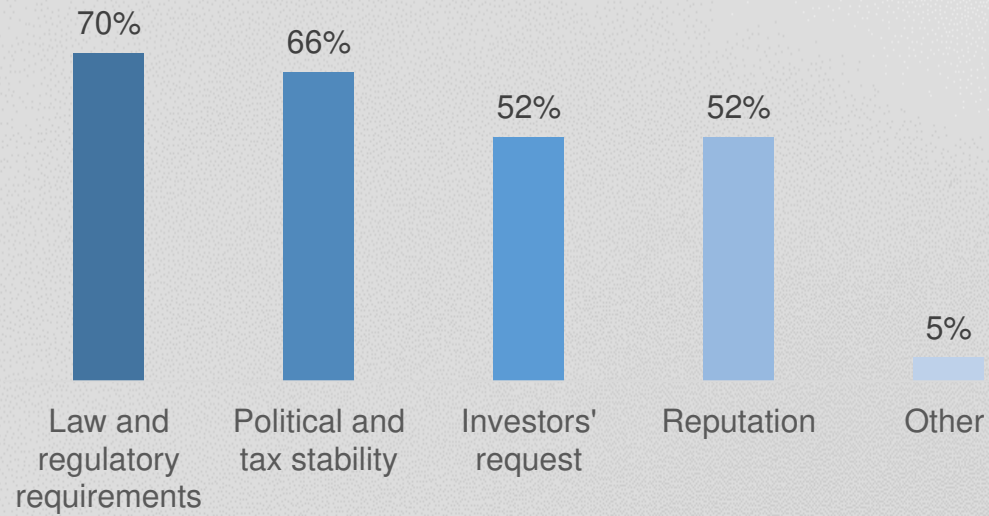
86% of Buyout funds reported an increase of substance.



# Fund Relocation to Luxembourg

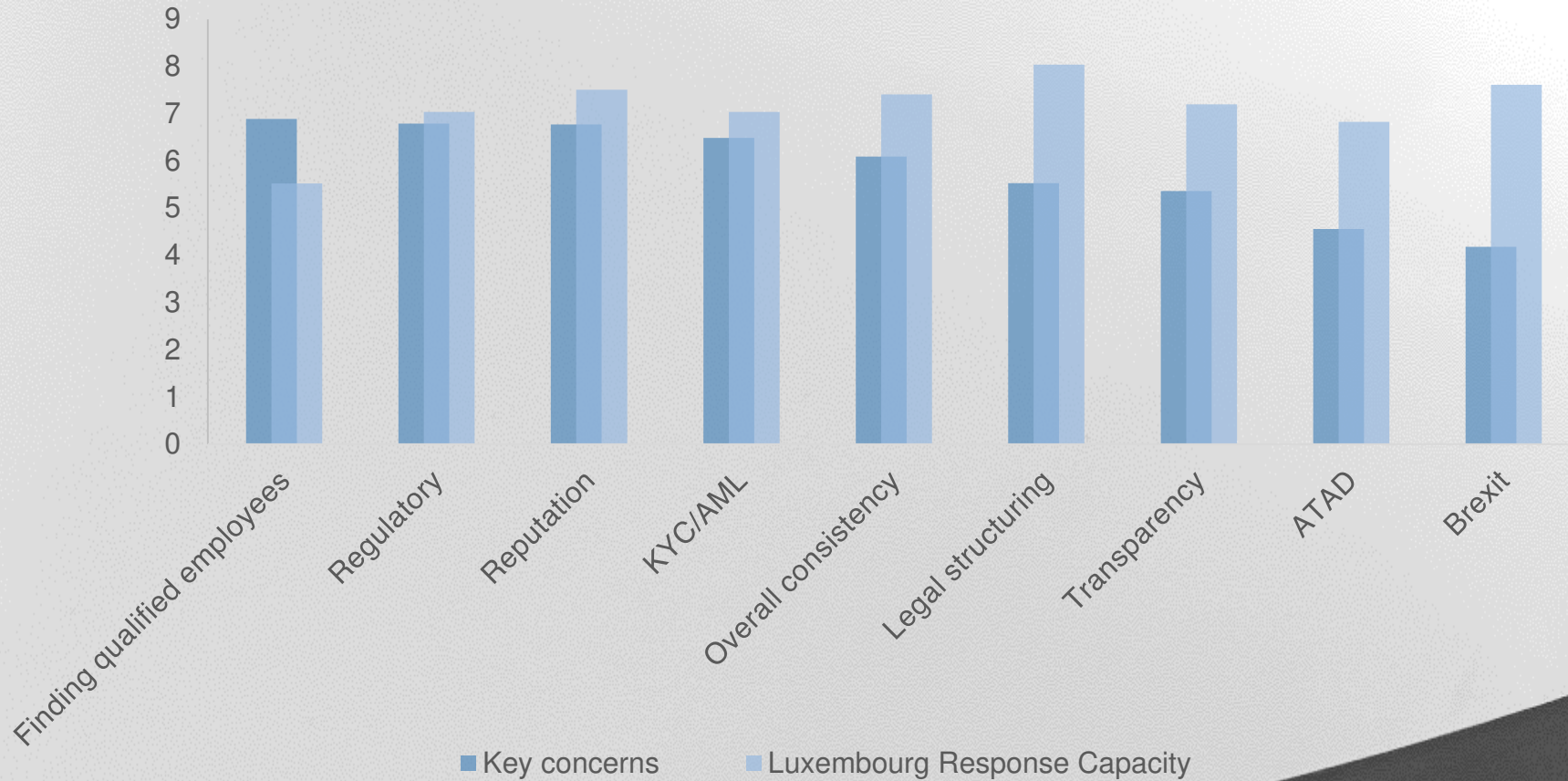
15% of respondents consider relocating to Luxembourg

## Critical reasons to consider relocation



**Legal and regulatory requirements**, together with **Political and tax stability** are among the main reasons to consider relocation.

# Business Key Concerns



GPs key concerns on Luxembourg are generally inversely related to the country's recognised capacity to address the identified challenges with the sourcing of skilled employees coming on top of the concerns.

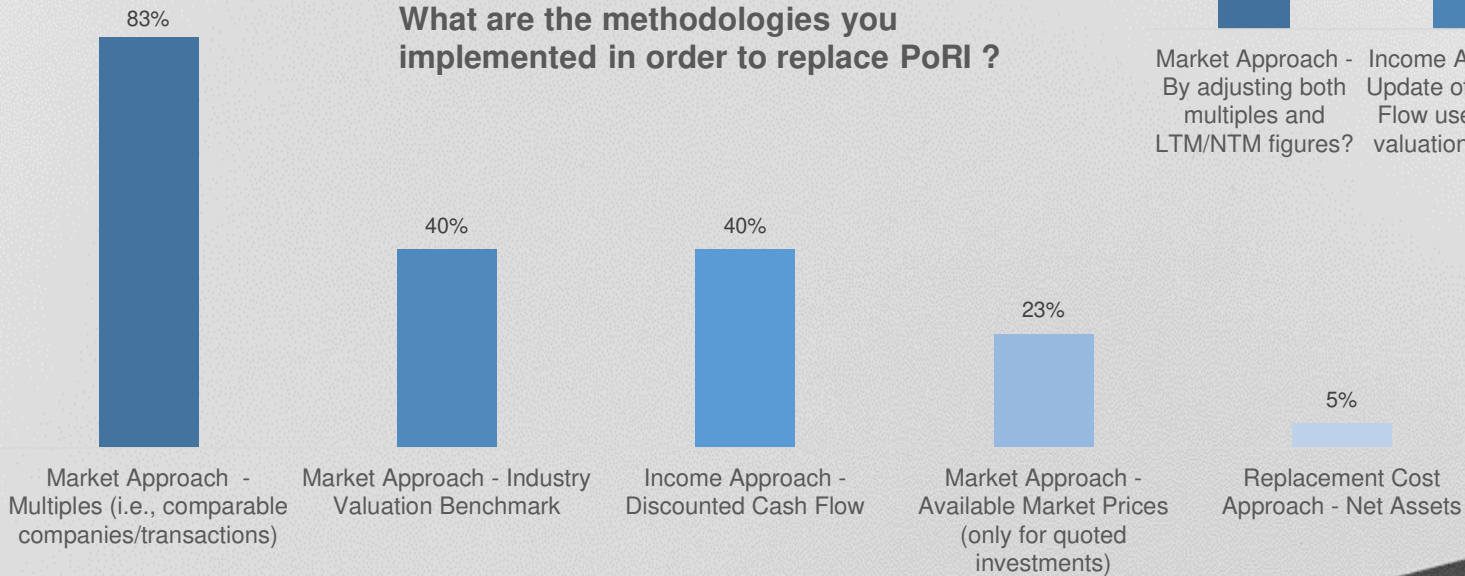
The capacity to create new and innovative legal structures and to address the outcome of Brexit are no major concerns but recognised by most participants as challenges easy to overcome by Luxembourg.

# IPEV Guidelines

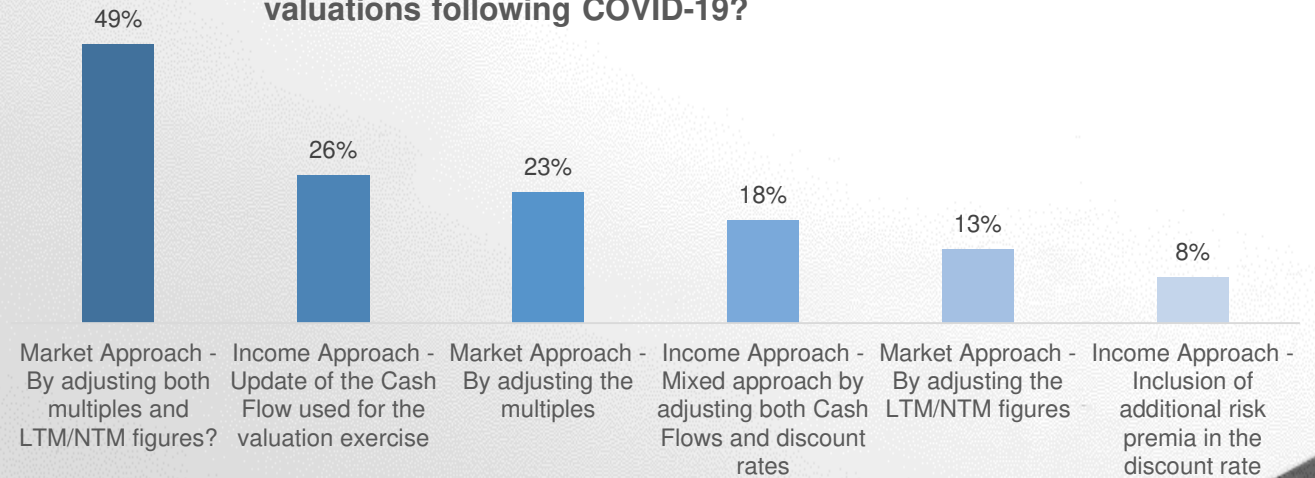


Following 2018 IPEVs guidelines adoption, in which the price of recent investments (“PoRI”) is no longer accepted as a valuation methodology but can be used to calibrate valuation inputs (section 3.3 (ii)):

## What are the methodologies you implemented in order to replace PoRI ?



## How have you adjusted the valuations following COVID-19?

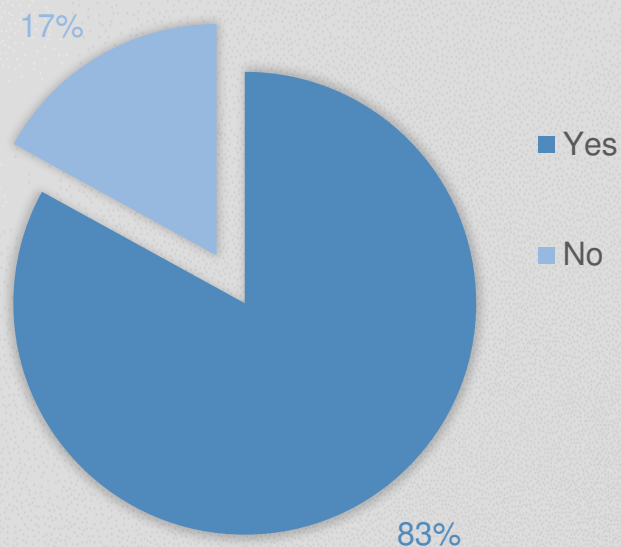


The change on IPEV guidance reinforces the process of valuation and requires to strengthen the quality of the valuation assessments.

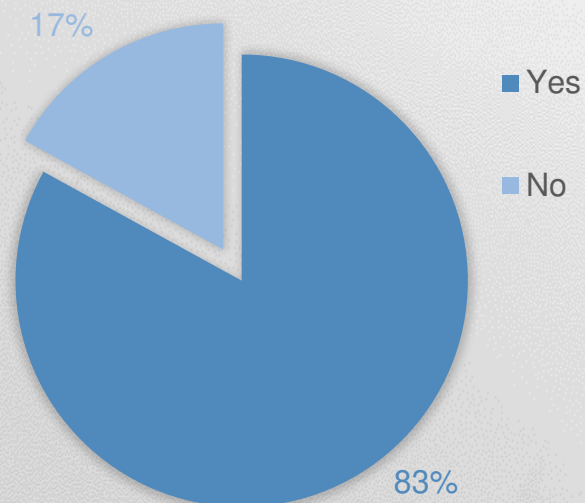
Approximately 50% of respondents still use PoRI as a baseline evaluation tool for internal use.

# ESG (Environment, Social and Governance)

Is ESG becoming a key topic for your future investment as well as marketing strategy ?

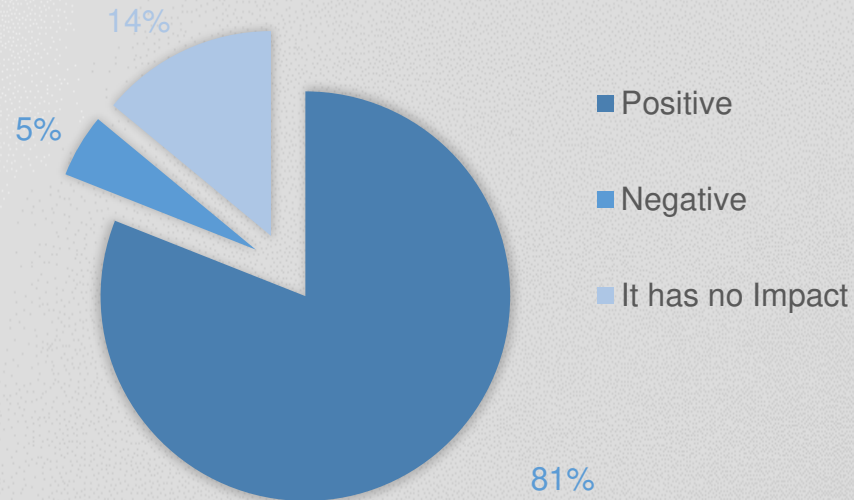


Are you looking at incorporating some non-financial reporting linked to ESG in the near future ?

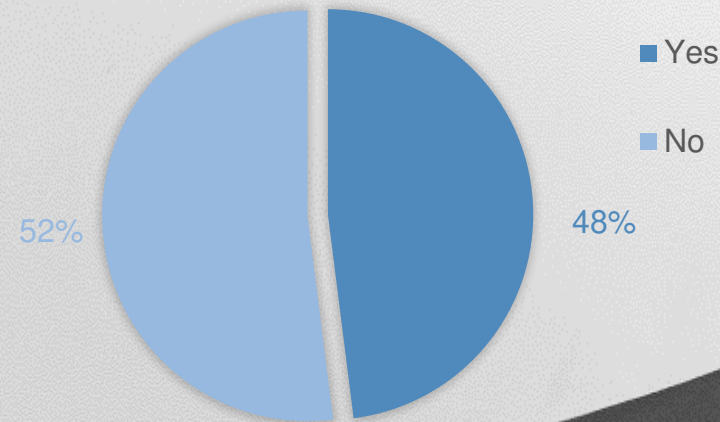


ESG is gaining importance and is today a **key topic for 8 out of 10 GPs**. This commitment extends in the same proportion to GPs with an ESG policy and looking to incorporate non-financial reporting linked to ESG.

**What is the impact of ESG regulation for the PE/VC industries?**



**Do you foresee to change your investment strategy to address the ESG appetite of your investors ?**



ESG has a positive impact for the PE industry according to 8 out of every 10 GPs. Nearly half of respondents plan to change their investment strategy to adapt to the ESG appetite of their investors.

#### **DISCLAIMER**

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#### **ACKNOWLEDGEMENTS**

The current document was compiled by LPEA's Market Intelligence Committee. LPEA expresses its recognition to all the firms which contributed with their answers and to the members of the committee who actively contributed to the preparation of this survey.

#### **ABOUT LPEA**

The Luxembourg Private Equity and Venture Capital Association (LPEA) is the representative body of private equity and venture capital professionals in Luxembourg. With 313 members, LPEA plays a leading role in the discussion and development of the investment framework and actively promotes the industry beyond the country's borders. Luxembourg disposes of a stable tax regime and is today at the forefront of international PE regulation providing a flexible, secure, predictable and multi-lingual jurisdiction to operate in. LPEA provides a dynamic and interactive platform for its members to discuss and exchange information and organises working meetings and networking opportunities on a regular basis.

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