

## Editorial

Dear Member of the LPEA,

After a rather cautious start into the year 2010 on the tail of the global turmoil it appears that 2010 turned out to be a good vintage again for both Private Equity investors as well as the professional services industry.

This being said, the industry's path to produce superior returns and continued growth has a number of challenges over the short and mid-term.

On the investment side several hundred billion of "dry powder" are seeking a home and will increase competition (and potentially keep prices high) for promising assets, hence put pressure on performance in the mid term. The competition for assets will be accentuated by Middle Eastern and Asian funds (both sovereign and – increasingly – private) seeking a foothold in (strategic) western markets and assets. As one of the consequences – and in combination with continued credit constraints - money previously earmarked to large buyouts has started to move "downstream" to mid-market assets.

On the exit front, the industry expects a general improvement from 2011 onwards. However, on the basis of their existing portfolios alone, the industry would have to sell an estimated € 100 bn (at carrying value) per year over the coming 6 years. In its best periods over the last decade the counter stood at less than half of that per year. While we have seen an increase in US IPOs in 2010, not least influenced by a strong demand from Chinese companies, Europe remains a laggard in this respect. Trade sales are likely to remain the primary exit route for the next couple of years at least. And again, the pressure to make room for new portfolio investments and/or new funds may drive prices down. At the same time there is still an estimated 300 bn debt restructuring/ refinancing requirement over next 5-7 years, a challenge for both fund and company managers.

All in all, I would expect to see longer holding periods, opportunities for debt arbitrage and an active M&A market for 2011 and beyond.

Finally, on the fund formation side one should expect a slower pace as (a) fund managers focus on exits and/or seek to extend the investment periods of their current funds to purge the liquidity overhang and (b) limited partners, themselves significantly affected by the 2008/09 crisis, are more selective. Also, it will be interesting to watch whether and to what extent the new regulatory environment will influence formation of new funds in Europe.

As it regards the LPEA itself we have an ambitious 2011 program ahead of us. Surely, the implementation of the AIFM Directive in Luxembourg will occupy much of the Association's attention and efforts throughout the year. In this respect I am very pleased to report that the CSSF, who will lead the charge in the implementation process, has solicited the LPEA to participate in the key standard setting committees, a call that we have accepted gladly and will put the required resources behind.

Two other key initiatives will consist of intensifying interaction with key opinion leaders in the country through a series of roundtables and second, building the LPEA knowledge base about the industry in Luxembourg.

In line with our mission to represent the investment industry, the Board of Directors has ratified in its December meeting a motion to increase the ExCom from 6 to 7 members, 4 of which will be representatives of the PE industry. Candidates for the additional member will be presented at the April Board meeting and ultimately ratified at the Association's first annual meeting in May.

With best regards



Hans-Jürgen Schmitz  
President of the LPEA

## Luxembourg, an attractive location for Private Equity and Venture Capital



Private equity and venture capital have for a long time been considered as overly sophisticated and somewhat opaque financial engineering techniques. The recent financial crisis however has caused a favourable shift in perception, eventually and rightfully positioning private equity and venture capital amongst much needed drivers for economic growth.

Indeed, venture capitalists and private equity providers play an important role in creating or supporting innovative entrepreneurs who aim at delivering pioneering products and services. Aspiring to improve the performance of hundreds of small, promising start-up companies around the world, they invest time and energy, alongside capital, and thereby create substantial employment opportunities to stimulate economic growth. These fully committed economic players are appealing not only to a growing community of socially responsible investors and charitable foundations, but to public and private investment funds in general. Not surprisingly thus, the capital available to private equity and venture capital firms has grown considerably over the last years and public sector policy-makers are increasingly interested in providing support to the development of the industry.

Anticipating the growth potential of the phenomenon, the Luxembourg Government acted at a very early stage by creating the Investment Company in Risk Capital (SICAR) in 2004. The SICAR, which is specifically designed for the industry, as well as the Specialised Investment Fund (SIF) for qualified investors, have greatly contributed towards positioning the Luxembourg financial centre as a leading platform for venture capital and private equity. Luxembourg's long-standing track record in the structuring and administration of investment funds in general, and of cross-border investment funds in particular, has altogether been of great benefit to the expansion of the private equity and venture capital business in Europe.

Luxembourg's unequalled experience with cross-border fund distribution will also be of major advantage in the framework of the new European regime for alternative investment funds, which introduces a European marketing passport for alternative investment funds, including private equity and venture capital funds. The entire investment fund community in Luxembourg is ready and eager to duplicate the UCITS success story in the area of alternative investment funds.

In this promising context, I wish to congratulate the Luxembourg Private Equity Association for regrouping all the major private equity and venture capitalist actors in Luxembourg with the aim to enhance the industry in Luxembourg and to promote Luxembourg as an attractive location for their activities.

Luc Frieden  
Minister of Finance

## What's new at LPEA?

### ■ Membership

At our last board meetings on November 8<sup>th</sup> 2010 and January 17<sup>th</sup> 2011, 9 new member applicants were officially accredited to join our Association, bringing the LPEA member base to about 60 members.

### ■ New LPEA AIFMD Technical Committee

The new LPEA AIFMD Technical Committee is now organized, with specific focus on regulatory, governance, transparency, operations, third country rules and marketing (see further details in this newsletter).

### ■ CSSF: SICAR Committee

The CSSF has asked LPEA to join its SICAR Committee which was accepted gladly by our Executive Committee.

### ■ Calendar

Board of Directors: <i>April 4, 2011 (4 p.m.) July 11, 2011 (4 p.m.) October 10, 2011 (4 p.m.)</i>	General Meeting: <i>May 9, 2011 (6 p.m.) Venue: Banque de Luxembourg</i>
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## Events

### ■ EVCA Investors Forum 2011

*Date: 9-10 March 2011  
Location: Intercontinental, Geneva*

The EVCA Investors' Forum is the annual meeting place for over 200 of the world's major investors in private equity and their GP's.

More information: please see [www.evca.eu](http://www.evca.eu)

### ■ EVCA Institute Foundation Course for support staff

*Date: 30 March 2011 – 1 April 2011  
Location: Barcelona, Spain*

This introduction course is aimed at those staff who are not directly involved with investments but who want to learn about the key aspects of the private equity business (setting up and building a fund, selection of investments and deal flow management, deal structuring, adding value and monitoring growth of portfolio companies, exiting investments, investor relations).

More information: please see [www.evca.eu](http://www.evca.eu)

### ■ IFE AIFMD Conference

*Date: 28 April 2011  
Location: Luxembourg*

Comparison between UCITS and AIFM Directives / What rules will apply to fund managers? / What rules will apply indirectly to products? / What investment rules will apply to investors? / How should services providers (depository banks, administrators, ...) adapt to the new rules?

More information: please see [www.ifebenelux.com](http://www.ifebenelux.com)

## In the spotlight

### LPEA AIFMD Task Force continued



With CESR churning out multiple calls for evidence, the LPEA AIFMD Task Force is organizing itself accordingly in order to represent the Luxembourg private equity and venture capital industries throughout what promises to be a lengthy consultation process.

CESR's first call for evidence seeks stakeholders' input on the provisional request for assistance from the European Commission regarding CESR's technical advice on the implementing measures on the AIFMD. This input will help CESR's successor, the European Securities and Markets Authority (ESMA), in the development of its draft advice on the content of the implementing (Level 2) measures, which will be published for consultation in 2011. Paris based ESMA is a newly created independent EU authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as enhancing investor protection. The work done by ESMA will thus guide and assist the European Commission in preparing the full set of Level 2 implementing measures. Since ESMA has signaled that it wishes to consult with industry stakeholders in order to ensure the best possible outcome for the implementing measures, LPEA is called upon to participate.

ESMA's advice is to be delivered by 16 September 2011, in order to allow the Commission to deliver the full package of implementing legislation at the latest one year before the end of the transition period for the AIFMD. While the consultation process continues at the pace set throughout the political approval process for the AIFMD, the LPEA Task Force has organized itself in various sub-groups in order to focus its efforts on PE/VC relevant topics only. The lobbying efforts will thus focus on five main topics:

1. Regulatory (scope, authorization and transitional arrangements),
2. Governance (remuneration, conflicts of interest),
3. Transparency (reporting and leverage),
4. Operations (valuation, risk management, controlled investments, asset stripping) and
5. Third country rules and marketing.

Whenever possible, the LPEA Task Force will consult and team up with other industry stakeholders, (i.e., ALFI, EVCA, and EFAMA, etc.) whenever such bundling of resources appears to be in the best interest of its constituency.

The Task Force further aims to produce AIFMD guidelines for a better implementation in Luxembourg. In preparing these guidelines due consideration will be given to existing operational models, further taking into account possible implementing options. While detailed rules will largely depend on the outcome of the Level 2 measures consultation process, the Task Force will closely monitor the work in progress, delivering status updates, if and when available.

With much at stake and an enormous workload, members are kindly invited to participate in the Task Force's many sub-committees, assisting it throughout the lobbying process. Requests should be addressed to: [committees@lpea.lu](mailto:committees@lpea.lu).

While the AIFMD process continues, the LPEA is also working on the further modernization of the legal and fiscal environment applicable to PE/VC in Luxembourg. This parallel effort means to achieve the best possible legal and fiscal environment and operating conditions in Luxembourg in an AIFMD harmonized world.  
To be continued...

## About LPEA

LPEA is a non-profit organization serving a threefold mission:

- Towards its members, represent and promote the interests of Private Equity and Venture Capital players based in Luxembourg.
- Towards Luxembourg, support government and private initiatives to enhance the attractiveness, competitiveness and efficiency of the Luxembourg economic, legal, regulatory and operational framework as an international hub for carrying out Private Equity and Venture Capital business and/or servicing the industry in all its dimensions.
- Towards the European Venture Capital and Private Equity Association (EVCA) and other relevant international industry bodies, represent the interests of the members of the LPEA and the industry as well as Luxembourg as a place for doing Private Equity and Venture Capital business.

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