PRIVATE EQUITY

INSIGHT/OUT

Tikehau Capital:

From Efficiency to Resilience

The Challenge of Labelling PE Funds

Tsume: Pop Culture Made in Luxembourg

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LPEA
THE LUXEMBOURG VOICE OF PRIVATE CAPITAL

Dear members, friends and partners,

Q3 is at the door and now is a good time to do a quick review of H1 based on our strategic priorities: thought leadership, community building, talent attraction and public advocacy.

From a roadshow perspective, 80% of our annual European representative business trips have already been executed with some classics like Cannes combined with IPEM, Zurich, London, Berlin in parallel to the SuperReturn/SuperVenture conference, two comebacks with Madrid, Frankfurt and Warsaw which was a premiere. On top of these, the (re) discovery of Texas and California allowed us to meet and greet different practitioners interested by potential fundraising activities in Europe via the Luxembourg hub.

On the educational front, the 4th LPEA Training Academy was successfully completed by more than 130 persons with 11 modules including 66 hours, 57 coaches in total and with a revamped program including two new modules (Secondaries, AML/KYC). Our Academy team led by Evi managed to efficiently deliver another edition which is an important vector of up- and reskilling, inspiration and a facilitator to get closer to the industry. Some new concepts are already in the make and should complete next year's package.

The 450 members' mark (part of the LPEA) has also been exceeded and we are on track concerning our growth objective with an unstilled appetite to enlarge further our community with new practitioners and experts active in our sector.

Finally the meetings with the different political parties have nearly been completed and led to constructive exchanges with Luxembourg MPs which allowed us to underline the importance of keeping the Luxembourg financial hub competitive, pragmatic, flexible and agile. It is crucial to stay alert of what is happening in the rest of world, to constantly improve our toolbox and imagine the new business models of the future.

In this context, we are eager to deliver together with all of you a promising H2 despite the current economic outlook and some delays in fundraising and divestments.

Stephane Pesch
CEO, LPEA

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Claus Mansfeldt
Chairman, LPEA

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LPEA's Next Destinations

The second quarter of the year saw the LPEA heading to Madrid, Frankfurt, Berlin and London to build synergies with European markets, promote the Luxembourg PE & VC ecosystem abroad and attract new players to the Grand-Duchy.

In the second half of 2023, the LPEA will travel to Paris (IPEM), Milan, New York, Miami, Singapore and Hong Kong. The association is fortunate to leverage the network and the market knowledge of its members and to build compelling agendas driven by local pain points and Luxembourg solutions.

Visit www.lpea.lu/events to know more.

First LPEA Secondment Programme

The LPEA team would like to thank Manon Coeymans - Associate at Elvinger Hoss Prussen for the six months spent as a Legal secondee with the LPEA. Manon contributed to the association's advocacy activities, monitored legal evolutions, coordinated activities of the LPEA Technical Committees and Clubs, drafted the LPEA Code of Conduct and provided training and a good dose of laughter to the LPEA team.

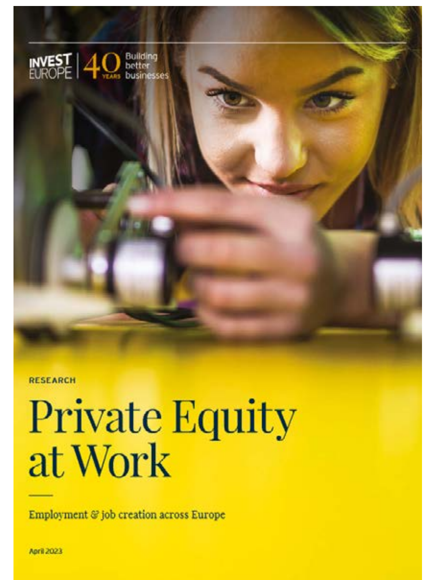
If you are a motivated individual, interested in everything PE/VC, contact us at lpea-office@lpea.lu to know more about our legal secondment programme.

Investment Circle for Qualified Investors

With the further growth of the Luxembourg Private Equity and Venture Capital ecosystem, the LPEA observed an increasing number of funds based in Luxembourg or with strong local ties, developing fundraising efforts via their increasingly local teams.

The LPEA therefore organised its first Investment Circle on the 25th of April in which Swancap and Expon Capital presented their respective investment opportunities. Organised as quarterly informal meetings, this gathering aims to bring PE or VC fund managers who are fundraising closer to the local investment community. Such meetings take the form of presentations and are restricted to qualified investors members of LPEA or special guests.

If you are a GP willing to present at an upcoming LPEA Investment Circle or an investor willing to attend, contact us at events@lpea.lu.



Private Equity at Work Report

Invest Europe released its fourth edition of the Private Equity at Work Report, a study on employment and job creation related to the PE & VC sectors in Europe.

Results showed that Private Equity backed companies increased employment by 6.5% in 2021, outperforming the +1.2% job growth seen in businesses overall, across Europe. The same year, 10.5 million people were employed in the PE & VC backed companies amounting to 4.5% of Europe's total 235 million workforce.

Scan the QR code to read the Report

EQT Nexus: Enabling Individuals' Access to PE

Swedish PE House EQT launched EQT Nexus, a portal providing access to EQT's investment strategies through a single investment. With this semi-liquid strategy, EQT will widen its investor base, allowing individuals to invest in EQT's verticals.

EQT Nexus is a global portfolio that will invest in EQT's strategies ranging from mature buyouts to early stage infrastructure and investing across geographies and industries.

Historically, institutional investors have enjoyed better access to investment opportunities, lower liquidity requirements, and fewer regulatory constraints compared to individual investors. However, there is a notable shift occurring; individual investors are projected to increase their allocations in private markets by an annual rate of 12 percent over the next ten years. This initiative marks EQT willingness to surf the current democratization wave witnessed in PE.

Source: https://eqtgroup.com/news/2023/eqt-launches-eqt-nexus-enabling-individuals-access-to-the-world-of-eqt/

European Deep Tech's Strong Pulse

The European Deep Tech industry has demonstrated robust growth and resilience amidst market uncertainties. In 2022, Deep Tech start-ups in Europe raised $17.7 billion, experiencing a 22% decrease compared to 2021 but still recording a notable 60% increase from 2020. Despite the dip in funding, Deep Tech remained the second best-performing segment in Q3 and Q4 of 2022 and was only surpassed by Energy.

Deep Tech is an ever-evolving field, with emerging segments reshaping the landscape. AI, Future of Computing, New Energies, and Space Tech emerged as key areas, raising a record-breaking $4.4 billion in 2022, twice the amount raised in 2020.

Europe possesses some exceptional technical talent and research capabilities, often originating from academia. Further unlocking the potential of European universities and streamlining spinout processes could yield more Deep Tech successes in the future. Additionally, bridging the funding gap between dedicated early-stage Deep Tech investors, generalist funds and promoting diversity and inclusion, are crucial factors for nurturing the Deep Tech ecosystem in Europe.

Scan the QR Code to watch the LPEA VC Webinar on Deep Tech

Source: The European Deep Tech Report 2023 by Dealroom.co

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By Stephane Pesch,
CEO of LPEA

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Sabrina El Abbadi (Tikehau Capital):

From Efficiency to Resilience

In this interview Sabrina El Abbadi showcases Tikehau Capital's global and Luxembourg footprint and how the French GP negotiates the current structural shifts of the market with a strategy anchored in sustainability, quality growth and patient capital.

When was Tikehau Capital created?

Tikehau Capital was founded by Antoine Flamarion and Mathieu Chabran in 2004. The initial equity capital was EUR 4 million.

What are Tikehau's main verticals?

Tikehau Capital is a global alternative asset management group. Our main goal is to direct global savings towards innovative and adapted financing solutions that create sustainable value for all stakeholders and accelerate positive change for society.
Tikehau Capital has developed an expertise in 4 areas: Private Debt, Private Equity, Real Assets, and Capital Markets Strategies. A fifth business line, "Tactical Strategies", draws on the Group's various areas of expertise in a cross-functional manner.

> **"Tikehau Capital wants to become a local financing player and offer global investment solutions to our clients. We are actively looking for investments in Luxembourg."**
>
> Sabrina El Abbadi

How big and international is Tikehau nowadays?

Today, Tikehau Capital manages EUR 39.7 billion in assets worldwide, for EUR 3.1 billion in equity. We have increased our AUM total by 400% in the past six years.
Tikehau Capital has 740 employees and 14 offices in Europe, North America and Asia. Tikehau Capital Benelux is based in Brussels, Amsterdam and Luxembourg, and has around 15 employees.
The Group is backed by leading shareholders including SFI (a subsidiary of Patrinvest, which owns 9.3% of Tikehau Capital Advisors), Crédit Mutuel Arkéa, the FFP Group (Peugeot family), Temasek (Singapore's sovereign wealth fund) and MACSF (insurer). Tikehau Capital is 57% owned by its management and employees (as of 31 December 2022).

With operations and substance in Luxembourg, what is the mission of the local team?

The Luxembourg branch of Tikehau Capital was created in 2019. We currently have 5 people working in our office in the city-center.
Tikehau Capital manages over €1 billion assets in Luxembourg, as well as nearly 50 funds (real estate, impact funds, tactical strategy funds, and Private Equity). We have a strong strategy and high ambitions for Luxembourg. We want to become a local financing player and offer global investment solutions to our clients. We are therefore actively looking for investments in Luxembourg.

What are the typical investments you particularly follow and like?

We have a strong focus on real estate investments. It is in fact Tikehau Capital's trademark: finding neglected real estate investment opportunities and bringing them to a higher level.

How important is ESG for Tikehau Capital?

We have an ambitious global strategy for sustainable and responsible investments. Our ESG strategy lies at the heart of all our investment decisions and is fully embedded within our business model. Today, 60% of the assets we manage are categorised as SFDR Article 8 and 9 funds, while 65% of the Group's debt is linked to sustainability criteria. Moreover, 20% of variable compensation is linked to people and climate goals.

Diversity in terms of gender, culture, profile, expertise and experience is a guarantee of richness, enhanced creativity, and innovation. It brings significant value and boosts our appeal. This is why we are determined to make diversity a reality. Sustaining diversity, and above all, ensuring greater diversity, requires constant effort, refusing to accept the status quo or the easy option of recruiting similar profiles. Equality is one of our main focus areas. In 2022, women represented 43% of our staff and 23% of our Managing and Execu-

Antoine Flamarion and Mathieu Chabran, Co-Founders of Tikehau Capital.

©Roberto Frankenberg

tive Directors. This number is trending upwards, and in line with our target of at least 30% women in Managing and Executive Director positions by 2027. Ensuring we remain on track to reach our diversity objectives requires constant vigilance in our actions.

What are typical and concrete ESG measures you have implemented within Tikehau and at portfolio level?

Our impact platform is materialized by the development of innovative products and sustainable thematic funds (8% of Tikehau Capital's assets under management) based on four areas: decarbonisation, resilience, cybersecurity, and nature and biodiversity. More than a commitment, we are taking concrete action in the fight against climate change. We launched our T2 Energy Transition fund in 2018 (EUR 1.5 billion), and we will dedicate a total of more than EUR 5 billion of AUM to fight against climate change by 2025.

In 2022, Tikehau Capital reinforced its impact platform across all its business lines. In Private Equity, the Group launched the third generation of its growth equity fund focused on companies with sustainable objectives; a new regenerative agriculture fund, launched in partnership with AXA Climate and Unilever; as well as a fund dedicated to green assets. In real assets, Tikehau Capital launched the second vintage of its European value-add real estate fund, which is evolving into an impact strategy.

Are non-professional investors also a priority for Tikehau Capital?

Today, our investor-clients base for the Group's asset management activity is 63% institutional investors (insurers, pension funds and sovereign funds), 15% private investors (private banks, networks, wealth management advisors and retail bank networks) and 7% family offices. We see strong demand from private investors for the asset classes in which we are active, both in Europe and elsewhere. For this reason, we are continuing to push forward with our commitment to the democratisation of private markets (see adjacent focus feature on Opale Capital). In particular, this led to a partnership with iCapital which enables us to distribute some of our private market investment opportunities on a global scale. This partnership will act as a strong driver of diversification of investor-clients and enable us to expand our international reach.

If we have a look at the next 12 months, how optimistic are you?

We are prudent but optimistic: we need to embrace the idea that the world needs to grow at a slower pace in the next couple of decades.
Higher interest rates and deglobalization are structural trends. As a consequence, value creation will switch from creating efficiency to creating resilience. This is good news at a time when over-optimization was becoming an issue for the climate, biodiversity, and inequalities and was generating misallocation of capital. Sustainable growth means less optimization and more resilience, which will generate "quality" growth instead of "quantity". The only issue is that only the best investors will benefit from it. Dispersion of performances between asset managers will increase because the tailwinds of lower interest rates and globalization on valuations and corporate earnings are over.

The significant dispersion observed in markets offers value creation opportunities, particularly in segments or sectors with strong recovery potential, such as aeronautics, for example. Provided, of course, that you have enough capital to be disruptive. The backdrop is also extremely buoyant

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Tikehau Capital, Luxembourg Branch Team

> **"Today, 60% of the assets we manage are categorised as SFDR Article 8 and 9 funds, while 65% of the Group's debt is linked to sustainability criteria."**
>
> Sabrina El Abbadi

"Sustainable growth means less optimization and more resilience, which will generate "quality" growth instead of "quantity.""

Sabrina El Abbadi

for our secondary strategies in Private Debt and Private Equity but for our special opportunities strategy as well, which enables us to seize opportunities requiring agile, tailor-made financing structures and opportunities in certain liquid market segments, notably credit. Thanks to its positioning and above all its local presence, Tikehau Capital is able to identify the best opportunities to deploy its capital in 2023.

In 2023, the need to invest in decarbonisation, nature & biodiversity, cybersecurity and resilience will accelerate with regulations which are set to continue evolving. The system which contributed to over-optimising value chains by globalising them has reached its limits. It has shown signs of fragility and caused damage to environmental, social and governance issues. We must act even though regulations are not yet stabilised and not all data is available or reliable. In the months and years ahead, the challenge for the regulator will be to find the balance between ensuring transparency of investment products and putting an end to attempts at greenwashing, without standing in the way of progress, avoiding rules too far removed from the reality of situations and challenges and fostering initiatives from investors who wish to play an active role in the transition.

This necessitates an exit from a business model solely founded on the pursuit of short-term growth and profit. Teams must learn to measure performance beyond a single Excel spreadsheet and assist companies in creating sustainable value. It will be necessary to reconcile these time horizons by allocating patient capital to enable the transition. Alternative assets are a solution and this is what we strive to do.

How do you see the Private Equity industry in the future and what should be our priorities?

Globally, the macroeconomic and monetary backdrop is likely to remain challenging. Despite this environment, we are confident that our different strategies will form distinguishing strengths. Whether in digitalisation, build-up operations, internationalisation or organic growth, our areas of development seek to enhance the performance and value of our investments. Above all, they are focused on buoyant themes such as growth and sustainability, the energy transition, regenerative agriculture, cybersecurity and aerospace. This positioning, focused on profitable growth and internationalisation, shields us from two main risks – namely leverage and valuation – which currently weigh on the Private Equity market. Finally, at a time when the global economic dynamic is becoming more regionalised, particularly in Europe, our multi-local presence on the continent gives us a distinct advantage in seizing a greater number of opportunities. ●


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By **Christophe Ponticello,**
Country Head at Gen II
Luxembourg

Staying Sharp in Uncertain Times

Private Equity has been around for more than 40 years, mostly as the exclusive domain of large institutional and ultra-high-net-worth investors. In the past decade, the industry has experienced transformational growth as more investors have gravitated to the asset class for its performance potential, and as innovative technologies continue to make access easier.

Strengthening Your Core: Enhancing Back Office Processes and Managing Talent

The last two years have been challenging for private equity as weak economic activity, geopolitical concerns, and tight credit markets continue to exert pressure on valuations and slow investments and realizations. As a result, managers find themselves at a critical crossroads. The pressure to perform has never been higher, the competition is ultra-fierce, and there is growing motivation to try new ways of doing things, and to get out of typical comfort zones.

"Firms and portfolio companies that cling to their traditional playbooks will likely find themselves falling further behind in a world that values speed, digital prowess, and greater attention to ESG issues. Non-traditional players are moving faster, paying more for investments, and competing for talent and expertise in areas that were once dominated by private equity."
PwC Private Equity Trend Report, 2023

Help Wanted

One way they're showing this is through increased outsourcing of back-office functions such as accounting, compliance, or fund reporting. Private equity managers today have the dual challenge of focusing on their core strengths while keeping pace in other mission-critical areas, such as changing regulatory requirements, back-office processes, technology, and talent management. At the same time, stakeholder expectations have risen. To avoid falling behind, more and more firms are choosing to outsource these and other key functions to outside partners.

On the regulatory front, European managers bear a particularly heavy burden in trying to navigate and keep pace with a complex web of rules that continue to evolve. Managers need to be attuned, for example, to the Alternative Fund Managers Directive (AIFMD), General Data Protection Regulation (GDPR), and Anti-Money Laundering (AML) rules, and understand the implications for cross-border deals and transactions.

Capturing Data, Increasing Efficiency

Data is king in private equity. Investment professionals need the very best data available to make the best decisions for their clients, and senior business leaders need smart data for strategic decision-making. Meanwhile, investors are increasingly requesting detailed data from GPs about prospective deals, cash flows, and underlying investments, and they want this information in real-time.

"Creating a talent pipeline that reflects a broader range of backgrounds and perspectives is essential for fostering innovation and driving superior investment performance."
Christophe Ponticello

For European fund managers engaged in cross-border investment activity, this can be a tall order. As they look to improve how they collect and organize data, many are enlisting outside partners to help them implement better reporting systems, optimizing certain back-office functions, and adopting new technologies to automate processes where it makes sense for the business.

The ESG and Sustainability Factor

For many managers, integrating environmental, social, and governance (ESG) practices into investing strategies and managing ESG-related risks and opportunities are essential but very difficult to handle in-house. In recent years, the increased awareness around ESG issues and how they can affect investments has spurred demand from investors for more specific data around ESG financial reporting and measurement.

As it rises in importance, ESG is also developing into a more complex and sophisticated aspect of finance. Standard key performance indicators (KPIs) are now at the core of sustainability-linked loans in which rates are directly connected to achieving these objectives, and both finance providers and sponsors continue to seek ways to link finance directly to ESG targets.

Talent Management

Recruiting has been tough across most industries in the past two years and private equity is no exception. Finding skilled professionals with expertise in deal sourcing, investment analysis, operations, and portfolio management is extremely challenging today, especially in key financial centers. Across Europe, stringent regulatory regimes can make it difficult for private equity firms to hire outside of the European Union.

In a recent industry survey, nearly two-thirds (65%) of CFOs named talent management as their top strategic priority after asset growth. (2) (EY, Global Private Equity Trends, 2023) Whether it's hiring to scale with a business's growth, retaining top talent, or implementing diversity, equity, and inclusion (DEI) programs, managers need to stay constantly focused on talent to stay competitive.

Some key factors that should be top of mind:

- **Retaining top talent.** Develop programs or initiatives to help counter the intense workloads, high-pressure environments, and long working hours.
- **Compensation and incentives.** Designing competitive compensation packages and incentives that attract and retain talent can be challenging. In Europe, for instance, PE firms must strike a balance between offering attractive financial rewards, such as carried interest and performance-based bonuses, while at the same time complying with appropriate regulations.
- **Building a Diverse and Inclusive Talent Pipeline.** Creating a talent pipeline that reflects a broader range of backgrounds and perspectives is essential for fostering innovation and driving superior investment performance.
- **Addressing skills gaps.** The dynamic nature of private equity demands professionals with diverse skill sets. Because there is often a gap between the skills and expertise required by a firm, and those possessed by the available talent pool, managers need to invest in training and development programs to bridge the gap and ensure that their employees have the necessary skills to succeed.

At the end of the day, a firm's operational and support staff should be just as committed to constant improvement and excellence as its investment professionals and dealmakers. Good performance plus satisfied clients equals success.

Fund administrators like Gen II can help firms adopt and implement new technologies, mitigate a wide range of risks, add specialized expertise in key areas, and ensure the human capital and resources are in place to succeed. ●

ABOUT GEN II

Gen II is a leading global fund administration provider focused entirely on serving private capital asset managers and investors.

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By **Luis Galveias,**
COO of the LPEA

and **Swayam Sarkar,**
Data Analyst & Innovation
Ambassador of PwC Luxembourg

The Figures Behind the Local Private Equity Scene

Private markets are tricky to obtain data from. Data emerges either from the public or private domain, with the latest being often accessible exclusively via the subscription of expensive databases.

The LPEA has for many years contributed to the public gathering of data by compiling a GP Survey of which the latest edition refers to data collected in 2021. That survey, although capturing a certain angle of Private Equity and Venture Capital players based in Luxembourg, fell short when it came to determining the local market size.

CSSF's AIFM Dashboard released in October last year provides so far the best overview of the local market with data originating in the mandatory Annex IV reporting. Despite the figures referring to the situation by the end of 2021 and not discriminating the net asset value (NAV) of Private Debt, we can aggregate the Luxembourg Private Equity-related NAVs north of EUR 509 billion. That report was particularly important to demonstrate the continuous growth of Private Equity funds which have been averaging 70% per year since 2017!

The Private Equity Data Dashboard now released by the LPEA with the support of its Central Intelligence Committee, brings together the official CSSF data with additional sources, such as the Luxembourg Business Register, Preqin and the above mentioned GP Survey.

HIGHLIGHTS

- The weight of PE-related funds in the total NAV of the funds managed in Luxembourg has increased from 1.5% in 2017 to 8.7% in 2021 (Fig. 1);
- According to the CSSF and Bain's Global Private Equity Report, the NAV of Luxembourg AIFs represents 17.6% of the global Private Capital industry.
- Preqin and LPEA survey data point to an impact of COVID-19 in the deployment of Private Equity funds (Fig. 2);
- Half of the Luxembourg Private Equity market is dominated by Fund of Funds (31%) and Buyout (28%) (Fig. 3);
- According to LPEA's GP Survey, Private Equity firms managing more than EUR 1 billion employed on average 14.4 FTEs, while managers under that mark employed on average 4.6 FTEs.
- Recruitment pressure of PE-profiles has decreased. Vacancies by May 2023 featured 256 less open positions than one year ago.

The complete presentation can be found on the LPEA website and via this QR code.

Figure 1: Evolution of the weight of PE-related funds in the Luxembourg fund center

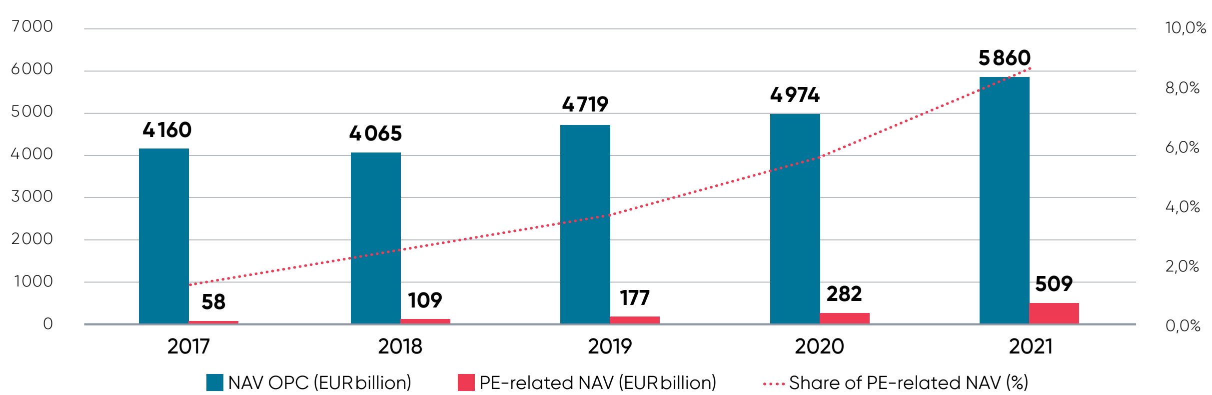


Figure 2: Average called capital of Private Equtiy funds (%)

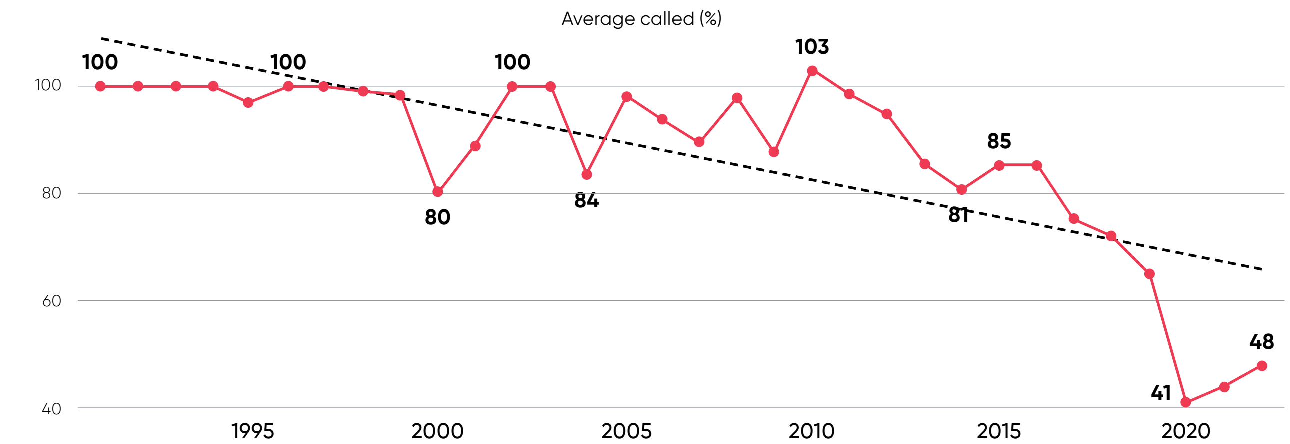


Figure 3: Number of PE funds by strategy

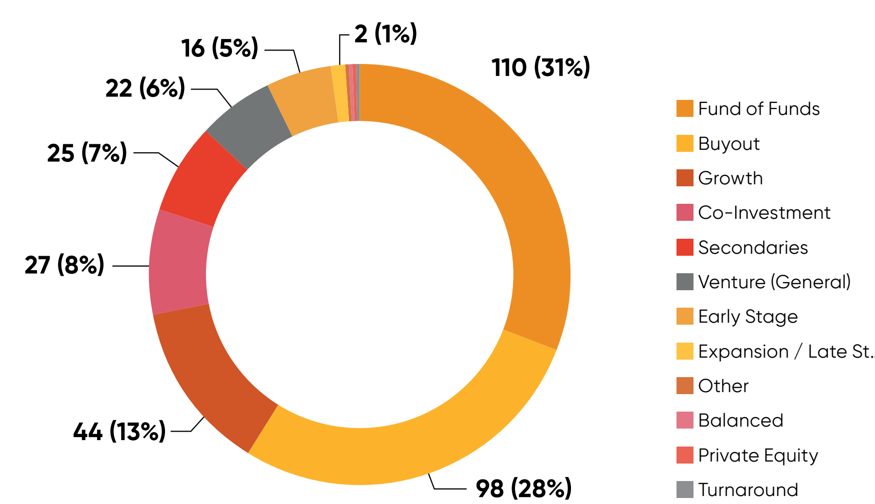
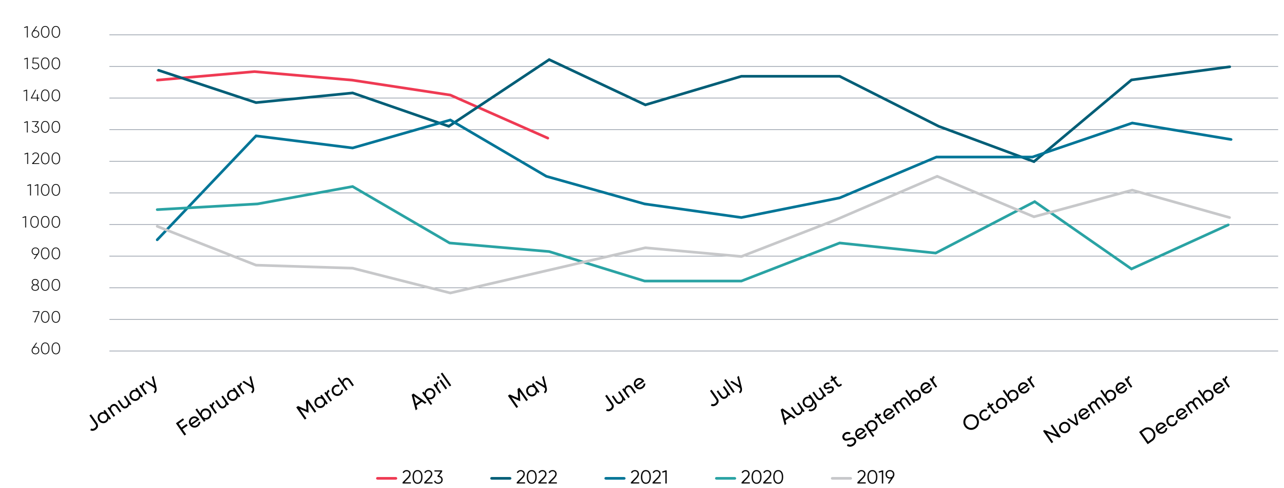


Figure 4: Number of PE-related jobs



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By Tram Trinh,
iNED


John Holloway,
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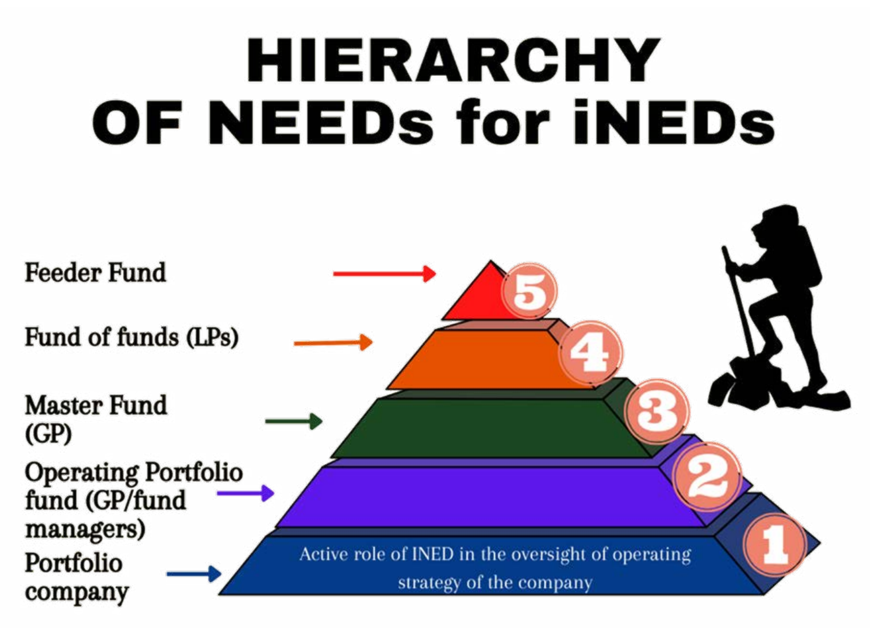
iNED


and Olivier Lambrecht,
iNED

iNED's in PE - not Only for (Compliant) Governance

The pyramid hereunder illustrates several levels at which iNEDs ("independent non-executive directors") can bring added value to the way a Board of Directors actually functions, whether at the investment level or moving downwards into the portfolio company itself. The presence of iNEDs throughout the structure is now widely accepted and welcomed, not just by other Board members but increasingly also by Regulators.

Clearly, the skill set of the iNED will best match the needs depending on what level of the pyramid the Board sits. While not entirely the case but, generally speaking, closer to the top of the pyramid there will be a greater requirement for expertise in strategy, compliance, regulation, and valuation. With that in mind, the twin aims of the recently formed iNED club within the LPEA are to raise awareness of the role of iNEDs and to share knowledge. The main purpose of this article will be to focus attention on the foundation level of our structure, being the portfolio company. Four members of the iNED club sat together in a Q&A session to shed some light on the demands, arising from being very much "at the sharp end" of an investment.



Why should Luxembourg be at all interested in developing and growing a pool of iNEDs?

Luxembourg's international innovation ecosystem which one of us discovered through the Business Club France Luxembourg in 2018, is home to diverse, manufacturing, fintech (LHOFT), digital innovation, ICT, cleantech, space, and health tech companies. Many of these have been backed by local and international PE and VC funds, from Europe, the Middle East but also Asia, and the US.
You can easily imagine that with a market population of 645K people, Luxembourg is viewed more as a central base for growth companies to scale from, into other European & international markets. PE/VC funds that have the ambition to boost their portfolio development rely on iNEDs outside their usual finance network, those with portfolio company specialist industry knowledge and operating experience, with a diverse international footprint and understanding of scaling companies to target markets and stages.
This is why Luxembourg, rich in 170 nationalities, where half of its population is foreign and highly educated, seems the right place to screen and appoint iNEDs with both industry and international lenses for the boardroom!

> "In the early days of a PE/VC-backed company, an iNED is more than just a board member, he/she can be a trusted, independent, and neutral mentor to the CEO."

Best governance practices stipulate that it is ideal to increase diversity on the board of companies. One obvious way to achieve that is to open the boards of companies to non-executive board members coming from different horizons, having different experiences, different skill sets, and different knowledge.
iNEDs have been used widely for years in the Luxembourg finance sector. Companies' expectations from these iNEDs have been very diverse, as diverse as the complexity of these legal entities. Moreover, the profession has also had its dedicated association (ILA) for a long time. This might be a competitive advantage for Luxembourg when compared with other jurisdictions.

PE companies are generally not required to have iNEDs on their Board. Why would they be interested in bringing one in? Is there any added value for the company or just additional cost?

An iNED is a tiebreaker. One of us had the experience of being approached by the CEO of a small-cap company as he wanted to informally introduce the concept of iNED to his PE/Family office owners. As a minority shareholder co-founder in the board with majority PE representative shareholders, he wanted to bring in someone who could add an outsider perspective in order to align the interests of all parties, which were in disagreement as to the timing and the next countries to expand into at that stage.
The INED's presence was perceived as a value-add, as his/her contribution was dispassionate, facts-based and not focused on financial short-term interests and views. An iNED is a diplomat, sometimes a "United Nations type of ambassador" on the board. PE investors identify iNEDs early in their due diligence process to leverage their investments from day one, relying on the right independent board director(s) to drive the company's business model transformation in a short period of time into an exit and bringing a "network effect of relationships".

He or she must be ready to give direct, honest, and benevolent feedback to CEOs and executives, provide constructive industry, operating and market insights, as well as setting clear targets and tangible measures to monitor progress.

In the early days of a PE/VC-backed company, an iNED is more than just a board member, he/she can be a trusted, independent, and neutral mentor to the CEO who may feel "isolated" once a board decision is made because he/she is neither LP/GP like nor a management team executive. iNEDs need to ask tough questions and help the CEO and executives find the right answers. VC-funded companies can be too focused on the exit strategy and commercial goals, which can be distracting to the executive team trying to future-proof the company.

PE firms expect their portfolio company director not only to understand the drivers of the business, but also to adopt a hands-on and a mid-term value creation approach. Most importantly, they should also act as a translator and trusted advisor to the C-suite.

Some of the goals of the PE firm in attracting iNEDs into their portfolio companies include supporting the CEO and the C-suite team on the creation and execution of the product and technology strategy, bringing for instance an entrepreneurial track record, pharmaceuticals industry knowledge/network and commercial experience of scaling a value offering and the customer base, or bringing in global go-to-market strategies and understanding of SaaS systems. Some PE needs can be very specific as to the geography and sector knowledge. Cross-functional experiences such as risk management, and cybersecurity can be very attractive to PE firms.

Could we take a deeper dive into the skills needed when sitting on a PE company Board? How do we learn them, and how do we bring them to bear?

A PE iNED knows how to anticipate and collaborate with his/her peer board members to build a complete oversight of business opportunities and risks namely operating, financial, market, and legal bottlenecks.

The most important skill to us by far is to be or become a team builder and a team player. The quality and depth of

> **"The great iNED is a "giver", attends every meeting with the intention of learning and contributing, and should have the courage to offer to leave the board if he or she is aware of not contributing or getting anything out of it."**

the questions and decisions you come up with in the boardroom are closely tied to your chemistry as a team.

You learn by getting to know and appreciate your peers, build strong relationships by creating and fostering opportunities to discuss informally outside of the boardroom 1:1 grabbing a coffee, and/or short calls on a regular basis or ad hoc, with the CEO of the company, the chair, and every other member, whether you are part of the same committee or not.

iNED skills needed in a portfolio company vary on the industry field depending on the strategic goals of the PE firm and portfolio company and range within: Senior Leadership Experience (CEO/President), Financial Management (CFO, Investment Professional), Accounting, Auditing & Internal Controls (CPA), Industry Experience, Strategy & Business Development, IT, Technology, Cyber-Threat Experience, Marketing; Brand Marketing, PR Experience; Social Networking Regulatory Experience/Knowledge, Human Resources Knowledge, Legal Expertise, Operations Expertise, Board Experience, Committee Experience.
Practically during the scaling phase of a PE portfolio company, an iNED fit for the role would be capable of securing talent acquisition through his/her wide network, connecting the company with key contacts, such as resolving IP or temporary cash flow issues in a specific market or at a C-suite level of customer/partner targets, and in later stages opening one's network for M&A or exit trade sale transaction opportunities in the specific industry.
The credibility of an iNED in a PE-backed company ultimately serves to attract new investors and lenders who trust in an independent perspective and reassure LPs who end up committing to the next PE fundraising.

Aren't most iNEDs more attuned to subjects such as compliance, reporting, ESG, SFDR, etc? How might this be changed?

This is true in Luxembourg. We find iNEDs more easily who have specialized in ESG or AML, than in opportunistic real estate or carve outs in the chemical industry. Today in Luxembourg, it is way easier to train oneself, or share views with colleagues on regulatory topics than on market evolutions or on how to elaborate a strategy.

That is not a fatality, but some things must evolve concurrently; the offer of training and workshops should be more balanced. At the same time, the existing iNEDs should diversify the kind of events they attend and be more in demand of topics outside of their comfort zone. Additionally, communications from regulators and other public authorities should advance in the same direction. Initiatives already exist, however we need to collectively support them and hopefully generate a virtuous circle. This needs to be done whilst preserving and reinforcing the competitive advantage that Luxembourg has managed to create over the last decades.

How much do you think iNEDs need to pay attention to soft factors in addition to (or in substitution for) more obvious technical aspects?

It depends. iNEDs on boards of entities with SPV characteristics don't need to bring in soft factors but should ensure that governance issues are well covered. However, as soon as the mandate is in a board of, for example, an AIFM such soft factors become increasingly important as the iNED, not only has to bring the technical (ie. Subject matter expert) skills to the table but should also have an eye on the interaction between Senior Management (i.e. Conducting Officers) and the Board and Senior Management's interaction with the initiator of such AIFM.

Should the performance of iNEDs be assessed, say annually, and by whom?

Yes, absolutely. The assessment should ideally be made by someone from the organization that initiated the appointment at the same time as the annual board evaluation process. That should be someone Senior and, if possible independent. An assessment can be made on an annual basis by the Chair (also an independent) of the Holding Company at the head of the organization. These are very insightful discussions.

What does it really take to make a great independent iNED?

The great iNED is a "giver", attends every meeting with the intention of learning and contributing, and should have the courage to offer to leave the board if he/she is aware of not contributing or getting anything out of it.
A great iNED is an individual who understands the needs of the company he/she supports and can assist with procuring what is missing. ●

Next series of newsletter articles, testimonials and interviews: Everything you may want to know about "the need for iNEDs in an Operating Portfolio Fund".

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By **Arnaud Bon,**
Partner - Consulting Alternatives Leader at Deloitte


and **Philippe Theissen,**
Senior Manager at Deloitte

Opportunities and Benefits Generated Through Smart Implementation of the ESMA Common Supervisory Action on the Supervision of Costs and Fees

In response to concerns over undue costs being recharged to the funds (i.e. fees charged to the funds which are considered excessive or unjustified), the United States has emerged as a catalyst for transparency and investor protection.

Over the past decade, these principles have gained traction as they made their way across the Atlantic to Europe. European policy makers, driven by both investor protection and the belief that the overall cost of third-party money management could be decreased across the industry, have decided to take action. After an initial supervisory briefing in 2020, the European Securities and Markets Authority (ESMA) published its report in 2022 on the common supervisory action conducted by national competent authorities, followed by a CSSF publication dated October 2022, under which Luxembourg based fund managers were requested to put in place the adequate governance by end of March 2023 to ensure compliance with a number of principles.

Further steps towards a harmonized and stringent framework across the E.U. are underway, but fund managers themselves had already embraced fund and internal cost reviews in order to get more insight when considering and assessing their internal organization, governance and overall efficiency.

What is required?

Within regulatory language, implementing "proper action" essentially revolves around adopting a clear pricing framework, robust governance, appropriate controls to be performed to ensure compliance with the pricing model implemented, and a thorough and recurring assessment of fund costs charged, which is typically executed through the performance of a market benchmarking exercise. All considerations need to be clearly addressed in the pricing policy of the fund manager, which details the fee calculation process, the management of potential conflicts of interest, reporting towards third parties and the established governance framework for ongoing fee monitoring.

A robust pricing governance framework facilitates the execution of proper fee and cost monitoring processes by implementing the right toolbox. A proper fee mapping template and related control framework covers:

- Identification of all fees directly / indirectly charged to investors
- Fee levy and level identification
- Mapping of data sources
- Control performed and costs classification (e.g. nature, counterparty)

By having rigorous monitoring in place, potential errors or inconsistencies in fee calculations can be identified and rectified, preventing investors from incurring undue costs. Additionally, the pricing policy should facilitate periodic market assessments to ensure fair fee structures aligned with market standards and expected product return, while also outlining the process for communicating changes or updates to investors in a timely manner.

Three types of fee/cost market benchmarks commonly observed

In a perfect world, a cost benchmark at product level, integrating all type of costs from management fees to operating costs charged or recharged to the fund, would be the ideal scenario to best address current regulatory expectations. However, due to the lack of publicly available data on alternative product costs, such exercise can prove challenging if not impossible. Management fees and a number of asset management related remuneration elements can be benchmarked relatively easily. They however tend to be pretty standard (though specific to each strategy and sub-strategy) across the alternative industry, hence contributing little value to the objective. Operating costs instead vary generally largely from one fund to the other. Add the fact that most of such costs are not charged at fund level but at underlying SPV or asset levels, benchmarking between products becomes impossible.

An alternative solution is to benchmark such costs with what third-party service providers would be charging for a similar product. Where such costs relate to services already provided by service providers, this allows for adjustment of the pricing level. Where such costs relate to activities performed by an affiliate of the manager, and eventually recharged to the funds, this enables managers to demonstrate that they are not over-charging despite a potential conflict of interest.

Several methodologies may be used in this context depending on the operating model and cost model of a specific product – from platform cost benchmarking to service-by-service benchmarking. But all would require, at one point of time, for some simulations to be run over time. Such type of exercise also helps fund managers address other elements on top of regulatory expectations. The platform cost benchmarking would typically provide a fund manager with view on their total cost for running their platform against prices charged by third-party services providers. This can help managers assess the competitiveness of their internal costs and operations in relation to industry standards, which would help them justify a possible operating model where functions/services are performed in-house rather than delegated to specialized third-party service providers, or on the contrary justify more outsourcing.

Cost monitoring efforts and granularity should be driven by a risk-based approach, taking into account the level for potential conflict of interests for each cost item, with fees and expenses charged or recharged by the manager bearing more risk of conflict of interest. Third-party service providers related costs should generally be considered lower risk. As a result, cost monitoring for these services may generally be conducted less frequently.

Observed challenges to run market benchmarks

Benchmarking, especially in the alternative fund management industry, is however not a straight forward process and comes with its fair share of tailwinds that fund managers need to navigate effectively.

One of the primary challenges is the need for access to recent and relevant data. Using historical or outdated data for benchmarking purposes can result in misleading or inaccurate comparisons, especially with the recent market environment where high inflation has considerably affected prices charged by third party service providers. To ensure the validity of benchmarks, fund managers must gather and analyse data that reflects the current market conditions and fee structures.

Another factor that needs to be considered lies in selecting the appropriate benchmark data that is asset class /investment strategy specific. Maintaining consistency in the scope of service delivered as well as comparing prices charged for similar types of investments is crucial to ensure meaningful and relevant results.

Geographical relevance is also crucial when performing a benchmarking exercise, as different regions or markets may have unique fee structures and market conditions. Therefore, it is important to ensure that the benchmarking data used is relevant to the specific geographical area of analysis.

Insight and related benefits generated through implementation of regulatory requirements

From an operating model perspective, the regulation prompts fund managers to critically assess their current operating model. By mapping and analysing their costs, fund managers can identify areas for optimization and cost reduction, enhancing their operational efficiency. This evaluation offers an opportunity to optimize processes, streamline operations, and potentially leverage external – sometimes more efficient – expertise where useful.

Moreover, the regulation fosters improved transparency towards investors, which, in turn, instils a sense of confidence and trust. This transparency on costs not only meets the ESMA regulatory requirements but also enhances the overall investor experience and strengthens the investor-manager relationship.

In summary, the regulation does indeed come with certain challenges that fund managers need to address, such as the access to proper data and the implementation of robust controls over their pricing model. However, it also brings significant benefits to the fund management industry and fund managers alike. It provides a clearer understanding of operating costs, improves transparency with investors, and encourages a thorough evaluation of the operating model. By embracing these changes, fund managers can enhance their competitiveness, build stronger investor relationships, and drive operational excellence in the dynamic landscape of the investment fund industry. ●

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By **Ian J Harcourt,**
Country Head and Head
of Institutional Banking,
Luxembourg at RBS International

AIFs - Navigating the Roadblocks to Adopt SBTs and Finding your own Path to Net Zero

The Science Based Targets initiative (SBTi) is fast becoming the standard for financial institutions looking to commit to a robust and trusted framework for decarbonisation pathways – but research, including our own at RBS International, has found that AIFs continue to struggle with roadblocks when trying to adopt SBTs and find their own path to net zero. Dialogue and bringing all internal and external stakeholders along will allow AIFs to deliver against their climate ambitions and show leadership in the field.

Private capital and the transition to net zero

Private capital is agile and influential in today's global economy, two key ingredients for delivering serious impact and the transition to net zero. Nowhere is this truer than the green economy and climate action, where AIFs are leading the charge on financing tomorrow's solutions and technological breakthroughs. We are seeing more and more funds consider climate as an opportunity, not just a risk, and they are viewing the pathway to net zero as an opportunity to realise positive climate, environmental and economic impact at the same time.

Headwinds are preventing progress

The shift in perspective to seeing economic and climate performance as inextricably linked, from a global down to a portfolio company level, has come at a time when there are many economic challenges facing investors. A recent survey[1] of 125 decision makers at AIFs that RBSI conducted, spanning a variety of asset classes, locations and AUMs, confirmed to us that even though 90% of AIFs see long-term value in setting SBTs, the economic conditions have caused the timeline for adoption to slip. Regulatory pressure remains a main driver alongside investor pressure, but the short-term view on advantages to SBTs lacks consensus. At RBSI, we think acting soon in spite of the challenges may yield benefits, as highlighted below.

The advantages to pressing ahead/acting now is essential

There will be challenges ahead for AIFs on the journey to net zero, and it will require commitment and dedicated resources to deliver in the face of headwinds. However, this decade is an inflection point, and will determine the possibility of keeping warming to close to 1.5°c and the resulting effect on our global economy – up to 20% of the world's GDP could be lost to climate change by 2050[2].

As the world gears up for climate action, the field will become crowded and those who have not moved early will find bottlenecks and scramble for expertise and opportunities. Stranded assets are looming on the horizon and when everyone is moving at once, there will be greater competition.

Institutional investor pressure is a commonly cited concern for AIFs when discussing their climate ambitions and current position, and we see this trend continuing – moving now to avoid bottlenecks will ensure that AIFs do not end up stuck between the rock of investors unsatisfied with climate action taken, and the hard place of high costs due to competition for the resources needed to decarbonise.

> **"As the world gears up for climate action, the field will become crowded and those who have not moved early will find bottlenecks and scrambles for expertise and opportunities."**
>
> Ian J Harcourt

What can AIFs do to overcome the barriers?

Some may think that adopting targets in the face of today's many headwinds will be a challenge, but I believe by following a simple three-step plan AIFs can keep the momentum for implementation going.

- **Step One: Continue climate conversations**
  - Discuss SBTs internally and bring all stakeholders along on the journey, helping them to understand the advantages to taking action now and what the roadmap to validation and implementation will look like.
  - Engage with industry bodies and events to ensure you are hearing from a breadth of perspectives and experiences.
  - Assess what comparable AIFs are doing to ensure you stay ahead of investor pressure.
- **Step Two: Adopt a sense of urgency**
  - Make a public commitment to adopt SBTs, beginning a process that gives you 24 months to submit your targets to the SBTi for validation.
  - Address your ESG resources, and ensure you have hired the right specialists or engaged with external support to deliver in line with your ambitions.
  - Understand the roadblocks ahead on your path to net zero, and size up what it will take to break through them.
- **Step Three: Maintain focus on the future**
  - Submit your targets to SBTi for validation, giving you and your investor's confidence that you have a robust and science-based path to decarbonising your business.
  - Take action in line with your milestones: the mandated SBTi timeframe is 5-10 years.
  - Continue internal communications with all stakeholders – SBTs are challenging and will require endorsement and expertise from across your business.
  - Disclose your emissions annually and monitor progress against your targets. Remaining accountable to each other, our investors and the public domain is a time-tested path to delivering powerful results.

Believe in an open & trustful dialogue

Not all resources need to be competed over – knowledge can be shared through dialogue. Climate change is a monumental challenge that will take cooperation across all spheres of the public and private sectors to tackle - it is a team sport, one in which we will all win and lose together as the potential effects are so vast. We have seen an amazing coming together of nations, companies, research bodies and financial institutions that would be unheard of in other areas, and this has led to great progress, but we must keep the conversation going to learn from each other and hold each other accountable. An open & trustful dialogue is crucial to delivering the right outcome on climate, and many institutions, including my own, readily share our experiences of the goal-setting and validation process and encourage all participants in the AIF industry to keep communicating and learning at opportunity. ●

1. Stay the Course RBSI SBTs report
2. "This is how climate change could impact the world economy," World Economic Forum, June 2021

By **Benoit Rose,**
Partner at Ogier

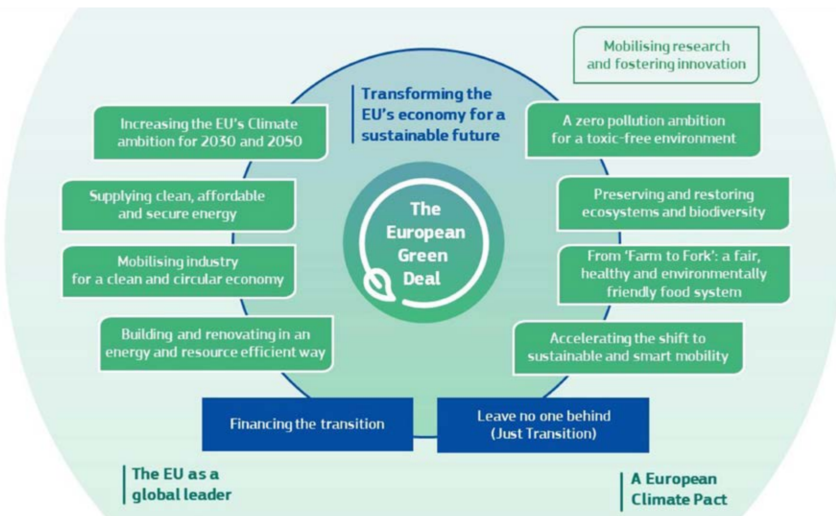
The Corporate Sustainability Reporting Directive: One Step Further

The European Commission published a communication on 11 December 2019 entitled "The European Green Deal" (Green Deal) as a response to climate and environmental-related challenges. It was defined as a new growth strategy aiming at transforming the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy without net emissions of greenhouse gases in 2050. The Green Deal aims to decouple economic growth from resource use.

A couple of years before in 2015, the United Nation Member States adopted 17 Sustainable Development Goals, as part of the 2030 Agenda for Sustainable Development, which are a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere.

The Green Deal is an integral part of the European Commission's strategy to implement the United Nations' 2030 Agenda and the Sustainable Development Goals.

In a Communication dated 8 March 2018 entitled Action Plan: Financing Sustainable Growth, the European Commission did set out measures to achieve several objectives, such as reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth or manage financial risks stemming from climate change. The European Parliament and the Council have in turn adopted a number of legislative acts to achieve this.



Source: Communication from European Commission on the European Green Deal (COM(2019) 640 final)

Prior to the adoption of the United Nations Sustainable Development Goals and the Green Deal, a first milestone had been achieved in 2013 with Directive 2013/34/EU (amended by Directive 2014/95/EU), regarding disclosure of non-financial and diversity information by certain large undertakings and groups (NFRD).

In the Green Deal, the European Commission made a commitment to review the provisions of NFRD.

Non-Financial Reporting Directive - NFRD

NFRD introduced a requirement for undertakings to report, as a minimum, information on:

- environmental matters;
- social matters and treatment of employees;
- respect for human rights;
- anti-corruption and bribery;
- diversity on company boards (in terms of age, gender, educational and professional background).

NFRD further requires undertakings to disclose information under the following reporting areas:

- business model;
- policies, including due diligence processes;
- the outcome of those policies;
- risks and risk management; and
- key performance indicators relevant to the business.

Corporate Sustainability Reporting Directive - CSRD

On 5 January 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force. It amends not only the NFRD, but also Regulation (EU) No 537/2014 (annual financial statements), Directive 2004/109/EC (transparency directive), and Directive 2006/43/EC (statutory audits), as regards corporate sustainability reporting.

CSRD's aim is to modernise and strengthen rules relating to social and environmental information that companies have to report, but also ensure that investors and other stakeholders have access to relevant information they need to assess investment risks arising from climate change and other sustainability issues. One ambition of CSRD is to create a culture of transparency about the impact of companies on people and the environment.

Companies subject to the CSRD will have to report according to the European Sustainability Reporting Standards (ESRS). The draft ESRS are developed by the EFRAG (previously known as the European Financial Reporting Advisory Group). The standards will be tailored to EU policies but will also be part of and contribute to international standardisation initiatives. The Commission should adopt the first set of standards by mid-2023, based on the draft standards published by EFRAG in November 2022.

The sustainability reporting standards shall ensure the quality of reported information, by requiring that it is "understandable, relevant, verifiable, comparable and represented in a faithful manner".

> **"One ambition of CSRD is to create a culture of transparency about the impact of companies on people and the environment."**
>
> Benoit Rose

Scope of information

The sustainability reporting standards shall specify the information that undertakings have to disclose in relation to the following:

1. Environmental factors:

a. climate change mitigation;
b. climate change adaptation;
c. water and marine resources;
d. resource use and the circular economy;
e. pollution;
f. biodiversity and ecosystems.

2. Social and human rights factors:

a. equal treatment and opportunities;
b. working conditions;
c. respect for the human rights, fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core United Nations human rights conventions.

3. Governance factors:

a. the role of the undertaking's administrative, management and supervisory bodies with regard to sustainability matters, and their composition, as well as their expertise and skills in relation to fulfilling that role or the access such bodies have to such expertise and skills;
b. the main features of the undertaking's internal control and risk management systems, in relation to the sustainability reporting and decision-making process;
c. business ethics and corporate culture, including anti-corruption and anti-bribery, the protection of whistleblowers and animal welfare;
d. activities and commitments of the undertaking related to exerting its political influence, including its lobbying activities;
e. the management and quality of relationships with customers, suppliers and communities affected by the activities of the undertaking, including payment practices, especially with regard to late payment to small and medium-sized undertakings.

Small and medium-sized undertakings

The Commission shall, by 30 June 2024, adopt delegated acts to provide for sustainability reporting standards proportionate and relevant to the capacities and the characteristics of small and medium-sized undertakings and to the scale and complexity of their activities.

Third-country undertakings

A sustainability report should be published and made accessible as well by:

- a subsidiary undertaking whose ultimate parent undertaking is governed by the law of a third country.
- a branch which is a branch of an undertaking governed by the law of a third country, which is either not part of a group or is ultimately held by an undertaking that is formed in accordance with the law of a third country.

This should be done in accordance with the sustainability reporting standards for third-country undertakings, which are to be adopted by the Commission by 30 June 2024 in the form of a delegated act specifying information to be included in the sustainability reports.

Next steps

Member States are to incorporate the CSRD by 6 July 2024 into law nationally. Some measures amending NFRD will apply for financial years starting on or after 1 January 2024.

The rules introduced by NFRD remain in full force and effect until companies have to apply the new rules of the CSRD. ●

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By **Isabelle Delas,** CEO of LuxFLAG

Nairi Tarakdjian, Business Development & Marketing Associate at LuxFLAG

and **Blandine Machabert,** Impact Manager at RAISE

The Challenge of Labelling Private Equity Funds

The relevance of trustworthy labels in the quest to mainstream sustainable finance cannot be emphasized more. As the market changes, with growing demand for environmentally and socially aligned investments, regulations ensure legitimacy.

Credible criteria categorize and identify responsible investment possibilities, distinguishing sustainable financial products. The introduction of trustworthy criteria that provide a framework for categorizing and identifying responsible and sustainable investment possibilities is at the forefront of this trend. These labels are critical in distinguishing sustainable financial products, assisting regulators, financial institutions, and investors in assessing the environmental, social, and governance performance of such products.

In recent years, there has been a significant growth in the demand for sustainable and responsible investments. The market is evolving, and regulations and compliance requirements have led to an increase in labelled assets under management (AuM).

At LuxFLAG, we have verified significant growth; in fact in a decade of LuxFLAG's existence, we have significantly grown the number of labelled financial products. From 13 labelled products in 2010 to 344 in 2023. This growth mirrors the existing demand for sustainable financial products that will continue to increase in the near future.

Label diversity: The role labelling plays in mainstreaming sustainable finance

In the ever-changing field of sustainable finance, sustainability labels serve as inspirations of trust and clarity, pointing investors to responsible possibilities and pushing the mainstream adoption of sustainable practices. Labels help many players in the industry such as regulators, financial institutions and investors to differentiate sustainable financial products and assess the environmental, social and governance performance of a financial product.

LuxFLAG offers a wide range of labels that fall under two different categories. We have the Sustainability Transition Labels: ESG Label, ESG Insurance Product Label and the ESG Discretionary Mandate Label. Secondly, we have the impact labels, which include, the Microfinance label, the Environment label, the Climate Finance label and lastly the Green Bond label. In total, these seven different labels, offer a wide range of options to investors and guarantee that the financial product does what it says. All of our labels are based on the processes and the ESG due diligence of the financial product, not on the type of asset. In fact, we are asset-class agnostic, meaning we are always adapting to market demands which makes us more flexible to different strategies.

With the growth in demand for sustainable finance products comes the responsibility of meeting this demand and helping the growth of the sustainable finance market. Even with the flexibility of our labels in terms of asset classes, sometimes we identify the need to customize our label offer to meet the demands of our clients. As a result, we issued two new labels; the ESG Insurance Product Label in November 2021 and the ESG Discretionary Mandate Label in November 2022. The launch of these two labels answered the necessity to address specific due diligence and data requirements for different financial products.

Private Equity and Labels

However, when it comes to Private Equity products, we have not verified this increasing demand. This is mainly due to the specifications of these products. Firstly, Private Equity products are highly diverse and complex with limited accessibility, since they are rarely publicly traded. Secondly, there is a lack of available data for these products which makes it difficult to identify a standardised due diligence process. On top of that, Private Equity investors are mostly seeking returns and might be unwilling to review their strategy in order to address sustainability issues.

Although these specifications may result in more difficulties and barriers for applicants to apply for sustainability labels, the investor trend is towards ESG compliant Private Equity funds, therefore the Private Equity houses will become more transparent in making information and data available, facilitating the labelling process. ●

> **"In the ever-changing field of sustainable finance, sustainability labels serve as inspirations of trust and clarity, pointing investors to responsible investments."**

CASE STUDY

Barriers to labelling for Private Equity

At RAISE Impact, our journey towards obtaining the LuxFLAG ESG label allowed us to debunk three key preconceived ideas about sustainable finance labels for Private Equity funds.

1. Limited Partners have limited interest in sustainable finance labels.
With the clear acceleration of the sustainable finance market since 2019, the continuing debate around the validity of funds' sustainability claims has only intensified. This debate, and the underlying fears for market integrity, led policymakers to establish a demanding regulatory framework. However, the absence of clear minimum standards or third-party verification pushes the most discerning actors to seek opinions from trusted independent agencies.
At RAISE Impact, obtaining a sustainable finance label became a differentiating element as part of our fundraising efforts. Indeed, it demonstrated the rigor of our approach while meeting the requirements of some of our most advanced Limited Partners.

2. The labelling process is too cumbersome.
For most actors, the path to obtaining a sustainable finance label often feels like a labyrinthine maze. The burden of accumulating the necessary documents, fulfilling stringent criteria, and going through rigorous examinations can be overwhelming, leaving everyone feeling frustrated by the time dedicated to reporting, rather than driving sustainability.
At RAISE Impact, we did experience an acquisition cost prior to receiving the label. But once this cost was put in the wider context of the fund's entire life and of the management company's broader product offering, those initial efforts were well worth it. Indeed, once you understand LuxFLAG's requirements, identify the gaps between existing processes and those requirements, and address those gaps, the ESG label's annual renewal, or the duplication to other funds, is fairly straight forward.

3. Labelling systems were created for listed equities and cannot be adapted to Private Equity.
In 2022, a study on the European sustainable finance labels market conducted by Novethic[1] highlighted that less than 2% of the total AuM of labelled European funds are invested in private debts and private equities. One of the reasons underlying this state of affairs is the notion that sustainable finance labels are requiring managers to implement processes relevant for listed equities (e.g., negative and positive screening, ESG ratings, etc.) rather than private equities.
In summary, our experience of the LuxFLAG Label demonstrated that sustainable finance labels are flexible enough to be adapted to sustainable finance practices in Private Equity. For instance, we use our proprietary impact measure methodology to demonstrate that 100% of our portfolio was screened based on ESG criteria, but one could use the processes and indicators used to promote environmental and/or social characteristics under the Sustainable Finance Disclosure Regulation.

1. Novethic, Overview of European sustainable finance labels, May 2022

RAISE Impact is one of the largest European impact Private Equity fund. It provides long-term support to impact-driven SMEs who place the preservation of future generations and the planet at the heart of their activities. Based in Paris, RAISE Impact manages around €260 million on behalf of major European institutional investors as well as family offices.

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By **Luis Galveias,**
COO of the LPEA

Interview of Michel Rzonzef,
President of the Luxembourg Business Angel Network

Giving Access to Early Stage Investments as a New Asset Class

Can you describe LBAN in a few words?

LBAN is the business angel network in Luxembourg with the aim to connect startups with investors. Today we have more than 130 members who have invested over EUR 40 million in recent years, and EUR 8.5 million alone in 2022. We focus on investment in early-stage startups with a valuation between one and ten million, where our members usually take an active role in supporting the growth of the business.

Who are your members? What is their typical profile?

Members can either be successful entrepreneurs who are themselves founders of startups or corporate profiles, professionals coming from a successful corporate life with skills that can be useful for founders. They invest tickets in between EUR 25.000 and 100.000, sometimes more per project. As a group we often syndicate and invest between EUR 150.000 and 350.000 per startup.

You have been recently elected President of LBAN. What are the objectives you set out for your mandate?

My priorities for this one-year mandate are threefold; investments, community and ecosystem.

On the investment, we will continue to strengthen the deal flow for our members in terms of quality and quantity; we want to provide tools to facilitate the due diligence and the investment process, and that includes creating a co-investment structure - an SPV, which allows our members to co-invest in bigger projects or smaller investments by our members.

Community-wise, we will continue to strengthen the services we offer to our members, like the academy that helps learning about investment in early stage companies. We also intend to partner with associations like the LPEA which can be a source of investors – I will come back on that.

Regarding the ecosystem, we are a key player in the startup environment, we will keep working with the incubators and accelerators to help the founders know how to get spotted and funded by business angels. We will also continue to partner with business angels across Europe - so we can join forces in investments or follow on deals. No less important, we will work more with VCs – that is why the collaboration with LPEA is important, because once the business angels have done their job, come the VCs that can then be the next step for startups.

How can we motivate more people to become business angels?

By talking about it, by promoting the ecosystem, by showing the importance of the early stage startups for the economy of a country – and I think the investment by the State of Luxembourg on this ecosystem shows how important it is. We believe there are candidates for instance in associations like the LPEA and the Independent Directors Association (ILA).

We also need to get closer to corporations. We are aware that business executives and partners have little time to dedicate to investment and that is why we at LBAN are offering tools to facilitate the investment process. We for instance provide access to a co-investment structure that is as useful for busy executives as it is for junior members of LBAN to invest smaller amounts, to invest in a group and to mitigate the risk. Furthermore, all members have access to our Academy that provides training on how and where to invest.

Many countries have adopted tax incentives to promote early stage investment. It also helps to attract new business angels…

It is a fact that countries like the UK, Belgium, and Germany, just to name a few, do have attractive incentives to bring investments into early stage ventures. French policy makers are working on a scheme to triple investors in the start-up ecosystem. Luxembourg cannot stay idle as it wants to attract investment in the startup ecosystem, and we expect the next governing coalition to include this important matter in its programme.

Michel Rzonzef

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> **"Early stage has to be seen as a different class of assets, either via VCs or Business Angels, and we are there to help people in having the opportunity to invest into that asset class."**
>
> Michel Rzonzef

How can synergies between business angels and VCs be deepened?

Business angels are individuals that want to give to the ecosystem. They invest their time, their expertise, their knowledge and their money of course. The VCs have expertise in financing. So going together into a project at the seed stage or in follow on investments, is a natural win-win. Today we are already invested with VCs and we will continue working with the LPEA to strengthen relationships with VCs as well as Private Equity firms at some stage.

With the current democratisation trend characterising the VC/PE sectors, can we expect business angels to invest in VC and PE funds?

Each investor has its own investment strategy. We invest in early stage to support an ecosystem. In parallel to that, many of us also invest into other investment structures. It's all part of the diversification process so I can indeed see our members investing in the fundraising of LPEA members.

Early stage has to be seen as a different class of assets, either via VCs or Business Angels, and we are there to help with our expertise for people that don't necessarily have the experience in the sector to have the opportunity to invest into that asset class. ●

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Interview of **Romain Saint Vignes,**
CFO at Tsume SA.

By **Stephane Pesch,**
CEO at LPEA

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Tsume: Pop Culture Made in Luxembourg

In this interview, Romain Saint Vignes presents Tsume, an established and Luxembourg-based player in the “geek” world, active in the creation of high-end collectible statues under official licenses. He also showcases Tsume’s growth plans and how the firm is currently fundraising in order to implement them.

Hi, could you share with our members how and when Tsume saw the light?

In 2006, Cyril Marchiol launched KMI, a company specialized in the import of goodies, and got close to ART OF WAR in Japan, a company dedicated to the creation of limited edition resin models. Soon he became their European agent but the company closed down due to a bad commercial strategy, leading KMI to close down as well. It was a difficult time for Cyril, but he did not give up. He got back on his feet, analysed and visualised a new project, gathering all the strong features to launch a new adventure; and that is how Tsume was born in March 2010.

Why Luxembourg?

Cyril is originally from the Moselle region in France and has always lived near Thionville, close to Luxembourg. He created his first company in France, but after its closure, he wanted to continue the entrepreneurial adventure on the other side of the border. It is important to know that for young people from Moselle, Luxembourg is a source of admiration and even going to work there is an achievement.

What distinguishes you from the competition?

In order to understand our advantage in the market, it is important to understand the "aura" around our models.
First of all, we benefit from our forerunner status - Tsume's has maintained a leading position in a market that it has itself created.
In addition to this, the community aspect allows us to be followed by customers through our various social media accounts totalling more than 800.000 followers!
The communication generated around a product is also very important, as it allows the customer to have a more precise idea of his future purchase. Moreover, it is important to create a link with the customers by showcasing the various processes related to the creation of a module, as well as for other linked activities such as quality control or packaging.
Finally, the centrepiece is the product itself. We seek to invoke nostalgia in our customers by recreating scenes that will have an impact on their respective emotions.

How did Tsume evolve over the last months and years?

Since 2010, Tsume has grown exponentially. 2020 aside - when the company was hit hard by the pandemic - each year has been marked by growth with a peak of more than EUR13 million in sales at the end of 2021.
After COVID, a simplified range of products was launched to meet storage and delivery constraints and at more accessible prices, thus opening up the market to newcomers and expanding the customer base.

> **"We are still looking to raise between EUR 2-4M by June-July 2023."**

Cyril Marchiol, CEO of Tsume.

©360Crossmedia/MC

> **"We seek to invoke nostalgia in our customers by recreating scenes that will have an impact on their respective emotions."**

What is the plan for the future?

It is crucial to achieve our objective of reducing production times in order to improve customer satisfaction and achieve a shorter cash cycle. This would also allow us in the short term to consolidate our financial indicators.
Most importantly, it would allow our customers to buy items in stock rather than ordering items that need to be produced following their order.
Our second development axis is to develop the servicing side by leveraging our licensing expertise and to collaborate with established IT, automotive or perfume global brands.
Finally, we would like to develop themed stores to offer a whole range of new and original products – with our own graphic charter – allowing us to reach an even wider audience.

Concerning the financing of your expansion, what are your expectations and what kind of partners would you like to meet?

In 2022 we have already raised approximately EUR 5.5M allowing us to concretely implement our strategy of reducing production delays and initiatives aimed at expanding our business.
In order to go even further in this strategy and to ensure 100% success in the short term, we are still looking to raise between EUR 2-4M€ by June-July 2023.
We are looking for business partners who can support us in our growth and, why not, propose new strategies connected to our activity. ●

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By **Lindie Fourie,** Co-head of HR Club, SANNE

Clement Rieutort, Co-head of HR Club, EY

Daphne Rosseeuw, HR Club Member, DLA Piper

and **Darren Robinson,** HR Club Member, Anderson Wise

Physical vs Digital Onboarding of New Employees: What are the Pros and Cons?

The HR club explored this topic; the precedent was set during lockdown where new joiners went through virtual onboarding, including training and introduction to processes, company, and teams. However, the retention of these new joiners after returning to the office became an important question in exit interviews or post discussion with line managers.

This raises the question; did virtual onboarding work better than physical onboarding?

The benefits of digital are evident in the time saved and the ability to condense topics into online training, as the persons involved are limited compared to physical integration in an office environment. This allowed many topics to be recorded and standardized as training material across the company or jurisdiction.

Benefits for the employee itself were a greater exposure to the business in a shorter amount of time, and a better understanding of the clientele and team tasks. Tasks had to be allocated clearly within a team, as the expectation for new joiners coming to the team was clearly set for daily tasks. The upcoming tasks could be better planned for a longer period to ensure items are picked up between members seamlessly in a virtual environment.

The negative aspects were unforeseen. Company culture, team spirit, and connection to the teams were not established with strong concrete links, as spontaneous discussion or transmission of the company spirit was not as evident during the digital process. As a result of this observation, a leading recruitment firm noted that "those new (and existing) employees who lacked or lost the cultural connection were more open to alternative career opportunities". This led to more new joiners deciding to leave shortly after joining the company, as they felt distant and disassociated from the company or their team members, in a market where there are more jobs available than candidates. Company culture is an increasingly common topic raised in interviews. Job seekers are now including emotional connections in their considerations when accepting a new offer – mainly because they may lack such connection within their current companies.

How can we then cope with the above issues?

This question was asked to the HR

> **"Job seekers are now including emotional connections in their considerations when accepting a new offer – mainly because they may lack such connection within their current companies."**

club members who are leading their companies from a human resources or operational strategy point of view. Here are some of the key issues which were raised:

- The first concern is the pace at which such change was implemented. Things went from 0 to 100 in a few weeks, HR Teams had to come up with new ways to onboard candidates in a very short timeframe, which led to inefficiencies. On top of this, candidates and teams had not been prepared for such change, leading to difficulties in the integration within the company or the team.
- Going fully digital is also questionable. HR and team managers often recommend new joiners to come to the office on a daily basis for the first couple of months to enable a better understanding of the company culture, create bonds with the team and easily ask questions. This is also an ask from many new joiners. The missing piece here is often the team itself: if they are used to the comfort of specific home working days or of a satellite office, a key person that could act as anchor for a new joiner may not be there some days during the first weeks – which can have a major impact. It is therefore the team manager's responsibility to ensure that key stakeholders make efforts to maintain an office presence for new joiners. So far, companies that have been successful with fully virtual onboarding are those in which home working is part of the DNA, crypto-currency companies for instance. More traditional employers have been getting better results and feedback with a mix of virtual and onsite presence post Covid.
- One of the HR members adopted the "collaborative Thursday" principle, with a mandatory presence at the office on that day. They have the highest attendance rate on that day and are convinced that regular presence at the office is essential, especially during the first months to create a network, develop good habits and take on the company culture.
- Other HR club members highlighted many tools to promote the integration of new employees and nurture the corporate culture through regular attendance such as: all team calls, welcome lunches, team lunches, "village", "plage", open door events with management, budget allocations for team events, etc.
- One member defined flexibility as spending at least 50% of the time in the office in the office over a two-week period.

The above are mostly best practices based on recent years' experience. As a conclusion the key objective for companies and their HR leadership teams is to find the right balance between automation of onboarding procedures (induction, template, task automation) and privileged human contact with key stakeholders (welcome lunch, buddy, training sessions and one-one team led initiatives).

The next topic for the HR club will be to see the impact and opportunities of AI and how this can be used to improve the employee experience. ●

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By Benoît Moulin,
Co-Chair
Domos FS

And Kai Braun,
Co-Chair
PwC

LPEA

PE Tech – The Technology Club

Who

The PE Tech club has 12 active members composed of advisors, technology firms, Private Equity fund manager and Funds Service providers. The group remains open and would be pleased to welcome additional representatives from the industry, i.e., General Partners, Investment Advisors, Management Companies, Fund Administrators, Depositaries or any other type of Funds Service Providers.

What

Members are invited to provide their thoughts about the main issues and challenges faced by the industry that technology could resolve. It has been acknowledged that one of the main challenges is about data management and trust in data quality from: Investors / Limited Partners, Portfolio / Investments, Fund Service Providers (Fund Administration, External Valuers, etc.), Regulators… and mainly in terms of data capturing, integration, standardisation, digestion, readability, confidentiality, sensitivity, ownership and validation.

The club aims to identifying specific use cases that are industry opportunities, issues or challenges, explaining how certain LPEA members have used technologies to resolve them, and presenting actual technology solutions and enablers to the Private Equity and Venture Capital players.

How

The Club is currently working on publishing a PE Tech Map. Its objective is to help industry players in identifying the tech solutions that can facilitate the streamlining of their processes and operations as well as supporting them in their digitization journey.

The PE Tech Club leveraged the results of its 2022 survey on industry challenges to design the PE Tech Map. It is not organised based on tech features but rather on functional areas – onboarding, accounting, investor services, reporting, risk management – and technical features – workflows, portal, analytics and data.

We are agnostic in the mapping of these solutions and the process is provider-driven. We are launching a questionnaire to the different vendors – more than 50 currently identified – to position themselves on the map and describe their respective solutions. We are also creating a committee to ensure impartiality, transparency in the process, as well as filtering potential spam entries. We will run this first campaign and build on the answers provided, but we also expect players to reach out to us to partake in the initiative once it is published - these can be new vendors but also anyone that did not respond to the original campaign.

To reveal the PE Tech Map, we will organise a dedicated event, setup as a speed dating session among General Partners, technology providers and advisors, which will also act as a catch up on the topic of digitization. Another objective of this event will be to discuss how the map could evolve in the future and achieve its goal i.e., to become a reference and practical tool for the industry to easily connect with technology.

Join us

The industry is questioning how to navigate digitization and which services to adopt. The objective of the club is to answer these questions and facilitate the digitization journey of Private Equity players. The outlook is bright for the players around the table. So if you wish to join the PE Tech Club, fill in the application form on the website of the LPEA www.lpea.lu/membership - we of course welcome players beyond the technology space (GPs, LPs, fund servicers etc.). ●

If you are a technology provider and wish to be on the PE Tech Map, please reach out to lpea-office@lpea.lu.

LPEA COMMITTEE FOCUS

“The PE Tech Map aims to become a reference and practical tool for the Private Equity industry to easily connect with technology.”

Benoît Moulin
Co-Chair
Domos FS

Kai Braun
Co-Chair
PwC

Baptiste Hoffmann
BNY Mellon

Bert Boerman
Governance.com

Borja Gomez

Frédéric Pérard
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Jamie Nascimento
LemonEdge

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Stuart Tait
Accelex Technology

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Stuart Smith
TMF Group

Thibault Chollet
Deloitte

Former world No. 1 tennis player Justine Henin at the conference *International Women's Day 2023 – Game. Set. Match.*

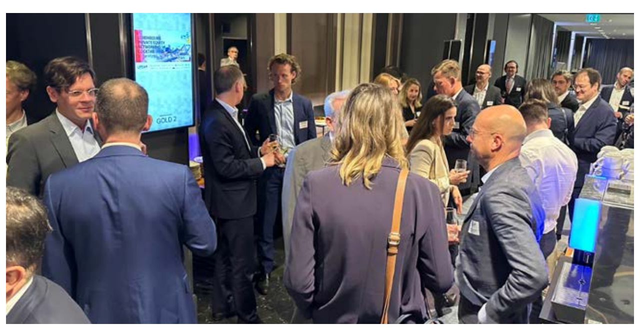
Conference *International Women's Day 2023 – Game. Set. Match.*

Juan José Sánchez & Guilhèm Becvort (Allen & Overy) at the *Luxembourg Private Equity Conference & Networking Lunch in Madrid.*

Luxembourg Private Equity Conference & Networking Lunch in Madrid.

Matthieu Gombault (Société Générale), Maxime Debure (WineFunding) & Mathieu Perfetti (Threestones Capital) at the conference *Combining Alternative Investments with Passion, Arts and Wines.*

Conference *Combining Alternative Investments with Passion, Arts and Wines.*



Luxembourg Private Equity Networking Cocktail in Frankfurt.

Stephane Pesch (LPEA) & Frank Dornseifer (BAI) at the *Luxembourg Private Equity Networking Cocktail in Frankfurt.*

Luxembourg Venture Capital & Private Equity in Texas and California

The Luxembourg delegation and CS Freeland & Marisa Vickers (Texas Venture Alliance) at the *Luxembourg Venture Capital & Private Equity Networking Lunch in Austin.*

Claus Mansfeldt (SwanCap/LPEA) at the *Luxembourg Private Equity & Venture Capital Networking Lunch in Dallas.*

Piotr Kozikowski (PwC) at the Luxembourg Private Equity & Venture Capital Networking Lunch in San Francisco.

Michael Ayachi (KPMG) at the *Luxembourg Private Equity & Venture Capital Networking Lunch in San Francisco.*

Laurent Capolaghi (EY) & Stephane Pesch (LPEA) at the *LPEA Academy Networking Cocktail.*

LPEA Academy Networking Cocktail.

Workshop: *AML Due Diligence on Assets from an Operational Point of View.*

About LPEA

The Luxembourg Private Equity and Venture Capital Association (LPEA) is the most trusted and relevant representative body of Private Equity and Venture Capital practitioners with a presence in Luxembourg.
Created in 2010 by a leading group of Private Equity and Venture Capital players in Luxembourg, with 449 members today, LPEA plays a leading role locally, actively promoting PE and VC in Luxembourg.
LPEA provides a dynamic and interactive platform which helps investors and advisors to navigate through the latest trends in the industry.
International by nature, the association allows members to network, exchange experience, expand their knowledge and grow professionally, attending workshops and trainings held on a regular basis.
If Luxembourg is your location of choice for Private Equity, LPEA is your choice to achieve outstanding results.
LPEA's mission towards its members is to represent and promote the interest of Private Equity and Venture Capital ("PE") players based in Luxembourg and abroad.
LPEA's mission towards Luxembourg is to support government and private initiatives to enhance the attractiveness of Luxembourg as an international hub for carrying out PE business and/or servicing the PE/VC industry in all its dimensions.
In summary, LPEA is the go-to platform where PE practitioners can share knowledge, network and get updated on the latest trends in the industry across the value chain.

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- YPEL
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Clubs

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Large Buyout
Single Family Offices (SFO)
Wealth Management
Human Resources (HR)
Insurance
Corporate Venture Capital (CVC)
PE Tech
Independent and Non-executive Directors
Chief Financial Officer
Infrastructure
Private Debt

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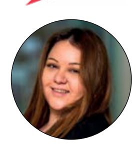
Chief Executive Officer


Luis Galveias
Chief Operating Officer

Kheira Mahmoudi
Executive Office, Governance & Operations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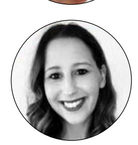
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