

CAPITAL

The magazine of the Luxembourg Private Equity & Venture Capital Association

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Interview BUILDING AN ONSHORE HUB FOR PRIVATE EQUITY IS A MARATHON, NOT A SPRINT

Michael Phillips, Castik Capital

VC funding in Luxembourg

Corporate Law
Reform: what
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**THE MAGAZINE OF THE LUXEMBOURG
PRIVATE EQUITY & VENTURE CAPITAL
ASSOCIATION**

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BREXIT, A NEW EQUATION FOR PRIVATE EQUITY FIRMS?

On June 23, the results of the UK referendum on a possible exit from the European Union came as a shock. For the UK to leave the EU, it must invoke Article 50 of the Lisbon Treaty which gives the EU and the UK two years to agree the terms of the split. According to the new UK Prime Minister, this process will not start before the end of 2016. This means that we will not have a clearer idea of what kind of deal the UK may negotiate with the EU until the beginning of next year. Predicting the form of this exit process or betting on the outcome is today an impossible exercise, and we certainly do not aspire to point a complete picture of how Brexit will impact the Private Equity industry, but we can already anticipate the obvious consequences which are looming at 3 levels.

THE FUND STRUCTURES

Existing fund structures, based in the UK or any other EU country, have been structured under the rules prevailing in the EU. While such rules have brought different forms of constraints and even barriers to GPs, they have also brought major benefits to the Private Equity industry which are now at stake. The AIFMD passport is probably one of the best examples and raises the question, "How will UK-based managers access the European market post-Brexit?" The EU directive on withholding taxes is another very good example; with the UK out of the EU, the individual tax treaties will prevail and may lead to possible tax leakage.

THE PORTFOLIO COMPANIES

Accessing the EU market might become challenging for companies based in the



"We can already anticipate obvious consequences."

UK. Key contracts such as financing agreements might also be affected. Geographical definitions referencing the EU, force majeure clauses or repayment events are just a few examples of the terms that might need to be revisited in light of Brexit. Additionally, the listing of shares in any of the EEA countries is currently subject to the single approval of one EEA country regulator. Brexit could consequently be a major game changer for Private Equity funds to exit investments through listings.

THE UK PE ECOSYSTEM

London has been the European hub for Private Equity for many years. The ease of access to Europe and the ecosystems of banks, law firms and accounting firms with Europe-wide private equity expertise have made London an attractive place for Private Equity firms to base

their European headquarters. Should this ecosystem and the ease of doing business from the UK erode, Private Equity firms may well look for other locations to operate from.

In an environment where volatility has become the norm, Private Equity firms are continuously asked to be more agile to grow in stature. Brexit is another event which will require Private Equity firms to adapt their platforms, models and operations, and possibly relocate some of their core activities. While many countries are positioning themselves as an alternative to the UK, it is very clear that real and proven stability will be the key parameters of this new equation.

Jean-Christian Six (Allen & Overy)
and **Olivier Coekelbergs (EY),**
co-chairs of the LPEA Brexit
Taskforce

DEAR PRIVATE EQUITY PROFESSIONALS,

The EU was severely hit when UK voters expressed their will to leave the Union. We have now gotten back to our businesses to carry on and define the next move. But what does Brexit mean for our industry?

Although a high level of uncertainty remains, many London-based businesses approached Luxembourg service providers just days after the result with a view to learning more about what Luxembourg can offer or expanding their operations in the country. We are used to welcoming new firms and pleased to offer such a comparable platform to our London peers.

A good example of Luxembourg's excellence is the decision of former Apax Partner Michael Phillips (cover) to structure its Castik Capital operations in Luxembourg. We trust you will enjoy our exclusive interview.

Luxembourg is a place for investors but it is also one for entrepreneurs. In this edition, we draw your attention to the funding options available to Luxembourg entrepreneurs and invite you to keep a few start-ups on your radar.

As usual, we bring you a wide set of subjects compiled by LPEA members whom we hereby thank for their valuable contributions. So, what's new in Luxembourg?

Jérôme Wittamer, Chairman
Paul Junck, Managing Director

Luxembourg Private Equity
& Venture Capital Association



Need help with fund formation?

Loyens & Loeff is a leading Luxembourg law firm providing comprehensive and fully integrated legal and tax advice in relation to fund structuring. We assist our clients in the structuring and implementation of alternative funds pursuing all major investment strategies including private equity, real estate, hedge, infrastructure, mezzanine, healthcare, renewable and alternative energy as well as UCITS.

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OUTFITTERY RAISES FURTHER \$22m IN DEAL LED BY OCTOPUS VENTURES



©OUTFITTERY

The pool of investors backing Outfittery continues to expand. The German online “personal shopping” company, backed by Luxembourg-based Mangrove Capital Partners since its Series A, raised one more round of funding from existing and new investors. Initially funded by High-Tech Gruenderfonds and by HV Holtzbrinck Ventures, in August the firm, which also includes investors such as Highland Capital Partners, Northzone and IBB Beteiligungsgesellschaft, welcomed aboard Octopus Ventures and U-Start Club. Outfittery wants to use the fresh capital to further expand its leadership position within the European curated shopping market and improve customer experience.



INTRODUCING BLUEGREEN SOLUTIONS

New Angle Capital has created BlueGreen Solutions (BGS), a Luxembourg corporation specialising in the development, commercialisation and distribution of European-sourced medical technologies (Medtech) in the US market. BGS comprise mostly a Franco-American team of specialists that collectively combine complementary experience in private equity, medical commercialisation/distribution and management of Medtech companies in the US.



CASTIK CAPITAL

CASTIK CAPITAL TO PARTNER WITH SWITZERLAND'S ACROTEC GROUPE SA

Castik Capital, the Luxembourg private equity investment firm, has partnered with management to acquire Acrotec Groupe SA, a leading Swiss supplier of precision components to the watch market and other high-value industrial end markets. Funds advised by Castik and Acrotec's management will jointly own the business. The acquisition, with an enterprise value of about CHF280m, is the culmination of the management team's search for a suitable long-term partner. The deal secures the firm's independence and builds the foundations for further strong growth. The acquisition means the exit of Quilvest Private Equity from Acrotec Groupe SA, four years after its investment as an anchor shareholder.

SES EXERCISES CALL OPTION TO ACQUIRE 100% OF O3B NETWORKS

SES, the world-leading Luxembourg satellite operator, announced having received all of the necessary regulatory approvals to acquire the remaining shares and warrants of O3b Networks. SES will pay USD 730m to directly increase its fully diluted ownership of O3b from 49.1% to 100%, using proceeds from the company's recent equity raising. The consolidation of O3b's unique and global high throughput, low latency solution expands SES's global reach and satellite-enabled solutions and enhances SES's foundations for sustainable growth. O3b Networks is a global satellite services provider building a next-generation satellite network for telecommunications operators and Internet Service Providers, as well as enterprise customers and government departments and agencies, providing billions of consumers and businesses in nearly 180 countries with low-cost, high-speed Internet and mobile connectivity.



©Boeing Satellite System

ELVINGER HOSS PRUSSEN ASSISTS QUILVEST & PARTNERS IN SETTING UP THE TWO FIRST RAIFs

On the same day that the new Luxembourg law on reserved alternative investment funds (RAIF) came into force, Elvinger Hoss Prussen assisted Quilvest Private Equity (the Private Equity arm of the Quilvest Group) in setting up QS RE Investment Programs SCA SICAV-RAIF (“QS RE IP”) and

QS PE Fund SCA SICAV-RAIF (“QS PE Fund”) as RAIFs pursuant to this new regime. The two RAIFs will be managed by Quilvest Asset Management S.A. (“QAM”) acting as authorised alternative investment fund manager, and RBC Investor & Treasury Services will

ELVINGER HOSS

LUXEMBOURG LAW

act as Depositary. According to Bernard Charpentier from Quilvest, the company has decided to set up its new vehicles as RAIFs as it “ideally combines flexibility, short time-to-market, protection of investors by the AIFMD framework and the possibility for marketing with the EU passport”.



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How to start a startup in Luxembourg

VENTURE CAPITAL IN LUXEMBOURG

GIVEN THE SURGE OF AN “ENTREPRENEURIAL” CULTURE IN LUXEMBOURG AND THE DYNAMIC OF THE FINANCIAL CENTRE, THE OBVIOUS QUESTION ARISES: IS THE WORLD OF FINANCE REACHING LOCAL ENTREPRENEURS? WE TRY TO ANSWER THAT QUESTION BY FEATURING WHICH RESOURCES ARE AVAILABLE TODAY FOR ENTREPRENEURS.

TESTIMONIAL

“Our desire from the beginning is to make each of the selected start-ups more attractive so that they can raise money and get customers.”

Antoine Hron, Luxinnovation

Report written in collaboration with
Silicon Luxembourg.
www.siliconluxembourg.lu

Luxembourg is a leader in the banking and investment funds industry and has in the past decade established itself as a private equity and venture capital centre with winning features that have convinced the top 10 private equity players worldwide to set up cross-border operations in the country. In the field of entrepreneurship the scene is somewhat different. As in many other European countries, entrepreneurship took some time to develop its own supporting structures and, also highly significant, its “hype” for start-ups. Fortunately, today entrepreneurship is on the agenda and much has been happening. Several incubators, co-working spaces, pitching competitions and coaching programmes are now availa-

ble. Luxembourg is even about to become a pioneer in the registration of companies with the creation (from January 2017) of the €1 starting capital simplified limited responsibility company.

PUBLIC FUNDING

Most entrepreneurs start by looking for public funding, and Fit4Start is there to support them in the first 4 months. A subsidy of €50,000 is available for those looking to accelerate their venture and gain the skills required to seek further funding from the private sector. A few conditions need to be met and the public funding can then be topped-up by €100,000 if the company succeeds in attracting further private investors. —

SPECIAL REPORT

BUSINESS ANGELS

Further private investors may well be business angels, individuals with funds to invest and expertise in technical and/or management fields who may join young ventures at a very early stage. These individuals are attracted by high growth potential and scalable start-ups and can be reached via LBAN, the Luxembourg Business Angel Network. To date, LBAN has nearly 50 members and organises networking events once a month (Angel Café) which often include an opportunity for start-ups' to pitch their business. The association's members have a track record of several successful investments, such as Doctena, Job Today, Governance.io, SponsorMyEvent or eRevalue.

EQUITY CROWDFUNDING

Equity crowdfunding (online platforms) can also be an option for many young businesses. Different shareholding and operating models are used by each platform (eg. some require a leading business angel to "sponsor" the deal).

As of today, Luxembourg entrepreneurs need to look across the border for equity crowdfunding solutions. MyMicroInvest in Belgium, Wiseed in France or Companisto in Germany may be the first references in a market which remains very regional.

Created in 2015 in Switzerland, Bee Invested may well become Luxembourg's first equity platform. According to its co-founder Hichame Metatla, the company is currently doing business development in Luxembourg and expects to expand operations to the Grand Duchy by October 2016.

VENTURE CAPITAL

Luxembourg-based investors looking for deals in VC stages are scarce but have experienced a considerable expansion of late.

Mangrove Capital Partners is probably the best known due to its role in the early ages of Skype and other successful businesses. Other local investors such as BIP and Luxempart also played an important



©DR

LARISSA BEST

Larissa invests in multiple sectors including Legal and Regulatory and Professional Services, with a preference for businesses with a social purpose. Her strategy focuses on finding entrepreneurs with sector knowledge, preferably having worked in the sector for 5-10 years and a management team of at least 2 co-founders.



©DR

HEDDA PAHLSON-MOLLER

Hedda has an overarching investment strategy of: value creation, diversity/social inclusion and sustainability (triple bottom line: People, Planet, Profit). Over 15 years of investing primarily in technology and professional services through debt/equity, the refined focus is on projects that provide measurable social/ environmental impact alongside financial returns.



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PEGMAN HAGHSHEENAS

Pegman is a long-term and "value-added" investor. He is a risk tolerant person looking at opportunities in different asset classes jurisdictions with a focus in Europe and the Middle East. Pegman values the founder(s)/ team, business and revenue models and short to medium-term scalability.

role in the industry, but their profile is linked to growth stage opportunities rather than funding early gems. Another growth stage investor is New Angel Capital which offers tailored support to fast growing companies expanding into the US market.

In 2015, Expon Capital set up an office in Luxembourg and promised to become a leading VC investor with a particular focus on local start-ups (see interview below). Their experienced entrepreneurial team has already won the management of the Luxembourg Digital Fund and continues to fundraise on its own behalf.

Funds for local VC activity will also emerge from the Luxembourg Future Fund, a fund of funds managed by the European Investment Fund with the mission to fund VCs' investments into companies willing to set up and grow in Luxembourg.

Other investors located outside Luxembourg also keep an eye on the country's activity. Indufin is a partnership between Luxempart and the Belgium family group De Eik, committing investments from €3m and having Benelux as its main target area. Another player in the region is Sofindev. Founded by Sofina in 1991,

Sofindev currently runs a €100M fund targeting growth stage companies valued at over €15m.

The Luxembourg Future Fund (LFF)

was launched in 2015 with €150 million to invest in businesses intended to shape the future of Luxembourg. The funds are subscribed by SNCI, Société Nationale de Crédit et d'Investissement, and by the EIF, European Investment Fund, acting as adviser.

The fund, targeted towards innovative SMEs from early to growth stages in domains such as ICT and Cleantech, is composed of three different sub-funds which will co-invest with other VC funds, business angels and family offices.

The goal of the fund is to bring international spillover to the country by investing in businesses which aim to either settle in Luxembourg or sign long-term partnerships with key local business.

The LFF announced in February 2016 its first €20 million investment in the cybersecurity-focused Paladin European Cyber Fund.

Expon Capital and the Digital Tech Fund

EXPON CAPITAL WAS FOUNDED IN JUNE 2015, AND WE INVITED ITS CO-FOUNDER JÉRÔME WITTAMER TO LEARN MORE ABOUT THIS NEW VENTURE.

Jérôme Wittamer
co-Founder
Expon Capital

LPEA

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Could you tell us the story behind Expon Capital?

All of the four Founding Partners (Alain Rodermann, Marc Gendebien, Rodrigo Sepulveda Schulz and myself) are digital natives: we first started playing with computers, calculators and games consoles in the late 70s and early 80s, then launched digital ventures in the 90s and 00s, and ended up investing in and supporting some of the most successful tech businesses built over the last 20 years (M-Systems invented the solid state memory you have in your phone/computer, LastMinute.com pioneered eCommerce in Europe, EVS powers slow motion replays for all sports broadcast on globally TV, Getaround democratised collaborative car-sharing...). At the same time, we also learned from investing in some less successful ventures (unclear business models, wrong market timing, harsh competition...). That's why today, our experienced team shines through technology investing. What we are seeing now is a rapid, radical transformation of the world, through technology, and a trillion-euro opportunity in the process. Being so passionate about this, we couldn't just sit there and watch. We want to be part of the change and help steer the future through our investment choices.

Other than digital transformation, do you identify more specific opportunities?

Of course. At the moment we are actively tracking specific innovations in Artificial Intelligence, Big Data, Blockchain, FinTech,

Robotics, etc emerging from tech hubs in Europe, the US and Israel, but Expon Capital is much more than that.

We believe that venture capital is also affected by this transformation and needs to evolve. You cannot just decide to focus on a specific opportunity as the whole economy is disrupted. We therefore launched our management company as a fully independent entity based on a new philosophy. Starting from a blank sheet of paper and armed with our lengthy experience, together with one of our strategic advisers, Salim Ismail (Global Ambassador at Singularity University and author of "Exponential Organizations"), we have developed a new approach to screening investment opportunities and boosting growth acceleration that we believe is more suited to capturing today's market opportunities, based on our Exponential Framework. Any business that aims to impact a billion people will catch our attention!

You and your team were chosen to manage the Digital Tech Fund, a €20m seed fund investing in innovative digital start-ups based in Luxembourg. Can you tell us more about the Fund?

Firstly, the fund's objective is to foster long-term innovation, and support the technology start-up ecosystem in Luxembourg. It also aims to facilitate the transfer of new digital technologies developed at the University of Luxembourg into successful spin-off companies. There is a financing

gap in the market and we are confident that this will further raise the visibility and high quality of the opportunities we have in our country and improve the overall local financing landscape.

Secondly, the fund operates as any private venture fund, on the same exacting investment principles and market-driven governance with the aim of generating profit for the investors.

Is Expon Capital looking for specific things when you screen opportunities?

Expon Capital seeks entrepreneurs aiming to solve a tangible problem in a very large market. Specifically, for the Digital Tech Fund, these entrepreneurs must have also chosen to establish and grow their business from Luxembourg. Surprisingly, we meet people like this every week, coming from various backgrounds, very often originating from Europe. What we like businesses with a truly original service, with a very clear differentiation to the competition, such as with superior technology or user experience. We expect business acumen, sound unit economics, and great ambition from a team of visionaries.

What keeps you busy today?

Currently, we split our time between deal flow management and fundraising for our Europe-focused Exponential Technologies Fund, Expon Capital Fund I. We also spend considerable time scrutinising technology developments and emerging trends.



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Keeping an eye on local start-ups



How to start a startup in Luxembourg

It must be admitted that, as the Luxembourg start-up ecosystem is still very young, it does not yet have any “unicorns”. However, this should not prevent all the key players from giving the Luxembourg start-up community the visibility and recognition it deserves and requires to continue to evolve and thrive. How can worldwide attention be brought to all of Luxembourg’s digital start-ups that have the potential to conquer global markets? The country does indeed have many

talented and experienced entrepreneurs, of many different nationalities, who innovate, launch successful products and services, and expand their businesses into new markets.

The development of a favourable ecosystem for the creation, formation, acceleration and expansion of innovative start-ups has become a priority of the government, and is also of great importance to all of Luxembourg’s residents and frequent visitors.

Some Luxembourg start-ups have suc-

ceeded abroad. Some have expanded across Europe, and others have thrived as far away as the U.S. These cross-border start-ups help attract the attention of foreign entrepreneurs and bring entrepreneurial talent and investment to Luxembourg. Moreover, the Digital Lëtzebuerg initiative aims to enhance the country’s reputation, increase the promotion of the country’s hot start-ups, digital attractiveness, and successful entrepreneurs.

We are (all) in the same boat!

10 START-UPS TO WATCH IN LUXEMBOURG

FOOBOT

Smart device designed to help people take control of indoor air quality.

> foobot.io

FINQUEST

Online platform where investors, advisers, and CEOs get connected to improve deal sourcing and networking with a strong focus on the Asia Pacific region.

> finquest.com

GLONETA

Free way to send money to people internationally. People can chat with friends and family – and can now send money in the messages too.

> gloneta.com

GOVERNANCE.IO

Software solution for investment fund professionals who need to oversee and manage complex investment fund structures.

> governance.io

KLIBER

Mobile-first service connecting job seekers with recruiters via video. It helps people spot their next career move and record 20-second answers to four questions.

> kliberapp.com

KOOSMIK

Secure online payment platform where people can send or request funds from friends in real-time. The community-driven app offers an all-in-one payment solution.

> koosmik.com

MU-DESIGN

Mixes great design with technology to create smart, innovative and emotional products. Their “Ulo” cute surveillance camera seduced 8,300 backers for over \$1.6m of funding on Kickstarter.

> mu-design.lu

WONDERMAGS

First Self-Publishing Platform on which people create and publish their own eMagazines, get readers and make money.

> wondermags.com

DOCTENA

Patrick Kersten founded Doctena, a medical booking application used to make appointments with doctors. In the space of just three years, the Luxembourg entrepreneur has launched the application in four countries – Luxembourg, Belgium, the Netherlands, Switzerland – with a fifth market to be announced by the end of the year. The start-up has become a European leader and spearhead of the Luxembourg start-up ecosystem. Having raised close to €6m in various rounds (private investors and business angels) and acquired DocBook, Doctena’s growth seems unstoppable.

According to Patrick, “talks with VCs start once the size of the markets covered, and their potential, are big enough for regional (Benelux) based VCs. As markets expand, the project becomes more interesting for top tier VCs.” It took two to six months to Patrick to succeed in each round and convince investors to support Doctena in building the platform and expanding sales force.

> doctena.lu

JOB TODAY

Eugene Mizin and Polina Montano founded Job Today, an easy-to-use app that connects employers and jobseekers in seconds, 24/7. The mobile marketplace has already raised €8.75m Series A, an investment led by Accel, with participation from Felix Capital and existing investor Mangrove Capital Partners. The company launched in 2015 in Spain, then in London and Paris and soon in other countries. “The initial traction, round of funding and new market launches are an important step towards

expanding the business further and fulfilling our goal”, explains Polina. Backed by the world’s leading venture capital firms, the founders have made their ambitions clear: “Job Today was born both mobile and global. We want to help millions of people around the globe to find a job from the comfort of their mobile phone. We are now aiming to become the number one global hiring app for hospitality and retail”.

> jobtoday.com

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Avishai Avrahami (Wix)

HOW TO CREATE A \$1BN START-UP



FINANCED BY MANGROVE CAPITAL PARTNERS IN 2007, CLOUD-BASED WEB DEVELOPMENT PLATFORM WIX WAS LISTED ON NASDAQ IN 2013 AND TODAY HAS A MARKET VALUE OF MORE THAN \$1BN. AT HIS TEL AVIV OFFICE, CEO AVISHAI AVRAHAMI TELLS TO JEROME BLOCH HOW THE BUSINESS HAS GROWN SO FAST, AND SAYS LUXEMBOURG NEEDS TO DEVELOP ITS OWN CULTURAL HEROES.

What have been the keys to success for Wix?

We've been good at focusing on a number of critical areas, including customer acquisition, marketing, being the first to adopt new technologies and working like fanatics!

What achievements are you most proud of?

Wix, an idea that was generated on the beach, has had a great impact on more than 85 million users, but also on my country. After our Nasdaq listing in 2013, the biggest in Israel since 2002, we launched a new trend: "Scale but don't sell". It's unusual to see the same management leading a company to the billion-dollar mark after it has been listed. More importantly, the management is still in Tel Aviv. The Superbowl campaigns, for example, were created in-house here by our marketing wizard, Omer Shai. Of course, Israel is a small country where the available talent is shared between a huge number of start-ups, so it's a challenge when your workforce is growing by 77% in a year. One approach to HR is in building even more intelligent processes: this is an area

where we still have room for improvement! But we have no intention of compromising on quality, and the company has opened offices in Vilnius, Lithuania and Dnipropetrovsk, Ukraine's fourth largest city to recruit the best talent.

Which advice would you offer Luxembourg's decision-makers in guiding its recent digital evolution?

I have been to Luxembourg several times to visit my friends at Mangrove. It is a very great country with great potential, but to mainly known for its bankers. If the country wants to attract tomorrow's leaders, it needs to develop other cultural heroes. In the UK, for example, everyone's talking about TV celebrities and footballers. In Israel, entrepreneurs are the heroes – this has always been part of our Jewish culture. People here spend a lot of time studying culture, religion and technology, often just for its own sake. Luxembourg needs to enable new cultural heroes that are neither bankers nor public servants. But everything else is there! And bankers do have their place – financing any kind of business in Luxembourg is really easy.

"To attract tomorrow's leaders, Luxembourg needs to develop cultural heroes."



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REFORM OF LUXEMBOURG CORPORATE LAW: WHAT IS IN IT FOR YOU?



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AFTER ALMOST TEN YEARS OF WORK AT PARLIAMENTARY LEVEL, THE BILL OF LAW N°5730 MODERNISING LUXEMBOURG CORPORATE LAW WAS ADOPTED BY PARLIAMENT ON 13 JULY 2016¹ AND IS DATED 10 AUGUST 2016.

“The reform is expected to considerably and positively impact the practices of entrepreneurs, asset managers and investors.”

While the proposed reform has been long in the making, it represents a major step in the development of the Luxembourg company legal framework, which will allow the country to consolidate its reputation as providing a flexible, business-friendly and secure corporate environment.

The present note aims to summarise the main questions triggered by this reform.

Who should read on?

Entrepreneurs, asset managers, investors, shareholders, directors and generally all persons involved with Luxembourg companies and partnerships.

What is the reform about and why should we care?

The main aim of the reform is to refresh and modernise Luxembourg company

law in an extensive manner. This reworking not only brings a pragmatic response to the expectations of asset managers and investors that were not catered for previously within Luxembourg law, but also creates several innovative tools which should prove useful to a large number of market players.

The reform is expected to considerably and positively impact the practices of entrepreneurs, asset managers and investors on a variety of subjects as far as Luxembourg companies are concerned. For instance, it may be beneficial to amend existing articles of association and joint venture agreements in some respects as a result of the reform, and parties negotiating the governing documents of newly-formed companies would be advised to take the terms of the reform into consideration when drafting such documents.

Tailor-made fund governance and management company solutions

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- Initial and ongoing due diligence
- Product Management and oversight of the service providers
- Assistance with fund distribution

BMI offers tailor-made fund governance and management company solutions allowing its institutional clients to focus on their core business, enhancing their performance and growing their investor base.

www.bilmanageinvest.com

— When does the reform come into force?

The reform was published on 19 August 2016 and has entered into force after three clear days (jours francs) following publication of the new law in Luxembourg's official journal (Mémorial A), i.e. on 23 August 2016.

The new law does, however, contain a grandfathering provision for companies incorporated prior to its entry into force, which will have 24 months to comply with its mandatory provisions through an amendment of their articles of association. During the 24-month grandfathering period, the former law will continue to apply to companies set up prior to the date that the law comes into effect.

What are the reform's main features?

The governing principles of the reform are twofold.

First, the reform aims to increase the contractual flexibility already afforded to the main types of company available in Luxembourg in a bid to ensure that the parties' intent may be reflected as closely as possible in such companies' governing documents, without any undue constraints.

Second, it brings a new level of legal certainty and predictability to constructions widely used in PE and VC structures, making Luxembourg corporate law even more secure.

To what extent is Luxembourg corporate law more flexible now?

There are many ways in which the legislator has brought additional flexibility to Luxembourg corporate law.

Further to the reform, all types of company are now entitled to issue bonds to the public. The process of issuing convertible debt instruments and the conversion of shareholders' debt into equity is equally facilitated.

The legal regime of the S.à.r.l. (société à responsabilité limitée) has been enhanced. A S.à.r.l. may, for instance from now on issue beneficiary shares (parts bénéficiaires), which were previously reserved for the S.A. and S.C.A., and which provide additional flexibility given that, contrary to regular shares, they are

not subject to capital protection rules. The S.à.r.l. may also issue shares via mere board action, provided that an authorised share capital has been created, and the threshold required for the approval of a transfer of shares to third parties may now be reduced to 50% of the share capital.

There is further flexibility and certainty to be found in relation to the exercise and suspension of voting rights and on the issuance of non-voting shares. In addition, the new law provides for a more pragmatic procedure allowing a company to transform into a company of another type, as well as a new simplified dissolution process without liquidation.

On the subject of governance, S.A.s may now create an executive committee to which broad responsibilities, including the authority to bind the company, may be delegated.

Finally, a new form of company, the SAS (société par actions simplifiée) is being introduced, which will in general be subject to the rules applicable to the SA (société anonyme), albeit with almost complete contractual freedom as regards the company's governance.

What additional legal certainty does the reform bring?

The reform introduces several measures which create additional security for all parties involved through the sanctioning into positive law of certain principles which thus far stemmed from case law and established practices only. The foreseeability of the outcome of court cases on the relevant matters is a result expected to be improved.

The main subjects which gain from this additional predictability are (i) voting agreements, the conditions, voidance and enforceability of which are now expressly provided for, (ii) share transfer restrictions and transfer-related provisions, e.g. drag/tag-along rights, pre-emption rights, prior approval rights, and (iii) bonus shares and tracking shares, which now each have their dedicated regime.

The general threshold for exercising minority shareholders' rights is also being unified and, as a consequence, the shareholders holding only 10% of the voting rights may now seek to engage the liability of board members.

“The corporate law reform opens a new chapter of flexibility and legal certainty for companies and investors.”

What are the main take-away messages?

Regarding existing companies, while these will benefit from a 24-month transitional period as mentioned above, asset managers and investors would be best advised to have an assessment of their companies' governing documents performed in order to determine which provisions may need to be re-negotiated among shareholders or with investors, and generally, what additional flexibility and other benefits they may build into such documents.


1. Bill of law N°5730 modernising the amended law of 10 August 1915 on commercial companies and amending the Civil code and the amended law of 19 December 2002 on the trade and companies' register and the accounting and annual accounts of commercial companies.



Pierre Beissel,
Partner in the
Private Equity &
Real Estate practice,
Arendt & Medernach



Sébastien Binard,
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COMMON REPORTING STANDARDS

What is CRS?

International co-operation in tax matters and global tax transparency have been a concern since the end of the 90's, but this has taken a step up following the global financial crisis and the implementation of FATCA (Foreign Account Tax Compliance Act) between 2010 and 2014.

The need for a more global exchange system became apparent and it is in this context that the OECD released the Common Reporting Standard (CRS) on 15 July 2014, to ensure an effective automatic exchange of information between participating countries.

In October 2014, 51 countries willing to participate, including Luxembourg, signed a CRS Multilateral Competent Authority Agreement (CRS MCAA), which put into effect this automatic exchange of information.

As of 30 June 2016, over 95 jurisdictions have signed the CRS MCAA (the "Partner Jurisdictions").

Financial Institutions in these Partner Jurisdictions have to automatically exchange through their respective tax authorities, "bulk" taxpayer information from the source country to the residence country concerning various categories of assets and income (account balances, dividends, interest etc.).

Furthermore, bilateral agreements have to be signed between the Partner Jurisdictions for the exchange of information to become effective.

Why do we have to comply in Luxembourg?

In December 2014, the EU adopted the text of the CRS via the Directive 2014/107/EU amending Directive 2011/16/EU with

regards to the mandatory automatic exchange of information in the field of taxation (Directive on Administrative Cooperation – DAC). Directive 2014/107/EU is also called DAC 2 and entered into force on 1 January 2016. DAC 2 was transposed into Luxembourg law on 18 December 2015.

What do we have to do?

CRS is in essence very similar to FATCA, the main difference being that CRS covers over 95 jurisdictions while FATCA only covers the US.

The first step to take for each entity will be to determine its CRS status. It is almost impossible nowadays to open a new bank account in Luxembourg without providing this status.

Entities which are categorised as Financial Institutions will have to:

- Identify their account holders (i.e. shareholders and debt holders) by obtaining a self-certification, disclosing their CRS status (for entities) or their tax residency (for individuals).
- Report to the Administration des Contributions Directes (ACD) any entity which is classified as PNFE (Passive Non-Financial Entity) with controlling persons located in a country within the CRS scope and any individual located in a country in the CRS scope.
- The ACD will then dispatch this information to the relevant local tax authorities.

Since 1 January 2016, Financial Institutions are under an obligation to identify their new account holders.

As of 31 December 2016, existing accounts (i.e. accounts opened before 1 January 2016) of individuals with value

above EUR 1,000,000 will also have to be identified. The first reporting date will be in June 2017.

As of 31 December 2017, all other existing accounts (i.e. lower value individual accounts + entity accounts) will also have to be identified.

What are the challenges?

The main challenges are caused by the scope of CRS, as it covers almost 100 countries.

Consequently, reports will no longer only target US reportable accounts, but reportable accounts from several different countries. Blank reports will become less frequent and report content will often be more consequential.

This will also have an impact on the disclosure of controlling persons. It was quite common, under FATCA, that a Passive NFFE (Non-Financial Foreign Entity) did not disclose any of its controlling persons as there were not usually any US ones. However, under CRS, it is expected that controlling persons are disclosed on the self-certification of the PNFE (Passive Non-Financial Entity) even though it ends up to be the senior management of this entity.

Finally, given the sensitivity of the topic, adopting an integrated approach with other KYC requirements and being instructive with investors regarding this new regulation will be key.



Benoit Dewar
Head of Regulatory Services,
Deputy Head of Depositary Services,
Alter Domus

BUILDING AN ONSHORE HUB FOR PRIVATE EQUITY IS A MARATHON, NOT A SPRINT

INTERVIEW WITH MICHAEL PHILLIPS,
FOUNDER AND INVESTMENT PARTNER
AND DAN ARENDT, SENIOR ADVISORY
PARTNER OF CASTIK CAPITAL.

LPEA 

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With the enforcement of the Alternative Investment Fund Manager Directive (AIFMD) and other regulatory and tax changes, a large number of Private Equity managers have been rethinking the commercial designs and operating models of their products. Many have already initiated migrations from their existing off-shore jurisdictions to onshore fund centers like Luxembourg.

A few onshore fund centers in Europe are trying to position themselves as the onshore hub of tomorrow for Private Equity funds and Luxembourg has for long been an option, but will it take the lion's share?

We met with Michael Phillips and Dan Arendt who recently faced the key question as to where they should structure their activities. We ran this interview to learn why did they opt for Luxembourg and we share hereby an extract of our conversation. —

INTERVIEW



“Luxembourg is trust and stability”

CASTIK CAPITAL S.À.R.L.

Founded in 2014, Castik Capital is a Luxembourg-based European multi-strategy investment manager acquiring significant ownership positions in European private and public companies where long-term value can be created through active partnerships with management teams. Castik Capital closed its first fund EPIC I SLP with a commitment of €1bn and so far closed two deals: Waterlogic and Acrotec.

— Could you please describe how Castik Capital was born, its philosophy and investment strategy?

Michael Phillips: Castik was designed after two years of asking investors what they would like to have as a better form of private equity. After an in-depth survey, we came up with the key components that are featured in our structure. First, is to have very few LPs – we have five investors in the fund in total, who we treat and inform at a much more detailed level, than they would ever receive from a larger fund. The second is to focus on value creation. We will only have five, maybe six deals in a fund, and we really focus on finding leading companies where we can support their growth via consolidation and organic expansion. We use our resources to build champions in the specific industries. The last point is the holding period. We can hold our investments for ten plus years. We hold our investments for as long as the company requires us to support their growth and achieve the return targets. This is different from many private equity funds which follow the classic model of doing 10 to 15 deals quickly and then sell their best investee companies early, in

order to show exits for their next fund raising. At Castik, we want fewer companies with more focus on value creation, and to hold them as long as they are growing.

How is your team split between Luxembourg and Munich?

MP: The fund and the management company are both based in Luxembourg. Our Luxembourg team counts currently 9 people and this number is likely to increase in the future. Additionally we have an investment advisor based in Munich with 14 people.

It looks like you are bringing a new vision of the industry to your investors, but why did you choose Luxembourg to base Castik and not another jurisdiction?

MP: I think the real question you are asking is “onshore versus offshore”. We have considered this issue in the past and we have regularly compared the onshore versus the offshore jurisdictions for where to place our funds. The view we took at the time was, in the long term, onshore is the place to be. The question is when do you make the change? If you are an established PE Firm and you have all of your funds established

offshore, and your investors are accustomed to it, then the hurdle to change can be quite high. As a brand new fund, we started from a blank piece of paper, and we were able to choose the best structure for the future. We always say private equity is a marathon and not a sprint. Our funds are European focused, run for 10 plus years and we intend to do many funds. For Castik, the decision to become a regulated AIFM onshore was a clear decision. Once you make the decision to go onshore, then there is one prime choice, which is Luxembourg.

Dan Arendt: If you look at the increasing pressure that is put on offshore structures via BEPS and AIFMD, we started since the beginning to be ready to face these challenges and - since incorporation, we structured ourselves to be fully AIFMD compliant. We did not perceive this as pure constraints to get our license, but as an added value that gave us strong credibility and high standards of governance from the beginning.

Was there any specific reaction from your investors when you offered them a Luxembourg fund?

MP: Everyone is very comfortable with Luxembourg as a holding structure for investments. What has been missing for many years was the partnership law. LPs are very familiar with the standard US or UK limited partnership law. With the introduction of the Luxembourg limited partnership law, it was very easy to establish our funds in Luxembourg. We had really no pushback or questions whatsoever. The investors very quickly understood and accepted that Luxembourg Partnership law was completely comparable with other jurisdictions.

Is the location of new funds still largely influenced by investors?

MP: If you look at the larger funds, they often operate several platforms within a single fund. They often have a European partnership for Euros, an American one for Dollars, an Asian partnership, and so on. I think what you actually see is not a black and white answer, but rather a slow transition, as PE firms will choose to gradually move their European structures



**MICHAEL PHILLIPS,
FOUNDING MANAGING
DIRECTOR, INVESTMENT
PARTNER, CASTIK CAPITAL**

Prior to Castik Capital, Michael was an Equity Partner at Apax Partners for 22 years where he was member of the global Executive Committee, member of the Investment and Exit Committees and global co-head of Financial & Business Services. During his leadership tenure, funds under management increased from <€1bn to over €30bn.

onshore. As well, some investors are more focused on their currency exposure as opposed to where the fund is sitting physically.

Your Fund has been incorporated in the form of our famous Luxembourg Special Limited Partnership (SCSp). Would you confirm that it is at least as good as other LP regimes?

DA: It is at least as competitive as what you can find in the UK or other places and it's becoming even more attractive due to the potential impact of BREXIT. Luxembourg is a prime onshore centre, located in the heart of Europe, in a very stable and truly international country deeply rooted in the European spirit and traditions. The Limited Partnership law allows for a high level of structuring and contractual flexibility that makes it highly attractive compared to an Anglo-Saxon partnership.

How would you describe Luxembourg in a few words?

DA: Luxembourg is: stability, high professionalism and a pro-active approach – like we have seen with the toolbox that has

been improved with the Limited Partnership law.

MP: I would say trust and stability. [Luxembourg is trust and stability]

What should Luxembourg do to attract more funds?

MP: As I said before, this is a marathon. Getting people to change in this industry, either with established procedures or even physically, is a challenge. I think there are two times for Luxembourg to have the chance to win new managers: the first is at any new fundraising, when every fund asks the question - where shall we build the future? Several larger funds managers, at any new fund raise, may decide to move more assets to Luxembourg.

And the second time is when, like Castik, a brand new fund or a spin out is starting up. I think there will be several of those choosing to come onshore in Luxembourg. What are they looking for? They look for: great access for transportation and, more importantly, great access to people, and that really is the competitive advantage of Luxembourg. The quality of people across every sector is very strong: services, accountants, lawyers, infrastructure,

office quality... It is light years ahead of what any of the offshore jurisdictions can offer.

Conclusion: Luxembourg, decades of stability and pro-active innovation

Over the past decades, Luxembourg has been a safe place to run Private Equity business and will continue to be so, while adapting to the changing regulatory and tax environment in the EU and around the world. Many countries are currently trying to position themselves as the first European center to run a Private Equity Fund, but not many can display the feature of stability to the extent that Luxembourg does. The testimonial of Michael and Dan is concrete proof that Luxembourg is the place of the future.

Interview conducted by Olivier Coekelbergs, Vice-President of LPEA and Luxembourg Private Equity Leader of EY Luxembourg

**DAN ARENDT, MEMBER OF
THE MANAGEMENT BOARD,
SENIOR ADVISORY PARTNER,
CASTIK CAPITAL**

Before joining Castik, Dan was a Senior Equity Partner at Deloitte Luxembourg for 12 years, serving in the Strategy & Operations consulting division. He founded, among others, the Corporate Finance department. Previously he headed RTL Luxembourg as CEO and RTL Group as CFO.



Olivier Coekelbergs

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ALTERNATIVE INVESTMENTS IN (LUXEMBOURG) INSURANCE

THE EXPERTISE AND CAPABILITIES ALREADY DEVELOPED BY THE LUXEMBOURG INSURANCE INDUSTRY IN DEALING WITH NON-STANDARD INVESTMENTS WILL PLACE IT AT THE FOREFRONT OF THIS NEW ERA, PROVIDED IT SUCCESSFULLY MANAGES TO ADDRESS THE MAIN RISKS ASSOCIATED WITH THESE ASSETS (E.G. REGULATORY, LEGAL, GOVERNANCE, LIQUIDITY, VALUATION, REPUTATION - INCLUDING AML/KYC). THIS WILL BE ACHIEVED THROUGH ADEQUATE INTERNAL PROCEDURES AND CONTROLS, AND THE ACTIVE INVOLVEMENT OF ALL KEY STAKEHOLDERS WITHIN THE ORGANISATION AND OUTSIDE (INCLUDING ALTERNATIVE INVESTMENT MANAGERS).

Investment strategies based on alternative investments have gained serious traction among insurers in recent years.

Insurers are the second-biggest institutional investors (after pension funds), with projected AuM of USD 35.1 trillion by 2020 (PwC Report, 2014).

Unlike traditional insurance investment strategies (e.g. high-grade fixed income securities, UCITS and blue-chip stocks), these “new” strategies, depending on local regulations and types of insurance product limitations, can encompass a wide range of non-standard investments such as unlisted bonds, promissory notes, hedge funds, private companies, regulated or unregulated funds (e.g. SIF, SICAR, Real Estate), luxury goods as well as private equity vehicles.

Although the resulting portfolio diversification and increased risk management help to explain such trends, a persistent low interest rate environment (which maroons guaranteed rate products, drives down profitability and capital value, calls into question business models and, in some instances, even the ability to operate as a going concern) is a key reason “forcing” insurers into higher yielding, yet riskier investment classes.

Luxembourg insurers have been part of this worldwide trend, with less conventional assets representing about 5% of the EUR 140 billion in total investments at year-end

2014 (CAA annual report 2014). Although such assets can be on-boarded in the insurers’ general portfolio, thus covering the guaranteed liabilities to policyholders, these assets can mostly be found in the insurers’ unit-linked portfolios, a segment on which Luxembourg insurers have some key cards to play compared to some other jurisdictions.

LUXEMBOURG LIFE CONTRACT

Provided some net wealth and premiums paid into the insurance contract criteria are met, the “Luxembourg life contract” probably offers the widest range of eligible underlying assets for an insurance policy, including non-standard assets, through its well-known “dedicated fund”, a key item of the wealth management toolbox. This advantage will be reinforced in the future, following the launch of the fonds d’assurance spécialisé (“FAS”) in 2015.

These tools fit perfectly with the needs of a new breed of sophisticated, well advised and more involved clients, namely the (U) HNWI, a population that the Luxembourg financial sector has been actively targeting to support the reinvention of the Luxembourg financial marketplace.

Of course, moving – at least partially – from traditional to alternative investment assets, and developing a successful alternative investment strategy is not a given for all insurers. In addition, the quest for enhanced

returns should not come at the expense of clients, and the development of riskier investment-based products and possible “bad behaviours” are closely looked at by regulators, as insurers remain highly regulated entities, building trust in society and fostering economic growth.

It is worth noting that the Solvency II Directive (CapitalV issue #7), whose capital charges are mostly derived from the insurer’s balance sheet, does favour some private equity vehicles (unleveraged, EuVECA or ELTIF designation and closed-ended) which benefit from the same 39%-weighing as Type 1 equities, compared to the 49%-weighing generally applicable to other alternative investments. The possible lower correlation of alternative assets with other asset classes can also support the use of these assets from a solvency perspective.



Claude Jacoby,
Partner,
PwC Luxembourg



Anthony Dault,
Director,
PwC Luxembourg

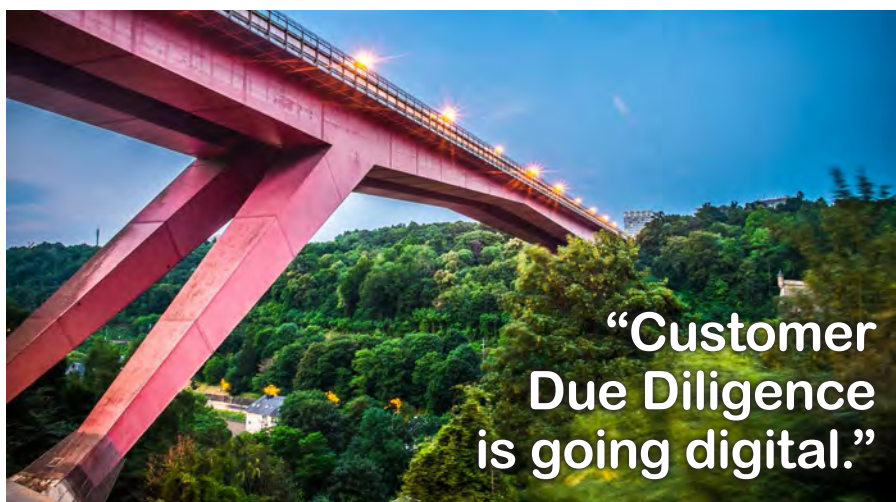
DIGITAL CUSTOMER DUE DILIGENCE IS THE WAY FORWARD

Anti Money Laundering (“AML”) measures in the financial sector have been at the forefront of European and US regulators. In addition, to combat tax evasion, the US Treasury and the OECD have imposed similar due diligence and reporting requirements on financial services firms, namely the Foreign Account Tax Compliance Act (“FATCA”) and Common Reporting Standard (“CRS”). In April 2016 the UK, Germany, France, Italy, and Spain agreed to share data on beneficial-ownership of companies and trusts between their tax and law enforcement agencies. Compliance with AML, Know Your Customer (“KYC”) and sanctions requirements continues to be a key focus area for management and firms must ensure that they demonstrate a robust compliance framework, ensuring that regulatory requirements are being adhered to at both a local and global level.

Contracting with a lawyer, investing in a trust or a Private Equity fund or even holding a bank account will often mean completing lengthy forms to prove that you are neither a terrorist (under Customer Due Diligence) nor a tax evader (under FATCA and CRS).

PAPER PROBLEMS

Know Your Client (KYC), Customer Due Diligence (“CDD”), Anti Money Laundering (“AML”), FATCA, these are all terms associated for most of us with a myriad of complicated forms. Firms who receive them have to bear the cost of deciphering handwriting, asking for evidence and transposing data onto systems or, more commonly, a spreadsheet. Unsurprisingly, few wish to jeopardise their client relationships by repeatedly asking for the information to be updated. It is common practice for multiple certified copies of passports and utility



“Customer Due Diligence is going digital.”

bills to be stored in paper and PDF formats across different firms. This makes it difficult for firms in one jurisdiction to correctly identify the true ownership of their corporate clients who may be scattered worldwide and may result in regulatory sanction, fines or reputational damage. There has got to be a better way.

RADICAL REGULATION

Regulators are recognising these practical problems. The UK Financial Conduct Authority (FCA) has stated “In order to enable effective competition and promote innovation, it is important that technologies that help firms better manage regulatory requirements and reduce compliance costs are supported.”

SPECTRUM OF SOLUTIONS

A number of technology solutions are emerging from both governments and industry. The “Verify project” from Gov.uk aims to link UK consumers’ financial records across multiple major institutions in order to allow them to view and switch their investments more easily.

A number of accountancy firms offer advice and technology based solution for global firms whose CDD problems require industrial solutions. Various data aggregators access disparate publically available information to create an automatic profile of any given individual or entity. Central due diligence document sharing apps and websites allow firms to post their certified documents in one place, where others may access them. Despite this, the vast majority of CDD continues to use paper and pen, especially for corporate vehicles with complex ownership structures. Supported by regulators world wide, paper CDD will be a thing of the past. Whichever solution you use, Customer Due Diligence is going digital, to the benefit of everyone in financial services.



Tim Andrews
Director,
Ipes

2015 UPDATE TO IPEV VALUATION GUIDELINES – VIEWPOINT OF A VALUATION PRACTITIONER

THE PAST DECADE HAS EXPERIENCED A GREAT NUMBER OF CHANGES IN ACCOUNTING STANDARDS WITH INCREASED REQUESTS FOR TRANSPARENCY, WHICH ULTIMATELY RESULTS IN AN INCREASINGLY ELABORATE AND TECHNICAL FAIR VALUATION CONCEPT. VALUATION PROFESSIONALS THEREFORE WELCOME THE AMENDMENT OF THE 2015 IPEV VALUATION GUIDELINES (“GUIDELINES”) TO INTEGRATE SUCH EVOLVING TRENDS. BASED ON OUR VIEW, THE FOLLOWING ARE THE THREE MOST IMPORTANT AMENDMENTS INCLUDED IN THE 2015 UPDATE.

UNIT OF ACCOUNT

Unit of Account is a concept that has been developed for financial reporting purposes, whereby assets and liabilities were aggregated or disaggregated in the financial statements so as to reflect economic considerations. Ultimately this translates the view of Market Participants trading in their economic best interest. Given the judgment involved in applying this concept, the Guidelines provide a number of examples that clearly illustrate the underlying rationale. Practically, professionals all have come across examples of multiple securities or tranches within a same target enterprise which are typically traded simultaneously. For such reasons the Unit of Account is considered to be a useful concept by valuation practitioners.

DEBT

Over the past years, there was often much debate on whether fair values should include debt of the portfolio company at their nominal or their market value. Limited guidance was available on this topic. The updated Guidelines link the response to this question to the Market Participant's perspective. In situations of change of control, the fact whether debt may or may

not be repaid will have an impact on the overall value of the equity instruments. Such an impact is clearly guiding to how to appropriately measure debt's value. Additionally, the existence of eventual debt prepayment penalties in situations of change of control may further impact the debt's value at financial reporting dates. We share the view that this update will certainly contribute in clarifying the discussions on the appropriate valuation approach for debt.

USE OF DISCOUNTED CASH FLOW (“DCF”) VALUATION TECHNIQUES

The 2015 Update aimed to remove the negative bias towards DCF valuation techniques, recognising that the use of

such techniques may be appropriate in certain situations or circumstances. More importantly, increased guidance in determining the discount rate has been provided. Given that resulting valuations are usually very sensitive to discount rates, this initial clarification is very welcomed. In addition to the above changes, there are further additions such as the concept of Back-testing and specific minority considerations for non-control investments, which strive to translate Market Participants' views appropriately and improve portfolio investment valuations. The above amendments will certainly provide helpful support to managers and valuation practitioners in their efforts to translate a transparent view on value towards the investors' community, with the ultimate objective of enabling improved investment decisions.

“The ultimate objective is to enable improved investment decisions.”



Christophe Vandendorpe
Executive Director,
Transaction
Advisory Services
EY Luxembourg



Need a fund that gives you flexibility?

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Reserved Alternative Investment Fund
and Limited Partnership could be the answer.



LUXEMBOURG: LEADING DOMICILE FOR MICROFINANCE INVESTMENT FUNDS

The Luxembourg Microfinance Development Fund was founded in 2009 by the Luxembourg Ministry of Finance, Ministry of Foreign Affairs (Development Cooperation), ADA, many of Luxembourg's leading banks and insurance companies, civil society institutions and individual investors. A three-tiered share-structure allows investors with different risk-return-impact preferences to invest in LMDF. A specific share class for retail and not-for-profit investors opens this asset class to less sophisticated investors by adding a first loss risk mitigation.

LMDF has to date invested in 56 microfinance institutions in 25 countries in Latin America, Asia and Africa. LMDF targets financial returns of at least 2-3% depending on the share class with a very low volatility. The Fund has been given the LuxFLAG, a label awarded to funds committed to supporting the microfinance sector and is a signatory of the UN Principles for Responsible Investing. We interviewed Kaspar Wansleben, Executive Director of the LMDF on the fund's strategy and the drivers bringing microfinance to Luxembourg and private equity players to microfinance:

Where is the LMDF investing today and which are your main investment criteria?

The LMDF's vision is to contribute to the alleviation of poverty by supporting organisations that empower people and stimulate entrepreneurship, with a particular focus on the most excluded. This vision is key to our investment strategy. We look to invest in countries and regions that are underdeveloped according to the UN's Human Development Index. Last year this led us to invest in Haiti, East Timor, Ivory Coast, Indonesia and Benin. We also

A photograph of Kaspar Wansleben, Executive Director of the Luxembourg Microfinance and Development Fund (LMDF). He is a man with short brown hair, wearing a dark suit and a white shirt. He is seated at a wooden desk, gesturing with his hands as he speaks. In the background, a blurred presentation screen is visible.

“Microfinance has triggered interest from certain private equity players.”

Kaspar Wansleben
Executive director du Luxembourg
Microfinance and Development Fund
LMDF



“Interest from Luxembourg citizens has helped in establishing microfinance funding.”

the poorest communities. The Fund's poverty focus also means that it works in areas where the microfinance market is less developed, the infrastructure to support local financing initiatives does not yet exist and where there is less competition for deals.

LMDF announced earlier this year a NAV increase of 10%. What is the profile of the fund's subscribers and what are their motivations?

We are noticing an increase in demand from private institutional entities, high net worth individuals and retail clients. Investors are attracted by our clearly articulated social purpose together with the de-correlation from mainstream financial markets. The current low interest rate environment is also playing in our favour. As people increasingly veer away from the negative interest rates which are becoming more and more prevalent in banks, they are looking for alternative investments with low volatility and acceptable positive returns. A fund which in addition offers social dividends is, of course, an attractive proposition in this environment. People are also increasingly aware of the field of impact investing and this has also certainly helped to boost interest in the fund.

How are PE players or family offices becoming involved?

In many ways, our investment strategy resembles a private equity investment approach. Our investments are illiquid and returns will only materialise if the underlying entity is doing well. This has triggered interest from certain private equity players. Apax Foundation, for example, acquired a stake in a German microfinance asset manager.

Family offices are very interested in the investment proposition we have. The younger generation within wealthy families in particular often seeks wealth pres-

ervation rather than return maximisation, while ensuring that investments comply with ethical and responsible standards.

Which key factors contribute to make Luxembourg the principle European domicile for Microfinance Investment Vehicles?

The Luxembourg public and financial sectors have made a concerted effort as early movers to position Luxembourg as the leading domicile for microfinance investment funds. The creation of an ecosystem, including tax incentives, Lux-Flag labelling and focus of the official development work on microfinance have contributed to this success. The ability to use Luxembourg-regulated fund structures to attract institutional money to microfinance has allowed the sector to scale rapidly. In fact, the Luxembourg domiciled vehicles are the structures with the highest growth rates in AuM.

And of course interest from Luxembourg citizens has helped in establishing microfinance funding and support as an activity here and has rendered this success story visible.

Can you share LMDF's plans for the future?

LMDF is in a phase of strong growth and we expect to at least double the microfinance assets over the next three years. We will continue to focus on a niche strategy to channel capital to the entrepreneurial sectors of emerging and frontier economies where it is needed most. This will continue to take us into new geographies. However, we are also beginning to broaden our focus and are considering new product launches beyond microfinance. Whatever new areas we may move into, we will continue to have a dual goal of social and/or environmental and financial returns.

— look to target those who have least access to finance outside microfinance. At the same time we target microfinance institutions which have successful business models which can generate sizable financial returns. We mainly provide senior debt negotiated individually with each counterparty and at times riskier products such as subordinated debt.

Is microfinance reaching its maturing point? How has the market changed in recent years?

Microfinance has been an asset class that has developed very rapidly over the last years to reach AuM of EUR 5 billion managed through Luxembourg fund structures alone. The low default rates and stability of this asset class have generated substantial inflows of new money, but also allowed microfinance institutions to rely increasingly on local capital markets and deposits to fund their loan books; they no longer have recourse to foreign investors. As the microfinance sector grows in prominence there is also increasing competition for deals between the various funds working in the sector. LMDF has been less impacted by these changes than many of the larger players, because it focuses on targeting emerging microfinance institutions – those which are no longer at a startup phase, but are still far from being well-established household names in the microfinance industry. There has been growing interest in this area. These smaller firms also tend to be closer to their end clients and can target their products to meet the needs of

COUNTRY PROFILE



GERMANY, DUE TO ITS SIZE, HEALTHY ECONOMY, POLITICAL STABILITY, SKILLED WORKFORCE, GOOD INFRASTRUCTURE BUT ALSO DUE TO THE AVAILABILITY OF THE HIGH NUMBER OF ATTRACTIVE TARGET COMPANIES – FROM START-UPS TO MATURE INDUSTRIAL GROUPS – CONTINUES TO PRESENT THE MOST ATTRACTIVE MARKET IN EUROPE. WITH MANY GERMAN “MITTELSTAND” COMPANIES STILL PREFERRING BANK LOANS TO EQUITY INVESTORS, A LARGE NUMBER OF UNTAPPED OPPORTUNITIES REMAIN TO BE DISCOVERED.

While 2014 presented a boom year for PE, 2015 fared more moderately: being an export nation, Germany suffered from the slowing economies in Asia, a continuously weak Europe, fluctuations in currency rates and other factors. According to a PwC survey for 2016, 69% of all respondents rated Germany as their top preference for investment. Germany, however, has to catch up with its neighbors: within Europe, the largest PE and VC markets remain the UK and France, followed by Germany ranking in third place.

INVESTED CAPITAL AND FUNDRAISING ACTIVITY

The total capital managed by the members of the German PE association, BVK, reached EUR 39.06 bn, slightly below 2014 and 2013 levels. 63% of the EUR 39.06 bn is managed by German PE houses headquartered in Germany while the remaining 37% is managed by international PE firms that have a local office (20%) or those that have international portfolios with German target companies but without a local presence in Germany (17%). Being a highly decentralized market, deep market knowledge is key to success, clearly giving a competitive edge to firms with a local office and local staff. The 17% in 2015 attributed to PE houses without local presence fared against 24% in 2014 – which supports this finding.

In 2015 the industry raised EUR 1.33 bn, only half of what was raised in 2014 but about the same as in 2013. As the buy-out sector is always the largest one in Germany, this decrease is to a large extent due to the weak fundraising results of buy-out funds (12% in 2015 instead of 31% in 2014). In turn, 57% of the new funds were raised by VC funds. This represents an increase by 16% year-on-year, arriving at total investments representing 15% of the market, compared to 9% in 2014.

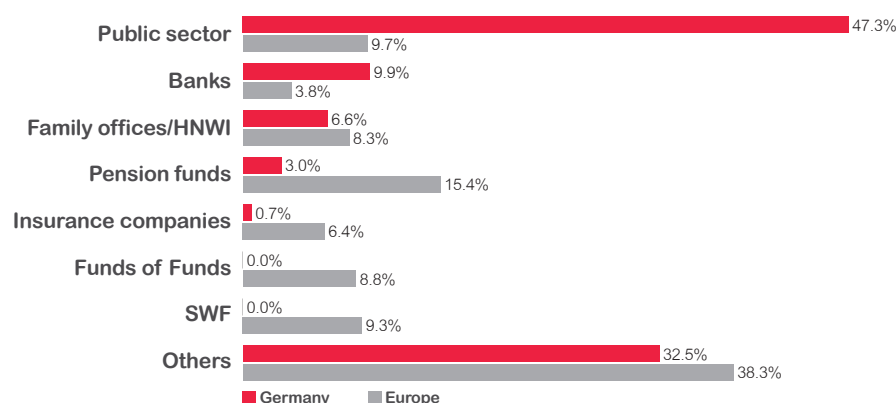
Germany has traditionally been a country with a sound and often family-based Mittelstand keen on keeping control within the family; hence the preferred source of financing continues to be bank loans. This

is reflected by two figures: the ratio between 2015 total investments into portfolio companies and Germany's gross domestic product is 0.22% while the European average is 0.30%; and second, Germany-based companies are less likely to go for higher debt than its European peers, for example 38% of a fund sample of German funds took on less than 40% debt, while on an international level this figure went down to 27%.

INVESTORS

In 2015 the largest group of investors were public or state-owned institutions (47%), followed by banks and family offices/HNWI. As a comparison, in 2014 the largest investor group were Funds of Funds, family

TYPE OF THE MOST IMPORTANT INVESTOR GROUPS IN GERMANY AND IN EUROPE, % OF CAPITAL RAISED:



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COUNTRY PROFILE

— offices/HNWI, insurance companies and other asset managers. In this respect, German PE funds have a very different investor base than other European PE funds, while 2015 was an even more particular case, fostered by EU initiatives to push the support of VC and SMEs. While the investor base for Germany, Austria and German-speaking Switzerland (DACH) is composed of 68% public/state-owned funds, in the UK and Ireland this group presents only 3%, in Denmark, Sweden, Finland and Norway 13%.

INVESTMENTS

PE firms domiciled in Germany invested EUR 4.41 bn in German companies in 2015 while PE firms not domiciled in Germany invested another 0.93 bn EUR. The total figure is around 25% lower than the 2014 equivalent. In line with this, the number of investee companies went down 10% from 1,396 in 2014 to 1,254 in 2015.

INVESTMENT STAGES

Buy-outs usually take the majority of all investments in Germany (71% in 2015). 15% of all investments went into VC firms and 13% into growth companies. This leaves 1% to replacement or turnaround projects. Backed by public and state-owned institutional investors, Venture Capital (all stages) was the winner in 2015 with 58% of all investee companies being attributed to the VC sector.

INDUSTRIES

The industries with the highest investment by the PE industry were industrial products with 25%, followed by consumer goods with 24% and Life Sciences (18%). While industrial products remained stable, life sciences doubled and communication technologies attracted only 8% of investment value against 18% in 2014.

REGIONS

There have been considerable changes over the past years. Bavaria is the leading Bundesland in terms of investments secured, followed by Northrhine-Westphalia, Berlin and Baden-Wuerttemberg. In 2013, the ranking was almost inverse: at that time, Bavaria was 4th, Berlin was 3rd again, Baden-Wuerttemberg was runner-up and

Northrhine-Westphalia was the leading Bundesland.

FINANCIAL DATA OF THE BACKED INVESTEE COMPANIES

In terms of number of companies backed, 87% of all companies employed less than 100 staff, only 4% had more than 500 employees. The opposite is the case in terms of investment volumes, 41% of all investments go to companies with more than 1,000 employees while only 22% goes to companies with fewer than 100 employees.

The annual turnover of all PE-backed investee companies reached EUR 170 bn, employing around 886,000 staff, slightly fewer than in 2014 (900,000).

EXITS

2013 and 2014 were the most active exit years since data has been systematically gathered. 2015 saw 1/3 fewer exits than 2014. The most important exit route was via sales to other PE houses with 28%, showing the importance of secondary buy-outs in particular for larger transactions. IPOs followed with 25% and trade sales with 22%. The largest exits in 2015 were the EUR 3.5 bn sale of Autobahn Tank & Rast by Terra Firma and RREEF Infrastructure to Allianz Capital Partners and of Douglas Holding for EUR 2.8 bn by Advent International to CVC Capital.

DISTRIBUTING & SELLING TO GERMAN INVESTORS

The following channels can be used:

PREMARKETING:

- Limited premarketing is allowed – without notification – in Germany. This has been confirmed recently by the German regulator, the BaFin. As long as no definite subscription form / LPA has been submitted to the investor or the fund has no definite name yet, all previous activities can still be considered to be pre-marketing related.

MARKETING:

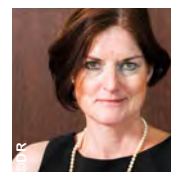
- Marketing under national private placement regimes (NPPR), though each country has different requirements for private placements, Germany has a stricter regime than for example the UK or the Benelux countries: Germany requires detailed

application files, levies annual fees and requires the appointment of a local depositary. This can easily take 2 months.

- Reverse solicitations are not covered by AIFMD due to their passive nature but should be used with caution (e.g. relationship and communication basis). This applies as well to Germany where a deliberate policy by the BaFin was introduced to limit reverse solicitation and discourage broad marketing initiatives based on it. This makes it more and more difficult for a marketing strategy to rely on reverse solicitation only.
- Marketing a fund in Germany that is exempted due to its size (below EUR 500,000 for closed-ended funds, EUR 100,000 if leveraged or open-ended) is less time-consuming than requesting an approval for marketing under NPPR as the BaFin only needs to be notified.
- Marketing into Germany by non-EU AIFMs domiciled in passport-eligible countries: In Germany the introduction of the passport regime for non-EU AIFMs will have the automatic effect of abolishing the NPPR for the non-EU AIFMs in countries that are eligible for the passport. Such non-EU AIFMs could then only market by using the passport (i.e. they have to apply for an authorisation in the Member State of Reference and be fully AIFMD compliant).
- Marketing into Germany by non-EU AIFMs with seat in countries which do not qualify for the passport: The BaFin has indicated orally that they intend to continue to permit the national notification regime for such AIFMs based in countries which are not yet eligible for the passport.

Note: In most of the cases, the BVK data relates to the 181 members of the German PE association BVK; where data additionally covers non-member PE firms active in Germany, this has been specified.

Sources: BVK / PEREP Analytics (Europe Invest), Venture Capital Magazin 6/2016, Private Equity trend report 2016, PwC, BaFin, Publications by Pollath & Partners, KWM, Kaye & Scholer



Anja Grenner,
Funds Services
Leader Luxembourg,
SGG S.A.

THE EVOLVING ROLE OF FASHION IN THE LUXEMBOURG BUSINESS WORLD

THE RIGID CERTAINTIES OF BUSINESS DRESS THAT EXISTED A COUPLE OF GENERATIONS AGO HAVE LONG GIVEN WAY TO A MORE FLUID AND FLEXIBLE APPROACH – ONE THAT IN LUXEMBOURG REFLECTS THE COUNTRY'S POSITION AS A MELTING POT OF NATIONALITIES AND CULTURES, AS WELL AS A CREATIVE AND FINANCING CENTRE FOR THE FASHION INDUSTRY.

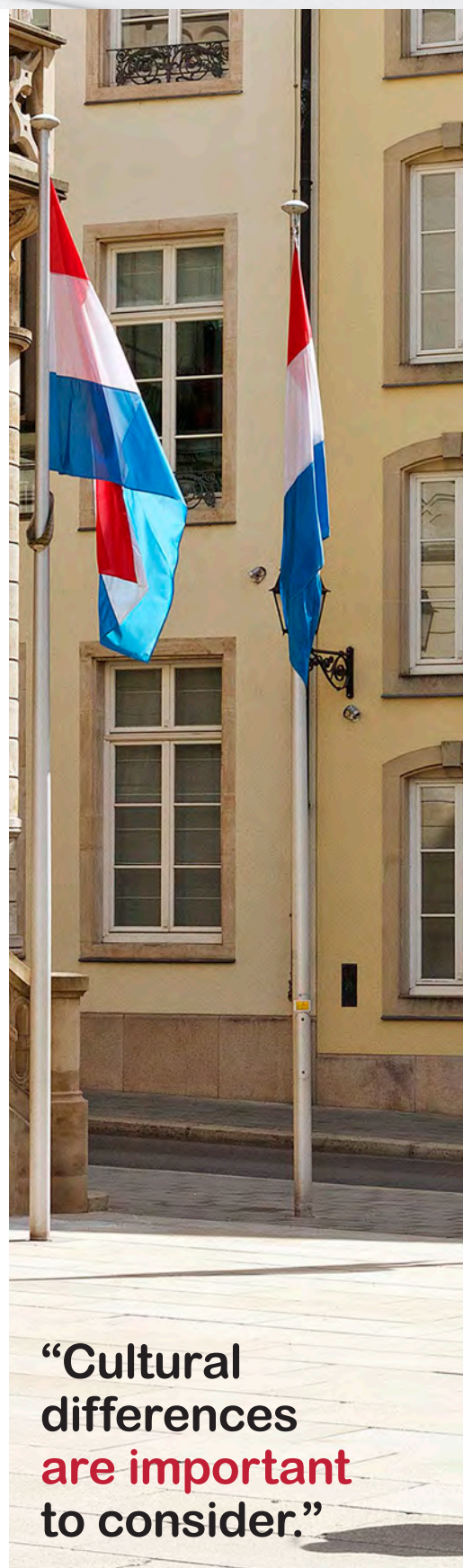
OPEN TO GLOBAL TRENDS

As a major European and international business centre with a multinational and multicultural character, Luxembourg reflects global trends regarding fashion and its role in the workplace. However, it's also a creative centre for fashion in its own right – while the private equity and venture capital industry plays a role both as a sector with its own style and as an investor in innovative fashion businesses. A few decades ago the grand duchy would probably have been classed among the more conservative countries in terms of fashion in general as well as business dress, but a steady inflow of people and influences from the rest of Europe and beyond have done much to change that. A previous emphasis on formality has given way to a broader range of style options than the standard suit-and-tie formula for men in the past, and 'sensible' options for women in the workplace. The emergence in Luxembourg of new business fields, such as software development, IT solutions and alternative investments, have helped this process along – notably making ties optional and

jeans acceptable for certain business meetings. Some companies have imported innovations such as dress-down Fridays from the other side of the Atlantic. Overall the trend is still toward business suits and ties (Hermès, of course), but there's more room for individual and more adventurous taste.

CREATIVE SPARKS

The economic development of the Grand Duchy has brought a broad range of top international labels to Luxembourg, especially in the expensive boutiques of the capital, but it's also created opportunities for the development of homegrown creativity. Although for now the sector lacks education and training opportunities at home, leading lights of the sector have drawn on experience abroad to develop their own, homegrown style. Take Eva Ferranti, who after more than a decade studying tailoring and working with the country's leading designers returned to the grand duchy to create a business around her own line of hand-made tailored suits for men and women. Over the past 17 years her suits have



**“Cultural
differences
are important
to consider.”**



GDR

become popular among the country's business community and her references include dress uniforms for the grand duke's staff. There's Ezri Kahn, a bespoke tailor with a workshop in Hesperange who specialises in 'comfortable' outfits for businesswomen and focuses on long-term relationships with clients to develop a complete wardrobe. Other young designers are making a name for themselves, such as Sophie Dewalque with her Sophi(e) s t i c a t i o n label for young girls and jewellery for adults, or the streetwear of Sentinel City.

FASHION AS AN INVESTMENT

Luxembourg is also becoming more closely involved with the business of fashion through its embrace of new technology, particularly in e-commerce, as well as its financing. These trends intersect in the backing by Luxembourg venture capital firm Mangrove Capital Partners of Outfittery, a Berlin-based firm that offers time-poor men a questionnaire-based clothing selection service. The firm creates a profile of the client, matches them with a personal stylist, and sends them a selection of customised outfit, allowing them to select those they want to buy and return the rest. Outfittery's approach brings to the fashion business the personalisation increasingly adopted by leading e-commerce players, many of which themselves have operations in Luxembourg, but using a human curation touch rather than just algorithms. Venture capitalists such as Mangrove, but also the Luxembourg operations of leading European and global private equity firms such as Bain Capital and CVC Capital Partners, reflect the sector's increasing profile in the grand duchy. And in terms of business dress and fashion, outposts of international groups have brought their own input to the grand duchy's style mix.

WHERE GLOBAL MEETS LOCAL

Dress codes in Luxembourg's most important business sector, financial services, reflect both local and global industry-wide trends and attitudes. For instance, there's a clear distinction between the sharp dressers of the private equity and real estate investment business and the deliberately casual style that's become a uniform in venture capital, but also between dress standards in the US, for instance, and European financial centres such as Luxembourg. The trend toward greater informality appears to have gone somewhat into reverse since the 2008-09 financial crisis, especially in the US, where the suit-and-tie uniform has made a comeback, at least out of the office; although analysts also see a distinction between the laid-back West Coast and more buttoned-down New York. In Luxembourg conference attendees frequently do without ties, for instance, a rarer sight in the US. Cultural differences are important to consider for business meeting attire – for instance, brown shoes are considered unsuitable in the UK, but acceptable in the US or France. In Britain, despite the growing appeal of designer boutiques to demonstrate personal style, suits tend toward dark, conservative colours – something that's less true in Luxembourg. Across the border in Germany, styles tend to even more formal and understated. Inevitably, given the diversity of Luxembourg's working population and the large number of people who commute in daily from neighbouring countries, different national approaches to business dress and fashion are in evidence, and diversity is greater than in other European business environments. With the growing availability in stores and online of leading designers, along with the emergence of local talent, the focus on style inside and out of the workplace can only increase.



Breakfast conference on BEPS (8 June)



LPEA Roadshow in London (4 May)

PHOTO GALLERY LPEA

 More photos of LPEA events are available on www.lpea.lu



GP Club "Summer" Meeting (15 July)



Networking cocktail of the Annual General Meeting (9 May)



Investing in Private Equity, The Long Term Investor Journey conference (5 July)



LPEA Roadshow in Boston (26 May)



LPEA Roadshow in New York with the presence of H.R.H Prince Guillaume (Hereditary Grand-Duke of Luxembourg), H.R.H Princess Stéphanie (Hereditary GrandDuchess of Luxembourg) and H.E. Étienne Schneider (Minister of the Economy of Grand Duchy of Luxembourg) (25 May)

ABOUT LPEA

The Luxembourg Private Equity and Venture Capital Association (LPEA) is the representative body of private equity and venture capital professionals in Luxembourg.

With over 130 members, LPEA plays a leading role in the discussion and development of the investment framework and actively promotes the industry beyond the country's borders.

Luxembourg disposes of a stable tax regime and is today at the forefront of international PE regulation providing a flexible, secure, predictable and multi-lingual jurisdiction to operate in.

LPEA provides a dynamic and interactive platform for its members to discuss and exchange information and organises working meetings and networking opportunities on a regular basis.

If Luxembourg is your location of choice for private equity, LPEA is where you actually join the industry!

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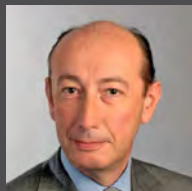
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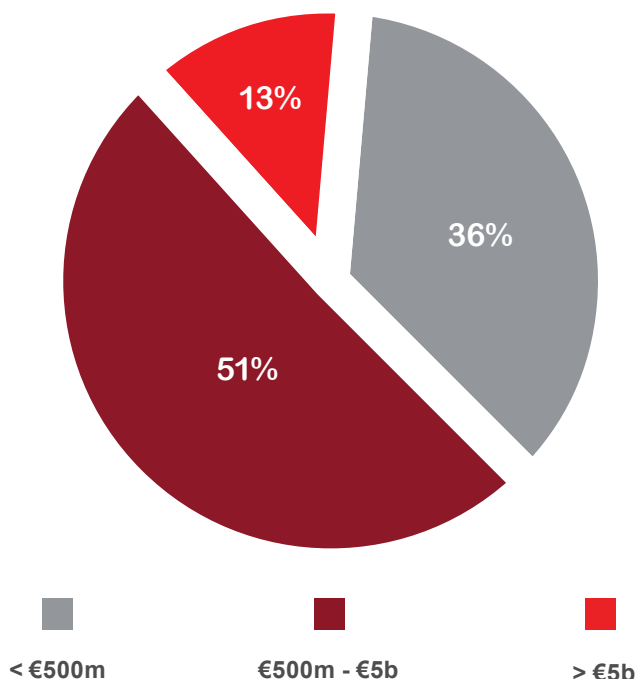
MARKET FIGURES



LUXEMBOURG IS HOME TO THE TOP 10 PE PLAYERS WORLDWIDE¹:

1. Blackstone Group
2. Goldman Sachs
3. Carlyle Group
4. KKR
5. TPG
6. Oaktree Capital Management
7. Apollo Global Management
8. Bain Capital
9. Lone Star Funds
10. Warburg Pincus

AuM by Luxembourg surveyed GPs



209

Authorised AIFMs

608

Registered AIFMs

LIMITED
PARTNERSHIPS

1165
SCSp

created in 2 years
(June 2016)

+300 “private equity”
related job openings

1611
SPECIALISED
INVESTMENT FUNDS

(June 2016)
with a balance
sheet of €394b

286
SICARs distributed in

388
units with a balance
sheet of €37.4b

6000

PE-VC
professionals

GLOSSARY

AIFM

Alternative Investment Fund Manager

AuM

Assets under Management

GP

General Partner

PE

Private Equity

SCSp

Société en Commandite Spéciale

1. Largest GPs by total Private Capital Funds Raised in the last 10 years; Prequin 2016

Sources: LPEA GP Survey 2016, CSSF, PwC Luxembourg

EVENTS' CALENDAR

19

SEPTEMBER 2016

PARIS
LPEA Roadshow

5

OCTOBER 2016

NEW YORK
Luxembourg Fund
Centre

19

OCTOBER 2016

LONDON
LPEA Roadshow

25

OCTOBER 2016

LUXEMBOURG
IFE Training:
Private Equity

22-23

NOVEMBER 2016

LUXEMBOURG
European Alternative
Investment Funds
Conference

7

DECEMBER 2016

MUNICH
LPEA Roadshow



©DR

25-27

JANUARY 2017

CANNES
IPEM - International
Private Equity Market

27

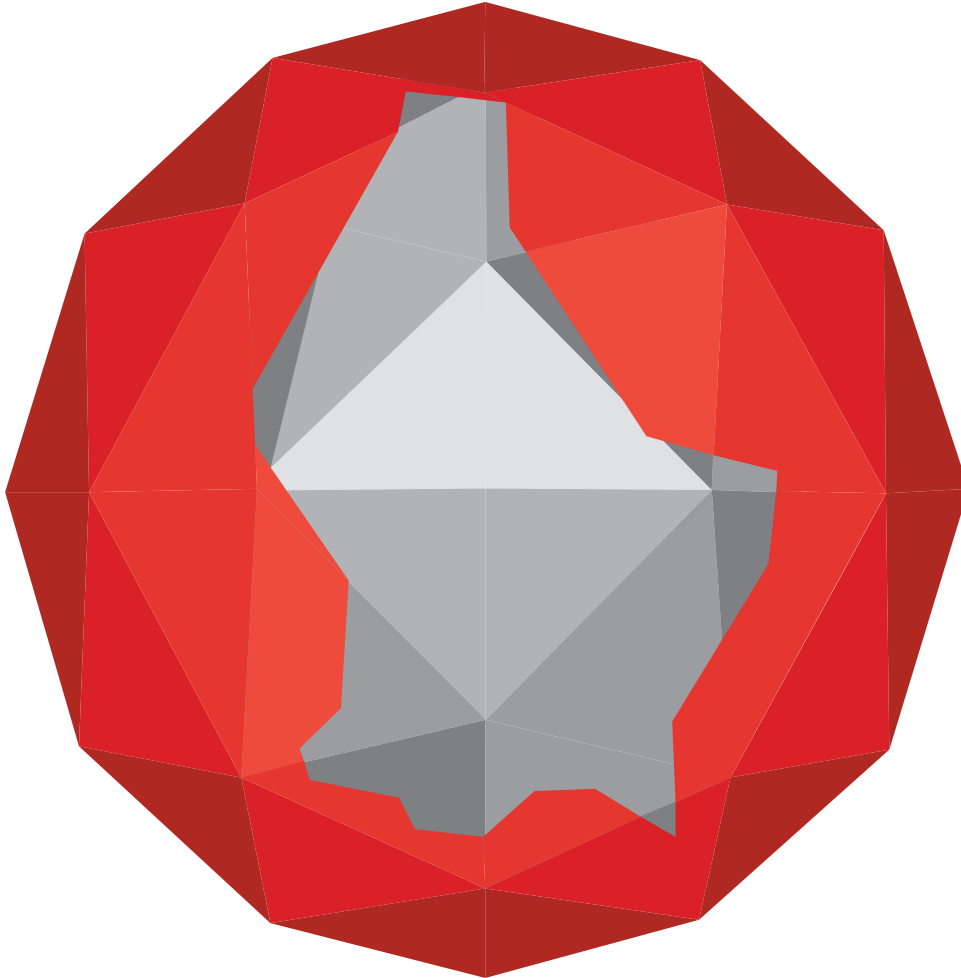
FEBRUARY 2017

2

MARCH 2017

BERLIN
European Alternative
Investment Funds
Conference

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