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Webinar on Private Equity in Biodiversity Set for End January

Published on Wednesday, 10 Jan 2024 12:35 by OD

The Luxembourg Voice of Private Capital (LPEA) ESG Club has announced it is organising a Zoom webinar entitled "Rising Private Equity Concerns on Biodiversity", to be held on Wednesday 31 January 2024 at 11:00.

Biodiversity Manager Justine Mariette at ICare Expertise SA will delve into biodiversity in Private Equity.

Biodiversity, while essential for the well-being of humans and the planet, is currently facing serious threats. The loss of biodiversity could have significant consequences for the economy, as more than half of the world's total GDP depends moderately or highly on nature and its services, the organisers stressed.

Private equity firms can reduce the risks and negative impacts of biodiversity loss by integrating biodiversity considerations into their investment decisions and operations. Furthermore, they can reap the benefits and opportunities of biodiversity-positive actions.

PRESS RELEASE

The growing trend of tax insurance

Écrit par Dentons Luxembourg
Publié le 31.01.2024

Partager

Dentons Luxembourg extends an invitation to a conference on the subject of tax insurance in the alternative investment sector. (Photo: Dentons Luxembourg)

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Dentons and LPEA are delighted to invite you to their conference on Tax Insurance, discussing the growing trend of tax insurance in the alternative investment sector.

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5 FINANCE & LÉGAL Quatre nouveaux associés chez Arendt

Dentons and LPEA look forward to bringing together the insurance and private equity communities to discuss new market trends and synergies between the two sectors. The event will be followed by a networking cocktail.

The conference will take place on Wednesday 7 February at 17.30 at the Chamber of Commerce, 7 Rue Alcide de Gasperi, 1615 Kirchberg Luxembourg.

Agenda

17:00 Welcome and registration of the participants

17:30 Opening remarks: Stéphane Pesch, Chief Executive Officer - LPEA

17:40 Introduction: Jean-Luc Fisch, Head of Tax - Dentons Luxembourg

17:50 The growing trend of tax Insurance - Panel discussion

- Alexander Skuratovski, Head of Tax Risk, PE and M&A Practice – Marsh
- Alex Thomas, Co-Head of Global Tax - Dentons UK & Middle East
- Hugo Webb, Managing Director, International Tax - Ambridge
- Michael Graf, Co-Head of Europe Tax – Dentons Frankfurt
- Vincent Quittre, Counsel Tax - Dentons Luxembourg

18:50 Closing remarks

19:00 Networking Cocktail

For more information and to register, visit https://lpea.lu/events/the-growing-trend-of-tax-insurance/.

FINANCE - PRIVATE EQUITY

LUXEMBOURG PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

Investment fund trade group LPEA surpasses 500 members

Written by Aaron Grunwald
Published on 07.02.2024

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Stephane Pesch, CEO of the Luxembourg Private Equity & Venture Capital Association (LPEA), seen speaking at the LPEA new year reception at Melusina, in the Grund, 31 January 2024. Photo: LPEA

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The Luxembourg Private Equity & Venture Capital Association (LPEA) kicked off 2024 on a positive note.

The Luxembourg Private Equity & Venture Capital Association (LPEA) has exceeded its membership goal and will set itself an ambitious new target.

During its annual new year party on Wednesday 31 January, Stéphane Pesch, LPEA's CEO, said the organisation had 526 members. That was up from 413 at the beginning of 2023 and 324 in 2022.

The trade group's previous 2025 target was met in 2023, an LPEA representative told Delano.

The LPEA will establish a new, higher membership goal shortly, Pesch stated.

Luxembourg-domiciled private equity, private equity fund-of-funds and infrastructure funds have some €690bn in assets under management, according to recent data from the Luxembourg financial regulator CSSF. Different figures, from the Association of the Luxembourg Fund Industry and consultancy KPMG, peg private debt assets under management at €404.4bn and real estate funds at €135.8bn.

Around 500 people registered to attend the LPEA reception, the rep said.

La LPEA dépasse les 500 membres

Écrit par Aaron Grunwald
Publié le 07.02.2024

Participants à l'événement du nouvel an de la LPEA, le 31 janvier 2024. LPEA

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La Luxembourg Private Equity & Venture Capital Association a donné le coup d'envoi de l'année 2024 sur une note positive.

La Luxembourg Private Equity & Venture Capital Association (LPEA) a dépassé son objectif d'adhésion et se fixe un nouvel objectif ambitieux.

Lors de sa soirée annuelle du Nouvel An, le mercredi 31 janvier, Stéphane Pesch, directeur général de la LPEA, a déclaré que l'organisation comptait 526 membres, contre 413 à la fin de l'année dernière. Ce chiffre est en hausse par rapport aux 413 membres recensés au début de l'année 2023 et aux 324 membres recensés en 2022.

L'objectif précédent pour 2025 de l'association professionnelle a été atteint en 2023. La LPEA établira donc bientôt un nouvel objectif plus élevé en matière d'adhésion, a déclaré Stéphane Pesch.

Les fonds de capital-investissement, les fonds de fonds de capital-investissement et les fonds d'infrastructure domiciliés au Luxembourg disposent de quelque 690 milliards d'euros d'actifs sous gestion, selon des données récentes de la Commission de surveillance du secteur financier (CSSF). D'autres chiffres, provenant de l'Association luxembourgeoise des fonds d'investissement et du cabinet de conseil KPMG, indiquent que les actifs gérés par les fonds de dette privée s'élèvent à 404,4 milliards d'euros et ceux des fonds immobiliers à 135,8 milliards d'euros.

Environ 500 personnes se sont inscrites pour assister à la réception de la LPEA, a indiqué le représentant.

INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

Indian delegation promotes one-stop financial services hub to Luxembourg professionals

Written by Kangkan Halder
Published on 27.02.2024

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The financial services centre at Gift City in Gujarat, India, is an "opportunity for global investors to come in and participate in the India growth story," K Rajaraman, chairperson of the International Financial Services Centres Authority (IFSCA), said during a conference, while promoting the centre to officials and professionals in Luxembourg, 26 February 2024. Photo: IBCL

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0:00 / 3:17 1X

The International Financial Services Centres Authority in India, established in 2019 to simplify and streamline operations, is promoting Gift City as a one-stop hub for international financial services and seeks to foster collaboration with Luxembourg, said India's top regulator.

Indian officials were in the grand duchy pitching local finance executives on entering the market through a special financial services zone.

Speaking to Delano on the sidelines of a conference on Monday 26 February, the International Financial Services Centres Authority chairperson, K Rajaraman, highlighted the business opportunities in India for the Luxembourg funds industry and finance professionals. The IFSCA is leading a business delegation from India and hosted a conference at ArcelorMittal's premises to highlight the opportunities and capabilities of the Gujarat International Finance Tec-City (Gift City), a special economic zone dedicated to financial services. During the conference, the IFSCA emphasised the benefits such as liberal economic laws, regulations, compliance and tax incentives aimed at boosting economic activity within the sector.

During their visit to Luxembourg, the delegation, which included Indian government officials and business leaders, engaged with key Luxembourg financial entities including the ministry of finance, Luxembourg Financial Sector Supervisory Commission (CSSF), the Association of the Luxembourg Fund Industry, Luxembourg Private Equity and Venture Capital Association (LPEA) and Luxembourg House of Financial Technology, shared Rajaraman.

Rajaraman outlined the visit's primary goal, stating "India will continue to grow at something beyond six and a half to 7% annually. So, this presents an opportunity for global investors to come in and participate in the India growth story." He added that the delegation aims not only to promote the business opportunities but also to foster collaboration and cooperation between Luxembourg and India. He highlighted India's strengths, such as its large, skilled workforce and digital and tech expertise, which make India an attractive destination for investments, which the International Financial Services Centre aims to leverage and enhance its position as a global hub for financial services. Rajaraman recalled the Indian government's goal of transforming India into a carbon-neutral economy by 2070, requiring huge investments, including in infrastructure, which would come not only domestically but also through international cooperation and collaboration. Ready to learn and cooperate with European and global regulators and statutory partners, Rajaraman emphasised that the IFSCA aims to bring mutual benefits to its partners and the global investor community.

The event, co-organised by the Indian Embassy in Brussels and the Indian Business Chamber of Luxembourg, brought together over 80 professionals and officials. The delegation's visit also includes a stop in Paris, on Thursday 29 February, to meet with French officials, regulators and stakeholders.

ABBL

N° 86 – 18 April 2024

IN THE SPOTLIGHT

Luxembourg's leading financial associations unite to simplify opening business accounts in Luxembourg

The ABBL, ALFI, LuxCMA and LPEA are fully conscious of the importance of the challenge some businesses and companies face in opening an account. They are assuming their responsibilities by joining forces in awareness-raising. A first common initiative in this field was a training session which gathered about 50 professionals on April 16th 2024.

"*We are well aware of current concerns voiced on the market regarding the process for professionals to open bank accounts in Luxembourg. This workshop is part of a broader effort to develop specialised trainings for compliance officers regarding the onboarding of complex investment structures. The ABBL is here to help.*", said Camille Seillès, Secretary General of the ABBL.

READ MORE

Evi Gkini, Head of Business Development & Project Management at LPEA, discusses diversity and inclusion trends in the PE/VC world, key initiatives offered by the association, and what she finds most rewarding about her role.

With over 540 members, including corporate members, private equity firms, investors, family offices, and service providers, LPEA is an association committed to advancing the interests of the Luxembourg private equity and venture capital sectors. Evi Gkini, who wears three hats as Head of Business Development & Project Management, HR Club Coordinator, and Private Equity for Women Club Coordinator, shares insights from her multifaceted role and experience on the value of a supporting network, and diversity and inclusion in the industry.

Give me a brief description of your background and how you started working with LPEA?

I am originally from Greece and moved to Luxembourg almost five years ago. I used to work at an exclusive representative of Philip Morris International, and at some point, I was looking for better opportunities, so I thought why not Luxembourg. I enrolled in the entrepreneurship and innovation masters programme at the University of Luxembourg, and in one of the courses, our current CEO, who was then the strategy director of the LPEA, came to give a speech.

He spoke about the LPEA, what they do and what they represent. And I said, ‘this is a nice opportunity’. I sent him my CV on LinkedIn as I had a few years of experience, and I suggested that we have a quick talk and see if we can work together. This is how I started working at the LPEA.

And now you are the Head of Business Development & Project Management at LPEA. Tell me about your role.

I’ve held this role for one year now and my main responsibility is to drive the association’s growth by identifying new business opportunities and expanding the community. It involves strategic planning, project management and also fostering partnerships that align with our mission to support and facilitate the private equity and venture capital ecosystem here in Luxembourg.

My role also focuses on engaging with our members, understanding their needs, and making sure that LPEA delivers value through its different activities, which includes initiatives to promote Luxembourg as a leading hub for private equity and alternative investments.

In your experience within the private equity and venture capital sector, why do you believe diversity is crucial at the leadership and decision-making levels?

I think that diverse leadership brings a plethora of perspectives, fosters innovation, and helps to take better decisions. It is not about ticking a box. A study by BCG and Cambridge Associates clearly shows that private equity and venture capital firms that are mainly owned by women, or people of colour, may have an edge because they often have access to a wider range of investment opportunities as they tend to invest in a more diverse set of portfolios.

> “I think that in our sector and in every sector and business in the modern world, having different viewpoints is quite essential. Because it helps you to make better decisions and it is crucial for any long-term business strategy success and helps in dealing with challenges.”

LPEA has established a group called the Private Equity for Women Group since 2019, and with this group, we try to drive different initiatives that empower women.

As the Private Equity 4 Women Club Coordinator, what unique challenges and opportunities do women still face in this sector that make such a community essential?

From the ongoing discussions and insights in the sector, a community that represents and promotes diversity and inclusion is really needed. The feedback from our members indicates that there are still challenges in achieving gender parity, especially at the leadership and decision-making levels - so the problems still exist. Also, women often struggle with self-confidence, and may not always advocate for their career evolution as strongly as they should, or like men do.

I think that this community is crucial for addressing those challenges by providing a supportive network where women can share their experiences, access mentorship, and increase their visibility within the industry. And also for us, it’s important through this community to create opportunities for dialogue, share success stories, and highlight the contribution of women in our sector.

This is a way that we can inspire and empower our members through networking, offer a platform for women to discuss their concerns and challenges, what they have achieved so far, and how they have achieved it. The goal of the community is not only to address current challenges, but also to unlock the full potential of diversity as a driver of innovation, growth, and resilience for the sector.

In your role as HR Club Coordinator, you've also led HR webinars, discussion panels, and even organised the first dedicated job fair in the PE/VC sector. How do these initiatives contribute to fostering a more inclusive and diverse environment?

This initiative started a few years ago during the pandemic and post-covid era when we saw an increased need for talent in Luxembourg. So, that was a driver for us to start those different initiatives.

At the beginning, we created a dedicated HR Club in order to provide a platform for the different stakeholders to discuss trends and share best practices and potential challenges.

By bringing together these different players, we wanted to foster a community that values diversity and inclusion. And at the same time, we did some other initiatives like some webinars and discussion panels, where we also tried to raise awareness about our sector, the size of the market, and the importance of the market for Luxembourg, especially for people that didn't have an image of Luxembourg yet. We tried to create a more accurate image and underline the local opportunities in our industry.

> "The job fair we organised aimed to open doors to a more diverse pool of candidates. We invited people and students from across Europe, we also tried to visit different European universities, to promote our sector and give even more visibility to Luxembourg.

How can women stand out in the PE/VC industry?

For women to stand out, especially in the sector in Luxembourg, they should focus on building a strong network. Maybe also seeking out mentors because I think it helps a lot to listen to those who have achieved whatever you would like to achieve as well.

They need to keep learning in order to stay ahead of industry trends. It's also important that they advocate for themselves, raise their voice, take credit for their achievements, and seek opportunities that can challenge and grow their capabilities. In general, I would say that women should be bold, embrace opportunities and also never underestimate the value of a supportive community.

What advice would you give to those looking to start or advance their careers in this field?

> "We have several initiatives on recruitment in private equity. Everything is possible as far as you have access to a network and training opportunities, and Luxembourg offers a lot of these.

We have our internal Academy at the LPEA, the House of Training, academies and training in companies, and many others.

What do you find most rewarding about your roles at LPEA, particularly your responsibilities to support women in the private equity and venture capital sector?

The most rewarding part is seeing tangible progress in the industry, whether it's through increased awareness about diversity and inclusion, more women taking on leadership roles, or also the success stories that emerge from our other initiatives like the job fairs, for example.

I was in the city centre a few months back when someone approached me and said, 'I relocated to Luxembourg because of your job fair'. This is quite rewarding on its own.

But in general, knowing that our efforts to contribute and attract more new talents and create a more inclusive and equitable environment where women can learn from each other, support each other, thrive and also reach their full potential, is really fulfilling.

From PE Hub to PE Tech Hub

By Luís Galveias, COO of LPEA

27/05/2024

Technology is a “no-brainer” in Private Equity (PE) and Venture Capital (VC). Implementing digital tools in portfolio companies is a common strategy to enhance value and meet clients' expectations. VCs, in particular, often invest directly in these digital tools, elevating them to global standards.

However, the scenario shifts when it comes to integrating technology into the operations of those same investors. While the adoption of digital tools is happening, it lags behind the pace of solutions specifically designed for the PE-VC industry.

At LPEA we refer to it as PE Tech but the name is not consensual. Some prefer FinTech, others lean towards Fund Tech or Reg Tech (for regulation), and some dub it “boring” tech, perhaps because they are necessary but not as exciting and revolutionary as other technological innovations.

Despite the varying names, PE Tech firms are proliferating with a wide array of solutions: investor onboarding, reporting, KYC, cash management, regulatory watch, treasury management, and more. The market demand for each of these solutions is evident. Recently, an innovative treasury solution gathered appreciation from the association's CFO club and a survey by IQEQ, in collaboration with The Drawdown, revealed that 32% of investors expect a digital on boarding process.

PE Tech brings efficiency, reduces time spent on certain tasks, minimizes human error and enhances value extraction from existing data. However, these benefits come at a cost, including the expense of acquiring the tool/service, the time required for due diligence of the service provider, and the investment in implementation and fine-tuning.

Such investment can be challenging, especially for small management teams, but are necessary to keep the fund administration costs low. Let us keep in mind that, on average, fund managers live on a 2% management fee which needs to be optimized at all cost.

Larger service providers have a greater capacity to onboard these tools but face different issues such as potential staff redundancies, which can make middle management resistant to innovations.

If financial services do not voluntarily seek solutions to improve their efficiency, DORA, the Digital Operational Resilience Act, effective from January 2023, will compel them to invest in the digitalisation journey to mitigate certain risks.

Therefore it is not too late to get to explore the available solutions. LPEA's latest PE Tech Demo day welcomed 35 of such solutions, a sample of the 60 that are featured in the association's Tech Map and still a fraction of all the solutions available globally.

The event featured Luxembourg-based tools and other whose staff travelled from London, Paris, Munich, Zurich or Stockholm. Luxembourg plays a central role in this space with many of the featured firms either based or present through a local office or representation. It contributes that many of those behind such firms come from the local financial industry and have the right experience and perspective. Such tools also cater to the needs of the profiles you will typically find in Luxembourg such as accountants, risk managers or portfolio managers.

Some of the local firms are even attracting VC attention. Recently, Fundcraft, a digital infrastructure provider for the asset management industry, raised EUR 5 million, and Fundvis, a SaaS financial data management platform, raised EUR 470k.

If there is a hub where European fund managers seek the latest digital tools, it is likely to be Luxembourg. That is why at LPEA's next Insights conference on October 17th, PE Tech firms will feature prominently, and will be part of the reason for international fund managers to come and discover Luxembourg further.

LUXEMBOURG PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

Claus Mansfeldt: "We remain on a roll"

Written by Lydia Linna
Published on 12.06.2024 • Edited on 12.06.2024 at 11:25

"If we can gain--and keep--predictability in our business operations, if we can keep efficiency and if we can keep a measure of flexibility, then we have a winning mix," LPEA president Claus Mansfeldt said during the association's annual general meeting, 11 June 2024. Archive photo: Romain Gamba/Maison Moderne (2022)

Despite a tough 2023, private capital assets under management in Luxembourg have seen a fivefold increase over the last five years. To continue this success, it will be key to maintain the "winning mix" of predictability, efficiency and flexibility, says LPEA president Claus Mansfeldt.

"We remain on a roll," said Claus Mansfeldt, president of the Luxembourg Private Equity & Venture Capital Association (LPEA), during his introduction to the association's annual general meeting on 11 June 2024 at BNP Paribas in Kirchberg, with "one trillion euros of private capital assets under management here in Luxembourg." That's up from €180bn five years ago, marking a fivefold increase. "That's a pretty good growth rate that most people in private equity would be proud of. Maybe we should try and LBO [leverage buyout] Luxembourg one day if we continu like this!"

The grand duchy's market share is also increasing, he argued. "We are now pretty much 50%, or above 50%, of private capital aggregate raised in Europe compared to about 7% in 2010. That's a 14-year perspective. We really have managed somehow--by hook or by crook--to become the real market leader." Private debt and infrastructure, which Mansfeldt called the "new kids on the block," have "particularly high growth outlooks."

"Enormous amount of dry powder"

Deal count is down 4% on an annualised basis compared to 2023, but deal value is expected to beat 2023 by about 18%. "This is quite encouraging, but it is from a low base," said Mansfeldt. "North America is where it's really happening." Based on the first five months of 2024, deal value is up 67%, meaning there's a sharp decline in Europe and Asia.

But "there's an enormous amount of dry powder--$3.9trn--sitting, waiting to be deployed," he added. "When we look at the deal value in 2024, that's similar to 2018. The only difference is that we have one and a half times as much dry powder now, sitting on the sidelines, compared to back then."

Tough for exits, fundraising

Exits--the "elephant in the room" that impact the entire business cycle--have been slowing. 2024 is likely to be the second worst year for exits since 2016, even though they'll be up compared to 2023.

Fundraising has also been difficult, noted Mansfeldt. "It's a 15% drop prognosis versus '23. We're looking at an annualised rate of €1.1trn for 2024. So the whole market, down 15%. But buyouts, actually, looking like it'll increase a little bit, by about 6%. Basically, it's observed that it's not uncommon now to miss your fundraising target by about 20%. That is more common than not, and that's a very different world from what we've had almost for as long as I've been in Luxembourg, which is 10 years and a bit."

In addition, "venture capital typically does get hit a bit harder," he said. "If private equity catches the flu, venture capital catches the plague." Sixty percent less capital was raised in 2023 versus previous years. "It shows a bit how tough it is there; I think it can only go up, so hopefully that will happen."

"Win-win situation" in Luxembourg

All that being said, Mansfeldt argued that we're in a "win-win situation" in Luxembourg with the government, the regulator, LPEA members and colleagues in other business areas. "If we can gain--and keep--predictability in our business operations, if we can keep efficiency and if we can keep a measure of flexibility, then we have a winning mix. We advocate this as an association. We want to build--with that--a competitive advantage, innovation and attract more business and people to come here."

> " IF WE CAN BE FISCALLY ATTRACTIVE, STABLE AND PREDICTABLE--IN AN OTHERWISE EXTREMELY VOLATILE WORLD, AS EVIDENCED BY GEOPOLITICS AND EVEN NEIGHBOURING POLITICS NOW--I THINK IT'S A SERIOUSLY WINNING HAND "
>
> Claus Mansfeldt, president, Luxembourg Private Equity & Venture Capital Association (LPEA)

LPEA CEO Stéphane Pesch noted during his presentation that the association has grown to 514 members--reaching its 2025 target in October 2023--and now has 33 committees and clubs. A committee dedicated to the European long-term investment fund (Eltif) was created at the end of last year, new clubs focused on infrastructure and secondaries were set up, and the LPEA travelled to places like Warsaw, Madrid, Texas, California, Singapore and Hong Kong, "representing Luxembourg in the best way possible." Events such as the Insights Conference, PE Tech Day, the Academy and job fairs are ways in which the LPEA aims to support the grand duchy's private equity industry and its people.

Pesch also announced ten newly nominated board members: Fabrice Jeusette (Apollo Global Management), Alain Rodermann (Expon Capital), Hind El Gaidi (ICG), Lionel de Hemptinne (Luxempart), Pascal Bouvier (Middlegame Ventures), Raquel Guevara (Warburg Pincus), Peter Myners (A&O Shearman), Nick Tabone (Deloitte), Jeffrey Kolbet (Elvinger Hoss Prussen) and Mickael Tabart (KPMG).

Defending freedom "front of mind"

Mansfeldt concluded his speech with a "couple of personal beliefs," touching on the effect of international geopolitics on private equity.

"You will be forgiven to think that I might believe only in two things if you follow me on social media: private equity and Nato," he said. "It's an odd one, perhaps. But I grew up next to Russia. In the 70s in Norway, the presence of the Cold War was palpable. I remember my backpack at school had a huge Nato sticker."

"That's interesting how that was important in my life then. And after three, four decades, it's sort of come back to front of mind, and how important it is actually. If we're going to enjoy this wonderful winning situation we have, we have to also not forget about how we need to actually stand up for freedom, because private equity would look very different in another system."

But besides that, "I believe actually in a third thing, which is Luxembourg, which is kind of defined almost by these two other pieces," said Mansfeldt. "There's competition, of course, there's envy. We need to defend our position. We need to be brave, we need to be professional, we need to maintain the trust. We need to be fiscally attractive; we need to be proud that we are fiscally attractive. It's nothing to be shy about. If we can be fiscally attractive, stable and predictable--in an otherwise extremely volatile world, as evidenced by geopolitics and even neighbouring politics now--I think it's a seriously winning hand."

LPEA

“Transformational power” of Sicar on the Luxembourg ecosystem

Written by Lydia Linna
Published on 13.06.2024 • Edited on 13.06.2024 at 16:49

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The Luxembourg Private Equity & Venture Capital Association (LPEA) held its annual general meeting at BNP Paribas in Kirchberg, 11 June 2024. Photo: Nader Ghavami/LPEA

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The société d’investissement en capital à risque (Sicar) is celebrating its 20th birthday on 15 June. Gilles Dusemon, Keith O’Donnell and Hans-Jürgen Schmitz took a look back at the origins of the investment vehicle and how it has transformed Luxembourg.

The annual general meeting of the Luxembourg Private Equity & Venture Capital Association (LPEA), which took place on 11 June 2024 at BNP Paribas in Kirchberg, was also an opportunity to celebrate the 20th birthday of the société d’investissement en capital à risque (Sicar). Without this investment vehicle, said Gilles Dusemon, a partner at Arendt & Medernach who moderated a fireside chat on the topic, “I am almost certain that none of us would be here in this room.”

The Sicar, or investment company in risk capital, was designed for investments in private equity and venture capital and usually qualifies as an alternative investment fund. It started with a “small, discrete working group” within the Association of the Luxembourg Fund Industry (Alfi)--the LPEA didn’t exist at the time--which had been called into action by European institutions who wanted member states to foster risk capital, support European SMEs and create jobs. “Fast forward 20 years,” said Dusemon, “we can say that these objectives were certainly achieved--and by far surpassed--as we can see from the Luxembourg perspective.”

Together with Dusemon, managing partner at Atoz Keith O’Donnell and Hans-Jürgen Schmitz, managing partner at the VC firm Mangrove Capital Partners, talked about the “transformational power that the Sicar has had on the Luxembourg financial ecosystem,” as Dusemon put it, and discussed action items they’d like to see addressed.

10x growth in the last 20 years

Twenty years ago, “if we’d summoned a meeting of people interested in private equity or venture capital, it would have fitted into a small corner of the room,” said O’Donnell, who was involved in the design phase of the Sicar law. Luxembourg at the time was more focused on Ucits, though venture capital funds were seen in other countries. Coming out of the dot-com boom and bust, “it was a little bit touchy.”

But in a sense, it was also a “wonderfully naive and simple law,” he added. “We basically cranked out a product law in probably about a year, and it’s only ten pages long, if you look at the original law.” The industry at the time was quite small as well; it’s grown roughly by 10 in the past two decades. “We didn’t expect that,” said O’Donnell. “We thought we were doing kind of a niche-y thing.”

Challenges: uncertainties and dot-com bust

Schmitz, an early adopter of the Sicar regime, mentioned that he had asked ChatGPT what a Sicar was before the panel discussion. It replied: “it’s a system that helps coordinate the efforts to safeguard Luxembourg’s rich archaeological resources and ensures compliance with legal and regulatory frameworks.” Yes, that’s right. Archaeological. “You see to what extent AI can hallucinate.”

Coming back to the question of venture capital and regulation, “it was like a sledgehammer.” Regulation and venture capital have nothing in common, he added. Back then, people were in Jersey, Guernsey, Cayman--“sunny islands”--but certainly not in Luxembourg. “In 2000, there was no Sicar, there was nothing. There was part II of the Ucits law. And we said, well, maybe we can try that and tweak it and twist it to make it somewhat usable for us--which, it did work,” said Schmitz. “The frameworks that we had, the tools in the box that we had, were sufficiently subtle to even allow venture capital to sort of operate within. But it was obviously not ideal. It was a regulated product. And so from that perspective, we had no choice but to be regulated.”

We could have been a bit more “adventurous” and set up on one of those islands, said Schmitz, but coming out of Luxembourg, having had a career in Luxembourg, “we said, ‘well, let’s stick to the ground and see what we can find here,’ which was, in hindsight, probably the best choice we could make.”

In 2004, along came the Sicar. Mangrove used the Sicar for its second fund, and “it was a challenge, because we didn’t know how investors would react. Some of them are absolutely ignorant of anything that is regulation… Second, we would propose them a product that no one has ever heard of. And third, it was just coming out of the dot-com bust, so it wasn’t a particularly vibrant economy when it came to fundraising for venture capital funds.”

But “it did work. And it did work three more times, with the Sicar. Mangrove II, III, IV were all Sicars, and there’s probably not much else to add. It did work--really well.”

Today: second nature

The Sicar requires a depositary, and 20 years ago, there were many who said no, 'we don't do that,' noted Dusemon. "When you look at the servicing environment today, it's kind of hard to believe, because it's a very, very, very different landscape today. So how did we get there?"

"It was quite a challenge at the start," replied O'Donnell, as lots of people didn't really understand how it worked. "But slowly people got used to it, and realised that, you know, in the market, these challenges were being met, and investors were accepting it." An example of one of the "funny discussions" that he had, he noted, concerned "waterfalls." A distribution waterfall is a way to distribute returns to those who have participated in a pooled investment. Though this is "industry standard" and is done abroad, some administrators were hesitant, explained O'Donnell. "Nowadays, these things are all second nature."

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"The Sicar was actually very successful in its early days," added Dusemon, "and the success of that regime led to the Sif [specialised investment fund] becoming possible in 2007."

"From the Sif, we went to AIFMD I [Alternative Investment Fund Managers Directive], and with AIFMD I, we got the SCSP [Luxembourg special limited partnership]," said Dusemon. "It is only because the Sicar and the Sif and the SCSP had all been successful--together then with the AIFM Directive--that the Raif [reserved alternative investment fund] law came." And now, two-thirds of all European long-term investment funds (Eltif) are domiciled in Luxembourg. "You see a certain pattern; you see a certain framework that is the same; you see the experience that is in the market; you see all the service providers that are in the market today. None of this existed in that manner for the private equity industry at large in 2004." In a way, these successes are thanks to the Sicar.

Actions to take in the future

It was Luc Frieden (CSV), then budget and justice minister, who filed the Sicar law twenty years ago, said Dusemon. Now that he's prime minister, he said, if you had "one wish" that you could put forward to him, what would it be?

"We've done--as a sector, as a country, as an industry--a fabulous job of creating the regulatory structures, everything to accommodate this industry," said O'Donnell. "I think the next step is to try and secure the talent that comes with all of these structures, to keep it going." And to attract that talent, the housing issue must be addressed.

Stability is key, he added, and has made Luxembourg an attractive location, particularly post-Brexit.

Finally, "as a tax guy--it's like a hammer seeing every problem as a nail--what's the tax angle?" said O'Donnell, who added, "Can we get out of the schizophrenic approach we have to taxing carry?" Other sectors benefit from half or even quarter rates. "What I'd say to the minister: if as Luxembourg, we're prepared to give a quarter rate for certain types of forestry... I'd like to think maybe we could give it to private equity carry as well, because it has some of the same characteristics. It's very long term."

Get the basics right when scaling up

For Schmitz, who noted that the current finance minister Gilles Roth (CSV) has been very open to recommendations from the industry, the people who created the Sicar were a bit like startup entrepreneurs. "Today, this startup has become a scaleup--and more. It's an industry that has shown tremendous growth in Luxembourg... It's still growing, and still has tremendous growth potential."

"In my world, this is worth a double down. Double down your money on that particular scaleup." But now, you can't revolutionise the world with single measures or single breakthroughs--you need a "bundle." It becomes more work "behind the scenes" with people and processes. Predictability, speed and incentives are key.

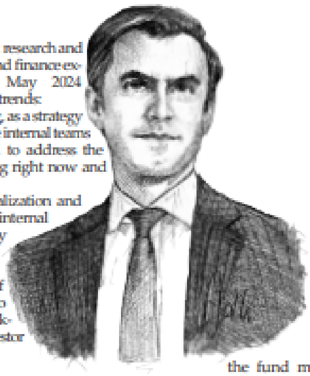
"We have to get the basics right," concluded Schmitz, "and I cannot not mention it. The benefit of us operating in a global industry means we see what is possible in other places. You can create companies with $1 in one day, in other places in this world. You can open a bank account in two days in other places in this world. We cannot afford... six weeks to create a company in Luxembourg, three months to open a bank account. Or six. One year to get a licence. And all the while, the costs are growing."

"So for the cost of doing business in Luxembourg, we have to do better. And we can. That's what I would tell the minister. It's a bundle of measures to get us faster, quicker, more efficient, including using digital tools--obviously, not the AI that just hallucinated to me, but AI in other contexts. Make use of it. And let's earn the premium that we take."

Updated to correct Luc Frieden's ministerial portfolio in 2004

How private equity CFOs are reimagining finance and the back office

Continued page 1



To shape their organization, research and the discussion with CFOs and finance executives attending the May 2024 roundtable show three key trends:
- The increase of co-sourcing, as a strategy to establish agile and flexible internal teams who are better positioned to address the changes that are happening right now and prepare for the future.
- The acceleration of digitalization and centralization to improve internal processes, free up capacity and enhance the relationship with investors.
- The critical importance of robust data management, to drive effective decision-making and meet increasing investor expectations.

The surge of co-sourcing of finance, tax and back office functions

Over the past decade, fund managers have transformed significantly, forcing a rethink of traditional strategies. A recent EY research on private equity shows that more than 95% of the surveyed firms co-source or outsource a significant part of finance, tax and back office related activities.

For back office tasks, large firms often handle some work internally with some outsourcing, while smaller firms typically outsource/co-source these functions to focus on strategic goals and ensure effective management of service providers.

Co-sourcing involves partnering with external providers to manage specific functions while retaining strategic control - enhancing efficiency, flexibility, and leveraging advanced technologies for tasks like tax compliance, transfer pricing, accounting and financial reporting. It allows PE firms to focus on core activities such as investment strategies and portfolio management, while addressing talent management challenges. Co-sourcing also allows asset managers to retain control and access to granular data (granularity which is often partially lost with pure outsourcing), and leverage specialized external expertise for better overall performance.

A strategy gaining increasing traction where in-house activities are still important is the lift-out. Fund managers transfer their entire (or a significant part of their) in-house team, including system and data access, to specialized fund administrators. Rather than facing the dilemma of laying off experienced staff, dismantling internal systems, and undergoing the arduous process of transferring information to a fund administrator, fund managers partner with specialized fund administration entities to "lift out" their team or selected members. In essence, the team and systems are transitioned from the fund manager to the administrator, while still providing service to the fund manager.

This model offers numerous benefits, including preserving valuable data, technology, and institutional knowledge, ensuring effective integration, and maintaining operational continuity. Furthermore, essential custom processes are retained and a culturally aligned relationship with the administration team is established, enhancing efficiency and trust. This approach mitigates cost inefficiencies related to technological investments or compliance management for instance; moderates operational risks; and improves job prospects for transferred staff, making it a strategic choice for fund managers.

Digitalization and centralization as the next frontier

In the current landscape of finance operations, there is a pressing demand for enhanced digitalization and centralization, particularly in light of the prevalent dependence on labor-intensive processes and disjointed systems architectures. It affects a wide range of activities from fund reporting to treasury management across the finance, tax and back office functions.

The ideal private equity CFO must be able to master technology and data analytics to navigate the volatile economy and improve firm efficiency. Despite recent investments, only a minority of large firms feel highly digitalized. CFOs are focusing on automating both fund processes and management company functions, aiming to support growth and enhance decision-making for stakeholders. Large private equity firms are at the forefront of tech transformation, using data analysis to inform investment choices and hiring experts to deepen insights. Mid-size and smaller firms are also investing in tech, though less extensively than their larger counterparts.

To address these challenges, strategic automation solutions are being implemented. Automating routine tasks, such as fund and SPV accounting related activities, frees the time of finance professionals, allowing them to focus on more strategic activities. Real-time data analytics and centralized dashboards enable better monitoring and management of financial performance, providing investors with better transparency. Advanced technologies leveraging AI can automate complex data extraction and analysis, leading to more accurate forecasting and risk assessment. Modern cloud-based accounting systems centralize functionalities, providing easy access to updated financial data for informed decision-making.

Unleashing the power of automation and centralization can be achieved only by including treasury and cash management. More mid-sized PE firms are adopting unified Treasury Management Systems (TMS) for better cash visibility, automated payments, reconciliations, and real-time cash flow forecasting, joining larger firms in this trend. The TMS acts as a single source of truth, boosts the overall efficiency and effectiveness of treasury operations, enabling CFOs to pivot their focus towards strategic initiatives and performance management.

Data as the catalyst for excellence

In today's dynamic environment, PE firms need to pivot towards a robust master data strategy that prioritizes exceptional data quality. Effective data management is crucial for streamlining back-office functions, ensuring data accuracy, and enhancing operational efficiency.

Implementing or enhancing functionalities of IT solutions brings limited benefits if it is not joined with robust data management. By establishing high standards for data structure, entry, aggregation, storage, and protection, finance teams can manage the increasing volume of data necessary for advanced analytics and forecasting. This optimizes finance and reporting processes, providing a robust foundation for strategic decision-making - ensuring finance functions support business decisions at both management company and fund levels with reliable, insightful data.

The demand for data granularity from PE investors is also rapidly growing, especially concerning performance metrics, financial health, and additional operational KPIs. Digitalizing and centralizing finance processes and data management is essential; however, these efforts fall short without sufficiently granular data to meet investor expectations.

A recent EY survey revealed that 76% of PE finance leaders view the lack of a sustainable technology and data plan as a major obstacle to achieving strategic goals. This indicates a lack of long-term vision for integrating advanced data analytics and ongoing technology enhancements - essential for meeting evolving regulatory requirements and investor expectations. Aligning data standards and developing a forward-looking analytics strategy empower CFOs to transform finance into a strategic partner for investors, fostering long-term growth through data-driven decision-making.

Addressing the ESG reporting gap can also significantly strengthen investor relations. Nearly 74% of finance leaders surveyed by EY indicated an accelerated shift from traditional financial reporting to a comprehensive model that includes both financial and ESG reporting. Despite this progress, a discrepancy remains between the perceived usefulness of ESG reports by PE firms and the actual value investors derive from them. In terms of expectations, investors often highlight a lack of focus on material issues that really matter, and insufficient real-time information as key concerns. Efficient and integrated data management is crucial to providing investors with the necessary granularity in ESG data.

Looking ahead

CFOs are now at the forefront of transformative change within the private equity sector, transcending their traditional roles to become indispensable strategic partners. By leveraging co-sourcing, they are building agile and responsive internal teams poised to tackle today's challenges and anticipate future demands. The digitalization and centralization acceleration revolutionizes internal processes and investor relations, making CFOs architects of a more efficient financial "ecosystem".

In this new paradigm, effective data management is critical for informed decision-making and meeting escalating investor expectations. CFOs are redefining portfolio strategies, driving significant investment decisions, and maintaining robust communication with stakeholders - all while leading cutting-edge finance teams. Recognizing the potent value creation potential of ESG, they prioritize it alongside asset growth, positioning ESG as a cornerstone of strategic initiatives.

By funding and supporting innovation at the firm level, CFOs drive advancements, balancing innovation with risk management to drive enterprise-wide transformation. They are key to reshaping the talent landscape, ensuring their organizations are equipped to thrive in a rapidly evolving market. The modern CFO is no longer just a finance leader but a catalyst for growth and innovation.

*Laurent CAPOLAGHI
EY Luxembourg Partner, Private Equity Leader

Alessandro PASCALE
EY Luxembourg Partner, Accounting, Compliance and Reporting

1) Q1 2024 European PE Breakdown, Pitchbook, April 2024

La LPEA augmente le nombre de ses membres de 25 %

La Luxembourg Private Equity & Venture Capital Association (LPEA) a présenté son rapport annuel 2023 lors de l'assemblée générale ordinaire (AGO) de l'association, tenue le 11 juin 2024 dans les locaux de BNP Paribas.

Les principales conclusions de l'AGO sont les suivantes :

- L'augmentation de 25% du nombre de membres, pour atteindre un total de 514, correspond à la dynamique des marchés du capital-investissement (PE) et du capital-risque (VC). Les Full Members (investisseurs et gestionnaires de fonds) et les Associate Members (prestataires de services) ont augmenté respectivement de 12%, tandis que les Affiliate Members (personnes privées) ont augmenté de 63%.
- La LPEA a atteint son objectif de 500 membres dès 2023 ; un objectif initialement fixé pour l'année 2025.
- S'appuyant sur sa certification ESR obtenue fin 2022, l'association a déployé des initiatives axées sur la croissance durable et inclusive et sur les pratiques responsables, parmi lesquelles l'adoption d'un code de conduite interne et la mise en oeuvre d'un programme de compensation des émissions de CO_2.
- L'association a également lancé un programme de mentoring, permettant aux jeunes membres de progresser dans leur carrière au sein de l'industrie des fonds alternatifs, et ceci en leur assurant un soutien et en les connectant à un réseau de professionnels très expérimentés.
- Afin de poursuivre ses efforts de promotion du secteur PE & VC luxembourgeois à l'étranger, l'association a organisé 15 séminaires en Europe, aux États-Unis et, pour la première fois, en Asie.
- Dix membres ont été élus au Conseil d'administration de la LPEA dans le cadre du renouvellement annuel de cet organe directeur. Parmi ces dix membres, six Full Members (investisseurs et gestionnaires de fonds) ont été élus : Apollo Global Management, représenté par Fabrice Jeusette ; Expon Capital, représenté par Alain Rodermann ; ICG, représenté par Hind El Gaidi ; Luxempart, représenté par Lionel de Hemptinne ; MiddleGame Ventures, représenté par Pascal Bouvier ; Warburg Pincus, représenté par Raquel Guevara Merino

Les quatre Associate Members (conseillers/prestataires) également été élus sont: A&O Shearman, représenté par Peter Myners ; Deloitte, représenté par Nick Tabone ; Elvinger Hoss Prussen, représenté par Jeffrey Kolbet ; KPMG, représenté Mickael Tabart

Après une année marquée par un ralentissement en matière de collecte de fonds, Stéphane Pesch, PDG de la LPEA, a néanmoins souligné la nécessité de poursuivre les efforts visant à promouvoir le secteur PE & VC, en déclarant : «en ces temps difficiles, nous avons pris la décision d'investir davantage, d'élargir notre réseau et de poursuivre notre évolution avec détermination et sérénité. Les principaux ingrédients de cette transformation en douceur furent le recours systématique à la créativité, à l'agilité et à une écoute approfondie du marché et des besoins de ses membres.»

Dans son discours, Claus Mansfeldt, président de SwanCap Investment Management S.A. et président de la LPEA, a présenté quelques statistiques : «La part de marché luxembourgeoise est en hausse. Le pays représente environ 50% du taux global de capitaux privés en Europe, contre 7% en 2010. Le Luxembourg a réussi à devenir un leader dans le marché», une bonne raison de rester optimiste quant à la santé du secteur au Luxembourg.

LPEA

“Transformational power” of Sicar on the Luxembourg ecosystem

Written by Lydia Linna
Published on 13.06.2024 • Edited on 13.06.2024 at 16:49

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The Luxembourg Private Equity & Venture Capital Association (LPEA) held its annual general meeting at BNP Paribas in Kirchberg, 11 June 2024. Photo: Nader Ghavami/LPEA

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The société d’investissement en capital à risque (Sicar) is celebrating its 20th birthday on 15 June. Gilles Dusemon, Keith O’Donnell and Hans-Jürgen Schmitz took a look back at the origins of the investment vehicle and how it has transformed Luxembourg.

The annual general meeting of the Luxembourg Private Equity & Venture Capital Association (LPEA), which took place on 11 June 2024 at BNP Paribas in Kirchberg, was also an opportunity to celebrate the 20th birthday of the société d’investissement en capital à risque (Sicar). Without this investment vehicle, said Gilles Dusemon, a partner at Arendt & Medernach who moderated a fireside chat on the topic, “I am almost certain that none of us would be here in this room.”

The Sicar, or investment company in risk capital, was designed for investments in private equity and venture capital and usually qualifies as an alternative investment fund. It started with a “small, discrete working group” within the Association of the Luxembourg Fund Industry (Alfi)--the LPEA didn’t exist at the time--which had been called into action by European institutions who wanted member states to foster risk capital, support European SMEs and create jobs. “Fast forward 20 years,” said Dusemon, “we can say that these objectives were certainly achieved--and by far surpassed--as we can see from the Luxembourg perspective.”

Together with Dusemon, managing partner at Atoz Keith O’Donnell and Hans-Jürgen Schmitz, managing partner at the VC firm Mangrove Capital Partners, talked about the “transformational power that the Sicar has had on the Luxembourg financial ecosystem,” as Dusemon put it, and discussed action items they’d like to see addressed.

10x growth in the last 20 years

Twenty years ago, “if we’d summoned a meeting of people interested in private equity or venture capital, it would have fitted into a small corner of the room,” said O’Donnell, who was involved in the design phase of the Sicar law. Luxembourg at the time was more focused on Ucits, though venture capital funds were seen in other countries. Coming out of the dot-com boom and bust, “it was a little bit touchy.”

But in a sense, it was also a “wonderfully naive and simple law,” he added. “We basically cranked out a product law in probably about a year, and it’s only ten pages long, if you look at the original law.” The industry at the time was quite small as well; it’s grown roughly by 10 in the past two decades. “We didn’t expect that,” said O’Donnell. “We thought we were doing kind of a niche-y thing.”

Challenges: uncertainties and dot-com bust

Schmitz, an early adopter of the Sicar regime, mentioned that he had asked ChatGPT what a Sicar was before the panel discussion. It replied: “it’s a system that helps coordinate the efforts to safeguard Luxembourg’s rich archaeological resources and ensures compliance with legal and regulatory frameworks.” Yes, that’s right. Archaeological. “You see to what extent AI can hallucinate.”

Coming back to the question of venture capital and regulation, “it was like a sledgehammer.” Regulation and venture capital have nothing in common, he added. Back then, people were in Jersey, Guernsey, Cayman--“sunny islands”--but certainly not in Luxembourg. “In 2000, there was no Sicar, there was nothing. There was part II of the Ucits law. And we said, well, maybe we can try that and tweak it and twist it to make it somewhat usable for us--which, it did work,” said Schmitz. “The frameworks that we had, the tools in the box that we had, were sufficiently subtle to even allow venture capital to sort of operate within. But it was obviously not ideal. It was a regulated product. And so from that perspective, we had no choice but to be regulated.”

We could have been a bit more “adventurous” and set up on one of those islands, said Schmitz, but coming out of Luxembourg, having had a career in Luxembourg, “we said, ‘well, let’s stick to the ground and see what we can find here,’ which was, in hindsight, probably the best choice we could make.”

In 2004, along came the Sicar. Mangrove used the Sicar for its second fund, and “it was a challenge, because we didn’t know how investors would react. Some of them are absolutely ignorant of anything that is regulation... Second, we would propose them a product that no one has ever heard of. And third, it was just coming out of the dot-com bust, so it wasn’t a particularly vibrant economy when it came to fundraising for venture capital funds.”

But “it did work. And it did work three more times, with the Sicar. Mangrove II, III, IV were all Sicars, and there’s probably not much else to add. It did work--really well.”

Today: second nature

The Sicar requires a depositary, and 20 years ago, there were many who said no, 'we don't do that,' noted Dusemon. "When you look at the servicing environment today, it's kind of hard to believe, because it's a very, very, very different landscape today. So how did we get there?"

"It was quite a challenge at the start," replied O'Donnell, as lots of people didn't really understand how it worked. "But slowly people got used to it, and realised that, you know, in the market, these challenges were being met, and investors were accepting it." An example of one of the "funny discussions" that he had, he noted, concerned "waterfalls." A distribution waterfall is a way to distribute returns to those who have participated in a pooled investment. Though this is "industry standard" and is done abroad, some administrators were hesitant, explained O'Donnell. "Nowadays, these things are all second nature."

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Updated to correct Luc Frieden's ministerial portfolio in 2004

NEXUS2050

Don't regulate AI in finance, says Luxembourg's top financial regulator

Written by Aaron Grunwald
Published on 26.06.2024 • Edited on 26.06.2024 at 15:45

Claude Marx, director general at the Luxembourg Financial Sector Supervisory Commission (CSSF), is seen speaking at the Nexus2050 technology conference in Kirchberg, 26 June 2024. Photo: Marie Russillo

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Claude Marx, the head of Luxembourg's CSSF regulatory agency, has called on European leaders to refrain from issuing specific AI rules for the financial industry.

The head of Luxembourg's financial regulator has said that the use of artificial intelligence technology in the financial services sector should not be regulated. If AI in finance eventually needed to be regulated, then policies should not be set by the EU, he said.

The comments came at the Nexus2050 technology conference, held at Luxexpo, on 26 June 2024.

When asked if specific AI regulation is required for the financial sector, "my response is no," stated Claude Marx, director general at the Luxembourg Financial Sector Supervisory Commission (CSSF). This view is "not universally shared" among European financial regulators, he added. However, Marx argued that it "would be foolish" to issue financial AI rules when "no regulator knows today" exactly what AI tools are being used by firms and how, and "how risks are being assessed or not" at those companies.

Marx said that should a full census of AI activities be carried out and "if we came to the conclusion that something needs to be regulated... that should not happen at EU level" but rather international rules would be needed. "We need to be careful not to build 'fortress Europe'," he said. Something similar to the Basel banking agreement would need to be struck, to avoid disconnecting Europe with the fast pace of change in places like the US, China and India.

Marx added that at many financial firms, governance at board level is "not fit for purpose" anymore and many company leaders "don't have the right mindset" to keep pace with technological change.

Speaking on the same panel, Stéphane Pesch, CEO at the Luxembourg Private Equity and Venture Capital Association (LPEA), agreed that additional regulation was unnecessary, saying it was good to "not regulate something that is not there yet." But he stressed that firms should be sure that AI tools are fully tested before they are deployed. There should be no biases, the models should "really work" and privacy needs to be maintained, he said.

While AI need not be regulated separately, the technology "will be a part of how and what we do," so regulation and company practices will still need to keep up, said Marc Hengen, managing director of the Luxembourg Insurance and Reinsurance Association (Aca).

From left: Nasir Zubairi of the Luxembourg House of Financial Technology (Lhoft), Claude Marx at the Luxembourg Financial Sector Supervisory Commission (CSSF), Jerry Grbic at the Luxembourg Bankers' Association (ABBL), Marc Hengen of the Luxembourg Insurance and Reinsurance Association (Aca), Serge Weyland of the Association of the Luxembourg Fund Industry (Alfi) and Stéphane Pesch at the Luxembourg Private Equity and Venture Capital Association (LPEA) are seen speaking on "The financial landscape of 2035 and how technology can get us there" panel at Nexus2050, 26 June 2024. Photo: Marie Russillo

What AI can do

AI can be most helpful in spreading "all the knowledge in the bank," which is often siloed by departments or with specific expert staff, "to the whole bank," said Jerry Grbic, CEO at the Luxembourg Bankers' Association (ABBL).

Later Grbic said that even though 90% of banks in Luxembourg are subsidiaries with a corporate HQ located elsewhere, two-thirds of ABBL members said the Luxembourg operation was leading or co-leading their group's global AI efforts.

Active management

AI has been predicted to the "the death of active management" in the funds sector. But, "my belief" is that AI "will actually be an enabler for active management," helping to deliver better performance and efficiency, said Serge Weyland, CEO at the Association of the Luxembourg Fund Industry (Alfi).

AI has a role in pre-deal processes, such as carrying out due diligence, and post-deal monitoring, said Pesch. But "we will remain an active management industry" and real people "will take investment decisions."

LAURIANNE DELAUNAY (LPEA)

«Valoriser un actif non coté peut prendre plusieurs jours»

Écrit par Guillaume Meyer
Publié le 02.07.2024 • Édité le 02.07.2024 à 06:37

Laurianne Delaunay est directrice de la gestion d'actifs de la société d'investissement Marguerite. Elle codirige le comité Market Practice & Operations au sein de la Luxembourg Private Equity & Venture Capital Association (LPEA). (Photo: Marie Russillo)

Les autorités constatent des lacunes dans la valorisation des fonds investissant en private equity. Directrice chez Marguerite et experte pour la LPEA, Laurianne Delaunay détaille une pratique qu'elle juge bien établie.

Comment les fonds calculent-ils la valeur nette d'inventaire (NAV) de leurs actifs non cotés?

«Derrière chaque valorisation, il y a une multitude de calculs basés sur diverses hypothèses concernant la performance de la société et les conditions de marché. Nous utilisons des techniques comme le flux de trésorerie actualisé, les multiples de l'Ebitda ou des revenus, et nous considérons les étapes-clés des projets en développement. Chaque société fixe des objectifs à court terme et nous évaluons leur capacité à atteindre ces jalons. Nous nous basons toujours sur des standards internationaux reconnus.

Comment jugez-vous la complexité de ce processus?

«En comparaison des actifs cotés, donner une valeur aux actifs privés est beaucoup plus complexe, en raison de l'absence de prix de marché clairs et de la nécessité de se baser sur des hypothèses et des projections. Cela nécessite un grand nombre de données, ce qui rend le processus très technique.

Quel type d'actif est particulièrement difficile à évaluer?

«Certains projets d'infrastructure complexes. Par exemple une centrale biomasse, qui transforme des déchets naturels en chaleur. Cela nécessite une analyse plus détaillée des nombreuses sous-catégories impliquées, de la gestion des stocks, de l'impact potentiel de la sécheresse sur les ressources, de considérations ESG plus globales, etc.

Combien de temps peut prendre la valorisation d'un actif non coté?

«La mise en place d'une valorisation en tant que telle peut être traitée en une ou deux journées, notamment quand il s'agit de modèles simples avec peu d'hypothèses à intégrer. Dans d'autres cas, cela peut prendre plusieurs jours, avec l'actualisation ou la récupération de toutes les données nécessaires. Il s'agit souvent d'aller chercher des informations précises et de discuter avec le management.

Comment bétonner la valorisation afin de minimiser la subjectivité?

«L'un des problèmes, c'est que le moindre changement dans une hypothèse peut considérablement influencer la valorisation finale. C'est pourquoi il est essentiel d'effectuer ce qu'on appelle une analyse de sensibilité, pour tester la réaction de la valorisation à des variations des hypothèses-clés. Cela permet de voir si ces hypothèses sont robustes et d'assurer que la valorisation reste aussi objective que possible.

Quelles peuvent être les conséquences d'une mauvaise évaluation par le fonds?

«Cela dépend du type de fonds. Pour les fonds ouverts, comme les Ucits, où il y a des entrées et des sorties d'investisseurs, une mauvaise valorisation peut créer des erreurs de NAV, qui requièrent un processus formel de compensation. À l'inverse, pour les fonds fermés, typiques du private equity et de l'infrastructure, l'erreur de NAV n'a pas le même impact dans le sens où il n'y a pas de sortie de cash. Mais une mauvaise évaluation peut avoir un impact significatif. Pensez à un fonds de pension calculant ce qui peut être distribué pour les retraites.»

Experte en valorisation

Laurianne Delaunay est directrice de la gestion d'actifs de la société d'investissement Marguerite. Elle codirige le comité Market Practice & Operations au sein de la Luxembourg Private Equity & Venture Capital Association (LPEA).

Cet article a été rédigé pour l'édition magazine de Paperjam du mois de juillet 2024*, paru le 19 juin. Le contenu du magazine est produit en exclusivité pour le magazine. Il est publié sur le site pour contribuer aux archives complètes de Paperjam.*

People Moves

LPEA elects five new executive committee members

Yannick Arbaut, Nick Tabone, Jérôme Wittamer, Hind El Gaidi and Claude de Raismes take up positions on committee

At top, from left to right; Jérôme Wittamer, Hind El Gaidi and Claude de Raismes. At bottom, from left to right; Yannick Arbaut, Nick Tabone and Laurent Capolaghi, who was already on the committee but has been

03/07/2024

The Luxembourg Private Equity & Venture Capital Association (LPEA) has appointed five new members to its executive committee.

Yannick Arbaut (A&O Shearman), Nick Tabone (Deloitte), Jérôme Wittamer (Expon Capital), Hind El Gaidi (Intermediate Capital Group) and Claude de Raismes (Wendel Luxembourg) were elected to the committee, which comprises 12 members.

In addition to their roles on the committee, Tabone was appointed as treasurer, while Arbaut has been elected to the position of secretary. EY's Laurent Capolaghi was named new vice-president.

To post appointments at your company or organisation here, email a short statement to info@luxtimes.lu. Make sure to include a high-resolution photo. The content of this column is the sole responsibility of the editorial team.

LUXEMBOURG PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

LPEA elects 5 new executive committee members, names new VP

Written by Lydia Linna
Published on 03.07.2024

Top, l to r: Yannick Arbaut (A&O Shearman), Nick Tabone (Deloitte), Jérôme Wittamer (Expon Capital). Bottom, l to r: Hind El Gaidi (Intermediate Capital Group), Claude de Raismes (Wendel Luxembourg), Laurent Capolaghi (EY Luxembourg). Archive photos: Marion Dessard; Romain Gamba; Matic Zorman; Nader Ghavami; EY. Montage: Maison Moderne.

The Luxembourg Private Equity & Venture Capital Association (LPEA) on 2 July elected five new executive committee members and voted on the positions of secretary, treasurer and vice president.

The LPEA, the Luxembourg Private Equity & Venture Capital Association, on 2 July 2024 held its board meeting. Five executive committee members were elected as part of the "annual renewal" of the association's governing body, said a press release from the LPEA issued on 3 July.

They are: Yannick Arbaut (A&O Shearman), Nick Tabone (Deloitte), Jérôme Wittamer (Expon Capital), Hind El Gaidi (Intermediate Capital Group) and Claude de Raismes (Wendel Luxembourg). Laurent Capolaghi (EY Luxembourg), who is already an executive committee member, was appointed as vice president, while Arbaut was also named secretary and Tabone named treasurer.

The executive committee is composed of 12 members and includes a president, two vice presidents, a secretary, a treasurer, the CEO of the LPEA and other members elected from the board.

Besides the six members named above, the LPEA's executive committee also includes: president Claus Mansfeldt (Swancap Investment Management), vice president Hans-Jürgen Schmitz, Giuliano Bidoli (BC Partners), Gautier Laurent (Cinven), Gilles Dusemon (Arendt & Medernach) and Stéphane Pesch (LPEA).

The LPEA represents PE and VC professionals in the grand duchy and aims to promote the industry and financial "ecosystem" beyond Luxembourg. It has 554 members as of 1 July 2024.

LUXEMBOURG PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION

In photos: the LPEA celebrates summer

Written by Delano.lu
Published on 08.07.2024 • Edited on 08.07.2024 at 12:49

Marco Cipolla (TMF Group), Neil Scoble & Acia Baghdadi (Cascade), Evi Gkini (LPEA), Sotiria Kampyl & Evaldas Skikas (Langham Hall) at the Luxembourg Private Equity & Venture Capital Association's summer party at Hotel Parc Belle-Vue, 4 July

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The Luxembourg Private Equity & Venture Capital Association (LPEA) held its summer party on 4 July 2024 at Hotel Parc Belle-Vue.

Members of the grand duchy's private equity and venture capital sector and the wider financial industry celebrated the arrival of summer at the LPEA's annual summer party at Hotel Parc Belle-Vue on 4 July 2024. The sun was out and drinks, food and networking were on the agenda.

Created in 2010, the Luxembourg Private Equity & Venture Capital Association (LPEA) counts 554 members as of 1 July 2024. It organises conferences, workshops and other events to promote the private equity and venture capital industry in the grand duchy and abroad.

Understanding the Fund Financing Technical Committee within the LPEA: Its Origins and Key Objectives

The Luxembourg Private Equity and Venture Capital Association (LPEA) has recently launched a technical committee dedicated to fund financing. In an exclusive interview, Yves Wampach, IRM – Lending-Fund Finance at Spuerkeess and newly elected co-chair of the new 'Fund Financing' Technical Committee" within the LPEA, shares the origins of this initiative and its ambitious goals.

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What is the purpose of the Luxembourg Private Equity and Venture Capital Association (LPEA)?

Founded in 2010 by a leading group of private equity and venture capital players in Luxembourg, the LPEA, whose main role is to actively promote private equity and venture capital in Luxembourg, is the most reliable and relevant representative body of private equity and venture capital practitioners in Luxembourg.

The association currently has over 530 members and aims to represent, promote and protect the interests of the private equity and venture capital industry.

Why and how did the idea of setting up a technical committee come about?

The idea for the committee emerged during a spirited discussion with Claus Mansfeldt, LPEA's president, about the evolution of the Private Equity market and the role of banks within this ecosystem. It became clear that a technical committee representing the banking perspective within the LPEA would be highly valuable. Following this insight, a dynamic and constructive dialogue with Stéphane Pesch, LPEA's CEO, led to the establishment of the committee. Currently, the committee comprises eight banks operating in Luxembourg's financial sector, specialising in investment fund financing.

Who are the committee members?

The committee aims to remain aware of market needs and continuously gather feedback to stay informed, which is why two general partners are also integral members of the committee.

Also, the committee remains open to new members eager to enrich the discussions.

The current committee members are:

- Spuerkeess: Yves Wampach (co-chair) and Paolo Vinciarelli
- RBS International: Daniela Klasen-Martin (co-chair)
- BIL: Lionel Bodson and Edouard Bély
- Banque de Luxembourg: Pierre Even and Sonia Simoes
- Intesa San Paolo: Cyril Lepeu and Eugenio Afelici
- ING: Crystal Junyuan Zhen, Netta Sundar and Owen Murphy
- HSBC: Andrea Nini and Rachid El Majjouti
- Barclays: Snorre Tysland
- Kartesia: Basile Gerber
- Ilavska Vuillermoz Capital: Quentin Dupraz

What are the committee's missions?

The "Fund Financing" committee aims to enhance the attractiveness of Luxembourg's financial hub. In its initial phase, it focuses on four strategic pillars:

Awareness

Despite its importance, fund financing remains relatively unknown in Luxembourg. The committee is dedicated to raising awareness about the existence and importance of fund financing both within the local financial ecosystem and beyond. We really need to explain the workings and benefits of the different facility types. While established funds are familiar with various credit solutions, new players require specialised guidance.

Although large General Partners often possess knowledge about the functioning of various facilities, they frequently remain unaware that Luxembourg-based banks offer such specialised products. Therefore, it is of utmost importance to spread this message widely.

Education

The committee is also committed to playing a significant educational role by developing a comprehensive educational program in partnership with both national and international stakeholders. This initiative aims to enhance knowledge and understanding across various sectors.

In addition to this, the committee plans to organise a series of Masterclasses that will delve into different lending facilities. These Masterclasses are designed to provide detailed explanations on how these credit facilities operate and highlight their benefits. By doing so, the committee hopes to empower participants with the knowledge needed to make informed decisions regarding credit options.

Technical Advancements

The dynamic fund industry, coupled with ever-evolving regulatory demands, necessitates continuous adaptation in financing requirements. As part of our responsibility, we diligently discern our customers' underlying needs and customise financing facilities to align precisely with their current requirements.

Given the intricate nature of this sector, fostering cooperation and facilitating knowledge exchange becomes imperative. Consequently, the committee endeavours to enhance financing mechanisms across diverse fund structures, recognising that technical adjustments are central in addressing the evolving needs of the market.

Luxembourg Market Insights

In Luxembourg's fund financing sector, several fundamental questions persist: How many funds currently benefit from a credit facility? Which types of funding are most dominant, and what emerging trends are shaping the industry? These questions remain unanswered but are essential for a comprehensive understanding of the market.

The committee's firm objective is to illuminate this landscape. By systematically collecting and analysing data, we aim to provide a detailed and accurate picture of the market's current state. Regular surveys will be conducted to track the market's evolution over time and to measure the positive impact of our initiatives. This approach will not only help in understanding the present dynamics but also in anticipating future trends and challenges, thereby enabling stakeholders to make informed choices.

In conclusion, the creation of the "Fund Financing" Technical Committee within the LPEA is a big step forward for Luxembourg's financial sector. By raising awareness, providing education, driving technical innovation, and gathering market insights, the committee will clearly show the value of fund financing, better meet the needs of funds and strengthen Luxembourg's position as a financial centre. This proactive approach ensures that Luxembourg stays ahead in the global financial scene, creating a strong and dynamic environment for private equity and venture capital.

Private equity: ce que le ralentissement coûte à la Place

Écrit par Guillaume Meyer
Publié le 09.09.2024

Le ralentissement du private equity est lié à la remontée des taux d'intérêt depuis 2022, hausse qui a notamment conduit à des coûts de financement plus élevés. (Photo: Shutterstock)

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Locomotive du secteur des fonds alternatifs au Luxembourg, le private equity traverse une période de ralentissement. La collecte de fonds est devenue difficile pour certains acteurs. Paperjam prend la température du secteur cette semaine, en cinq volets. On commence par l'état des lieux.

«Bien que des signes positifs soient visibles, le marché n'est pas encore en pleine floraison», constatait fin juillet Preqin, l'un des principaux fournisseurs de données et d'informations sur les marchés privés. Ceux-ci «augmentent au deuxième trimestre, mais les taux d'intérêt continuent de freiner les investisseurs et les négociateurs», poursuit la société basée à Londres.

Les premiers signes d'un ralentissement se sont fait sentir en 2022, une année encore faste pour les actifs non cotés. En cause: la remontée des taux d'intérêt, qui a notamment conduit à des coûts de financement plus élevés. Certains investisseurs, tels que les grands fonds de pension, ont également été affectés par l'effet dénominateur, qui se produit lorsque la chute des marchés boursiers entraîne une surexposition aux actifs alternatifs. En fonction de leurs règles internes, ces investisseurs ont dû réajuster leur portefeuille.

La collecte de fonds s'est donc compliquée. Alors que de plus en plus de fonds recherchent du capital, ils font face à des investisseurs très sélectifs. Difficile pour les fonds de taille moyenne et petite, qui peinent à lever de nouveaux capitaux. Les grands fonds, eux, tirent leur épingle du jeu, mais au prix de davantage d'effort, de temps et d'argent qu'auparavant. «Le capital est levé avec des fonds moins nombreux, mais plus importants», observait Preqin au premier trimestre 2024, en parlant d'une «tendance à la concentration dans l'industrie».

Cessions gelées

Entre le premier et le deuxième trimestre, la levée mondiale de fonds en private equity (PE) a baissé de 6%, passant de 178 à 151,5 milliards de dollars, selon Preqin. Avec 105,4 milliards levés, les fonds axés sur l'Amérique du Nord se taillent la part du lion de la collecte entre avril et juin.

Autre indicateur clé du PE, le volume des transactions a aussi baissé depuis 2022. Les nouvelles opérations, plus pointues, prennent plus de temps. Elles intègrent davantage de scénarios de risques et de tests de résistance. Et les conditions d'achat et les valorisations suscitent davantage de discussions.

En parallèle, l'activité des cessions («exit deals») est gelée. L'incertitude économique a dissuadé le marché de procéder à des introductions en bourse ou à des ventes d'actifs. Habituellement, l'investissement réalisé par un fonds lors d'une collecte est revendu après cinq ans, ce qui permet de redistribuer les gains et de réinvestir dans de nouveaux fonds. Aujourd'hui cependant, de nombreux fonds n'ont pas encore monétisé leurs anciennes participations, créant ainsi un déséquilibre sur le marché.

> « IL Y A BEAUCOUP DE CHOSES QUI NE PEUVENT PAS ÊTRE DIVULGUÉES PUBLIQUEMENT. »
>
> Stéphane Pesch, CEO, LPEA

Preqin observe un réchauffement entre le premier et le deuxième trimestre 2024, tant pour la valeur totale des transactions (+46%) que des cessions (+47%). Cependant, cette progression provient d'un plus petit nombre de transactions plus importantes, avec une diminution de 9% du nombre de nouvelles transactions et une augmentation de seulement 2% des cessions – ce qui indique, selon Preqin, qu'«une reprise généralisée du marché des transactions reste insaisissable tant que les taux d'intérêt et l'inflation restent obstinément élevés».

Voilà pour le panorama global. Pour le Luxembourg en particulier, les données ne sont pas légion. «Ce n'est pas que le PE soit confidentiel ou 'black box', pas du tout, mais il y a beaucoup de données propriétaires et encore beaucoup de choses qui ne peuvent pas être divulguées publiquement, vu qu'on travaille justement hors du segment coté», justifie le CEO de la Luxembourg Private Equity & Venture Capital Association (LPEA), Stéphane Pesch.

La Commission de surveillance du secteur financier (CSSF) publie chaque année son «AIFM Reporting Dashboard». Son édition 2023, parue récemment, n'invite pas au catastrophisme: malgré le climat économique, les fonds d'investissement alternatifs ont progressé de 14% l'an dernier en termes de valeur, atteignant 2.057 milliards d'euros. Les fonds de PE, en particulier, ont gagné 21% à 623 milliards d'euros, un nouveau sommet en termes de valeur.

« LE PAYS RESTE ATTRACTIF POUR DE NOUVEAUX GESTIONNAIRES DE PRIVATE EQUITY. »

Valérie Tixier, private equity client & market leader, PwC Luxembourg

«Les indicateurs clés du Luxembourg restent positifs, malgré des retards dans le retour à ce qui était considéré comme un rythme standard de levée de fonds», relève la responsable clients et marché en private equity chez PwC Luxembourg, Valérie Tixier. La collecte de fonds de PE domiciliés au Luxembourg s'est montée à 60,9 milliards d'euros en 2023 et à 49 milliards au premier semestre 2024 (en excluant les fonds de fonds et les fonds secondaires), estime ainsi le PwC Global AWM & ESG Research Centre, sur la base des données de Preqin.

Comme exemple d'indicateur positif, PwC renvoie aux réserves de liquidités («dry powder») des fonds de PE domiciliés au Luxembourg, qui ont atteint 41,3 milliards d'euros en 2023 et sont estimées à 40,2 milliards d'euros pour le seul premier semestre 2024.

«Sur le marché luxembourgeois en général, nous pouvons observer que le pays reste attractif pour de nouveaux gestionnaires de PE qui n'avaient pas nécessairement de fonds domiciliés en Europe auparavant», commente Valérie Tixier. «Ainsi, nous observons encore une croissance globale soutenue de l'industrie sur le marché malgré le niveau d'activité relativement lent des transactions. Cette croissance est également soutenue par l'augmentation du niveau d'activité dans les fonds secondaires et les stratégies d'investissement émergentes telles que le financement par la valeur nette des actifs ('NAV financing'), par exemple.»

(Quelles sont les perspectives de la Place en private equity? Retrouvez ce mardi l'interview du CEO de la LPEA, Stéphane Pesch.)

“We need to attract managers and fundraisers”: LPEA CEO

Written by Guillaume Meyer
Published on 10.09.2024

As the spokesman for Luxembourg private equity, Stéphane Pesch is convinced: “Increasing the number of functions linked to fund management and fundraising is within our reach.” Photo: Guy Wolff/Maison Moderne

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The slowdown in the unlisted sector is primarily affecting the creation of new funds and the related indirect revenues, says the CEO of the LPEA. In this second instalment of our series taking the temperature of the private equity sector, Stéphane Pesch lists the challenges facing the Luxembourg ecosystem.

During the golden age of private equity (PE), between 2016 and 2022, the financial centre became accustomed to double-digit growth rates. With the slowdown, “we are returning to more realistic growth,” says Stéphane Pesch, CEO of the Luxembourg Private Equity & Venture Capital Association (LPEA).

While the ecosystem hopes to gradually regain the momentum of the past, Pesch also sees benefits in the current situation: “This allows us to focus on other essential aspects of our business (operations, digitalisation, investor relations and team building), instead of constantly having to run to relaunch the next fund.”

Guillaume Meyer: Despite the economic climate, alternative investment funds (in general) and PE funds (in particular) grew in 2023 in terms of value. Is everything really going very well?

Stéphane Pesch: We obviously have to remain realistic, but yes, despite the headwinds, the Luxembourg market is showing strong vitality. Alternative funds have passed the €2trn mark, which is a significant achievement. We are convinced that, in a few years’ time, alternative investments will account for more than half the value of assets in Luxembourg funds.

With private markets driving this growth?

It’s a fact that PE continues to be the dominant strategy among alternative funds in Luxembourg. If we take a broad definition of PE, including infrastructure funds, funds of funds, venture capital, secondary funds, private debt and distressed assets, we are approaching two-thirds of alternative funds. The more effectively we work together within the ecosystem, the faster we will be able to achieve this balance. Of course, the aim is not to win a medal: ideally, all categories should grow at the same rate.

What is the practical impact of the slowdown in PE in Luxembourg?

The consequences are relatively limited. They are nothing like the much more massive effects seen in the world of liquid funds after the 2008 crisis, where we saw severe corrections, devalued or even unmarketable assets and fund closures. At present, although we are experiencing a slowdown, this is mainly affecting the pace of fundraising and new fund creation, the volume of transactions and the indirect revenues generated by these activities. But all existing funds continue to generate income.

This slowdown is hitting fund managers at a time when they also have to invest in talent and technology...

That’s right. We have to keep moving forward, otherwise we risk falling behind. If we’re not ready when the market picks up again, we won’t be in a strong position to take full advantage of the new opportunities.

How is the LPEA dealing with this slowdown?

In times like these, certain expenses such as marketing and business travel are often cut back, which is a bit of a shame. At the LPEA, on the other hand, we have chosen to step up our efforts, in particular by increasing the number of roadshows to promote Luxembourg more actively. We said to ourselves: this is a less buoyant period, so we need to push harder and be even more visible.

> “ CONSOLIDATION IS MAINLY A TREND AMONG SERVICE PROVIDERS. ”
>
> Stéphane Pesch, CEO, LPEA

What do we know about the number of active funds in Luxembourg?

The number continues to grow, albeit more slowly than before. We don’t have an exact overall figure at any given time, but the monthly reports from financial information providers regularly indicate that new funds are being launched. There is also a correlation between assets under management and the number of structures.

Can we talk about consolidation in PE in Luxembourg?

Consolidation has been a trend among service providers for several years now. Often, this consolidation is positive, with large service providers acquiring smaller ones to broaden their offering and improve their quality of service, or even to conquer new markets. Notable examples include IQ-EQ, Alter Domus and Apex, which have grown stronger through these acquisitions.

Among managers, consolidation is less common, but we have seen cases where a manager with no historical expertise in PE acquires another in order to strengthen rapidly in this area. What we don’t see much of in Luxembourg, but are trying to highlight, are ‘GP stakes,’ where one manager invests in another with a view to long-term cooperation and development.

What is the outlook for PE in Luxembourg?

It's positive: growth is continuing despite the slowdown, and enthusiasm remains very strong. We can only be optimistic.

How can we maintain this momentum?

The key is to work on our competitiveness. We are encouraged by the energy and desire for change of the new government, which wants to make positive improvements. Crucially, there is also excellent cooperation between the financial associations and the supervisory authority to align our objectives and remain competitive.

> " IT'S NOT JUST THE NUMBER OF PEOPLE THAT COUNTS, IT'S WHAT THEY DO IN LUXEMBOURG "
>
> Stéphane Pesch, CEO, LPEA

What about attracting and retaining talent?

This is a recurring and crucial issue. If we want to continue to evolve in Luxembourg, we need not only to maintain our reputation as a back and middle office, but also to attract managers and fundraisers--specialists who collect funds from investors. We need to discuss opening up these roles in Luxembourg. Even if it won't be suitable for all large groups, especially those that carry out most of their transactions in other countries around the world, increasing the number of functions linked to management and fundraising is within our reach and will enrich our financial ecosystem.

How can Luxembourg evolve into a complete PE centre of competence, covering all aspects of the industry from A to Z?

We need to raise the level of our education and training offering to include not just management, but also skills in valuation, risk management, negotiation and other key areas of PE. That's why we've set up our own digital academy and are working with institutions such as the House of Training and HEC Liège to develop tailored programmes.

Let me stress: it's not just the number of people that counts, it's what they do in Luxembourg. For example, we have created a private event called Investment Circle, dedicated to fund managers, so that they can present their latest products to Luxembourg investors. To attract new managers, it's essential that they see Luxembourg not just as a place to create funds, but also as a hub where they can develop a relationship with new investors.

In the context of PE in Luxembourg, what role does technology play today?

Automation is essential to optimise our ecosystem. Other questions remain open, such as tokenisation, an interesting concept but one that has taken some time to implement in practice. AI is a subject that we are following closely. We are going to create a dedicated club within the LPEA to explore its practical applications, particularly in pre-deal processes such as due diligence and deal analysis. Some players are already using IT assistance tools to manage risk and stress scenarios.

> " INVESTMENT DECISIONS DO NOT DEPEND SOLELY ON LOCAL ENTITIES. "
>
> Stéphane Pesch, CEO, LPEA

With regard to decision-making in PE in Luxembourg, how do you respond to the criticism that the large global entities present here have no real local decision-making structures?

Personally, I don't agree with this kind of backward-looking criticism. It's important first of all to define what 'real local decision-making structure' means. If we are talking here only about pure portfolio management, selection of target companies, negotiation and acquisition, it is quite true that these tasks, in the vast majority of cases, are carried out by group teams that are not necessarily in Luxembourg (headquarters or country of investment, for example). That said, the list of entities that deliver these services locally continues to grow year on year.

So how are these criticisms 'old-fashioned'?

They are from the point of view of an increase in tasks that are increasingly close to or even at the heart of fund structures, management companies or investments. Recent years have seen a marked increase in the number of new profiles specialising in Luxembourg in a variety of areas such as valuation, risk management, compliance and even investor relations management and fundraising, not to mention a keen interest these days in the transactional side (M&A) and financing.

Rome and Luxembourg weren't built in a day, but we're working tirelessly with the community and other partners to make the country even more attractive to these kinds of profiles in the near future.

Why does there seem to be so little investment by PE funds in Luxembourg companies?

This question comes up a lot. First, investment decisions unfortunately don't depend on us and local entities alone. Secondly, the question of the presence of a sufficient number of suitable targets, such as startups and SMEs, is and remains central. Investors are not going to change their overall strategy simply to suit the local market, unless there is a specific mandate like that of the Digital Tech Fund. In this case, the Luxembourg government, along with other shareholders, has explicitly mandated one of our managers to invest in local startups and facilitate their growth and expansion.

We should add that we have also seen some major transactions in Luxembourg companies--I mentioned IQ-EQ and Alter Domus--not forgetting other managers who have not hesitated to invest in local small-scale production companies. That's why it's so important to connect the worlds of SMEs and PE so as to increase the potential for interaction and opportunities.

How can we capture wealthy customers more effectively? This is one of the major objectives of Luxembourg private equity. Find out more in Wednesday's article.

Wealthy clients coming into focus for private equity sector

Written by Guillaume Meyer
Published on 11.09.2024

Valérie Tixier (l) is private equity client & market leader at PWC Luxembourg; Stéphane Pesch (r) is CEO of the Luxembourg Private Equity & Venture Capital Association. They spoke to Paperjam about private wealth and private equity. Photos: Olivier Toussaint/PWC; Mike Zenari/Archives. Montage: Maison Moderne.

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Private clients are a relatively new target for private equity funds, which are used to working with institutional investors. It's a target that extends to the wealthier clients of the retail segment, which is the focus of the third part of our series on the 'temperature' of Luxembourg's private equity sector.

How can private wealth be better harnessed for private equity? This is not a new question, but to hear the people involved tell it, there is a great deal of interest in it at the moment. The giants Blackstone and Blackrock, in particular, have embarked on a journey of tapping into private wealth.

By 'private wealth' we mean 'high net worth clients,' who generally have inherited wealth or are wealthy from the sale of their business. The financial services industry is putting a lot of effort and innovation into reaching this segment of investors. Many funds are being set up with this in mind. The main challenge is to explain the logic and specific mechanics of PE--a long-term, illiquid investment--to this type of investor. The selling point: performance. In very good years, in traditional PE, the internal rate of return (IRR) was between 15 and 20%.

> " PRIVATE MARKETS CAN GENERATE EXCEPTIONAL GAINS FOR HIGH NET WORTH INDIVIDUALS. "
>
> Valérie Tixier, private equity client & market leader, PWC Luxembourg

Valérie Tixier, private equity client & market leader at PWC Luxembourg, sees a growing demand: "Over the last decade, private clients and high net worth individuals have increasingly favoured alternative and private markets over traditional markets, due to a combination of market dynamics, investment objectives and the unique features offered by alternative investments."

Private markets, she continues, are generally seen as capable of enhancing returns and delivering higher gains. "This was particularly crucial during the widespread inflation-driven market recession of 2022 and the official end of the era of near-zero interest rates. Whether through PE or other asset classes, private markets can generate exceptional gains for high net worth individuals, while helping to diversify their portfolios by offering exposure to asset classes that are not highly correlated with traditional markets."

In a global context of relative decline in listed assets in favour of non-listed assets, PE is becoming a must for investors looking for a portfolio that is a little out of the ordinary. And as Tixier points out, Luxembourg has established a leading position in Europe in the alternative field: "The structures of specialised vehicles, such as the specialised investment fund (Sif), the restricted alternative investment fund (Raif) and the special limited partnership (SCSP), offer a great deal of flexibility in terms of investment strategies, risk management and investor protection."

A club dedicated to wealth management

Proof of the interest in this subject, the Luxembourg Private Equity & Venture Capital Association (LPEA) has created a club dedicated to wealth management to bring together the players. Private clients are a relatively new target for PE funds, which are used to working with institutional and professional investors. "When we talk about high net worth clients, we first think of private bankers, wealth managers, insurers and their clients. But there are also new players who are creating their own structures--for example, funds of funds or feeder funds," explains LPEA CEO Stéphane Pesch.

Pesch insists that the targeting of private clients is not limited to high net worth individuals, but also includes the most affluent clients in the retail segment. "The aim of democratising PE is to make it possible to invest amounts of less than €100,000. We can take inspiration from what we see elsewhere. For example, Bpifrance launched a fund that even allows individuals to invest €3,000."

He points out that certain channels are already open to individuals wishing to gain exposure to PE. "Luxembourg has a somewhat forgotten structure, the 'part II' fund, which allows greater freedom than Ucits in investment choices. With this and the new version of the Eltif regulation, we have a toolbox that gives more investors access to alternative investments."

While this strategic area is of great interest to asset managers, most of them are also aware that, in order to reach more people, they need to offer--at the cost of lower performance--greater liquidity. Alongside the closed-ended funds typical of PE, semi-open-ended and semi-liquid funds will grow in importance, predicts the CEO of the LPEA. "But to be able to provide monthly or quarterly entry and exit options, you need to be able to keep up in terms of calculating valuations. This will be a challenge for the service providers involved."

To better capture retail investors, the LPEA is banking on education and training. “Not just for the end investor, but also for the intermediaries who distribute the funds,” explains Pesch. Since 2020, the association has been offering its own digital programmes, updated each year with specific modules. In conjunction with HEC Liège, it also awards a certificate in PE. Discussions are underway with other universities, including the University of Luxembourg, to set up a masters programme.

> “ VALUE IS CREATED OVER TIME AND THROUGH THE EXPERTISE OF THE MANAGERS. SO YOU HAVE TO GIVE THEM TIME! ”
>
> Stéphane Pesch, CEO, LPEA

These programmes are no substitute for personal involvement on the part of the investor, adds the industry representative, who calls on those concerned “to be proactive and to inform themselves.” “The intermediary must have a thorough understanding of PE. It’s not an asset that you can buy in the morning and sell in the evening. Value is created over time and through the expertise of the managers. So you have to give them time!”

In the shadow of the big international names that are regularly in the spotlight, a myriad of more or less discreet players are helping Luxembourg’s private equity sector to flourish. Find out more on Thursday.

The firms shaping Luxembourg's private equity hub

Written by Guillaume Meyer
Published on 12.09.2024 • Edited on 12.09.2024 at 14:28

The American private equity firm Blackstone, which has more than $1trn in assets under management, has been established in Luxembourg since 2000. It moved to larger premises in the Cloche d'Or district (pictured) in 2023. Photo: Guy Wolff/Maison Moderne

At the end of 2023, there were more than 2,100 private equity funds in Luxembourg. A myriad of more or less discreet players thrive in the shadow of the 18 major international names that are regularly in the limelight. This is the fourth part of our look at the country's private equity landscape.

"Eighteen of the 20 largest international private equity firms are based in Luxembourg." Local organisations, led by Luxembourg for Finance, are happy to use this promotional argument. These large companies include the world leader in private equity, the American firm **Blackstone**, as well as names such as **Partners Group**, **KKR**, **CVC Capital Partners**, **Ardian** and **Apollo Investment Management**.

While these companies tend to use Luxembourg as a base for structuring and distributing their funds across Europe, their decision-making centres--with the exception of CVC--are located in other countries. Some see their exposure as misleading marketing. Others, such as EY, see it as proof that Luxembourg vehicles are virtually indispensable to the major players in PE. "Our legal framework and the experience of our professionals in the field give us a clear advantage in Europe," says Laurent Capolaghi, private equity leader at EY Luxembourg.

One thing is certain: unlike the American and London financial centres, Luxembourg is not a place where managers congregate. It is a place where funds are domiciled. In this respect, it is number two in the world (behind the United States) and number one in Europe. "Luxembourg is THE place to come to create and structure your range of funds," says Stéphane Pesch, CEO of the Luxembourg Private Equity & Venture Capital Association (LPEA).

Heavyweights and pioneers

According to CSSF statistics, Luxembourg had 2,104 PE funds out of 9,019 alternative funds at the end of 2023. Who are these players?

In the international heavyweight category, in addition to the aforementioned names, we can also mention the Swedish investment company **EQT**, which, like Blackstone, is active in traditional multi-strategy PE. Another key player is **Blackrock**. Coming from the liquid world, this American giant has made a name for itself in alternative investments.

Then there are what we'll call the 'pioneer,' the local venture capitalists who 'created' the ecosystem because they were the first to succeed: **Mangrove Capital Partners** and **Expon Capital**, co-founded by Jérôme Wittamer (who later chaired the LPEA). **Middlegame Ventures** also came later.

Then there are those who were not necessarily expected in this field, but who have to their credit the creation of a front office in Luxembourg. **Luxempart**, considered to be Foyer's 'alternative armed wing,' is one of these. Other names that crop up are **Wendel**, a major industrial group with a strong presence in its various circles, and **Sofina**, a listed Belgian company recognised in Luxembourg for the skills it has developed in PE.

Smaller and more discreet

The smaller players include specialists such as **Cube Infrastructure Managers** (infrastructure) and **Oraxys** (environment). These are 'pure players' who employ less than 50 people in Luxembourg, and do everything themselves.

Then there are those who communicate little or not at all, because they are subject to local restrictions (sometimes linked to their stock market listing) or have opted for discretion. This is the case with the listed company **Brederode**, which has Belgian roots and has its head office and team in Luxembourg. Sometimes dubbed 'the Belgian Warren Buffet,' its founder, Pierre van der Mersch, is also regarded as a pioneer of private equity. He handed over the chairmanship of Brederode to the economist Bruno Colmant in 2023.

A specialist in fund structuring, Luxembourg is also a rising platform for new PE transactions. Find out more this Friday.

Paperjam's private markets 2024 supplement hitting newsstands

Written by Paperjam.lu
Published on 24.09.2024

Paperjam's Alternatives and Fund Ecosystem supplement, distributed with Paperjam magazine's October 2024 issue, is available on newsstands across the grand duchy starting on 25 September 2024. Image: Maison Moderne

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Is it tough times or smooth sailing ahead for alternative funds and fund service providers in Luxembourg? Paperjam's Alternatives and Fund Ecosystem 2024 supplement addresses that question, with a focus on three key areas.

Paperjam's Alternatives and Fund Ecosystem 2024 supplement features three special sections covering the spectrum of the private market fund landscape.

Alfi

In the first, Paperjam examines several topics that will be covered during the Association of the Luxembourg Fund Industry's Private Assets Conference (25-26 September), from investor protection to genAI apps in private markets. The section includes interviews with Noémi Gémesi at Loyens & Loeff, Séverine Kettels and Raphaël Machet at BNP Paribas, Shaun Lee at State Street and Steven Pringle at GRESB. Plus: Alfi CEO Serge Weyland shares his take on the importance of partnerships and technology.

LPEA

The second section tackles themes on the agenda at LPEA Insights (17 October), organised by the Luxembourg Private Equity and Venture Capital Association (LPEA), including Eltifs and secondary markets. It includes interviews with Silke Bernard at Linklaters, Aïssata Coulibaly at Deloitte, Claus Mansfeldt at Swancap (and chair of the LPEA) and Rajaa Mekouar at Calista. Plus: LPEA CEO Stéphane Pesch provides his outlook on private market funds in 2025.

Monterey Insight

The fund industry research firm Monterey Insight has conducted research, exclusively for Paperjam, on how frequently investment funds switch service providers. The firm's analysis of data from 2019 to 2023 yielded an "affinity" score, which Monterey Insight's Karine Pacary shares with Paperjam readers.

Separate from the study, this section includes comments from Alan Dundon, president of the L3A trade group, on what he thinks makes a great alternative fund service provider.

Luxembourg Roundtable: Democratising private markets

by Mark Latham — 19 September 2024

The roundtable underway in Luxembourg's cavernous Salon Vauban

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Luxembourg Roundtable: Democratising private markets
13 min

The democratisation of private markets topped the agenda at a recent high-level roundtable in Luxembourg where the state of the leveraged buyout market and the impact of AIFMD II and Eltif 2.0 were also put under the spotlight.

Participants

- Finbarr Browne, chief executive, **Schroders Luxembourg**
- Camiel de Vries, managing director and head of Benelux & Nordics institutional and wealth, **Wellington Management**
- Louis Lamotte, managing director, **JTC Group**
- Stéphane Pesch, chief executive, **Luxembourg Private Equity & Venture Capital Association (LPEA)**
- Raphaël Remond, deputy chief executive, **Northern Trust Luxembourg**
- Valerie Tixier, client and market private equity leader, **PwC Luxembourg**

A roundtable of investment professionals held in Luxembourg this summer tackled some of the biggest questions confronting private markets from the impact of AIFMD II and ELTIF 2.0, both launched this year, to considering the impact of falling interest rates and whether that could lead to an uptick in leveraged buyouts and dealmaking.

Opening up private markets to a wider field of investors is an aim has been called the "democratisation" of private markets. The panel began by considering whether more could or should be done to bring more investors to the asset class.

Stéphane Pesch, chief executive of the Luxembourg Private Equity & Venture Capital Association (LPEA), said that the Grand Duchy's 36 years of experience managing Ucits funds and 20 years of running alternative investment funds (AIFs, starting with the SICAR in 2004) showed that Luxembourg was actively involved in "tackling that democratisation-realisation trend".

With the launch this year of the EU's revamped Eltif 2.0 and its toolbox, Luxembourg is well equipped to to encourage and facilitate the access of more investors into private markets, Pesch believes.

"What we would like to underline is that we certainly believe in democratisation, but it should be done with discipline, and it should be done with quality because reputation is at stake," Pesch told fellow panellists on the high-level dialogue.

"We need to make sure that we have no apprentice sorcerers trying things which do not work: that's very important."

Pesch also stressed the need for fund managers to work closely together with asset servicers.

Finbarr Browne, chief executive of Schroders Luxembourg, said the revamped Eltif 2.0 is "one of the key vehicles to put out there, to really scale up democratisation" but its introduction had unfortunately been delayed, creating confusion and uncertainty.

There were also technical aspects to Eltif 2.0, for example on liquidity rules, that needed to be resolved, Browne said.

However, it was not just the Eltif rules themselves that needed to be considered, but also the state of market readiness, which varies from country to country "and even by sector within countries."

"Service providers are at different levels of readiness for that. And if you're trying to bring a single client experience to this, it's challenging because you're needing to use multiple service providers very often to access these different markets and different sectors," Browne said. "So the client experience through all this needs to be watched very carefully."

"There's also a real need for sales managers to go on an educational journey in terms of changing how they do sales, how they promote the product. Their level of technical knowledge needs to change. Democratisation truly is a journey across the whole industry, for manager, service provider and ultimately the investor as well."

Raphaël Remond, deputy chief executive of Northern Trust Luxembourg, said that the Grand Duchy's decades long experience of financial markets should put the country "at the forefront of that ability to educate".

"Compared to other markets in Europe, Luxembourg is well prepared for that education to happen," he said.

Camiel de Vries, managing director and head of Benelux & Nordics institutional and wealth at Wellington Management, said it was important, because of the high barriers to entry to private equity, for firms to have specialist salespeople on their teams who can help to demystify the asset class for retail investors.

"As an industry, we also need to be cognisant of the fact that the liquidity needs of the average retail investor are different from institutional investors. Not every individual is comfortable with locking up their money for 10 to 12 years."

Semi-liquid alts

It was for that reason that Wellington is increasingly looking at semi-liquid alternatives funds, where investors can draw down up to 5% of their investment every quarter. If a private investor gets divorced or needs to help a child through university, it is helpful to have at least some liquidity.

Valerie Tixier, client and market private equity leader at PwC Luxembourg, believes that traditional private equity managers often have less experience of the characteristics and behaviour of retail investors.

Tixier recalled the global financial crisis where 80% of Luxembourg open-ended private equity funds closed as a result of retail investors seeking to redeem their investments in an attempt to minimise their losses. "I hope the lessons have been learned from that time as I don't want to see history repeat itself," she said.

"Managers need to find a secure way to properly manage liquidity and liquidity needs and that comes from building up a proper asset mix and propagating sound valuations. When you allow for exits, you allow it at a fair price and that involves lots of covenants, processes, people and tools."

Louis Lamotte, managing director of JTC Group AIFM Solutions, says that a strong valuation system is necessary once any financial company deals with retail investors.

"I think a proper suitability test should be done upfront to make sure that you attract the right retailers into your assets, into your investment strategy," he says.

In terms of valuation, we like having an independent appraiser with a strong structured valuation program and not to have valuations done that might change from one case to another."

The high-level panel proceeded to discuss the impact of the Alternative Investment Fund Manager Directive II (AIFMD2) which entered into force in the spring, as well as the impact of the ELTIF 2.0.

Remond said that the second iteration of AIFMD offered some important extra protections for investors. Firstly, greater transparency on reporting, making sure that the asset manager gives more information about what they do and why they do it and that this will allow investors to better appreciate exactly what is happening within their portfolio.

Marketing rules

The second significant improvement was a tightening of marketing rules, which will help to avoid investors being misinformed and force sellers to be more careful about what they say and do.

Lamotte accepted that the broad aim of AIFMD2, to protect the best interests of the investors, had been achieved. But he also warned that there was a cost implication in introducing new regulation, such as recent new rules on loan origination or the EU's Digital Operational Resilience Act, known as Dora.

"For third party asset managers from all over the world, Luxembourg is becoming more and more expensive," he said. "It is becoming very costly to keep an Alternative Investment Fund alive. Sometimes asset managers are wondering, why should I come to Luxembourg to attract potentially new investors?"

Pesch recalled that when the first iteration of AIFMD was launched [in 2013] "many in the industry were initially against it and thought it would harm the market."

"But in the end it ushered in an entire new ecosystem and the industry would not be there at its current size if the regulation had not been introduced", he said.

It had led, he said, to an alignment of general partner (GPs) and limited partner (LPs) interests that had been for the "greater good", more transparency and the crucial EU passport.

"It is important to have good and smart regulation and that is why we consider AIFMD2 more as an evolution rather than as a revolution.

Tixier said she agreed with Pesch's analysis that AIFMD2 was "by no means a revolution".

"When you look at the liquidity management tools in it they're just common sense. These AIFMD2 provisions can be made to work quite easily in my view," she said.

"After the push of asset managers in the US, we're back to the initial situation of a disconnect between the levels of regulation for private capital.

"In some ways I wonder if that's not going to be positive for Luxembourg down the line. Europe is a place where you still need to go if you want to fundraise and you will have to play by the rules at some point. You cannot do private placement as easily as you used to and reverse solicitation is not a distribution strategy by definition."

Browne also took the view that AIFMD2 is "mostly a step in the right direction".

"It could again have been a very wrong step, particularly in the world of a delegation of investment management, which Luxembourg lives and breathes by.

"There is some investment management carried out locally, but the vast, vast majority is delegated to different parts of Europe or different parts of the world. So AIFMD2 is getting tougher on outside EU delegation in terms of how you oversee that but thankfully it's not changing the operating model of asset managers to the extent of saying: 'now you can do this'.

"Delegation was possibly being questioned at one point, so it's toned down massively from where it could have gone, which I think is a good reaction from the regulators."

"In a sense it is regulators pulling the alternatives world closer to the Ucits world, which you can see from increased investor protection, particularly for retail and less sophisticated investors."

"There are lots of really good reasons for doing that, but there is the risk that it pulls the more pure-play, institutional private market world into a more expensive regime – and that's the challenge to some degree.

"That is the consequence of trying to do everything right and paint the industry with the same brush but it is a challenge to make directives like this work for everybody: it is a matter of trying to find the right common denominators."

"It feels like a growing up moment, a kind of a pulling alternatives into the Ucits space but it will make that business more expensive."

De Vries said it is positive for Luxembourg that there is now an increasing number of GPs that are "actually using Luxembourg vehicles as their global vehicle, rather than just for Europe".

"Wellington operates in Cayman and Luxembourg, but there are some players who have moved solely to Luxembourg. That would be a great outcome for the Grand Duchy of course."

Inflation and LBOs

With some market commentators having described inflation as the friend of the leveraged buyout, the panel then considered whether expectations of lower global interest rates would translate this year into an uptick in leveraged buyouts and deals in Europe and globally?

Tixier said that, even without the benefit of a crystal ball, it was clear that the leveraged buyout market remains very slow. If interest rates declined it was possible that the beginning of 2025 might start to see some improvement, but a large amount of refinancing would need to be completed in 2024 and exit levels would need to improve before dealmaking started to return to more normal levels.

"These factors have tremendous impact on the fundraising capabilities of many market participants, and have side effects on the whole industry," Tixier said. "It's a kind of bubble in the end that we're living through right now."

Remond observed that the secondaries market was improving, albeit slowly. "That is, I believe, overall a very good move for the industry, because you will naturally bring back the buyers and the sellers at what seems to be the right price."

Pesch added that there is a direct and mechanical correlation between interest rates and the cost of capital and debt.

"So for sure, if downward movements appear, that will help you to reduce costs, to increase the borrowing capacity, and also help the market conditions to kind of relax a little bit," he said.

Since the Covid pandemic, extra due diligence and stress testing had been introduced to deal origination and sourcing which have strengthened the processes and with the increase of operational excellence led to more value creation, Pesch said. "When the costs rise, then you need to create more value or to create more revenue."

De Vries agreed, adding that on the LP side, his firm had observed clients becoming increasingly focused on Distributions to Paid In Capital ratios (DPI) which had become "almost more important" than the traditional internal rate of return metric (IRR).

INVESTING IN LBO FUNDS (1/4)

Leveraged buyouts: the “best” performing AIF

Written by Sylvain Barrette
Published on 07.10.2024

In a series of four articles, Claus Mansfeldt, who heads Swancap in Luxembourg, talked to Paperjam about accessing top-tier leveraged buyout funds, the strategic use of secondaries and co-investments and risks in the private equity space. Photo: Nader Ghavami

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In the first part of a four-instalment series, Paperjam discussed with Claus Mansfeldt, a well-known figure in the Luxembourg private equity scene, the historical outperformance of leveraged buyout funds and the challenges of investing in them for the wider public.

“We are in the business of providing access to what we like to think, are best in class leveraged buyout [funds] in Western Europe and North America,” said Claus Mansfeldt, chair of Swancap Luxembourg and chair of the Luxembourg Private Equity and Venture Capital Association (LPEA) during an interview in August 2024.

The “Swan” in Swancap, an investment boutique with €4bn in assets under management, stands for Sleeping Well At Night. The interview with Paperjam makes us believe that a black swan event poses limited risk in derailing its performance trajectory, given the firm’s emphasis on diversification.

Buyout funds: outperforming public markets

Mansfeldt explained that Swancap is a fund of funds manager covering a large spectrum of buyout funds that include mid- and large-cap companies. “[We use] three different routes--primaries, secondaries and co-investments--to get to the underlying buyouts.”

He argued that the median historical return of buyout funds over the long run (30 to 40 years) has been between 12% to 13%, net to investors, whereas the S&P 500 performance on “a private market equivalent basis” has been 6% to 7%, annually. He thinks that this outperformance explains why investors are ready to accept the lack of liquidity.

Earlier this year, Paperjam reported on the outcome of a performance review on private asset investments by Norges Bank Investment Management. Paperjam concludes that Swancap has elected one of the sweet spots in the alternative private investments space, as NBIM found that leveraged buyout funds “outperformed public equities, on average, by 3% to 4%,” whereas venture capital and growth equity funds “have underperformed by 1% to 2%,” on average. The study reviewed funds with vintage years from 1985 to 2016 with performance data up to 2Q23.

On the other hand, Mansfeldt admitted that the dispersion around the median performance for private equity is “much, much wider” than for mutual funds investing in public companies. The latter tend to maintain a portfolio very close to their benchmark. In the bottom quartiles of a buyout fund universe, “you could have funds that are going to potentially lose a little bit of money or not return much.”

Paperjam reported similar observations made by NBIM. Indeed, the differences in the performance between the top and bottom quartiles were as high as 12.1% for buyout funds. Consequently, Mansfeldt thinks that gives Swancap “a very strong raison d’être to assist people navigating this space.”

Underlying current

Mansfeldt believes that “this recurring phenomenon” on performance is possible on the back of “control investing.” As for every deal in M&A transactions, an extensive due diligence is performed by the general partner and the banks providing debt financing. He thinks that inside information provides a comparative advantage to private investors over investors active in public equities.

Yet he assessed that the “most powerful” element for the on-going performance is “probably” the alignment of interest. “The boardroom is inhabited by one shareholder and the management is given incentives which are completely aligned with the agenda of that shareholder,” stated Mansfeldt.

Investing in the best buyouts is marred with obstacles

Swancap claimed to have achieved a 20% annual return on €7bn of cumulative investments in almost 24 years. The firm spun out from Unicredit, an Italian bank, in 2013. Mansfeldt explained that Swancap aims at selecting the funds that will do better than average and avoid funds that “display some characteristics that that in our experience have indicated a higher risk of not doing so well.”

"We provide solutions so that investors can get a good and balanced exposure to the best in class or top tier in the game... but there are hurdles for getting in," he said. Beyond the extensive effort and the use of analytics to select funds, he commented that performing funds "are quite full" when raising money as investors such as Swancap tend to allocate at least the same amount upon redemption. This is especially true in Europe, where investors in many countries such as Germany and Italy have been "a bit behind" compared to their peers.

Mansfeldt noted that large European insurers are having less than 4% allocated to PE against more than 20% for Calpers in California or large Canadian pension funds. Given the long-term profile of their liabilities, he thinks that insurers and pension funds should both reap the "long duration dividend."

Given that the minimum ticket size runs between $5m and $10m, PE products have been the reserve of institutional investors, large family offices or the "super wealthy." He thinks that Swancap helps provide greater access but is not yet a retailisation of the products for individual investors or smaller pension funds which do not have a 10 year-plus relationship with primary funds. Yet with a minimum commitment of $1.5m, spread evenly over four years, it is hardly accessible for entities with less than around $10m in total assets to ensure proper diversification with other liquid asset classes.

Given the high diversification and the defensive nature of Swancap's products, Mansfeldt thinks that they suit a "wider distribution" but noted that regulatory administrative costs of running a retail product "are not efficient yet." Swancap is still not far from that goal as it operates partnerships with private banks and independent feeders, which creates pool of clients that are therefore considered as a single counterparty for Swancap. Yet Mansfeldt admitted that the minimum commitment still runs at $150,000.

INVESTING IN LBO FUNDS (2/4)

Co-investing offers unexpected benefits beyond greater net return

Written by Sylvain Barrette
Published on 08.10.2024

In a series of four articles, Claus Mansfeldt, who heads Swancap in Luxembourg, talked to Paperjam about accessing top-tier leveraged buyout funds, the strategic use of secondaries and co-investments and risks in the private equity space. Archive photo: Romain Gamba

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In the second instalment of a four-part series, Paperjam interviewed Claus Mansfeldt, a well-known figure in the Luxembourg private equity scene, to discuss key features of co-investments and their relevance in a portfolio of alternative investments.

"The opportunity with co-investments is that we can capture certain upside potential over and above what is available in the broader fund of funds," stated Claus Mansfeldt, chair of Swancap Luxembourg and chair of the Luxembourg Private Equity & Venture Capital Association (LPEA) during an interview in August 2024.

As Swancap's dedicated investment team is shown about 100 deals per year but invests in only around 10 deals every year, it thinks that it can retain the best opportunities after assisting the general partners and reviewing the due diligence of legal firms and banks and the research from management consulting companies such as McKinsey.

> " TOP GUYS TAKE THE FOOT OFF THE PEDAL AS THEY HAVE HAD ENOUGH SUCCESS AND ARE NOT FEELING THE SAME URGENCY ABOUT DELIVERING AGAIN "
>
> Claus Mansfeldt, chair, Swancap Luxembourg and the Luxembourg Private Equity & Venture Capital Association (LPEA)

Mansfeldt considers that these circumstances enable Swancap to add significant value to institutional investors as the latter rarely have a dedicated team analysing "full-blown LBOs."

In addition, he thinks that very few institutional investors are keen to "throw a lot of extra money into one [co-investment] deal." He argued that they would prefer to solely invest in the KKR or Carlyle funds and avoid the extra hassle. Mansfeldt also claimed that Swancap can convince them to invest into its funds to get the potential extra return kicker.

Greater oversight of GPs

Co-investments play also an underestimated role. Mansfeldt explained that one of the risks when investing in primary funds is that the "top guys take the foot off the pedal as they have had enough success and are not feeling the same urgency about delivering again." The personal interaction with the GPs when co-investing may raise red flags, but also inform Swancap whether a general partner nurtures a new generation of motivated dealmakers/analysts.

The ecosystem that Swancap has developed (investment in buyout through primaries, secondaries and co-investments) enables it to achieve synergies as one investment vehicle provides--sometimes unexpectedly--insights into another vehicle. For instance, whenever a fund or company becomes available in the secondary market, Swancap's comprehensive approach enables it to react quickly on an opportunity as it does not have to start from scratch.

Improving return through lower fees

On the back of risk management restrictions, some large buyout funds can't invest beyond a certain threshold, making it impossible to complete transactions without some volunteers willing to add some extra money on the table. As a clincher, GPs may offer to co-invest in a deal and will not charge the co-investor the management fees nor the carried interest on this part. Swancap's funds can then boost the IRR of its multi strategy fund as it saves the investor the "two and 20 fees."

Selection is key. "It's a bit like tax savings. You know, you can't really enjoy tax savings unless you make a profit in the first place," joked Mansfeldt.

INVESTING IN LBO FUNDS (3/4)

Secondaries: "A true distress seller is a bit of a myth"

Written by Sylvain Barrette
Published on 09.10.2024

In a series of four articles, Claus Mansfeldt, who heads Swancap in Luxembourg, talked to Paperjam about accessing top-tier leveraged buyout funds, the strategic use of secondaries and co-investments and risks in the private equity space. Archive photo: Romain Gamba

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In the third instalment of a four-part series, Paperjam discussed the key advantages of including secondaries in a portfolio of alternative investments with Claus Mansfeldt, a well-known figure in the Luxembourg private equity scene.

During an interview in August 2024, Claus Mansfeldt, chair of Swancap Luxembourg and chair of the Luxembourg Private Equity & Venture Capital Association (LPEA) explained that Swancap's multi strategy includes three elements: primary funds (70% of total assets), secondary funds (15% to 20%) and co-investments (10% to 15%). The strategy enables the firm to offer a diversified portfolio through "low risk" primary funds while co-investments reduce "a little bit the fee drag," therefore increasing the internal rate of return (IRR) and the money multiple, also known as total value to paid-in (TVPI).

As for the specific features of secondaries, they shorten the overall J-curve of the multi strategy by returning capital to investors more quickly than primaries and co-investments. Indeed, he noted that their secondaries generally achieved a break-even point after around three years compared to eight years for primaries. Both figures are comparable to what is seen elsewhere in the industry. Moreover, he observed that secondaries tend to have a lower money multiple but a higher IRR, helping the performance of the multi strategy.

Swancap generally provides the performance data points only to limited partners (LPs). Paperjam had access to some of them and noted that investments in secondaries have returned better results, both in terms of TVPI and IRR (more than 2X and 30%, respectively), compared to primary funds and co-investments.

"We buy secondaries, like a secondary fund," stressed Mansfeldt. Swancap would generally buy an existing fund a little bit earlier than halfway through its life, "so that there is still potential for value creation in its remaining life." In other words, the firm is more attracted by a four or five-year-old fund than a seven-year-old fund to ensure that there is still some "runway left to extract value" from the remaining portfolio of companies. Yet he admitted that they could be tempted by very old funds but with a "bigger discount."

Mansfeldt explained that they invested in more than 50 secondaries amounting to over $1bn. Swancap also buys secondary fund portfolios from LPs. He does not consider the firm a major player in the industry, as it has about $100m to $200m dedicated to the asset class, meaning that it will generally invest $5m to $20m tickets for a fund or a portfolio of funds.

Are secondary funds safer than primary funds?

"It should be less risky if you can achieve the same level of diversification as a primary fund of funds, which is not always easy," commented Mansfeldt. Even with less diversification, one must account for the fact that a fund holds proven assets with several years of experience under new ownership. These leveraged companies have shown a capacity to sustain and service their debt and some may even have started to reduce gearing. "A shorter journey to the exit should [also] mean low risk."

Not all is bright blue sky. Mansfeldt warned that investors may be confronted with "sub optimal assets" in the coveted portfolio. Sellers may have some great brands in the portfolio but may require selling "the whole basket" under a "take it or leave it" transaction. "That's the advantage of the primary agenda. You can then just choose your favourite [funds]."

Discounts have slowly disappeared over the last year

For top performing funds, "medium aged prime" with some remaining upside, he noted that LP-led deals are currently priced with a discount ranging from 0% and 10%. "People will compete for those assets." Ceteris paribus, he observed discounts ranging between 15% and 30% for older funds.

"We don't see much of a discount to NAV in either continuations fund or continuation vehicles," he said. These are GP-led secondaries. A continuation fund is set up to park some old deals from maturing funds, whereas the continuation vehicle carries single assets which demand co-investment skills to assess the deal. "It's usually transferred around the carrying value."

> " WE ARE NOT INVESTING IN DISTRESSED FUNDS. WE PREFER THE OPPOSITE "
>
> Claus Mansfeldt, chair, Swancap Luxembourg and the Luxembourg Private Equity & Venture Capital Association

The absence of a discount comes as no surprise given that these portfolios/companies are generally transferred to the CF or CV because they maintained a strong performance. GPs avoid giving up value through a quick sale to quicken the closure of an old fund.

Mansfeldt commented that discounts have reduced, as market sentiment has improved in the last year. It reflects the stabilisation of rates "helping pricing and predictability of finance."

Sniffing around for distressed funds?

"We are not investing in distressed funds. We prefer the opposite," said Mansfeldt. Swancap prefers to invest in "well-performing funds" at reasonable prices in the secondary market. As per the firm's experience, the performance has been better when investing into well-performing funds than when investing in a troubled fund despite the deeper discount. Its mantra, Sleeping Well At Night (the Swan in Swancap), may also drive Swancap's approach on distressed funds.

Are secondaries taking advantage of market stresses better than primaries?

"The theory makes sense... people who are distressed... they [tend] to sell at a big discount [creating] extraordinary opportunities." He continued: "it actually just hasn't been our experience." He suggested that when an investor is distressed on the back of margin calls, for instance, "he will sell everything else first... the liquid stuff... as he needs the cash now." Mansfeldt added: "These [distressed funds] cannot be sold that fast."

Swancap seeks opportunities in opaque markets with "sub institutional sized tickets or portfolios." He commented that their typical ticket size does not usually involve banks and brokers which result into "less perfect market pricing." Otherwise, Swancap finds opportunities at attractive prices in complex transactions due to some ownership structures, such as when estate issues arise following a death or a divorce in high-net-worth families. "A true distress seller is a bit of a myth."

Has the European Investment Fund invested in your funds?

"Amongst other things, we invest, globally or particularly in North America, which would not fit their criteria," stated Mansfeldt. Contrary to the EIF, which has a political (development of new managers and for regions) and a return agenda, he argued that the sole focus of Swancap is on performance while accounting for ESG factors.

Alignment of interest

Swancap does not invest its own capital in its funds. On the other hand, Mansfeldt stated that: "as customary... the team making the decisions about the investment... invests alongside investors via a pooled vehicle in all our funds... this is both an obligation and a desire."

Give credit to secondaries when it is due

Mansfeldt stated that Swancap wants to launch its first pure play secondary portfolio in December 2024 on the back of investors' demand following a strong track record as a component in multi-strategy funds.

INVESTING IN LBO FUNDS (4/4)

Substance, massage and frustration

Written by Sylvain Barrette
Published on 10.10.2024

In a series of four articles, Claus Mansfeldt, who heads Swancap in Luxembourg, talked to Paperjam about accessing top-tier leveraged buyout funds, the strategic use of secondaries and co-investments and the operational challenges. Library photo: Guy Wolff/Maison Moderne

In the final part of a four-instalment series, Claus Mansfeldt, a well-known figure in the Luxembourg private equity scene, told Paperjam about the evolution of substance in the AIF industry, the management of price-to-model valuations and the greatest frustration for a general partner.

Swancap has an AIFM in Luxembourg which includes all its funds. During an interview taking place in August 2024, Claus Mansfeldt, chair of Swancap Luxembourg and chair of the Luxembourg Private Equity & Venture Capital Association (LPEA), specified that their investment/portfolio advisors are based in New York, Munich and Milan, but also in Luxembourg, where he is the chair of the investment committee and Luxembourg management company.

Questioned on the emergence of a secondary fund business with investment/portfolio advisors in Luxembourg, he replied that homegrown general partners in Luxembourg are "extremely unusual… in secondaries, co-investment or primaries." He remarked that Mangrove, Expon and a "few others are all in the venture capital business."

"Anything else" is a hybrid structure, meaning that the AIFM has their funds domiciled in Luxembourg but "the portfolio input, advisory and sourcing will typically happen globally."

Mansfeldt observed more staffing of investment managers locally but admitted that "the growth" has rather been for AIFMs to demonstrate that investment committees, conducting officers and boards of Luxembourg management companies have the "capacity to assess and opine on the investments," proposed by mother companies in New York, London, Paris, Munich or Stockholm.

> " THEY MAY FEEL THAT MARKETS LOOK SCARY, THERE'S EXTRA RISK, THERE'S ECONOMICS AND THERE'S GEOPOLITICS. "
>
> Claus Mansfeldt, chair, Swancap Luxembourg and Luxembourg Private Equity & Venture Capital Association

He thinks that more competence is building on the back of regulatory changes as observed with the function of investor relations, which are now required to be based in the EU after Brexit. However, he acknowledged that the most tangible development on secondaries have been an increasing number of fund domiciliations and the "emergence" of investment management expertise.

Swancap on massaging valuations

Mansfeldt acknowledged that his industry is "saved from the brutality of day-to-day market pricing by being illiquid, private, quarterly priced and then priced-to-model and not priced to market." He is sensitive to the critics that pricing is set against "some theoretical models." As a response, he stressed that the price-to-model must use references from market multiples and comply with "guidelines."

He remarked that "final exits have turned out to be above the most recent marks, in most of the cases." As a side note, he commented that 90% of the sales end up with another financial investor or private equity house and confirmed that IPOs are a "very small part of the exits."

Greatest source of frustration

The price of glory is that successful investments result in the sale or IPO of companies. It means that investors need to reinvest regularly and participate to recurrent capital deployments. Mansfeldt noted that it is a constant "fight" to keep investors onboard as "they may feel that markets look scary, there's extra risk, there's economics and there's geopolitics."

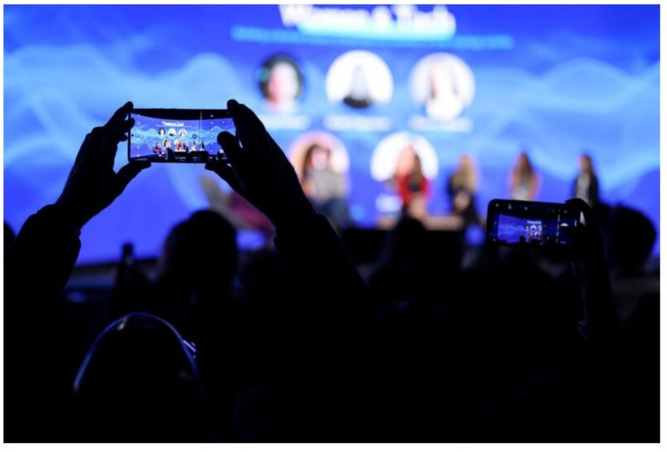
> " OUR ADVICE IS TO KEEP INVESTING IN A STEADY PACE. WE ARE NOT TRYING TO TIME THE MARKET WITH THIS BUSINESS "
>
> Claus Mansfeldt, chair, Swancap Luxembourg and Luxembourg Private Equity & Venture Capital Association

Mansfeldt understands somehow the need for a "flight to cash" when the market gets rough, as observed during the rise in interest rates. Yet "you're potentially going to miss out on the recovery, on the upside, in our experience, and good productive assets. Businesses in America and Europe prevail at large through price volatility in private equity in particular."

"Our advice is to keep investing in a steady pace. We are not trying to time the market with this business." He added that companies are bought during exuberant and in distressed times. The outcomes in our historical analysis, having lived through several crisis with these types of assets, have been similar in both cases.

Luxembourg Venture Days: The Not-To-Be-Missed Flagship Event

Startup Luxembourg
October 11, 2024



Luxembourg gathers investors and startups under a single event umbrella with the second edition of Luxembourg Venture Days in October 2024.

The **Luxembourg Venture Days** event organised by the Grand Duchy's innovation agency Luxinnovation and the Luxembourg Private Equity and Venture Capital Association (LPEA) is a unique opportunity for investors and startups to convene, exchange, liaise and explore new strategic and investment horizons.

The conference takes place on 16 and 17 October 2024 and will combine, for the first time, several flagship events from the investor and startup scenes: *Luxinnovation's Fit 4 Start Pitching Sessions;* LPEA's annual *Insights* conference and different pitch and matchmaking sessions by Luxembourg-based accelerator and investor networks, including gener8tor, Tomorrow Street, and the Luxembourg Business Angel Network.

"Luxembourg is a hub, bridge, and springboard for investors and startups to explore opportunities and forge partnerships in strategic domains such as digital, fintech, space, climate, health, logistics, and mobility."

She adds: "The country combines an ambitious long-term vision with a business-friendly climate, strong institutional support, and a pragmatic approach. The Luxembourg Venture Days invite all stakeholders to participate in shaping a vibrant ecosystem that unlocks investment, inspires innovation, and fosters sustainable growth."

Luxembourg's position within a 'Greater Region' (comprising bordering territories of France Germany and Belgium) with 12 million inhabitants, its agility and accessibility, coupled with its business-friendly climate, a pragmatic approach, and an easy access to key decision-makers, makes it a hub, bridge, and springboard for investors and startups in strategic and flourishing sectors such as, fintech, space, climate, health, logistics, and mobility.

It attracts and invites them to participate in shaping an ecosystem with international reach that inspires innovation and fosters sustainable growth.

"Luxembourg is an important hub for private equity and venture capital investors as it provides an agile and accessible platform for established actors and newcomers who want to keep abreast of developments, explore new avenues, grow their investments, and create added value."

Stéphane Pesch, CEO of LPEA

He concludes: "The Luxembourg Venture Days bring several renowned and high-level events with investors and startups under one roof and help us to achieve our goals and follow our mission to match investment with innovation, technology, and entrepreneurial talent."

The highlights of Luxembourg Venture Days 2024

- **Fit 4 Start pitching sessions** (16 + 17 October) – Pitch of 60 pre-selected startups and selection 20 for the next Fit 4 Start edition
- **LPEA annual Insights Conference** (17 October) – Full-day programme with panels and an exclusive pitching event
- **Other pitch, demo, networking, and match-making sessions** (16 + 17 October)
  – Tomorrow Street matchmaking breakfast (16 October) – 2-hour event for invited attendees
  – gener8tor Demo Day (17 October) – 2-hour event for invited attendees
  – Reverse Pitches | Corporate challenges, startup solutions (1- October) – 1-hour event open to all
  – Luxembourg Open Innovation Club (LOIC) / Luxinnovation Reverse Pitch (16 October) – 2-hour event for invited attendees
- **Insightful panel discussions** (16 + 17 October)
  – The value and benefits of investing in women-led startups (17 October)
  – Navigating term sheet negotiations with investors (16 October)
- **General closing ceremony** (17 October)

Joint programme for the large audience with keynotes by several leading profiles, including Marjut Falkstedt, CEO of the European Investment Fund. It will also feature roundtable discussions and the announcement of the 20 startups selected for Fit 4 Start #15; followed by a networking cocktail.

A matchmaking zone will be available over the two days to further facilitate the interaction between investors and entrepreneurs.

Luxembourg Venture Days: Connecting Investors And Tech Entrepreneur Communities

Startup Luxembourg
October 11, 2024

Sasha Baillie, CEO of Luxinnovation, and Stéphane Pesch, CEO of the Luxembourg Private Equity and VC Association (LPEA), discuss what led them to bring together their two flagship events, Fit 4 Start pitching sessions and the Insights conference, to create the Luxembourg Venture Days.

Where did the idea of bringing together startup and investor events under the umbrella of the Luxembourg Venture Days come from?

Sasha Baillie: Investors obviously play a crucial role in the startup ecosystem. Although we have a thriving financial sector well connected to a European and international investor network, our paths don't cross sufficiently.

In discussions with Stéphane Pesch, CEO of the Luxembourg Private Equity & Venture Capital Association, and Michel Rzonzef, President of the Luxembourg Business Angel Network (LBAN), we realised that we were all organising our respective events around the same time. The idea came up to combine these three events under one umbrella to bring our respective communities into direct contact with each other.

Stéphane Pesch: I concur and share the view that when motivated people, groups, associations, partners (public and private) come together, share their ambitions, views, and expectations with an open mind and take the decision to materialise a shared vision, create a common momentum, intensify their collaboration, and in the end organise a big event like the **Luxembourg Venture Days**, then we can say that the ecosystem is accelerating, professionalising, getting stronger and heading in the right direction.

This endeavour symbolises the mutualisation of efforts, resources, ideas, and leadership for the greater good of the industry and our growing communities.

Why is Luxembourg the best place to facilitate discussions and interactions, and engage VCs in the conversation to enhance the ecosystem?

SB: The Luxembourg government has always encouraged close interaction and collaboration between the public and the private sector to co-create a favourable business environment. Last year, the Ministry of the Economy laid out its roadmap to further develop a thriving startup ecosystem building on its strengths and addressing some of the pitfalls.

> "The Luxembourg Venture Days seeks to address this need and we are confident that this joint event will help us better understand each other's expectations and interests and build bridges that will benefit both the startups and the investors."
>
> Sasha Baillie, CEO of Luxinnovation

This roadmap clearly spelt out the need to stimulate closer interaction between the startup and the investment community. Hence, the Luxembourg Venture Days seeks to address this need and we are confident that this joint event will help us better understand each other's expectations and interests and build bridges that will benefit both the startups and the investors.

SP: Once the roadmap was defined, the goal to multiply and deepen exchanges, to bring different types of practitioners together more often, especially investors and entrepreneurs, to fortify and to enable new business opportunities and success stories, became a priority.

> "At LPEA, we are also very proud of our VC community (VC Club) which is composed of great professionals and experts in the field who have already invested on many occasions in promising and innovative startups."
>
> Stéphane Pesch, CEO of LPEA

Luxembourg, as the second largest fund centre in the world and leader in the alternative investment space, has developed all the required tools (legal, structuring, tax) over the last decades. It has also created, shaped, and strengthened an entire ecosystem composed of best-in-class managers, service providers with a robust level of substance, an increasing local presence and deep industry experience (new profiles and functions).

At LPEA, we are also very proud of our VC community (VC Club) which is composed of great professionals and experts in the field who have already invested on many occasions in promising and innovative startups. Their presence, willingness to engage with local and international entrepreneurs, to share their views, feedback and knowledge (LPEA Academy, VC masterclass) in order to facilitate the transformation of our evolving hub into a fully-fledged one, which is open for business and ready to welcome the next generation of promising entrepreneurs/investors, is really a strong signal.

What can investors and startups expect from this event?

SB: The two-day programme is designed to offer startups multiple opportunities to meet investors and convince them of their worth. The Fit 4 Start pitching sessions will give 60 startups from all over the world and from Luxembourg an opportunity to attract attention of potential partners, supporters and investors, as well as other pitching and matchmaking sessions by Luxembourg-based investor networks, accelerators and incubators, including LBAN, gener8tor, Tomorrow Street and the Luxembourg Open Innovation Club (LOIC). Additionally, there will several occasions for networking, culminating in a closing ceremony to wrap up the event in a convivial atmosphere.

Jillian Manus, an experienced banking and media executive, a technology investor and entrepreneur, who is today Managing Partner of an early stage Silicon Valley venture fund, Structure Capital, will give a keynote speech during the closing ceremony titled: Investing in values not just valuations. She will also host two masterclasses, one for startups and the other for investors.

SP: On the LPEA side, we will host on the second day our annual flagship event (Insights conference), which includes some technology and VC-dedicated sessions in the afternoon, and then join forces with Luxinnovation to organise the closing ceremony. Some of our themes will encompass operational excellence, investor relations, efficient fundraising, ESG and value creation.

AI will impact 'every aspect' of private equity, says industry group

Annual private equity and venture capital conference to address AI disruption and operational excellence

A session at the 2023 LPEA conference © Photo credit: LPEA

Kabir Agarwal
Reporter

16/10/2024

With the clouds of Mario Draghi's damning competitiveness report hanging over the EU, private equity and venture capital leaders in Luxembourg are due to discuss AI, automation and improving operations at an annual conference for an industry that is facing high stakes.

"AI will impact every aspect of the industry," said Luis Galveias of the Luxembourg Private Equity and Venture Capital Association (LPEA) ahead of an annual conference that will this year address digital disruption and operational management as two focus areas.

The LPEA Insights conference on 17 October is due to bring together 800 players from the private equity and venture capital industries, including 80 limited partners and more than 250 general partners.

"Different types of players use different strategies and that is something we want to showcase," said Galveias in an interview. The topic is particularly important in a place like Luxembourg, which focuses heavily on fund management, the chief operating officer said. "Operational management is also key because we are in an industry that needs to prove itself all the time, needs to show returns. Therefore, the management of the fund itself can be a catalyser for creating value."

> **"We are in an industry that needs to prove itself all the time"**
>
> **Luis Galveias**
> LPEA, COO

AI adoption and digital transformation on the other hand is crucial in reshaping private markets.

"We see that AI will impact every aspect of the industry. It will have an impact on how some support functions operate in Luxembourg. It will also impact the way some investment solutions are selected. So, we see that there is a lot of focus on automation," said Galveias.

This year's conference will host a dedicated PE-tech stage which will showcase some of the "cutting-edge technologies shaping the PE-VC sector, with many innovations being driven by Luxembourg based firms," the LPEA said in a press release.

A second stage, the "toolbox" stage, will highlight topics like merger and acquisition transactions, fund financing solutions for private equity funds and sessions with venture capitalists.

The Draghi plan for private equity?

In addition, the conference will also focus on broad themes like the role of private equity in empowering growth, the oncoming headwinds for the sector, and possible new agendas including a session on what the Mario Draghi plan for Europe might mean for private markets.

> **"This may be our last opportunity to make our continent competitive"**
>
> **Christophe Verboomen**
> Invest Europe, senior public affairs manager

The former president of the European Central Bank in September published a report that outlined his blueprint for improving Europe's competitiveness. The report recommends as one of the measures unlocking the ability of institutional investors to commit capital to long term equity funds and private equity.

"It also calls for an increase in the budget of the European Investment Fund (EIF) and an improvement in the public VC funding environment in Europe and, more broadly, a move away from an EU budget approach based on small, regulatory-based objectives to finance more strategic projects that can truly leverage private funding," said Christophe Verboomen, senior public affairs manager at Invest Europe, an association of private capital providers. Verboomen will be speaking at the LPEA conference on the topic.

The recommendations of the report are important to consider to re-energise private markets in Europe, he said. "The report creates a *momentum* and its main quality is to remind us that this may be our last opportunity to make our continent competitive. Although there are a few things missing from the report - for example, the changes that need to be made to the EU definition of an SME to allow more innovative companies to be eligible to this status - it broadly raises the right points," Verboomen said.

In photos: operational excellence in the spotlight at LPEA conference

Written by Lydia Linna
Published on 18.10.2024 • Edited on 18.10.2024 at 16:12

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The Luxembourg Private Equity & Venture Capital Association held its annual Insights conference at Luxexpo on 17 October 2024. On the agenda: GP consolidation, embracing technology, private markets asset servicing, fund financing solutions, VC fundraising strategies, secondaries, ESG and more.

More than 850 people attended this year's edition of LPEA Insights, up from 650 in 2023 and 350 in 2022, LPEA CEO Stéphane Pesch said during the conference.

LPEA chair Claus Mansfeldt added in his introductory remarks that people are starting to talk about "the next private equity super cycle," referencing an article in the magazine Institutional Investor. "It is suggested that the returns of private equity will once again--perhaps--beat public equity. Public equity has done rather well this year. It has done so well that it might even have gotten ahead of itself. Private equity is now currently--they assert--valued at some two and a half terms--since there's a multiple--lower than public equity. So at least by relative measure, private equity--one could argue--is a buy."

Another argument, continued Mansfeldt, is that we may see distributions again. "The pendulum swung almost to a screeching halt," but it may be swinging back a bit. And once you get more more distributions and exits, that feeds into returns and investor confidence.

Citing a survey conducted by Preqin, Mansfeldt said that "belief that private equity will do better" in the near future has nearly doubled. In the data firm's H2 2024 Outlook report, 45% of institutional investors thought that private equity would perform better over the next 12 months (from June 2024), up 19 percentage points compared to the 26% who held the same belief in June 2023.

And, with interest rates coming back down--the European Central Bank on 17 October 2024 announced a 25bps cut--that could help as well. "It lifts all boats," said Mansfeldt. "But this conference is about what you can actually address yourself." Industry players don't have the power to change interest rates, but they can work on improving their operations. "Operational excellence. If you manage this, you can lift your own boat. And lifting your boat is how you might stand out from the crowd."

"They say two things in life are certain: death and taxes. I would suggest--at least here in Luxembourg--there's a third element to that. Regulation," he concluded. "So in the end, one needs to be efficient, competitive and compliant to stand out and be operationally excellent."

Regulation can drive innovation, efficiency & operational excellence

Written by Lydia Linna

Published on 17.10.2024 • Edited on 17.10.2024 at 15:58

L to r: Gautier Laurent (Cinven), Hind El Gaidi (ICG) and Fabrice Jeusette (Apollo) shared their views on operational excellence in fund management during a panel moderated by John Holloway at the LPEA's Insights conference at Luxexpo, 17 October 2024. Photo: Lydia Linna/Maison Moderne

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0:00 / 5:11 1X

Experts from major fund management firms discussed the changes they've seen in the industry over the last 20 years and the role that regulation and innovation will play in shaping the industry in the future during the 2024 edition of the LPEA's Insights conference.

The asset and fund management industry has gone through significant changes in the last few decades, noted moderator and independent director John Holloway. Holloway was introducing a panel discussion on operational excellence in fund management during the Luxembourg Private Equity & Venture Capital Association's annual Insights conference on 17 October 2024 at Luxexpo. What are some of the main trends and changes that have happened in the industry since then?

For Gautier Laurent, managing director and head of Cinven's Luxembourg office, the grand duchy is a "great place" to deploy funds. But beyond that, Luxembourg has the people and the mindset to deploy new ways of thinking and operating--and to do that more quickly than other financial centres. "What I have seen in the last couple of years is that we have been more agile than our colleagues in London to deploy the operational side of things," he said. "We are agile. Our people here are agile."

Looking at the landscape and the market more generally, ICG's head of Luxembourg Hind El Gaidi said that she has seen "evolutionary changes" as well as "revolutionary changes." On the "evolutionary side," sponsors have grown in size and increased the size of their funds, teams and tickets. They've also changed how they're deploying their capital, creating value and diversifying their limited partners. On the "revolution side," new products and new markets have appeared. "Innovation in products usually marries innovation in operational excellence, she added, "because operational excellence is the combination of what you have in terms of processes and technology." To be able to have secondaries or open-ended funds for retail investors, for example, you have to be able to innovate--operationally speaking. Innovation in products and markets "can only happen if we are able to deliver on that operational excellence."

There's more regulation than before, added Fabrice Jeusette, managing director at Apollo Global Management and head of the Luxembourg office. That means more work when it comes to compliance and the need to find ways of doing things better and faster. The emergence of different types of investors (like retail investors), asset classes and instruments brings with it new territory, whether it comes to services or fees. Firms need to be able to adapt to that, as well as the increased competition. Thirty years ago, there was "almost no one" involved in private equity; today, there's a room full of PE experts, noted the panellists.

"But when there is more competition, it means that this is a more mature market," said Jeusette. "And when it's a more mature market, it's time to think about your operational model to ensure that you are still ahead of the curve."

The "-tions"

Internationalisation, standardisation, democratisation, retailisation, regulation and innovation--there's no shortage of "-tions" in the industry, said Holloway. What is their impact on the industry?

For El Gaidi, regulation can also drive innovation. A major challenge that the industry faces today is the cost to comply with "layers and layers of regulation," along with a high "velocity" of deployment. Regulation can be used to push innovation and become more efficient, thus creating a "new frontier" for operational excellence.

Retailisation is the "next bucket of growth," argued Laurent, but it's important to note that retail investors have different needs compared to other types of investors. For Laurent, retail investors will put "interactions" first and returns second. The fees that firms earn won't be the same, and the only way to reconcile costs and fees is to become more efficient.

Role of artificial intelligence

When it comes to regulations and reporting on environmental, social and governance (ESG) criteria, there's more and more data from an increasing number of sources, making comparability a key challenge, said Laurent. To efficiently deal with the massive amount of data, he saw two options. One is to use artificial intelligence; the second is to see if regional or international trade associations could agree on a set of frameworks.

Setting up standardised templates could help, but the "velocity" of the funds and products appearing in the market is another element to consider. In addition, you also need to have the capacity to process, digest and analyse that data. Both scenarios can co-exist, said El Gaidi. The market is at a tipping point and using technology like AI is no longer just a competitive advantage--it's necessary.

Everybody is talking about artificial intelligence nowadays, noted Jeusette, and it's the new buzz. But there are still a lot of question marks around subjects like confidentiality or information management. AI can boost efficiency, but it's important to invest in something that counts and is not just buzzy.

Will there only be 100 big private equity players in 2034?

Written by Aaron Grunwald
Published on 17.10.2024

Claus Mansfeldt, chair of Swancap Investment Management and the Luxembourg Private Equity & Venture Capital Association (LPEA), and Dominique Gaillard, executive chair of Armen, spoke about private equity general partner (GP) consolidation during the LPEA Insights conference, held at Luxexpo, 17 October 2024. Photo: Eva Krins/Maison Moderne

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0:00 / 2:51 1X

While it is likely that a large number of private equity firms will consolidate, that does not necessarily mean the total number of general partners (GPs) will fall.

"Perhaps our own sector is ripe for consolidation," according to Claus Mansfeldt, chair of Swancap Investment Management, which looks after €4bn in assets under management, and chair of the Luxembourg Private Equity & Venture Capital Association (LPEA).

The PE sector has grown incredibly in recent years and the "rising tide lifted all boats," stated Mansfeldt. "It also launched all forms of boats. Every wannabe PE [firm] launched themselves over the past decade."

The comments came during the "GP consolidation: The race for scale" panel during the LPEA Insights conference, organised by the Luxembourg Private Equity & Venture Capital Association (LPEA), on 17 October 2024.

Mansfeldt cited comments that the CEO of Partners Group, which has $142bn in assets under management, made earlier this year. David Layton predicted that the number of general partners (GPs) worldwide would drop from roughly 11,000 to 100 big players within a decade.

Dominique Gaillard, executive chair of Armen, which takes minority stakes in private capital investment managers, pushed back on that prediction. He said that during his time as chair of France Invest, the French private equity trade association, from 2018 to 2021, membership doubled from more than 200 to more than 400 firms. "I don't agree there will only be 100 big players in a decade," Gaillard said flatly. He expects more PE firms to continue to be set up, for example, by family offices looking to expand.

'Stronger in 5-7 years'

Mansfeldt pressed Gaillard on the risk that smaller GPs might "be crushed by the giants." Gaillard replied that obviously "there will be some consolidation" but his firm invests in GPs that it believes have solid performance, "want assets under management to grow" and "will be stronger in five to seven years." In addition to checking business plans, they investigate the firm's "ambiance" because private equity "is a people business."

Gaillard said that Armen invests in alternative fund firms seeking, for instance, capital to invest alongside limited partners (LPs) in a new fund that is launching or need to cash out a retiring partner. They themselves exit in the secondary market, selling stakes to asset managers, insurers or family offices looking "to take advantage of the dividend streams." Occasionally a GP will buy back its stake or Armen sells out jointly with the other partners, "but we cannot trigger a sale as minority shareholders."

Luxembourg has high hopes for supercycle in private markets

RAYMOND FRENKEN · OCTOBER 21, 2024

The LPEA Insights Conference in Luxembourg on Thursday. Photo: IO.

The annual Luxembourg Private Equity Association (LPEA) Insights Conference drew over 1,000 professionals to the Grand Duchy this year, underscoring the nation's status as the largest global private markets hub outside the United States.

In a time when private equity and alternative investment markets are navigating shifting economic conditions, regulatory changes, and the emergence of AI, the conference reflected growing optimism that the sector may be entering a new supercycle—a period of sustained outperformance in private markets.

> *"We may indeed be on the cusp of another phase where private equity outperforms."*
>
> ***Claus Mansfeldt**, Swancap*

The idea of a supercycle dominated discussions at the event. Claude Mansfeldt, managing director of Swancap and chair of LPEA, set the tone early on. "If you focus on private equity, you'll have noticed increasing talk about the next PE supercycle," he said. "We may indeed be on the cusp of another phase where private equity outperforms. It's suggested that PE returns will once again surpass those of public equity."

This optimism is supported by data showing private equity is currently valued at about two and a half times less than public markets, a gap that Mansfeldt believes will soon close. "Distributions are expected to come back with a vengeance next year," he added, pointing to a return of exit activity that could significantly boost investor returns.

In private equity, distributions refer to the returns or payouts made to investors, typically after a portfolio company is sold. These distributions represent the realisation of profits from the investments made by the fund.

Balancing act

Beyond the supercycle, much of the conference focused on operational excellence, with speakers underscoring the need for private equity firms to adapt to a fast-evolving landscape. Hind El-Gaidi, head of Luxembourg at Intermediate Capital Group, explained that both evolutionary and revolutionary changes are reshaping the industry, where the use of terms like GPs and LPs are commonly use to refer to investment managers and investors, respectively.

"GPs are growing in size, deploying capital, and diversifying their LP bases, while innovation is driving revolutionary changes," El-Gaidi said. "Operational excellence is what marries these two forces together."

El-Gaidi also emphasised the role of regulation in shaping the future of private equity. While regulatory requirements can be burdensome, they are also essential for fostering innovation and protecting investors. "The challenge lies in balancing the high costs of compliance with the rapid pace of deployment," she noted.

Retailisation brings lower fee income

Retailisation—or the opening of private markets to individual investors, also referred to as *democratisation*—was another key theme of the conference. Fabrice Jeusette, managing director at Apollo, pointed out that retailisation, supported by new regulation that has removed investment thresholds in private markets, will likely lead to lower fee income due to intermediation costs, but it will also introduce new challenges, as retail investors demand more interaction and tailored services.

> *"Retail investors value more interaction with you, and they will demand different things."*
>
> ***Fabrice Jeusette**, Apollo*

"You're dealing with a different type of investor," Jeusette said. "Retail investors value more interaction with you, and they will demand different things. You'll have to manage that triangulation—higher costs and a lower focus on traditional institutional models. Efficiency will be key."

Gautier Laurent, managing director at Cinven Luxembourg, agreed, noting that the entrance of retail investors represents "a different beast" for private equity firms. "It's new territory, with an additional layer of services and fees. Increased competition signals a more mature market," Laurent said.

Retailisation has been driven in part by the development of perpetual capital vehicles, or evergreen funds, which provide private equity firms with more flexible investment horizons. According to John Sharkey of Blackstone, the world's biggest private equity firm, these vehicles are proving to be a powerful tool for expanding into the private wealth channel—a sector Blackstone has been growing eagerly. "There is great opportunity, particularly for private capital with a flexible horizon. We see continued potential in this ownership model," Sharkey noted.

ESG no longer competitive

The integration of Environmental, Social, and Governance (ESG) factors in private markets is reaching a critical juncture, the conference discussions made clear. As El-Gaidi noted, the days when individual sponsors could leverage ESG innovation as a unique competitive advantage are fading.

> *When it comes to ESG "we're at a tipping point in the market where individual sponsors can no longer claim innovation as a competitive advantage."*
>
> ***Hind El-Gaidi**, ICG*

"We're at a tipping point in the market where individual sponsors can no longer claim innovation as a competitive advantage," she said. "The entire ecosystem needs to align, with all the key parameters connected. None of us can create a competitive edge from this alone—there's real advantage in moving forward in lockstep, together."

Experimental mindset

The rise of artificial intelligence (AI) was another focal point, with many industry leaders seeing it as both a challenge and an opportunity. Sharkey pointed out that Blackstone has adopted an experimental mindset toward AI, particularly in leveraging data for decision-making. "We've challenged our portfolio companies not to fall behind, because leadership positions can be eroded over time," he said.

While AI offers significant potential for improving operational efficiency, private equity firms are cautious about the high costs of implementation. "The problem is that investing in your own operations doesn't always deliver a clear return on investment," Laurent observed, reflecting a broader industry concern.

Consolidating landscape

Consolidation in the private equity sector was another trend discussed at the conference. David Layton, chief executive of Partners Group, last year predicted that the number of private equity managers could shrink dramatically over the next decade, driven by higher interest rates, fundraising difficulties, and increased regulatory costs. The top 25 largest competitors have already captured more than a third of the 506 billion of new capital allocated to private equity in 2024.

As the industry consolidates, larger firms are likely to dominate, leaving smaller players struggling to compete. Yet, despite these pressures, speakers at the conference remained optimistic about the future. "While these challenges are substantial, they also present a lot of opportunities for large and mid-market players like us," said Richard Reis, partner at Argos Wityu.

As the LPEA event concluded, the mood was one of cautious optimism. Whether or not a supercycle truly materialises, it is clear that private equity remains a dynamic asset class with promising long-term returns for investors who know how to navigate here. Luxembourg, with its conducive regulatory environment and growing expertise, could be well-positioned to ride the next wave of private market growth. As Mansfeldt put it: "The game is on. Go out, find the best ideas, and enjoy the race."

Strategic focus on key enablers for PE's digital competitive momentum

Written by Stéphane Pesch + Emilie Moray
Published on 19.11.2024

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Luxembourg, the second largest global fund centre with €5.65trn in assets under management of total net asset value as of September 2024, is laying the groundwork for its financial future, write Stéphane Pesch and Emilie Moray in this guest contribution.

(Ahead of the Paperjam Club's 10x6 event dedicated to the future of the Luxembourg financial centre, *which will take place on 19 November at the Kirchberg Kinepolis, we have decided to give the floor to key players in the financial centre. We're publishing their guest contributions every morning until the event. Today, the CEO of the Luxembourg Private Equity & Venture Capital Association,* Stéphane Pesch, *and Emilie Moray, legal & regulatory coordinator at the LPEA, share their analysis.)*

Luxembourg, the second largest global fund centre with €5.65trn in assets under management (AUM) of total net asset value (Nav) as of September 2024, is laying the groundwork for its financial future. The nation's flexible toolbox, robust operational framework, international, skilled workforce and position as a leading hub for alternative investment funds (AIFs) in the EU have established its global financial standing. Looking ahead to 2035, private equity (PE) is set to play a key role in supporting Luxembourg's competitiveness and driving its economic growth.

In this article, we have identified five key enablers that will, by 2030, strengthen further the competitiveness and position of Luxembourg's PE Industry in the global economy, which are: the increasing importance of alternative investment funds and the PE industry, technological advancements, democratisation of finance, ESG value creation circle and the capital markets union framework.

1. Rise of the alternative investment funds industry

Alternative investments in PE, venture capital, secondaries, private debt and fund of funds, have indeed become increasingly significant within Luxembourg's financial ecosystem. AIFs, which account for €2trn in net asset value and 40% of Luxembourg's total Nav at the end of 2023, provide a strong foundation for the industry. The demand for PE, in particular, has grown, as institutional and retail investors seek diversification and high, recurring and resilient returns. This growth is supported by a national experienced ecosystem that allows Luxembourg to meet investors' needs through regulatory efficiency, operational excellence, customised servicing and helps the financing of the real economy, the support of innovation and job creations in Luxembourg, the EU and worldwide.

2. Technological operational excellence

Technology, led by artificial intelligence (AI) and digitisation, will be a core driver of efficiency and competitiveness in the private capital markets. AI applications are and will be transforming multiple aspects of the industry, such as:

—**Deal sourcing**: AI-driven and automated tools will streamline the identification of high-potential investment opportunities by analysing large datasets.

—**Due diligence**: Automation will enhance the accuracy and speed of due diligence processes, and will reduce operational costs.

—**Portfolio management**: Predictive analytics will allow fund managers to monitor portfolio performance very quickly (after a thorough data consolidation process), and facilitate proactive decision-making.

—**ESG reporting**: AI will simplify and improve the collection, analysis, and reporting of environmental, social and governance (ESG) data, ensuring compliance with growing regulatory requirements.

Luxembourg's private capital sector is also supported by different local technology providers and fintechs, which could operate as a recognised KYC repository for ongoing due diligence data. By reducing administrative burdens and ensuring regulatory compliance, such tools will further strengthen Luxembourg's competitiveness in a global private equity market.

3. Democratisation of private assets

A key trend shaping the PE landscape is the democratisation and access to private markets. Traditionally limited to institutional investors, PE is now accessible to a broader range of participants, thanks to a quite flexible toolbox, an increased interest from new investors, the creativity of private bankers, insurance firms and wealth managers who have developed dedicated products, in addition to some technological innovation proposed by advanced digital platforms.

AI will further increase the potential to increasingly and comprehensively reach clients' expectations in terms of services tailored to their specific financial goals, risk appetite and investment preferences, notably through automated digital solutions, customised portfolios and reporting. The tokenisation of assets could even go one-step further in the enhancement of this democratisation movement by rapidly opening access to high-value investments, adding liquidity and simplifying the entire investment experience.

Such initiatives position Luxembourg as a leader in the modernisation of the fund management industry, enhancing its appeal to a global, broader and savvy investor base. In that regard, Luxembourg is also extremely well positioned as key excellence centre for wealth management, private banking and family office hub in Europe.

4. ESG value creation in PE

Sustainability has become a priority for the financial industry and also PE funds, with ESG principles now embedded in investment strategies worldwide. Luxembourg's regulatory framework supports ESG compliance and positions the nation as a leader in sustainable finance. PE funds increasingly channel investments into sectors such as renewable energy, clean technology, energy transition and social impact projects, aligning with global priorities.

With companies enhancing their data gathering and reporting practices, with the help of automation and AI, the quality of data will quickly improve further and reinforce the attractiveness for investors. This holistic approach will not only benefit to the transparency, reporting expectations, financial returns but also lead to a resilient business model that drives both economic and social values.

Luxembourg also leverages on initiatives such as the Luxembourg Green Exchange, which promotes green finance and attracts socially conscious investors. By prioritising ESG-aligned investments, Luxembourg enhances its value proposition to investors while contributing to broader environmental and social goals.

5. The capital markets union: A framework for growth in the real economy

A high-performing capital markets union (CMU) is essential to Luxembourg's 2035 strategy. As a European initiative, the CMU aims to create a unified capital market, foster simplified cross-border investments and contribute to the financing of the real economy. The CMU's harmonised regulatory framework will offer significant advantages for our industries:

—**Enhanced resource allocation**: the CMU will enable PE funds to channel resources into selected high-growth sectors.

—**Market access**: Simplified cross-border regulations will make it easier for funds to scale operations across Europe.

—**Support for SMEs**: PE-backed financing can address funding gaps for small and medium-sized enterprises, fostering innovation and job creation, notably in the field of technology, which is key in supporting the digital competitiveness.

Luxembourg's involvement in the CMU will further strengthen its ability to attract global investors and enhance its role as a bridge between capital markets, investment funds and investments.

Addressing and capitalising on opportunities

As Europe and Luxembourg prepare for 2035, several opportunities must be properly addressed to enhance its digital competitiveness and create the digital momentum in PE:

—**Global competition**: Experienced financial hubs abroad are not sleeping either and an intensified competition for capital flows, talents and technological advantages is on its way.

—**Regulatory complexity**: Balancing strict compliance requirements with the agility to support new products, trends and innovation is and will be crucial.

—**Talent development**: Attracting and building a trained workforce digitally and technologically skilled in finance and private markets is necessary to sustain the upcoming growth of volumes and value chain.

> " THROUGH THE INTEGRATION OF TECHNOLOGY AND AI, THE DEMOCRATISATION OF PRIVATE EQUITY AND THE INVOLVEMENT WITH THE CAPITAL MARKETS UNION, LUXEMBOURG WILL ENHANCE ITS COMPETITIVENESS IN AN EVOLVING FINANCIAL LANDSCAPE "
>
> Stéphane Pesch & Emilie Moray, LPEA

—**Digital transformation**: Advanced technologies can further streamline operations, enhance efficiency, automate and open doors to further customisation of customers' needs.

—**Sustainability leadership**: Luxembourg's commitment to ESG principles positions it as a natural hub for sustainable finance.

—**European integration and partnerships**: The CMU offers a platform for scaling PE operations across borders. Public-private partnerships will also be a key in financing the real economy by direct or indirect means.

Luxembourg in the driving seat of the European private equity scene

Luxembourg's financial centre is well-positioned to drive, inspire and facilitate the next growth cycle of the European and global PE markets by 2035. Its strengths in regulatory, operational excellence, technological innovation and ESG will provide a solid foundation for another robust success story. Through the integration of technology and AI, the democratisation of private equity and the involvement with the capital markets union, Luxembourg will enhance its competitiveness in an evolving financial landscape.