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THE LUXEMBOURG VOICE OF PRIVATE CAPITAL

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Private Equity training, a driver for talent development and attraction

Luxembourg is a very attractive country for people working in the financial sector. The alternative investments industry and more specifically Private Equity/Venture Capital ("PE/VC") have tremendously grown over the last years and as such are in constant need of talents. Professionals usually come from the financial industry, but can also join from other sectors (industry, health, IT, etc.) and from abroad thanks to companies welcoming newcomers on an everyday basis.

The regular on-boarding of new staff brings embeds new challenges with for example a growing need for specialised training in alternative investments and notably in PE and VC. The challenge applies both to companies which need the right skill set to operate and to individuals who seek appropriate training in order to improve their knowledge and advance their career.

In recent years, we spotted this need in the LPEA (Luxembourg Private Equity and Venture Capital Association) team as well. Each of us can look for different trainings in various areas which we believe will add value to our work and which of course include courses dedicated to our own sector. From this need to develop an association-driven program and to launch an entire Academy targeting our community was a short step, especially knowing

that many of the association members would take the challenge to share their expertise, knowledge with lots of passion and engagement.

As with every crisis, the pandemic was a period of challenges and opportunities. It was the first lockdown which "inspired" us to implement the very first digital LPEA Academy. The online format worked well and allowed us to share the Luxembourg expertise with the local professionals and to enlarge it to a more international audience. In a way, it could be seen as a good preparation for those willing to move to Luxembourg and work here. For companies, it also validates the candidates' knowledge of the Luxembourg operating framework (toolbox, structuring and actors).

Some extra value was created thanks to the accreditation by the Ministry of Education and becoming a member of the "Lifelong learning" network and of the CPD Certification Service (Continuing Professional Development and points).

With the 4th edition of the Academy coming up in March, the 10-module program was adapted to combine entry (foundation), intermediate, and experienced courses with experts from previous editions and new ones who have prepared fresh content for example on "ESG", "Risk Management" and "Value creation".

230 Participants, 40 speakers and 12 different modules later, the only thing we're missing is the physical interaction which should now finally happen during this new edition, thanks to a dedicated networking event which will be organised. For those not based in Luxembourg, it could be a good excuse/occasion to meet local peers and come closer to recruitment opportunities. It is interesting to see how the Academy became an all-in-one opportunity: train Private Equity teams, offer specialised development for active professionals and an attraction magnet for new talents.

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Investment Officer.lu

ASSET SERVICING

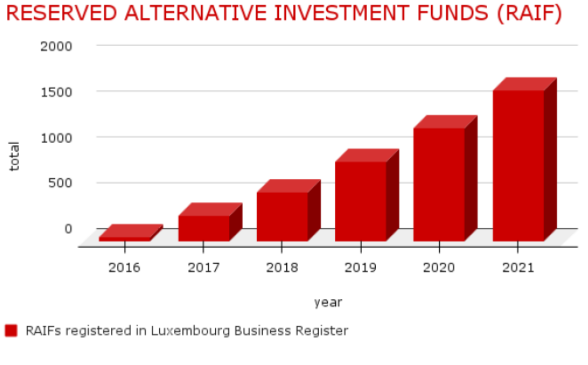
RAIF becoming vehicle of choice for alternatives, data shows

Raymond Frenken – 27 January 2022

An alternative investment vehicle that relatively swiftly established itself in Luxembourg continued to become more popular last year, an analysis of data filed with the country's business register shows. If growth continues at the current pace, Luxembourg will be home to more than 2,000 such funds, known as RAIFs, by the end of this year.

RAIF is the acronym for "reserved alternative investment fund". A RAIF can be created relatively quickly and does not involve direct interaction with financial supervisors. Its management companies nevertheless are subject to supervision by Luxembourg's CSSF. At least one of the funds of this type holds assets in excess of USD800 million.

Last year was the biggest year ever for RAIFs. A total of 417 such funds were created, up 39 percent from 364 a year earlier, according to analysis conducted by *Investment Officer Luxembourg* of filings with the Grand Duchy's business register (LBR). Luxembourg was home to a total of 1653 RAIFs at the end of 2021.



Luxembourg's government enabled the creation of RAIFs in 2016. This regime is "very flexible" thanks to light establishment requirements and efficient corporate operating rules, said Stephane Pesch, CEO of the Luxembourg Private Equity & Venture Capital Association (LPEA). The new approach also avoids double supervision for alternative investment funds. Only the management company is supervised by CSSF, not the product itself.

"It is one of the two main innovations in Luxembourg's toolbox," said Pesch, referring also to the 2013 laws for limited partnerships such as a SCSp "which proved to be also very successful."

The RAIF vehicles are received with enthusiasm by management companies and investors.

"Investors' demand for alternative investments has continuously been rising in recent years," said Sofia Harrschar, country head universal at Luxembourg-Investment, a top-five RAIF issuer. "Luxembourg's RAIF structure offers investors an efficient way to invest in this space. Particularly time-to-market and its flexibility once the fund is launched are two factors they appreciate."

The analysis of Luxembourg's business register data shows the top five companies active in RAIFs are Carne Global, Hauck Aufhäuser Lampe, LRI Invest, Universal-Investment and Luxembourg-Investment. Each of these have registered more than 40 RAIFs since 2016.

Decisive innovation

Carne Global, the world's largest third-party fund management company, and German private bank Hauck Aufhäuser Lampe were lead RAIF issuers last year with 19 funds each.

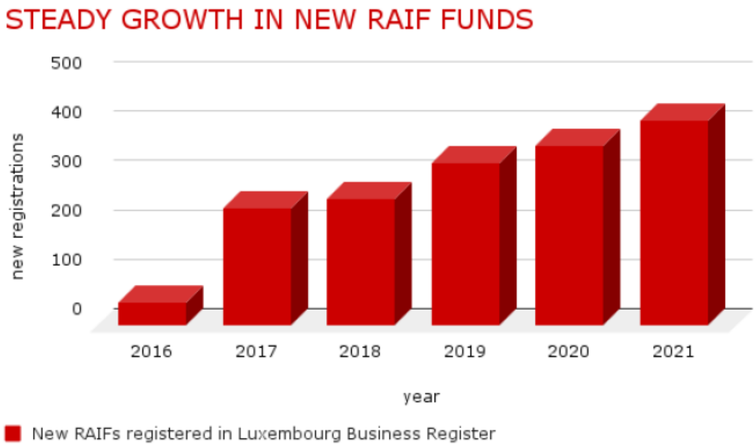
At Hauck Aufhäuser Lampe, Marc Kriegsmann, Head of Business Development Asset Servicing, described the RAIF as a "decisive innovation" that stemmed from the modernisation of Luxembourg's financial supervision laws in 2016. He said this triggered a move away from specialised investment funds known as SIFs, which still accounted for about 80 percent of alternative funds in 2016, and towards RAIFs.

"This distribution has reversed over 2018 and 2019, so that in the last two years we stand at over 90 percent RAIF launches and only occasionally the SIF is still chosen by our clients," Kriegsmann. "Some funds originally launched as SIF are being converted to the RAIF variant."

Shorter time-to-market

"The main advantage versus a SIF is time-to-market as you do not have the additional onus of going through the approval process with CSSF to launch a fund," said Dominik Becker, Head of Business Development at Apex Group company LRI.

RAIFs can be used for a variety of investment strategies from real estate to private equity to debt to commodities. Clients also benefit from the speed and flexibility of the launch process, while the vehicle "combines the tax and legal advantages of the regulated and unregulated world and significantly shortens the time to market." said Hauck & Aufhäuser's Kriegsmann.



The funds are only available to "well-informed" or institutional investors, unlike widely used and popular UCITS funds that are structured for more liquid asset classes. A RAIF investor is required to invest at least EUR125,000.

IQ-EQ Fund Management joined the top five last year with 15 RAIFs. Managing Director Fèmy Mouftaou said he sees a number of reasons that explain the success. Among them, flexibility, investor protection and the speed at which they can be brought to the market.

Smooth European fund raising

"In short, RAIFs offer investors the same 'product' as other funds, but with a larger focus on alternative assets, flexibility, investor protection and smooth European fund raising," said Mouftaou. "This makes RAIFs an attractive and successful solution for many fund promoters across the globe."

Luxembourg's government enabled the creation of RAIFs in 2016 using the new EU rules for alternative investment funds. Under the AIFM Directive RAIFs can be given a European passport. This gives "investors the capacity to easily access the European market." said Mouftaou.

Luxembourg is home to more EUR843 billion held in alternative investments, according to the Association of the Luxembourg Fund Industry (ALFI). It houses more than 15.000 funds that are distributed in some 70 countries.

-- with data reporting by Mike Gordon

Wednesday, Feb 2 2022 WEATHER TRAFFIC

LUXEMBOURG TIMES

LPEA

Private Equity training, a driver for new talents

Private Equity training promotes mobility in the financial sector and qualifies new talents to work in the fast-growing Luxembourg alternative funds industry.

Evi Gkini Business Development & Project Manager
Photo credit: Photo: LPEA

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Luxembourg is a very attractive country for people working in the financial sector. The alternative investments industry and more specifically Private Equity/Venture Capital ("PE/VC") have been among those growing the fastest and as such is in constant need of talents. Professionals usually come from the financial industry, other sectors as well as abroad thank to companies welcoming newcomers on an everyday basis.

The regular on-boarding of new staff brings new challenges - for example a growing need for specialised training in alternative investments and notably in PE and VC. The challenge applies both to companies which need the right skill set to operate and to individuals who seek appropriate training in order to improve their knowledge and advance their career.

In recent years, we spotted this need in the LPEA team as well. Each of us can look for differen trainings in various areas which we believe will add value to our work and which of course include courses dedicated to our own sector. According to Maria Rizescu, PE Financial auditor a EY Luxembourg, "it becomes challenging to stay 'on top of the game' individually, that is why w rely on all the training we can get".

The Private Equity Academy

Due to this demand we developed an association-driven program, an entire Academy designed to our community as the main target group - especially knowing that many of the association members would take the challenge to share their expertise, knowledge with lots of passion and engagement.

As with every crisis, the pandemic was a period of challenges and opportunities. It was the first lockdown which "inspired" us to implement the very first digital LPEA Academy. The online format worked well and allowed us to share the Luxembourg expertise with the local professionals and to enlarge it to a more international audience. In a way, it could be seen as a good preparation for those willing to move to Luxembourg and work here. For companies, it also validates the candidates' knowledge of the Luxembourg operating framework (toolbox, structuring and actors).

Peer recognition

Extra value to this initiative was added due to the accreditation by the Ministry of Education as well as becoming a member of the "Lifelong learning" network and of the CPD Certification Service (Continuing Professional Development and points). However, for a trade association, recognition comes in first place by the financial centre practitioners. Anja Grenner, Head of Sales Fund Services in TMF Luxembourg, recognises that trainings "organized by LPEA and provided by skilled professionals that both understand the Luxembourg alternative investment fund practice and what the audience needs to know, is a valuable ingredient to make Luxembourg the place for Private Equity".

Mix of skills

With the 4th edition of the Academy coming up in March, the 10-module program was adapted to combine entry (foundation), intermediate, and experienced courses with experts from previous editions and new ones who have prepared fresh content for example on "ESG", "Risk Management" and "Value creation". The combination of different fields are highly appreciated as underlined by Rita Marsico, Manager Legal & Corporate Services at Intertrust who saw this as an opportunity to "gain technical knowledge on different topics such as venture capital, legal fund structuring or tax implications".

Two hundred and 30 participants, 40 speakers and 12 different modules later, the only thing we're missing is the physical interaction which should now finally happen during this new edition, thanks to a dedicated networking event which will be organised. For those not based in Luxembourg, it could be a good excuse/occasion to meet local peers and come closer to

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Evi Gkini Business Development & Project Manager

www.lpea.lu/academy

The State Of VC Funding In Luxembourg

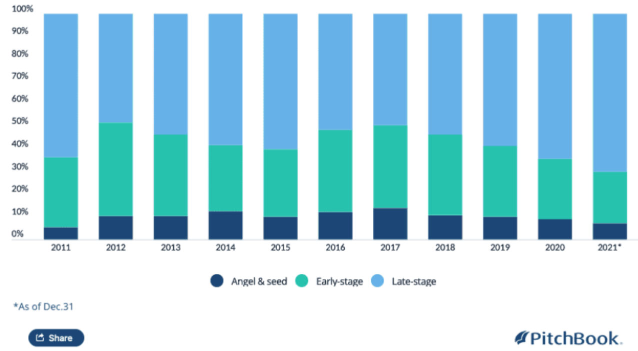
Sophie Clark
February 16, 2022

VC funding in Europe has seen a boom over the last decade, becoming the leading funding mechanism for entrepreneurs. And, as the region firmly positions itself as a global tech player it's attracting more and more investment. A similar story emerges in Luxembourg, albeit it on a much smaller scale, where the number of local VC funds is slowly increasing along with interest from foreign investors.

2021 was a record year for VCs in Europe

2021 in particular saw an unprecedented level of VC activity in Europe as the **pandemic drove investors towards the tech sector**. In fact, **European VC now beats US VC and European PE**, which is creating more competition for investment (especially at seed stage) and is forcing VCs to innovate.

Late stage venture capital in Europe has also seen real growth over the last decade, and in 2021 this drove a glut of outsized rounds and new unicorns as large funding rounds have become the norm. This now accounts for **70% of overall deal value**.

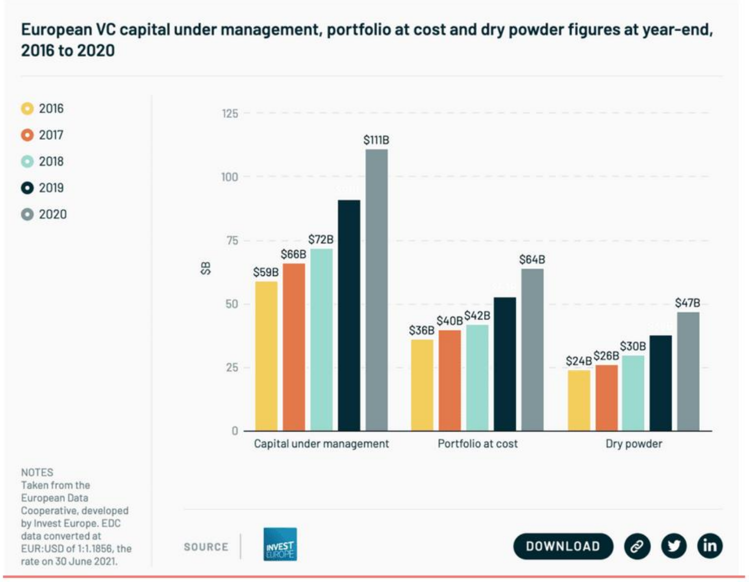


Source: https://pitchbook.com/news/articles/2021-europe-israel-vc-charts

When it comes to funds raised, VCs are seeing their second best year (beaten only by 2017). Fund sizes have grown, largely due to increased investment in the tech sector, however capital is held in fewer hands. The fund count has dropped to its lowest level since 2013.

Source: https://pitchbook.com/news/articles/2021-europe-israel-vc-charts

This increase in fundraising has led to a rapid growth in the amount of dry powder – that is, the amount of capital available for further deployment. European VCs are currently sitting on around **$47bn of dry powder**, the majority of which (60%) is in the UK & Ireland, and France & Benelux. This gives a good indication of the amount of liquidity held by local investors and shows positive signs for future investment opportunities.



Luxembourg VC landscape is also growing

Luxembourg follows a similar trend to the rest of Europe, with the number of VCs increasing and funds invested in the region growing. Ten or so years ago, there were only a few VC funds active in Luxembourg, however that number is slowly growing. This is just one trend that Yannick Oswald, Partner at Mangrove Capital Partners, is seeing. "You also see the way the angel investor community is developing and that Luxembourgish startups are raising from international VCs – French, Dutch, German etc." This blend of investment activity is a sign of a healthy VC ecosystem in Luxembourg.

There are a number of reasons why the region is becoming more interesting to venture capitalists. According to Stephane Pesch, CEO of LPEA, "one of the advantages of Luxembourg is that there are many important investors, including also the family offices." Another reason is the Luxembourg toolbox and facilitated administration of such vehicles and investments. "It's really the limited partnership structures, which are attractive to those players used to venture capital investments in places such as the UK or the US, that have helped the ecosystem grow really fast. " Pesch explains.

Luxembourg ready to compete with its neighbours

When you compare the Luxembourg VC landscape to its neighbours, it still has a way to go to compete. According to Pascal Bouvier, Managing Partner of MiddleGame Ventures, "the VC landscape is still in its early years. It's small, and in need of structuring and further growth."

Having said that, there are certainly signs that Luxembourg is ready to compete. As Pesch points out, "Size matters, for sure. We can really play to our strengths, which brings us back to the flexible structuring capacities and expertise. We're also friendly to international business – you can nearly do everything in English, and you can access the right people quite quickly. You will easily find all the help and contacts you need."

One of the biggest challenges that Luxembourg faces when it comes to being able to compete, is attracting talent. Entrepreneurship is a risky business, so it can be hard to convince people to give up a healthy salary, especially somewhere like Luxembourg, to take on this risk. This is something Oswald sees, "I think Luxembourg has two main challenges. One is talent – the cost of the talent is relatively high…and secondly, the mentality towards risk taking. And I think it's a luxury problem for relatively wealthy countries. But that's changing and takes time."

A factor that is influencing this change is the increase of large global tech companies who have chosen Luxembourg as their European headquarters. According to Pesch, "Amazon, Microsoft…they bring a first-class state-of-the-art experience, which is also attracting experts here to Luxembourg who are quite forward thinking. This is really benefiting the entire ecosystem." Oswald agrees. "Contrary to most other countries, in Luxembourg, I think it helps because it brings more talent from abroad."

Pascal Bouvier, Managing Partner & Co-Founder of MiddleGame Ventures (Photo Stéphane Pesch, CEO of the Luxembourg Private Equity & Venture Capital Association (Photo © Kaori Anne Jolliffe / Silicon Luxembourg)

Investment opportunities with local startups are growing

And this growth in talent is being seen by the increase of local startups in recent years. Despite Luxembourg being a small country, there is still innovation happening here. As Oswald points out, "for the size of the population, I see a lot of opportunities compared to other regions and I think it's developing quite well."

This growth of quality startups is thanks, in part, to the benefits mentioned above, but the introduction of state-led programmes has also helped. As Pesch points out, "programmes like Luxinnovation's Fit 4 Start provide a really great springboard, allowing startups to get acquainted with the right pitching skills and professional expectations." And there are plenty of reasons why Luxembourg could be a great place to launch a new business. As Bouvier highlights, "Luxembourg has high quality services: free public transportation, health care, high-speed internet, ease of incorporating, central location within Europe and a modern airport, among other things."

Yet there are a couple factors that prevent Luxembourg from reaching its full potential as a hub for startups. Firstly, the cost of living – in particular housing – in the country. "The price of housing is a serious obstacle, specifically for young talents. It's certainly on the agenda of our government, but it's really important for entrepreneurs, developers and innovators," explains Pesch. Another area that Bouvier highlights as needing improvement is the tax framework for entrepreneurs and employees of startups. He believes what's needed is "a tax framework for stock options plans which would rival those of other countries such as France and the UK."

New sectors to look out for in Luxembourg

Whilst Fintech has been the industry dominating innovation within Luxembourg, we are seeing exciting developments within other sectors too. As the pandemic forced people and businesses online, the chance to digitise many traditional systems and processes was created. Oswald also sees the move to online working opening up new opportunities for Luxembourg. "Now, any company can be launched in Luxembourg…I see companies going completely remote. They're digital only."

Other sectors that are seeing growing interest in Luxembourg are Logistics, Biotech and Space. As Pesch points out, "we are enthusiastic about the space economy. Luxembourg is forging a pioneering position, which is something that could be very interesting in the future." Organisations, such as the European Space Resources Innovation Centre (ESRIC), seem to confirm this idea. It has just **launched the world's first startup support programme dedicated to Space Resources in Luxembourg**. The first edition, hosted by Technoport, will take place in March 2022.

Stéphane Pesch, CEO of the Luxembourg Private Equity & Venture Capital Association (Photo © LPEA)

A positive future for VC in Luxembourg?

There are many reasons to be optimistic about the future of VC and innovation within Luxembourg – groundwork is being laid, and there are certainly more VCs opening up offices in the country. But there is still more that needs to happen for the landscape to fully mature. As Pesch explains, "to have the perfect ecosystem you need a vision, the adequate infrastructure, the will to do it, money and a bunch of successful pioneers who will show the right example." At the moment, more needs to be done to encourage new funds to set up shop in Luxembourg and invest locally and internationally but, according to Pesch, "if we nurture the startups and the ecosystem, more VCs will come"

Bouvier also sees the potential, "there are signs there is the political will to seed and attract a few more VC funds. I believe if we had a few more VC funds based in Luxembourg, plus a more structured angel investor network, the ecosystem would be well on its way to be more productive." And, according to Oswald, "I think we also need to support our local champions to attract more international follow-on investors and help to drive great exits. We are putting a lot of effort into this at Mangrove. Once the acquisition system reaches the next level of maturity, more cash gets back into the system, and the flywheel will spin even faster."

Overall though, it's undeniable that the VC landscape in Luxembourg has been on a positive trajectory over the last decade and, it could be argued, the hardest part of laying the foundations is already well underway. From here, it's about keeping momentum.

Luxembourg Private Equity Cocktail in Milan

Milan, January 2020. Photo: Andreeew Hoanga/Unsplash

mercredi 02 mars 2022
18:00 à 20:00

Lio Factory
Via Arrigo Boito 20121 Milan, Italy

Langue(s) de l'événement: English

The Luxembourg Private Equity and Venture Capital Association (LPEA) hosts a networking and informational session in Italy's financial capital.

LPEA says: "The event will bring together the Luxembourgish and Italian PE community to discuss industry trends and network."

Information and registration

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NETWORKING

La fête du Nouvel An de la LPEA

Écrit par Aaron Grunwald
Publié The 03.03.2022 • Édité The 03.03.2022

La communauté de la Luxembourg Private Equity & Venture Capital Association (LPEA) a célébré une nouvelle année tardive, jeudi soir.

Dans son discours officiel, Claus Mansfeldt , président de la LPEA, a déclaré que les secteurs du capital-investissement et du capital-risque affichent des performances exceptionnelles et que «nous sommes au bon endroit, au bon moment». La LPEA a indiqué que «la soirée a été animée par des performances exceptionnelles de karaoké et un groupe de cuivres» et par la dégustation de «vins exclusifs».

Cet article a été rédigé par Delano en anglais, traduit et édité par Paperjam en français.

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SUPPLEMENTS » LUXEMBOURG 2022

Luxembourg specialist fund administration roundtable: New frontiers

With investors allocating greater sums to private assets, we ask our panel of specialist fund administrators in Luxembourg about the great weight of institutional capital said to be heading their way.

Yves Cheret (Head of fund services, CSC)
Bruno Bagnouls (Head of sales and relationship management for Europe, Alter Domus)
David Kubilus (Chief commercial officer, U.S. Bank Global Fund Services – Europe)
Stéphane Pesch (CEO, LPEA – the Luxembourg Private Equity and Venture Capital Association)

Funds Europe – Flows into private markets funds are growing and numerous surveys suggest the growth in allocations will continue. What do you see as the most popular types of fund structures being employed to absorb this capital?

Bruno Bagnouls, Alter Domus – We've seen in Luxembourg a sharp increase in GPs [general partners] setting up Luxembourg funds. We are seeing GPs coming mostly from Europe and the UK, but we are also noticing growing interest from managers in the US and Asia, especially those targeting European investors. These GPs are setting up feeder funds or parallel funds in addition to the type of fund they usually raise.

Unregulated fund structures are capturing the attention of the vast majority of managers. The different suites, range of funds and unregulated types of vehicles in Luxembourg's fund toolbox are extremely attractive. While the Channel Islands continue to attract managers and the UK and Ireland are emerging as fund domiciles, Luxembourg is still clearly the number-one location of domicile.

David Kubilus, U.S. Bank Global Fund Services – We see quite a bit in private debt and private equity as well as infrastructure if we want to consider that a different asset class. At the beginning, we had a great demand out of American clients. Almost all of them had a Delaware/Cayman type of structure, wanting to raise assets in Europe. They were looking to Luxembourg to do that, generally through a RAIF [Reserved Alternative Investment Fund] in some type of limited partnership structure – SCSp, SCA or whatever they're most comfortable with.

Whether it's a feeder, a parallel, an open-end fund or a closed-end fund, Luxembourg still remains very well positioned to gain the flows. It's clearly the domicile of choice, at least for the time being, for those clients in those specific kinds of asset classes.

Yves Cheret, CSC – We have more interest in debt and loan funds. The type of structures, as my two colleagues said, are the SCSp and the RAIF, which are easy to set up where the timeline is short. That's basically the type of structures we see, but it's mainly driven by our contacts in the capital market space at CSC.

Stéphane Pesch, LPEA – This is a no-brainer. SCSps and RAIFs: those are the structures which hugely contributed to Luxembourg's success and competitiveness.

We have also seen recently a lot of appetite for venture capital. Due to the crisis, technology has become really one of the hottest things in town to invest in. That also emerges via young VCs [venture capitalists] joining Luxembourg and structuring everything here.

There is more venture capital coming in and because they don't have the same long history as the biggest players, they can come with the entire team, take the investment decisions and implement their vehicles in Luxembourg.

Funds Europe – In the past year there's been a lot of attention on SPACs – Special Purchase Acquisition Companies. How would you define the SPAC and why is there quite so much attention towards it now?

Funds Europe – In the past year there's been a lot of attention on SPACs – Special Purchase Acquisition Companies. How would you define the SPAC and why is there quite so much attention towards it now?

Cheret – The purpose of a SPAC is to acquire a private company, so the advantage is when you buy that private company, you don't need to go through the whole IPO [initial public offering] process.

The advantage is also the time to market and access to capital. On the other hand, that acquired company has to undergo some changes because it has to adapt to more complex accounting, financial reporting and registration requirements due to the fact that it is publicly traded.

Kubilus – Our experience in Luxembourg is a bit more limited with the SPAC, since we haven't seen tremendous demand, at least to date. However, our team in the United States has been successfully servicing SPACs, so we're ready when they come to Luxembourg.

Cheret – There was one example two days ago, where one of the major well-known Luxembourgish law firms published on LinkedIn that they have helped a Luxembourgish-based GP to set up a SPAC. That was a good example and good publicity for Luxembourg.

Bagnouls – We have relatively limited exposure to SPACs opportunities at Alter Domus. From what we have seen, the Dutch exchange with the Euronext Amsterdam is the leading market for SPAC listings. It's an efficient way for a business to go public in a short period of time, taking only an estimated 18-24 months.

In Europe, there were around 50 SPACs that were incorporated last year, so the market will be watching closely to see how these businesses perform this year. Demand for SPACs in Luxembourg is still relatively low, especially when compared to the SCSp and RAIF, for which there is a big market here. SPACs still make up only a limited part of the activity here in Luxembourg.

Pesch – We have exposure thanks to our two VCs. Some of Luxembourg's advantages for having more SPACs potentially is as usual the reliable corporate law environment, the stability and the cross-border expertise.

Funds Europe – Do you see potential for Luxembourg to become a hub for SPACs within the European Union?

Pesch – That's a good question. It depends also on the appetite. You need to be careful and should have a precise objective, then it could be an interesting 'exit route' for a private company.

Cheret – It only works if you want to take a company public. If the GPs want to have some secondary deals and do some other investments and want to keep it private, the SPAC will not work because it's an IPO by definition: it's a public traded company. In the end, the question is: what potential do we see for huge IPOs in Europe? This is more the question, and then you need to find the right targets.

Bagnouls – Time may tell later this year based on the capacity for those already incorporated SPACs to actually make acquisitions. Luxembourg's comprehensive fund toolbox certainly gives it the potential to become a hub for SPACs.

Funds Europe – Given how this has taken off in the US, do you see similar conditions for the growth of this type of vehicle in Luxembourg and the EU generally?

Kubilus – I haven't lived there for a long time, so I'm relying on discussions with my colleagues, despite the accent, which never goes away. Obviously, there's a real culture around taking things public there. It certainly exists here: maybe the scale is not quite as great. There'll be a couple of hubs that will probably wind up being winners in this. Amsterdam seems to have done well in terms of getting a lot of listings, they also have a bit of an ecosystem.

Luxembourg certainly has all the tools to play in this space. I don't think it's going to be a situation where you're going to have three or four different domiciles really competing. There's going to have to be one or two winners in the game to service this type of vehicle, but it doesn't seem to me that the conditions vary that greatly – it's just a question of appetite and desire of the VCs.

Funds Europe – Do specialist fund administrators have anything left to do in order to make themselves attractive to fund managers who want to attract pension funds and insurance companies as limited partners, as opposed to managers that focus on private banks and family offices?

Kubilus – That's been a lot of what we've looked at in the last year, particularly insurance companies within continental Europe. There are two things that are very important to them – one is the strength of the partners their GPs are dealing with. When you look at balance sheet, scale, size, ownership structure potentially is one piece you have to fill that gap. The second important piece is the ability to really provide some level of bespoke reporting. There's certain regulatory reporting, Solvency II being an obvious example for insurance companies, that needs to happen, each with unique requirements around balance sheet reporting, reporting to subsidiaries, etc. The ability for a provider to flex their solution to really meet specific needs is going to appeal to these large institutional investors outside of the traditional family offices and ultra-high-net-worth.

Cheret – For pension funds and insurance companies, the reporting requirements will differ from what is needed for private banks or for family offices because of regulation. As a specialised fund administrator, it is important that we are able to cover these LPs' [limited partners'] requirements. At the same time, we have no impact on the selection of the LPs: that is done at the level of the GP. That's why it's important that we as fund administrators are able to cope with these different requirements. Then, based on the type of LPs, we need to accommodate the different requirements.

Bagnouls – There are effectively two elements. GPs seeking to attract insurance companies and pension funds must conduct a significant level of due diligence on a fund administrator to ensure they are working with a reliable partner. It's critical for these GPs to not only conduct an initial review of the fund administrator, but perform regular ongoing due diligence throughout the life of the fund. The geographical coverage of a fund is key as well because some LPs have conducted their own due diligence, so they are more inclined to work with certain types of fund administrators when they allocate assets or make commitments to certain GPs.

Technology also plays a crucial role, as access to data and information on LPs is even more important for pension funds and insurance companies.

We are already providing comprehensive services to GPs that are attracting and working with large pension funds and insurance companies. It's clearly a journey and given the ecosystem in Luxembourg, we are going to see a further growth in that area.

Pesch – We would never oppose reporting dedicated to institutional investors versus professional and private investors. Even if you don't choose the underlying investors, they are interested by that increased appetite for reporting and transparency.

Funds Europe – Do you find that it's more burdensome to comply with the regulations for the institutions rather than the retail or vice versa?

Cheret – There is more requirement, there is more work to do. They also expect more tailormade reporting from the administrator, so there are more requirements on the side from the pension funds or the insurance companies, but at the same time, these LPs bring the bigger tickets for the GP.

Funds Europe – As specialist fund administrators, do you envisage yourselves ever being able to help private capital managers make these investment strategies available to retail investors and wealth managers?

Pesch – We would call that not retailisation but rather democratisation of private equity. As an association, this could represent lots of new opportunities for GPs and VCs in the future, but we should remain careful, this should not happen at all costs or without a clear strategy.

Just to highlight a few solutions out in the market now, for example private bank and wealth managers can structure in-house vehicles and then invest into private equity via those and so serve their clients. You have other solutions where the private bank and wealth managers use external vehicles, for example feeder funds which then afterwards get that exposure to private equity. Another solution would be to use digital platforms, which have also been on the rise recently.

The important element here to keep in mind specifically from the GPs' perspective is how important that new category of investors is or could be.

Cheret – If we open up these types of structures to retail, there is also the challenge with the number of investors we will have in these structures with small tickets. The challenge is on the AML (anti-money laundering)/KYC (know your customer) side, because as an administrator, you have to onboard each LP separately, and then you need to generate capital calls and distribution notices. If you generate for 20 or 200 investors, it's quite different. Because they will come in with small tickets, what you are calling is not really significant for each of these retail investors. The cost of service will increase if you open it up to real retail investors.

Kubilus – We have platforms for other reasons to service retail investors. I see 20 to 200 as manageable, but 20 to 2,000 or 20 to 20,000 becomes a very expensive proposition. At what point does it not make sense commercially for the investor and the GP to try to democratise this product? That said, we are going to see broader proliferation, broader distribution, and the question is, where is that line going to stand?

Bagnouls – The change is this retailisation or democratisation where you effectively have either traditional asset alternative investment players focusing on this source of investors, or specialist organisations targeting private investors with a digital platform with 50, 120, 200k tickets and setting up a feeder fund.

Overcoming the immense costs currently associated with onboarding retail investors will require automation. We need to develop an efficient automated solution that complies with our obligations for onboarding investors and other processes such as cash reconciliation and book entries. But the key point is defining more effectively the type of funds and minimum tickets to comply with regulations.

Pesch – We are all aware that in a good strong portfolio you need diversification and should also have exposure to private equity specifically since you have seen this asset class's strong performance and resilience over recent years, and specifically around Covid. It would certainly be a pity not to benefit from that chance but in the end, what needs to be clearly defined is your expectation, the return produced by this asset class, and how to get access to it.

Kubilus – As the industry automates AML/KYC processes and takes away some manual intervention, the point of entry for people to participate in these types of vehicles will naturally be lowered.

Bagnouls – I fully agree in terms of streamlining the collection of data, but you will still need a manual check. With the volume of activity, that's something we are all working on.

Pesch – If you need to change your operations from a GP perspective because you cannot handle capital calls as you would with professional institutional investors, you need to draw the capital directly in the beginning, like some players are trying to do now. Again, that is changing a little bit the performance and the way your set-up has worked in the past, so some adaption is also required.

Funds Europe – Do specialist fund administrators have a particular role to play in the evolution of cryptoassets exposure for traditional investors?

Cheret – From our side, there is no exposure at all for the moment. The CSSF [Commission de Surveillance du Secteur Financier] has been giving some guidelines recently. They are putting a framework in place where they say investments into the virtual assets is reserved for professional investors and is always subject to authorisation from the CSSF, so it has to go into a more regulated framework. It also says the management of these virtual assets has to be approved by the CSSF, so it will become quite regulated, but here, we at CSC have no exposure for the time being to this type of asset.

Bagnouls – It's probably a little too early to tell, at least for us at Alter Domus. Our colleagues in the US are a little more advanced on this topic. In Luxembourg, it's too early for us to comment. I'm sure that the upcoming CSSF guidance on virtual assets will be very helpful and provide a clearer understanding on the role fund administrators will play in the evolution of cryptoassets.

Kubilus – Our journey with crypto started around 2017 where we actually had funds with exposure to crypto – US funds, to be clear. We started examining how you reconcile against those funds, how you value those funds and eventually how to move into a position where you could have investors that want exposure to crypto but who don't want to use the same channels for exposure that others want to use. Now we're at the point in the US and Cayman where we actually hold crypto in custody, because people want the entire ecosystem, and Luxembourg will evolve in a similar way. It'll be a journey. Obviously, the regulator will have to put the parameters or the guidance around how we're going to proceed.

In other jurisdictions, we've seen there's a group of individuals that want access to cryptocurrencies. They don't necessarily want to open up a digital wallet to do it, they want to be able to do it through the same channels that they do the remainder of their fixed income or equity investments. If Luxembourg can do that, then I think they're well positioned to continue to grow their business through the channels that exist already.

Cheret – One of the challenges will lie on the depo side with safekeeping and ownership of the assets. This is where I would expect some challenges as well on the pure depo side of the structures.

Pesch – We are very happy that the CSSF came out with the FAQ on virtual assets, specifically dedicated to funds and the depositaries. This is more a challenge for them and for the AIFMs because we know about some specific risks around cryptoassets, be it volatility, liquidity, technological risk, counterparty and reputation risk.

You need to be cautious here in order to have the robust, adequate internal control functions and constantly adapt to the AML/KYC again, because it is always important to know where the money is coming from. You also have a proliferation of risks which can also happen very quickly with virtual assets, so you need to mitigate it and be careful. But to say that it has no future would be completely wrong. We really believe in blockchain and DLT [distributed ledger technology] because they will be very interesting for our friends the service providers in the future.

Sometimes the market decides. If you are not able to cope with new technologies and innovation, the clients will look for another player able to serve that kind of demand, so in the end you need at least to consider very seriously how to adapt. People were waiting for some guidance. Practice will also help out in the future, but you needed to start somewhere.

Cheret – There will be some challenges on the operations and regulatory side. It's just starting slowly, but these are the problems that have to be addressed over time as well.

Funds Europe – What do you see as the key trends in your field or the key topics in this sector in the next year or two?

Cheret – It's having the right tools, having the right technology for our clients, and to streamline and automate as much as possible. This is something where we have to invest as administrators. It will become very much IT-driven. If we push it far, the technology and IT will become more and more important. There will be a mix between accountants and IT guys because the accountant needs to identify the need, and we need IT guys to translate that and come up with technological solutions for us to help us to serve and automate what the client expects from us.

Bagnouls – You have a growing market, so effectively you have more and more allocation by asset owners to the private market which requires more transparency and more access to data and documents. Automation and the capacity to have real-time access to data and documents is really key for the different types of vehicles where you may be doing the fund administration. Developing the capabilities to increase access to this information is a key trend.

The second trend we see is the crucial role automation will play in building the capacity to administer growing volumes of funds. At Alter Domus, we are reviewing the way we work, our target operating model and how we can cope and adapt our capacity to the growth of the market. We are very positive and optimistic about the market here in Luxembourg, but also in Europe and North America, and want to ensure we are prepared for the growing demand for alternative investments.

Kubilus – Luxembourg has always been positioned very well to continue to grow, in many ways because of its flexibility around legal structures, especially when we look at the private capital structures we talked about earlier. Once these large firms create one fund, then they continue to create new vintages, and it's kind of a nice annuity income for everyone and for the market.

Technology is critical. As a new entrant to the market, we're trying to use that as an advantage to say we don't have legacy processes, we don't have legacy technology. Let's automate from day one wherever we can and be lean in our processes. With all the volume, there is going to be a flight to quality in this market. There is a number of specialist administrators. There are going to be winners, and the number-one word you're going to hear is quality.

The final thing is how do you do the work? Hiring and maintaining the right talent is difficult in the market and we need to always keep our mind on our people, keep them focused, make sure we have career paths for them. Having an international organisation often comes with the benefit of having more opportunities for people. It's quality, it's automation and it's people.

Bagnouls – It's not just a Luxembourg point of consideration, it's for the whole industry wherever you operate, but I fully agree with you.

Pesch – Our roadmap certainly contains many of those very important missions. We mentioned democratisation of private equity: let's see what is feasible. We have started that digitalisation journey together. We should reach a more automated ecosystem specifically for private equity, which was a bit more manual in the past.

For the association, it's key that Luxembourg nurtures its toolbox and remains as competitive, efficient and business-friendly as possible, meaning we can always implement new directives, new structures in order to be able to attract new GPs and VCs to Luxembourg.

We are really moving away from a pure back office to a 'middle office-plus' status, meaning we are focusing on new tasks like risk management, valuations, compliance, fundraising, investor relations and global reporting. But we also have more transversal teams working on deals with the deal teams, which are abroad. That's very important because in the end, they have a clear understanding of what's happening and their added value.

Talent attraction is very high on our agenda too. The goal is to have the best-in-class education to train those persons in Luxembourg or when we attract them from abroad, and then give them the right exposure to the right files and clients. That's really helping to build that ecosystem even one step further. We should all put our efforts together and do common job fairs, looking at which regions we have not tapped into. But, you know, if you start in Luxembourg for one year, normally 20 years after you are still here.

Article
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The golden age of Private Equity: Observations from an insider

Why has Private Equity proved so popular in recent years and how did it become the rising star of the alternative investments funds industry and private capital?

Stephane Pesch
CEO Luxembourg Private Equity and Venture Capital Association

TO THE POINT

- The Private Equity industry has demonstrated a tremendous growth over the last decade both internationally and in Europe/Luxembourg thanks to an efficient, agile regulatory landscape and toolbox.
- The success of Private Equity comes from its strong performance, resilient financial returns and its intrinsic model of creating long-term value and strengthening the real economy (financing, expansion, innovation and jobs)
- Interesting challenges ahead of us do include more automation, the hunt for talents and data collection which could also be transformed into new opportunities like e.g. an increased digitalisation of the sector, strategic and thoughtful recruitment, more added value reporting (incl. ESG) and certainly the careful democratisation of the asset class to new categories of investors

The agile regulatory landscape: A guarantor of growth

The implementation in Europe of the Alternative Investment Fund Managers Directive (AIFMD) in 2013 was certainly one of the triggers of such success. First considered as a threat and a costly upgrade to operational processes, it finally paved the way for tremendous expansion. It helped to define and clarify some common standards, which although not entirely perfect still provided enough options and benefits to professional and specialized Private Equity fund managers, the famous GPs (General Partners).

Some countries, like Luxembourg for instance, went the extra-mile and used this occasion to supplement some special features which also became accelerators of this growth. These included the refurbishment of the Limited Partnership law (SCS) and the creation of the Special Limited Partnership (SCSp), which currently represents the most used legal form, at least in our industry, and is a true bestseller with more than 6,400 active SCSps. This crucial addition to the Luxembourg toolbox was also accompanied by two emerging business models, which grafted themselves into the ecosystem. It allowed specialized fund administrators (PSFs) to emerge under certain conditions as depositaries of “assets other than financial ones” (i.e. non-listed assets and so englobing the PE funds) and the rise of the third party AIFM model. Instead of instantly creating an in-house AIFM, such robust providers proposed the required services, substance, and manpower—a real starter pack—in order to accelerate the launch of such activities, which also became another local specialty.

In 2016, Luxembourg continued its innovative pathway with the implementation of another winner: the Reserved Alternative Investment Fund (RAIF). This offered an interesting structuring model, which included add-ons such as the possibility to use sub-funds, the pan- European 'passporting', and a fast time-to-market as supervision is handled at AIFM-level and not at product level. It proved so successful that there are currently more than 1,680 such vehicles in the marketplace. And it isn't only Luxembourg that showed its creative chops: other EU countries also took the opportunity to innovate and refurbish their existing vehicles. Together, the EU has become a busy hub for Private Equity structures, targeting EU capital and doing local and international investments.

The performance, trust, and expertise

The flexible toolbox, the recognition of the track record by institutional, professional investors, and the profound experience of the different asset servicers are surely guarantors of the success of the Private Equity asset class, but the main reasons are its core values and intrinsic strengths.

Globally, the long-term goal of PE is to invest into unlisted small, medium, or larger companies in order to make them better, stronger, and more profitable before selling these firms on (or exiting) after a successful transformational process. In the past, this was heavily centered around financial restructuring—the use of leverage, cost reduction/savings and, in some cases, even consolidation. This model evolved over time and today the emphasis is placed upon concrete contributions to the real economy and the ecosystem of enterprises, which require capital, external expertise, and succession planning solutions in order to leverage and pursue their growth. These target companies, once aligned with the GP's interests, are now able to embrace a new age of evolution with one of the following:

- A complete digitalization of their operations;
- The launch of new products;
- The expansion to new markets; and/or
- A fully-fledged buy and build strategy (buying up competitors and becoming a national, EU, or worldwide champion).

The same applies to venture capital (VC) which allows start-up companies to be backed, quite often, by former successful entrepreneurs in order to get their companies off the ground and grow. VC, in its noblest sense, is injecting money (in a way, 'passing on' money to new founders) and helping innovation, research and development, and a new generation of giants to emerge. These investments do have a capitalistic goal of improving the value of the companies themselves, which also triggers further positive outcomes for the society via new jobs, career opportunities, and the creation of an agile workforce capable of handling multi-dimensional skills and fast-paced industries.

PE is the perfect combination of finance and entrepreneurship and is meant to create value and deliver performance. In this industry, everybody has or should integrate this entrepreneurial spirit, try to improve their performance, and remain curious and eager to learn. Hard work and very robust studies are surely part of the 'must-have' package, but it's worth the effort because of the brilliant professionals and entrepreneurs you will meet, because of the diversity of the profiles that will be found in PE teams or investment committees. There is no 'one size fits all' mentality and you can work with engineers, industrialists, PhDs, merger and acquisition specialists, genius financiers, visionaries, smart marketers, and pragmatic back, middle, and front office specialists who are attracted by this mind-set and business attitude. The goal of PE is not to simply analyze markets and indicators or mechanically review firms while trying to do short-term bets or transactions. Rather it is to successfully transform (value creation) the portfolio companies into the winners of the next generation—thanks to these specialists with an intimate knowledge of launching, running, and selling companies.

The challenges and opportunities of the industry

Since the PE sector is growing in strength and size (Preqin PE forecast 2020-2026 from US$4.52 trillion to US$ 11.12 trillion with a CAGR of 15.6%), is it therefore exempt of any flaws? The realistic and pragmatic answer is no.

For example, the industry itself is and usually remains labor-intensive, heavily under-automated (especially the AML/KYC processes), and still embeds many manual processes despite emerging applications and digital platforms from FinTechs or legacy IT firms. It is also complex to value new assets or businesses which do not yet exist, especially when a comparison with current indexes, market data, or previous transactions is not feasible nor available. This hinders the use of classical valuation models and therefore requires a robust methodology, powerful tools, and sophisticated internal resources. This need for high-level experts and talent represents an interesting but also serious challenge, since these specialized profiles require well-trained candidates with the right level of technical, theoretical knowledge (as provided by recognized, but selective University programs) and, most importantly, direct exposure to the sector. This is a long process which calls for time, continued efforts, a good corporate culture (to extend the retention rate), and a degree of flexibility since energetic talents can sometimes be rather impatient, expect early and 'tasty' packages, need strong mentorship/leadership, claim direct access to executives, and require hands-on experiences with responsibilities.

Data is another rather difficult fish to catch and to consolidate. This should not come as a surprise since it is naturally embedded in the industry's DNA and usually composed of private capital injected into private markets through non-public transactions and dedicated to selected categories of investors (e.g. institutional, professional investors, family offices, private high-net worth individuals). Thanks to industry efforts such as those by Invest Europe and the different national European PE/VC associations, some statistics have been collected and treated in order to provide a more holistic overview, next to some specialized financial information providers which also have invested a great deal of time in order to be work on global reports, estimates, and trends, in collaboration with the industry and the inevitable use of manual surveys.

Nevertheless and despite some of those characteristics, the industry's success, performance, and resilience have been validated in recent years by the tremendous and continued investors' appetite which has fully empowered its growth. It is important to underline that the value creation process, as described above, has softened the discussion around the limited liquidity of PE funds (classical PE structures being for a majority closed-ended with an expected lifetime of a decade). This was unfortunately and wrongfully perceived as a risk, while missing the exact rationale of patiently boosting companies and increasing their intrinsic value without any quarterly pressures as experienced in the publicly listed space.

The industry is also receiving many optimistic signals from tech innovators which have the ambition to digitalize the sector and accelerate its evolution.

Finally the opening up of practitioners to more transparency, increased reporting (financial and non-financial including the important ESG criteria), and prevalent success stories have also led to more interest from smaller investors who would like to access the PE asset class and benefit from its returns and strengths. This opens a new paradigm: the democratization of PE. This could represent a tremendous injection of additional capital, but only with the right set-ups and the availability of adequate solutions which could deliver strong returns and a great portion of diversification to many portfolios.

We have truly entered the golden age for the Private Equity industry.

CONCLUSION

Nevertheless and despite some of those characteristics, the industry's success, performance, and resilience have been validated in recent years by the tremendous and continued investors' appetite which has fully empowered its growth. It is important to underline that the value creation process, as described above, has softened the discussion around the limited liquidity of PE funds (classical PE structures being for a majority closed-ended with an expected lifetime of a decade). This was unfortunately and wrongfully perceived as a risk, while missing the exact rationale of patiently boosting companies and increasing their intrinsic value without any quarterly pressures as experienced in the publicly listed space.

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We have truly entered the golden age for the Private Equity industry.

STEPHANE PESCH
LPEA

The new face of PE

MORE INFORMATION
www.duke.lu/lpea2022
www.lpea.lu

WITH PE AND VC THRIVING IN LUXEMBOURG, STEPHANE PESCH, CEO OF THE LUXEMBOURG PRIVATE EQUITY AND VENTURE CAPITAL ASSOCIATION, EXPLAINS HOW THE LPEA HAS BECOME A VALUABLE FORUM FOR PRACTITIONERS TO SHARE THEIR IDEAS, VIEWS WITH THEIR PEERS AS WELL AS WITH THE LUXEMBOURG GOVERNMENT AND PUBLIC INSTITUTIONS.

Can you describe your association in a few words?

The LPEA was created in 2010 by visionaries who anticipated that alternative investments, including private equity (PE) and venture capital (VC) strategies, would represent the next big success for the Luxembourg investment funds' hub. The LPEA's 338 members comprise three categories: Full members, who are General Partners (GPs), Limited Partners (LPs) and family offices. Secondly, Associate members, who include service providers and advisors such as depositary banks, AIFMs, fund administrators, audit and law firms, tax experts and consultants. Finally, the Affiliate members are represented by non-executive directors with PE mandates, entrepreneurs and founders of innovative companies and independent PE specialists.

What is your mission as an association?

The main goal of our association is to represent, defend and promote the interest of our members and the PE/VC industries. The first mission of the LPEA encompasses public affairs and advocacy hand in hand with the representatives of other financial associations, with whom we discuss the latest directives and regulatory changes in order to share our common views with the authorities and some public entities. Our second mission is thought leadership. Alongside our annual flagship conference, the *LPEA Insights*, we have launched more than 25 technical committees and clubs - composed of LPEA members and industry experts – which tackle the latest trends and developments. The topics range from legal to tax and also include operational matters, focusing on different investment strategies as well as analyse the latest ESG developments. Our third mission is talent attraction. Over the past two years, we have developed a specialized training academy and have organized two dedicated job fairs. We also opened an HR club where practitioners discuss their needs and the hottest profiles.

What major trends do you see emerging in private equity?

The most recent trends englobe the broader acceptance of technological innovation and the "democratization" of PE which enables new stakeholders to access private asset classes via specific products, vehicles or platforms, next to the traditional institutional and professional investors. Nowadays new players also include more family offices (many were already active in the field) Private bankers, Wealth Managers and insurancers who have

strongly increased their share in private assets over the recent years due to a high demand from their clients. Digital platforms and innovators are offering tech-based solutions which for example facilitate the on-boarding of clients, help identify promising opportunities thanks to AI-driven tools, optimise the reporting and administrative deliverables, make the whole industry more data-driven or accessible (via APIs) and also automate the operational workflows. "Off the shelf" structures allow a quite personalised experience and exposure to PE/VC, which in certain cases, can even be extended to more "retail" types of clients. The refurbishment of the European long-term investment fund (ELTIF) structure is also happening right now and could represent a very interesting catalyst, solution to cope with this increased appetite. Luxembourg start-ups with their inspired technologies have also been sprouting for some time now and have successfully rolled out their products, further proof that Luxembourg is further strengthening its position as an innovative ecosystem and a more transversal PE/VC hub which proposes efficient structuring solutions, the right entrepreneurial mind-set and new opportunities.

Luxembourg – the talents' incubator

Demand for more Private Equity and Venture Capital talents leads up to dedicated international job fair.

Evi Gkini | Business Development & Project Manager | LPEA – Luxembourg Private Equity & Venture Capital Association

According to Invest Europe's 'Private Equity at Work' report, by the end of 2020, portfolio companies of Private Equity and Venture Capital funds employed 9.9 million people across Europe. This number represents 4.3% of the total European workforce and says a lot about the support of the private equity and venture capital sector to businesses and workers through the COVID-19 Crisis.

At the same time, according to the 2021 Global Talent Competitiveness Index, Luxembourg ranks 1st in the world for its ability to attract talents and is also a top performer in retaining talents due to social stability, high salaries and pension system.

The Private Equity sector in Luxembourg is booming and the need for talents is becoming the number one priority for the local players. During March 2022 we spotted more than 1400 Luxembourg-based vacancies related to private equity, an almost 9% increase from a year ago.

The 'hunt' for talents is something we have been observing for some time and led us to host the very first Job Fair exclusively dedicated to career opportunities in the Private Equity and Venture Capital sector.

The initial idea is of course to put in touch talents (students, young graduates as well as already experienced profiles) interested in this industry with their potential future employers, local and international firms leading the fast-growing private equity sector and one of the most dynamic vectors of the financial centre. Luxembourg is a pole of attraction and an increasing amount of people hail from abroad, acquire new skills and start or reshape their career path in the country.

Furthermore, we try to paint a picture of Luxembourg to people that never had the opportunity to visit the country or to get to know what it has to offer to new professionals joining our community. Through various discussions, candidates discovered how the sector works, what the employers are looking for, how they can stand out on the market as well as ask questions regarding the different firms' recruitment processes and benefits.

Since March last year, more than 650 candidates participated in the three Job Fairs that took place - always in a digital format. This online aspect makes it particularly interesting for people from outside Luxembourg, a group representing approximately 65% of participants. We had the opportunity to host people from more than 20 different countries with a strong focus in Europe and to meet some of them in person after their successful recruitment.

It is a big challenge to attract new professionals to Luxembourg but a very rewarding one when we see these candidates evolving from the recruitment day to signing a contract in just a few weeks or months and land in Luxembourg as a 'new generation' for our industry.

Talent attraction and retention is a hot topic in the sector these days and a personal decision as well. It makes it easier that Luxembourg is one of the easiest countries to arrive in and to start/shift/boost a career in finance. Above all, it is a place that gives you the opportunity to grow personally, to create your network, and to catapult your career.

The next PE/VC Job Fair will take place in November. In the meanwhile interested parties can follow the association's Career section in the LPEA website.

Comment garder la compétitivité de la Place ?

Le Luxembourg se doit d'innover pour conserver son statut de premier centre européen de distribution de fonds. Trois acteurs du monde financier luxembourgeois nous livrent leurs conseils pour que la Place reste compétitive. Propos recueillis par **A. B.**

«La collaboration active entre tous les acteurs de la Place sera essentielle afin de continuer à innover dans l'intérêt commun.»

1 MARC MEYERS
Partner et head of investment management
Loyens & Loeff Luxembourg

Le Luxembourg est la première place financière en termes d'actifs sous gestion en Europe et la deuxième au niveau mondial. Compte tenu, notamment, des développements au niveau de la fiscalité internationale, le pays devra continuer à travailler sans relâche sur plusieurs chantiers afin de rester compétitif. Attirer et garder les talents reste plus que jamais d'actualité. Plus d'efforts devront être entrepris pour créer des formations dédiées aux métiers des fonds pour que le Luxembourg devienne un centre d'excellence. Il faudra continuer à encourager la localisation de fonctions à forte valeur ajoutée. Ensuite, il est important de rester agile dans un monde qui change et dans un environnement de plus en plus concurrentiel. Dans ce contexte, la collaboration active entre tous les acteurs de la Place sera essentielle afin de continuer à innover dans l'intérêt commun. Il faudra également continuer à investir massivement dans l'infrastructure. De ce fait, il sera nécessaire de limiter la spéculation immobilière et de réduire simultanément la durée effective des procédures administratives afin de mobiliser plus rapidement les terrains et, de cette manière, augmenter significativement la liquidité du marché immobilier.

2 LUIS GALVEIAS
Chief operating officer
Luxembourg Private Equity & Venture Capital Association (LPEA)

Le Luxembourg connaît un énorme succès dans le domaine des fonds alternatifs, mais cela ne durera pas éternellement si nous ne restons pas vigilants quant à ce qui ne fonctionne pas de manière optimale et, surtout, si nous ne préparons pas l'avenir. Notre compétitivité est fortement liée à notre capacité à attirer, à développer et à retenir des talents. Cela semble être le cas de nombreuses industries aujourd'hui, mais cela est particulièrement vrai pour le secteur des fonds de capital-investissement et de capital-risque, qui connaît une croissance à deux chiffres. La Place est également connue pour sa capacité à se moderniser. Cela comprend ainsi l'entretien et l'évolution de la «boîte à outils» luxembourgeoise et des régimes juridiques flexibles et plébiscités par les différents investisseurs internationaux. Alors que beaucoup de nos membres investissent dans des entreprises innovantes, c'est à notre tour de promouvoir l'adoption de plus de technologie sur le lieu de travail, notamment avec des services à haute valeur ajoutée qui améliorent les relations avec les investisseurs, l'efficacité de la gestion et de l'administration de fonds, et facilitent le reporting.

«Notre compétitivité est fortement liée à notre capacité à attirer, à développer et à retenir des talents.»

«Renforcer l'écosystème consacré aux technologies au service de la gestion d'actifs est critique pour assurer le développement durable de la Place.»

3 LAURENT CAPOLAGHI
Partner Private Equity leader
EY Luxembourg

Notre succès au cours des dernières années peut être attribué à un subtil mélange de stabilité, d'agilité et de pragmatisme. À mon sens, la pérennité de l'attractivité de notre pays passe à la fois par un maintien de cette culture historique – favorable au développement des affaires grâce à un dialogue permanent entre tous les acteurs – et par la capacité de continuer à innover et à attirer les talents. Concernant l'innovation, il s'agit selon moi de conserver l'innovation juridique et l'audace réglementaire dont nous avons toujours fait preuve pour devancer les réformes européennes et confirmer notre grande compréhension de l'industrie. De plus, le renforcement de l'écosystème consacré aux technologies au service de la gestion d'actifs est critique pour assurer le développement de la Place. L'attraction des talents est un élément-clé. Il est nécessaire d'accompagner les nouveaux arrivants et de leur offrir, si besoin, une infrastructure de formation dédiée à notre industrie. Le développement de nouvelles fonctions me paraît très important. Je pense notamment aux métiers liés à la levée de fonds et à la relation investisseurs, qui sont tout à fait alignés avec la place centrale de Luxembourg dans la distribution paneuropéenne des produits d'investissement.

Photos → Loyens & Loeff Luxembourg, Maison Moderne (archives) et EY Luxembourg

LPEA

Private Equity fundraising: the value chain unfolding

Luxembourg's next Private Equity chapter will be about investor relations, a natural evolution of the conditions built over time.

From back office to front office, what the future brings for Private Equity in Luxembourg and how are we moving up the value chain.

The story of Private Equity in Luxembourg, we all know it started with some of the biggest Private Equity firms setting up back office operations in Luxembourg, evolved to a wider diversification of players - hand in hand with a more complete legal toolbox, and new middle-office functions which coloured the landscape further.

Through all this process, fund managers settled further in and the servicing industry flourished with new responsibilities positioning Luxembourg as a leading location for Private Equity and all sorts of alternative funds.

Now the question lies on "what's next?" and to picture what will be Luxembourg's private capital future for the years to come. There is certain consensus in the community animated by the Luxembourg Private Equity and Venture Capital Association (LPEA) that we will continue to progress towards more front office activities. If on the investment side we don't foresee the replacement of deal making centres such as London or Paris where so many portfolio companies are headquartered, the scenario for fundraising and investor relations is quite different.

In recent years we already saw fundraising taking new steps with global firms including Luxembourg in their roadshow plans, mostly attracted by local family offices. However, there is also an increasing number of fund managers centralizing their fundraising operations locally if we look at recruitment figures. A simple search on the most used recruitment platforms features over 50 open vacancies looking for investor relations profiles, something which would have been rather rare a couple of years ago.

Such evolution ends up being natural and a result of multiple factors which include Luxembourg's central role in the administration of alternative funds, the country's legal toolbox which is recognised and well known by investors across the globe and a complete set of services that already work closely with investors such as transfer agents, fund administrators, custodian banks, among many others.

Investors come from everywhere and Luxembourg is already their consensual "set-up jurisdiction". Familiarity plays a role when it comes to choosing a jurisdiction which speaks their language and is known for being stable and predictable.

Investor relations is also increasingly a "remote" activity. Although investors care for face-to-face meetings, most of the work is about reporting, something which will only be enhanced in the future with additional digital tools making it less dependent on where it is performed from.

It is therefore time to bring together what Luxembourg does best - provide the best structuring tools fully-fledged by European passporting, with what Luxembourg can excell at in the near future: selling those same structures to investors with dedicated fund administration and fundraising teams on the ground.

Despite the already relevant number of open "investor relations" positions, that number will increase in the future which requires immediate action in training local professionals for this new challenge. One may argue that having actual fundraising experience will be a critical aspect to take up this new function – experience often reserved to new staff coming from abroad, and this may be true but it is equally important to be fully acquainted with the Luxembourg structures and marketing distribution options and this is something which we can train and anticipate.

There is no opportunity without challenges: the opportunity to dig through a new (highly valued) segment of the Private Equity value chain and the challenge to build the workforce that it will require. In the meanwhile the LPEA set its goal to demistify this space and pave the way for more fundraising opportunities. In its annual Insights Conference - taking place in the coming Fall, the association will open the floor to GPs willing to pitch their funds to investors, a *première* in the association.

The Private Equity story in Luxembourg continues to unfold and I'm sure it will be no different from the previous chapters: a successful one.

Luís Galveias | COO | LPEA - Luxembourg Private Equity and Venture Capital Association

PRIVATE EQUITY

The PE/VC industry: the insatiable appetite for talents

How to join the thriving Private Equity market, one of the fastest growing sectors in finance.

Stephane Pesch CEO of the LPEA, Luxembourg Private Equity and Venture Capital Association

New job opportunities continue to pop up in Private Equity in Luxembourg reflecting a growing number of vacancies and greater diversity of job profiles.

The Private Equity and Venture Capital industries have undergone a tremendous growth over the last years and have shown a great resilience during the C-19 pandemic and beyond. Next to their classical SPVs (Special purpose vehicles) more and more practitioners have also launched, their Alternative Investment Funds ("AIFs"), AIFM ("Alternative Investment Fund Manager") and have implemented some robust substance and presence in Luxembourg. This process has undergone a whole and thorough transformation starting with the essential "back office" functions (accounting, reporting, corporate secretary, domiciliation, transfer agent and administration services) which guarantee the "heavy lifting" and a smooth delivery before reaching nowadays a fully-fledged "middle office+" including core roles focusing on Compliance, Risk Management, transversal deal execution and valuations. These crucial functions do require some very specific training, real field exposure, various experiences and surely patience to be built up. Despite this nice evolution the journey is surely not over yet and some new opportunities are already popping up and giving some hints on the future "dream jobs" which could also be developed in Luxembourg in a near future like for example investor relations and increased deal team capacities (local front office) as already seen with a selected number of historical LPEA members which started their operations in Luxembourg (straightaway or moved in a second step) and have paved the way as pioneers.

How can I join this thriving and global sector? What does it take?

This question is central and there are various ways to enter the field and different available career paths.

For those interested by the analysis of target companies and prospective deal making activities, a mix of highly technical and specialised competencies would be expected with for example:

- a Master of Sciences in Engineering, Telecommunication, Technology, Computer Science, Data analytics combined with an international MBA or
- a renowned Corporate finance Master degree as proposed by different Tier 1 business schools or Universities with prestigious internships or
- internationally recognised Finance, Business administration Master programs (including compulsory courses on portfolio management/diversification, business modelling, econometrics, deep financial analysis, accounting, negotiation, structuring, valuations, risk management, ESG) which could even be further "upgraded" later on with the famous CAIA or CFA certifications

Such high-end studies could surely be the right door openers to the best-in-class and international investment banks, M&A advisers, consulting firms and intrinsically PE houses but studies are not the only option and there are other fabulous opportunities in Luxembourg which are waiting to be "harvested" by ambitious and motivated talents.

Life has shown us that determined, energetic, reliable, hardworking, curious, fast learning, agile, entrepreneurial and respectful persons have a serious chance to perform particularly well in our field and will with the right attitude make a career.

Very solid learning paths are also proposed by the Big4s which have always and will continue to attract a strong pool of talents eager to learn, build up their skills, get serious business exposure and help the clients, practitioners with the right advice, projects and processes. Specialised asset servicers like 3rd party AIFMs or banks active in the corporate finance, financing or transactional space, Private bankers and insurers handling sophisticated HWNI's needs are also at the forefront of the activity and part of the entire value chain without forgetting the famous family offices which have drastically increased their presence and investment capacities over the last years. Specialised service providers (PSFs, Depositaries) with dedicated capacities, departments and teams could also represent a quite interesting entry point, enable those talents to get quickly exposed to PE/VC clients and participate in their day-to-day activities, understand and service their expectations and why not even become an extension of their team.

Many possible options, angles and destinies to be "activated", chosen from and tested over the next years in a fast growing and open environment. One recommendation though is to not forget your own values and to integrate as much as possible the "ingredients" you need to vibrate, thrive and remain passionate during such a prospective wonderful journey.

Give it a try and embark with us for a new adventure...

LPEA statistics:

In Luxembourg more than 1.500 open job positions are available based on LPEA's monthly Web research while the sector is already composed of at least 8.000 jobs in Luxembourg (LPEA estimate).

Democratisation of retail access to Private Equity funds is finally happening

Private Equity is becoming more popular among retail and high-net-worth investors searching for returns that surpass the stock market.

Private Equity is becoming more popular among retail and high-net-worth investors searching for returns that surpass the stock market. PE funds have a 15-year IRR horizon of 12.5 per cent, rising to 21.3 per cent in 2020, according to Pitchbook's Global Fund Performance Report, whereas the S&P 500 has returned around 9.7 per cent annually. Wealth managers are increasingly looking for new ways for these investor groups to access private markets, with fund structuring allowing a more comprehensive range of investors to invest in alternative asset classes.

Historically, qualified private investors were underrepresented in private markets. High entry requirements and unwieldy investment fees have proven to be significant impediments. The comparatively small investments they can provide, starting at around 125.000 EUR on average, were sometimes deemed more trouble than they're worth by GPs, given the time and administrative overhead associated with raising capital at scale.

For many years, some of the most skilled alternative asset managers, like Blackstone, KKR, and Hamilton Lane, served the world's largest institutional investors: pension funds, endowments, and foundations, collectively managing hundreds of billions of dollars. For decades, that sector was so profitable, with clients directing vast portions of their portfolios to alternative investments and private equity that the more retail-facing private wealth advisor market remained off their radar.

Private market funds typically have a high minimum investment requirement such as €5m or €10m. This investment segment was once solely the domain of major professional investors such as institutional investors, superannuation funds and large family offices. Still, a growing number of possibilities are now open to retail investors and their advisers. Given that private equity outperforms listed equities in most studies and often for a lower overall risk level, many private investors, banks and wealth managers have been investigating new ways to include the PE asset class in their own or their clients' portfolios.

Further, due to the competitive landscape of fundraising among institutions, it is unsurprising that private equity firms, which generally focus on large institutional investors, are broadening their target audience to include private investors. They have placed big bets in the market, forming private wealth divisions with a staff committed to distributing to advisers across all channels and developing products that are more readily accessible to individual investors. One of the reasons for the move is to capitalise on the increase in private wealth. Based on a PricewaterhouseCoopers report, the market for mass affluent and high-net-worth investors accounted for around $177 trillion in assets in 2020 and is expected to grow to $222 trillion by 2025.

Feeder funds, which are becoming increasingly popular, are the preferred instrument for raising capital from private investors and are now used by a diverse group of private equity fund managers. Feeder funds pool capital and invest alongside institutional investors in institutional level master funds.

It is important to note that feeder platforms go through a detailed due diligence and selection process before onboarding top-tier private equity funds, adding another level of scrutiny for the feeder investors.

When we look at where the significant funds are putting a lot of their IR focus and where they're building new teams, the private investor segment stands out. It's almost an untapped market, and for the most part, those individual investors have been frozen out of institutional private equity programmes as an element of their personal savings and pensions.

Banks, particularly in Europe and Asia, have been developing or are increasingly outsourcing to alternative investment platforms to more efficiently capitalise on the increase in the appetite of private clients for this asset class. Feeder vehicles such as Moonfare (founded by an ex-KKR executive), iCapital (part-owned by Blackrock), Luxembourg-based Antwort Capital and French-based Private Corner are channelling increasingly larger sums of private persons' capital into the most well-known private equity funds. This can be into single GP PE funds or into multi-strategy, Fund-of-Funds or more rare co-investments funds where the latter categories offer an additional element of portfolio construction by diversification across select managers (as well as deals).

One of the primary issues confronting institutions seeking to attract retail investors is ensuring that they understand the nature of their investment and, maybe, providing secondary market remedies to the illiquid nature of the fund participations. That said, it is often also underestimated how "liquid" diversified PE fund programmes typically are in themselves, meaning there is a dynamic and ongoing draw-down (i.e. investment) cycle as well as gradual and ongoing exit cycle (i.e. distributions) during the entire life of such funds. This so-called J-Curve can mean that investors don't deploy all their capital at once and don't have to wait to get money back only at fund-maturity. Its a continuous cycle along the J-Cure of deployments made and profits (and capital) returned back during the journey.

In conclusion, until recently, private equity was the domain of institutions and ultra-high net worth individuals. With increased access and more enticing profits, it's clear why private equity is gaining traction. It is also growing in popularity as retail investors place a greater emphasis on private markets as a means of diversifying their financial portfolios. However, it is essential to note that private equity is a sophisticated asset type that can be effective when used appropriately as part of a diversified portfolio. As even the bureaucrats in Brussels have now discovered, when constructed well, diversified blue-chip private equity portfolios can be both outperforming as well as less volatile than public blue-chip stock portfolios. EU regulations are currently being amended to accommodate wider ownership of diversified PE funds also for smaller investors, arrival hence of a long overdue democratic right!

11 nouveaux membres au CA de la LPEA

Écrit par Duncan Roberts
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Eckart Vogler, Hans-Jürgen Schmitz, Claus Mansfeldt et Stéphane Pesch lors de l'assemblée générale de la Luxembourg Private Equity & Venture Capital Association (LPEA). (Photo: LPEA)

La Luxembourg Private Equity & Venture Capital Association (LPEA) a tenu son assemblée générale annuelle (AGM) le jeudi 9 juin, au cours de laquelle le CEO, Stéphane Pesch, a fait le bilan d'une «année plutôt inhabituelle, mais aussi résiliente et réussie».

Lors de son assemblée générale annuelle ce 9 juin, la LPEA a élu 11 nouveaux membres à son conseil d'administration, qui en compte 30. Parmi les élus, la première élection de Threestones Capital Management, représentée par Mathieu Perfetti. À noter également: la réélection de SwanCap (représentée par Claus Mansfeldt, qui est le président du conseil d'administration de la LPEA) et de Cinven (Gautier Laurent), ainsi que le changement de représentant pour 3i Investments avec Aline Bapst, qui remplace le membre fondateur de la LPEA, Antoine Clauzel.

Membres élus au conseil d'administration de LPEA le 9 juin

Membres	
3i Investments	représentée par Aline Bapst
Cinven	représentée par Gautier Laurent
SwanCap	représentée par Claus Mansfeldt
Threestones Capital Management	représentée par Mathieu Perfetti
Membres associés – fournisseurs de services	
Arendt & Medernach	représentée par Adrian Aldinger
Banque de Luxembourg	représentée par Lucienne Andring
Clifford Chance	représentée par Katia Gauzès
Edmond de Rothschild AM	représentée par Serge Weyland
EY Luxembourg	représentée par Laurent Capolaghi
PwC Luxembourg	représentée par Valérie Tixier
Sanne	représentée par Pierre Weimerskirch

Tableau: Delano.lu • Source: LPEA • Récupérer les données • Créé avec Datawrapper

L'association a également publié son rapport annuel lors de la réunion. Il montre que 26 membres ont rejoint la LPEA au cours de l'année écoulée, pour atteindre 324 membres au total, avec une croissance de tous les types de membres (titulaires, associés et affiliés). «Cela reflète l'appétit constant pour les classes d'actifs PE/VC (private equity et venture capital, ndlr) au Luxembourg malgré les périodes de confinement successives», note l'association dans un communiqué de presse.

«La première partie de l'année 2021 a encore été fortement perturbée et a connu une période plus difficile vers la fin de l'année, mais dans l'ensemble, nous avons connu une année plutôt inhabituelle, mais aussi résiliente et réussie pour l'association», s'est félicité Stéphane Pesch, CEO de LPEA.

Dans son allocution, le président, Claus Mansfeldt, a souligné que l'année 2021 s'est achevée avec des volumes records à l'échelle mondiale, notamment sur les principaux marchés de rachat. 2021 était aussi «la première année à dépasser les 800 milliards de dollars en volume global de transactions, certaines sources évoquant même 1.000 milliards de dollars en valeur, battant le précédent record (2007, ndlr) de près de 20%».

Le principal orateur de l'événement était Andrey Kolodyuk, président de l'Association ukrainienne de capital-risque et de capital-investissement, qui dirige le plan de redéveloppement et de redressement de l'Ukraine. Une initiative stratégique visant à surmonter les effets de la guerre en Ukraine avec la participation active d'investisseurs et d'investissements privés internationaux.

ANNUAL GENERAL MEETING

LPEA elects 11 Board Members

Written by Duncan Roberts
Published on 10.06.2022 • Edited on 10.06.2022 at 11:52

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Eckart Vogler, Hans-Jürgen Schmitz, Claus Mansfeldt and Stephane Pesch at the AGM of the Luxembourg Private Equity & Venture Capital Association. LPEA

The Luxembourg Private Equity & Venture Capital Association held its AGM on Thursday 9 June, at which CEO Stephane Pesch reflected on a "rather unusual and simultaneously very resilient and successful year for the association."

Among eleven new members elected to the 30-member board of the Luxembourg Private Equity & Venture Capital Association (LPEA) was the first election of Threestones Capital Management represented by Mathieu Perfetti. Also noteworthy were the re-election of Swancap (represented by Claus Mansfeldt, who is the chairman of the LPEA board) and Cinven (Gautier Laurent) and the change of representative of 3i Investments with Aline Bapst replacing the founding member of LPEA Antoine Clauzel.

The association also released its annual report at the meeting. It shows that membership of the LPEA increased by 26 members to 324 in total over the past year, with growth coming from all types of members (full, associate and affiliate). "This reflects the continuous appetite for PE/VC asset classes in Luxembourg despite successive confinement periods," the association stated in a press release.

LPEA Board Members elected on 9 June 2022

Full Members – General Partners, Limited Partners, Family Offices	
3i Investments	represented by Aline Bapst
Cinven	represented by Gautier Laurent
Swancap	represented by Claus Mansfeldt
Threestones Capital Management	represented by Mathieu Perfetti
Associate Members – Services providers	
Arendt & Medernach	represented by Adrian Aldinger
Banque de Luxembourg	represented by Lucienne Andring
Clifford Chance	represented by Katia Gauzès
Edmond de Rothschild AM	represented by Serge Weyland
EY Luxembourg	represented by Laurent Capolaghi
PwC Luxembourg	represented by Valérie Tixier
Sanne	represented by Pierre Weimerskirch

"2021 was still heavily disturbed during the first part of the year and experienced again a rougher patch around the end of the year but overall we experienced a rather unusual and simultaneously very resilient and successful year for the association," said LPEA CEO Stephane Pesch.

In his address, chairman Claus Mansfeldt pointed out that 2021 closed with record volumes globally, especially in the main buyout markets. It was, said Mansfeldt, "the first year to surpass $800 billion in aggregate transaction volume, with some sources even citing $1 trillion in value, beating the prior record [2007] by nearly 20%."

Keynote speaker at the event was Andrey Kolodyuk, Chairman of the Ukrainian Venture Capital and Private Equity Association, who is leading the Ukraine Redevelopment and Recovery Plan, a strategic initiative to overcome the effects of war in Ukraine with the active participation of international private equity investors and investments.

La LPEA poursuit son développement

Le rapport annuel 2021 de la LPEA (Luxembourg Private Equity & Venture Capital Association), présenté à l'assemblée générale reflète la croissance et la diversité accrues de l'association suite à la création de nouveaux comités techniques et de clubs axés sur des thématiques spécifiques telles que l'administration de fonds, le financement du secteur du Private Equity (PE), l'assurance, la technologie et le Corporate Venturing.

de gauche à droite : Eckart VOGLER, Hans-Jürgen SCHMITZ, Stephane PESCH, Andrey KOLODYUK et Claus MANSFELDT à l'AGO de la LPEA © LPEA

La formation de professionnels du PE et du Venture Capital (VC) par le biais de la LPEA Academy s'est également vue renforcée, tout comme les initiatives d'attraction de nouveaux talents à travers le lancement de la LPEA Digital Job Fair. L'association a également étendu ses activités de création de contenu avec la publication de magazines trimestrielles et la création d'une série de vidéos ouvrant le secteur à un public plus large.

Au cours de 2021, le nombre de membres a augmenté de 26, atteignant un total de 324, une croissance issue des trois types d'adhésion (membres principaux, membres associés et membres affiliés). Ceci reflète l'intérêt continu pour les classes d'actifs de PE et VC malgré des vagues successives de confinement.

Selon Stéphane Pesch, CEO de la LPEA : "2021 a encore été fortement perturbée au premier et dernier trimestre suite au COVID. Nous avons vécu une année à la fois inhabituelle mais aussi résiliente et remplie de succès."

Selon Claus Mansfeldt, le président du Conseil d'administration de l'association : "L'année 2021 s'est achevée avec des volumes records à l'échelle globale, en particulier sur les principaux marchés de buyout – 2021 étant la première année à dépasser les 800 milliards de dollars en volume global de transactions, battant ainsi le record précédent de 2007 de près de 20%."

L'AGO s'est clôturée par le discours d'Andrey Kolodyuk, président l'Association ukrainienne de Private Equity et de Venture Capital, en charge du "Plan de redéveloppement et de relance de l'Ukraine", une initiative stratégique visant à surmonter les effets de la guerre en Ukraine avec la participation active d'investisseurs PE internationaux et leurs investissements.

Election de 11 membres du conseil d'administration

Lors de l'AGO tenue le 9 juin, les représentants de la Luxembourg Private Equity & Venture Capital Association (LPEA) ont annoncé l'élection de 11 nouveaux membres à son Conseil d'administration.

(Membres principaux- General Partners, Limited Partners, Family Offices)
- 3i Investments, représenté par Aline Bapst
- Cinven, représenté par Gautier Laurent
- Swancap, représenté par Claus Mansfeldt
- Threestones Capital Management, représenté par Mathieu Perfetti

(Membres associés - Prestataires de services)
- Arendt & Medernach, représenté par Adrian Aldinger
- Banque de Luxembourg, représentée par Lucienne Andring
- Clifford Chance, représenté par Katia Gauzès
- Edmond de Rothschild AM, représenté par Serge Weyland
- EY Luxembourg, représenté par Laurent Capolaghi
- PwC Luxembourg, représenté par Valérie Tixier
- Sanne, représente par Pierre Weimerskirch

La LPEA est l'organe représentatif des professionnels du PE/VC au Luxembourg. Comptant aujourd'hui 350 membres, la LPEA joue un rôle principal dans les consultations et le développement du cadre d'investissement et promeut activement le secteur au-delà des frontières du Grand-Duché.

Le rapport annuel peut être téléchargé sur le lien https://lpea.lu/

Private equity roars on in Luxembourg

Private equity roars on in Luxembourg

Stéphane Pesch, CEO, Luxembourg Private Equity & Venture Capital Association, has witnessed the past of private equity in the country and believes in its future.

Can you tell us about your professional background and your experiences leading up to your appointment as CEO in September 2020? What would you say are your proudest accomplishments and achievements to date?

I studied economics, business administration and finance in France and did an exchange year afterwards in the U.S., in Pennsylvania. Then I returned to Luxembourg and started in the media industry because it was something I personally found very interesting. I then shifted to my favorite sector, the financial sector. I have worked in different private banks, depository banks, as well as in specialized fund administrators. That combination has given me a professional experience of 14 years in asset servicing. I started with liquid funds, investing in equities and bonds, and afterwards moved increasingly into the alternative investment space, including hedge funds, real estate, and then focusing on private equity and venture capital.

I have always been a member of the Luxembourg Private Equity & Venture Capital Association (LPEA), thanks to the different firms I have worked with, while taking care of product and business development. I have traveled internationally, representing Luxembourg's financial hub. As far as accomplishments, it was a profound pleasure and honor to join the association in September 2019 as Director of Strategy. There I started to develop the launch of the LPEA Training Academy; initiated several new technical committees, working groups and clubs which are hugely active and important for the thought leadership activities of the association; and also revived and fortified with my predecessor all the public affairs activities, rekindling relations with the Pan-European Private Equity Association, Invest Europe, with the different ministries and public entities within Luxembourg.

Simply put, why invest in Luxembourg? What are the country's main competitive advantages in terms of private equity and venture capital? What are the primary incentives for foreign investors, and what should an investor know before deciding to invest in Luxembourg?

Rather than a deep dive into specific foreign direct investment (FDI) opportunities, of which there are many, I would prefer to focus more on the country as a private equity and venture capital hub. Luxembourg is globally the second largest fund center in the world. We have over 30 years of experience in handling and launching investment funds. The liquid funds I mentioned before started in 1988. Afterwards, in the 2000s, we developed dedicated structures for risk capital and specialized investors. That was the genesis of Luxembourg becoming a private equity and venture capital hub. In 2013, the Alternative Investment Fund Managers Directive (AIFMD) was introduced. Essentially, we proactively adapted our laws, launched new business models and created the Luxembourg Special Limited Partnership (SCSp) as well as the Reserved Alternative Investment Fund (RAIF) later in 2016. Those were tremendous successes, highly praised and recognized by international investors who wanted to have their pan-European flagship funds and management companies in Luxembourg too. Certainly, Brexit accelerated the interest for an EU headquarters and this whole process, but this is how Luxembourg became such a robust, proactive and agile ecosystem. Eighteen out of the 20 largest General Partners are actually in Luxembourg, either through a fund or some specific structures. This is a genuine sign of trust, of being around the right persons, the right expertise and also being able to service everyone with a one-stop shop, as we like to describe it.

As far as the advantages of Luxembourg go, I would describe it as intrinsically international, especially business friendly and also very pragmatic. We also enjoy fast decision-making and constant communication with authorities and ministers, which is a great advantage. It is easy to work together in order to thrive and make Luxembourg successful.

Q: You also recently launched the LPEA training academy, where you hold trainings for industry professionals. Can you tell us more about LPEA's vision of contributing to the country's financial industry in terms of professionalization, knowledge transfer and compliance?

That was exactly the goal when I started within the LPEA. The first edition was launched in June 2020. Of course, it was a fully digital edition, with hands-on experts from the association sharing their knowledge and examples directly with our members and also with persons outside of the LPEA. As you said, it is designed to educate, and in a broader sense, to plant seeds in promising talents, encouraging them to come to this very attractive and quickly growing sector.

This year we had a double edition, the winter and summer ones, and we continued with new modules to go deeper into new and more technical, specific topics. We also went into the different strategies, including private debt funds, fund of funds, or multi-strategy funds. We also had expert trainings with more complex knowledge to be shared. It was not just targeting junior or intermediate profiles, but also experts, which is very important for Luxembourg. When you have such a fast-growing sector, you also need those great resources who you can try to either find, attract to Luxembourg from abroad and then further develop, or you build up from scratch locally. That was really the goal.

The beauty of the academy was that, since it was digital, we were able to record it and then people could watch the replay for a limited time. There was a fluid interactivity with students and talents through Q&As, and presenters could articulate diverse themes and topics with clearly laid out digital presentations.

The financial sector was not immune to the effects of COVID-19. How did LPEA counter the pandemic and its subsequent shock, and what can you tell us about the Luxembourg financial industry's resilience during the crisis?

We were all taken by surprise, and the first thing we did was digitalize the association. We were lucky enough to have our servers and data already in the cloud. This meant that we could simply take our laptops, redirect the phones, and work remotely from home without much of a problem. That was very helpful. We needed a platform to maintain the vital contact with our members. We went with the usual suspects, platforms such as Zoom, to do our calls, which was much better than just phoning around. It was crucial to be able to "see" our members too. We then completely re-created all our events and transformed our seminars into webinars, and our international roadshows into international e-roadshows. We also even housed our annual flagship conference completely digitally last year (500+ registrations). This year, we were fortunate to be able to do a hybrid version of it, while still keeping technology quite high on the agenda. There was a definite business continuity, allowing everybody to stay resilient, in touch, and continue working.

Regarding the Luxembourg financial services and hub, technology simply helps everyone. We recognized there were some business trips which were "unnecessary." Those may or may not resume after the COVID-19 crisis. Some are still very important because private equity and venture capital are a people's business, and you need to see your different clients, investors or managers at least once a year or more in order to really make the right decisions. At least during the pandemic, business continued and the private equity and VC sectors really showed buoyancy. Performance was maintained and people continued to fundraise for those who had started that process. They were able to meet and gather the right amount in order to start the new vintages and structures. In the end, we can say that we have been very lucky and that the entire sector was robust enough to absorb such a shock. We have also increased our productivity. We have implemented a blended modality, combining work from home as well as in the office. Of course, the impact on humanity should not be forgotten in the whole equation.

What would you say were the biggest challenges and/or opportunities that came out of the pandemic? Did anything surprise you?

Even before the pandemic, we were always debating about whether we should work from home. With COVID-19, we no longer had that choice. In the end, it completely accelerated that trend and even introduced it to other sectors, which would probably have been more conservative or not even inclined to envision it that quickly. Many wound up finding it super interesting. In Luxembourg we have many commuters who come from abroad to make up our great workforce. They sometimes can waste a lot of time in traffic. Being able to start work from home around 7:45, not having wasted 45 minutes in a car, taxi or public transportation, saves a lot of time and energy. They can then go to the office once traffic has calmed down. Those are options that had not existed in the past.

The international reach is another new development. For example, through the academy or our seminars and webinars, we have attracted many people from abroad who probably would not have had the time to join us in Luxembourg for breakfast, evening sessions or events. That again allowed us to expand in other directions and become even more international.

Digitalization, AI, open banking, cloud computing, blockchain, and other fintechs are disrupting the way we do business. What role should LPEA play in both raising awareness and promoting best practices around these new technologies?

These are very hot topics. Be it digitalization, fintech, blockchain, or distributed ledger technologies. These are all crucial for future growth. It is pivotal to embrace them because, in the end, they will change how we work and do business. Humans can combine technology with their knowledge and expertise to do other tasks which bring more added value. We strongly believe in all these very important trends and enjoy collaborating with the different incubators and accelerators as well as the practitioners in Luxembourg. For example, on a regular basis we do events with the Luxembourg House of Financial Technology, the LHoFT, the House of Startups, Luxinnovation, Technoport, Luxembourg City Incubator, and many more. We exchange, participate, and cross-fertilize, which is key for the entire ecosystem.

On the other hand, we also value the business angels and the other financial associations present in Luxembourg. Since we have the VCs within our association, it gives us a fantastic ecosystem from A to Z. Young entrepreneurial founders can come to Luxembourg and find a nice place within an incubator. Afterwards, they can participate in the renowned contests organized by Luxinnovation. Then they meet with business angels and finally with the VCs. Everyone is always helpful, eager to see those entrepreneurs thrive, not only within Luxembourg, but also in Europe and internationally. That is how we can play those strengths together. We act as a genuinely united front which allows people to have those quick contacts, the specialty of Luxembourg. The stronger the startups are in Luxembourg, the more interested powerful VCs will look at the Luxembourg market and investment opportunities.

On the 28th of October last year we held our Insights conference (annual flagship event) which was dedicated to areas such as decentralized finance, tech disruption, innovation, as well as the rising exposure of new Limited Partners to venture capital for example. You have also have lots of family offices in Luxembourg which are interested now in these asset classes. If one had to choose one big word for 2021, it would be technology.

It is no secret that sustainability and ESG standards are becoming increasingly important for investors. In September 2020, Luxembourg became the first European country to launch a sustainability bond framework. In addition, the country's Green Exchange highlights the importance of issuing sustainable securities. To what extent are sustainability issues driving where investors choose to put their money? What do you believe will be the biggest issues related to sustainable finance in the future?

First of all, sustainable finance is vastly important for the entire financial sector. Here the goal is not to use "gimmicks" or greenwash, rather, it is to move forward and concretely in the right direction. ESG standards, and the UN sustainable development goals, are crucial for our industry too. There is no doubt about that. That is why two years ago we created a dedicated ESG club, where we have many practitioners discussing, brainstorming and analyzing the situation. For example, we are tackling if and how the new Sustainable Finance Disclosure Regulation rules which were implemented this year in Europe can be smoothly integrated; and how they will simply become the norm and standard for all our businesses. There is honestly no way around it. Just as with technology, ESG is the same! These are going to be the standards, if you want to be or remain successful.

For us, it is quite important, since private equity and venture capital investments can lead to a strong control over the target companies (in case of majority stakes) and therefore represent an interesting opportunity. That is also part of the value creation process. Our members transform the world's firms, giving them digitalization, optimizing productivity, buying and building new European and international champions, changing the strategy and developing new products. However, it is essential that they also take the time and integrate the ESG standards within those target firms and apply them to themselves in order to thrive even more in the future.

Do you have any final comments for the readers of Newsweek magazine?

The success of Luxembourg is not just a question of luck. It was really a very clear idea formulated almost 30 years ago that Luxembourg should enter the field of investment funds and be a pioneer. This ended up in the creation of a new and complete industry from scratch. The same thing applied to private equity, and when the association was created, it was led by visionaries and experts who understood that the next stage of growth would be in the alternatives. With strong real estate funds already in Luxembourg at that time, the private equity and venture capital sectors were clearly the next and most promising industries to be further developed.

I would also combine that with the LPEA's strategic plan. Over the coming years, the goal for us is certainly to continue attracting new members, general partners (investment managers) and limited partners (investors), not to mention family offices in Luxembourg, which are very important players. Of course, it is to continue the visibility of Luxembourg as a PE/VC hub, recognized in Europe alongside London and other big capitals because we certainly can help with all the structuring capacities. We would also like to attract more talents to Luxembourg. That is certainly one of the key strategies and priorities of the association and of our members. Finally, we wish to deepen and strengthen our relationships with Invest Europe and other prestigious European and Luxembourgish associations.

Sanne : Pierre Weimerskirch re-elected on LPEA Board of Directors

06/29/2022 | 07:58am EDT

Sanne, the award-winning and leading global provider of alternative asset and corporate services is delighted to announce that Managing Director of Sanne LIS, Pierre Weimerskirch, has been re-appointed to sit on the Board of Directors (the "Board") for the Luxembourg Private Equity and Venture Capital Association (LPEA).

During the past 12 months, the membership of the LPEA increased to a total of 350 members, reflecting he continuous appetite for Private Equity/Venture Capital asset classes in Luxembourg. LPEA plays a leading role in the discussion and development of the investment framework and actively promotes the industry beyond the country's borders.

Pierre is a co-founder of LIS and has more than 25 years' experience in the industry. As Managing Director, Pierre is responsible for business development and distribution. He is Chairman of the Investment Committee and sits on the board of LIS. Additionally, he is part of Sanne's Global Product Development Team where he has oversight of the AIFM and Depository divisions.

On the re-appointment, Pierre comments: "LPEA represents, promotes and protects the interests of the private equity and venture capital industry so it is a real honour to have been re-elected and sit on the Board of Directors. The association continues to be very resilient, growing at a rapid pace with extended activities in training and with the creation of new Committees and Clubs. I look forward to a busy remainder of the year."

PRIVATE EQUITY

Wider access to private equity for HNWIs not without risk

Raymond Frenken - 30 June 2022

Private equity is still largely seen as an exclusive club for professional investors. Retail investors can only take part by investing remotely, for example by buying shares in a management company that has a public listing. In the coming years this is expected to change as more investors, in particular those who are considered High Net Worth Individuals, can meet the legal thresholds and can tap into the private equity pool, also thanks to new digital efforts to make these investments more scalable.

The Luxembourg Private Equity Association, LPEA, recently hosted an in-person debate on widening access to PE for HNWI's and family offices, moderated by Alexandre Hector of KPMG Luxembourg. A study by Boston Consulting Group last March projected that 10 percent of PE funding will come from HNWIs, underpinning growth projections of 20 percent per year for the next five years. Technology - tokenization for example - is but one aspect. A desire to offer clients a wider range of investment options is another.

"It's a trend that will remain in the coming years," said Mathieu Perfetti, head of PE at Threestones Capital when introducing the panel. "We need to make it smart, support investors and use technology to make it scalable."

"Today, the question is very much about how to invest for clients, more than why invest in private equity," said Oliver Dauman at CFM Indosuez Wealth, which manages more than 5 billion euro in private assets. "So there is an appetite and there is a responsibility for wealth management. It is not just an opportunity but there also is a responsibility to properly handle this."

Increasingly popular also in Luxembourg

Private equity is growing in importance also in the Luxembourg financial ecosystem. When it comes to alternative investments and providing companies with long-term capital, the popularity of vehicles such as Raifs and Eltifs is expected to growth further in the coming years. Such vehicles however are only accessible to qualified professional investors, or private investors who can commit significant amounts as a long term investment and meet investment threshold criteria set by regulator CSSF.

Matching a complex, long-term vehicle and matching that with the particular needs of a client often can be particularly challenging in private equity. It can become even more difficult when the client is a family office, said Manuel San Salvador, founder and managing partner at Antwort Capital, a Luxembourg firm that supports private equity funds. Determining valuations - mark to market - is another aspect to be considered,

"This really, really is a challenge," San Salvador said. " It takes a lot of time to create your own vehicle with your funds. And after that, when you create your own vehicle, you have to fit this with clients. And then you have to have a relationship with that client base during seven to ten years."

Tom Slocock, head of international product development at iCapital Network, which manages some 130 billion dollars in about 1000 funds said the industry needs to make sure that it can properly offer private equity as an asset class to investors who may not have the knowledge to properly understand certain types of investments.

"Education is critical," Slocock said, noting "a gap in the knowledge base at client level."

Scaling up only possible with technology

iCapital these days is launching three to four new PE funds per week. Technology, Slocock said, will be key to make sure that an increasingly large client base can handle the huge number of documents in relation to these products. "You're not going to get to that sort of scale without technology," he said.

Antwort's San Salvador agreed on the need to properly leverage technology if private equity is to be successful for a wider range of clients. "Performance is not why a client leaves you. It's because of a lack of support, a lack of access," he said. "You need technology. It is absolutely key."

Transparency on liquidity also is to be considered when offering PE investments to a wider group of clients. PE investments are not as liquid as publicly traded financial instruments, which means selling them may be particularly difficult when there is no buyer available. "In terms of liquidity, we are not there yet," said Indosuez' Dauman.

Liquidity is there when you don't need it

"We have to be very upfront to clients," said iCapital's Slocock. "Liquidity is there when you do not need it. The question is: is it there when you do need it?"

Around the table, the experts in the discussion were reluctant on the possibilities of innovations such as through tokenization, which elsewhere in the investment industry is seen as a possible way to give a wider group of investors access to for example debt pools or infrastructure investments. The volatility in the bitcoin market does enhance confidence.

Slocock sees a potential train wreck. Retail investors do "not have a good track record of self restraint. We have very good guard rails, but such products are sold to people who do not know how to drive. The outcome is a train wreck," he said.

Education is key, the panel agreed, in particular in the secondary market. In the private equity market "you need to understand what you are buying," said San Salvador. "It can be very very dangerous."

ASSOCIATION

STÉPHANE PESCH
LPEA

LE NOUVEAU VISAGE DU PRIVATE EQUITY

ALORS QUE LE PRIVATE EQUITY (PE) ET LE VENTURE CAPITAL (VC) PROSPÈRENT AU LUXEMBOURG, STÉPHANE PESCH, CEO DE LA LUXEMBOURG PRIVATE EQUITY AND VENTURE CAPITAL ASSOCIATION (LPEA), EXPLIQUE COMMENT LA LPEA EST DEVENUE UN FORUM PRÉCIEUX PERMETTANT À SES MEMBRES DE PARTAGER LEURS IDÉES ET LEURS POINTS DE VUE AVEC LEURS PAIRS AINSI QU'AVEC LE GOUVERNEMENT LUXEMBOURGEOIS ET LES INSTITUTIONS PUBLIQUES.

POUVEZ-VOUS DÉCRIRE VOTRE ASSOCIATION EN QUELQUES MOTS ?

La LPEA a été créée en 2010 par des visionnaires anticipant que les investissements alternatifs, y compris les stratégies de Private Equity et de Venture Capital, représenteraient le prochain grand succès de la plateforme luxembourgeoise des fonds d'investissement. Les 346 membres de la LPEA se répartissent en trois catégories : les membres effectifs, qui sont des General Partners (GPs, gestionnaires), des Limited Partners (LPs, investisseurs) et des Family Offices. Deuxièmement, nous rassemblons des membres associés, comprenant des prestataires de services et des conseillers tels que des banques dépositaires, des sociétés de gestion, des administrateurs de fonds, des cabinets d'audit et d'avocats, des experts fiscaux et des consultants. Enfin, les membres affiliés sont représentés par des administrateurs non-exécutifs ayant des mandats en Private Equity, des entrepreneurs et fondateurs d'entreprises innovantes ainsi que des spécialistes indépendants en Private Equity.

QUELLE EST LA MISSION DE VOTRE ASSOCIATION ?

L'objectif principal de notre association est de représenter, défendre et promouvoir les intérêts de nos membres et des industries PE/VC. La première mission de la LPEA englobe la gestion des affaires publiques et la défense des intérêts de notre communauté, en coopération avec les représentants des autres associations financières, avec lesquels nous échangeons sur les dernières directives et évolutions réglementaires. Nous partageons ainsi nos points de vue avec les autorités et certaines entités publiques. Nous assumons également une mission de « thought leadership ». Parallèlement à notre conférence phare annuelle, la LPEA Insights, nous avons lancé plus de 25 comités et clubs techniques – composés de membres de la LPEA et d'experts de l'industrie – abordant les dernières tendances et évolutions. Les sujets vont du juridique à la fiscalité et incluent également des questions opérationnelles, en se concentrant sur différentes stratégies d'investissement ainsi qu'en analysant les derniers développements ESG. Notre troisième mission est l'attraction des talents. Au cours des deux dernières années, nous avons développé une académie de formation spécialisée et avons organisé deux salons de l'emploi dédiés. Nous avons également ouvert un club RH où les professionnels échangent sur leurs besoins et les profils les plus en vogue.

QUELLES GRANDES TENDANCES VOYEZ-VOUS ÉMERGER EN PRIVATE EQUITY ?

Les tendances les plus récentes englobent l'acceptation plus large de l'innovation technologique et la « démocratisation » du Private Equity qui permet à de nouveaux acteurs d'accéder aux classes

d'actifs privés via des produits, des véhicules ou des plateformes spécifiques, aux côtés des investisseurs institutionnels et professionnels traditionnels. De nos jours, les nouveaux acteurs du secteur incluent également plus de Family Offices (beaucoup étaient déjà actifs dans le domaine), des banquiers privés, des gestionnaires de fortune et des assureurs qui ont fortement augmenté leur part dans les actifs privés au cours des dernières années en raison d'une forte demande de leurs clients. Les plateformes numériques et les innovateurs proposent des solutions digitales qui, par exemple, facilitent l'intégration des clients, aident à identifier les opportunités prometteuses grâce à des outils basés e.g. sur l'intelligence artificielle (IA), optimisent les rapports et les livrables administratifs, simplifient l'accès aux données (via des API) et finalement automatisent les flux opérationnels. Certains véhicules récents permettent également une expérience et une exposition assez personnalisées au PE/VC, élargissent leurs activités de commercialisation et visent de nouveaux types d'investisseurs (avertis et même potentiellement « retail » sous certaines conditions). La refonte des fonds européens d'investissement à long terme (ELTIF) est également en cours et pourrait représenter un catalyseur très intéressant voire une solution pour faire face à cet appétit accru. Des start-ups luxembourgeoises aux technologies inspirées fleurissent également depuis quelques temps et déploient leurs produits avec succès, preuve supplémentaire que le Luxembourg renforce en même temps sa position d'écosystème innovant et de hub PE/VC plus transversal proposant des solutions de structuration efficaces, un vaillant état d'esprit entrepreneurial ainsi que de nombreuses et nouvelles opportunités. ■

LPEA

Luxembourg, the new frontier of Private Equity fundraising

Luxembourg has long been the "go to" place for Private Equity (PE) and Venture Capital (VC) Fund managers to setup shop in the EU.

The *Alternative Investment Fund (AIF) made in Luxembourg* brand name is widely recognised as the most relevant international market standard by PE Fund Managers (GPs) and international investors alike. Furthermore the passporting feature of such structures allows managers to market their funds in all EU member states. As a result, there are more than 300 authorised Alternative Investment Fund Managers (AIFMs) in Luxembourg today and the Grand-Duchy has developed a peculiar set of skills – regulatory, operational and compliance expertise - relative to its function as EU gateway.

But what is next for Luxembourg's alternative assets space? Luxembourg is shifting gear and is positioning itself to become a fundraising centre. Indeed the fundraising functions were exclusive to Europe's big capitals, but the seismic change created by Brexit has opened-up opportunities for Luxembourg to become a platform for investors' relations.

As pointed by **Gilles Dusemon**, Partner of Arendt & Medernach, "looking at the Investment management value chain, the AIF is established in Luxembourg, the AIFM is located in Luxembourg, the central administration, transfer agency and depositary functions are all established in Luxembourg. However, the very critical fundraising function was not necessarily established in Luxembourg. Using the past tense here because the situation is changing as a direct consequence to additional regulation and Brexit. A very important part of the European fundraising capabilities are indeed located in London. Due to Brexit, firms established there have been cut-off from their fundraising activities within the EU. Alternative solutions are thus needed". An increasing amount of PE/VC GPs are therefore consolidating their distribution and marketing capabilities in the Grand-Duchy.

According to **Martine Kerschenmeyer**, Director at **Advent International Fund Manager** "Luxembourg is a big office for Advent in Europe with over 60 people in Finance, Operations as well as an Investment team already on the ground. Distribution was a natural addition especially in light of Brexit and the change in distribution rules to EEA investors. Our distribution team is global with offices in the US, UK and Europe, including Luxembourg".

So what are the building blocks to create a fundraising hub? The first is a given for Luxembourg – regulatory, operational and compliance excellence, and as the investor relation process is highly regulated, Luxembourg benefits from such competitive advantage.

The second, according to **Hélène Noublanche**, Manager in the Investor Relations team at **Coller Capital** is "having the right team in place. A team that is, able to represent the Fund and to market it to the appropriate investors. It is essential to develop the expertise of the internal Investor Relations team. These persons should be part of an in-house global team, which co-operates on a daily basis with other key functions of a GP, i.e. compliance, legal, finance, marketing and of course with the investment team". [feature video with Hélène Noublanche: https://www.youtube.com/watch?v=GQziqWqc8gw

Luxembourg, the new frontier of Private Equity fundraising

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Gilles Dusemon has been advocating for the third element: a series of improvements, many of small efforts but critical to bring us up to date with managers and investors' requirements. "Besides updating our toolbox, there are a few other regulatory tweaks that could substantially improve the operating conditions of Luxembourg AIFMs. The next frontier would thus be the digitalisation of the fundraising process".

The discussion is long but exciting as the opportunities ahead are sizeable and can significantly change the local landscape. To dive further into this topic the LPEA (Luxembourg Private Equity and Venture Capital Association) has invited all of the above experts and many other speakers to its Insights conference which is taking place as we print.

Johann HERZ
Head of Events & Communication
LPEA

DELANO

LUXEMBOURG PRIVATE EQUITY AND VENTURE CAPITAL ASSOCIATION (LPEA)

Why investor relations is the lifeblood of funds

Written by Aaron Grunwald
Published on 13.10.2022 • Edited on 14.10.2022 at 10:05

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Gilles Dusemon of Arendt & Medernach, Caroline Kragerud of Cube Infrastructure Managers, Hélène Noublanche of Coller Capital, Martine Kerschenmeyer of Advent International and Laurent Hengesch

TOP
RECOMMENDATIONS
1 TECHNOLOGY
"Luxembourg is a perfect target area": Korean accelerator exec

Investor relations professionals are no longer "second class citizens" and that could be a good thing for Luxembourg's private market fund sector. If firms can staff up.

Fundraising is increasingly seen as a strategic role at private market fund firms and is a function that can easily be run out of the grand duchy. At the same time, firms may need to reconsider how they approach recruitment and retention, as the sector's staff crunch continues to bite.

The comments came during the LPEA Insights 2022 conference on Thursday 13 October.

Perception of IR role

Gilles Dusemon, LPEA executive board member and partner at the law firm of Arendt & Medernach, said the investor relations function has traditionally been undervalued, but has been taking on greater importance, globally since the 2007/2008 financial crisis and particularly in Luxembourg since the 2016 Brexit vote. He said it was an essential function, which he would like to see more of based in the grand duchy as Luxembourg increasingly broadens from the back and middle office into the front office.

Martine Kerschenmeyer, director, limited partner services at Advent International, quipped that she "started in fundraising before it was a profession." The native Luxembourger worked in London for 20 years, where IR staff used to be considered "second class citizens." These days, she said, it is acknowledged that IR teams are responsible for "building long term trust" and fostering relationships "that are longer than marriages sometimes."

"If there's no money coming in, you can't invest, so there's no business," Caroline Kragerud, head of investor relations at Cube Infrastructure Managers, commented more bluntly.

Growing sector

Earlier this month Preqin, a data and research outfit, forecast that assets under management in alternative funds globally would increase from $13.7trn at the end of 2021 to $23.3trn at the end of 2027. Assets under management in Europe were predicted to grow from $2.22trn at the end of 2021 to $4.1trn at the end of 2027.

Annual fundraising in Europe was expected to rise from $21.3bn at the end of 2021 to $30.5bn by the end of 2027, Preqin said.

Speaking at the "Fundraising from Luxembourg" roundtable at the LPEA conference, Kragerud pointed out that assets under management in infrastructure funds (her segment) were expected to double between 2021 and 2027. Investing in infrastructure "is one of the most efficient ways of tackling" decarbonisation and climate change. Energy transition, renewables and energy efficiency projects "are extremely important today and investors are looking to be part of that."

In a survey carried out by her firm, Hélène Noublanche, investor relations manager at Coller Capital, said that 71% of 110 private equity investors reported that their PE portfolio had outperformed their public market investments. More than half increased their PE allocations over the past 2 years.

Secondary markets

Noublanche said that increased PE allocations will create opportunities for firms (like hers) to pick up stakes in the secondary market, perhaps bringing a bit more liquidity to the famously illiquid category.

Kerschenmeyer noted that the current economic climate has prompted some investors to want "to get into older vintages". Laurent Hengesch, founding partner of Ilavska Vuillermoz Capital, observed that the larger and more successful a portfolio company, the more liquidity it has in the secondary market.

Staffing challenges

Investors and fund firms have been experiencing difficulties in hiring and retaining staff, Noublanche said to wide agreement.

That is the case in Luxembourg and elsewhere, Kerschenmeyer added. The pool of IR professionals is even smaller, and when you're "fishing in a small pond, it becomes difficult." Firms need to decide if they want to focus their recruitment on reskilling or relocation, she suggested.

Demonstrating a good ESG approach and firms making a difference on climate change is a major plus in "attracting younger people", according to Kragerud.

Ilavska Vuillermoz Capital is currently searching for a senior investment manager, Hengesch recounted. Out of 100 applications via Linkedin so far, 20 people were located in India and only 1 was a woman. "We're really struggling to find people from here."

Call for lower threshold

When it comes to serving as a fundraising hub, “Luxembourg can offer the solutions,” Dusemon stated, “but we can do it better.” He called for the minimum investment threshold for semi-professional or “well informed” investors to be lowered from €125,000 to €100,000 in Luxembourg. That would put the grand duchy on par with France, Ireland, Italy and the Netherlands, he said.

The shift would help pull in more funds targeting high net worth retail clients, he argued. The €100,000 floor could be introduced at EU level, but that would come into play in “2025 at best,” Dusemon said. Instead of waiting two-plus years, he would like Luxembourg’s parliament to make the move at national level. “It’s a low hanging fruit.”

New feeder fund in the works

Hengesch--whose firm announced earlier in the day that the former LSAP deputy prime minister and ex-economy minister Etienne Schneider would join its advisory board--revealed at the conference that Ilavska Vuillermoz Capital would start a Czech feeder fund with local partners. “We saw an opportunity with Eastern European private clients.” No launch date has been set.

The annual LPEA Insights conference is organised by the Luxembourg Private Equity and Venture Capital Association (LPEA), which represents around 370 member firms in the private market fund industry.

PRIVATE EQUITY

'Luxembourg needs to cut investor threshold to €100k'

Raymond Frenken - 13 October 2022

In order to remain competitive with other countries in Europe, Luxembourg needs to quickly lower its minimum entry threshold for investors in private equity without waiting for new European Union rules to emerge in the coming years, a lead member of the Luxembourg Private Equity Association, LPEA, said on Thursday.

Several other EU member states, including Germany, Ireland, the Netherlands and Italy, currently apply a 100.000 euro threshold for investors that wish to invest in private equity or alternative investments. Luxembourg's law still defines the threshold at 125.000 euro.

"We are no longer the gold standard," said Gilles Dusemon, member of the executive committee of the LPEA, at the opening of the association's conference on fundraising and investor relations at the Philharmonie in Luxembourg. Dusemon also is partner in the private equity and real estate practice of law firm Arendt & Medernach.

Luxembourg rejected

Dusemon described one recent example where an international firm decided to set up its fund - a Reserved Alternative Investment Fund - in Ireland instead of Luxembourg after it was made clear to them that an investor threshold of 100.000 euro was not possible under the grand duchy's law.

Private equity and alternative investments have become increasingly competitive in recent years against traditional listed investments. The domain is no longer exclusive to institutional investors but also is increasingly seeing inflows from family offices and high net worth individuals who look to commit to long-term investments.

New AIFMD regime coming

European Union lawmakers are recognising the change in the market and are preparing to adjust EU legislation in the second AIFMD directive, which is expected to enter into force in the coming years, possibly in 2025. The directive is expected to propose a professional investor threshold of 100.000 euro.

LPEA's Dusemon called on Luxembourg stakeholders and policymakers not to wait until AIFMD2 has been adopted. "Do we have to wait two years?" he asked. "This is low-hanging fruit. 100k has already become the industry gold standard."

STÉPHANE PESCH VOLONTAIRE FIT FOR LIFE

— STÉPHANE PESCH

J'ai participé pour la première fois au programme « Fit for Life » au printemps 2022. Après une séance de briefing pointue et explicative avec les responsables du projet, j'ai reçu les différents fascicules et présentations, qui ont été partagés en amont avec les lycéens du Michel Rodange. Je me suis préparé et ai revu les différents documents quelques jours avant mon intervention. L'accueil au lycée s'est très bien passé ainsi que la rencontre avec les professeurs et élèves. Les cours (2 modules par séance) se sont déroulés sans encombre et les étudiants ont témoigné un grand intérêt pour les exemples, jeux de rôle et exercices proposés. Les lycéens étaient avides d'apprendre des choses pratiques, qui leur serviront plus tard lors du démarrage de leur vie professionnelle.

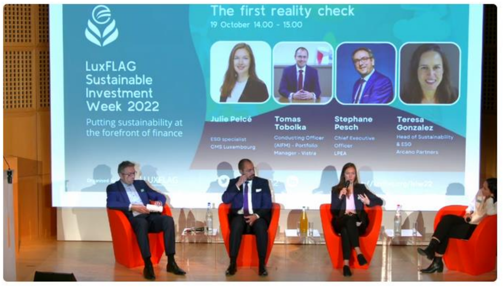
Je recommande très fortement ce programme, qui contient beaucoup d'informations pratiques, utiles et qui est taillé sur mesure pour un public de lycéens avides d'apprendre. Ma suggestion aux futurs bénévoles est très simple : « engagez-vous et venez partager avec la jeunesse votre savoir, vos expériences autour d'un projet bien ficelé et évolutif ».

Volunteering Opportunity!

SUSTAINABILITY · PRIVATE EQUITY

In private equity, ESG requires even closer engagement

Raymond Frenken - 20 octobre 2022



The EU's sustainable finance framework is widely recognised as immensely complex. For private equity firms, it's even more so, especially now that more and more investors demand that their investments are made in funds with sustainable assets.

With reliable ESG data being sparse, fully understanding the people who manage the business that you invest in as a fund manager has become critically important. PE firms have always kept close and tight contacts with managements, but now that ESG has entered the scene, managers also need to be questioned about their sustainability approach, Especially by PE funds who want to be sustainable themselves.

Wednesday's panel discussion at the LuxFlag Sustainable Investment Week conference made clear that private equity actors also struggle with the new requirements as defined in the increasingly stringent Sustainable Finance Disclosure Regulation, or SFDR, as the main body of the EU framework, which also includes the EU taxonomy, is known.

Stronger engagement policy

"A stronger engagement policy is expected under the SFDR," said Julie Pelcé, ESG specialist at law firm CMS Luxembourg, adding that the EU framework is primarily tailored to investment funds, not private equity. "It is a subjective assessment. You need to have a strong policy in place to ensure that the companies you are investing in are complying with the requirements. Check the composition of the board, whistleblowing policies, but you also need to report on the engagement policy."

Teresa Gonzalez, head of sustainability and ESG at Arcano Partners, a Spanish private equity firm active in infrastructure and corporate credit, underlined the importance of having a proper methodology in place. Arcano does not rund its own ESG funds but does have fund-of-funds that aspire to have a "light green" Article 8 or "dark green" Article 9 status.

"Most important is to have a solid methodology behind the product in terms of ESG. Once you have this you will have a good product," Gonzalez said, adding that Arcano's approach diligently checks a range of ESG KPIs for the funds that it invests in and their managers, which are then kept in a database.

'Very basic'

She explained that they check for ESG standards at the level of the general manager of the funds, and not at a portfolio company level. The internal tool at Arcano rates each general partner in the fund, and gives them a score in terms of ESG commitment. "It's very basic for us," Gonzalez said. "Do they do their ESG due diligence? Do they give ESG training to their employees? Are they an active actor in terms of ESG? Is there a ESG close in their transactions? We try to understand their monitoring and control processes."

"We all should keep in mind that SFDR and taxonomy are transparency regulations, and not classification tools," CMS' Pelcé added. "Being as transparent as you can is the best you can do."

Investors demanding sustainable funds

For Alternative Investment Fund Managers, the AIFMs, the legally responsible firms as a third party for alternative investment funds, ESG presents its own challenges. Tomos Tobolka, conducting officer at Vista Fund Management, a Luxembourg-regulated AIFM, advises funds against setting their ESG ambitions too high, even at a time when investors are demanding green SFDR funds.

Tobolka said "lots" of alternative funds have opted to classify their alternative private funds as Article 6 under the SFDR, the category for "brown" investments where no additional reporting requirements are demanded. "Lots of clients have opted for Article 6 just to be on the safe side. Few are going for Article 8 or 9, even though there is pressure from investors demanding to be 'at least article 8'."

"It's done on a best effort basis, which can be quite challenging," he said.

Tobolko outlined a range of additional requirements that are coming in the next half year, referring to a number of other SFDR articles that require specific disclosures and declarations via websites and annual reports, and the EU's new ESG reporting templates that are required from January 2023.

AIFMs are in the middle

"It's definitely complex," Tobolka said. "As AIFM we are kind of in the middle, we need to file templates by a certain deadline, but others need to collect the data."

The industry in recent months has seen a number of regular investment funds being reclassified from Article 9 to 8, as Investment Officer as reporter. Asked about such reclassifications among alternative funds, panellists noted that this is not a trend in this part of the market, although, according to Vista, one specific real estate in Luxembourg recently did decide to switch its classification to Article 8 from Article 9.

"You really need to think it through before you decide to become Article 8 or Article 9. The last thing you want is to be blamed for greenwashing," said Tobolka.

As moderator of the panel, Stephane Pesch, CEO of the Luxembourg Private Equity Association, nevertheless was upbeat about the prospects of sustainable finance among alternatives. "It's not as rosy or as lovely as you could imagine. There are also obstacles on the road: data collection, legal certainty, also how to implement it in your business model and for your clients," Pesch said. "But it's a long-term effort. See AIFMD in 2013, but look at where it brought us. That's exactly the parallel that I would like to draw."

EMPLOYMENT PREDICTIONS

Finance jobs shielded from recession risk, leaders say

by Emery P. DALESIO / 6 min. / 02.11.2022

Luxembourg's key business sector viewed as protected from significant slowdown

Good news for workers in big parts of Luxembourg's financial sector despite building recession gloom across the world economy – companies will be unlikely to make hoards of people redundant in the months ahead.

Luxembourg may be heading for recession, the country's statistics agency said last week. Data analysed in the coming months will show if the economy contracted during the July-to-September quarter as Russia's invasion of Ukraine caused swelling inflation.

The country experienced a 0.5% fall in output during the second quarter, Statec said. The bright spot was that the country's financial services sector grew by 2.4% between April and June, Statec said.

The sector, and especially the growing field of alternative investments, should be largely insulated from significant job losses even if other types of companies cut workers or close down, according to a range of industry insiders from private equity to fund services and a member of the European Central Bank's governing board.

Requirements for full and accurate reports to Luxembourg's financial regulator CSSF, tax authorities and others will not diminish even if business is less bubbly, industry insiders told *Luxembourg Times*. Neither will the red-hot need for compliance and risk specialists.

"If you want to be fit for the future, then you need to hire those persons whatever it takes," said Stéphane Pesch, CEO of the Luxembourg Private Equity & Venture Capital Association. He spoke to *Luxembourg Times* a day before the trade group held a digital job fair last week to interest candidates around the world in a move to Luxembourg.

Stephane Pesch

LPEA

Luxembourg's chronic shortage in digital, risk, compliance and other important roles means people who lose jobs elsewhere as recession bites might come here and join firms continuing to hire, said Darren Robinson, managing partner at employment recruiters Anderson Wise.

"The most common phrase I hear is business-as-usual in terms of recruitment," he said. "I think that's down to the fact that we are still not at [employment] capacity. Companies are still recruiting because there is a shortage of staff."

For companies like Kneip, which provides fund data that complies with regulations, there are no signs of trouble ahead for employees, CEO Enrique Sacau said.

Kneip CEO Enrique Sacau

Photo: Anouk Antony

"Kneip is growing fast, and we expect that to continue even in a recessionary environment. What we do is non-discretionary: our clients need support with their data regardless of the economic environment," he said in an email. "The majority of our workforce is in Luxembourg and we continue recruiting for all functions here."

A trend to outsource accounting or other back-office tasks from Luxembourg to lower-cost locations could accelerate in a recession, Pesch said.

Employment for more forward-looking functions like business development and marketing could be re-evaluated if prospects of nabbing new business dim, Pesch said. But other firms might consider the slowdown in the economy and their competitors a great time to grab potential clients, Pesch added.

"So in the end it would not change a lot," Pesch said.

Luxembourg funds also are hiring more management staff under pressure from a looming EU directive requiring them to show they were not solely created for tax reasons and have credible income, staff and premises. Alternative investment funds have increased staff by 50% since 2020, KPMG said in a report last week.

Investors are expected to continue piling into alternative assets, if more cautiously, with the sector growing worldwide at 12% annually over the next five years, down from 19% growth until 2021, according to a report by alternatives data provider Prequin.

A recession could imperil some companies and push some workers into hardship. As ever though, trouble for some could mean opportunities for others like Luxembourg financial firms and the people who work for them, said Rajaa Mekouar, founding managing partner of private equity firm Calista Direct Investors.

Rajaa Mekouar of Calista Direct Investors

Calista Direct Investors

"Recessions for investors like us mean better valuation to buy attractive companies," Mekouar said. "Unless you believe it's the end of the world and [Russian President Vladimir] Putin is going to nuke us all, I think the next two, three years will be excellent vintages."

She predicts that a looming recession will have a similar rhythm to the start of the Great Recession in 2008. Back then, investors initially paused to take stock of bank collapses and where the dissolution trail would lead next.

"But then within the next two, three years, there were amazing deals to be done for the cash-rich investor who has the long-term horizon," Mekouar said.

Further job security protects the 4,000 to 5,000 people in Luxembourg who work in alternative assets from private equity to funds focused on real estate, infrastructure and private debt, said Alan Dundon, president of the Luxembourg Alternative Administrators Association. That's almost 10% of the 50,800 finance sector staff working in the Grand Duchy in June, regulatory agency CSSF reported. That was the most since 2007.

The alternative assets sector of the country's financial industry has ballooned with well over double-digit annual growth in the past three to five years, he said. That's because pension funds and other big investors sought returns in a world of super-low bond rates, said Dundon, who is also director at fund services firm Alter Domus.

Those investments now are in closed-end funds that don't allow redemptions when recession looms, with the money tied up for seven years or more, Dundon said.

"So for this industry, what we're looking at now is more of a bump in the road than a big sort of recession I'm going to deal with next year," Dundon said. "We don't see any issues in terms of reduction of assets, or reduction in staff needed to service those assets."

Just €40 billion of the €260 billion fall since August in the total assets under management by Luxembourg's fund industry was due to investors withdrawing capital, financial regulatory agency CSSF said on Monday. The rest of the drop to just more than €5 trillion in assets was due to falling asset values as investors turned gloomy, the CSSF said.

What has happened is that firms and job-changers alike seem to have entered a wait-and-see moment, Dundon said. Firms report a slow-down in the pace of people quitting for new positions, he said.

"There's a period of uncertainty right now, and ahead. You don't want to increase that uncertainty by going and changing [jobs]," he said.

Still, companies in Luxembourg's alternative assets world plan to expand employment next year, not trim it, Dundon said.

One is fund industry services provider Vistra, which expects to add to its 230 employees in Luxembourg, country managing director Jervis Smith said.

"We haven't actually seen the activity drop. In fact, far from it. We continue to see a double-digit growth in that [alternative assets] business. So I think Luxembourg is a bit unusual compared to the rest of the world on this particular topic of employment," he said.

Vistra managing director for Luxembourg Jervis Smith

Vistra

Vistra has seen staff costs increase by 10% a year since before the Covid-19 pandemic, Smith said. A recession could slow down that pace, he said.

"These additional international resources could potentially help cool this salary inflation Luxembourg is currently experiencing, which I think a lot of companies would certainly want to see. Although we don't see that currently," he said. "We just see the salaries increasing quite substantially, from what used to be a 5% to 10% salary increase when somebody moved [jobs], now it's 15 to 20%."

DELANO
LUXEMBOURG IN ENGLISH

Stronger inflows going to private equity funds with ESG focus

Written by Aaron Grunwald
Published on 07.11.2021

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Claus Mansfeldt of Swancap and the Luxembourg Private Equity and Venture Capital Association, seen in February 2020. Library picture: Romain Gamba

Claus Mansfeldt is managing director of Swancap and chair of the Luxembourg Private Equity and Venture Capital Association.

Aaron Grunwald: When we spoke late last year, you were quite bullish on PE inflows. Is that still the case?

Claus Mansfeldt: Yes. We have seen private equity inflows continuing strongly.

Do you see some sectors and strategies that are booking much higher net inflows than others?

There is growth, from perhaps a lower base, in areas such as venture capital, infrastructure, private debt… and, last but not least, the big theme around ESG is certainly a big factor. I wouldn't say the sort of pure ESG funds, or responsible investments. They're not so big in terms of pure plays. But I think what the big effect is coming through here [is] mainstream funds shaping themselves, increasingly, to cater to that theme. That's probably where it will ultimately have the biggest effect, as well. The ESG consciousness is [being] applied much more aggressively across the vast volume of private equity, as opposed to being a kind of a niche. So money is flowing into the niche, pure plays, but more money is [flowing] into the mainstream that has adopted a certain degree of demonstrable ESG focus.

Do you anticipate a big percentage increase in net inflows into the PE sector, at the end of the year?

Following several years of large inflows, it's risky to bet on further [rises], but the way things are going--meaning economies are rebounding, stock markets are remaining strong--I think it's a fairly good guess that inflows will actually increase also this year.

Originally published in Delano's Private Equity 2021 *supplement. Be among the first to read interviews and features in the magazine by* subscribing *today.*

MAGAZINE, TRENDING POSTS, VENTURE CAPITAL · 3 minute read

Stéphane Pesch: “We Will See Fewer Deals And The Deals That Do Go Through Will Be More Closely Scrutinised”

Jess Bauldry
November 22, 2022

CEO of the Luxembourg Private Equity & Venture Capital Association (LPEA) Stéphane Pesch talks about how the current economic climate is impacting VCs.

How important is Luxembourg for the Venture Capital (VC) industry?

Many VCs joined Luxembourg in order to domicile and launch their investment funds here. That has always been one of our advantages, and will continue to be the case because we have a toolbox designed to be as competitive as possible. The first element accelerating the whole thing was the 2013 introduction into Luxembourg law of the Special Limited Partnership in parallel to the Alternative Investment Fund Managers Directive, allowing players from the US, UK and other regions to replicate their favorite structures. Secondly, since 2016, technology has seen a fantastic period of acceleration. The only potential “positive” thing that covid-19 did was to further accelerate the whole digitisation movement and to allow new ways of working and collaborating.

This second element has pushed the markets further and also the appetite for investors to invest into VC. And if you are a European or international VC, usually you come to Luxembourg, because there you will find everything you need with the right structures, service providers, allowing you to fundraise, to deploy capital and invest in your segments.

What does LPEA want to see change in Luxembourg?

We need to facilitate the contact between VCs, startup founders, other investors interested in VC (e.g. family offices) and business angels. An event focused on technology and innovation could help. I think that nobody can change inflation and the current economic and geopolitical situation, but at least we can potentially look at some of the challenges the technology and VC industries are facing right now and try to mitigate against them. Therefore, a big annual event with all the stakeholders could certainly represent a nice and smart solution.

How is the current economic climate impacting VCs and subsequently startups?

For the moment, we will see fewer deals and the deals that do go through will be more closely scrutinised (qualitative and resilient assets). Some of the valuations might also go down, if they haven’t already. If we now take the VC angle, valuations for the next acquisitions (startups) will be consequently adapted while some of the existing portfolio companies (already acquired) will need more time, nurturing and value creation.

Sometimes, in very dire times, it might also happen that the rise of new “unicorns” is either halted or slowed down. Adverse economic conditions mean that they don’t get the chances they would in a normal economic cycle. But this will depend on many criteria and also on the startup founders and team (cf. Google after the internet bubble).

To what extent are current affairs causing a shift in the types of segments VCs are interested in?

During our Insights Conference, held on 13 October, for the first time we had GPs and VCs explaining and presenting their latest products. We saw a high interest in innovative greentech, energytech companies. That is very interesting and shows that the focus of some VCs changes over time. They examine the current problems and are able to shift with agility their investments into new industries, including green, clean energy, sustainable finance and, since data will be a key ingredient of their future successes, the VCs know exactly how to handle that part and efficiently implement it.

Edito

The Venture Capital ("VC") sector plays a key role in the Luxembourg investment ecosystem. It is the bridge between the often-distant world of finance and the "new" economy. Above all, it is critical to the growth of start-ups next to other important funding sources.

The number of Venture Capital firms ("VCs") operating from Luxembourg has dramatically increased over the recent years and it is nowadays more complicated to navigate and target the right VCs. In parallel, VCs are very busy and want to be approached by start-ups which match their main investment strategy. We are convinced that the market was in need of a VC Guide and therefore decided to partner up with Silicon Luxembourg to execute this project and deliver this constructive industry effort.

The guide you have in front of you is the outcome of an extensive mapping exercise and may be incomplete in a few months since we expect more VCs to join the country. Many VCs come to Luxembourg to setup the best fund structure, few can anticipate they will find some of their best deals too.

Luís Galveias

COO of the Luxembourg Private Equity and Venture Capital Association (LPEA)

LPEA

FINANCE - FUNDS

VENTURE CAPITAL

When raising funds, focus on building relationships

Written by Lydia Linna
Published on 29.11.2022

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Managing duration, expectations and communication were three topics discussed during a venture capital webinar with Manuel Silva Martinez at Mouro Capital and Pascal Bouvier at Middlegame Ventures, 29 November 2022. Photos: Mouro Capital / Maison Moderne. Image: Maison Moderne

At a webinar hosted by the Luxembourg Private Equity and Venture Capital Association (LPEA) on Tuesday, Venture Capital Club chair Pascal Bouvier and Mouro Capital general partner Manuel Silva Martinez talked about fund raising strategies.

"I've always been asked to speak about fundraising for startups," Bouvier began. "This time around, we're switching veins. We're going to discuss how funds--VC funds--raise capital from LPs [limited partners]."

It's not easy, said Bouvier. In fact, it's probably more difficult than for startups to raise capital. Whether you're a first-time VC fund or a second or third-time fund, there's no easy way about it. Generally speaking, you have to "convince LPs that you're the right vehicle for them to invest in," as well as consider the stability of the macro environment, said Bouvier.

When to fundraise

So are there times when fundraising is easier than not? "Ultimately, I think it's always hard," replied Martinez. But "there's no real better moment to fundraise or worse moment to fundraise, because you're always taking that very long-term view on things." Martinez mentioned that an understanding of counterparts or potential counterparts, and where they are in their lifecycle, is key to determining whether or not to invest.

Bouvier recounted an anecdote that echoed Martinez's thoughts on timing. When talking to someone who had been in the business of investing in VC funds for 30 years, he asked: "When is the right time to raise capital with LPs for new funds? During your investment period, at the end of your investment period?"

> " THIS IS A PEOPLE'S GAME. AND THIS IS A RELATIONSHIP GAME. "
>
> Manuel Silva Martinez, general partner, Mouro Capital

The answer was, "The best time to raise is when you're not raising." The response shocked Bouvier, as he hadn't thought about that, but now it's front of mind. "Once you've closed your fund, all the relations and dialogues that you have with your LPs--quarterly reports, annual meetings, anything--that's your fundraising," he said.

Know your audience, build relationships

Martinez agreed with the point of view expressed by Bouvier's contact. "When speaking with startups, I always tell them, you know, this is a people's game. And this is a relationship game. And this is about building trust, building the glue that keeps the ecosystem together."

Building up relationships is important, even though it can be complicated and take time. It's a long-term adventure, said Martinez, and "you want to know who you want to be around the table."

According to the Mouro Capital general partner, you have to be able to adapt to the local market. Geography, for example, can impact how an LP looks at a fund and how you should pitch to them, added Bouvier.

> " THERE'S NO ONE SIZE FITS ALL. "
>
> Manuel Silva Martinez, general partner, Mouro Capital

"There's no one size fits all," said Martinez, regarding best practices. "Ultimately, you need to adapt to your audience and understand what they want, as opposed to imposing a format." What he's hearing in the market, especially now, is that GPs need to be more creative. "There's a lot of talk about co-investment opportunities, there's a lot of talk about opening up all the doors for your LPs, or prospective LPs, that could help them in some other way."

It's also important to understand the reporting that your LPs want, added Martinez. But "family offices, large pension funds, you know, everybody's very different [about] what they need from a reporting perspective."

Linked to that, "There's obviously a lot of discussion on ESG reporting and how that's blended into the objectives of the LPs," said Martinez. Understanding this, what needs to be done and how investment strategies fit in are key.

Imagine you're giving advice to a first-time GP. What do you tell them?

Looking at it from an early-stage perspective, Martinez said in response to Bouvier's question, it's important to know the size of your fund. Everybody is "dazzled" by enormous national endowment funds and things like that, but a first-time manager is probably raising a "smallish" fund. "So finding your audience, from a size perspective--that's the first selection criteria."

"The second thing, in my view, is figuring out what's the value-add around the relationships that you can provide those LPs," said Martinez. "Family offices for a first-time fund make a lot of sense."

Why is that? Many of them are "willing to establish more person-to-person relationships" and get involved with your day-to-day. It can take more time, but it's a good way to build trust and a core set of LPs who want to back your project.

It's important to understand what resonates with a particular audience, to find out what they're looking for--is there a geographic interest? A sectoral interest? Martinez said, "There's really a bit of a pre-dating exercise to be done to select a subset of people who will be particularly inclined to listen to your story."

DELANO

FINANCE - FUNDS

LUXEMBOURG PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

There are no shortcuts in valuations, say experts

Written by Lydia Linna
Published on 02.12.2022 • Edited on 02.12.2022 at 16:55

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At a panel discussion on volatility during times of market uncertainty held on 1 December, valuation experts highlighted the importance of scrutiny, consistency in methodology and the future of integrating ESG factors.

"We hear a lot about volatility nowadays in the public markets. I don't think this is something new," began Hind El Gaidi, head of valuation, financial information and marketing at Astorg and moderator of the evening's panel. "We've been speaking about dislocated markets since 2020, so it seems like it has become the norm."

But what is normality? "This discussion about volatility is now something we've been used to for the past two years and a half, since covid started," said Armand Kantar, director in valuation advisory services at Kroll. "Back then, it was because people didn't know what was the length of covid, and hence, how to adjust business plans." Now, inflation and Russia's war in Ukraine are contributing to volatility.

> " I DON'T THINK THERE'S SUCH A THING AS NORMAL MARKETS "
>
> Armand Kantar, director in valuation advisory services , Kroll

Some funds are expecting to weather this, then return to normal markets. But Kantar continued, "I don't think there's such a thing as normal markets." Before covid, the markets were "extremely exuberant," with very high prices for fintech versus other technology assets, for example. "The concept of fair value is not one you can actually switch off and switch on."

Consistency in methodology is key

Instead, Kantar highlighted the importance of having a solid valuation process in place. According to the Kroll director, the process should explicitly show "what are the data sources, are they acceptable or not, what is the methodology, how to deal with volatility and how to escalate issues between portfolio managers and the valuation function when you have disagreements." Furthermore, having a strong process in place will allow fund firms to handle auditors' and regulators' questions.

Alberto Facchinato, a manager in the valuations team of EQT group, also emphasised the importance of being consistent in volatile market conditions. It's key for valuation processes to be described well in policies, and to document any changes that are made.

From a venture capital perspective, Lily Wang, principal at Expon Capital, added, "Often in investment, if you want to adjust based on the existing methodology, you also need to look back at the time of investment. You need to be consistent." Consider the reason for which a company was bought, Wang said, and ask, 'does this reason still hold? Do I still really believe in this company?' "What we try to do is to be consistent with our investment memo and our investment process when we do the periodic evaluation review."

Take deep dives and scrutinise assets

The panellists also covered the importance scrutinising assets. In fact, LPs are increasing their scrutiny at the asset level, rather than the fund level, said Kantar. "You have to have in place a sophisticated approach where you not only take into account the market movements, you also look at the reality 'on the ground' of the asset," including specifics like balance sheets.

> " YOU CANNOT TAKE ANY SHORTCUTS "
>
> Hind El Gaidi, head of valuation, financial information and marketing, Astorg

"I think it's really important to have the scrutiny on what you do right now," highlighted Facchinato. It's key to take a "deep dive" into portfolio companies to understand where revenues are coming from.

"The message tonight is that you cannot take any shortcuts," El Gaidi concluded. "You have to just have a very deep analysis of your assets, to know them inside-out, to go a little bit deeper into what is the asset, what's behind it, what's the cash flow with the management, and know the quality of your assets." All of this is necessary to have a proper valuation.

ESG factors in valuation

El Gaidi posed the question on how realistic it would be to include ESG factors in valuation. A think tank on ESG and valuation was started earlier this year, with the idea that it would be a bit of a "fun exercise to see what could come out of it," she said. "And now it turns out that we should have started maybe two years ago!"

But it's key to figure out how to link "really good ESG data" and "really good valuation methodologies" in a "robust process that is accepted and bulletproof," which has gone through volatility and market dislocation and is still proven to be right, said El Gaidi. Developing a framework will be an "incremental" process, and it will be necessary to make choices to determine what should be addressed first, "but it's imminent."

It's a "very interesting, nascent topic," added Kantar. "Every time we have something new, with long-term consequences," you have to think about how corporate finance frameworks can change and adapt. "If you think about the loan markets, credit markets--I think they give a pretty good view of what the blueprints would be for ESG integration into pricing."

PAPERJAM
BUSINESS ZU LËTZEBUERG

STÉPHANE PESCH (LUXEMBOURG PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION)

«Le private equity, bien armé pour faire face à la crise»

Retour au dossier   Partager

AUTEUR

Stéphane Pesch
Chief Executive Officer
Luxembourg Private Equity

Luxembourg Private Equity & Venture Capital Association (LPEA)

DANS LE MÊME DOSSIER

Stéphane Pesch, CEO de la Luxembourg Private Equity & Venture Capital Association (LPEA), évoque les enjeux relatifs au développement de cette classe d'actifs au départ du Luxembourg.

Dopés par des politiques monétaires avenantes ces dernières années, avec des taux d'intérêt se situant au niveau du plancher, les actifs et marchés privés ont attiré un nombre croissant d'investisseurs. La remontée des taux, qui s'opère depuis quelques mois, est-elle de nature à casser cette dynamique? «L'économie globale pourrait en effet ressentir un certain ralentissement, reconnaît Stéphane Pesch, CEO de la LPEA. Et à travers les actifs privés, n'oublions pas que l'on investit dans l'économie réelle. Les entreprises soutenues par ces investisseurs, sont soumises, au même titre que les autres, aux effets conjoncturels. Ceux-ci, toutefois, ne sont pas de nature à remettre en cause un modèle d'investissement qui demeure intact, mature et bien rodé.»

Des pointures au service de la création de valeur

En quelques années, l'activité dans le domaine du private equity s'est considérablement professionnalisée, au départ du Luxembourg notamment. Le pays a fait de l'investissement alternatif l'un des principaux relais de croissance de son industrie des fonds. «L'activité est aujourd'hui portée par des pointures de la finance, de l'entrepreneuriat et de l'excellence opérationnelle, qui mettent toute leur expertise au service de la croissance de petites et moyennes entreprises, voire de start-up si nous parlons de Venture capital», résume Stéphane Pesch.

L'expertise qu'elles placent au service du développement d'acteurs non cotés est de nature à soutenir la création de valeur aussi bien dans des périodes économiques propices qu'à travers des temps plus incertains. «Si l'on constate un recul du nombre de transactions, d'opportunités d'investissement ou d'exits (cessions) depuis quelques mois, dans une approche long terme, les fondamentaux demeurent inchangés, poursuit Stéphane Pesch. Les acteurs du private equity ont les armes pour affronter des périodes plus troublées et, à travers elles, parvenir à développer de nouvelles activités et opportunités.»

Se concentrer sur la création de valeur

L'une des caractéristiques des investissements dans cette classe d'actifs, justement, est qu'ils visent la création de valeur sur le long terme. Investisseurs comme gestionnaires, aux petits soins des sociétés détenues dans le portefeuille, assurant la pérennité et aussi le financement continu de celles-ci, peuvent s'accorder du temps, dans l'optique d'ajuster la proposition de valeur de ces dernières à un nouvel environnement économique et de renforcer leur résilience. «L'enjeu, à travers la démarche, est de veiller à une meilleure valorisation des acteurs soutenus. Si ceux-ci peuvent montrer leur robustesse au fil de la période qui s'annonce, ils n'en sortiront que plus forts, poursuit le CEO de LPEA. À l'issue de toute crise, il y a toujours des opportunités à saisir.»

> « S'IL A ÉTÉ LONGTEMPS DIFFICILE D'ÉVALUER CE QUE REPRÉSENTAIT LE MARCHÉ PRIVÉ, NOUS DISPOSONS DÉSORMAIS D'ESTIMATIONS SOLIDES ÉMANANT DE LA CSSF. »
>
> Stéphane Pesch, CEO, LPEA

Si, dans un contexte plus difficile, les investisseurs pourraient nourrir certaines craintes, selon Stéphane Pesch «il appartient aux gestionnaires de maintenir des relations de qualité et de confiance avec l'ensemble des parties prenantes, en faisant preuve de transparence et en veillant à un management à la fois plus vigilant et sélectif. Les gestionnaires ont pour la plupart déjà déployé une panoplie de mesures afin de mitiger et de réduire certains risques liés à l'environnement économique, géopolitique actuel.»

509 milliards d'actifs privés domiciliés au Luxembourg

L'intérêt pour le private equity devait donc se maintenir, les investisseurs considérant désormais cette classe d'actifs comme un levier de diversification incontournable. Alors que les marchés financiers sont en proie à des phases de forte instabilité, le marché privé est utilisé pour aller chercher de la performance à long terme et continuera à représenter ce relais de croissance.

Les derniers chiffres peuvent témoigner de l'attrait des investisseurs pour le segment. «S'il a été longtemps difficile d'évaluer ce que représentait le marché privé, nous disposons désormais d'estimations solides émanant de la CSSF, commente Stéphane Pesch. Fin 2021, avant le conflit ukrainien, on estimait à 381 milliards d'euros le volume d'actifs sous gestion domiciliés dans des fonds private equity (comprenant également les fonds de venture capital) au Luxembourg. À cela s'ajoutent 44 milliards d'euros situés dans des véhicules investissant dans l'infrastructure et 84 milliards d'euros dans des fonds de fonds private equity. Au total, sans compter les fonds de dette privée (qu'une étude de KPMG estime à 267,8 milliards d'euros), les actifs sous gestion privés et domiciliés au Luxembourg représentent donc 509 milliards d'euros.»

Dans ce domaine, le Luxembourg est parvenu à se positionner en tant que centre d'excellence en développant un ensemble d'outils de premier choix, de la société en commandite (limited partnership) au RAIF et l'émergence de gestionnaires de fonds alternatifs tiers (third-party AIFM) répondant aux besoins de certains gestionnaires nécessitant une solution pérenne et accessible.

Renforcer le modèle luxembourgeois

Pour le CEO de la LPEA, l'enjeu est de veiller à soutenir le positionnement du pays, à la pointe dans ce domaine. L'ambition est de poursuivre les efforts pour enrichir l'écosystème luxembourgeois, reconnu comme un excellent back et middle office pour les véhicules investissant dans des actifs privés, en y intégrant de nouvelles fonctions. «Avec l'arrivée des AIFM et des fonds à Luxembourg, nous avons développé une expertise et un ensemble de services au niveau du middle office, et plus particulièrement dans le domaine du risk management, de la compliance, de la valorisation des actifs et de la distribution de produits à travers l'Europe, commente Stéphane Pesch. S'il est plus complexe d'accueillir en un claquement de doigts des fonctions de front office, cela doit constituer un objectif à plus long terme. Pour nous, l'un des leviers, accélérateurs nous permettant d'avancer dans cette direction est l'investissement dans des fonctions de relation aux investisseurs et de levée de fonds au départ du Luxembourg».

Il appartient désormais au Luxembourg de rester à la pointe, en veillant à renforcer l'excellence opérationnelle liée à la gestion et à l'administration de ces véhicules, avec des défis importants autour d'une rapide mise en œuvre de la nouvelle mouture de l'ELTIF (European long-term investment fund) ou encore relatifs aux enjeux ESG.

DELANO

LPEA

Three keys to attracting and retaining quality talent

Written by Tracy Heindrichs
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Niccolo Polli (HSBC), Lindie Fourie (Sanne), Geraldine Hassler (KPMG) and Daphné Rosseeuw (DLA Piper) exchanged on the changes their companies have adopted to better retain and attract quality workers. Photo: Maison Moderne Archive, Lindie Fourie (Sanne)

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No. 1: Julie Becker, the effective influencer

While the Great Resignation and quiet quitting have been making their way into companies since the start of covid-19, and Luxembourg struggles to attract new talent, what can businesses do to not only bring in new employees but also keep the ones they have?

The pandemic, lockdown and shift to working from home have shaken up existing approaches to employment and company culture and further highlighted generational incompatibilities in the philosophy of what employees and employers are--and what they are not.

Speaking at a webinar organised by the Luxembourg Private Equity and Venture Capital Association (LPEA), Niccolo Polli (HSBC), Lindie Fourie (Sanne), Geraldine Hassler (KPMG) and Daphne Rosseeuw (DLA Piper) exchanged on the changes their companies have adopted to better retain and attract quality workers.

Compensation, more than just money

Of course, the right salary might attract many people, but "once people have that, they look for a little bit more. That's human nature," said Polli. It is therefore essential to offer other things, like a firm culture that is diverse and inclusive, a purpose--driven by ESG for instance--flexible and hybrid working and a growth strategy, the HSBC Luxembourg CEO suggested.

Hybrid work, particularly in Luxembourg, could be a double-edged sword, he warned, as some employees living across the border only have a limited number of teleworking days.

Accepting that "people now have multiple expectations around their career" is also primordial. "There should not just be one way to build a career," and the employer should accompany the employee in building their path, said Rosseeuw, DLA Piper Luxembourg's head of HR.

"Purpose and flexibility are key now," added Hassler, KPMG's head of people and culture.

Be proactive and communicate

Retaining existing talent is just as important as attracting new profiles, and this should also be done by being proactive in your engagement with them, the panellists agreed. For this, honest and proactive communication is key.

"Have continuous and transparent communication with your people," said Hassler. For her, it is better to share not just the good news, but also failures with staff. Open communication also means proactively seeking out employees who are not as driven and engaged anymore and talking with them about potential solutions, changes and expectations. If employees are seen as the most important resource of a company, "we need an alignment between what we say we do and what we do," Hessler added.

Regularly raising salaries to evolve with the market value is also key, so as to avoid beliefs that an employee will only get a raise if they threaten to quit. "Reactive retention has its place", said Polli, but relying on it systematically would send out the wrong message.

Recruit the right people

The other key to attracting and retaining talent in the mid- and long-term is also to invest in the initial stages--the recruitment phase--to avoid quiet quitters and unhappy employees. In short, "recruit the right people," says Polli. Understand the demands of people in different stages of their evolution, see if they match with the position they are applying for.

You have to ensure that, regardless of their position in the company, the person is a "cultural match" with the business' internal culture, as they should be "able to participate, take on some responsibility and be involved with the company strategy", says Fourie.

But even the 'right people' might not stay, if the living conditions aren't good, the panelists agreed. Rosseeuw cited the importance of acknowledging the difficulties particular to Luxembourg--real estate and mobility. The advantage Luxembourg had in remuneration in the past is becoming less and less attractive compared to other countries. These aspects would not be an issue for contracts of 3-5 years, but for the long term could hinder some candidates. The government should therefore tackle these topics--that is the message that the panelists sent out.

DELANO

CSSF REPORT

How big is Luxembourg's AIF sector?

Written by Jeff Palms
Published on 09.12.2022 • Edited on 09.12.2022 at 18:02

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A CSSF report has found that a quarter of Luxembourg's AIF market is made up of private equity funds. Romain Gamba/Maison Moderne

What is the size and nature of Luxembourg's alternative investment fund sector? The Commission de Surveillance du Secteur Financier (CSSF) discussed the results of its newest AIFMD dashboard at a webinar on 9 December.

The CSSF's dashboard represents a market overview of alternative funds (AIFs) in the grand duchy, including information about strategies, investor profiles, leverage and liquidity. It has been published yearly since 2018, with the latest edition, from 18 October, covering data from 2021.

In the webinar, hosted by the Luxembourg Private Equity and Venture Capital Association (LPEA), CSSF experts Mireille Reisen and Simon Emeri presented the dashboard results and answered questions.

Here are five takeaways:

AIFS in Luxembourg have grown significantly

In 2018 there were 4,568 AIFs in the Luxembourg market, a number that had grown to 6,932 in 2021. The corresponding growth in net asset value (NAV) was 42%, or €653bn in 2018 to €1.48trn in 2021.

"The creation of new AIFs remains dynamic, about 13% to 20% per year," added Reisen. "We will have to see now, in 2022, if this [remains] so large, if we take the context of the [present] economic outlook [into consideration]."

It also seems that the covid-19 pandemic has yet to make itself visible in the data.

Luxembourg's AIF industry is highly concentrated

"The largest AIFs make up most of the NAV of the funds," said Reisen, explaining that 45% of the NAV is concentrated in just 4% of the AIFs.

Additionally, about 65% of the AIFs under the remit of AIF managers in Luxembourg have NAVs under €100m (with 17% in the next-smallest bracket of €100m-€250m).

Private equity funds have dominated investment strategies

A quarter (26%) of Luxembourg's AIF market is made up of private equity funds, according to the CSSF dashboard report. Also strongly represented are funds-of-funds (15%), traditional AIFs (i.e. equity and fixed-income AIFs) (19%) and real estate funds (15%).

Hedge funds, on the other hand, remain "marginal" in the grand duchy.

"If you looked at the report we filed two years ago, you'd see a different picture," commented Emeri. "We have evolved from an AIF market that was dominated by funds-of-funds to a more balanced model--and now to something that is dominated by the private equity strategy in Luxembourg."

"It's kind of striking, these results," he added.

94% of AIF investors are professional investors

Of these, the main ones are banks, pension funds and insurance companies, the report found.

It also found that the top five investors account for 87% of the NAV. "This percentage seems rather high," commented Reisen, "but that could possibly reflect a lack of look-through on beneficial owner on the reports provided by the AIFMs."

Focus on European Economic Area assets is increasing

No matter what strategy they employ, Luxembourg AIFs tend to invest in Europe, the CSSF speakers said. Overall, geographical trends haven't changed much, though the EEA's share has been increasing over time. "This growth is driven by private equity and real estate," said Reisen.

Investments in Africa and Asia remain comparatively low, she added.

DELANO
LUXEMBOURG IN ENGLISH

Finding the right balance in startup valuations

Written by Lydia Linna
Published on 19.12.2022

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From left to right: Philippe Collombel is general partner and founding partner at Partech, Pascal Bouvier is managing partner of Middlegame Ventures, and David Dana heads venture capital investments at the European Investment Fund. Partech/Maison Moderne Archives/Blitz Agency 2019. Editing: Maison Moderne

At a webinar hosted by the Luxembourg Private Equity and Venture Capital Association on 16 December, Philippe Collombel from Partech and David Dana from the European Investment Fund joined Venture Capital Club chair Pascal Bouvier to discuss startup valuations.

Valuation is not something that's easy to do, said Dana, who heads venture capital investments at the EIF, particularly in the current context where things are still a bit unknown. There are many methodologies and there's also a lot of subjectivity.

Limiting subjectivity is "precisely why we request systematically to follow the IPEV [International Private Equity and Venture Capital Valuation] reporting guidelines," Dana said. In fact, he added, the IPEV just released their new guidelines on 14 December.

There can also be a lot of volatility surrounding a startup and its funding, noted Bouvier. Limited partners (LPs) don't like bad surprises, so it "behoves us to be transparent, whenever there's a negative surprise for a startup."

Finding the right balance

"Not all companies can be successes. We wish it could be the case, but it's not," said Dana. So if there's anything bad that has occurred to make a valuation decrease, it's important to explain why. Paying attention to a company's evolution--either positive or negative--is key.

"It's always [about] trying to find the right balance," said Dana. "I would say we shouldn't be optimistic in terms of valuation, we have to be realistic," or even be between realism and pessimism. This way, if anything does happen, it can only be seen as good news.

Collombel, general partner and founding partner at Partech, added, "I think it's super important in our very risky business to be prudent. That means that in the good times, sometimes we are conservative, because we don't take the full potential value of companies in our books." It's an investment philosophy, he said.

Fair market value

"It's very difficult to understand what is your fair market value," said Collombel, though he thought that experienced investors would be able to form a "fairly good" idea around a company's value. The complexity comes from two elements, he explained. First, the value of a company can increase or decrease. But the second element is the multiples at a given moment on the market.

Multiples are ratios that are used to determine valuations. Here, there are two different methods: either the absolute multiple at a given stage is taken, or a calibration can be done. But ultimately, said Collombel, after carrying out these technical exercises, the question remains: 'If I were to sell this company, what would the buyer pay?'

2001 vs 2008 vs today

"I think there is an element that is pretty new in the European venture scene, when I compare to 2001 and 2008," said Collombel. In 2001, companies had no business model and VCs had no funds. Then in 2008, "companies began to have a strong business model, but the VCs still [had] no dry powder."

"In this cycle, what I find interesting is the fact that early-stage funds have quite a lot of money," said Collombel. That's the first element. The second element is that LPs will require growth-stage investors to invest. "I don't know when, and I don't know how," he added, but "growth stage investors can't stay more than one year away from the market, in my view."

Moreover, there has been a lot more financial education since 2001, for both VCs and entrepreneurs, and the "quality of entrepreneurs has increased dramatically," said Collombel.

What about inflation and rising interest rates?

"We're coming out of 20, 25, 30 years, maybe more of investing with decreasing interest rates," commented Bouvier. He compared "investing, pricing and valuing something with zero interest rates to practicing physics without taking into account the law of gravity." Pricing and valuing an asset--in this case, a startup--when interest rates are near zero and money comes easy can lead to exuberance, higher valuations and a certain portion of investors who don't really understand risk.

"We're getting back to, like, normality," said Bouvier. "But getting back to normality in terms of valuations and price rounds is extremely painful for certain parts of the market." Will investing be more "grounded" in the future? Will it be easier to price and value startups?

"The market is coming back to more realistic and reasonable valuations," according to Dana. It could be related to the rise of interest rates, but "it doesn't explain the full thing." US-based growth stage investors, for example, may be returning to their home markets instead of looking at Europe. But "at the same time, we have quite a significant amount of dry powder, especially for early-stage investors."

Dana thinks that "now, we are back to something more reasonable." But "we see more difficulty to fundraise at some level, but not only for new ones, but also some of the existing players." There are many questions: 'Will we experience the kind of performance we've seen for the last 10 years? Is that something which will ever be sustainable? Is that something that would even make sense, or be feasible?'

Nobody, however, has the answer yet, said Dana. But what is true is that "technology is here and will be the future again. So we have to make sure that the GPs [general partners] are even more selective than what they used to be to identify and select those companies which have the best chances to become the new winning ones."

3 QUESTIONS

STEPHANE PESCH, CEO OF THE LUXEMBOURG PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

"PRIVATE EQUITY IS ADAPTING ITS MODEL INTO A SUSTAINABLE ONE AND MAKING IT READY FOR THE FUTURE."

How are the Private Equity (PE) and Venture Capital (VC) activities developing and being structured in Luxembourg?
The PE/VC activities and launches have developed extremely well over the last 10 years and have shown an immense acceleration since 2016 (in parallel to Brexit). The local market has, during this decade, evolved quite positively from a Special Purpose Vehicle, holding a company-driven model, to a fully-fledged *"Alternative Fund center"* domiciling nowadays the European flagship structures of the biggest PE houses worldwide (18 out of 20, based on Preqin statistics) and hosting also in many cases the group or EU AIFM (ManCo).

This change has permitted us to develop next to the standard *"back office"* activities, *"middle office"* capacities, and real, local expertise around Risk management, valuations, and Compliance. This growth was made possible thanks to the introduction and refurbishment of the Limited Partnerships (SCSp, SCS) in 2013, which is worldwide one of the preferred set-ups, and the RAIF in 2016, which again underlines that an innovative, up-to-date toolbox makes a difference and should always be favored.

> "The democratization of the PE/VC asset classes represents a fabulous opportunity for many GPs."

How do you see this asset class developing in the future?
I see the asset class evolving quite well in the future because of 3 main reasons.

1. Over the recent years, the PE and VC actors enriched the offer, and the exposure to private markets/assets has inspired many niche players to specialize further and ultimately look for the best opportunities in their specific fields. The biggest or most agile GPs have created (sometimes from scratch) completely new teams and have injected funds (because of a high demand from investors) in additional areas, sectors, and target companies.

2. The PE and VC asset classes have systematically delivered over the last 10 years a high, robust, and resilient performance (as highlighted in the Invest Europe statistics with an IRR between 12% and 17.6% for Buyout funds, 19% for Growth funds and 25% Venture funds). They are well equipped to continue doing so in the future despite recent drops in certain segments (valuations of technology), some lasting effects of Covid-19, and the terrible war in Ukraine.

3. The PE and VC practitioners have also integrated many trends of the future nowadays into their way of doing business. They have understood how important transparency and reporting are. They already have or are currently embedding the ESG standards and adapting their model into a sustainable and compatible one that bears some concrete effects on the real economy and the environment and may produce long-term impacts.

What are the major development challenges around PE, in general, and Luxembourg, in particular?
The major development challenges in general and, more precisely, Luxembourg comprise the scarcity of talents, a new continued wave of international/national regulation, and some difficulties in attracting new clients due to complex and changing rules (for example, AML/KYC). The democratization of the PE/VC asset classes represents a fabulous opportunity for many GPs.

As seen in the past, *"fortune smiles to the audacious."* suppose we want to push further this great success story. In that case, the entire sector and larger community, with its collective intelligence, should encourage and facilitate the next level of evolution of the Luxembourg PE/VC hub. ■