PRIVATE EQUITY
INSIGHT/OUT

Eurazeo: Growing in all counts

Focus on France

Wendel: Perennial investments

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LPEA
THE LUXEMBOURG VOICE OF PRIVATE CAPITAL

Dear members, friends and partners,

2022 is a thrilling and active vintage, which has already shown a very impressive level of entrepreneurial spirit, a cohort of new incoming players and a robust appetite for more Private Equity and Venture Capital.

Democratisation of the private asset classes has become a recurring and central theme which has inspired many professionals to deploy further existing in-house solutions, inspired them to look out for innovative ones (dedicated Feeder structures, digital platforms) or "off-the-shelf" services that could be smoothly embraced and implemented. In order to tackle this profound trend, we have tried to explore different value propositions, which led us to exchange with recent entrants and recognised practitioners about the benefits of using well thought technology-powered platforms combined with recognised professional expertise and successful set-ups. This journey even highlighted the rise of products, which are targeting retail investors via specific vehicles and constructs. Is this a direction the entire industry would like to go? Not sure (well defined thresholds and time will tell) since many operational characteristics need to be planned, integrated and dealt with in order to be able to maintain a high quality of service, the right exposure and the expected underlying performance.

Nevertheless it is also worth noting that the fund placement and distribution activities will play an increasingly important role in the ecosystem, its inherent growth and therefore will also require some smart integration and clear processes down the line.

For the first time in our Insight Out magazine, we have decided to give it a more geostrategic angle and focused on an important neighbour market namely France. We asked our peers to share their market overview, interviewed a French GP and investor which are strongly leveraging their Luxembourgish platform and have asked a few former expats who have successfully integrated the local market about their sentiment. You know the usual anecdote heard from many industry veterans: *"we came from abroad and intended to stay in Luxembourg for one or two years"* and finally, two decades later, are still there and really enjoying it. So give it a try and join this vibrant community, financial hub and do not miss our upcoming Training Academy and Job fair since the quest for talents has surely not decreased in the meantime and will be critical over the next months and years.

Take care and hope to see you during our physical Q1 and Q2 events back on the road.

Stephane Pesch
CEO, LPEA

Claus Mansfeldt
Chairman, LPEA

The magazine of the Luxembourg Private Equity & Venture Capital Association
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LPEA Job Fair

Luxembourg is one of the most attractive countries for people working in the financial sector and in the alternative investments industry. The PE/VC space is growing rapidly and the sector is constantly on the lookout for new talents. The LPEA continuously supports this search through various activities. The LPEA Job Fair takes place digitally in March 2022 and offers to people from abroad to get acquainted with the local ecosystem and to interact with its stakeholders. The Job Fair connects job seekers and HR specialists by offering interview opportunities, as well as free access to informative discussion panels around several PE/VC career development topics.

Scan the QR code for more information:

LPEA Academy

Staying on top of your professional game is a constant effort. In parallel to the mentorship program the LPEA keeps on developing its training Academy. Its objective consists in re-enforcing the PE/VC knowledge and skills of the new-comers and of existing professionals in Luxembourg.

The program includes different modules e.g. Tax, Legal, Private Debt, Risk Management and ESG as well as VC and PE Foundation trainings. This edition also features a new Value Creation course.

The Academy is flexible with modules taking place digitally during lunch breaks. The sessions are also recorded and available for replay. During this edition - and as networking is a high priority for our community, we will have the pleasure to host a physical event for all the participants - speakers and attendees - to meet and exchange in person. This will be the ideal way to mark the middle of the curriculum.

LPEA Mentorship Programme

Together with the PE4W Club, LPEA launches its first mentorship program.

During our Job Fairs and while interacting with job seekers and young professionals throughout the year, we identified people's need for inspiration, advice and support. Students and young graduates are looking for mentors to transmit their passion for the PE/VC sectors and individuals interested in changing their career path, seeking hands-on knowledge and experiences.

The mentorship program focuses on skills sharing and networking as well as personal and professional development of the mentees.

Scan the QR code for more information:

LPEA on the road 2022

Following hopefully the prospective end of the C-19 pandemic, LPEA is back on the road. The objective of the LPEA international seminars is to promote the Grand-Duchy's toolbox and connect the Luxembourg and host countries' PE/VC communities. LPEA leverages on partner organisations to host these events in different countries, always with a focus on knowledge sharing and networking. In 2022, the LPEA is planning events in Milan, Zurich, Paris, Munich, London, New York and Toronto. Visit the LPEA website for regular updates.

GP Bullhound debuts in Luxembourg

The European multi-asset fund manager GP Bullhound presented its 2022 technology trends in Luxembourg early February. Present in the Grand-Duchy for many years, the firm is now increasing its substance in Luxembourg as the country plays a central role in its current and upcoming funds strategy. GP Bullhound is a growth stage investor behind well known technology firms such as Spotify, Slack, Revolut, Unity or Klarna. The firm also closed Europe's first SPAC of the year at EUR 200 million.

BeAngels expands to Luxembourg

The Brussels-based business angels network opened a new chapter in Luxembourg. With 20 years of experience and nearly 400 members, BeAngels is one of the biggest European business angel networks. Members of the club are expected to invest into three startups from Belgium or Luxembourg during a one year period. BeAngels adds to the long-standing Luxembourg Business Angel Network as an opportunity for business executives and entrepreneurs to join the journey of emerging start-ups.

Luxembourg regulator paves way for virtual assets

The CSSF, Luxembourg regulator, recently published dedicated guidance on the management of virtual assets through a Q&A and recommendations for the implementation of Decentralised Ledger Technologies (DLT) and blockchain in the financial sector. Such clarifications aim to facilitate the adoption of new technologies while at the same time remaining compliant with existing regulation.

Luxempart invests up to 45 million in BCP II

Luxempart announces the first closing of the Bravo Capital Partners II fund (BCP II) at 90 million euros. It supports the fund as a "sponsor" by committing up to EUR 45 million.

After investing in BCP's first fund (BCP I), the Luxembourg based GP announces a renewal of its commitment to BCP II. Funds were raised from primary institutional investors such as the European Investment Fund and various family offices and high net worth individuals, in addition to Luxempart's commitment. BCP II has already made its first investment by acquiring a majority stake in the Italian microfiber company Lorenzi.

“We focus on sustainability not because we're environmentalists, but because we are capitalists and fiduciaries to our clients. That requires understanding how companies are adjusting their businesses for the massive changes the economy is undergoing. [...] These targets, and the quality of plans to meet them, are critical to the long-term economic interests of your shareholders.”

Larry Fink, Chairman and Chief Executive Officer of Blackrock in "Larry Fink's 2022 Letter to CEOs"

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By **Stephane Pesch**
CEO of LPEA

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Interview of Marc Boulesteix

Eurazeo: Growing in all counts

Marc Boulesteix, Director of Eurazeo's Luxembourg Office, says the change in strategy from the last six years has driven to considerable growth both in term of AuM, new asset classes and global reach.

What can you tell us about Eurazeo?

Eurazeo used to be a French investment holding linked to the Lazard bank. Currently we have two main shareholders being the Michel David-Weill Family - and the Decaux family. Both families own around 35% of the capital of the company, the remaining being listed on Euronext. Since more than six years we have changed our business model to alternative asset manager focusing on third party investors.

It is key to understand that in many of our strategies we invest our own balance sheet - coming from the listed company - alongside with our third-party stakeholders – LPs - via our third-party funds. This characteristic is very important since it has implications in our processes. We believe it's a real strength and a key differentiating factor as it allows us to seed new strategies and to have significant skin in the game. For some strategies, such as mid-large buyout (MLBO), more than half of our investment programs include investments from the balance sheet.

To give you an idea of the outstanding growth we've had when I joined Eurazeo back in 2016, we were managing around EUR 6 billion - EUR 5 billion from the balance sheet and EUR 1 billion from third-parties. At the end of September 2021, we were managing EUR 27 billion with more than EUR 20 billion from third-parties.

How did you manage to reach that growth?

Through organic growth but also through M&A. We bought minority and majority stakes in asset managers, in Europe and in the US. The major acquisition we realised was Idinvest Partners, which we rebranded Eurazeo Investment Manager (EIM). Idinvest Partners had been very successful in private debt, in private funds as well as in growth and venture. Through this strategy we managed to increase AuM significantly over the past five years. The objective we set in 2020 was to double our AuM from EUR 19 billion to around EUR 40 billion in five to seven years. Based on the current figures and fundraising pace, we are ahead of this plan and expect to reach around EUR 30 billion at the end of 2021. A very solid fundraising pipeline is the main reason for this lead, just for this year 2021 we raised more than EUR 5 billion, up 80% from 2020.

> **"The objective in 2020 was to double our AuM from EUR 19 billion to EUR 40 billion in five to seven years and we are currently ahead of this plan."**
>
> Marc Boulesteix

Which strategies are you addressing?

Concretely, out of the EUR 27 Billion in AuM I was mentioning, 76% is Private Equity. Buyout represents slightly above EUR 6 billion, Venture and Growth EUR 6 billion and just under EUR 4 billion in private funds. Real assets AuM is EUR 1 billion and EUR 5 billion for private debt.

We are also developing new strategies and accelerating the most promising ones. Our recently founded sustainable infrastructure team is currently fundraising for their first fund and last July we raised EUR 1.6 billion to invest in growth companies with EUR 1.1 billion originating from third-party funds, EUR 200 million coming from retail investors, and EUR 300 million from our balance sheet.

Such growth must have impacted your own setup...

Five years ago, our team consisted of 70 people and we are currently 400. We are investing in more than 450 portfolio companies through equity and debt combined and we also have expanded our geographical footprint. We were France-centric at first, but we now have a global footprint with 30 people-strong investment team located in the US. Several months ago, we opened our London office and we have already more than 30 staff members. We also have offices in Madrid, Milan, Berlin, Shanghai, Singapore, Seoul and a presence in Brazil. We want to go global in terms of investment and fundraising to better manage our growth and follow the best opportunities.

Can you tell us more about the Luxembourg office?

Eurazeo has been in Luxembourg since 2004. It used to be an office managing accounting for the group's SPVs. Following the launch of our first third-party fund back in December 2016 (Eurazeo Capital III) and the change of the group strategy, we became an AIFM (CSSF licence granted in January 2018). This led us to recruit and have today a committed team of eight experienced professionals and three joiners are coming soon.

We currently manage the whole spectrum of middle and back office tasks in-house. We do not have any investment team so far in Luxembourg and operate

with an investment advisory scheme for portfolio management. Otherwise, we are managing the funds in terms of accounting, legal, compliance, valuation, cash management as well as risk management. With the increasing volume of work, we are considering outsourcing part of those tasks. Outsourcing is a group-wide trend due to the amount of funds that we have raised recently and the numerous fundraisings ongoing.
We are managing in Luxembourg the Mid-Large Buyout third-party funds – the flagship of Eurazeo – and the newly launched real estate third-party funds. We are currently fundraising for our first third-party funds which will focus on the real estate sectors in order to answer the strong demand coming from our LPs in that space. As of today, Luxembourg represents AuM of EUR 3 billion. As of now, the Grand-Duchy represents more than 70 structures, including funds and SPVs.

Where are the other third-party investors' funds located?

So far we are only using two jurisdictions, France and Luxembourg.

Where is the investor relations (IR) team located?

Most of the team is located in Paris, but we have IR teams based in London and in the US. Luxembourg does not have any fundraising team per se but we are deeply involved in the fundraising process mainly when it comes to due diligence and structuring of the funds. We set up this organization to be as efficient as possible and to get one single point of entry for LPs for all our strategies.

How do you distinguish yourself from other players?

The main differentiating factor is that we have significant skin in the game. We therefore have a clear alignment of interests between the manager and the LPs. Another factor is our very strong knowledge and experience in topics such as ESG, risk management, governance, accounting and reporting technicalities. Eurazeo's corporate team is deeply involved in investments

> **"We are one of the only listed asset managers accredited with all the possible [ESG] indexes and we hold the best score (A+) on all of them."**
>
> Marc Boulesteix

and helps a lot our portfolio companies - especially SMEs - to grow by developing their internal governance and processes. Furthermore, Eurazeo's footprint helps them to expand internationally through our global network. Scaling up our portfolio companies is our core commitment.

Can you tell us more on your ESG expertise?

ESG has been a very strong focus for Eurazeo. Our first commitment in ESG was taken 20 years ago and it grew since then. Today we have set out a very ambitious strategy named "O+" with two main objectives. The first is to reach carbon neutrality by 2040. The second is to improve diversity and inclusion. We are one of the few listed asset managers accredited with all the possible indexes and we hold the best score (A+) on all of them. We have also implemented a systematic ESG approach – with clear KPIs - for our investment cycles, from origination until exit. All our ESG commitments are publicly disclosed and I invite you to consult on our website for the full picture.
Personally speaking, the most interesting topic is to implement those principles, processes and KPIs in our portfolio companies. This is especially the case for non-listed firms, which did not tend to be deeply involved in that journey. As a result, we help them to put in place an ESG roadmap with clear objectives to be addresses by the top management. I think that will create a concrete and visible impact.

How do you see your global ESG strategy?

We have the clear feeling of being ahead of the competition. We are pushing as much as we can. We will see in the next five to ten years to come what is the outcome of everything we engaged over the past decade. We feel that we are on the right track by changing the processes and mindset of the people in our portfolio companies. Following ESG principles creates clear value and any shortcomings could only imply missed opportunities. There is no turning back.

Are the PE and VC sectors doing enough?

I cannot answer for the industry even if I think, based on the requirement from our stakeholders, that ESG is a clear focus for everyone. Focusing on ourselves, as of now we have 20% of AuM in PE invested in low-carbon economy transitions. Whether it is the right level I don't know, but the most important factors are the pace and the increasing trend itself. Just to give you a couple of examples we recently launched the Eurazeo Sustainable Maritime Infrastructure thematic fund which is an Article 9 impact fund focusing on the financing of sustainability businesses (e.g. infrastructure, clean energy boats)

> **"We have significant skin in the game. We have a clear alignment of interests between the manager and the LPs."**
>
> Marc Boulesteix

and the fund "Smart City II" focusing on environmental transition. Clearly, we are adopting a systematic approach on all our private equity investments to include ESG principles in our investment policy, either through exclusion of sectors, definition of KPIs or key objectives for portfolio companies. Being a listed company, this is not just small talk, we have to be fully transparent over our objectives as well in our results. You can see how we apply our methodology and the pace of reduction of our carbon footprint in our documentation.

Are there challenges linked to being listed? The pressure of quarterly results for instance?

In terms of quarterly results, I think it doesn't change much as we would have to share quarterly reports to our LPs anyway. Being listed brings sometimes more complexity because as we are doing PE, the investment pace is different. For instance, quarterly valuation can sometimes be counterproductive or misleading given that we are investing usually for three to five years in a company. But we do it, it's already embedded in our processes and it provides our LPs with top-notch quality financial information. Our reports are very detailed both with quantitative and qualitative data and are very appreciated by the investors. This might be due to our long history of releasing quarterly reports.

It's also a trend with more PE houses doing an IPO.

Absolutely, yes. We've seen several successes lately. It's one way for investors to be exposed to the PE sectors, through the listed shares of the manager. Also, new tools to on board clients - private investors, digitalisation - especially tokenisation - will clearly facilitate the entry of more retail investors into the private equity space. At Eurazeo we have a successful history with individual investors that translates into more than EUR 2 billion of AuM and 120.000 individual investors co-investing alongside institutional funds. Again, that's one of the differentiating factors, having an institutional founder, the balance sheet, and retail investors' funds, all investing side by side inside the same program.

Is there a minimum ticket size to become a retail investor and to invest via this retail pocket into the same targets?

It depends on the investment strategy and on the fund itself. We have two schemes. One with a minimum of EUR 125.000 directed to professional investors so the focus is more on high-net-worth individuals (HNWI) and one with no minimum but for which access is usually granted through private banks, insurance company or similar schemes.

Next to the insurance vehicles, is it also possible that you have to adapt this fund structure to accommodate retail investors?

We have a deep knowledge of the market, we know where the appetite is and we adapt ourselves to such needs, especially with our distributors that are very often private banks and their respective HNWI.
The negotiation we have with private banks is of course about pricing but also around operational processes, especially when it comes to managing capital calls. The typical request is to make one and only capital call to make life easier for everyone. This is somehow new to us as with institutional inves-

tors, cash management is a clear focus and there is no cash overfunding at fund level at any point in time to get the best return (IRR) for our LPs. Thus, with retail investors, we shall manage cash rich funds which is a bit of a challenge given the current environment.

But I understand you also have a specific offer for pure retail investors.

Indeed, we try to attract this typology of investors. We developed a fully digitalized tool for retail investors to subscribe to our funds directly from our website. It is a fully digital journey, comprising the KYC process, the adherence agreement and its execution. Of course, there is always someone in the team validating the compliance of the documentation but it is very user friendly.

You were pioneers in PE democratisation and you showed there could be a viable model.

Yes you can say so indeed. We are fully dedicated to grant a broader access to this alternative asset class.

Now regarding talents, how do you align attracting the best talents and addressing diversity?

Attracting talents is one of the key challenges we need to cope with. Eurazeo has clearly expanded its scope in order to include more diversity in its recruited profiles. As you know, we are led by a female CEO - Virginie Morgon -, who has been committed to the diversity cause for decades and is a role model in the industry. For the investment teams, we are focusing on top-notch educational background, always in tune with the investment areas and geographic focus. We are organised in small teams and therefore each talent counts. Of course, it also comes with the right compensation – carried interest and shares of Eurazeo - which adds some liquidity compared to the former.

It goes as a whole. Our significant pace of AuM growth, together with our ESG strong commitment and the globalisation of the group, contribute to making Eurazeo an attractive place to work.


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> **"We have more than EUR 2 billion in assets and 120.000 individual investors co-investing alongside institutional funds."**
>
> Marc Boulesteix

What are the specific profiles needed in Luxembourg?

The middle office "plus" - advanced middle office functions with added value and transversal exposure to the deal teams and investment process -, that's where we are right now, maybe with some potential to extend in the future with more fundraising activities. This positioning makes the Luxembourg office a very interesting career opportunity as we work closely with the investment team and are deeply involved in the investment processes.

It's particularly interesting for the new generation - I'm 42 so I don't qualify as the new generation anymore. I recognise that for them, having an impact and being able to see it clearly is key. At Eurazeo Luxembourg, we see both ends of the business: we work on a daily basis with investment teams, we do the investment structuring, manage the cash, the legal aspects, etc. and are deeply involved in the LPs relationship. It allows us to have a very clear and direct view on the impact of the work performed.

Compared to my previous position as an auditor, doing is not the same as reviewing. Our day-to-day business is to execute operations from structuring to their full execution. We are in charge, empowered and we can quickly see the impact that we have over the business. Whether we do it right or wrong has a direct consequence.

Did the fact of being a public company accelerate the group's interest into philanthropy?

It's really part of our DNA. We have a long history of philanthropy at Eurazeo. We launched endowment funds many years ago that provide access to education and professional training for young people. We also provide financing to several associations which facilitate the access to education for young people living in difficult conditions. In New York our investment team is giving one day per year to support homeless people. Moreover, we organise a call for tender for photographers every year to illustrate our Annual Report based on a given subject and then host a vernissage for the selected photographer in support of his art form. ●


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By Marc Auxenfants
Journalist

The French Expats' view

Five private equity and venture capital experts, who came to Luxembourg for business and/or family reasons, share their experiences of the industry.

They are French auditors, lawyers, advisors, executive directors, investors. They all decided to start a new career or to pursue their business in the Grand-Duchy. Their testimonial is a living memory of Luxembourg's tremendous PE/VC adventure, they embarked in some years or decades ago.

"Luxembourg gave me a lot"

Marie-Laure Mounguia (Associate Partner at EY) is a certified financial auditor and a CFA charter-holder. She left Paris for Luxembourg in 2010, to develop BGL BNP Paribas' private banking center. She then moved to EY and pursued her career in PE. She mainly audits and advises Luxembourg funds and PE houses operating in the Grand-Duchy. "In Luxembourg, you evolve in an open-minded and inclusive environment with a great work ethic which makes a huge cultural difference when it comes to doing business," she says. "If you are good at what you do, you can make your way to the top. Everyone is given a chance to prove themselves in business".

Mathieu Perfetti (Head of Private Equity at Threestones Capital) moved to Luxembourg early 2018 as Head of Private Markets & Alternatives at CA Indosuez Wealth (Asset Management). He previously worked in France, Switzerland and Singapore in the PE industry. At Threestones Capital he supports the firm in setting-up and developing Private Equity investment activities within such a fast-growing and independent investment group headquartered in Luxembourg. "Luxembourg is a very friendly and welcoming land, on a human scale, with first-rate infrastructures," he details. "On a personal basis, it offers a very high family life standards, and the international ecosystem and safe environment, that I was looking for as a father".

Solenne Niedercorn-Desouches (Senior Advisor and non/Executive Director in FinTech/VC) moved to Luxembourg in 2009, with her husband, at that time she was working as a Business Analyst and Investment Consultant. She then pursued a career in wealth management and in Regtech, before establishing herself as an independent advisor. Besides her mandate in a VC fund (Fabric Ventures), she is also an independent board director and advises Fintechs and VCs in their strategy and business development. "It is very easy to connect to the local ecosystem, and to network through professional associations such as the LPEA," she explains. "The country gave me a lot. It was therefore logical for me to become a Luxembourg citizen, because I also feel Luxembourgish".

Philippe Barthélémy (Managing Partner, Investment Director, WeInvest Capital Partners), a graduate architect in ITC and business manager, arrived "by chance" in Luxembourg in February 2007, as a fund accountant at Alter-Domus. The internship was part of a Master's degree in management. He was then appointed PMO, before taking management positions in corporate finance (GC Partner, Mazars, 99 Advisory), as an executive leader (FARAD group) and then partner (Gaia Invest, Haca Partners). In November 2019, he co-founded Weinvest Capital Partners, a boutique specializing in Private Equity and Real Estate. "Luxembourg is a very open country, extremely solid, whose pace is long-term," he says. "Indeed, the PE approach is similar: you have to gain the trust of the people, whom you collaborate on investment projects with".

Caroline Pimpaud (Partner at DLA Piper Luxembourg) relocated from Paris to Luxembourg in 2010 for personal reasons. She first worked at Linklaters LLP, before joining DLA Piper's Investment Management & Funds team. She focuses on the structuring and formation of alternative investment funds (regulated or non-regulated vehicles) for private equity, real estate and infrastructure asset managers. She also assists clients on legal and regulatory compliance issues and advises investors on their investment fund review. "Luxembourg's working environment offers a clear focus and expertise on financial services. I found it really exciting to gain exposure to international profiles and a variety of players I was not used to encounter in France".

"One of the most exciting industries"

All experts agree that Luxembourg PE/VC markets have changed over the last decades. Mathieu Perfetti recognizes that apart of being a European hub for both asset & wealth management, they are well positioned in the development of further investment services and innovative products. "The financial center is also acting as a toolbox and one-stop shop service provider across the entire PE industry. Moreover, the increasing interest from private banks, family offices and HNWI - attracted by an asset class investing in the 'real economy' and offering distinctive outperformance versus listed markets - is more than just an emerging trend," he says. "Those key trends are at the heart of the LPEA's Wealth Management club that I initiated 18 months ago as co-chair together with Stéphane Pesch".


Marie-Laure Mounguia


Philippe Barthélémy
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Caroline Pimpaud

> **"As French professionals, proud to be settled in Luxembourg, we all have a role to play to promote the country."**
> Caroline Pimpaud

Looking back over the past 12 years, Caroline Pimpaud remembers that the country was mainly seen as a back-office for fund managers, with a PE industry very much focused on corporate structuring. "Today, the market has changed tremendously: PE firms run their European business through Luxembourg, their funds as well as their management platforms are structured and domiciled here," she notices. "In a decade, the country has gained a broad expertise in asset management at large and more specifically in the PE sector".

For Marie-Laure Mounguia if PE was considered a niche market 15 years ago, it has since grown exponentially to become a very structured ecosystem, with a constellation of expertise who serve the industry. "PE is one of the most exciting industries in the financial sector: Every day, I discover new products and innovative investment strategies. It is also a booming market, with a lot of specificities in terms of operations, strategies and instruments, she says. She predicts that there is still a lot to come though, especially with digitalization and the growing market appetite for impact financing. "However, Unlike some other businesses in the financial industry, PE decisions cannot be made by machines or algorithms. It is intrinsically a human business: attracting investors, designing tailor-made products, aligning with investors' expectations, selecting targets, structuring deals, valuing investments etc., requires irreplaceable human intelligence".

Over the past 15 years, the country has become an essential hub for the PE and funds industries, Philippe Barthelemy sees: "In particular with the AIFMD, which accelerated the funds structuring from Luxembourg," he explains. "The market has evolved towards more regulation, with a more rigorous framework, which has helped the industry become more professional and gain in expertise and recognition by peers, clients and regulators. These give the country a competitive advantage over other places".

Furthermore, Luxembourg has capitalized on its very strong expertise

> **"The financial center is also acting as a toolbox and one-stop shop service provider across the entire PE industry."**
> Mathieu Perfetti

in fund engineering and structuring, thanks to its history in wealth management and funds, continues Solenne Niedercorn-Desouches. "This explains the current maturity of its PE/VC ecosystem, which is unmatched in Europe," she says. "Luxembourg has always managed to reinvent its activities, from the production of roses and the steel industry, up to the finance and space industries".

"A story of men, women and win-win situations"

However, on the French side, there is often "a misunderstanding regarding our financial center, and a lack of knowledge regarding its international business environment," she regrets.
Hence, how could Luxembourg's PE and VC be better connected to the French market?
"The LPEA plays a fundamental role in the promotion and consolidation of the PE/VC industries. Indeed, it is important to maintain this cohesion with all the actors at the local level, and to make our ecosystem better known internationally," Solenne Niedercorn-Desouches suggests. "We shall also strengthen our ties with French PE/VC players, and develop collaboration between the two countries, in order to capitalize on our respective expertise and experiences. Moreover, it is necessary to continue to organize events in Luxembourg and internationally, and to communicate on concrete use-cases and business successes".
Mathieu Perfetti acknowledges that both markets have been benefiting from significant developments of the asset class across Europe – driven respectively by local and international needs either from an investor or an investment perspective. "Given high PE growth outlook, they are more complementary than competing," he sees. "They offer the perspective of joint reflections and synergies in tackling together key common sustainable development challenges such as distribution, AML/KYC, ESG or the increasing digitization of the industry".
Altough it is not always communicated as such, Caroline Pimpaud notes that Luxembourg PE is already strongly connected to the French market. Its regulatory and legislative framework is pragmatic enough to reassure the investors, but also flexible enough to provide PE actors with an adaptable and efficient framework to launch their products. "Major French players have a presence here today. Most of them have considerably enhanced their local footprint over the past few years," she details. "As French professionals, proud to be settled in Luxembourg, we all have a role to play to promote Luxembourg and to raise awareness about its attractiveness in order to tackle some clichés".
PE is above all a story of men and women and of win-win situations according to Philippe Barthelemy: "The financial structuring and engineering of an operation consist in making the link between investments and investors, and to align the interests of both," he comments. If PE market is today globalized, it remains with specific regional investment cultures, he sees. In the real estate segment however, "most of the large investment teams are in the major economic capitals, close to the places they invest in," he regrets. "Luxembourg should attract more of these teams, whom the peers could share their practices with".
For Marie-Laure Mounguia, the Grand Duchy is an extremely robust platform, which knows very well the regulatory challenges, and has the expertise to serve all types of PE strategies in every market. "France and Luxembourg are very much connected, even though awareness around Luxembourg products could still be improved," she concludes. ●

By **Alexis Dupont**
Managing Director
of France Invest

GUEST ARTICLE

France Invest
Association des investisseurs pour la croissance

French Private Equity, a player in the transformation of companies

For over 40 years, French Private Equity players have been providing start-ups, SMEs and mid-cap companies with skills, expertise and experience to modernize their business models and help them grow, innovate and transform.

2nd in Europe in terms of size and 1st in the European Union in terms of supported companies

By the end of 2021, France Invest's 385 members were supporting around 9,000 companies in France and Europe. After raising EUR30 billion from institutional investors and individuals in 2020 - a third of which was international in its origin - French Private Equity players have invested EUR31 billion in equity and debt in more than 2,300 start-ups, SMEs, mid-cap companies and infrastructure projects, and have continuously supported them throughout the acute phase of the crisis.
The trend is very positive: in the first half of 2021 alone, France Invest members invested EUR13.6 billion in more than 1,250 start-ups, SMEs, mid-cap companies and infrastructure projects and raised more than EUR18.4 billion, excluding private debt. A historically high level.

French Private Equity displays its ambitions to face the challenges of tomorrow

Following the health crisis, integrating environmental, societal and economic changes is no longer an option for companies: in the rebound phase that is currently opening up, despite uncertainties, companies must accelerate their transformations and need help.

> **"In the first half of 2021 alone, France Invest members invested EUR13.6 billion in more than 1,250 start-ups, SMEs, mid-cap companies and infrastructure projects."**
> Alexis Dupont

The crisis has shown the importance of innovation and investment. It has also reminded us of the urgency of decarbonizing the economy, preserving biodiversity, and the need to anticipate societal and economic changes. On all these aspects, French Private Equity is already a partner with a proven track record. A remaining task is to convince by example, the managers of companies who are sometimes still reluctant to board that "support" ship.
To support more firms on this path, massive investments are necessary, especially now that private saving rates - characterised by their low returns - are reaching all times highs. Despite its performance and significance, Private Equity is still not very accessible to investors: we are working on removing residual barriers to the democratization of this asset class.
In addition, we are going to concretely assist companies to face intensifying French and European ESG regulatory obligations, especially in the field of climate change. Private Equity players are convinced that they have a responsibility to accompany their portfolios companies in making them more sustainable and aware of challenges linked to society, biodiversity and climate change. We are here to support a just transition; we have been involved in these issues for 10 years, but we must now pick up the pace. Our ambitions include supporting 10,000 companies towards carbon neutrality in the next few years, generalizing decarbonization strategies, and taking concrete action to protect biodiversity.
Finally, ecological transition and social commitment go hand in hand. France Invest is committed to develop sharing these values in all supported firms, and to promote parity and diversity at all levels within investment teams and with all stakeholders: despite encouraging initial results, much remains to be done. ●

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By **Luis Galveias**
COO of the LPEA

Interview of Claude de Raismes, Wendel Luxembourg S.A.

Perennial investments

Claude de Raismes comes back on the history of the Wendel Group and its mandate, mixing both investments and investment management.

Wendel has a remarkable 90-year old story with Luxembourg. How has the role of the Luxembourg office evolved in recent years?

Wendel is originally an industrial group active in the steel industry from Lorraine (France) and has a long history with Luxembourg. Effectively, the presence in Luxembourg dates back to 1931, so shortly after the 1929 law on the holding companies. The evolution of Wendel Luxembourg has reflected the country's environment, particularly during the last decade, which has seen Luxembourg increasingly focused on the management and administration of alternative funds.

Wendel Luxembourg was one of the first managers to obtain an AIFM licence from the CSSF, shortly after the AIFM Law of July 2013 and was one of the first managers of SICARs (Investment Company in Risk Capital). Today, with a staff of about 10 employees, Wendel Luxembourg holds and manages the group's holdings in unlisted companies through four regulated investment funds. We have currently approximately EUR 5 billion of AuM in Luxembourg out of the EUR 10 billion of the group's holdings.

Your strategy combines both listed and unlisted assets. How do you balance the two?

It's important to maintain a certain balance between listed assets, which are more liquid but have a lower target return profile, and unlisted assets such as private equity, which offer a higher risk-return ratio. Wendel's target global portfolio in 2024 will consist of seven to ten main listed or private investments in Europe and in North America. In addition, we have growth investments and fund of funds activities, which have been named "Wendel Lab", and are developing successfully today.

What is "Wendel Lab" about?

We have invested in a couple of funds today, mainly US and European venture capital funds, which invest in tech and software companies across the world. It was a kind of marginal activity that we did on the side, just opportunistically, and we decided a few years ago to structure it and develop it further. In parallel, we have done some direct investment in growth equity. This initiative will remain marginal compared to Wendel's main strategy, which focuses on private equity and direct investments in companies. It's however an activity that will grow in the coming years with a target of half a billion worth of investments. Today we are still between EUR 100-150 million for this specific asset class.

Your strategy also underlines a commitment with ESG standards. Are you taking any particular measures to assess positive impacts for our society?

Yes, we are a long term investor with family values. Wendel has a long ESG history, even before it was called like that. Actually the last two years have seen an acceleration in our strategy, in terms of ESG commitments. This is for us a fundamental trend, not only coming from investors but from all the stakeholders including our employees. Today Wendel places this topic at the heart of its investment decisions and portfolio companies.

As an example, a year ago, Wendel joined the Dow Jones Sustainability Index, which distinguishes the best performing companies on ESG criteria. The group's score improved last year and this is a source of great pride for Wendel.

Is there any particular deal that you want to showcase?

We are very proud of Stahl, a company based in the Netherlands specializing in chemical treatments for the leather industry in which we invested back in 2006. In 2010, the company was going through a severe crisis and Wendel decided to reinvest - the other investors were not willing or unable to reinvest at the time - and became the sole shareholder of the company. With our commitment and a stronger financial foundation, Stahl emerged stronger from this crisis. This in turn resulted in the acquisition of the leather chemical operations of both Swiss based Clariant – in 2013 – and German BASF, in 2017. Today, 15 years after Wendel' first investment, Stahl is the global market leader. This growth has been virtuous as Stahl deploys environmentally friendly solutions in synchronisation with biochemical trends applied to the sector.

This example illustrates our long-term approach with an average investment horizon of 15 years, which differs from typical private equity cycles.

You have an entrepreneurial model that allows for the management team to invest alongside the group. Does that reduce your staff rotation?

For unlisted companies, Wendel associates the management teams to a co-investment scheme based on carried interest. Managers are encouraged to personally invest significant amounts alongside the firm's investments. This is important both for recruiting and retaining Wendel staff but also to align the interests with its managers. The success of this policy and of the investments are naturally interlinked. We are not a private equity fund per se as we are a LP and a GP at the same time but we have tried to replicate the PE carried interest scheme. It is an option, not an obligation, but it is a success. The vesting periods acts as a talent retainer. Most importantly it aligns the managers' strategy with Wendel's funds.

Claude de Raismes

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"Our long-term approach with an average investment horizon of 15 years differs from typical private equity cycles."

Claude de Raismes

You have recently been appointed Co-Chair of LPEA's SFO (Single Family Office) Club. What is your roadmap and which projects would you like to pursue?

It's a great pride to participate to the success of the club and contribute to the work done by Rajaa Mekouar, the creator of the group. The SFO Club is not a technical club nor a business one. It's primarily aimed at profiling investors who share certain common characteristics, such as "patrimonial" investments - sometimes long-term and sometimes opportunistic as well. These investors tend to be entrepreneurial families, often very sensitive to reputation and the ESG footprint. Typically, SFOs in Luxembourg are "low profile" but they represent an important part of private equity in Luxembourg, both in terms of number of players and volume, but also in terms of assets under management. To come back to your question my mission will be to bring these people together and to establish a privileged network for the exchange of ideas and best practices. It will typically include the organisation of events dedicated to SFOs where talent, funds and ideas will come together. ●

FOCUS ON FRANCE


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

Interview of Gorka Gonzalez, Bpifrance

Bpifrance: Bringing Private Equity to non-professional investors

Gorka Gonzalez shares the lessons learned on France's first retail Private Equity Fund aimed at non-professional investors from EUR 5K.

What are the reasons behind the creation of the fund Bpifrance Enterprises 1 (BE1)?

We launched "Bpifrance Enterprises 1" in October 2020 for two reasons. The first was to facilitate access to Private Equity to non-professional investors in France. This was motivated by the French government's and our wish to develop the ecosystem, to allow individuals in allocating money in Private Equity, and to better leverage private savings in France. The second was to advocate for sharing the profit generated by Private Equity with a wider audience. We contributed to this trend through the use of the French vehicle FCPR Fonds Commun de Placement à Risques) accessible to non-professional investors where we shared access to our own portfolio that has been investing in Private Equity since 1998.

Could you present Bpifrance Enterprises 1 in a few words?

Bpifrance Enterprises 1 was our first attempt in targeting retail investors. When we started working on it, we had to tackle a few obstacles.

The first hurdle for non-professional Private Equity investors remains capital preservation. To address these fears, we pushed forward diversification as the main market risk mitigator. We set-up the fund with 145 Private Equity and Venture Capital funds (fund of funds strategy) composed of 1.500 underlying companies. We offered a wide diversification through vintages, varied GPs and different levels of fund maturity. This factor is also reflected in the type of portfolio companies. As for geographical allocation, France is well represented with around 70% of underlying companies, alongside 9% from the US and 15 % from the EU.

The second obstacle was the long-term investment horizon of Private Equity. We came with a solution of six years plus one – which is a short period in Private Equity terms.

> **"Why not envisage a cross-border Private Equity fund for non-professional investors with a more European portfolio?"**
> Gorka Gonzalez

The third hurdle was the illiquid characteristic of Private Equity investments. We are however a secondary Fund of Funds, and we can therefore return the money the first year. One year after the launch we returned 25% of the commitments. The idea was to get an optimised "J" curve return in terms of return and liquidity profile.

Once these obstacles were addressed, it was important for us to define a minimum entry ticket lower than what already existed on the PE market of EUR 5.000, and a maximum EUR 95.000 in order to allow for a wider amount of people to invest in our Private Equity solution.

What are the results of Bpifrance Enterprises 1?

In terms of quantitative results, we collected EUR 95 million in nine months (the target size) – three months before the final closing – from more than 4.000 investors. For Bpifrance, it was important to set up an opened & multi-channel distribution to offer this solution through different investment vehicles. Investors included French life insurance contracts – representing 70% of the commitments of the fund, French pension manager ("Gestionnaire d'Epargne Retraite") and the online plate-form built up with our partner 123 Investment Managers reached 1.500 investors directly via internet, without any intermediary.

On the qualitative side – beyond collecting the target EUR 95 million – our objective was to raise awareness regarding this asset class and connect the PE ecosystem with this Retail segment. We reached 8 million people thanks to our PR efforts and our online activity: our video trailer amounted to near two million views and our dedicated online platform welcomed 105.000 unique visitors generating strong awareness and interest. Soon after, other French Private Equity players launched similar initiatives. We are very happy to witness this trend as we need more players to change the model and build momentum.

What are the operational characteristics of the fund?

The process to set up this structure internally was challenging. We sliced our own portfolio – investments made by Bpifrance from 2005 to 2016 -, and undertook two transactions simultaneously. We sold exactly the same portfolio as "Bpifrance Enterprises 1", and another to professional investors in order to define a market price for Retail investors based on competitive and opened selling process managed by third-party firm. Setting up such a vehicle for first time, understanding the marketing, distribution and the stringent regulatory implications of the ecosystem was an intense process.

Finally came the creation of the online subscription platform – the subscription could fully be digital –, which was operational on the 1st of October (2021). As a whole, it took us 18 months of planning – in the COVID content - before launching the first fund.

We also contacted our GP partners to inform them about the rationale of this Retail initiative, keeping the full management of these 2 new vehicles (GP-led transactions). Overall, the transaction was very well understood by our portfolio GPs and some of them are now thinking in leveraging more broadly on the Retail segment!


Gorka Gonzales

The fund Bpifrance Enterprises 2 has just been launched. What is new about it?

Following the success of Fund I, we wanted to consolidate this movement in the market as several initiatives are needed to achieve long-term success. We decided to launch our second fund which, similarly to the first, is a secondary Fund of Funds. The main difference is that we changed the portfolio's asset allocation. We sliced this time vintages between 2010 and 2016 as we believe older vintages did not have enough value to be put again on the table. We brought in 20% of assets managed by Bpifrance Investment, demonstrating we had "skin in the game". It included the portfolio of two funds: one diversified SME fund specialised in French regions, and a buyout fund focused on mid-sized companies. These two funds also have a buyout flavour in the portfolio with 60% buyout and 40% venture capital. Then we slightly twisted the fund in order to allow access to more people: the minimum ticket was lowered to EUR 3.000 and the maximum to EUR 50.000.

We kept diversification as our unique selling proposition and this time we invested in 126 underlying funds representing approximately 1.500 companies. Concerning the sector split, we are involved in technology and B2B services. There was no cherry-picking when building the portfolio. We defined our criteria, and we then sliced our portfolio based on them. This methodology has been audited by external and independent experts.

> **"We slightly twisted the fund to involve more people: the minimum ticket is now of EUR 3.000 and the maximum of EUR 50.000."**
> Gorka Gonzalez

How could other countries like Luxembourg set up similar products?

We hope that other countries will launch similar initiatives as we would like to see the European Private Equity ecosystem grow. It is necessary for European players to set up such projects in their own market and Luxembourg has all the ingredients to "cook" a similar solution.

The first ingredient is Luxembourg's wide range of vehicles (toolbox) and its ability to structure Private Equity funds aimed at non-professional investors.

The second is to find assets. Find institutional players who already manage their own assets as it is easier to come to the market with a secondary fund strategy characterized by a shortened investment horizon and better liquidity profile. It is therefore important to be in contact with investors who have a long track record of managing large Private Equity portfolios and there are several in Luxembourg.

Finally, as with all long-term strategies, you need strong sponsorship from the authorities to make it happen i.e., political willingness to capture savings and inject them into the real economy through a Private Equity solution.

Why not envisage one day a cross-border Private Equity fund for non-professional investors with a more European-focused portfolio? This could be an ambitious European project to build up and enhance altogether. ●

INSIGHT/OUT #21

FOCUS ON FRANCE

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By **Stephane Pesch**
CEO of LPEA

Interview of Matthieu Broquère and Priscilla Hüe, Cedrus & Partners

Catering to investors' needs

Interview with Matthieu Broquère, Head of Development and Priscilla Hüe, Country Head Luxembourg at Cedrus & Partners, a French investment advisory firm servicing to long-term investors.

What is your approach to institutional fundraising?

Matthieu Broquère: Our industry has made great strides in these areas over the past few years.
First of all because, even if the amounts invested by the LP's are increasing almost exponentially, the competition is raging between the GP's to attract more and more money, with a "winner take all" situation. The biggest platforms are competing for billions and fundraising is an advanced position in the battle of PE.
Secondly, because investors have become more professional and are extremely demanding in terms of transparency from their GP's. The investment processes and committees have become more complex. It is vital for LP's to be able to explain everything in committees and therefore to carry out very in-depth Due Diligence.
Finally, because it is extremely trendy in the GP's world to be able to conduct large fundraising in one or two quarters, when it's not in months. It is seen by the market as a guarantee of having a big performer and GP's tries to create scarcity as in the luxury fashion industry by reaching their hard cap as quickly as possible. When you have a demand which is two or three times bigger than your hard cap, you can be tough when it comes to speak about your management fees...
Investor Relations and Placement Agents, like their investment colleagues, have therefore to raise their ability to answer the needs of institutional investors.

Matthieu Broquère

Do you approach other stakeholders during the fundraising period?

Priscilla Hüe: On the one hand, ticket size from institutional are getting bigger and bigger, and on the other hand, the market is becoming more and more competitive. This is creating a potential risk for GP's, if one or two of their largest LP's are not re-upping into the next vintage. To address this risk, they have to diversify their asset base and increase the number of LPs as well as their investment ticket.
While pension/sovereign funds and institutions represent the vast majority of the money invested in PE, GP's seek to attract money from Family Offices, which have now teams dedicated to investments through funds.
The needs of these investors are quite different from those of institutional, both in terms of information, decision-making process and level of proximity. Large FO are looking for managers who share common DNA or are specialised in their industrial sectors. Thus, if they give less importance to the operational phases of Due Diligence, they will attach more focus to the quality of the relationship they have with GP's, their ability to participate in boards or to carry out co-investments.
MB: GP's seek to diversify their LP's base by attracting FO but also to raise smart money with FO active in their privileged investment sectors, expecting it will convince some entrepreneurs to choose them thanks to the quality of their board. Because if they compete for raising money, they compete even more to make deals, especially in the VC space. Every edge is important.

> **"The market is becoming more and more mature and in this context, GP's have either to find new markets to address or innovate in terms of investment strategy."**

What trends do you identify on the market?

PH: The market is becoming more and more mature and in this context, GP's have either to find new markets to address or innovate in terms of investment strategy. The latest big trends when it comes to fundraising is the fight for retail clients. All big players and newcomers from tech are trying to democratize private assets and want their piece of the big cake.
Our world of low interest rates makes the search for alternative returns compulsory for individuals. Private banks or French "Conseiller en gestion de patrimoine" have understood the interest in introducing the private market asset class into their clients' portfolios: stable returns, low volatility, clients who are captive for 10 years...
Private investors are also in demand for these kind of deals now they know they are more accessible. Intermediaries are to be agile if they don't want to lose them for more agile or downright tech intermediaries.
MB: Fund raising for this type of client is clearly very different from professional investors with two main trends.
First, by proposing big brands through feeders. It's the old fashion way but it is used by a lot of intermediaries to reassure their clients and provide them access to well-known GP's.
Second, by creating their own products, wealth manager or private banks can onboard their clients in tailor-made solutions. Fundraising is more complicated but they can train their sales forces on their products to maximize the conversion rate and capture more fees.
But regulators are looking closely to these new products and we clearly think that one of the main thing you have to keep in mind during the process is the adequation for the clients to whom you offer the fund.

How do you adapt your fundraising process to clients' needs?

MB: It is an adaptive process according to the typologies of the investors but with a major common point to be successful: it is necessary to understand their essential needs.
For institutional, it is transparency and process: you have to be very clear on the operational, technical, cost and governance aspects, provide them with a lot of data and a DDQ which covers all the market practice points.
For Family Office, it is the human relationship and the add-ons: you have to describe the team and meet them, talk about the pipe and co-invest capacities, discuss the boards despite lower tickets.
For individual, it is education: we need clear and didactical documents to evangelize the private asset classes and open the hood of markets which are sometimes seen as complicated black boxes.

Priscilla Hüe

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PH: Finally, we would say that it takes more than knowing your funds, you have to believe in them and be convinced that they are the right answer to the needs of your clients. And so for that, you have to know your customers perfectly so as to only offer them solutions that are suited to their needs. ●

Cedrus & Partners is a French investment advisory firm that offers its services to long-term investors, from institutional investors, family offices to private banks and retail clients. We help our clients with all their investment concerns, and we support them in their search for yield in private markets: real estate, infrastructure financing, Private Equity, private debt and impact investing. And this through different business lines, from global consulting to tailor-made advice on specific needs, and to product engineering with the creation of tailor-made products in partnership with management companies.

INSIGHT/OUT #21

By **Patrick Artus**
Senior Economic
Advisor of Natixis

After the recovery: What threats are looming over growth in 2022?

Even as consensus growth forecasts for 2022 remain strong (more than 4%), a number of OECD countries still are faced with looming threats that could derail their growth.

These threats include supply chain issues (especially for raw materials) difficulties linked to the transportation of goods, a drop in real wages on the back of the accelerating inflation in Europe and the US, changes in labour market behaviour, and ultimately, a fiscal hangover amid an ineviable "normalisation" of growth. While the outlook still looks benign, these risks are worth considering.

The supply chain

The main concern, of course, remains supply difficulties and value chain functions, a persistent problem that has boosted inflation and hampered growth in the last year. It's no secret that the Covid crisis has had a strong negative impact on the demand for services (since the start of 2019, the consumption of goods in OECD countries has increased (in volume) by 27%, while consumption of services has fallen by 1%).

Mostly this is the result of working from home, on-line consumption amid record stimulus (at least in the US). But investment in the energy transition, and consequently the demand for raw materials, energy, semi-conductors, transport, has also played its part, which in turn has resulted in ongoing bottlenecks and inflation.

Energy transition

It's worth noting that much of the nascent energy transition is based more on reducing investment in the production of fossil fuels, than reducing the demand for fossil fuels, which continues to climb. The banks and asset managers are indeed strongly discouraged from financing investments in petrol, natural gas, coal, whilst the price of CO2 or the regulations are insufficient to greatly discourage demand for these energies.

With renewables unable to substitute fossil fuels, this divestment could see supply challenges and put upward pressure on prices, particularly as demand recovers to pre-Covid levels and is set to rise in the coming years.

Meanwhile, the transition will also get raw materials, that are needed like copper, nickel, aluminium, lithium, cobalt etc..., under a great deal of pressure.

Inflation and interest rates

We may therefore be concerned about the emergence of a lasting situation of supply difficulties, inflation and production losses, which go hand in hand. It's worth noting too that higher energy prices and inflation causes growth to slow down. But it's unlikely that Central Banks react aggressively: even if they react to inflation, they will react half-heartedly, long-term interest rates are going to increase a little (the 10-year interest rate in the United States may climb to 2.5%, up to 1% in the Euro zone), real interest rates should remain negative and therefore will not slow down activity.

Wages and the labour market

The Central Banks have no other choice than to exercise this caution to avoid a public or private debt crisis, to support employment, in particular of those people facing difficulty amid the energy transition and soaring gas and utility prices. In contrast, inflation means the buying power of wages is reduced: nominal wages are only imperfectly price-indexed which is one of the forms of the loss of the employee's negotiating power.

Despite the recent fanfare over salary increases, real wages (wages minus inflation) are actually falling. In the US, for instance, real wages at the end of 2021 were roughly -2.8%, while they were -2.5% in the Eurozone. This decline in the buying power amid persistent and sticky inflation (real wages) will obviously slow down household and business demand, and we are already seeing this in a range of sentiment surveys, especially the US consumer (which makes up 70% of the economy).

The third area of concern is the evolution of the labour markets. In the United States and the United Kingdom, the level of participation (i.e. the proportion of a working age who are in the labour market and job-seeking) has fallen considerably (by 1.5%) since the start of the Covid crisis. This creates a shortage of workforce and significant hiring problems which slows down business.

In the Euro zone, meanwhile, there is no overall decline in the level of participation, but there is strong disruption to the labour market in specific sectors. Employees are increasingly turning down arduous jobs, jobs with atypical schedules or temporary roles, and business sectors where these jobs are primarily found (hotels, catering, restaurants, sales, cleaning, and construction etc.) are experiencing recruitment problems.

This hiring problem, whether due to the global decline in the supply of work, or due to the "mismatch" between supply and demand for work in specific sectors will have an impact on business.

Public deficit

Our final concern is that budgetary policies which were very expansionary in 2020 and 2021, will become more restrictive. This is the case to a certain degree in Europe, but it is very much strongly the case in the United States, where the public deficit will fall from 16% of the GDP in 2021 to 8% of the GDP in 2022, and the structural deficit (corrected by the cyclical economic situation) will fall by 7%. This considerable reduction in public deficit, or fiscal overhang, is not corrected by household savings, and thus will act as a significant brake on the US economy.

When supply and transportation difficulties, which look set to continue in certain areas, are added to the mix, this presents a difficult combination: higher structural inflation, falling real wages, a weaker consumer, lower labour force participation, and a notable fiscal drag (at least in the US).

These issues show few signs of abating this year, so it's necessary to remain cautious on the growth prospects of 2022, and it's no surprise that the IMF recently cut its global growth forecast to 4.4%.

And some of these issues are likely to linger in the medium term too, since the energy transition is likely to trigger sustained higher energy prices and a lasting scarcity of the raw materials, necessary for the transition.

What are the consequences of slowing growth for the financial markets and asset allocation? In our view, this will incite the Central Banks to be cautious, and err on the side of caution, which will limit any interest rate hikes and be favourable for the stock markets and property markets – despite the current bearish consensus when it comes to Central Banks. While central banks may sound hawkish on inflation now, the reality is that they can ill-afford to pursue aggressive monetary tightening given the already-slowing global economy. This should support risk assets in the long-term, even if hawkish sounding central banks and a growth slowdown increase volatility. ●

> **"It's necessary to remain cautious on the growth prospects of 2022. It's no surprise that the IMF recently cut its global growth forecast to 4.4%."**
> Patrick Artus

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By **Stephane Pesch**
CEO of LPEA

↘ Interview of Katalin Gallyas, c*funds

Reshaping the placement agency industry

Katalin Gallyas, Managing Director presents c*funds, a Dutch placement agency, linking fund managers with Benelux, DACH, UK, and North European LPs.

Could you please share with us the mission of c*funds, its scope and the different services you propose?
c*funds was created in 2018 with the ultimate goal of transforming the 'old-school' placement agency industry through a young team with strong backgrounds in institutional fundraising, M&A, and digitalization. We wanted to shape a new placement agency model as we believe that a lean and entrepreneurial organization can best serve our GPs interest. We understand the pain from many VCs who feel that placement agents are too expensive and often lack the required execution and speed to be successful. In response to this and to lead the way, our aim is to run very transparent LP campaigns with frequent feedback using the best systems possible. We wanted to serve GPs differently from day one.
We provide a turnkey service, starting with fast and high-quality pre-marketing review and design "facelift" that is often very helpful for emerging managers to land the first conversations. We have an in-house graphic designer who works in line with our GP's corporate identities and in the future we plan to work on some relationship visualization tools for GPs as well. Next to this, our team has built up "personalized access" to approximately 450 global LPs within a very short period of time (3 years) enabling us to unlock many conversations. Personalised touches when making LP introductions is crucial to success and is complemented, rather than substituted, by great data or IT.

Any specific infrastructure required in order to be successful in this field?
In my view, the ultimate success factors in the placement scene are based on the following pillars: real & relevant LP relations, mandate knowledge, best in class CRM, and access and partnerships with many PE events.

What is the sweet spot of c*funds?
The c*funds sweet spot is helping inspirational fund managers in alternative asset classes of VC, PE, Real Estate, Private Credit and Infrastructure, with a fund size between EUR150M and 400M.

In which jurisdictions are you active right now and which licenses do you use?
We currently operate under Dutch jurisdiction and can service our clients throughout Europe. We have a strong focus on Benelux, DACH, UK, and North European LPs. Our GPs are global fund managers (VCs, growth, buyout, and real estate funds) that often want more EU-based LPs and already have an anchor investor or have completed the first close. The majority of our clients are VCs as this is also where we have an established track record. Very few placement agents are focusing on this segment, as it is a tough game with a very scattered LP market and many of the players are "under the radar".
In 2022 we will be applying for a stronger MiFID license that will enable us to advise LPs directly with their portfolio composition.

Could Luxembourg become a new hub for c*funds?
An expansion to Luxembourg is an interesting option and a great opportunity as many of our global GPs are considering launching EuVECA (feeder) funds to their global, Asian or US-based funds. From our experience, a Cayman structure is much less attractive for qualified EU based LPs. A Luxembourg domiciled EU feeder fund for example, for a Japan-based secondary fund is a great tool to attract new EU-based LPs as it creates immediate trust. c*funds would like to be the gateway of these new global "arrivals" and in Luxembourg with the current rich service provider ecosystem, it is certainly possible. Furthermore, the rising Family office network and the presence of the most prominent EU fund of funds (EIF) is extremely valuable in this ecosystem.

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> **"A Luxembourg domiciled EU feeder fund for example, for a Japan-based secondary fund is a great tool to attract new EU-based LPs as it creates immediate trust."**
> Katalin Gallyas

Any important trends you would like to highlight for the future?
I would say the high demand for liquidity and shorter terms on LP return allocation. Secondary funds are rapidly emerging, offering an attractive co-investment opportunity alongside a primary fund raise is now a market standard. ●

13 Mistakes made by GPs while fundraising ↖

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Interview of
Marco Bizzozero
Managing Director and Head of International at iCapital

By **Evi Gkini**
Business Development and Project Manager

↘ Interview of Marco Bizzozero, iCapital

Alternative Investments access, technology and education

Marco Bizzozero, Managing Director and Head of International presents iCapital's solution, which helps banks, wealth managers and their advisors to scale and diversify their private markets investments cost-effectively.

Wealth managers and their clients often face difficulties when investing in alternative investments. Asset managers, on the other hand experience inefficiencies when engaging with the wealth management sector. What are those challenges?

In the past, high net worth investors and their advisors faced significant barriers when investing in private markets, such as: difficulty in identifying and accessing top-tier asset managers; high investment minimums; a cumbersome and paper-based investment process; manual client servicing, opaque reporting, and administrative complexities; … and, a lack of educational resources and readily available research about this asset class.

Asset managers on the other hand have to deal with: A fragmented distribution channel; a lack of dedicated resources for the wealth management channel; increased operational complexity when dealing with many small investors; difficultly scaling across wealth managers; lack of Private Markets knowledge and educational resources amongst wealth managers.

How can iCapital support wealth and asset managers in overcoming those historical barriers to efficiently build their alternatives business?

iCapital's technology platform solutions help banks, wealth managers and their advisors to scale and diversify their private markets investments cost-effectively, while enhancing the advisor and client experience; all via an intuitive, scalable, fully-digital operational infrastructure that seamlessly connects the entire alternative investment and service ecosystem.

Our value proposition is based on three pillars:

- **First, access:** We provide access to institutional-quality alternative investment offerings, structured with lower investment minimums for individual investors. We have also the ability to support origination, facilitate access, and provide investment and operational due diligence leveraging our experienced research team. To pool the investments of many private investors into one single institutional-sized ticket, our clients rely on our expertise in setting up bespoke feeder funds for a full range of strategies and jurisdictions.
- **Second, technology:** Our end-to-end technology solutions provide a simplified and fully digital experience throughout the entire investment lifecycle, including a digital subscription process, automated transaction processing (e.g. capital calls, distributions), transparent performance reporting, and a centralized and secured document repository with protection and full encryption of client data.
- **Third, education:** We provide industry-leading insightful analysis, research, and investment-related as well as investment-specific education for advisors and their clients to support advisors in developing a diversified sustainable private markets portfolio on behalf of their clients.

You mentioned bespoke feeder funds, where are those funds typically set up?

iCapital offers fund structures across various jurisdictions and regulatory requirements. We offer Delaware fund structures for US investors. For our international clients, we provide expertise in setting up feeder vehicle structures in various international jurisdictions. Most recently, and as part of our global expansion, we launched our first Luxembourg RAIF feeder fund structures. In addition, we will complement our current Luxembourg fund capabilities with new funds to accommodate distribution to non-professional investors. We are continually expanding our offering of local fund structures to meet client demand (e.g., Australia, Japan).

> **"We provide access to institutional-quality alternative investment offerings, structured with lower investment minimums for individual investors."**
>
> Marco Bizzozero

Previously, we talked about lower investment minimums – what is the minimum ticket size required by iCapital?

Our Luxembourg-based RAIF feeder funds require investment minimums of EUR 125'000 (or equivalent). As the market evolves, we are working to develop a new structure that will allow us to launch funds with even lower minimums for the retail client segment.

Who are your clients and partners?

In recent years, iCapital partnered with the world's leading wealth and asset managers who help us drive our mission to power the world's alternative investment ecosystem. In addition, iCapital's success is supported by a consortium of renowned strategic investors sharing the commitment to power the global alternative investment marketplace with our multi-award-winning technology.

To meet demand from a growing international investor base, in just the past nine months alone, our team also solidified or expanded five prestigious partnerships with global industry leaders Allfunds, Altshuler Shaham, BlackRock, Investcorp, and UBS to drive expanded access to private investments.

Marco, you are spearheading iCapital's global expansion – What are the next steps?

We follow our clients' needs in defining our expansion strategy and have continually fine-tuned our offerings as we have evolved.

We are expanding across three dimensions:

1. Geographically – We are expanding our business globally; circa 20 percent of our client assets are already international (USD24 billion out of the total USD108 billion global client assets are from non-US investors) and more than 150 employees are located outside the US across offices in Zurich, London, Lisbon, Hong Kong, Singapore, and Toronto. Most recently, we announced the appointment of industry veteran Masato Degawa as iCapital's Senior Advisor for Japan. We plan to significantly grow our international franchise over the next 12 to18 months to support our clients' needs.

2. Products and solutions – In addition to fund investments across all strategies within private markets and hedge funds we will cover among others direct co-investments, ESG/impact, and structured products. To that point, iCapital recently acquired Axio, an end-to-end service provider to the US structured notes market. The acquisition meaningfully expands our menu of alternative investment strategies.

3. Client segments – We are expanding our offering to support wealth managers to cover all client segments beyond professional investor. In this regard, we have launched new registered funds in the US that are specifically tailored to the lower end of the HNW investor profile. These structures have no capital calls, they are more diversified, they have lower investment minimums than traditional Private Equity funds, they have near-term distributions, all characteristics that are important for wealth managers to cover all client segments including non-professional investors.

In addition, together with our partners from the asset management sector, we are evaluating the expansion of our current range of Luxembourg funds to provide for the needs of an even broader group of investors in the future.

We have more growth underway with innovations across all three vectors outlined above, and we are attuned to our clients and committed to powering the world's alternative investment ecosystem. ●

Founded in 2013, iCapital is the leading global fintech company that has transformed the way the wealth and asset management industries deliver access to private markets investments for individual investors by providing intuitive, end-to-end technology and service solutions, including industry-leading investment analysis and research. As of December 31, 2021, iCapital services USD108 billion in client assets, of which over USD24 billion originate from international investors (non-US domestic), across approximately 900 funds. Employing more than 700 people globally, iCapital is headquartered in New York City and has international offices in Zurich, London, Lisbon, Toronto, Hong Kong, and Singapore.

www.icapitalnetwork.com/international

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Interview of
Sam Marsh
Managing Director,
Alpha Institutional

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

Cracking the bank account conundrum

Sam Marsh, Managing Director, presents Alpha Institutional, which facilitates the provision of bank accounts to GPs.

So Sam, what is Alpha?

In a nutshell, we're a provider of enhanced financial solutions, dedicated to corporates and institutions operating internationally. We blend high levels of service and expertise with new technologies to solve complex problems across three main areas: currency management, international banking, and mass payments. We're listed on the London Stock Exchange and backed by investors such as Soros Fund, Liontrust & M&G. As of December last year, we employed over 200 people across five global offices, with a sixth coming later this year in Luxembourg. We also transacted over £40bn whilst processing over one million payments. However, when it comes to the businesses we work with and the solutions we provide, our focus is still very much quality over quantity.

What makes you different to other providers in this space?

Although we're a relatively large alternative finance company in terms of turnover and scale, we've built our business in a way that ensures we remain highly selective about the markets we operate in and the solutions we provide. As well as being solely focused on corporates and institutions, we also service these two markets via two specialist divisions. Our Institutional division has its own dedicated people, technology and infrastructure, all focused on the private capital space. By channelling all of our capabilities and investment into just a selection of solutions and markets we have a much greater impact. It's about being specialists, not generalists.

A few of our members have mentioned your alternative banking solution; what exactly is this?

High-level, we've launched a solution that enables us to significantly accelerate the time it takes for GPs and their service providers to open accounts for the underlying entities within their investment structures in multiple jurisdictions. With us, an account opening process that would have taken our clients months will typically take less than ten working days.

How did the solution come about?

Historically the institutional division was always known as a currency management specialist to the private capital sector. We set the division up in 2018, but prior to this the original team and I had close to a decade's experience working with the alternative investment market. As a result, we're very in tune with the needs of our clients, but also the wider marketplace – from service providers to law firms, and all the way through to the associations like yourselves. What we've seen during this time is a sector that has evolved so quickly, it has in many cases outgrown the services and solutions available to support it. The provision of bank accounts is one well-known example of this, and an area where we've been working to provide GPs with better alternatives. To do this, we decided to combine our experience in the alternative investment market, with the technological capabilities of another division in the business, Alpha Platform Solutions, which has been developing our alternative banking technology.

As many of the association members will know, we have been working very closely with existing clients over the past two and a half years to bring this solution to life. As a public company, we needed to take the time to make sure we got this right and prove its success before launching to the wider market. We also recognised that for this to be a truly scalable solution, we needed to make sure the foundations were built to last. That ultimately led us to decentralise the business into two distinct divisions, each with their own dedicated teams, technology and infrastructure focused on their own marketplaces.

The decentralisation process started in 2020. Fast forward to today and we now have a dedicated team of over 120 people underpinned by a cutting-edge technology stack, working extensively throughout Luxembourg and the wider private capital jurisdictions.

> **"High-level, we've launched a solution that enables us to significantly accelerate the time it takes for GPs and their service providers to open accounts."**
>
> Sam Marsh

How does your solution differ to a traditional bank's?

Operationally it doesn't. From a client's perspective, we're not changing the functionality of the account they have access to. Where we provide value is in changing the way the onboarding process is conducted and giving clients the certainty that they are working with a provider that wants their business and is prepared to deliver high levels of service to get it.

These are all things that you and I as private individuals (or even traditional corporates) take for granted. However, as your members are aware, investment structures are more complex, and as such, the KYC processes and systems that traditional banks have built do not typically factor in the additional speed and flexibility that funds need.

In our experience, with the growing demands of AML, this can't be met with a one size fits all approach. It's easy to say you're a specialist, but we understand that in order to truly service this market, we had to embed the complexity and required flexibility into our infrastructure. As a result, we now have a purpose-built technology stack that caters for the complexities of alternative assets and have combined this expertise with purpose-built technology to ensure we can onboard clients incredibly efficiently and in a highly controlled manner, and then proactively support their ongoing needs with a dedicated team.

So, how are you regulated?

As a Group, Alpha holds two main regulatory licenses. For the provision of accounts, we're regulated as an Electronic Money Institution, and for our hedging services, we're regulated as an investment firm.

As an EMI, we can still provide our clients with all the account capabilities they require, but don't have to divert our time or resource into becoming (or running) a bank. It's about focusing on what we're good at, and letting the banks do the same their side.

How does a license for an Electronic Money Institution differ to a Credit Institution?

Without going into the wider complexity of the regulation surrounding being a credit institution, it's easier to break down how our license impacts the treatment of our clients' monies when utilising accounts with Alpha.

The reality is, the Credit Institution license covers all manner of different service lines, many of which aren't relevant to us or our client base. We simply wanted a license that would give clients confidence over how their money is treated when utilising accounts with us. Since the Electronic Money scheme was introduced in 2011, it has been used widely across all different industries. The key is that the money transferred into our IBANS is never legally recognised as belonging to Alpha. Instead, we have a regulatory obligation to safeguard all client funds and ringfence them away from Alpha's own operational capital. So, whilst clients engage with Alpha, the money is ultimately safeguarded with one of two major international credit institutions.

Are you already working in Lux and what are your longer-term plans?

Yes, we've been working with clients in Luxembourg for many years and the adoption of our services has been increasing since the launch of our alternative banking solution last year.

For us, the growth of the Luxembourg market is extremely attractive; we see it as a great opportunity to not only partner with new clients, but also help support the growth of Luxembourg's financial ecosystem as a whole. The alternative investment market that the country wants to attract, is very much our target market, which is why we feel our interests are very much aligned. As a result, we're now committing significant amounts of time and investment to the marketplace. The start of this has been the hiring of Nick Maton, as Managing Director in Luxembourg. Nick came from Intertrust in Luxembourg where he was Managing Director, and has over 15 years' experience in the Luxembourg market alone, so we're really excited to have him onboard.

Longer-term, we want to establish ourselves as a key enabler and innovator within Luxembourg's financial ecosystem. Achieving this is about working closely with the market to understand what matters most to them and then evolving our product accordingly. This approach is ultimately how are alternative banking solution came about, and is a core part of our client-led philosophy. Indeed, we're already in the process of taking a new idea into a formal research phase based off feedback we've had from some of our clients in Luxembourg. ●

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By **Olivier Carré**
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AIFMD 2 – Product and business impacts

The Alternative Investment Fund Managers Directive (AIFMD) was transposed into the Luxembourg regulatory framework in 2014. Since then, it has had a transformational impact on the alternative investment funds themselves and to many players of the investment fund value chain, most notably the Management Companies/AIFM and the Depositaries.

The face of the Luxembourg Financial Center would not be the same without the implementation of AIFMD and related regulatory innovations, such as the RAIF regime and the corporate law reform on limited partnerships (SCS, SCsp).

As such, the EU considers the AIFMD as a successful regime shaping the market and providing for enhanced investor protection. In the context of the periodic review of the AIFMD, very much coloured by the political context of Brexit, the EU Commission has made a proposal for changes to the initial regulation on the following main topics:

1. Delegation oversight and substance
2. Delegation to 3rd countries
3. Depositary Bank passport
4. Harmonised regime on loan originating AIFs
5. Liquidity Management Tools for AIFs

Delegation – in the eye of the storm

A constant concern of many member states is the extent of delegation as well as the responsibility of the AIFM on the functions that are delegated. The new proposals bring two main changes: (i) a confirmation/alignment on scope of delegation and (ii) a new regime.

The first change is the alignment of the ESMA practice stated since 2017 in its AIFMD FAQ, i.e. the AIFM is responsible for all functions as defined in Annex 1 of the Directive, hence not only the core portfolio and risk management. This change could mean that an AIFM will need to set up and conduct delegation oversight on ancillary functions such as administration, distribution and management of assets. Some of these are at present not transferred to the AIFM but kept under the responsibility of the General Partner directly. This change would clarify and align the AIFMD and UCITS regimes, but also significantly extend the scope of risk and responsibility for delegation and oversight for the AIFMs. Consequently, this increases operational duties such as initial and ongoing due diligence to be performed within the AIFM on a wider range of functions and entities.

Another key topic for the AIFMs is the adequate staffing of the two core business functions, namely the capacity to manage the AIF portfolio and/or the risk management. The proposal sets a minimum requirement of at least two natural persons who are EU residents.

A requirement that does not greatly impact Luxembourg AIFMs subject to CSSF 18/698.

A more important change in the delegation regime is the requirement for the CSSF to annually notify ESMA on delegation arrangements where more risk management or portfolio management is delegated to a third country entity than is retained. Looking at the Luxembourg players, it is likely that most transferable securities AIFMs delegate part or all of the portfolio management function, while retaining the risk management within the AIFM. The opposite is true for the typical private equity and real estate AIFM. In both cases, at least on one of the core functions is 'more delegated than retained' and as such a notification of CSSF to ESMA is required.

This does not entail any direct limitation or ban on such delegations, but rather a possibility of ESMA to trigger a supervisory action. The outcome can be various: (i) change in CSSF administrative practices, (ii) new joint supervisory guidelines defining new red lines or (iii) additional documentation requirements of delegation arrangements, among others.

REGULATORY

Products – harmonisation or limitation?

Additional arrangements are introduced by the Proposal on the AIF level, such as a defined list of Liquidity Management Tools (i.e. gates, side pockets, swing pricing, dilution levy, etc.) and a harmonised loan originating funds regime. No grandfathering on existing loan-originating AIFs is foreseen.

These changes entail multiple aspects heavily influenced by the EU Commission's common goal to allow for more alignment between the UCITS and AIFMD regimes. Now, although both licences are often combined in the same management company entity in Luxembourg, the scope of investments and investors is fundamentally different between the two regimes. This leaves an open question, whether measuring the level of investor protection with the same measures makes sense or provides for unnecessary limitations for AIFs and professional investors, which should be looked at closely especially by the fast-growing credit fund segment.

Finally, there is a limited Depositary passporting proposal applicable in case of 'narrow/small market situations'. The concrete application cases underlying this rule are Cyprus and Malta. Yet, we have no full passporting nor a fully clear assessment on how to define a 'narrow/small market situation'.

AIFMs and services providers are impacted

As we briefly described, the enhanced delegation regime not only imposes new requirements to the AIFM, but also to their service providers and agents.

> **"Given the maturity of the service provider industry in Luxembourg and the possibility of extending their service range, AIFMD 2 may even prove to become an opportunity for Luxembourg."**

For AIFMs, the required adjustments to service level include the drafting of tailored delegated functions oversight processes and procedures, the disclosure and reporting requirements, as well as the enhancement/creation of the oversight function. Given the tight resource situation on the market, the process changes should be accompanied by investments in due diligence and workflow management software as well as data management facilities. A professional delegation oversight management is to be considered an opportunity, if well managed in terms of service scope and IT infrastructure, to limit the business risks as well as to ensure the data quality, exhaustivity and consistency across time.

While most service providers have upgraded their organisation to address the fundamental regulatory requirements of AIFMD, the substantial business growth of the past 10 years has forced many of them to reconsider and re-design organisation, processes and IT infrastructure in an on-going manner.

The changes of AIFMD 2 will kick-off a new chapter of business model design. In addition to the specific requirements for Liquidity Management tools that need to be set-up in the administrative procedures of the administration service providers, or at least defined/limited in terms of service level in their standard service contracts, the service providers will be facing a more rigorous delegation oversight regime exercised by the AIFMs in light of their extended scope of oversight responsibility. The disclosure and reporting requirements will be a major topic to be aligned between the AIFMs and their providers. While some firms developed specific solutions besides more standard services being provided by the AIFMs' historical providers, the selection and implementation of appropriate and efficient reporting capacity, as well as the implementation of efficient communication tools and KPI's, remain high on the AIFMs' agenda.

However, given the maturity of the service provider industry in Luxembourg and the possibility of extending their service range, AIFMD 2 may even prove to become an opportunity for Luxembourg. In the light of the ban of private placement regimes in Europe, we anticipate that most of the AIFMs and service providers in Luxembourg will be able to take advantage of their home market maturity and depth of service scope to provide solutions and benefit or even force business growth for the 10 years to come. ●

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By **Mickael Tabart**
Partner - Head of Private Equity and Assurance services at KPMG Luxembourg

Luxembourg set to be a leading player in ELTIFs, the missing link between the high-income retail investors and private capital

2021 demonstrated another year of strong performance for the private capital market and their limited partners, continuing its resilience from 2020. Private capital is not only a key driver of value creation for the economy in tumultuous times, but also shows adaptability and growth even in a difficult and fast-changing environment.

In its latest survey of institutional investors, Preqin (well-known for providing investment data and information on the alternative assets market) reports that institutional investors value the diversification, high absolute returns, and high risk-adjusted returns they get from their allocations. Across private capital, an average of 90% of limited partners said performance had met or exceeded expectations; more than a third of limited partners (35%) plan to invest more in private capital over the next 12 months, with a further 51% expecting to invest the same amount.

These figures do not come as a surprise for any professional in alternative assets, but the excitement behind these numbers raise one of the key questions for the alternative industry: Why are retail investors still excluded from investing in alternative assets funds? While retail investors have a huge choice of products and funds in public markets, it will be a long walk in the desert for any retail investors who want to diversify investment in private markets or alternative assets.

ELTIF regime: An oasis in the desert

European Long-Term Investment Funds (ELTIF) regulation came into force in 2015 with the objective of increasing the long-term financing in Europe by channeling European savings toward investments in the real economy. Examples include infrastructure projects, unlisted companies or listed micro, small or medium-sized enterprises (SMEs). SMEs – seen as the backbone of the European economy – represent 99% of jobs in Europe and are a potential source of jobs and economic growth.

With a passport that authorizes its distribution to European retail investors, ELTIFs' distinguishing feature sets them apart from other existing vehicles, such as the European Venture Capital Fund (EuVECA). However, ELTIFs have not attracted as much interest as UCITS to date.

According to the ESMA register, there are 67 established ELTIFs in Europe. Luxembourg is home to 36 of these, proving the country is already the leading domicile, even before the anticipated legislative improvements are in place. However, the High-Level Forum (HLF) on capital markets union (CMU) has indicated that ELTIF product launch is proving slow. This is mainly due to investment barriers resulting from strict requirements enforced when the ELTIF is offered to retail investors and a narrow field of eligible investments.

> **The ELTIF product unites alternative assets or private capital with retail investors – two worlds that rarely collide and have very different operational dimensions."**
>
> Mickael Tabart

Today, a growing interest in ELTIFs is emerging in Luxembourg with various projects in the pipeline or already well underway. These projects are led by top managers in the field of private equity and multi-asset class.

So, what has sparked this sudden interest in ELTIFs?

According to a recent European Economic Forecast, The average savings rate in European households between 2017-19 was mostly level. However, between 2020 and 2023, households' extra savings in the EU are estimated to grow to an all-time high of EUR1.3 trillion, which might attributed to caution amid the pandemic. Per the European Central Bank (ECB), the persistently high flow of savings during the COVID-19 pandemic has accumulated excess savings estimated at EUR540 billion in the first quarter of 2021 (equivalent to 7.4% of annual disposable income in 2019). Some additional excess savings may still build up before the health crisis passes.

The ECB also believes the accumulation of savings during the pandemic is concentrated among older and higher-income households with generally less constrained liquidity and lower marginal propensities to consume; the extent to which these additional savings will be consumed is expected to be relatively low.

As such, these savings could materialize in long-term investments should investors look for opportunities to diversify their portfolios. Such investments offer attractive returns and low correlation with traditional investments – all while taking advantage of historically low bank rates.

And this is where ELTIF comes into its own, as it contains the necessary rules (albeit sometimes restrictive) to protect retail investors.

In Luxembourg, 58% of ELTIFs are distributed to retail investors (mainly under Part II of the Luxembourg Law of 17 December 2010).

Due to current legislation, investment strategy favors private or syndicated debt and direct or indirect holdings in SMEs. A fund of funds might also be a welcome investment strategy to increase ELTIF attractiveness as foreseen in the current European Commission proposal.

75% of ELTIFs are distributed across multiple countries demonstrating the extensive use of the passport attached to this product to attract retail investors from all over Europe.

The ELTIF product unites alternative assets or private capital with retail investors – two worlds that rarely collide and have very different operational dimensions.

The imaginative and resourceful Luxembourg fund industry solved almost all the operational questions for retail investors investing in an illiquid product. Most of the service providers in Luxembourg have developed an adequate platform at the transfer agent level and also relevant net asset value mechanisms at ELTIF inception – since ELTIFs aim at long-term investment and therefore strongly limit the repurchase of shares before five years.

High hopes for 2022

The EU's current political objectives related to CMU, the Sustainable Finance Strategy and COVID-19 recovery are finally aligned with the growing interest of institutional and retail investors for alternative and sustainable investments and with managers' interests in offering ELTIFs to a wider base.

This auspicious timing was further supported on 25 November 2021 when the European Commission unveiled its proposal for amending ELTIF Regulation 2015/760; the proposed regulation greatly improves the flexibility of the ELTIF vehicle's eligible assets, portfolio composition, borrowing rules, redemption management and distribution.

The revised regime could unlock the full potential of ELTIFs, currently hindered by overly complex and restrictive rules for portfolio composition and distribution. However, the success of ELTIFs with retail investors will also certainly require an investor tax incentive as already seen in jurisdictions such as Italy.

Will the EU political agenda allow for this investment oasis to flourish or are ELTIFs still stuck in the desert? It would be a shame for Europe to miss the opportunity to replicate UCITS' success for the alternative industry and to finance the real economy. Fortunately, Luxembourg is well-suited to seize this opportunity. ●

Interview of
Henning Schwabe
Partner, Arendt & Medernach

Francis Kass
Partner, Arendt & Medernach

And Marc Mouton
Partner, Arendt & Medernach

By Evi Gkini
Business Development and Project Manager

Virtual assets in Luxembourg: New impulse given by recent CSSF guidance

Henning Schwabe, Francis Kass and Marc Mouton, Partners at Arendt & Medernach, discuss the inputs brought by the new CSSF guidance on virtual assets, as implemented by its FAQs.

On January 4th, 2022, the Commission de Surveillance du Secteur Financier (CSSF), the Luxembourg regulator, released updated versions of its FAQs on virtual assets, one addressed to Undertakings for collective investment (UCI), originally issued on November 29th, 2021, and one addressed to credit institutions, originally issued on December 23rd, 2021. These two FAQs form part of the CSSF guidance on virtual assets, as initially published on November 29th, 2021.

Could you please explain to us the context that led the CSSF to publish a guidance on virtual assets?

Henning Schwabe: 2021 has been another record-breaking year in terms of virtual assets: Bitcoin reached an all-time high in November 2021 and non-fungible tokens (NFTs) have gained a tremendous popularity.
The quick progression of the use of virtual assets raises a number of questions from a regulatory perspective. In fact, investing in those complex and virtual instruments presents certain inherent risks: liquidity risk, fraud, technical risk, money laundering or terrorism financing.
Actually, the CSSF already addressed the subject a few years ago: in 2018, it published two warnings regarding financial activities involving virtual assets. In the meantime, fund managers and service providers have become more knowledgeable with respect to virtual assets and investment funds' interest for virtual assets has been growing ever since. For this reason, the CSSF wanted to clarify which types of Luxembourg funds can invest in virtual assets and which conditions have to be met by their service providers.
The interest for virtual assets is such that the European Commission has released a digital finance package and that very recently, on January 21st and 24th, 2022, the CSSF released two guides on the risks associated with the use of distributed ledger technologies (DLT) and, in particular, through a blockchain.

What is new? What issues did the CSSF address in its FAQs?

Francis Kass: The CSSF has clarified that Alternative investment funds (AIF) are allowed to invest in virtual assets, directly or indirectly, provided that their units are marketed to professional investors only.
Credit institutions are also allowed to invest in virtual assets, subject to compliance with certain special accounting and capital-related considerations, and to provide also services linked to virtual assets to their customers under certain conditions.

Henning Schwabe: On the other hand, undertakings for collective investment in transferable securities (UCITS), UCIs addressing non-professional customers and pension funds are not allowed to invest in virtual assets, neither directly, nor through derivatives. But, assets that qualify as financial instruments, e.g. shares of a company specialized in virtual assets, could potentially be eligible investments for UCITS.

> **"Investment managers need to make a case-by-case evaluation of the impact of these [virtual assets] investments on the risk profile of the investment fund."**

You are saying that the CSSF, in its FAQs, clarified which conditions have to be met by the service providers of investment funds investing into virtual assets. Can you tell us more about this?

Francis Kass: Each authorized investment fund manager that intends to manage an AIF, regulated or not, investing in virtual assets, needs to obtain a prior authorization from the CSSF, with respect to the "Other-Other Fund-Virtual assets" strategy. The CSSF emphasizes that investing in virtual assets presents an inherent risk. Therefore, investment managers need to make a case-by-case evaluation of the impact of these investments on the risk profile of the investment fund.
Fund depositaries must put in place adequate organisational arrangements and an appropriate operational model, considering the specific risks related to the safekeeping of virtual assets. Before acting as depositary for an investment fund investing directly in virtual assets, depositaries must notify the CSSF.

Marc Mouton: Moreover, if a credit institution intends to provide itself services related to the safekeeping or the administration of virtual assets, such credit institution must register as a virtual asset service provider (VASP) with the CSSF. Credit institutions can accordingly act as a VASP and register as such.

Do credit institutions that intend to invest in virtual assets or to provide services in relation to virtual assets need to comply with any specific obligations?

Marc Mouton: Regarding credit institutions using VASPs such as specialised virtual assets exchanges and custody platforms, they should avoid that operational disruptions and failures of their VASPs spread to their regulated financial activities. They should also consider the risks set out in more detail in the CSSF whitepaper on DLT. The CSSF also expects them to set up an effective investor protection framework and to have the corresponding knowledge, competence, expertise, infrastructure and human resources.

Besides the inherent risk of investing in virtual assets, are there any other considerations to take into account?

Francis Kass: There is a lot to consider when investing in virtual assets. One additional main consideration is the risk of money laundering and terrorism financing. Consequently, the CSSF expects that the member of senior management in charge of AML/CTF matters as well as the AML compliance officer of entities investing in virtual assets possess, and can demonstrate, an adequate understanding of the new money laundering, terrorism financing, proliferating financing risks posed by virtual assets and the necessary measures to mitigate them.

It seems that investment funds and virtual assets have a long and bright future ahead of them, but what is next? What can we expect in the coming months?

Henning Schwabe: The industry is currently in contact with the CSSF to clarify some questions that are still under discussion. This is why we can expect some further updates on the FAQs to be issued by the CSSF in the near future.
In addition to that, the European digital finance package, composed of MiCA, DORA and the DLT pilot regime, will set the tone for the next coming years when these proposals will be effective. Further interesting developments are thus to be expected and the reflection on how to address the upcoming challenges continues. ●

INSIGHTS

By **Francesca Messini**
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The rise of sustainability linked loans and the introduction of ESG covenants

Defining ESG-linked targets in private debt loans

Since the 1990s, debt originators and managers have pioneered the introduction of Environmental, Social and Governance (ESG) principles in funding mechanisms. The debt market's ESG activity was boosted by the issuance of the first green bond in 2008, guided by the Green Bond Principles (GBPs) framework.

Green bonds are a clear example of a successful funding scheme to develop climate-related projects, and their implementation cleared the path for other ESG-linked funding structures.

Sustainable loans have emerged as a new lending option, mainly taking two forms: green or social loans to finance predetermined green or social projects, and sustainability linked loans that incentivize the borrower to achieve ambitious and predetermined sustainability performance objectives. The introduction of the GBPs in 2018 and the Sustainability Linked Loan Principles (SLLPs) in 2019 marked the birth of the first market frameworks to support sustainable loan agreements.

The emergence of sustainability linked loans

Compared with green or social loans, sustainability linked loans aim to promote the sustainable development of borrowers using Sustainability Performance Targets (SPTs) as Key Performance Indicators (KPIs) to measure borrowers' sustainability profiles. These loans shift the focus from the borrower's project to the borrower's entire sustainability approach.

The SLLPs framework concentrates on four key elements:

1. Communicating the overall sustainability strategy: borrowers should inform lenders of their sustainability objectives, achievements, and related alignment to the agreed SPTs.

2. Measuring the borrower's sustainability through setting targets: borrowers and lenders should set SPTs on an ad-hoc basis for each loan agreement.

3. Reporting: transparency is critical to ESG reporting. Therefore, borrowers should report their SPTs, methodology and assumptions taken at least yearly.

4. Reviewing: borrowers are strongly encouraged to seek external independent support to review their performance against set SPTs.

The SLLP framework's introduction in 2019 drove the sustainability linked loan market to outperform green loan volumes in that same year.

When looking at the differences between green loans and sustainability linked loans, a clear sectorial difference emerges.

With 78% of all green loans issued across the renewable energy, power generation and utility sectors, green loans seem more suited to sectors with "green-by-nature" projects. However, sustainability linked loans are issued over a broader range of industries, emphasizing the

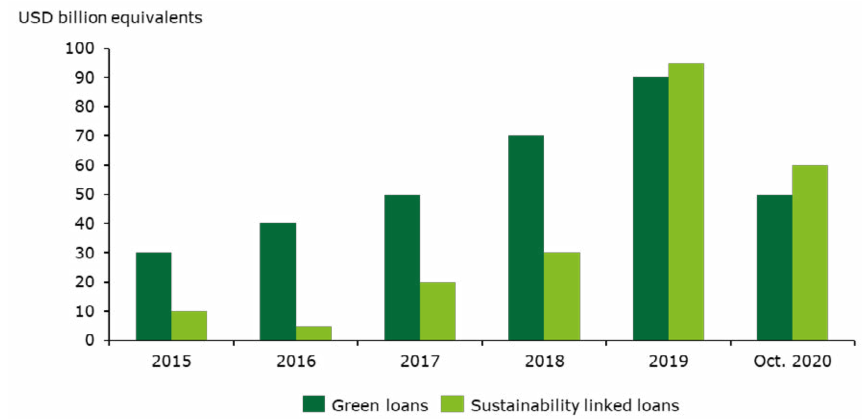

Figure 1: Estimated green and sustainability linked loans supply in absolute numbers, from 2015 to October 2020 (source: Bloomberg, Nordea)

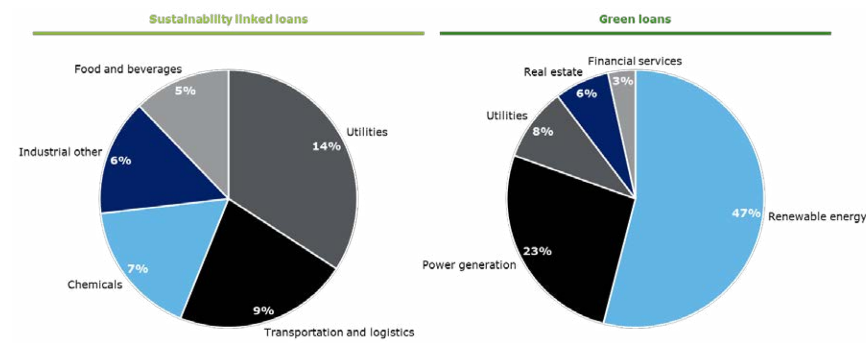

Figure 2: Top five sectors application by loan format
(source: *The sustainable loan market: a snapshot of recent developments.* E. Ramel; J. Michaelsen. Nordea publication. October 2020).

> **"Compared with green or social loans, sustainability linked loans aim to promote the sustainable development of borrowers using Sustainability Performance Targets as KPIs."**

possibility that any entity can improve its sustainability positioning. Compared with green loans, sustainability linked loans have been issued in industries like transportation and logistics, chemicals, and food and beverages—sectors that are not traditionally green and are aiming to reduce their environmental footprint and foster the transition to a low-carbon economy.

Setting ESG targets in private debt loan covenants

One sustainability linked loan requirement focuses on the entity's ability to set sustainability objectives, which are measured through SPTs linked to the debt terms. Sustainability targets must be aligned with the borrower's business, tied to a sustainability improvement, and monitored against a predetermined performance target benchmark or objective. SPTs may be either defined by the borrower's global sustainability strategy or assessed by independent providers against external rating criteria.

To foster these SPT commitments, the loan contract is often complemented by a so-called "ESG covenant". This is an agreement between lenders and borrowers that defines the loan's ESG terms and conditions to protect the lender's financing position.

For example, lenders often rely on "margin ratchets", which adjust the relevant loan agreement's margin depending on a predetermined SPT threshold. This practice rewards borrowers for achieving SPTs through loan rate decreases and penalizes borrowers for not achieving SPTs through loan rate increases. By linking the loan terms to the borrower's sustainability performance, borrowers are incentivized to improve their sustainability profile over the life of the loan. Typically, margins can increase or decrease within a range of 0 to 15 basis points (bps).

Although margin ratchets are currently the most widely used methodology, several other practices are emerging. For example, linking possible lender sanctions (e.g. early investment exit) to mandatory yearly ESG disclosures and goal achievements, requiring a more stringent level of commitment from borrowers as a result.

ESG-linked margin ratchets have appeared in several loan issuances across Europe, receiving strong support from leading alternative investors. In particular, The Carlyle Group has emerged as a front-runner in providing ESG-linked loans across a broad range of industries.

In 2019, The Carlyle Group acquired a minority interest in Jeanologia, a clean technology provider for denim manufac-

turing that aims to eliminate the use of water and avoid toxic waste. Jeanologia agreed to a loan with a margin linked to a water-saving SPT. The ratchet works bi-directionally— if Jeanologia meets its annual water-savings target by 15% or more a margin decrease is triggered. Otherwise, if the target is not met a margin increase is activated. The agreed SPT is a pre-existing KPI decided by its management team and communicated to The Carlyle Group on a yearly basis.
In 2020, The Carlyle Group announced the buyout acquisition of Flender from Siemens, launching an ESG-linked loan of around EUR1 billion. Flender is the market leader in supplying gearboxes for wind turbines outside China. The lender and borrower agreed to link a flexible margin ratchet based on the installed amount of wind power—if its wind power figures increase by 5% or more, Flender achieves a 10-bps margin reduction, and vice versa.
An example of a sustainability linked loan in the food and beverage industry is IK Investment's acquisition of Kersia, a French company specializing in biosecurity services for the food value chain. Kersia's financing package, with flexible margin ratchets of up to 7.5 bps, is linked to three SPTs: implementing systems for collecting and recycling customer packaging; increasing its green product share; and increasing the percentage of employees that are given the opportunity to become the firm's shareholders.
While this mechanism strongly incentivizes borrowers to meet ESG-driven objectives, the excess margin applied when targets are missed counterintuitively improves the investment's financial performance to the detriment of its ESG performance. At the limited partner level, where ESG strategy has become a key decision-driver for fund selection, receiving a better return due to poor ESG scoring would be counterproductive. Equally significant, manager performance remuneration should not improve where an asset's ESG scoring is below the (ESG) target.
For this reason, some private debt lenders have started implementing mechanisms where increased performance is channeled into compensation schemes and/or non-profit organizations, and manager remuneration is partially based on portfolio ESG scoring.

SPTs Category	Example
Energy efficiency	Improvements in the energy efficiency rating of buildings and/or machinery owned or leased by the borrower.
"Greenhouse gas emissions"	Reductions in greenhouse gas emissions in relation to products manufactured or sold by the borrower or to the production or manufacturing cycle.
Renewable energy	Increases in the amount of renewable energy generated or used by the borrower.
Water consumption	Water savings made by the borrower.
Affordable housing	Increases in the number of affordable housing units developed by the borrower.
Sustainable sourcing	Increases in the use of verified sustainable raw materials/supplies.
Circular economy	Increases in recycling rates or use of recycled raw materials/supplies.
Sustainable farming and food	Improvements in sourcing/producing sustainable products and/or quality products (using appropriate labels or certifications).
Biodiversity	Improvements in conservation and protection of biodiversity.
Global ESG assessment	Improvements in the borrower's ESG rating and/or achievement of a recognised ESG certification.

Figure 3: Common categories of SPTs, with examples of improvements that an SPT may measure (source: "Sustainability Linked Loan Principles". APLMA; LMA; LSTA, March 2019).

Conclusion

Although sustainability linked loans are still in their infancy compared with other ESG-related funding mechanisms, their applicability and purpose are undeniable. Sustainability linked loan facilities are boosting sustainability adoption across several industries that are traditionally "brown" by nature. Nevertheless, as of today, only a few large players in a very active industry have adopted sustainability linked loans, primarily relying on margin ratchet mechanisms. In compliance with local laws, lenders can use different techniques based on multiple and customizable KPIs tailored to the target company's business. Despite this, one of the biggest challenges for alternative players remains the ability to engage, measure and control the implementation of ESG practices in a short-to-medium timeframe. ●

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By **Baptiste Hoffmann**
Depositary Services Team Leader at Brown Brothers Harriman

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Head of Alternatives Product Europe and Asia at Brown Brothers Harriman

Smarter Depositary Services: Empowering the People

Brown Brothers Harriman' team is reshuffling practices by applying technologies to enhance depositary processes for alternative investment funds (AIFs).

Depositary oversight work relies on large volumes of highly variable reports, documents and manual information feeds from various stakeholders which makes it challenging to implement automation when compared to more traditional fund types.

By researching and learning how to use new flexible technology tool sets, the team used low- code/ no-code tools to build proof of concepts to help transform and automate elements of the depositary oversight process for alternative funds. And, by learning and teaching other business users, BBH brings forward new technology use cases for a perennial problem facing the alternatives industry: the lack of automation.

This case study article explores how the adoption of new technologies can fix smaller problems that add up to high degrees of manual work in the alternatives space, speeding up processes and reducing risks by digitizing documents, capturing and translating data to solve breaks, and sets out the steps which other firms facing similar issues may consider.

Scaling Automation: The Evolution of Depositary Services

The move toward automation began with depositary services exploring, together with teams in fund administration, how new technologies could automate tasks that are outside the remit of core business platforms and that have been difficult to automate, like those in private markets.

In financial institutions, nothing happens in isolation. So while specific use cases targeted process transparency and documents handling, the end goal is to scale automation by providing business users with the tools to automate and improve processes and customize day-to-day tasks within a flexible framework of the activity and data required by or connecting with larger systems. In this way the automation tools were democratized for people to use to address a specific problem.

Depositary services has therefore evolved the way it works in three development streams, by:

- Digitizing interactions, building interoperability and creating transparency between stakeholders using workflow tools
- Capturing data from these workflows, visualizing them and automating analysis to enable stakeholders to focus on exceptions
- Automating further with customizable apps, enabling business users to focus on value-adding work and minimizing manual data manipulation

These streams are underpinned by a user model which guides business users through the user adoption process, enabling automation at scale and for multiple asset classes.

Digitizing interactions, building interoperability and creating transparency between stakeholders using workflow tools

Given depositary services' role in monitoring an AIF, its alternative investment fund manager (AIFM) and central administrator, the first step was to review how all of these stakeholders interacted with each other and to design a digitized process of asking for and reviewing high volumes of documents and information from these stakeholders. Like a smartphone digitizes interactions between companies and their consumers and vendors using apps, BBH wanted to build the same in depositary services to take in feeds, collect data and show it in a way that enables the business to execute reviews and make decisions more quickly.

The business developed a workflow app to streamline document sharing, storage and review processes in fund transactions between servicing teams. The app guides users through each transaction in a structured framework that also provides the flexibility needed in private markets. All stakeholders have transparency into the document review process, including workflow management between teams, down to who should verify what information, to ensure a quick and efficient review of the transfer of ownership of assets, whilst generating real time KPIs of the review process. Having access to a client web portal means stakeholders have access to the workflow app by default. The team is digitizing the back-end processes, but the end goal is to provide that level of transparency and interactivity to clients thanks to an enhanced front-end interface.

> **"The relationship between people and technology is changing rapidly. This requires an evolution of people's skillsets to extract the full value from technology."**

Capturing data from these workflows, visualizing them and automating analysis to enable stakeholders to focus on exceptions

Depositary services have also developed dashboards to capture the information from these workflows, providing real time views of activity status, volumes and exceptions.

The dashboards can be customized by each team and each user. For example, a dashboard tracks each asset that a client has bought or sold in the fund, showing the transactions and the number of corresponding documents pending review and the documents that are missing to ensure adequate recordkeeping and the transfer of ownership of the assets.

The dashboard tool can receive information from multiple sources, including third party files. It automates the analysis of high volumes of data, which is then aggregated and presented in powerful visual summaries. At a glance, users can home in on the most important focus areas and drill down into the detail to enable highly targeted and efficient interactions with clients and other stakeholders. For example, the depositary services team uses the tool in meetings with other teams to discuss potential issues identified by their monitoring. Instead of correcting any information offline once those meetings have happened, it is now possible to show managers the dashboard and exceptions for their clients during those meetings and capture updates on the go. Using the tool, the team can quickly adapt to feedback or any process or file format change. These modifications do not require Systems experts, but the power is in the hands of the business.

Automating Further With Customizable Apps, Enabling Business Users to Focus on Value Work

Automation is an ongoing endeavor and since there is so much customization in alternatives the business users need to decide which tasks are most important to automate as they can vary from team to team and user to user.

Tasks include capturing data from any file format sent by stakeholders, performing a level of enrichment, translation, and validation, reconciling data and managing exceptions in a controlled way.

A platform toolkit has therefore been created to enable business users to automate these unique and specific tasks themselves. Business users can consume data, transform it and automate reconciliations. Those users can make the modifications in the source code themselves and these changes are instantly implemented.

Private market processes need to be flexible to accommodate variability. However, it's not the Wild West, and there is a governance framework with controls embedded in the toolkit and documentation to evidence the process change.

The Future: More Learning for More Automation

With the pace of growth in private markets, the relationship between people and technology is changing rapidly. This requires an evolution of people's skillsets to extract the full value from technology. For example, the dashboards toolkit involved learning some basic coding and, in a few clicks, a team member had started creating his own dashboards and modifying code to solve for exceptions. The code can easily be adapted to the updated source files received or to new rules to be applied. The time to market for implementing innovative solutions is very short compared to leveraging a firm wide systems resources.

The big challenge is finding the time to work on it as learning these tools requires a couple of weeks of time investment to focus on it. But people will learn to code because they want to adapt. And the more people who want to learn, the more we create dashboards to solve for manual tasks, and the more other people want to learn to speed up their processes. That's the future, right? ●

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By Joshua Stone
Co-Chair of the Large Buyout Club

and Luca Baggioli
Co-Chair of the Large Buyout Club

LPEA

Large Buyout Club

At the origin

In 2019, the LPEA launched the Large Buyout Club. The aim was and still is to bring together large private equity players in the broader private equity industry to promote communication, exchange of ideas and problem solving between its members through regular meetings and participation in the internal working group of the LPEA.

Who

The committee has proven successful in attracting a wide range of players in the private equity industry and is currently composed of around 20 members (i.e. EQT, Carlyle, Blackstone, Apollo, Warburg Pincus, Castik Capital, Triton Partners, TPG Capital, Pai Partners, Montagu, Lone Star Luxembourg (LSCI), IK Partners, CVC Capital Partners, BC Partners, Eurazeo, Castlelake, 3i Group, Astorg, Cinven, Swancap). The Co-Chairs of the group are currently Joshua Stone from EQT and Luca Baggioli from Carlyle.

What

The committee is focusing on gathering the widest possible spectrum of players in the market to ensure fair representation of them and to guarantee that all viewpoints are taken into account.
Our efforts and focus are on creating a forum where we can tackle various challenges and discuss existing matters in exercising the role and duties in the day-to-day functioning in the private equity industry. This includes sharing best practices and standards on the market to ensure a certain convergence across market players.

The anticipation of new laws and regulations to detect key aspects and implications across our members is one of the key focus for the coming months.
Recent item discussed during previous meetings include: staffing, digitalization, MOIC (guidelines / disclosures), outsourcing structure model (flexibility and oversight controls), new CSSF report in the fund industry (Long form report), branches, IT Cloud, AIFMD leverage calculations, negative NAVs, conducting Officer setup incl. signatory rights and recallable distributions.

A further focus of the committee is to ensure we continue to collaborate with more LPEA committees / clubs.

> **"The anticipation of new laws and regulations to detect key aspects and implications across our members is one of the key focus of the Large Buyout Club for the coming months."**

When

The committee meets at least every quarter.
During the COVID pandemic all meetings were held via Zoom. As soon as feasible, we will organize the first in person meeting with all committee members.

How to apply

Who should be interested in joining is welcome to fill in the application form or contact the LPEA directly. ●

Abdelkader Belkacem
Blackstone

Alexandra Matias
TPG

Antoine Clauzel
3i

Claus Mansfeldt
SwanCap

Dan Arendt
Castik Capital

Elona Ajdari
Cinven

Caroline Goergen
CVC Capital Partners

Fabrice Jeusette
Apollo

Giuliano Bidoli
BC Partners

Hind El Gaidi
Astorg

Johanna Michelot
Montagu

Joshua Stone
EQT

Luca Baggioli
Carlyle

Marc Boulesteix
Eurazeo

Maxime Miossec
PAI Partners

Patrick Steinhauser
Lone Star Capital investments

Pierre-Alexandre Lechantre
Triton Partners

Piotr Andrzejewski
Castlelake

Raquel Guevara
Warburg Pincus

Sandrine Anton
IK Partners

Sebastien Wiander
Alpha Private Equity

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Stephen Condon
TPG

Yassine Khechini
Montagu

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Interview of **Ariane Rey**
Sailing Event Coordinator
at Sailing Passion

By **Luis Galveias**
COO of LPEA

Sailing "in Luxembourg"

For this edition we met with Ariane Rey, Project Manager of Sailing Passion, to tell us more about the Mediterranean regatta "Siggy's Cup" which is all about Luxembourg.

The Siggy's Cup is a sailing regatta in a land-locked country. Can you share more about it?

The idea came as I was sailing with some of my Luxembourg friends. I proposed them to gather all the sailors based in Luxembourg and organize a kind of friendly sailing competition abroad. They found the idea great as not a single sailing event was organised in and from Luxembourg. The only condition they set was: "you organize it." So I did. First, I had to find the name which had to ring a bell to all Luxembourg citizens, so, easily, the name of Siggy – nickname of Sigismund of Luxembourg - came to my mind as he was loved and known by all Luxembourgish. Then I designed the logo and it was during a long 24/24 sailing from the Baltic sea to Ostende that the Luxembourg maritime flag was inserted into the letter P and this so famous logo was born.

How many people take part in the regatta?

We set sail in 2007 with 7 sailing yachts – 7 crews /49 participants and went sailing off the French Riviera, waters I knew particularly well. We came back so enthusiastic that I had to organize a second Siggy's Cup the following year then again the years after.... and today, in 2022, we celebrate the 15th edition of the Siggy's Cup. Time flies!

The numbers quickly increased and today we welcome up to roughly 30 sailing yachts and 189 passangers… the capacity of our chartered aircraft.

We sailed in many countries but once in Croatia, it's difficult to sail anywhere else as the country has over 1.400 islands! It's a real paradise for sailors.

In Spring 2022, we will sail identical Bavaria 46 (4 cabin) and identical Bavaria 40 (3 cabin).

If the daily competitions spice up our days, the evenings are also memorable but since the pandemic, we found a different way to party in order to enjoy our trip and stay safe. It pays back. We all came back Covid-free!

How popular is sailing in the Luxembourg business community?

The figures given above do speak by themselves. There are many sailors undercover in Luxembourg and most of them have their own boat or are members of clubs abroad. These are the ones we need to find as they are the most motivated ones!

On the other hand, there are people who would like to start a sailing experience and our job is to find them as well. The Siggy's cup is also open to unexperienced people and Sailing Passion provides skippers to make it an unforgettable sailing experience.

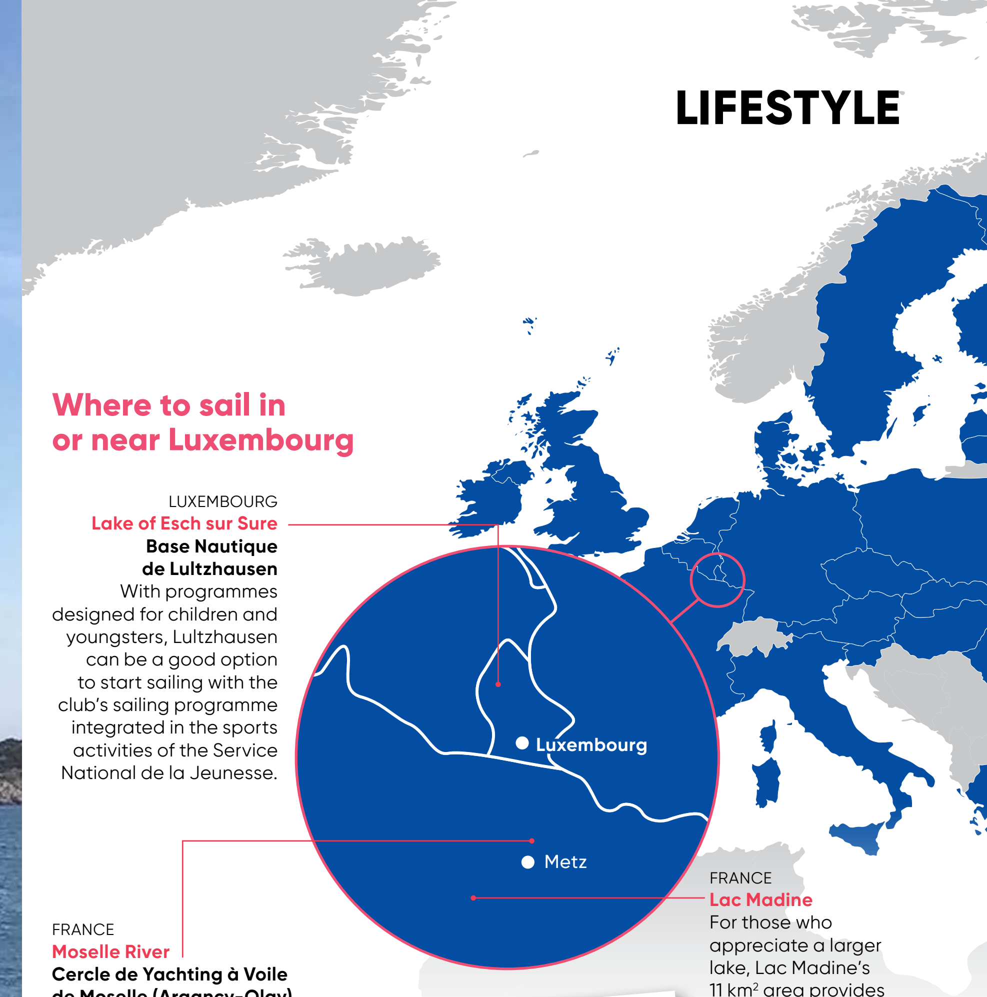
In fact and like always among sailors, the communication is by word of mouth and once you participate to the Siggy's you become a spontaneous and strong ambassador. The Siggy is a great opportunity to reconnect with people, to establish/reinforce the team spirit among your teams and reinforce friendship among the Luxembourg business community.

You also have a competition for schools. Are youngsters joining the sailing passion?

Indeed, there again, the idea was funny. One of our participants once said to me: 'I had to sneak out of my house this morning to come to the Siggy's. My son is so upset that he can't join. Why don't you organize the same for the students?' Deal! … and here we are in our 9th edition with 220 participants.

Even if this Schools' Cup has always been very successful, since the restrictions linked to the Covid, the students have registered en masse. This year, we had to close registrations at the end of September for the Easter event! Obviously, they need to escape the gloomy and constraining atmosphere.

Most students participate for 2 to 3 years and then leave to continue their studies abroad. This year, one of them who came back to Luxembourg after his studies abroad will be a member on our committee boat! We are very proud to have "infected" them with the sailing virus, a virus that I hope will impact their lives forever.



Where to sail in or near Luxembourg

LUXEMBOURG
Lake of Esch sur Sure
Base Nautique de Lultzhausen
With programmes designed for children and youngsters, Lultzhausen can be a good option to start sailing with the club's sailing programme integrated in the sports activities of the Service National de la Jeunesse.

FRANCE
Moselle River
Cercle de Yachting à Voile de Moselle (Argancy-Olgy)
Within a 40-minute drive from Luxembourg City you can find this 60-year old club which features weekly regional, national and international regattas and a Saturday sailing school for all ages and with different types of boats. This season's sailing school will start on April 9th and the traditional open-doors day will take place on May 1st.

FRANCE
Lac Madine
For those who appreciate a larger lake, Lac Madine's 11 km² area provides a different experience and a nice place to have your weekend boat at the local marina.

Are we still on time to join the next competition?

Yes, registrations will close on March 25. We have released a flyer [available in the QR Code] and you can also find all the details in our website. Ahead of the trip we organize zoom meetings where we explain in detail the whole event. It's a full package offer. You just need to make your crew and we take care of the rest. ●

SAILING PASSION
SAIL WITH US
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Sailing Passion is a member of the Luxembourg Sailing Federation and is under the patronage of the Luxembourg Commissariat aux Affaires Maritimes.

LE GOUVERNEMENT DU GRAND-DUCHÉ DE LUXEMBOURG
Ministère de l'Économie
Commissariat aux affaires maritimes
FLVM

About LPEA

The Luxembourg Private Equity and Venture Capital Association (LPEA) is the most trusted and relevant representative body of Private Equity and Venture Capital practitioners with a presence in Luxembourg.
Created in 2010 by a leading group of Private Equity and Venture Capital players in Luxembourg, with 330 members today, LPEA plays a leading role locally actively promoting PE and VC in Luxembourg.
LPEA provides a dynamic and interactive platform which helps investors and advisors to navigate through latest trends in the industry.
International by nature, the association allows members to network, exchange experience, expand their knowledge and grow professionally attending workshops and trainings held on a regular basis.
If Luxembourg is your location of choice for Private Equity, LPEA is your choice to achieve outstanding results.
LPEA's mission towards its members is to represent and promote the interest of Private Equity and Venture Capital ("PE") players based in Luxembourg and abroad.
LPEA's mission towards Luxembourg is to support government and private initiatives to enhance the attractiveness of Luxembourg as an international hub for carrying out PE business and/or servicing the PE/VC industry in all its dimensions.
In summary, LPEA is the go-to platform where PE practitioners can share knowledge, network and get updated on the latest trends of the industry across the value chain.

Executive Committee


Claus Mansfeldt
President
LPEA


Hans-Jürgen Schmitz
Vice-President
Mangrove


Nick Tabone
Vice-President
Deloitte


Eckart Vogler
Treasurer
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Peter Myners
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Katia Panichi
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Jérôme Wittamer
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Expon


Laurent Capolaghi
Member
EY


Giuliano Bidoli
Member
BC Partners


Stephane Pesch
CEO
LPEA

Technical Committees

Legal
- AML
- AIFMD
- Corporate Law
- YPEL
- CMU
- Unregulated Funds
- Financing In PE

Tax
- YPEL
- VAT

Market Practice & Operations
- Risk Management

Central Intelligence
Fund Administration
Promotion Sounding Board
PE/VC Depositary Services
Private Debt

Clubs

ESG
Private Equity For Women (PE4W)
Venture Capital
Large Buyout
Single Family Offices (SFO)
Wealth Management
Human Resources (HR)
Insurance
Corporate Venture Capital (CVC)
PE Tech

LPEA Team


Stephane Pesch
Chief Executive Officer


Luís Galveias
Chief Operating Officer

Kheira Mahmoudi
Executive Office, Governance & Operations


Evi Gkini
Business Development and Project Manager


Johann Herz
Head of Events and Communications

LOYENS & LOEFF

AVOCATS À LA COUR

LUXEMBOURG