PRIVATE EQUITY

INSIGHT/OUT

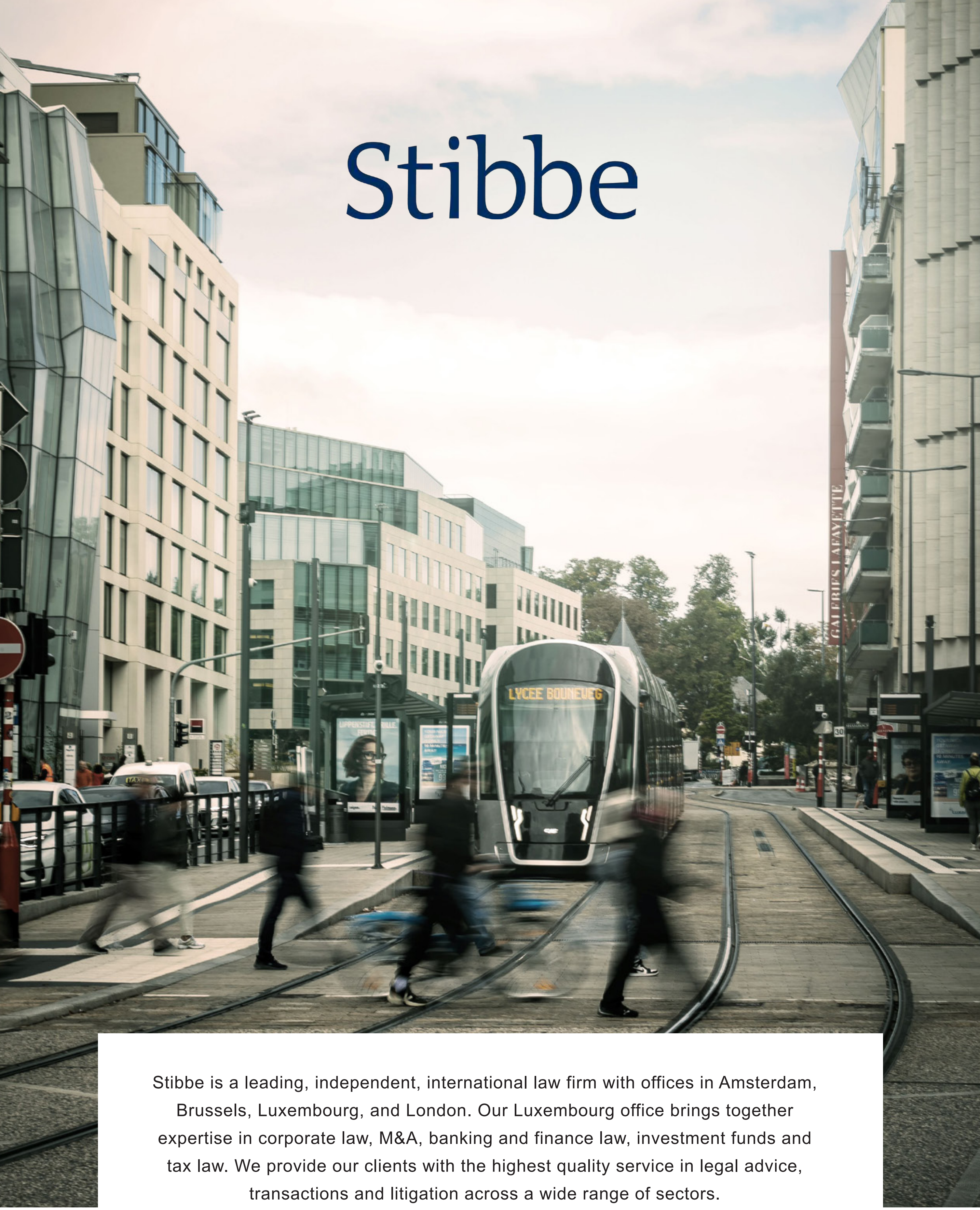
Argos Wityu

Growing Into a Pan-European Platform

ESG Dossier

With Golding Capital Partners, Finance in Motion, MV Credit, Permira Credit and Tikehau Capital

Issue 28, December 2023



Stibbe

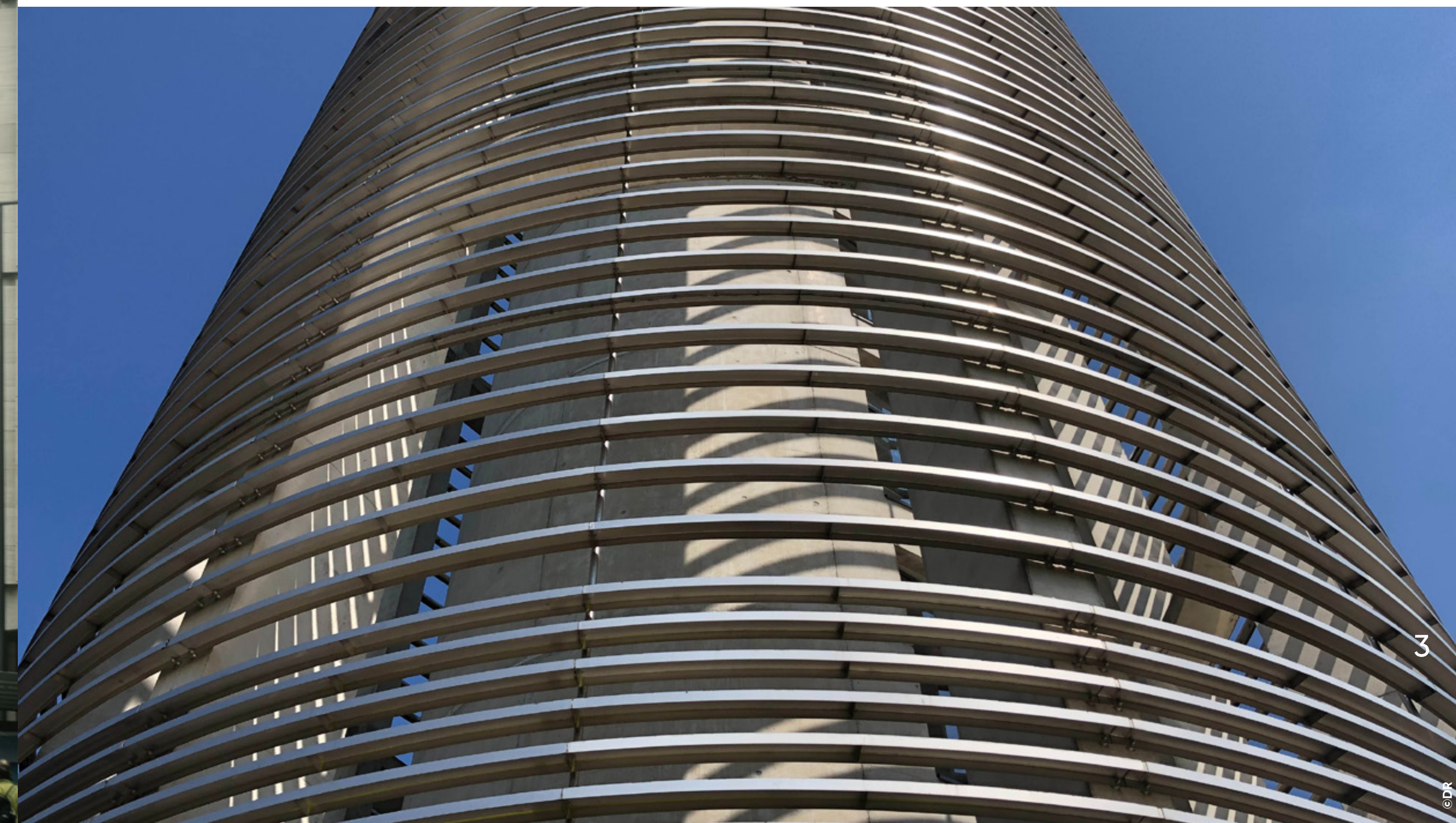
Stibbe is a leading, independent, international law firm with offices in Amsterdam, Brussels, Luxembourg, and London. Our Luxembourg office brings together expertise in corporate law, M&A, banking and finance law, investment funds and tax law. We provide our clients with the highest quality service in legal advice, transactions and litigation across a wide range of sectors.

For more information, visit www.stibbe.com

Amsterdam Brussels London Luxembourg

CONTENT

ISSUE #28

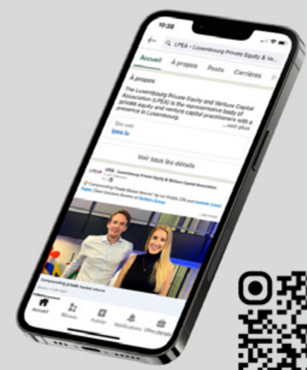


FOLLOW US ON:

www.twitter.com/lpea_lux

YouTube

LinkedIn



Read the Digital Version of Insight Out

LPEA
THE LUXEMBOURG VOICE OF PRIVATE CAPITAL

Disclaimer : To the fullest extent permissible under applicable law, LPEA does not accept any responsibility or liability of any kind, with respect to the accuracy or completeness of the information and data from this documentation. The information and data provided in this documentation are for general information purposes. It is not investment advice nor can it take account of your own particular circumstances. If you require any advice, you should contact a financial or other professional adviser. No material in this documentation is an offer or solicitation to buy or sell any professional services, financial products or investments.

Dear members, friends and partners,

Time flies and we are already starting the preparations for next year. We recently experienced a really fast paced and packed Q4 2023, with the delivery of our flagship event the "Insights" conference, five international seminars and many other important events.

Let's first start with "Insights 2023", what an edition! Last year, we took the bet to revamp our model (next stage of growth) and decided to change its location in order to increase the capacity, the agenda, the number of local and foreign speakers (LPs and GPs) and add on top a complete second stage dedicated to technical topics led by our different Committees and Clubs. The "Insights" also enabled us to collaborate with Luxinnovation, LBAN and the Luxembourg Startups Association with whom we co-hosted the "Luxembourg Venture Days". This evolved format marked a new step for the association and the presence of H.R.H the Crown Prince of Luxembourg at the event was an exceptional honour.

With our community of experts, we then travelled to the US starting with New York (a "classic") and added on top, a first event in Miami, which was a success thanks to the instrumental help of our Honorary Consul, our diplomatic network and the combined efforts of our proactive and participating members.

Another premiere for the LPEA was achieved thanks to the Asian roadshow which led us to Singapore and Hong Kong. There again the respective Luxembourg Ambassadors, the local PE/VC associations and the close experts of the LPEA helped us out and facilitated two highly qualitative sessions with different keynote speeches as well as constructive exchanges with prospects of the Luxembourg fundraising platform.

2023 was also a big year from a public affairs perspective with the local and national elections taking place. The newly elected Government was confirmed a few weeks ago and we will gladly pursue constructive discussions as we did in the past. The focus on the competitiveness and the innovative diversification of our financial hub - themes dear to our hearts and fitting our agenda - will gain in traction very soon. This public-private dialogue between the collaborative financial associations and the Government, the public authorities, the public administration and politicians, is a real "trademark" of our country and will fortify Luxembourg's past and future success.

In the meantime we wish you some nice days off with your family & friends and as usual do not forget to recharge your batteries since 2024 will be paved with new and ambitious milestones.

Stephane Pesch
CEO, LPEA

©DR

Claus Mansfeldt
Chairman, LPEA

The magazine of the Luxembourg Private Equity & Venture Capital Association
Editors: Johann Herz, Luis Galveias / **Contributors:** Richard Reis, Jack Azoulay, Dr Andreas Nilsson, Dr. Oliver Heiland, Marie-Laure Mounguia, Emilie Huyghues Despointes, Billyana Kuncheva, Julie Schleich, Vincent Lemaître, James Spanjaard, Marc Garcia, Carlos Alberto Silva, Carlos Moreira da Silva, Pedro Carreira, Christophe Bianco, Veronika Zukova, Valerio Bove, Madeeha Raja, Bert Boerman, Eduard von Kymmel, Delphine Gomes, Constantin Iscru, Azadeh Djazayeri, Ana Bramao, Alexandre Hector, Mathieu Perfetti, Paul Sweetnam, James Rautta, Giulia Iannucci, Michael Engbork, Claus Mansfeldt, Stephane Pesch, Johann Herz. / **Conception & coordination:** 360Crossmedia - project@360Crossmedia.com - 356877 / **Artistic Director:** 360Crossmedia / **Cover photo:** ©Nader Ghavami

PE Tech Solutions Matchmaking Event

The LPEA and its PE Tech Club launched a PE Tech map to showcase tech solutions in the market and to facilitate technology adoption in the PE/VC sector.

To further build on this initiative, the LPEA hosted the first edition of the PE Tech Solutions Match-making Event on November 21st at PwC Luxembourg. The objective of this event was to connect tech providers with prospective clients around different solutions (e.g., valuation, deal flow, portfolio management, marketing and distribution, regulatory oversight, etc.) The event welcomed 26 exhibitors and led to 25 private one-to-one meetings. Due to its success, the LPEA will repeat this format in 2024.

More information on the PE Tech Map

LPEA Tapping into New Markets in Asia

In October, the LPEA headed west and organised seminars in two U.S. cities: New York (hosted by K&L Gates) and Miami (hosted by DLA Piper). The latter was the very first contact into the increasingly active PE & VC market in Florida, with numerous participants exploring how to fundraise from European investors.

Just three weeks later, the team joined a Luxembourg delegation headed to the Singapore Fintech Festival and made the most of the trip by organising a Singapore-focused conference - hosted by KPMG - on the 14th of November, which focused on fund distribution. LPEA and a small group of members continued the journey to Hong Kong to organise another seminar – on the 16th of November – with the same message, but this time catering to Chinese fund managers. The event was hosted by HSBC and featured a keynote speech by Weijian Shan, Executive Chairman and co-founder of PAG, a leading Asia-based and focused investment firm with more than USD50 billion in AUM.

New ELTIF Technical Committee and Secondary Club

Following request from many of our members, the LPEA is in the process of launching a new ELTIF-dedicated Technical Committee, which will focus on operational, implementation and execution elements, including interplay between initiators, advisers, service providers and clients/investors. Several topics will be discussed in different clusters, allowing the Committee to advance simultaneously on both a specialised and a more general level. 7

Similarly, given the increase in member interest, a Secondary Club is being created. Its objective is to focus on the sub-asset class and analyse the opportunities and challenges as well as discuss the current market outlook, recent developments and new market trends (e.g. ESG, Digitalization, AI applied to secondaries, GP-leds, democratising the access to the PE Asset Class through secondaries, semi-liquid etc.). The Club will be co-headed by Helene Noublanche (Coller Capital) and Joaquín Alexandre Ruiz (EIF).

Why LPEA?

Our role is advancing the Venture Capital and Private Equity sectors in Luxembourg

With 500 members, LPEA plays a leading role in the discussion and development of the investment framework and actively promotes the industry beyond the country's borders.

If you are a GP, a LP or a service provider in the alternative investments industry, join our community!

MEMBERSHIP APPLICATION

LPEA
THE LUXEMBOURG VOICE OF PRIVATE CAPITAL

+ 352 28 68 19 | lpea-office@lpea.lu | 12, rue Erasme, L-1468 Luxembourg | www.lpea.lu

Market size

NAV of PE Funds Domiciled in Luxembourg

In € bn

503 Private Equity Funds

118 Fund of Funds (PE)

69 Infrastructure

€690bn

€509bn (2021)
€282bn (2020)
€177bn (2019)

NAV of Private Equity-related funds domiciled in Luxembourg
- Private Equity
- Fund of Funds in PE
- Infrastructure

Source: CSSF AIFM Reporting Dashboard 2022 (Release date: October 2023)

Golding Expands Successful PE Impact Strategy for Article 9 Investors

The global fund of funds, Golding Impact 2021, has been upgraded to "dark green" and now meets the strict requirements of Article 9 Sustainable Finance Disclosure Regulation (SFDR).

This represents Golding Capital Partners' response to the increasing demand for investments with ambitious, measurable environmental and social sustainability objectives.

A&O Shearman Merger Approved

Allen & Overy and Shearman & Sterling announced on the 13th of October that the partnerships of both firms have voted in favor of merging to create A&O Shearman.

A&O Shearman will be ideally placed to provide local and cross-border support to clients as they navigate an increasingly complex legal, regulatory, and geopolitical environment. The firms will now embark on a period of active integration planning, while they work together toward final closing of the transaction, which is anticipated in or before May 2024.

By **Stephane Pesch,**
CEO of LPEA

Thank you to the European Convention Center Luxembourg for hosting our photoshoot.

Argos Wityu:

Growing Into a Pan-European Platform

In this interview, Richard Reis (Partner, Mid-Market) and Jack Azoulay (Senior Partner, Climate Action) share the recent news about how this historical PE-house has turned into a platform, now offering two mid-market strategies: one aiming at supporting successful transitions and the other focusing on decarbonisation as an extra value creation lever.

Can you tell us more about Argos Wityu and its specificities?

Richard Reis: Argos Wityu is an independent private equity firm with over 30 years of experience, which makes us one of the most experienced mid-market investment group in Europe. Today, we count 70 professionals, of which more than 40 work in the investment team. We currently manage €1.7bn of assets.

Let's talk about what makes Argos specific then. I see three main characteristics:

First, we are an investment platform with two clear strategies. Since 1989, we have been deploying our historical Mid-Market buyout strategy and, more recently, we have incepted our Argos Climate Action strategy, which leverages on our buyout know-how with an extra decarbonisation focus.

Secondly, we are experts in transforming SMEs. Over the decades, we have built an extensive experience in transforming SMEs showing strong fundamentals and have learnt to bring solutions to atypical situations or deal environments. In other words, our platform unlocks potential and supports companies, with a strong emphasis on transformation, growth as well as close relationship with management and a "hands-on" approach.

Third, we have a strong European footprint. We are an authentically pan-European investment group with 7 offices across Europe based in Amsterdam, Brussels, Frankfurt, Geneva, Luxembourg, Milan, and Paris. We believe a strong local presence is instrumental to actively cover, on a day-to-day basis, relationships with our local ecosystems in our 8 countries (Benelux, DACH, France and Italy). This is rather unique in the middle market segment and significantly contributes to geographically diversify our investment portfolio. Additionally, this configuration provides extra strength to companies we support, especially when it comes to implementing cross-border organic growth or a buy and build strategy.

Jack Azoulay: I would like to add two other specific features:

The first is that we are a team driven by a business mindset. Our actions and solutions are driven by a strong entrepreneurship spirit. We spend a lot of time with management teams (pre- and post-acquisition) to design strategies, identify growth opportunities and solve challenges together. Our approach to leverage is prudent, since we prefer that our managers focus on growing their business and feel confident in their ability to invest.

The second is that we have strong set of core values, which go hand in hand with this entrepreneurial mindset. We believe in trust, reliability, and transparency, since we are convinced that success is made by people, and we are enthusiastic about rolling up our sleeves and helping business leaders to write new stories together. We also do our best to be reliable and caring with all our stakeholders. Furthermore, we truly believe in the virtues of diversity and value international profiles: our team counts 16 different nationalities and as many different languages are spoken in our offices!

Our large team, combined with our geographical proximity, gives us a unique and agile way of supporting managers. Our aim is to accompany them every step of the way to a strategic position within their sector.

Why and how are you active in Luxembourg?

JA: We have been present in Luxembourg for many years. Being a pan-European group, we rather naturally

> **"We leverage on our historical buyout know-how in transforming European SMEs and have added swift and deep decarbonisation as a growth and profitability booster."**
>
> Richard Reis & Jack Azoulay

© Nader Ghavami

decided to settle our holding company (Argos Wityu Partners, formerly Argos Soditic Partners) in Luxembourg as soon as 1995. In addition, our funds are also Luxembourg-based. They are composed of institutional investors such as banks, insurance companies, pension funds, funds of funds, sovereign funds, but also increasingly family offices and entrepreneurs. We obviously welcome Luxembourg investors willing to invest in pan-European mid-market buyout strategies.

RR: In addition to what Jack just mentioned, we have a team of professionals operating locally in our Luxembourg office (back and middle office) and notably the Secretary General of our group. But not only. On the investment side, we are also actively looking to support Luxembourg based companies, with the support of the Belgian investment team. We recently identified several deal situations implying SMEs with founders or family transition challenges as well corporate carve-outs. We work to find good opportunities to invest in the local economy in the near future.

> **"Our historical Mid-Market strategy relies on our deep experience of bringing solutions in atypical situations."**
>
> Richard Reis

You have been one of the pioneers of private equity in Europe for over three decades – can you describe us what your historical strategy is?

RR: We have indeed built a solid track-record in executing close to 100 transactions since our inception in 1989. Our historical Mid-Market strategy relies on our deep experience of bringing solutions in atypical situations such as management buy-ins, management-buy outs, corporate carve-outs, corporate spin-offs, complex auctions, business arbitrage, business reconfigurations, privatisations. Also, family-owned business or founder transition challenges have been repeatedly solved by our deal team in countries we are operating (families and founders count for half of our transactions since 2000). Finally, and to be complete, we have found solutions to several situations implying growth capital, as well as multi-country buy-and-build strategies.

We systematically acquire a controlling stake in companies with revenues up to €600m and invest between €25m and €100m per transaction. As Jack mentioned earlier, our approach to financial leverage is prudent and tailored to the specific characteristics of each business, as we privilege the focus on expansion, innovation, recruitment, and investment.

With regards to the sectors we invest in, our approach is agnostic. We currently support 23 companies active in different verticals such as Industry (Agôn Electronics, EPC, Gantrex, Norline AG, TKH France), Business Services (Ijssel Technologie, Julhiet Sterwen, Sicura), Tech (Coexya, SB Italia), Consumer Goods (Emosia Group, Henri Selmer, LoQu), Food (Moro), Transport (Schenk), and Technical Boats (Zodiac Milpro).

We also have a clear and resolute approach to sustainable investing: to us, ESG is a driver of innovation and opportunity. We recognised some years ago the importance of corporate social responsibility as an enabler to improve companies' growth, limit risk factors and increase operational efficiency.

Concretely, we have multiplied our actions in this field, amongst which I would mention: (i) joining the UNPRI, (ii) signing the International Climate Initiative, and (iii) committing to a carbon reduction trajectory according to the Science Base Target Initiative, as part of the first 15 private equity firms worldwide. Our approach is materialised at 3 levels: (i) pre-acquisition (with a risk/opportunities identification and the design of an action plan), (ii) during the holding period (with continuous improvement initiatives) and (iii) at exit (showing progress and therefore capturing value). We implement our ESG strategy, related actions, and pragmatic reporting at the portfolio level together with the support of Jessica Peters, our head of ESG, based in Brussels.

©Nader Ghavami

You now define yourself as a "platform", since you have launched an additional investment strategy focused on climate transition – can you tell us more about it?

JA: Absolutely! We recently decided to expand our offer to investors by launching Argos Climate Action. This innovative second strategy has been tailored to shape sustainable leaders through a "Grey to Green transition". It leverages on our know-how, acquired over the past three decades, in deeply transforming European small and mid-sized companies while adding an extra value creation lever by engaging our portfolio companies in a strong and swift decarbonisation. Unlike many other investors, we do not focus on already green assets, on renewable energies or on companies enabling others to decarbonise. On the contrary, we choose to select everyday-life companies, which also need to adapt to a far less carbon-intensive world, and to find ways of steeply reducing the carbon footprint of their activities.

The core of this new strategy relies on the conviction that investing in such companies with strong potential will allow them to gain a competitive advantage, therefore generating both strong financial returns and a strong environmental impact. Indeed, by becoming the greenest in their industry, these companies will gain market share, attract, and retain the best talents, reduce the volatility of their cost base and benefit from a valuation premium at exit.

Backed by public institutions, institutional investors, and family offices, all with deep convictions about the need to actively contribute to mitigate climate change without compromising on financial returns, we have announced a first close of our fund at 120 m€ this summer, reaching 40% of our target. We are now actively searching for opportunities to invest in and would be very happy to make such a deal in Luxembourg!

The Argos Climate Action team is composed of partners across our different European offices combining complementary backgrounds, with both strong knowledge in private equity and high-level experience on sustainability topics. We have developed a solid methodology to identify the best opportunities and build ad hoc decarbonisation plans for each company, since one of our first lessons is that there is no "one size fits all".

Similarly to our mid-market strategy and as mentioned by Richard, our Climate Action fund focuses on all sectors, with a special interest for companies with a substantial initial carbon footprint which can be strongly reduced with existing mature technologies. This

COVER STORY

typically excludes software or consulting companies, but leaves a wide range of opportunities in sectors such as industry, chemicals, metals, agri-food, logistics, etc. It targets companies with an EBITDA between €3m and €15m, allowing us to deploy between €15m and €50m equity in each transaction.

According to you, what are the main challenges in the current market environment?

RR: I would like to focus on the Benelux mid-market specifically. The current market in Benelux reveals several challenges which are complex but can also create attractive opportunities for Argos Wityu, perceived as a solution. If I must select some, let me pick two.

First, deal uncertainty. Obviously, this does not apply to the "trophy assets", regarding which the competition between buyers is intensifying (helped by the rarefication of such targets and the high level of dry powder). Over the past 3 years, successive external factors have impacted a few of SME's performance and trajectory (current trading, profitability, indebtedness/cash profile): Covid-19, supply chain disruption, and adverse macro-economic environment (persistent inflation, energy price increases, geopolitical tensions). In a mid-market with a lower deal volume compared to pre-Covid level, the sellers who took the decision to put their assets on sale over the past 12-18 months (logically) adjusted their exit processes to regain process security (deeper vendor due diligences, additional processes milestones, earlier access to management, lender education). Nevertheless, on the other side of the table, buyers are (also logically) still extremely prudent, and conduct more extensive diligences (commercial, market, finance, operations) requiring additional time and work to deliver a transaction. Consequently, transactional processes are more complex and imply a deeper relation with deal stakeholders, and a step-by-step approach to reach an agreement. This context fits very well with our approach and our experience to deliver a tailor-made solution to our counterparts.

Second, valuation gap. If the buy-side conviction is made, the complexity is not entirely solved. Then comes the topic of valuation. We noticed a high number of processes or structured auctions put on hold, due to valuation differences between buyers and sellers (at non-binding offer stage or later). This situation can be explained by the deal uncertainty discussed earlier (current trading, external factors), but also by a reduced access to leverage, and if available, increased borrowing costs. This gap is a real topic and favours deal makers who are prudent with leverage (or at ease with full equity investment) and experienced in offering a sophisticated solution when it is about price structuring, as we are.

On the valuation topic, we have been publishing the Argos Index® since 2006, which measures the average quarterly valuation of transactions closed in the European mid-market. The last version of our Index provides interesting insights on the development of deal valuation, and potentially, on the valuation gap evolution.

While the Argos Index® was climbing at 10xEBITDA 12 months ago, the last Q3 2023 version stands at 9.1xEBITDA, showing a clear drop after a relative stability in the first semester of 2023. It seems that sellers (in all segments) started to adjust their expectation to the new environment. Besides, the proportion of transactions at multiples > 15x EBITDA is near historic lows and the ones agreed < 7xEBITDA reached high records (30% of transactions).

JA: To complement Richard, I will focus on the topic of decarbonisation, which is at the core of our Climate Action strategy. I believe we are at a strategic momentum, where reducing the carbon footprint is becoming a rational investment opportunity, especially if you can benefit from a first-mover advantage. SMEs in Europe represent half of the GDP, but 63% of all direct and indirect greenhouse gas emissions, which means they represent a huge pool of potential CO2 emissions reduction. Yet, they are still lagging behind in terms of decarbonisation, mostly because of their lack of funding and expertise on this topic.

We wanted to understand more precisely where the executives of these companies stand on decarbonisation and therefore decided to launch a climate transition barometer together with the BCG. The results are very interesting: first, there is a high awareness among European mid-market companies across all regions and sectors, as 84% consider the reduction of GHG emissions "important" or even "critical". Among them, 71% perceive the climate transition as an opportunity, rather than a risk or a constraint. Yet, on the other hand, only 11% of these European SMEs declare having started to actively invest in order to reduce their carbon footprint within a structured plan, although more and more decision makers include the CO2 intensity of their suppliers as a selection criterion.

There is therefore a clear gap between the strong conviction around the need to act and effective actions, mainly explained in our barometer by financial headwinds, regulatory complexity, and lack of know-how within these SMEs. Hence the opportunity we perceive to grant a significant competitive edge to companies by bringing them the funding and knowledge needed to move from wishful thinking to effectively acting. ●

Read the Climate Barometer 2023

Read the Argos Index – 3rd Quarter 2023

INSIGHT/OUT #28

© DR

By **Dr Andreas Nilsson,**
Managing Director and Head of
Impact at Golding Capital Partners

Products Offer Plenty of Impact but Buyers Lack Reward Incentives

In recent years, impact has evolved from a 'nice to have' attribute to a key investment feature for many market participants. This is driven largely by the intrinsic motivation of investors and not from pressure coming from regulation.

When it comes to sustainability regulation, regulators have so far kept their focus mainly on the supply-side. Overall, transparency and commitment have been ensured by now. In theory, much is now possible within the existing regulatory framework with skilful handling and a certain level of effort. Going forward, however, investors need both incentives and a predictable regulatory environment to expand their allocation to sustainable investments and impact investments.
The two cornerstones of the regulation of sustainable investment products in the European Union are the EU Taxonomy Regulation and the Sustainable Finance Disclosure Regulation (SFDR). The latter specifies operational criteria and transparency requirements that a fund must fulfil to be allowed to be classified as an investment that promotes environmental or social characteristics or even as a fund that aims to make sustainable investments. These are commonly referred to as Article 8 or Article 9 (SFDR) funds, because they fulfil the respective regulatory requirements.

Supply Side Regulation is in place

The fact that numerous investment funds have decided to downgrade to Article 8, notably towards the end of 2022, indicates that regulation can sometimes be ambiguous and that, in some cases, regulatory practices still need to be fine-tuned. Discussions about greenwashing allegations have also created greater awareness of the associated reputational risks.
On the other hand, there are many examples of European rules that are already working well. By and large, both the German and the European fund industry have quickly adopted the categorisation of funds that was introduced by the SFDR. Funds can now be differentiated into those that have no particular ESG angle (Article 6), "light green" funds (Article 8) that promote environmental or social characteristics, and "dark green" funds that aim to make sustainable investments and, for example, position themselves as impact funds (Article 9).
At the same time, the EU rules leave sufficient scope for innovative approaches and fund strategies to actively contribute to sustainable transformation – and for fund vehicles to be classified accordingly. One example of this is our private equity impact fund of funds, which is classified as a fund in accordance with Article 9 of the Disclosure Regulation, without an Article 9 classification necessarily having to apply to each individual portfolio fund within the fund of funds structure.

Article 9 is possible for a private equity impact fund of funds

The simplest way to declare a fund of funds as an Article 9 fund would be for it to invest exclusively in Article 9 target funds. However, this would exclude a majority of the private equity impact universe. Nevertheless, it is possible to structure a global fund of funds for private equity impact investments that can be classified in the sustainability categorisation in accordance with SFDR Article 9. The prerequisite is that the fund of funds manager is able to prove that all target funds in the portfolio fulfil the requirements applied to Article 9.
To this end, the target funds must present their sustainability goals to the fund of funds, prove that their activities have no significant negative impact on the environment and society ("Do No Significant Harm"), and provide evidence that they meet certain minimum standards regarding anti-corruption, labour law, fair competition, and respect for human rights ("Minimum Safeguards").
A target fund from a non-EU country or without Article 9 classification should be able to regularly provide this information to the fund of funds, which in turn checks it and prepares it in such a way that it complies with the rules of the EU Disclosure Regulation. The effort can be worthwhile for both parties – product suppliers and investors.

> **"Investors need both incentives and a predictable regulatory environment to expand their allocation to sustainable investments and impact investments."**
>
> Dr Andreas Nilsson

Demand side needs regulatory stimulus

This example shows that, despite some remaining gaps, the supply side is now well equipped to develop products that meet demanding regulatory requirements. What the market now needs is incentives for the demand side to invest in sustainable products. So far, investors cannot derive any regulatory advantage from investing in sustainable or even impact products. Many institutional investors and trustees of institutional or private investment funds question their own mandates with regards to pursuing sustainable investment goals and investing consciously in sustainable products.
One option would be to include sustainability criteria in the existing tools related to capital adequacy rules for banks, known as Basel III and Basel IV. We believe that smart measures, such as capital requirements in banking regulation or sustainability accounting rules for insurers, could stimulate demand effectively in support of channelling capital towards sustainability objectives without spending billions of taxpayers' money. The products are available. Now it's up to the investors. ●


© DR

By **Dr. Oliver Heiland,**
Managing Director at Finance
in Motion Asset Management

Game-changers for Private Equity: Climate Change, Net-zero and the Rise of Natural Capital

Climate change and biodiversity loss have become the existential crises of our time. As policy, regulators and businesses work towards paradigm shifts like net-zero, a new taxonomy of climate, natural capital and sustainability investments, services, and solutions emerges. The Private Equity industry is uniquely positioned to leverage its capital and expertise to drive impactful investments.

From science to boardrooms

In 2000, late Nobel Prize laureate Paul J. Crutzen stood up at a scientific conference and proclaimed human induced changes in the earth system were of such deep impact and long duration that one could speak of a new epoch in Earth's history – the Anthropocene. His intriguing concept profoundly shaped the way we look at climate change and loss of biodiversity, triggering more than 10,000 articles and 5,000 peer-reviewed publications. In its Global Risks Report 2022, the World Economic Forum ranks climate change and loss of biodiversity amongst the most severe threats to humanity over the next ten years. If no action is taken, Swiss RE calculated that the global economy could be set to lose up to 18% of GDP from climate change over the next thirty years. Biodiversity loss is more difficult to grasp due to its complexity and non-linear interdependencies with climate change. We are starting to realize that over half of the world's total GDP with a value of approx. USD 44 trillion depends on nature and what's referred to as ecosystem services.

Fast-forward to today, boardrooms and business strategies increasingly grapple with complex challenges associated with climate change and loss of biodiversity.

Net-Zero as game-changer for Private Equity

Inaugurated by the 2015 Paris Agreement, the net-zero movement has since created a lot of momentum for the aspiration to cap global temperatures at 1.5°C. LPEA's 2023 Insights conference with the broader conversation about the path to net-zero exemplified what this means for the Private Equity industry. While the 1.5°C goal is aspirational more than two decades out, we are on the path to net-zero today amidst a rapidly changing business environment.

Net-zero transformational drivers include, amongst others, the notion of climate change as a financial risk (TCDF), a global proliferation of climate-related reporting schemes (SFDR, CSRD, SEC climate reporting), and the corresponding need for vast amounts of high-quality data. And amidst these changes, the next wave of regulation addressing carbon pricing, carbon credits and carbon-border taxes (CBAM) is underway. All this brings about profound changes of culture, behaviour, and business practices across the Private Equity value chain (strategy, governance, investments).

All these factors require new ways of doing business for Private Equity portfolio companies to meet new climate-reporting standards, managing risks across their supply chains while being cognizant of fundamental shifts in carbon pricing and accounting. Not least, this will be important for carefully planning for successful exit scenarios based on decarbonization pathways and the availability of high-quality data demonstrating progress on implementation.

> **"For a successful green transition in emerging markets, more investment will be needed for the net-zero transition, including natural capital solutions."**
>
> Dr. Oliver Heiland

Net-zero investment opportunities

At the same time, this large-scale transformation also brings tremendous opportunities for the Private Equity industry to create long-term value. Achieving net-zero and the green transition will require huge capital expenditure until 2050, for which estimates range between USD 100 – 300 trillion – equalling 2.5%-4.5% of global GDP (International Energy Agency). This means that significant investment flows must be directed into a new taxonomy of climate, natural capital and sustainability assets, services, and solutions.

Leading economic blocks have created policy signals with the US's Inflation Reduction Act (IRA) or the European Union's Green Deal supporting the shift to net-zero. But the path to net-zero will not be decided in developed economies alone. Asian, African, Latin American, and Middle Eastern countries are among the most vulnerable to the effects of climate change, adding a human dimension to the global crisis. Many of these markets are still heavily reliant on carbon-intensive industries. Because net-zero investment opportunities will, to a greater extent arise in emerging markets, emerging market economies will require a greater share of investment capital to reach net-zero. While private capital has emerged as a driving force for progress toward the green transition, Private Equity in emerging markets is still in its early stages, often pioneered by specialised investment managers like Finance in Motion Asset Management Group. For a successful green transition in emerging markets, more investment will be needed for the net-zero transition, including natural capital solutions in emerging markets.

The rise of natural capital

Much of net-zero's focus is directed on actions targeting carbon emissions reductions and mitigating and adapting to climate change. This includes the replacement of fossil fuel-based infrastructure with solar, wind, and other renewable energy sources, as well as investments for the development of solutions in hard-to-abate sectors such as steel, cement, aviation, or shipping.

Yet, it will be equally important to devise scalable technological and natural capital solutions for carbon dioxide removal (CDR). Technological solutions such as direct air capture have the potential to play an important role in net zero. Presently, 19 plants are operating worldwide, capturing approx. 0.01 Mt CO2/year, but the technology is still expensive and will need to demonstrate the financial viability of large-scale DAC (International Energy Agency, Direct Air Capture 2023). On the other hand, natural capital solutions are often overlooked, although they are available and offer increasingly financially viable investment opportunities paired with socio-economic benefits.

Today, natural capital (see box for definition) has emerged as new trend in asset management allowing to meet bespoke investment requirements with innovative investment solutions. Natural capital solutions include the improvement of business practices for managing natural resources such as forests, mangroves or peatlands more efficiently, with one goal being to increase carbon storage efficiency. Finance in Motion Asset Management Group's investments include for example reforestation and improved management practices to increase the carbon stored in biological assets. Sustainable agriculture investments offer significant optimization potential by decreasing fertilizer use to reduce carbon emissions. Another example is the restoration of coastal wetlands to store more carbon and improve natural flood protection. For land-based assets such as investments in timber and agriculture, carbon credit markets can help to achieve net-zero commitments and unlock carbon value for investors, always provided carbon credits operate on high integrity standards in credible and scalable markets.

A relatively new type of instrument are biodiversity credits, for which important work is carried out by the Taskforce on Nature Markets (Biodiversity Credit Markets, 2023). These types of economic instrument are meant to support funding of long-term nature conservation and restoration projects such as habitat protection, preservation of sanctuaries or restoration of wetlands. While biodiversity credits are still in their infancy and operate on a limited scale in countries such as Colombia, Australia, or New Zealand, they have the potential to unlock greater flows of capital for nature-positive investments.

Closing with Nobel Prize laureate Paul J. Crutzen, by looking at our cultural, environmental, and technological advancements as species the Anthropocene also offers reasons to be hopeful. For Private Equity, net-zero and the emergence of natural capital offers the potential to turn challenges presented by climate change and loss of biodiversity into opportunities to create long term value. ●

> What is natural capital? The planetary stock of natural resources - including geology, soil, air, water, and all living organisms. Natural capital provides ecosystem services such as crop pollination, flood protection, or carbon storage. The World Economic Forum estimated (New Nature Report 2020), that alone transitions in food, land, and ocean use could deliver up to 3.5 trillion of annual business opportunities and 190 million jobs by 2030.


By Marie-Laure Mounguia, EY and co-chair of LPEA Private Debt technical committee


Emilie Huyghues Despointes, MV Credit


Billyana Kuncheva, MV Credit


Julie Schleich, Permira Credit


and Vincent Lemaître, Tikehau Capital

© DR

Private Debt: Sustainability-linked Loans, a Real Catalyst for Transition?

Sustainability-linked loans (SLLs) are debt instruments that provide the potential to drive change through financial incentives, aiding borrowers in their sustainability goals. Their popularity is on the rise as evidenced in the latest UN PRI survey of private debt market participants[1], which states that "where SLLs were issued and offered, almost 48% of borrowers accepted the offering. LPs are also supportive, with 53% having had discussions with GPs to include SLLs in direct lending practices and 58% believing SLLs enhance the structure of a transaction." The increased appeal in sustainability-linked financing in the private debt market can be explained by many factors, such as the growing interest in Environmental, Social and corporate Governance (ESG) issues from all stakeholders, but also by the growing conviction that ESG – including the related risks and opportunities – can positively or negatively affect the long-term financial performance of borrowers. Now that SLLs have become part of transition solutions, are they the future of sustainable financing for private debt?

How does a sustainability-linked loan work?

Definition

ESG-linked (or equivalently termed sustainability-linked) loans are general purpose loans with terms that are contractually tied to the borrower's ESG performance.

The catalyst for the ascent of SLLs can be traced back to the introduction of the Sustainability-Linked Loan Principles (SLLPs) in March 2019, a collaborative effort by the Loan Market Association (LMA[2]), the Loan Syndications and Trading Association (LSTA), and the Asia Pacific Loan Market Association (APLMA). According to Norton Rose Fulbright[3], "the SLLPs established a framework for the market and provided clear directives on the minimal requirements for a loan to qualify for the sustainability-linked loan designation." Notably, organizations supporting these SLLPs possess a global reach, which is a promising sign for their broader adoption.

The SLLPs delineate sustainability-linked loans as various forms of loan instruments designed to motivate borrowers to attain ambitious, pre-established Sustainability Performance Targets (SPTs). These targets include Key Performance Indicators (KPIs) that aim to improve the borrower's sustainability profile.

In contrast to the obligatory allocation of funds for qualified green projects as with green loans, SLLs are general purpose loans. Consequently, green loans now constitute a smaller segment of the private market, primarily due to the advantages and relative adaptability of SLLs, which can be applied across a broader range of industries and applications.

SLLs provide an incentive for borrowers to transition towards more sustainable operations, by tethering the cost of debt to the ESG KPIs as outlined in the loan agreement. Typically, this is accomplished through a pricing mechanism referred to as an "ESG ratchet." This involves periodic upward or downward adjustments to the credit margin, based on the borrower's performance via predetermined SPTs. In essence, if the borrower attains their ESG targets, lenders reduce the cost of their debt and vice versa, to adequately reflect the credit risk.

> **"Sustainability-linked loans provide an incentive for borrowers to transition towards more sustainable operations by tethering the cost of debt to the ESG KPIs, ultimately outlined in the loan agreement."**

Example[4]: Lender 1 grants an SLL to Company A operating in the alloy industry with downward and upward margin adjustment.

LOAN ORIGINATION Pre-agreed terms		
ESG KPIs:	Quantitative Objective:	Margin impact:
KPI 1 - Water consumption reduction	The Company committed to **reduce its water consumption by 60%** by 2029.	A margin adjustment up and down of **5 bps** applies to this criteria.
KPI 2 - Reduce Accidentology	The Company committed to reduce its **accident frequency rate by 30%** by 2030.	A margin adjustment up and down of **5 bps** applies to this criteria.
KPI 3 - GHG reduction	The Company committed to reduce its GHG emissions in line with **Paris Agreement objectives and SBTi methodology** namely:	
	- 42% reduction of scopes 1&2	A margin adjustment up and down of **15 bps** applies to scopes 1&2.
	- 25% reduction of scope 3.	A margin adjustment up and down of **25 bps** applies to scope 3.
TOTAL		**+/- 50 bps**

Illustrative example

While market standards and documentary methods for determining ESG criteria, margin adjustment mechanics, and disclosure standards are still evolving, data reveals that three primary KPIs continue to be the common number for SLLs (Source: Reorg research[5]). These KPIs predominantly focus on environmental factors, such as GHG emission reduction and energy consumption, while some also address social and stakeholder concerns like employee health and safety, training, turnover, employee satisfaction, diversity at management level, and gender equality.

Strategies for ESG Ratchet Implementation

Implementing an ESG ratchet might be challenging as it requires strong ESG expertise. Here are some common pitfalls and recommendations derived from the market.

An integrated process

Engaging in sustainability-linked financing involves developing a robust strategy in collaboration with all stakeholders, including the borrower, the lenders, and the equity sponsors. This strategy and its tailored KPIs should be fully integrated into the borrower's business plan and performance reviews. External experts, such as an ESG consultant or independent auditor, may assist in this process. It is crucial that these instruments are structured by individuals with strong expertise, as they are still relatively recent, not standardized, and mainly operate without international governance. Lenders and equity sponsors can include incentives to align interests. Ultimately, SLLs must demonstrate that they enhance the borrower's sustainability trajectory.

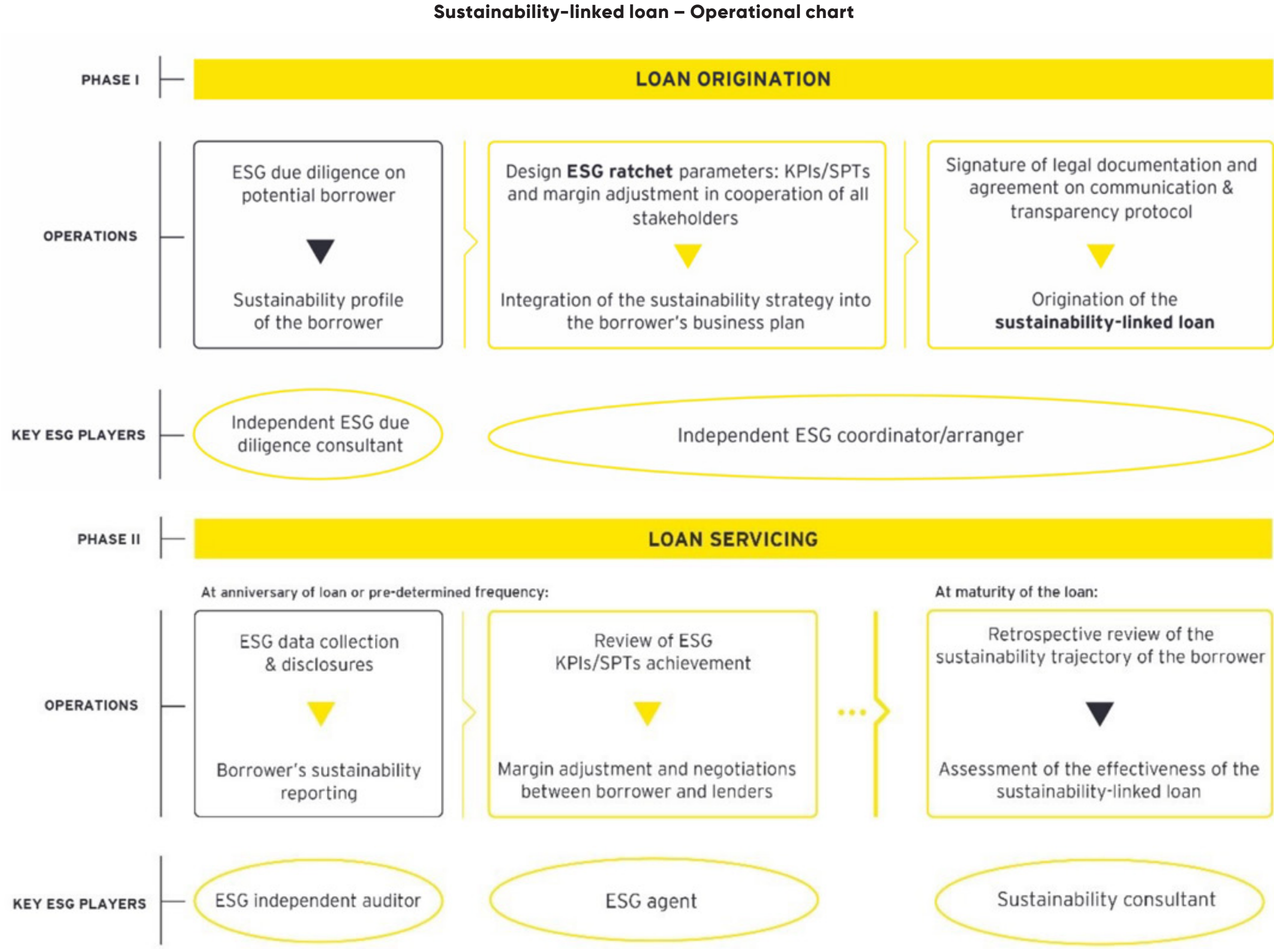
> **“Step by step, sustainability should be fully integrated into the value creation chain and risk management of any deal.”**

Incentives

SLLs should be structured to incentivize borrowers to achieve their SPTs. Those SPTs should be bespoke and relevant to the borrower’s overall sustainability strategy. They should be ambitious and meaningful to the borrower’s specific industry and competitive position, as well as measurable and verifiable.

While the prevalence of SLLs and the use of ESG margin ratchets are positive developments, their impact on corporate borrowing costs remains relatively modest. Data indicates that in the first half of 2023, the ESG ratchet margin adjustments mostly ranged from +/- 2.5 bps to +/- 10 bps. In comparison to the public market, this represents a less significant incentive than the typical 25 bps coupon impact observed in the European sustainability-linked bond market (source: Reorg research). A strong commitment to achieving SPTs should coincide with a substantial margin impact for borrowers.

Sustainability-linked loan – Operational chart



Sources: EY, FranceInvest[6]

On top of financial incentives, SLLs are a potential opportunity for borrowers to get rewarded for their positive actions, through greater appetite for their credit and potentially better terms. They can also access expertise they don't necessarily have internally. Private lenders can act as a catalyst for change, plug the gap with their expertise, and act as an advisor on developing a clear transition proposition in collaboration with the senior management and sponsors of the business.

Borrowers can also leverage on SLLs to access new business opportunities as a strong ESG proposition helps companies tap new markets and expand into existing ones. Stakeholders such as employees, suppliers, and clients are looking at the sustainability practices of the company during the course of business. Leaders can earn subsidies and government support, boost employee motivation, attract talent through greater social credibility, and obtain better financial terms, which should result in superior performance and sustainable value creation. It can help them better manage future challenges and enhance their overall business resilience.

Transparency & reporting

Borrowers usually report their sustainability performance to lenders, often annually. Lenders then use this information to evaluate whether the borrower has met predetermined SPTs. The loan documentation specifies disclosure and reporting requirements, which used to be in the form of self-certifications. The market has evolved towards improved disclosure standards that need to be reviewed by an independent third party, such as auditors. In some cases, failure to disclose might lead to a margin penalty, although it generally does not trigger a default. To build up the credibility of these instruments, transparency is a key driver.

Point of view; what market players think of SLLs

The SLL market exhibits a variety of practices, given its relatively recent inception, which results in a lack of consistency and alignment concerning sustainability targets, margin adjustments, and disclosures. There are legitimate concerns about the effectiveness of SLLs in driving the transition, particularly when margin terms have little impact on borrowers. To shed light on this ongoing debate, we've engaged with various market participants, including lenders, equity sponsors, and portfolio companies. We’ve gathered insights from Pierre Klemas, Chief Sustainability Officer at Stirling Square Capital Partners, Elin Ljung, Managing Director, Head of Communication & Sustainability at Nordic Capital, Eva Vogt, Partner, Head of ESG and Impact at EMK Capital, Ian Groenen at Rivean Capital (regarding a sponsored deal, XD Connects, a portfolio company of Permira Credit with an ESG margin ratchet implemented), and Alexandra Dumont, Directrice Générale at Lebronze alloys group (“LBA”) (a portfolio company which implemented an ESG ratchet with Tikehau Capital).

Full transcripts of the interviews are available here.

Interview with Eva Vogt, Partner, Head of ESG and Impact at EMK

Interview with Elin Ljung, Managing Director, Head of Communication & Sustainability at Nordic Capital

Interview with Pierre Klemas, Chief Sustainability Officer at Stirling Square Capital Partners

How material should the ESG ratchet be?

Market insights show uncertainty about the ESG ratchet's materiality for borrowers, in terms of margin adjustments and sustainability targets. Modest margin changes and weak sustainability goals make SLL ineffective and raise questions about engaging time and effort into setting up such a mechanism. Conversely, a robust SLL benefits both financial and non-financial performance.

“As of now, the additional bps attributed to these ratchets [in our portfolio] typically range from 2.5 to 15 bps. However, I share the sentiment that these numbers may not yet be substantial enough to make a significant impact or differentiation for lenders. We do hope to see an increase in the significance of these bps over time” said **Pierre Klemas at Stirling Square Capital Partners.**

However, if the mechanism becomes overly ambitious or even punitive for the borrower, as with an up-and-down margin ratchet, the borrower and equity sponsor may be reluctant to adopt it.

“There is something to say for having both a bonus and malus component […] but […] if you start talking about penalty, managers might become less invested in putting the margin ratchet in place, which could lead to a missed opportunity” stated **Ian Groenen at Rivean Capital about XD Connects deal.**

“We did not have a two-way rachet. […] If you have a one-way rachet, you only stand to gain, and this encourages you to set more ambitious targets” acknowledged **Eva Vogt at EMK Capital.**

Striking the right balance is vital as SLLs compete with other incentives which might be more favourable to borrowers and equity sponsors. These alternatives include ESG KPI-linked

management remuneration, equity sponsor-driven ESG roadmaps, and deal teams incentivized by portfolio company ESG KPIs.
"We don't integrate easily accomplished ESG ratchets in every financing that we make, but rather in cases where it's beneficial for the company and creditors to improve financial terms and drive sustainable change" stated **Elin Ljung at Nordic Capital.**

ESG in the C-Suite agenda

An advantage of SLLs is that sustainability inevitably becomes a key topic for company management. The journey to achieving SPTs becomes an integral part of the portfolio company's overall plan. **Pierre Klemas at Stirling Square Capital Partners** shared, "ESG ratchets are valuable as they create an additional layer of accountability and engagement, involving the CFO and often leading to more interactions with senior management. This dynamic, in my view, is a positive development, particularly at the scale we operate. When ESG ratchets are in place, I find myself in more frequent discussions with CFOs, which I find truly valuable."
For **Nordic Capital, Elin Ljung** explained that it depends on the case. "We have an ESG ratchet for one of our genuinely green cases, which has high ESG standards and KPIs in place already. It's fully integrated in the business evaluation plan. They wanted to set ESG ratchets on their financing and knew the kind of KPIs that are most important. In another investment, to make sure that the sustainable transformation and growth targets aligned, we agreed together with the debt providers that this is done in a sustainable way by setting engaging, ambitious targets with other kinds of thresholds." And she added, "You shouldn't underestimate the incentives of implementing ESG ratchets on financing, meaning regular reminders of ESG scores and KPI performance, not least within PE."
Alexandra Dumont at LBA, an industrial group specialized in the production of semi-finished and finished products in technical high-performance copper and nickel, confirmed that the real added value of having SLLs is that the company is engaged not only in financial performance, but it must also report on ESG with sustainability metrics monitored by management. A concrete example of this is how the SLL has helped accelerate LBA's transition on water.
"For mid-market companies, the opportunity presented by an ESG margin ratchet can definitely have a positive contribution to the overall ESG discussion. At XD Connects, however, it's been a key component of the company's growth strategy for quite some time and therefore comprehensive ESG reporting and targets were already in place before any ratchet was considered." **Ian Groenen at Rivean Capital.**

Dialogue is critical when setting up an SLL

Market participants agree: SLL works better when all stakeholders cooperate towards the same goal from the start. Having an open dialogue involving the company's management, equity sponsor, and lenders is key. For **Elin Ljung at Nordic Capital** "Having that dialogue and joint vision for the company is naturally a competitive advantage." ESG ratchets can help align interests in transforming portfolio companies into more sustainable investments during the equity sponsor's ownership and bring value to the business. In this process, hiring an external ESG coordinator can be essential in coordinating all parties involved.
"It was fundamental that a Sustainability Coordinator role was established to coordinate the preferences of a group of different stakeholders. This role was adopted by me and in retrospect I would not do this again as it was extremely time consuming." reported **Eva Vogt at EMK Capital**.
For the SLL that was put in place at **LBA, Alexandra Dumont** reported that the cooperation with the lender was key in identifying material KPIs not yet measured by the company. Two out of the four ESG KPIs were suggested by the lender.

Offering an ESG ratchet might be a competitive advantage for lenders in some circumstances

Sustainability is a key focus when lenders have to negotiate. Equity sponsors usually seek an alignment of values with their partners. However, offering an ESG ratchet typically doesn't serve as a distinguishing criterion in lender selection, except in specific cases where incorporating ESG criteria into the margin calculation provides more favourable commercial terms for the borrower.
"We had this company with a strong ESG focus, which at the time experienced financial difficulties because of sector downturns. In this case, it made sense for all parties to link ESG performance with debt terms – the creditors made sure that there was a future for the company, and the company got a favourable deal. This is an example of a company that got better loan terms, as traditional loans would have focused more on the company's volatile financial history and performance rather than future performance." reported **Elin Ljung at Nordic Capital**.

> **"In the coming years, companies will have no choice but to implement sustainability plans, with a focus on transition."**

Is data collection the true weakness of SLL?

The lack of reporting standardization and data collection difficulties are common market challenges. This impedes clear comparisons between companies and may create opportunities for greenwashing. It's also seen as an added reporting burden for portfolio companies. Lenders can play a pivotal role in addressing these challenges. They help define tailored KPIs suitable for the portfolio company's context, agree on calculation methodologies, and oversee the reporting process.
"ESG KPI setting used to be relatively unchartered waters not too long ago but is now becoming more standardized as there are more dedicated people both on the portfolio company side but also on the lender side that oversee the process. So, I think there is a role to play for lenders in terms of proposing KPIs that have become the industry standard." **Ian Groenen at Rivean Capital.**
Alexandra Dumont at LBA confirmed that the lender brings expertise and professionalism in how to implement data collection. In the specific case of GHG emissions, LBA even hired consultants to help them, but not on already well-monitored metrics such water and accident frequency. Sustainability is without a doubt a competitive advantage for LBA. The latest green capex financed by the company only aim at reducing externalities with no direct financial return. However, it remains a challenge to build accurate ESG projections the same way as for financials.

Will SLLs remain or disappear?

The upcoming Corporate Sustainability Reporting Directive (CSRD) is poised to partially resolve issues related to transparency, disclosure standardization, and borrower comparability. By enhancing data reliability, the CSRD may expedite the deployment of SLLs and encourage market participants to opt for higher ESG margins. In the coming years, companies will have no choice but to implement sustainability plans, with a focus on transition. This will necessitate an expansion of their ESG-dedicated teams and an increased demand for ESG experts and guidance.

Step by step, sustainability should be fully integrated into the value creation chain and risk management of any deal. In the same way, ESG criteria should impact the valuation of an equity participation and should be seamlessly integrated into the risk pricing of a debt instrument. The notion that a separation exists between financial and non-financial performance should be dispelled. This division is counterproductive, as it tends to pit one against the other, while recent market feedback shows that both are integral to value creation when well-integrated into business plans from the start.
This is where SLL comes into play. By tethering ESG targets to the yield of a debt instrument, it paves the way for the full integration of non-financial data into risk pricing within the market. As the market matures and systematically incorporates ESG into risk assessment, SLLs may no longer be necessary. It serves as a transitional mechanism that ideally should fade away, with the goal of integrating ESG data into our financial market outlook to enhance overall economic stability. ●

1. UN PRI ESG incorporation in Direct Lending – A Guide for Private Debt investors – September 2023
2. https://www.lma.eu.com/sustainable-lending/documents#sustainabilitylinked-loan-principles140
3. https://www.nortonrosefulbright.com/en/knowledge/publications/3ff84c08/the-rise-of-sustainability-linked-loans
4. Disclaimer: those illustrative examples are fictive and do not represent any best practices nor any market averages.
5. https://reorg.com/2022-european-sustainability-linked-loans-wrap/ and https://reorg.com/blog-post/h1-2023-european-sustainability-linked-bonds-wrap/
6. FranceInvest Best Practice Guide for Private Debt – Sustainability-linked financing

© DR

By **James Spanjaard,**
COO of Alis Exchange

and **Marc Garcia,**
Partner, Project Management
at ONE group solutions

Reimagining the Efficiency, Effectiveness and Resilience of Digitised Governance and Reporting Processes in the CSSF S3 Era

When Amazon released its "Simple Storage Service" or S3 (its first AWS service) in March 2006, it ushered in a revolution in digital innovation that has transformed almost every corner of our lives. At first this API seemed so innocuously simple. It allowed software developers to programmatically store and retrieve data objects on AWS servers. Its impact, however, was profound. That simple proposition empowered software developers to completely reimagine the art of the possible.

Like the AWS service on which its design is based, the CSSF's new S3 reporting submission API provides governance, compliance and operations professionals the opportunity to drastically reimagine the efficiency, effectiveness, and resilience of their governance and reporting processes. Starting with the SFDR Periodic, SFDR Precontractual, AIFMD and UCI SAQ ("Funds SAQ") reports, the CSSF's S3 API provides the opportunity for management companies to programmatically deliver their reporting data to CSSF's systems. While this might seem like an innocuously simple evolution of the existing eDesk reporting portal, the opportunities for digital transformation and process innovation it unlocks will be profound.

Reimagining the data ecosystem through accelerated standardisation

In the funds industry, laying a data and digitisation foundation is a particularly acute challenge. Data moves through the funds ecosystem in a flood of disparate data formats, definitions, and templates. These PDFs, Excel files, emails and CSVs settle into the inscrutable crevices of SharePoint, server drives, and email boxes like the accumulating detritus in a hoarder's basement. An honest fund operations job description might read, "Help wanted. Experience tracking down and manually transposing data."

For each report deliverable via the S3 API, the CSSF has published a formal definition of the data structure and constituent elements that it requires. This provides the funds industry with an invaluable opportunity and incentive to standardise upstream data exchange based on a clear and formal reference of regulatory data requirements.

As an example of this opportunity, the Funds Definitions Exchange (FDX), an innovative initiative aiming to help the funds ecosystem through a library of open-source templates and definitions, recently collaborated with a fund management company looking to leverage open templates to support its CSSF SFDR Periodic and CSSF SFDR Precontractual reporting processes. Because the FDX Template Working Group was able to link the templates to the formal regulatory data requirements, the management company team was able to submit to the CSSF directly using S3, saving countless hours transposing and keying data into eDesk.

As a second example, just days after the CSSF's announcing of support for the UCI (Funds) SAQ via S3, there were already groups in the early stages of formation seeking to standardise templates for the data required by management companies from service providers for SAQ preparation. Imagine a world where eighty percent of a complicated regulatory report like the SAQ is prepopulated before anyone has to look at it!

> **In the S3 era, data preparation teams can receive near real-time feedback on data formatting, completeness and even benchmarking throughout the preparation process."**

Reimagining digitally collaborative workflows

In the world of logistics, the famous "last mile" of a package's journey often accounts for almost half of the total delivery cost. Similarly, in the world of regulatory reporting, it's often the necessarily manual report production or keying of data into a portal that is the largest impediment to digital innovation. Why bother with better software when the bottleneck is elsewhere? And so, state-of-the-art for process efficiency more often than not is still email chains and project management worksheets.

The CSSF's S3 era inverts this paradigm in two fundamental ways. First, through supporting system-to-system integration, the CSSF has effectively eliminated the "human transmission" component of the last mile problem. This enables firms to actively experiment with new software approaches that allow teams to collaboratively prepare reporting data that can then be submitted with a click.

Second, the data format that the CSSF has chosen to support for S3 transmitted data, JSON, is native to modern software systems and web applications, thereby eliminating the "human transposition" component of the last mile problem. Unlike older data formats like XML or document formats like PDF, JSON is native to the modern web. In a few lines of code, developers are able to quickly support producing data that conforms to the CSSF's reporting formats, opening up exciting new avenues for experimentation. Imagine a world where last mile regulatory reporting problems become a thing of the past!

Reimagined validation, controls and benchmarking

Controls and data validation are an important part of any governance and reporting process. Typically, these take the form of manual review or "maker-checker" workflows. In the S3 era, however, data preparation teams can receive near real-time feedback on data formatting, completeness and even benchmarking throughout the preparation process. Imagine a world in which data errors were no longer caught until trying to click "submit."

The journey of exploring these and the many other opportunities for digital innovation in the era of S3 is just beginning. The evolution will be complex, but the rewards are substantial. Firms that embrace this new era and seize the opportunities as they emerge will position themselves at the forefront of unparalleled efficiency, innovation, and growth. The potential impact on operations, client services, and the broader financial landscape is profound, and the time to start is now. ●

INSIGHTS

By **Carlos Alberto Silva,** Managing Partner at 33N Ventures

Carlos Moreira da Silva, Managing Partner at 33N Ventures

Pedro Carreira, Principal at 33N Ventures

and **Christophe Bianco,** Co-Founder & Managing Partner at Excellium Services

©DR & 360Crossmedia

At Last, the Wake-up Call for European Cybersecurity

A burgeoning market

As the cyber threat landscape continues to evolve and expand, only further accelerated by the threats of the war in Eastern Europe and the Middle East, the demand for robust cybersecurity solutions has never been greater.

For readers familiar with the industry, the trends are not new, however the sheer magnitude has been reaching new heights. Morgan Stanley reported more than 1,300 enterprises that have fallen victim to cyber extortion (Cy-X) from June to August 2023, 2.7 times the levels a year ago. Chief Information Security Officers (CISOs) have also increasingly reported concerns about Generative AI-Driven Attack Methods that will accelerate targeting corporate employees in an increasingly sophisticated way. As per Morgan Stanley, security software remains the number one priority on the Chief Information Officer's (CIO) list, with its priority increasing further in the third quarter of 2023, in counter-cycle with the overall macro-economic environment.

In Europe over the past decade, the continent has experienced a cybersecurity boom, fuelled by the global context, but also by key attractive characteristics of the European market:

- Cybersecurity spending in Europe is growing more than twice as fast as the overall market, reaching 111bn€/year by 2027
- Public defence and security spending has hit all-time highs, and is expected to continue accelerating
- The European Union has historically been among the fastest to respond to the growing threats and emerging technologies by enforcing EU-wide public strategies (case in point is the EU directive about AI)
- The European Union combined employs more software developers than the United States, representing a huge, addressable market

A breeding ground for cyber leaders

Europe has also emerged as a thriving breeding ground for cybersecurity start-ups. One such example is Darktrace, a UK-based company that utilizes artificial intelligence to detect and respond to cyber threats in real time. Founded in 2013, Darktrace has quickly become a global leader in cybersecurity, leading to its IPO in April 2021. Feedzai, a Portuguese-American company founded in Portugal in 2008, is yet another testament to Europe's influence in the cybersecurity industry.
Feedzai specializes in fraud prevention and anti-money laundering solutions, leveraging Europe's deep engineering talent to build its platform, underpinned by top machine learning and artificial intelligence.
Analysts are consensual in identifying common patterns that position Europe as a breeding ground for cybersecurity start-ups:

- Abundant talent: Europe has a skilled workforce in computer science and cybersecurity, thanks to its top universities and research institutions
- Strong data protection regulations: The GDPR and similar regulations promote data security and privacy, driving demand for cybersecurity solutions
- Diverse market: Europe's interconnected markets expose start-ups to a variety of cyber threats, making it an ideal testing ground for innovative security technologies
- Supportive ecosystems: European cities offer incubators, accelerators, and funding opportunities, fostering the growth of cybersecurity startups through mentorship and access to capital at pre-seed and seed stages

An opportunity, but with a flipside

Opportunities don't come without challenges. Today, there are still key factors that hinder Europe from becoming a cybersecurity powerhouse:

- Heterogeneous market across different EU countries, with varying languages, laws, and culture (although acting as a single market on the surface)
- Funding gap at post seed stage, especially from specialized and supportive investors
- Lack of innovation-savvy sales and go-to-market partners, who are glad to support and work with innovative vendors
- Still an early pool of 2nd or 3rd timer founders and management teams, a by-product of being an emerging market that started a few years later than the U.S. and Israel

Founders and investors across Europe have, however, found the opportunity where others saw mostly challenges. 33N Ventures was built from the ground up to address these specific challenges. Starting in 2014, the team was involved in backing, turning around and growing one of the first pan-European Managed Security Service Providers (MSSPs). A key move was the consolidation with Luxembourg-based Excellium Services in 2020, a significant step towards becoming a top-5, pure pan-European player, which ended up attracting attention from Thales, who finally acquired the company in 2022. Derived from this expertise, the team simultaneously set out to invest and support what today are flagship cybersecurity SaaS providers such as Arctic Wolf in the U.S. and Feedzai in Europe, backing them from early-stage to pre-IPO.

A recipe for success

It is clear today that Europe won't be a cybersecurity powerhouse overnight and a multi-stakeholder effort is needed. As a specialized investor, 33N is looking to address the European opportunity by providing:

- Domain expertise, namely on identifying key pain points in cybersecurity, the evolving threat landscape, innovative tech approaches and bottlenecks to scaling
- Direct access to market, via a network of CISOs and tech executives with deep expertise in key domains across cyber, while at the same time regional networks in key areas in Europe
- Indirect access to market, via a network of resellers and services partners across key regions in Europe

Corporates with strategic interest in cybersecurity have also seen benefits in collaborating with innovative vendors and specialized investors. One of the largest Iberian banks, for example, took a strategic position in 33N's fund, contributing not only with a sizeable investment but also appointing a member to 33N's Strategic Committee. Such collaborations bring valuable insights to 33N into the needs of a major player in the financial industry, while reciprocally magnifying the bank's insight into the cybersecurity ecosystem and access to innovative vendors through 33N's network.

> **"We certainly expect the European defence, security and in particular, cybersecurity, to catch up quickly with the maturity of more advanced ecosystems."**

Pan-European service providers also play a significant role in the adoption of innovative cybersecurity solutions. Christophe Bianco, co-founder of Luxembourg-based Excellium Services, reinforces this view on the European opportunity: "Europe has great potential to become a leading powerhouse in the global cybersecurity market, in line with the U.S. and Israel. Specialized service providers and investors are crucial partners in this endeavour, partnering with emerging vendors in an increasingly challenging cybersecurity landscape."
We certainly expect the European defence, security and in particular, cybersecurity, to catch up quickly with the maturity of more advanced ecosystems. The answer will lie in making the most of the existing strengths, while benefiting from the right ties to advanced markets, such as the U.S. and Israel. 33N is absolutely committed to heavily contributing to this. ●

© DR

By **Veronika Zukova,**
Head of Product Development PERE,
Societe General Securities Services

Practical Implications of ELTIF II for GPs

With a few months left until ELTIF II[1] authorisations start on January 10, 2024, this topic is on everyone's mind and a subject of every discussion related to private markets, at least in Luxembourg. Regulatory and populist aspects aside, we'd like to provide some insights here "behind the scenes" of an ELTIF II fund, to help managers distinguish between the deal-breakers and the nice to have features, what to think about when designing the strategy and structure, and how to add key features to satisfy the needs of a new type of investor. These insights aim to help reduce not only operational costs, but the risks for this structure as well, to increase investor protection.

The who

Catering to retail investors is not for everyone – certain general partners (GP) have a greater appetite for targeting this segment. Based on the requests we are seeing from clients and prospects, three categories of fund managers have emerged that are interested in diving into this opportunity at scale:

1. Traditional asset managers, who developed a private markets arm, secondary to their core business. Retail is in their DNA, and they are used to working with a large network of distributors and managing the liquidity pockets required for this.
2. Large pure play private markets managers, primarily the U.S. ones. They are raising ever larger funds, and retail capital can feed into these.
3. GPs with the mandate for a specific social impact or market stimulation, such as the European Investment Fund or other EU institution-backed GPs.

For whom and how

By reducing the minimum investment threshold, ELTIF II opens the door to the mass affluent and the retail market as well. We have observed GPs reducing the minimum investment requirements to as low as EUR 1,000 and minimizing the lock-up period to effectively just a couple of years, as long as they manage to achieve the diversification requirements within this time frame.

Principal characteristics that differ from classic private markets (closed end) funds that we have experienced:

- Increased NAV frequency – monthly or even weekly
- Semi-open or evergreen
- Subscriptions/redemptions mechanism with paid-up subscriptions
- Redemptions regulated via gates with multiple conditions
- Increased liquidity needs and diversification rules necessitate investments in listed/liquid assets (liquidity pocket), leading to very different asset classes within the same fund

This is the tricky part, operationally speaking.

3 focus areas that help you save time and money

The following factors should be carefully considered and discussed in detail with your service provider. This initial investment of time will save you money and reduce the probability of errors in the long run.

a. What are the categories of non-professional investors you are targeting?
   i. Determines the level of sophistication of the prospectus
   ii. Determines the amount of effort required for a GP to educate both investors and distributors
   iii. Are you planning to mix institutional and non-professional in the same vehicle? Keep in mind that the stricter regulatory requirements apply to the entire fund

b. How will investors come in?

- Are you going to use distributors? What kind? This is the channel that is well established within the 3rd party fund administrator world, at least those also catering to UCITS. At Societe Generale Securities Services, for example, we leverage our UCITS Investor Services team, and the subscription/redemption process is automated as much as possible via SWIFT messaging/Central Securities Depositories (CSD).
- Are you planning to use distribution platforms?

Considerations here are the additional cost to the investor, and being able to integrate smoothly with your administrator for reporting and other purposes. This option would likely require IT development and hence the initial onboarding will be more costly.

c. Are you planning to allow redemptions during the life of the fund?

If so, how will you manage the liquidity for the fund with illiquid underlying assets? It's worth keeping in mind that more conditions result in additional layers of complexity. Therefore, the onboarding becomes more expensive, the risk of errors increases, and the GP/AIFM will need to dedicate more time to reviews and validations during the life of the fund.

Examples:

- If the gate threshold is hit, the simple operational option is to reset the unsatisfied portion of the redemptions, rather than prioritise them in the queue for the next one.
- Adding a liquid pocket puts the accounting system to the test; for private assets the GP/external valuer is an important source for asset values, while the system automatically pulls daily prices from the market for public assets, so the core accounting system must be able to manage both types of asset classes smoothly.
- Extra investor protection measures, of course, increase the cost of operating the fund. Here providers with an existing, strong, and stricter compliance approach might be able to provide a more automated and less expensive offer, by repurposing their existing processes.

What does all of this mean for GPs?

Even though as a service provider we were prepared, having delivered services to ELTIFs since 2020, ELTIF II brings on new challenges. What really helps is a track record with public markets funds (UCITS), with the type of managers that are keen on ELTIFs, and the ability to bring the two teams together, as well as leveraging the interconnectedness of the systems internally (e.g., fund accounting is done on 2 specialised modules in the same accounting system).

> **"ELTIF II is a whole new product – it will take time to figure out true investor preferences – ask your service provider to pass on their observations – they are the ones dealing with the requests day in and day out."**
>
> Veronika Zukova

Tips for getting the balanced target operating model to positively impact the return via cost optimisation:

- Carefully define your dealbreakers for each of the 3 focus areas and be open to modify the rest
- Explain the outcome you want to achieve and follow the lead of your Admin/Depo on how to achieve it
- Sometimes seemingly obvious things from the investment manager perspective are too complex to implement flawlessly in operations
- Remember; almost anything can be implemented through customization and IT development, but it's expensive and you never know when something non-standard can backfire and limit you, like when systems are interconnected for analytics and reports, which might not work as well as a tried and tested, standardised process
- A good service provider will explain the rationale and limitations of the operating model
- Simplify to automate as much as possible – this is a risk reduction strategy
- ELTIF II is a whole new product – it will take time to figure out true investor preferences – ask your service provider to pass on their observations – they are the ones dealing with the requests day in/day out – they can bring you closer to the end investor. ●

1. ELTIF II is the revised European Long-Term Investment Fund regulation

© DR

By **Valerio Bove,**
Accounting, Compliance and Reporting Partner at EY Luxembourg

And **Madeeha Raja,**
Senior Manager at EY Luxembourg

Optimizing Fund-Flow Modelling for CFOs: A New Era

Fund-flows management has evolved beyond traditional boundaries in the dynamic realm of Private Equity. Previously viewed as a shadowed exercise primarily utilized to trace the liquidity flow during a transaction, fund-flow models now serve a greater purpose. Contemporary fund-flow models may now serve as a catalyst for fostering enhanced collaboration among various stakeholders involved in a transaction. Furthermore, these models have evolved into indispensable operational and risk management tools, driving efficient decision-making and ensuring comprehensive oversight. Forward-thinking CFOs, who are positioned to shape the financial landscape of the future, can pioneer this shifting terrain with innovation and foresight.

Navigating complexity

The average investment fund in Luxembourg has over ten intermediary holding companies. The result? Fund-flows structures can become intricate, featuring numerous layers of investment vehicles and a wide array of regulatory requirements to adhere to.
For this reason, effective fund-flow management becomes paramount. The accuracy, efficiency, and timeliness of transactions are critical, especially in multi-layered fund structures, where even minor errors can impact performance significantly.

Embracing innovation

Traditionally, the responsibility of managing the fund-flow model has rested with tax experts, who utilize static calculation spreadsheets in conjunction with the tax memorandum to map out each fund-flow. However, this can result in information asymmetry, potentially leading to divergent versions of the transactional model among the parties involved. This method also allows for manual alterations to be made to the transaction, often without the knowledge of other stakeholders, and thus potentially slowing down the finalization of the operation.
Overall, it delineates the financial transactions' cash movements and then it is used to issue payment instructions to the bank. But the Private Equity landscape has become far more intricate. To deliver precise and timely information to all stakeholders, the current framework demands an upgrade, one that leverages technology, innovation, and specialized knowledge.
The fund-flow model can be designed to provide several optimized outputs such as:

1. Automatically generated payment instructions
2. Creation of automated cap-tables
3. Differentiation of legal steps, on top of the existing cash movements
4. Provision of journal entries, and post-closing general ledgers to optimize bookkeeping

However, to accomplish this goal of a better framework, the current fund-flow preparation dynamics might have to change, because the team entrusted with this task should possess comprehensive knowledge in tax, accounting, and law.

Opportunities in optimized fund-flows

Integration

In the past, fund-flows were shared with shareholders upon completion, or in a long stream of consecutive versions. On this point, it is important to note that modelling fund-flows is an iterative process, not a one-time task. This means that multiple draft versions are necessary, since the transaction is being designed alongside the preparation of the fund-flow. Consequently, it becomes evident that synchronization among the parties involved is critical, as well as hard to achieve, for both the timing of transaction modelling and its operational execution.
Introducing a dynamic and live shared model with centrally managed access rights would promote synchronization and optimize coordination and communication among all parties involved, while reducing discrepancies and delays.

Completeness

A comprehensive approach that incorporates both cash and non-cash components of transactions provides a holistic view. This not only aids in understanding transaction intricacies, but also helps in drafting legal documents and accounting at each entity level throughout the fund's structure.

Automation

As one example, current fund-flow processes often require the manual structuring of payment information after the transaction has been modelled, thus elevating the risk of errors and increasing the costs involved. By integrating the different elements of the fund-flow, it becomes feasible to generate bank payment instructions as an output of the entire process. This approach streamlines the preparation of bank payments, reduces input errors, and enhances the reliability of bank account information.
Additionally, this innovative and automated setup might be structured to generate transaction journal ledgers, trial balances, cap-tables, and foreign exchange transactions checks, to mention a few.

Challenges in optimization

Optimizing fund-flow processes comes with its own set of challenges that CFOs and Treasury Managers must navigate. The primary focus lies in identifying strategies to streamline and integrate the fund-flow process, maximizing the usability of fund-flow documents in alignment with the expectations of fund managers and industry standards. This critical phase demands expert analysis to drive innovation, leveraging conventional methods, integrating processes, and achieving an optimal equilibrium between investments and desired outcomes. To accomplish this, fund managers are exploring various avenues, including the exploration of in-house fund-flow solutions, co-sourcing, and outsourcing, to secure the most effective and efficient approach.
Like any change process, a leader must be defined, to onboard all stakeholders and obtain their input. An innovation project like this cannot be fruitful without all stakeholders joining in during the early stages and without a unified expectation for how the fund-flows need to integrate into the business operations of the fund.
It is essential to determine the team responsible for preparing the fund-flow. This involves identifying and distinguishing those responsible for making edits to the dynamic model from those who are just viewers or commenters.
Integrating the fund's existing systems with the fund-flow model might be challenging, as not all systems work the same. There is an increasing need to design a model that relies on the existing system's capabilities.

> **"Previously viewed as a shadowed exercise primarily utilized to trace the liquidity flow during a transaction, fund-flow models now serve a greater purpose."**

Fund-flows as a coordination and risk management tool

Fund-flow models have evolved significantly over the last few years. By optimizing transaction management systems that harness technology and automation, Private Equity funds can enhance efficiency and precision in the execution of their transactions. This evolution has enabled funds to achieve substantial economies of scale by fostering harmonious coordination among stakeholders, reducing execution times, and decreasing errors through the integration of proprietary entity and bank payment information.
In conclusion, the evolution of fund-flow modeling is central to fund managers in Private Equity and the funds industry in general. As this crucial area of fund operations continues to lack concrete standards and established best practices, an increasing number of fund managers are taking the initiative to establish custom standards tailored to their specific goals. With the assistance of innovative third-party providers, equipped with cutting-edge technology and unparalleled expertise in data analytics, fund managers can streamline their operations and set new industry benchmarks, fostering a more efficient and transparent financial ecosystem. ●

INSIGHTS

© DR

Interview with **Bert Boerman,**
Co-Founder and CEO
of Governance.com

by **Johann Herz**
Head of Events and
Communication at LPEA

Helping the Finance Industry Scale up, One Process at a Time

In this interview, Bert Boerman presents Governance.com, a mature fintech company helping financial institutions scale up their operations through automation. Bert shares the company's story, from its early teething period into its teenage years. He also offers insights into how the private equity fundraising ecosystem can help the "technology-finance-private equity" trio successfully navigate its adolescence.

Hi Bert, what is Governance.com, and how does this company support the finance industry?
Governance.com is the digital (process automation) solution for financial institutions to scale up their operations efficiently while maintaining regulatory compliance. Our clients, including some of the largest institutions, such as TMF Group, BNP Paribas, and Apex Group, make huge capacity savings by automating the processes they execute to fulfil regulatory requirements, like investor onboarding, Anti-Money Laundering checks, and other data governance processes.
For example, we illustrate how a fund depositary can achieve 40% capacity savings by automating its regulatory processes in our recently published white paper, Breaking Down the Barriers to Fund Depositary Digitalisation.

You celebrated Governance.com's ten years of innovation this year. Can you share some of your story and how you shifted from "start-up" to "scale-up"?
It's been quite a journey. We started with just an idea and a basic technology solution that I had designed and built with my twin brother, a tech expert and enthusiast, to help me head up compliance in my day job for a depository bank. Our solution went through countless iterations before we could bring it to the market. Fast forward ten years, and we've recently launched Version 12 of our application and low-code platform, Governance.com.
However, the road was challenging. After winning our first batch of clients, one of the most challenging aspects was managing the rapid influx of additional client projects that followed. We've experienced double- to triple-digit growth over the last four years. Fortunately, we've managed to come this far by investing in our team, scaling up resources, refining our processes, and establishing effective structures.

What, in your opinion, does the fundraising ecosystem need to do to support the development of the PE tech provider/user/investor trio, in order to navigate its adolescence?
The finance industry knows by now that it needs to "go digital" to offer a more streamlined and cost-effective

© DR

Bert and Rob Boerman at Governance.com's 10th anniversary celebration.

service. However, most of the industry is stuck at the "how to digitally transform" phase, rather than taking concrete action. This tech provider/user/investor trio must collaborate a lot more to embrace digital transformation and help one another develop and thrive in the new digital era.
The financial technology industry, or "fintech," has matured over the past decade. Although we've faced challenges along the way, we've also learned how to attract and successfully implement projects for our clients. Now the focus is on scaling up and working closely with clients to help them roll out their digital transformation projects globally. The partnership between 'fin' and 'tech' is crucial to taking digital transformation to new heights. In our experience, developing and nurturing a positive partnership incorporates everything from sharing the same project end vision and goals, to using the same (technical) language and understanding and appreciating one another's working cultures. The tech part of the trio also needs to appreciate and not underestimate how hard it is for financial institutions to change. It's worth keeping in mind that, in the end, this challenge for the fintech users can result in needing more capital than initially expected as the fintech provider.
Policymakers also have a significant role to play. In Luxembourg, we've seen considerable attention given to the startup scene, which is essential. However, there should also be a focus on scale-ups. Tax incentives can attract investment in both startups and scale-ups. Recognising the importance of nurturing job-creating scale-ups, not just buzz-generating startups, is vital. Both are essential, but if we don't support scale-ups as they grow, we won't have a thriving ecosystem in the long run. If you don't keep finding ways to feed the kids as they get older, you won't end up with a lot of adults.
Finally, for PE to successfully help the fintech ecosystem grow, it's important to invest in tried and tested solutions, rather than in abstract hype. PE can

> **"If we don't support scale-ups as they grow, we won't have a thriving ecosystem in the long run."**

recognise that you can benefit from numerous fintech solutions currently available in the market. Shift the "try before you buy" concept to a "try before you invest" approach. One way to do this is to pay for a proof of concept that can help you operationally while supporting your investment case. ●

Recently published white paper: Breaking Down the Barriers to Fund Depositary Digitalisation

INSIGHT/OUT #28

© DR

By **Eduard von Kymmel,**
Founder of id Linked®
and member of the LPEA iNED Club

From Tacit Assessors to Active Contributors – What Drives Fund Initiators to Hire Independent Non-Executive Directors these Days?

The role of independent directors has changed over the last few years.

Independent non-executive directors (iNEDs) are facing higher demands in Luxembourg – quite in line with the trends observed in the U.S. and the UK. Globally, this is due to the growing necessity to set standards for corporate governance. Locally, this trend is also coupled with the tremendous increase in funds domiciled in Luxembourg, especially AIFs. Accordingly, regulatory requirements related to functions and oversight are strengthened - putting additional pressure on boards.

Carine Feipel, ex ILA Chairperson got to the heart of the matter in a recent interview:

"The role of the board member has become more professional over the past years, which comes alongside an increase in responsibilities. For all regulated companies, the expectations placed on boards of directors have risen sharply. Today, the regulator expects much greater involvement and decision-making on multiple issues from directors. The days of 'passive' directors are over."

Indeed, processes and definitions related to governance have been formalized over the last three years, including a clearer delineation of the role of iNEDs and boards. Until recently, the Independent Director was quite often more of a silent participant in board meetings - if an iNED was appointed at all. In today's evolving landscape, iNEDs are expected to have a strong understanding of corporate governance principles and practices. They should actively participate in board meetings, provide oversight on risk management, and ensure compliance with relevant regulations and laws.

To illustrate even further, in one of their last joint events, Deloitte and ILA labelled iNEDs "Guardians of Public's interest" willing to advocate on behalf of investors and to help the board achieve the best possible performance.

What type of profiles do fund initiators expect from iNEDs today?

The recent trend shows that Luxembourg's core industry is shifting from a mere holding function to a fully-fledged investment platform jurisdiction. Indeed, Luxembourg seized Brexit to become a leading EU alternative investment fund platform. In response, the regulation is requiring more functions to be Luxembourg-based, with the corresponding oversight. In that sense, having a local director is a real asset for maintaining contact with the authorities and providing knowledge of specific local regulations.

Qualitative substance is likely to be the next challenge. And there too, iNEDs can make the difference; a balanced board reflects the company's general governance.

In light of this evolution, we have asked some of our company members and fund initiators how they perceive the role of iNEDs and what they expect from them.

For Andreas Kalusche, CEO of Prime Capital AG, the main reason to appoint an iNED is to balance deficits in experience. Since "new" topics such as sustainability (ESG), risk management, technology or digitalization are increasingly in demand and established boards of directors often have weaknesses in these areas, iNEDs can overcome these with their experience.

Andreas Kalusche: "With independent directors, you can balance a board of directors. After analysing what experience and qualities are missing, these can and should be compensated for with an iNED. This is how a board can perform at its best."

> **"Finding the right independent director is not just about ticking off the boxes and filling a seat – it's about finding the right person to help a company succeed."**

Additionally, an iNED gets executives to leave the ivory tower and engage with new perspectives and processes.

Philipp Good, CEO of ESG-AG, says "The whole board benefits from an independent director; he/she brings a different mindset than internal executives and can thus initiate fruitful discussions. Their ability to think outside the box moves the whole board forward and enables new directions to be explored."

Indeed, with their unbiased view from the outside, iNEDs can help break up outdated processes and push forward. They enrich every board of directors with their diverse experience and new ways of thinking. They look where executive members prefer not to look too closely. Their independence makes it easier for them to point out internal problems. This can be an uncomfortable process, but in the end, it benefits the board.

Fund initiators also expect iNEDs to give new impulses to the Board with their soft skills, background, and network – ultimately, with their whole personality. Christoph Gisler, Head of Infrastructure Equity and Member of Executive Committee at Swiss Life Asset Management, puts it this way: „Independent directors enrich a board of directors. Professional qualification, business proximity and leadership skills strengthen every organization". Being comfortable, speaking one's mind and high integrity are personality traits that drive successful, independent directors. This requires the self-confidence to address problems clearly and openly. An iNED is therefore expected to have high standards, not only when it comes to their experience, but also in terms of their soft skills. The commitment to build a long-term relationship and shared values with the executive team is therefore also key.

How to find the ideal profile; what added value?

Finding the right independent director is not just about ticking off the boxes and filling a seat – it's about finding the right person to help a company succeed.

Evaluate your current board composition – the maturity of your company should determine its board composition.

- At an early stage, an active board focusing on development will drive optimal activity. For this, iNEDs can leverage their professional network and connections to benefit the fund. This could involve introducing potential investors, identifying business opportunities, or facilitating partnerships and collaborations.
- Later on, a thinking board will focus on strategy. iNEDs can contribute to the fund's strategic decision-making process. They can bring fresh perspectives, challenge assumptions, and provide valuable insights based on their experience and expertise.
- Moving forward a connecting board will see communication as its focus. iNEDs will actively participate in board meetings, provide oversight on risk management, and ensure compliance with relevant regulations and laws.

Determine your optimal board composition – look at your company's long-term strategy and the critical knowledge required to achieve this desired evolution. Consider other attributes (director tenure, age, diversity).

Identify the gaps – the CSSF recommends assessing the board on both a collective and individual basis. To this end, check out the matrix outlined in Annex II of the EBA Guidelines 2017/12. This is a great starting point to get a complete picture of your board's strengths and weaknesses.

Launch the search – take the time to create a tailored director profile with the gaps identified. To appoint the perfect match, use your network but also think outside the box. iNEDs should be neutral and prioritize the company's best interests to ensure impartiality – advice from your third-party providers may not always be impartial. Independent NEDs platforms and iNED clubs like LPEA may offer just what you need in terms of diversity, expertise, languages, and background.

Listen to your gut – despite their expertise in the industry, iNEDs will always be in the delicate position of outsider on a board. None of their added value will shine through without excellent communication skills and shared values. Getting to know their personality is essential in assessing the match and making your final decision.

Wrap up: iNEDs are support and added value for board performance.

Today, in a world where agility in decision-making is essential, effective communication between the board and the management is a competitive advantage. From a tacit assessor to an active contributing actor; the role of iNED has done a 180, sharpening the edges of boards. Committed, open-minded, experienced, and modern team players form the new generation of iNEDs. What could be considered a side job in retirement a few years ago has evolved into a full-time job that requires the right qualifications, mindset, skills, and attitude.

It is up to companies to leverage the added value this evolved role brings to making the right choice for the director position!

If you are looking for an iNED for your investment vehicle, the LPEA iNED club offers a pool of professional non-executive directors. Furthermore, our digital match-making search platform id Ship offers access to more than 300 iNEDs. ●

FINANCING IN PE

By **Delphine Gomes**,
Counsel at AKD

Constantin Iscru,
Counsel at DLA Piper

Azadeh Djazayeri,
Partner at Elvinger Hoss Prussen

And **Ana Bramao**,
Partner at Elvinger Hoss Prussen

© DR

New Luxembourg Reorganisation Law and Financial Collateral Arrangements

This publication was drafted by the LPEA committee "Financings in Private Equity of the LPEA"

The Luxembourg insolvency law toolkit has been recently revamped by a new law of 7 August 2023 which has entered into force on 1st November 2023 (the "**Reorganisation Law**") and has repealed certain obsolete insolvency procedures being: (i) controlled management (gestion contrôlée), and (ii) composition with creditors (concordat préventif de la faillite) and has introduced new procedures aiming at detecting at early stages companies in financial difficulty to avoid bankruptcy and preserve their business.

The Reorganisation Law also implements EU Directive 2019/1023 of the European Parliament and of the Council of 20 June 2019 on, inter alia, preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt (the "**Insolvency Directive**") for which one of the main goals was to harmonize the insolvency procedures between Members States.

The Reorganisation Law does not impact the enforcement of financial collateral arrangements (taking the form of a pledge, a transfer of title by way of security, a repurchase agreement or a fiduciary transfer arrangement) falling within the scope of the Luxembourg law of 5 August 2005 on financial collateral arrangements, as amended (the "**Financial Collateral Law**").

This principle is confirmed both by the Insolvency Directive and the parliamentary works relating to the Reorganisation Law:
(i) Whereas (94) of the Insolvency Directive provides that "The stability of financial markets relies heavily on financial collateral arrangements […]. As the value of financial instruments given as collateral security may be very volatile, it is crucial to realise their value quickly before it goes down." In addition, it provides that the provisions of Directive 2002/47/EC of the European Parliament and of the Council of 6 June 2002 on financial collateral arrangements should apply notwithstanding the provisions of the Insolvency Directive.
(ii) The preparatory works (doc. parl.6539 and 6539A), provide, in turn, that the Financial Collateral Law shall not be impacted by the Reorganisation Law. The Luxembourg Council of State issued an advice on 1 December 2015 whereby it declared that « the bill of law shall not impact the financial collateral arrangements falling within the scope of the law of 5 August 2005 on financial collateral arrangements » doc.parl.6539-7, p.2) and on 14 June 2023 that « beneficiaries of a financial collateral arrangement – taking for example a pledge agreement over receivables or financial instruments – shall not be affected by reorganisation proceedings and should therefore have the right to enforce their pledge during the suspension period» and again that « the impact of the 2005 law on preventive measures aiming at safeguarding enterprises shall not be disregarded" (doc.parl.6539A-5, p.12-13).

The Reorganisation Law introduced a new procedure of judicial reorganisation (réorganisation judiciaire) that could however have an impact (although marginal) on pledge agreements covered by the Financial Collateral Law.
Indeed, pursuant to article 30 of the Reorganisation Law, after the filing of a judicial reorganisation application and while a judicial reorganisation measure is ongoing, it is not permitted for a creditor to (i) accelerate the underlying debt or (ii) terminate the underlying agreements. This prohibition stems from article 7 paragraph 5 of the Insolvency Directive which provides that "Member States shall ensure that creditors are not allowed to withhold performance or terminate, accelerate or, in any other way, modify executory contracts to the detriment of the debtor […]" in case of a reorganization proceeding.

> **"Lawyers from major Luxembourg law firms came to the conclusion that the new Reorganisation Law would have a very limited impact for existing agreements."**

What does this mean in practice?

The key takeaway is that it is not prohibited to enforce a pledge subject to the Financial Collateral Law as long as the enforcement is not conditional exclusively upon the acceleration of the underlying debt owed by a Luxembourg borrower subject to a judicial reorganization proceeding.

The pledgee can enforce the pledge on the basis of other enforcement events, such as a cross-default, a breach of financial covenant or any "event whatsoever as agreed between parties as constituting an enforcement event". The addition of the word "whatsoever" to the definition of enforcement event under the Financial Collateral Law has been introduced by the law of 20 July 2022 to emphasise that the parties are entirely free to determine by agreement the events the occurrence of which may trigger the enforcement of the collateral without the financial obligations having to become necessarily due and payable. The parliamentary work on the Law of 20 July 2002 cites examples such as non-compliance with certain financial ratios (which had been confirmed by the Courtepaille judgment) or other factors relating to particular aspects of a transaction.

The Law of 20 July 2022 has also introduced a new provision in the Financial Collateral Law pursuant to which where the relevant financial obligations are not due at the time the collateral arrangement is enforced, the proceeds of the enforcement shall be, unless otherwise agreed, applied to satisfy the relevant financial obligations. This new paragraph is directly related to the definition of "enforcement event", which allows the pledgee to enforce its collateral arrangement following a default or any other event whatsoever as agreed between the parties while the secured obligations are not necessarily due and payable.

Lawyers from major Luxembourg law firms have recently joined the LPEA "Financings in PE" committee to discuss the practical implications of article 30 of the Reorganisation Law. They came to the conclusion that the new Reorganisation Law would have a very limited impact for existing agreements because, in their experience, finance documents usually provide for flexible enforcement triggers which do not entirely depend on the acceleration of the underlying debt owed by Luxembourg borrowers. With respect to future pledge agreements, it will be a question of carefully drafting the relevant pledge agreement and having regard to the conditions of enforcement under the main financing documentation as well. ●

INSIGHT/OUT #28


© DR

By **Delphine Gomes,**
Counsel at AKD

And **Ana Bramao,**
Partner at Elvinger Hoss Prussen

Pledging an Account Opened with an EMI: Practical Questions

This publication was drafted by the LPEA committee "Financings in Private Equity of the LPEA"

Referring to our article in Insight/Out magazine issued on 23 October 2022, we had explained that alternatives exist in Luxembourg to speed up the opening of bank accounts and notably the opening of a bank account with an e-money Institution (an "EMI").

These alternatives are especially helpful in the context of tight timeframe transactions, such as leveraged financings where lenders generally request the borrowers to implement a strict bank account structure including security over all assets of the borrowers and in particular, its bank accounts.

EMIs are subject to the regulatory obligation to safeguard their clients' funds from their operational capital which leads them to transfer clients' funds into an account held with a traditional bank either in Luxembourg or abroad or have an insurance covering the amounts at stake. This means in practice that EMIs open omnibus accounts with traditional banks, in their name, and they will then assign a virtual IBAN and account number to each of their clients.

As a result, one of the main questions is that of the law applicable to the cash account in determining the security package to be granted to the lender.

Luxembourg law is a premium choice for lenders in terms of security package given by the borrower group because it is known to be very protective for lenders.

Article 23(1) of the law of 5 August 2005 on financial collateral arrangements, as amended, provides for a conflict of law rule only in relation to securities account which we are not analyzing in this post.

This leaves us with the question of determining what law will apply to a pledge agreement over a cash account. Cash is fungible so that once it is entrusted by a client to an EMI, the cash becomes the property of the EMI and the client holds in turn a receivable of the same amount against the EMI. As a result, when an account holder grants a pledge over its cash account, what it in fact does is granting a pledge over the receivable equal to the amount credited to its account it holds against the EMI.

Determining the governing law of the pledge agreement goes in hand in hand with identifying which law is applicable to the receivable.

As a matter of principle, the law applicable to the underlying receivable is the lex contractus, i.e. in the case at hand, the law applicable to the agreement entered into between the account holder and the account bank.

A client opening an account with the EMI will not have any relationship with the main bank. As a consequence, the applicable lex contractus must be that of the agreement entered into between the EMI and the client. One main complexity may arise in this respect: the EMI might not be established in Luxembourg. Indeed, article 24-15 of the law of 10 November 2009 on payment services provides that EMIs established in another Member State may provide services to clients located in Luxembourg on the basis of the freedom to provide services. It is very likely in such a case that the agreement between the EMI and the client will be subject to the law of establishment of the EMI. Although the logical approach would be to have such a foreign law also governing the pledge agreement, it can also be envisaged to use Luxembourg law as governing law, provided that the perfection requirements (i.e. the formalities which should be carried out so that the pledge is binding and enforceable to third parties) of such foreign law are complied with.

> **"EMIs open omnibus accounts with traditional banks, in their name, and they will then assign a virtual IBAN and account number to each of their clients."**

As we have seen, determining the law applicable to a pledge over a bank account opened with an EMI is not always a straightforward matter but what about the enforcement of such a pledge? How does it work and is it as protective as a pledge granted over a bank account opened with a financial institution? Our experts will revert on these interesting questions soon. Stay tuned! ●

Read the Article "New Alternatives to Quickly Open a Bank Account in Luxembourg"


By **Alexandre Hector,**
Co-Chair and Partner
at KPMG Luxembourg


And **Mathieu Perfetti,**
Co-Chair and Head of Private Equity
at Threestones Capital Management

LPEA Wealth Management Club

In the beginning...

At the initiative of Stéphane Pesh (CEO of LPEA) - supported by Mathieu Perfetti and Gorka Gonzalez back then - the LPEA Wealth Management club was founded in 2019, to provide an exchange of ideas and knowledge with wealth management stakeholders about Private Markets offerings, and assist asset managers targeting individual investors, to accelerate the design, structuring and formation of appropriate alternative investment products in the Luxembourg market.

Who

If we may say so, it's not just about who you are but more about what you aim to contribute. Anyone with good will and a curious mind who wants to support us in organizing events, contributing to complex yet exciting topics, or simply sharing their views and insights from their respective field of expertise, is more than welcome!

The Wealth Management club is co-chaired by Mathieu Perfetti (Threestones) and Alexandre Hector (KPMG) and is currently composed of about 30 members from many horizons. Our traditional profile members include European and International GPs, LPs, financial institutions, and asset managers, but it's also great to have service providers, including ManCos (Management Companies), Central Administrators, Lawyers, and Auditors, to represent the entire spectrum of our Luxembourgish expertise in asset management.

What

Both the Private Markets and wealth management industry continue to grow significantly and, by the same token, go through challenging times. Some fundamentals are being questioned more than ever; raising capital from institutions is struggling, the investment horizon is troubled, and operating teams are under pressure to improve efficiency and adapt products and processes to welcome individual investors.

LPEA's Wealth Management Club aims to empower stakeholders across our Luxembourgish financial centre through various initiatives to further assess, connect, and educate on market opportunities. The aim is to create a forum that will bring together all the critical players in our industry around one table.

When

At the Wealth Management Club, we prioritize human contact and interactive events to stay connected. We aim to organize online meetings every two months, as it is very convenient for maintaining regular contact, but we also bring our members together in person every quarter for drinks or lunches.

To facilitate deeper discussions on critical aspects of the future of asset management in Luxembourg and Europe, we have hosted at least two conferences annually on topics like asset allocation, democratization, and the interaction between various stakeholders throughout the private equity distribution life cycle.

Last but not least, we undertake to send representatives to key industry events and conferences, including other LPEA events, IPEM, ALFI conferences, and many more.

How to apply

Don't hesitate to contact our co-chairs, Alexandre and Mathieu. They would be pleased to organize a call or have coffee/lunch to discuss your views and market perspective, as well as share information about upcoming initiatives with you. ●

If you are interested in joining fill in the application form on the LPEA website https://lpea.lu/membership.

"LPEA's Wealth Management Club aims to empower stakeholders across our Luxembourgish financial centre through various initiatives aiming to further assess, connect, and educate on market opportunities."


Alexandre Hector
KPMG


Charles-Henri de Villedon de Naide
PwC


Josephine Loreal
Astorg Asset Management S.a r.l.


Katerina Panayotova
Apex Group


Marco Cameroni
Socgen


Mayank Poddar
Carne Group


Philippe Theissen
Deloitte


Serge Weyland
Edmond de Rothschild Asset Management (Luxembourg)


Thomas Ertl
KPMG


Antoine Legros Saint-Jalm
Antoine Legros Saint-Jalm


Diogo Duarte de Oliveira
Baker Mckenzie


Julien Marencic
Jera Capital A/S


Kelly Anckenmann
Funds Avenue


Mathias Jansen
Banque Degroof Petercam Luxembourg

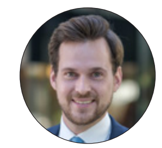

Michaël Roth
ING Luxembourg


Priscilia Valtaer
Ernst & Young S.A.


Stéphane Boixière
Citibank Europe


Vladislava Shurpa
Quintet


Bryan Ferrari
Spuerkess


Jérôme Zahnen
Banque de Luxembourg

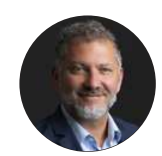

Julien Thibault-Liger
Lazard Frères Gestion Luxembourg


Laura Simmonds
Bonn Steichen & Partners


Mathieu Perfetti
Threestones Capital Management S.A.


Olivier Gerard
SG Luxembourg

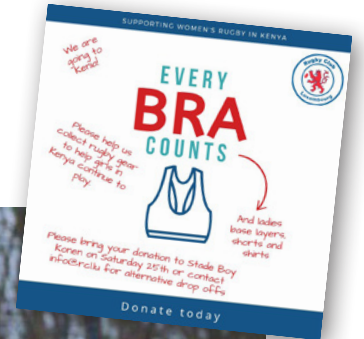

Priscilla Hüe
Cedrus Partners, Luxembourg Branch


Thierry Somma
Simmons & Simmons Luxembourg LLP

©DR

©Photos: DR

Rugby Club Luxembourg: Bringing Inclusion to the World of Rugby



Interview with Paul Sweetnam, James Rautta, Giulia Iannucci and Michael Engbork, members of the Rugby Club Luxembourg.

Could you briefly introduce the Rugby Club Luxembourg?

The Rugby Club Luxembourg (RCL) was founded in 1973. A Gala Ball was held in June with 450 attendees and celebrity guests to mark our 50th anniversary. We have approximately 400 licenced players, coaches, and referees comprising 43 nationalities. Traditionally RCL has been referred to as "The English Club" but it was founded by a Frenchman, Albert Cohen, and the French and the Luxembourgish represent the largest part of the membership.

Besides playing rugby, can you describe your charitable activities?

As RCL members, we are aware that we have a role beyond competitive sport, and are involved in a variety of initiatives in Luxembourg and beyond.

Within Luxembourg, we have run introduction to Rugby sessions at Foyers and refugee centres. We give free access to our Kids Rugby Camps for refugees and children from Caritas children's homes. We partner with the Centre socio-éducatif de l'État in their work with troubled youth, and offer mentoring to parents for their children should they need it. In the past the club even coached high security prisoners, and organized matches within the walls of Schrassig penitentiary.

> **"As RCL member we are aware that we have a role beyond competitive sport and we are involved in a variety of initiatives within Luxembourg and beyond."**

Our work outside Luxembourg began in 2018, bringing four youths from Fiji and two from Kenya to play in our Under 18 team for 2 to 3 months. The players were placed in host families, took referee courses, and went to school at Lycée Michel Lucius. We subsequently visited the boys in Fiji, and brought a large donation of boots and rugby equipment.

The two boys from Kenya, Samuel Imbwaga and Geofrey Magoro, live in Kibera, Africa's largest slum, located on the outskirts of the capital, Nairobi. COVID-19 has prevented us from visiting the boys, but we were able to send them rugby equipment, as well as fund their drivers licenses and their participation in a computer school programme, which in turn facilitates their access to employment. Samuel is coaching a women's team and RCL will be visiting both boys in December to check up on their progress and learn more about the development of Girls Rugby in Kenya.

Without a doubt, the equipment most warmly received, were the sports bras that we sent to Kenya. The lack of this basic item of clothing was preventing girls and women from playing and enjoying the sport. Not only are they relatively cheap, they are compact and lightweight to transport.

© DR

How did the initiative of Let the Girl Play come about and what is the objective?

One of the challenges is to attract girls to play a contact sport when the majority of their teammates are boys. One solution is to start them early, but it can be quite tough until we have the critical mass to build a girls team or have a group of girls within a mixed team.

We also offer Touch Rugby to girls, including periodic girls, and women only training sessions. We are learning from contacts with Belgium Rugby, who have a thriving women's category and hope to learn from our trip to Kenya on how to motivate and engage girls to play Rugby.

While the number of girls playing touch Rugby is growing fast, the progress on the Rugby side has been slower. We have, however, had a significant recent development with the U14s mixed team being captained by a girl - the first girl to Captain a 15 a side RCL team. RCL will be travelling to Kenya in early December to distribute sports bras, rugby equipment, and to meet with local stakeholders. ●

Scan the QR code for more information about their community work

LPEA Insights 2023, a Very Good Vintage

LPEA's annual flagship conference *LPEA Insights*, took place on October 19th at LuxExpo the Box. Mirroring the growth of the Luxembourg PE & VC community, the LPEA team opted for this new and bigger venue, aiming to double the audience that attended the 2022 edition. This gamble paid off with a turnout of over 600 attendees, including 200 General Partners (GPs) and 120 Limited Partners (LPs). The event unfolded across not one but two stages this year, featuring insights from 63 distinguished speakers.

Claus Mansfeldt, President of the LPEA

Stephane Pesch, CEO of the LPEA

H.R.H. the Crown Prince Guillaume with Claus Mansfeldt and Stephane Pesch

A Resilient Asset Class

Opening the conference, LPEA President Claus Mansfeldt emphasized the importance of adopting a long-term view amid de-globalization, high inflation and interest rates, economic uncertainty, and geopolitical turbulence. Despite these challenges, he stated "We know that Private Equity performs best, relatively speaking, compared to its alternatives during difficult times. All evidence suggests that Private Equity's alpha position over public markets is maximised during downturns. The worse the stock markets do, the relatively better Private Equity performs," thereby confirming the resilience of this asset class, especially in an unfavourable environment.

The conference was also a great opportunity to take the pulse of Private Equity in Luxembourg with CSSF Economist Simon Emeri, highlighting the results of the 2022 AIFM Reporting dashboard – see page 9 of this magazine.

The main objective of the conference was to provide a comprehensive view of the alternatives in a fluctuating environment. From the Private Equity, Venture Capital, Private Debt, and Infrastructure domains, speakers delivered insights on these asset classes, as well as on transversal themes such as ESG, net zero, operations, tech, fund raising, investor relations, and value creation. GPs were also given time on stage to share their expertise on specific verticals, such as space, biotech and AI. Notably, Ukraine had the spotlight with a presentation by Andrey Kolodyuk, Chairman of the UVCA, who provided a panorama of Ukrainian efforts to attract PE-VC investments from abroad.

Panel - Mutualisation 2.0 : in the midst of revolution for Private Markets?

Panel - 2023 – the year of Private Debt?

Conference Highlight: The Secondary Stage

A key innovation for the Insights conference this year was the introduction of a secondary stage, animated by LPEA Committees and Clubs. It provided participants with an alternative to the main stage programme, with subjects such as impact investment implementation, LP and GP alignment in valuations, an overview on the future of fund administration, trends in infrastructure investments, co-investments & syndicates in early- stage deals, and the role of Independent Non-Executive Directors in challenging times. This space wasn't just an alternative; it was for some the preferred choice, with many of the sessions enjoying full attendance.

Luxembourg Venture Days

To conclude the conference, the LPEA joined forces with LBAN, Luxinnovation and Startups.lu, to deliver the *Luxembourg Venture Days*, connecting the vibrant Luxembourg startup community with a wide range of investors. Participants had the opportunity to network, participate in panels and workshops, hear compelling pitches, and get to know the startups chosen for the 14th edition of *Fit 4 Start* - Luxembourg's leading startup accelerator programme. Significantly, the announcement ceremony was attended by H.R.H. the Crown Prince Guillaume.

Workshop: Valuation: LP-GP Alignment on the secondary stage

©DR

The Next Edition

The LPEA team is already working on the 2024 edition and is open to hear the community's suggestions on relevant subjects and insightful speakers to build next year's programme. If you have any ideas, please let us know! ●

Request the video replay of LPEA Insight and the Luxembourg Venture Days

Event photos

... in Milan

Vittoria Faraone (Allen & Overy)

L to R: Gregorio Pupino (Intertrust a CSC company) and Antonino Borgesano (Vistra) at the Luxembourg PE Seminar in Milan

Angela Summonte (Alter Domus)

Claudia Tripodo (PwC Luxembourg)

Fabrizio Boaron (WRM Group)

... in New York

Claus Mansfeldt (LPEA / SwanCap)

L to R: Mathieu Volckrick & Ed Dartley (K&L Gates), Pierre Beissel (Arendt) and Antonis Anastasiou (Alter Domus)

Vivian Sze (Apollo) and Arnaud Bon (Deloitte)

... in Hong Kong

L to R: Brian Campion (Intertrust) , Julien Ghata (PwC), Silver Kung (Siegfried Capital Partners) and Riccardo Millich (HSBC)

Weijian Shan (PAG)

Roland Reiland, Ambassador of the Grand-Duchy of Luxembourg in Beijing

Stephane Pesch (LPEA)

L to R: Pierre Beissel (Arendt), Charlotte Chen (Elvinger Hoss Prussen) and Miao Wang (Allen & Overy)

... in Singapore

Structuring funds in Luxembourg panel at the Luxembourg PE Seminar in Singapore

Patrick Hemmer, Ambassador of the Grand Duchy of Luxembourg in Bangkok

Excee Tan (KPMG)

© Photos: DR

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 507 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.

Executive Committee


Claus Mansfeldt
President
LPEA


Hans-Jürgen Schmitz
Vice-President
Mangrove


Nick Tabone
Vice-President
Deloitte


Eckart Vogler
Treasurer
Investindustrial


Yannick Arbaut
Governance Secretary
Allen & Overy


Gilles Dusemon
Member
Arendt & Medernach


Gautier Laurent
Member
Cinven


Katia Panichi
Member
Elvinger Hoss Prussen


Jérôme Wittamer
Member
Expon


Laurent Capolaghi
Member
EY


Giuliano Bidoli
Member
BC Partners


Stephane Pesch
CEO
LPEA

Technical Committees

Legal
- AML
- AIFMD
- Corporate Law
- YPEL
- CMU
- Un/Regulated Funds
- Financing In PE

Tax
- YPEL
- VAT

Market Practice & Operations
- Risk Management

Central Intelligence
Fund Administration
Promotion Sounding Board
PE/VC Depositary Services
Pre-Marketing & Distribution
ELTIF

Clubs

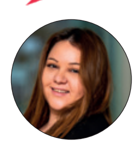
ESG
Private Equity For Women (PE4W)
Venture Capital
Large Buyout
Single Family Offices (SFO)
Wealth Management
Human Resources (HR)
Insurance
Corporate Venture Capital (CVC)
PE Tech
Independent and Non-executive Directors
Chief Financial Officer
Infrastructure
Private Debt
Secondaries

LPEA Team

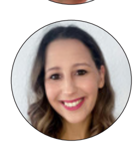

Stephane Pesch
Chief Executive Officer


Luis Galveias
Chief Operating Officer

Kheira Mahmoudi
Executive Office, Governance & Operations

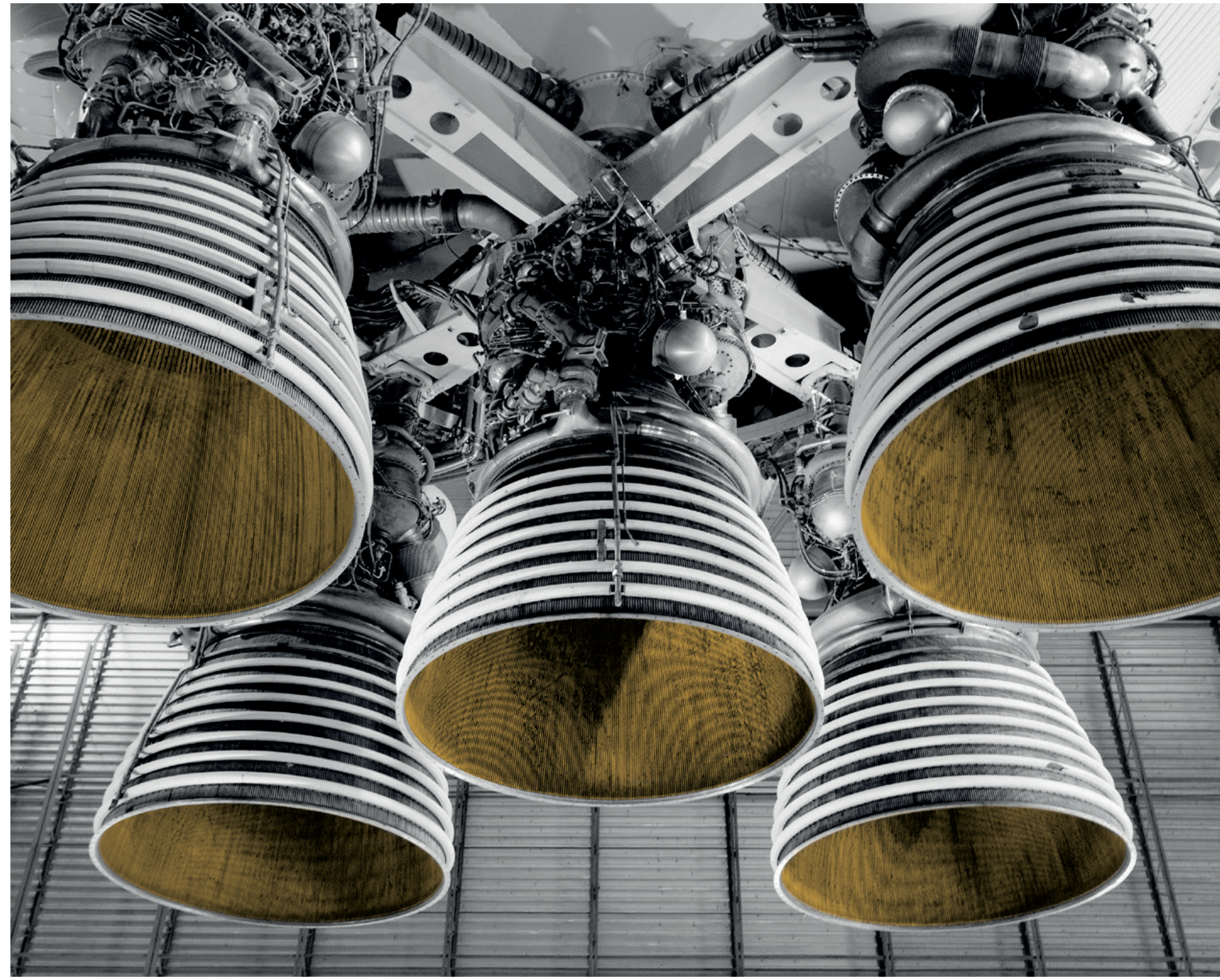

Evi Gkini
Head of Business Development and Project Management


Johann Herz
Head of Events and Communications


Joana Barreiro
Marketing & Events Officer

your legal, tax and business services firm in Luxembourg

arendt



the leading legal advisor in the asset management industry

(according to Monterey Insight Luxembourg Fund Report 2023)

arendt.com

alterDomus*

Fund Services | Corporate Services | Asset Services | Technology Solutions

Tailored for growth

Across people, technology and data, every client's strategic priorities are different. Our **managed**, **co-sourced** and **out-sourced** operating models provide bespoke, strategic support to keep your business focused and ready for growth.