PRIVATE EQUITY
INSIGHT/OUT

EQT:

A PURPOSE-DRIVEN JOURNEY

Private Equity in high heels | The SFDR Dilemma | The latest health unicorn

Issue 17, February 2021

CONTENT

DEAR READER,

First of all, we, together with the whole LPEA team, wish you a good start and lots of success for this new 2021 chapter and vintage.

It is also our pleasure to announce that our favourite "Insight Out" magazine will from now on be prepared, nurtured, published on a quarterly basis. This means that the magazine will be able to feature more articles, insights and allow you to participate even further to the growth of our PE and VC industries over the year. In this context the team around Natalia and Luis remains at your entire disposal to discuss potential future content.

We also intend to feature our Technical Committees and Clubs more often. Despite the pandemic, they have worked hard on many topics including for example the AIFMD review, SFDR & ESG, ATAD2, the attraction of talents, "new" types of investors (demystification) and other hot topics of the moment.

This edition, built around a robust lead article, also allows us to explore with curiosity new subjects like the technology applied in specific sectors (RE & infrastructure), art investments and allows us to feature role models ("power women") active in the association/industry, to share with you legal/regulatory updates plus the latest news on the LPEA's projects including the Winter Academy starting in March 2021.

We wish you a happy and smooth reading and in the meantime expect to see you soon again via our webinars, interviews and virtual events.

Stephane Pesch
CEO, LPEA

Claus Mansfeldt
Chairman, LPEA

LPEA
THE LUXEMBOURG VOICE OF PRIVATE CAPITAL

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THE MAGAZINE OF THE LUXEMBOURG PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION
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NEW SEASON OF TALK SHOW WITH GPS & LPS

LPEA started the new season of live interviews named "The Luxembourg PE/VC stories", which is a logical continuation of the "10 years, 10 minutes" series dedicated to the association's anniversary last year. "We will dive into the world of GPs and LPs active in PE and VC and learn more about these areas. The first guest of these series was Peter Veldman, Head of Fund Management at EQT, who also jazzes up our cover. Join us every month for this exciting half-an-hour chat!

EXPON EXITS GLOSE TO MEDIUM

Medium acquired Glose, a "reading hub" with digital bookstore (portfolio company of the "Capital Expon I" Fund). This became the 3rd exit in 2020 for Expon after Verse and Service. On the investments' side, the local VC was one of the institutional and private investors, who helped the recruitment platform Nexten.io, connecting tech profiles and companies, to raise €1,387,000 through the Digital Tech Fund.

BGL BNP PARIBAS DEVELOPMENT SUPPORTS LOCAL ECONOMY

The bank plans to invest € 50 million over the next five years in minority shareholdings in companies based in the Grand Duchy to support companies over the long term and enable them to accelerate their growth. The bank specified that these will be unlisted Luxembourg commercial, industrial or technological companies, with revenues in excess of € 10 million and growth prospects. This new activity is in line with the BNP Paribas Group's strategy to double the amounts devoted to direct investment in small and medium-sized enterprises and mid-sized companies.

ILPA'S NON-DISCLOSURE AGREEMENT MODEL WILL SAVE YOU TIME

ILPA's Non-Disclosure Agreement Model is intended to serve the Private Equity industry by providing a standard document for agreements between LPs and GPs, benefiting both parties by helping to reduce legal costs and to save time.
The NDA Model was developed with the assistance of an ILPA working group comprised of counsel representing LPs, outsourced CIOs and one GP organization. You can explore the model on the association's official website.

ILAVSKA VUILLERMOZ CAPITAL'S APPETITE FOR FINTECH

Ilavska Vuillermoz Capital announced their investment into Investify, an awarded Germany's Nr. 1 ETF robo advisor and a leader in digital wealth management. Investify was founded as a finance technology and regulation provider in order to consistently digitise the investment business of B2B partners. Their customers are banks, insurance companies, asset managers and non-financials. One of the main goals of Ilavska Vuillermoz in 2021 is to continue building up the FinTech portfolio and focus on the best performing and fastest-growing banks and financial services companies in Europe.

LPEAcademy

WINTER EDITION 2021

1st March - 1st April

It is a pleasure to present you herewith the 2nd edition of the LPEA Training Academy. After the success in July 2020, thanks to you, your curiosity and appetite for specialised Private Equity and Venture Capital education, we decided to pursue this promising adventure and upgraded our offering to a double edition in 2021 (Winter and Summer). In order to maintain the interest and the momentum high, we have worked hard in order to further enhance the Academy, upgrade/add new modules and some extra features which should benefit you and your company. We hope that you will enjoy the program of the LPEA Winter Training Academy! We wish you some happy learning and expect to see you soon in our field.

ALL YOU EVER WANTED TO KNOW ABOUT VENTURE CAPITAL (VC)


Jérôme Wittamer
Managing Partner
Expon Capital


Rodrigo Sepulveda
Managing Partner
Expon Capital


Alain Rodermann
Managing Partner
Expon Capital

PRIVATE EQUITY FOUNDATION


Cyril Demaria
General Partner and President - Pilot Fish Funds / Affiliate Professor
EDHEC Business School

INTEGRATING ESG INTO PRIVATE EQUITY


Sachin Vankalas
General Manager
LuxFLAG


Denise Voss
Chairwoman
LuxFLAG

TAX


Oliver Hoor
Tax Partner
ATOZ


Fanny Bueb
Tax Partner
ATOZ

PRIVATE DEBT


Christian Dybdahl-Ovesen
Investment Professional
Cordet


Joachim Cour
Partner
Elvinger Hoss


Thibaut Partsch
Partner
Elvinger Hoss


Gautier Desprет
Client Relationship Director and Head of Debt services
IQEQ


Laurent Capolaghi
Partner, Luxembourg PE Leader
EY

THE LEGAL ACADEMY BY ALLEN & OVERY


Peter Myners
Partner


Yannick Arbaut
Partner


Patrick Mischo
Partner


Miao Wang
Counsel


Fabian Beullekens
Partner


Vanessa Xu
Partner


Adam Zecharia
Senior Associate


Francois Guillaume de Liedekerke
Counsel


Andreas Hommel
Counsel


Paul Peporte
Partner


Pierre Schleimer
Partner


Sylvain Cailleau
Counsel

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PETER VELDMAN (EQT):

A PURPOSE-DRIVEN JOURNEY

"SINCE EQT WAS FOUNDED 27 YEARS AGO, THERE HAS BEEN AN ONGOING COMMITMENT TO RESPONSIBLE INVESTMENT AND A PASSION FOR FUTURE-PROOFING COMPANIES. OUR MISSION IS TO MAKE A POSITIVE IMPACT WITH EVERYTHING WE DO." SAYS PETER VELDMAN HEAD OF FUND MANAGEMENT AT EQT. AN INTERVIEW BY STEPHANE PESCH, CEO OF THE LPEA.

INTERVIEW by **Stephane Pesch**
CEO, LPEA

Watch the interview of Peter Veldman for the LPEA "Luxembourg PE/VC stories" this January on our Youtube channel.

PRIVATE EQUITY INSIGHT/OUT #17

EQT ONE OF THE VERY FEW FIRMS IN THE WORLD WITH INVESTMENT STRATEGIES THAT ADDRESS THE NEEDS OF A COMPANY THROUGHOUT ITS LIFECYCLE.

Peter Veldman

Stephane: Let's talk about EQT's evolution over the years and what is your positioning today.

Peter: EQT was established in Stockholm back in 1994, by Conni Jonsson, Investor AB (an investment company founded in 1916 by the prominent Wallenberg family of industrialists) together with SEB and AEA Investors. The idea was to leverage the global and industrial network from the Wallenbergs and apply their long-term and responsible ownership philosophy to Private Equity.

The first EQT Fund was invested exclusively in Swedish companies and very successful by all measures. This was the start signal to open more investment advisory offices. Initially EQT spread out over Scandinavia and thereafter it expanded into the German speaking region of Europe.

While the Partners at EQT gradually took over the ownership of EQT from Investor AB, EQT continued to expand its presence beyond Europe; opening offices in Asia and in 2008 taking the step to the US. During this regional expansion, EQT also started to expand its product offerings. Next to our Equity Funds which are the more traditional large buy-outs, today we have a full range of funds under the Private Capital umbrella: Next to Ventures that typically invests in technology and especially software enabled start-ups, EQT also manages a Public Value Fund that is semi open-ended with a clear focus to apply the private equity playbook to listed companies. And very recently, we announced our Growth strategy that really completes the range of investment strategies to cover the full spectrum of the value added approach within Private Capital. This also makes EQT one of the very few firms in the world with investment strategies that address the needs of a company throughout its lifecycle.

Next to our Private Capital business line, EQT also has a Real Asset business segment focusing on infrastructure and real estate, both leveraging on EQT's global advisory network creating a value added strategy.

After its listing at the Stockholm stock exchange in September 2019, EQT is now a leading European Alternative Investment manager with a global presence and ambition.

The EQT signature is based on a local-with-locals approach with a thematic overlay, leveraging the EQT Network. It consists of more than 500 advisors who are current or former entrepreneurs or business executives of major international corporations and successful companies –all with a strong track record in EQT's relevant sectors.

Sustainability and digitalization are two key elements in EQT's future-proofing approach to investments. If we start with sustainability, this has always been at the core of EQT since the start in 1994 when the slogan was: "EQT, more than capital". It was further enhanced when, as one of the first Private Equity houses, EQT subscribed to UN-PRI. This marked the start of a journey where sustainability was even more formally integrated into the investment process and transformation of our portfolio companies.

Digitalization is another key differentiator for EQT and our digital experts focus on three core activities. First, there is what we call Motherbrain, an inhouse developed tool that through machine learning and AI is assisting the Ventures team and Growth team to scan for potential targets. So far we have made a number of investments in our Ventures Funds that show a great performance. In addition, our digital business development team provides crucial support to our investment advisory teams during the due diligence and ownership of our portfolio companies by not just helping the teams to create an understanding of the digital maturity of a potential target but equally creating a digital roadmap as part of the value creation process. Our aim is to future-proof all EQT portfolio companies and make them digital leaders in their industries. Finally, the EQT digi team supports the EQT organisation, making sure that it runs on the latest available technologies on a state of the art infrastructure enabling EQT to be a digital leader itself.

Stephane: What is your vision for a digitalised EQT?

Peter: We want to be data-enabled from a fund operations perspective, create full transparency for different processes and increase efficiency. We have an in-house database which helps us understand potential risks and set up efficient processes. The launch of our LP Portal last year is a good example. When we onboard LPs we give them a full overview of AML requests, the status of their investments, valuation of those positions etc. It is a fully digitalised initiative which completely replaces sending PDFs over emails. This ties into cyber security, another priority for us.

Stephane: Would you like to share some specific numbers in the context of the company's growth?

Peter: EQT has grown incredibly fast over the past years and just to try and put that in perspective, last year alone, we increased our AUM by 46% from 36 billion at the start of 2020 to 52.5 billon at the end of that same year. But what we are even more proud of is that historically, during EQT's ownership, our portfolio companies have an average annual revenue growth of around 10% alongside an average annual earnings growth, which we measure by EBITDA, of 12% and a growth in FTEs of 7%.

Our purpose is to make good companies better, enhance ESG performance in every step of the development, including diversity and inclusivity. This positive impact is our legacy, our journey. I would like to invite all readers to look into our purpose statement that is also anchored in the group's articles of association.

Stephane: Let's talk about your operations in Luxembourg.

Peter: Luxembourg is one of the key locations in our Fund Operations Platform. Our other key location is Stockholm and we have part of our operations in Amsterdam, London, Guernsey and Singapore. Within EQT's Fund Operations platform we take full ownership of the management of all funds, the fund reporting and valuations and all of EQT's employee incentive programs. In Luxembourg, we are regulated under the AIFMD. In our AIFM, we have a board of 5 managers supported by 11 conducting officers - one for each of our strategies complemented by a marketing officer, valuation officer, compliance officer and risk manager. Just over 40 associates, assistants and managers support the Conducting Officers and Board in their responsibilities.

Hearing these numbers it is hard to believe that when I arrived here in Luxembourg at the beginning of 2017, we had a small office with less than 10 FTEs managing the acquisition structures for other Fund

From left to right: Boris Lemiegre, Tax Manager
Sandra Plate, Executive Assistant
Joshua Stone, GP Director
Emilie Rouillon, GP Manager
Peter Veldman, Head of Fund Management
Nicholas Curwen, Managing Director

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TODAY WE MANAGE THE VAST MAJORITY OF ALL EQT FUNDS FROM LUXEMBOURG INCLUDING THE ACQUISITION STRUCTURES THAT ARE CLOSE TO 1600 ENTITIES.

Peter Veldman

jurisdictions, some of our Credit Funds and EQT's first Ventures Fund. Today we manage the vast majority of all EQT funds from Luxembourg including the acquisition structures that are close to 1600 entities. Given our growth pace, we are also happy to announce that we have found new premises that will be very close to our first and current office right here on Boulevard Royal. We are proud of the fact that the building fulfills the highest ESG standards on the market. This was a key factor in our decision making process. I am looking forward to the day when we can all come together here.

Stephane: What about your investment teams?

Peter: We want to have our investment professionals close to our assets. For that reason we have offices in

EQT HAS A REAL ASSET BUSINESS SEGMENT FOCUSING ON INFRASTRUCTURE AND REAL ESTATE, BOTH LEVERAGING ON EQT'S GLOBAL ADVISORY NETWORK CREATING A VALUE ADDED STRATEGY.

Peter Veldman

17 countries across Europe, APAC and North America and they work exclusively for one business line. The investment teams provide us with investment advice and we work together closely to make sure that we have all the necessary supporting documentation in place to make our investment decisions. This allows us to be on top and take ownership ahead of signing when a transaction accelerates. Our risk management team is responsible for preparing the risk management report. The risk assessment starts at an early stage of the transaction to avoid that we need to raise a red flag after weeks of due diligence. Once our investment advisor has recommended a transaction, we seek the endorsement from our investment advisory committee and the investment decision is made here in Luxembourg by the AIFM.

Stephane: How did you face the recent Covid-19 crisis? Were you prepared?

Peter: The most important was the mental wellbeing of our own staff and that of our portfolio companies. As a responsible owner and employer, EQT proactively decided to have its staff working from home fairly early to ensure that the limited infrastructure was available for those essential workers that have no opportunity to work from home.

Even if we never predicted anything we have witnessed during the past 12 months, we had made plans for each and every portfolio company on how to take them through a period with headwinds. These plans were unfolded rapidly when we first saw the seriousness of C19 and the impact on some of our Asian investments.

We had bi-weekly meetings discussing the situation at all our portfolio companies, with different scenarios understanding potential needs for capital injections and matching that with the available remaining commitments in our funds.

Another thing is that, after the Global Financial Crisis in 2008, EQT learned from the crisis and made sure to build a very robust portfolio. And the key conclusion was that we had to put an even bigger emphasis

on thematic investments, and that paid off.
You ask me about my personal view on the impact of C19. I think a lot about how it will all impact us. Take real estate for example. Are people moving outside the cities, because they will not need to come to the office every day? If there is less commute, how will it impact the infrastructure? What is the main function of the office then? A conference call works for me just the same from home. But to have more informal catch-ups with our teams remains crucial in an office setting now and then.

Stephane: That brings me to your view on sustainability. What is your appetite for ESG (Environmental, Social and Corporate Governance)?

Peter: Since EQT was founded 27 years ago, there has been an ongoing commitment to responsible investment and a passion for future-proofing companies. Our mission is to make a positive impact with everything we do. ESG is an inherent part of this mindset. Today, we are exposed to more and more social and environmental challenges. There is a need for fundamental transformation towards a more sustainable economy. EQT considers sustainability as an integral part of its business model - integrated throughout the entire investment process. With its thematic investment approach, EQT makes sure to invest in companies with a positive societal impact. On the other hand, EQT supports portfolio companies in their transformation. This enables us to create value, remain relevant and be part of the solutions for the future.

EQT WAS HIGHLIGHTED IN THE HARVARD BUSINESS REVIEW IN THE ARTICLE SOCIAL-IMPACT EFFORTS THAT CREATE REAL VALUE.

Peter Veldman

On this note, last September, EQT was highlighted in the Harvard Business Review in the article Social-Impact Efforts That Create Real Value; it underlines the importance of ESG being part of the company strategy and a key differentiator.
More than ten years ago, in 2010, EQT adopted the Responsible Investment and ownership Policy. It describes EQT's commitment to sustainability and how the investments in our portfolio companies advance the progress of the United Nations Sustainable Development Goals (SDG). On our website, next to each portfolio company, you can find information on the SDGs which they contribute to. EQT also developed the EQT Sustainability Blueprint, a framework that helps portfolio companies to develop a strategic perspective and to report on sustainability KPIs.
EQT wants to lead by example and took the decision to include the Purpose statement in the Articles of Association in 2019. Today, EQT works on 100% renewable energy and drives the renewable energy transition for its portfolio companies. When we speak of ESG, we also need to think of diversity and inclusion. In 2020, EQT recruited 52% female investment professionals. In the relationship with advisors, a minimum of 25% females in external advisory teams is set out as a requirement in the agreements.
Thanks to these continuous efforts, we are quite advanced on the SFDR (Sustainable Finance Disclosure Regulation) implementation and have a fairly solid framework in place for internal reporting on SDG goals for our portfolio companies. We are leveraging on the work that we have been doing for over a decade led by Therese Lennehag.

Stephane: Are you happy with the outcome of the SFDR?

Peter: On one hand, SFDR will be a cost driver and another operational challenge leading to even higher cost of regulations. But on the other hand, SFDR is something that needed to happen. It is unfortunate to see that there was not more initiative driven from a sense of responsibility and intrinsic motivation for the future of our planet. The labeling holds a risk for greenwashing and a risk that companies that do not meet the sustainability goals today will be excluded. PE needs to play a vital role in transforming these companies and keep investing in them.

Stephane: Is there any memorable deal you would like to share?

Peter: I would say, our investment in Anticimex, which is a leading specialist in pest control. The way the company works is a great example for innovation and efficiency. First, Anticimex' experts visit and analyse the site. Potential risk areas are identified and Anticimex Smart units are installed. The units are paired with non-toxic traps. The sensors are all connected and are able to detect and report around the clock. The data goes into a data hub and can be exported and used to take action where needed.
Anticimex is a good example of how we approach our portfolio companies and how they can really have a positive impact. Pest control is important for a healthy society. Rodents can spread several diseases and destroy food to feed 200 million people per year. ESG is a key focus for Anticimex and their business goals are aligned with the UN SDGs. The biocide free solutions Anticimex offers help reduce pressure on the environment and on human health. This means effective contributions to Sustainable Development Goals number 3, good health and well-being for all, SDG 9, building resilient infrastructure and fostering innovation and SDG 15, protecting our ecosystems. Also, the fact that the Smart units can be monitored remotely decreases the climate impact and CO2 emissions. Finally, Anticimex promotes diversity, inclusion and good health and safety practices in the workplace.
During EQT's ownership, Anticimex have expanded their presence from Northern Europe into the rest of Europe, Asia-Pacific and the US. This example shows how economic growth and sustainability go hand in hand.

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THERE ARE A FEW ITEMS WHICH ARE KEY FOR A SUCCESSFUL FUTURE IN LUXEMBOURG. ONE OF THEM IS CONTINUED TRANSPARENCY ON THE TAX STRATEGY FOR THE COUNTRY.

Peter Veldman

Stephane: What can we improve in Luxembourg?

Peter: There are a few items which are key for a successful future in Luxembourg. One of them is continued transparency on the tax strategy for the country. With all the changes ongoing and at the horizon, it is key for investment funds to create a predictable future.
Infrastructure is another key area. Driven by the success of the country in becoming one of the largest Alternative Investment Fund hubs, Luxembourg has attracted a huge number of professionals. A matching infrastructure is required to be able to stay competitive and ensure that the costs of managing the Luxembourg Funds stay manageable. This includes, among other things, a good connection to the main financial centres in Europe and around the world.

Stephane: What is your personal view on the coming years for Private Equity?

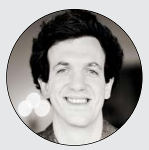
Peter: For me the industry has the opportunity to play a key role in the future of our planet. It needs to drive this from an intrinsic motivation rather than to wait for more regulations to come. Requirements from an LP perspective also need to be taken into account. More regulations will further drive up the cost - and lead to more consolidation in the industry. It will become more and more difficult for niche players.
If more firms step up to their responsibility without waiting for more regulations, this will further help to continue to build the perception of the industry and make it more accessible for a broader group of investors. ●

Guest article from "Yannick Oswald's blog", the most read European VC blog counting 2000 subscribers and over 100.000 reads in 2020.

K HEALTH. FROM 0 TO 1.5B+ IN 2 YEARS...

TWO YEARS AFTER LAUNCHING ITS PRODUCT, OUR COMPANY K HEALTH RAISED $130+ MILLION AT A VALUATION ABOVE $1.5 BILLION IN A FUNDING ROUND LED BY GGV AND VALOR. K IS OUR LATEST UNICORN WE BACKED AT THE SEED STAGE. IT IS ALSO A SPECIAL ONE. NOT ONLY ARE WE CONVINCED THAT IT WILL BE OUR BIGGEST HOME RUN TO DATE, BUT IT IS ALSO INCREDIBLY ALIGNED WITH OUR DNA. LET'S HAVE A LOOK.

By Yannick Oswald
Principal at Mangrove Capital Partners
www.yannickoswald.com



Solving a global challenge. With a radically different approach

Our biggest consumer success stories have one thing in common. They solve a massive problem with the help of software that materially impacts billions of people.
K's mission is simple, but incredibly ambitious: Provide FREE primary healthcare to the world. To grasp why this is so important, we need to understand that - there is NO bigger burden on society than healthcare. For many Europeans, who have access to good universal healthcare, this might be not easy to understand. But more than 5 billion people worldwide don't have access to basic healthcare, which includes near 25% of the US population. Over 7 billion people do not have access to free healthcare.
Telehealth is a great first step. But there are just not enough doctors to make it work for everyone. The current crisis made one thing crystal clear: We have a shortage of medical professionals everywhere. The US alone predict that their shortage could hit 139,000 by 2033. The current healthcare system is just not scalable enough. With this observation in mind, K's founders embraced Buckminster Fuller's advice:

You never change things by fighting the exciting reality. To change something, build a new model that makes the existing model obsolete.
The solution is 100% software-based, and the result is K: the world's first accurate and trusted AI-driven medical information layer, infinitely scalable. 'All you need is a smartphone, and you have the collective knowledge of thousands of doctors in your pocket.' By designing a model that does not require 'humans to scale', it offers better healthcare to billions of people and allows doctors to be more efficient and focus on the patients who need their help most.

A massive TAM

Digital health is one of the sectors that saw the biggest acceleration since the start of the pandemic. And there is no bigger TAM than healthcare. In the US alone, healthcare costs represent 17% of US GDP. More than $3.6 trillion is up for grabs...

Five years ago, we sat down in Luxembourg to discuss which themes to focus on over the next years. Digital health was one of the first topics that came up. Since then, we have backed multiple players in the space.
Why? Besides the challenges mentioned above, healthcare might also be the worst consumer experience of them all. Doctor visits just aren't pleasant. It sometimes takes weeks to get access to a doctor (if you have access at all...), it is expensive, and in return, most get a general feeling that they are lucky someone has decided to see them. Of course, consumers could go online by searching for specific symptoms, but the information is not reliable nor personalized.
K Health is changing all of that. Like Skype or Wix, it is free. There is no better alternative out there, period.
9 out of 10 K Health users do not need to see a doctor at all. K does the job for them. Real tech innovation. The only AI driven, full-stack health system.
K made something simple out of a crazy complex problem. They spent over two years translating 400 million medical records from doctor visits of over 2 million patients, including diagnostics and treatments, into a smart mobile app. They essentially created the first automated doctor. This translation resulted in a database of 2 billion individual data points. It required building the first complex medical ontology parsing system based on NLP.
K is 24x7, intelligent, and remote. A chat suggests potential diagnoses for consumers who enter symptoms, taking into account the user's medical history. If you need to, you can chat with a doctor. Doctors can now not only focus on the patients who need their help most but also ensure everyone is continuously cared for.
Tech is a real moat. K's closed-loop model makes the tech dynamic and self-learning. With every treatment, overall healthcare is better off.

MILLIONS OF PATIENTS ARE BEING TREATED CONTINUOUSLY BY ONLY 200 DOCTORS...

Yannick Oswald

Real impact drives traction

Within two years, over 4 million people have become K Health users in the US (not taking into account partnerships). The company has generated tens of millions in ARR in 2020, and the team are only getting started.

Key partnerships are accelerating the flywheel

K not only improves the quality of care for patients, but also for healthcare institutions and insurers. To accelerate the development of its service, K has partnered up with key players.
Partners include Mayo Clinic, one of the best healthcare institutions in the US, Maccabi Healthcare Services, Israel's second-largest HMO with 2.4 million members, and Anthem in the US, to offer K Health to its 43 million insurance members.
All of this has been achieved by a team of only 250 people, of which 200 are doctors. Let this sink for a moment. Millions of patients are being treated continuously by only 200 doctors...
This incredible venture is led by a team that we have known for over 10 years. CEO Allon Bloch is the co-founder of Wix (Nasdaq: WIX), and Vroom (Nasdaq: VRM). He assembled a team of great entrepreneurs around him, ready to disrupt the healthcare industry from the outside...

An n = 1 opportunity

K combines it all. A big and global vision, a deep tech moat, a stellar team and execution, a business model that works with a real positive impact on millions of lives. Simply put, we believe that K will be the biggest home run in our firm's history to date.
Last weekend, I made a trip to the countryside. The world can be so simple sometimes. Let's back companies that help it make it so more often for everyone.

Life is awesome,
Yannick ●

WHAT IS PROPTECH, AND WHAT MAKES IT AN EXCITING INVESTMENT SPACE?

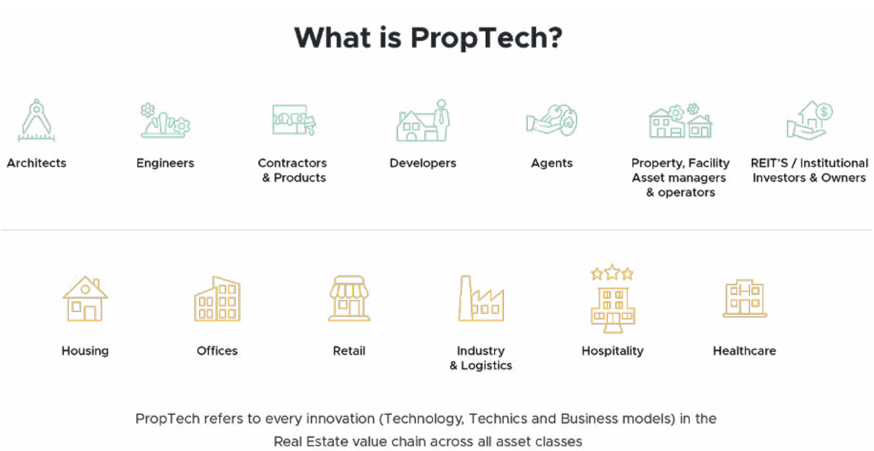
By Idriss Goossens
Founder at PropTech lab,
Co-Founder at the European PropTech Association

What is PropTech?

Real Estate is the largest asset class of the world. Yet, it has – for decades – stayed very conservative, and reluctant to change. This is now changing, with the consolidation of the PropTech market. According to the European PropTech Association, "PropTech refers to any innovation (technological, technical or business model) in the real estate value chain, across all asset classes". This ecosystem could be segmented in 5 categories, covering the complete life-cycle of real estate projects:

1. Investing & financing: covering all the alternative financing solutions (crowdlending solutions...), and all the tools easing the investment decision (big data and analytics...);
2. Designing & Building: covering the execution of the construction work (collaborative platforms, new construction materials, 3D printing, BIM...);
3. Marketing & Transacting: covering the marketing & transaction phase of real estate (listings, 3D visuals, immersive experiences,...);
4. Managing & Operating: phase covering the property management, rent management, facility management;
5. Living & working: covering the end-users experience (all the services for end-users, community apps...).

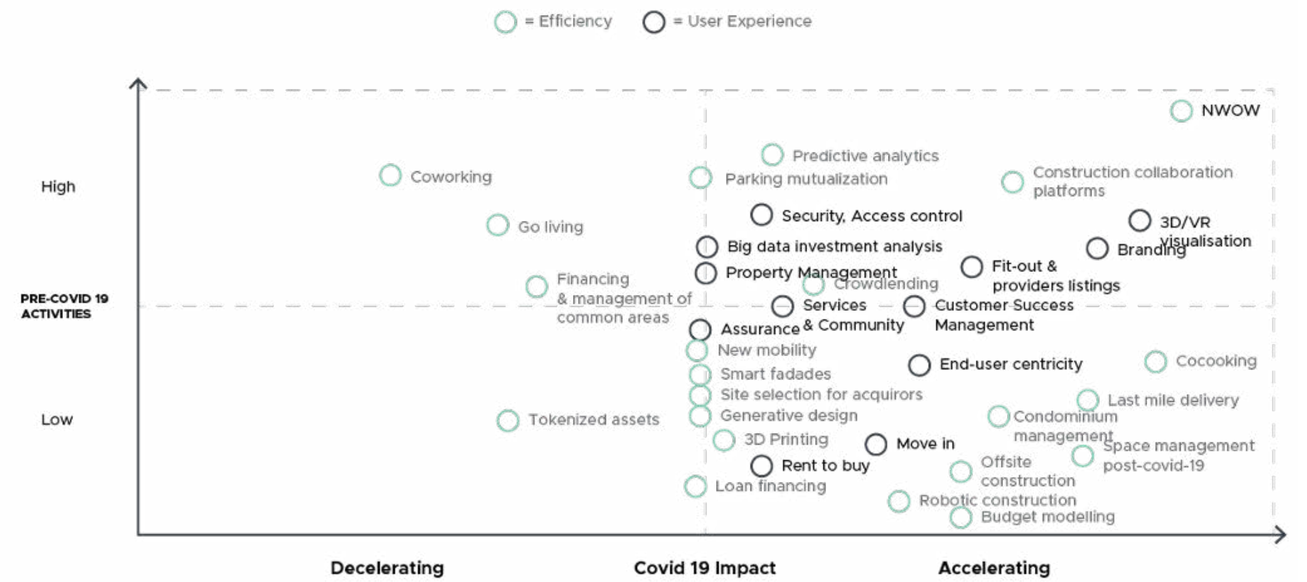
According to the last report of the same association, Europe is the most active region in the world in terms of number of actors with an ecosystem of 3123 companies. Although bigger in terms of players in comparison to the US (around 2000 businesS), Europe still doesn't have its own PropTech unicorn. Currently, we monitor 37 PropTech unicorns, 76% of which are based in the US, and 24% in Asia.



The main reason for this is the decentralisation of the European market: every country has its own juridical framework, culture and industry standards. The expansion is more challenging than in the US or China, considered as a single market.

An ecosystem gradually reaching maturity?

Similar to FinTech, PropTech can be seen as a momentum. The momentum of digitization and modernization of the construction & real estate value chain. It means that year after year the ecosystem is becoming more mature, start-ups increase their market shares, hire more FTE's, and expand. The current pandemic hasn't slowed this gradual consolidation. On the contrary: we can see that COVID-19 has largely accelerated the adoption of PropTech. Last year, we estimated that the consolidation of the sector – the moment where the construction & real estate sector are completely digitized, or modernized, and when there is not much space left for new solutions – would happen in the next 5 years, but this could now happen in the next 2 years, due to the COVID-19 effects. Nonetheless, as Thomas Vandenbergh – Chairman of the Innovation board at BESIX, CEO at A-Stay, and Board at proptech lab – says: "the consolidation of proptech is not a one-time event like a tsunami, but rather a gradual change, like global warming". It means the consolidation of PropTech happens technology by technology (IoT, bim, drones, 3D printing...), core business by core business (architect, engineer, general contract, developer, broker, property-facility-asset manager, investor...), and asset class by asset class (resi, office, logistics, retail, healthcare, hospitality, infra...).



We can see that COVID-19 had an accelerating effect even on themes that had a low activity prior to COVID-19 (low number of companies, and low growth rate).

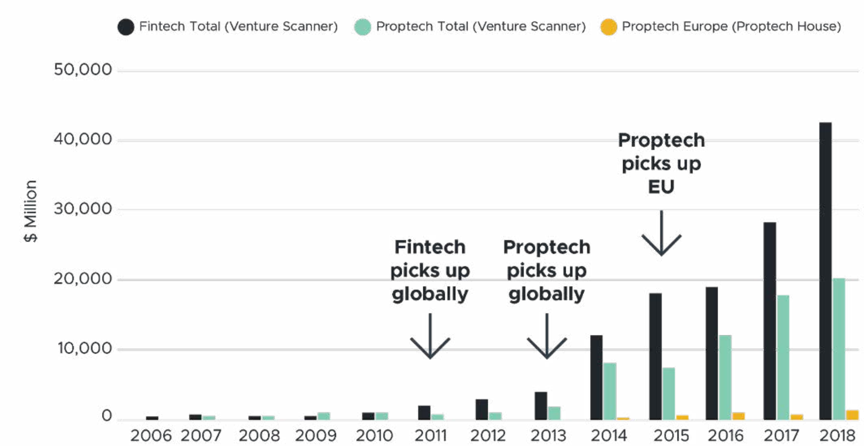
Investors' profile, and investment trends

The PropTech space is becoming a global category of investment. There is a growing amount of vertical funds (we currently track 19 of them, compared to 12 in 2019), but we also see more and more generalist VC's being active in that space. Construction and Real Estate Corporates are investing as well – opportunistically or structurally through a company based CVC investment vehicle, or as LP in an external fund. If we compare the PropTech space against FinTech, we see that the first has roughly 2 years of delay in terms of amount of capital deployed.

If we look at the amount of capital invested in EU PropTech, we see that 2019 was a record year, with almost €3 billion invested, although decreasing to €1,2 billion in 2020 – due to the economical conjecture. Comparing the EU with the rest of the world, we see that European funding represents around 8% of the global PropTech, on average year-on-year. Our predictions are that 2021 will be a record-breaking year in terms of value of capital deployed.

In our PropTech Lab we track 1622 investors who backed EU-based PropTech startups between 2018 and 2020. Although spread across the globe, the majority of European investors are located in London and Paris. Venture Capital represents half of all investors on the EU PropTech market, followed by business angels (17%) and accelerators/incubators (9%). The Corporate Venture Capitalists (CVC) and Private Equity firms are not to be neglected as they respectively represent 8% and 6%. We think that the segment of CVC will grow, as investing in PropTech becomes one of the most common real estate corporates' axes of innovation strategy.●

> SIMILAR TO FINTECH, PROPTECH CAN BE SEEN AS A MOMENTUM. THE MOMENTUM OF DIGITIZATION AND MODERNIZATION OF THE CONSTRUCTION & REAL ESTATE VALUE CHAIN.
>
> Idriss Goossens



RELEVATION, the first ever digital fundraising summit for PropTech Startups, will take place on the 23rd and 24th of June as an online event to match PropTech startups/scale-ups with investors. Speakers include: Patric Gresko (EIF), Thomas Schneider (Isomer Capital), Zain Jaffer (Bluefield Capital), Gregory Dewerpe (a/o proptech), Raimund Paetzmann (Zalando), Dave Harris Kolad (Greensoil), Jonathan Hannam (Taronga Group), Ron Schuermans (Aconterra), Kaustubh Pandya (Brick & Mortar VC).

PORTFOLIO MANAGEMENT IN THE SCOPE OF LUXEMBOURG OPPORTUNITIES

SEAN O'DRISCOLL, COUNTRY HEAD OF UNIVERSAL-INVESTMENT LUXEMBOURG IS INTERVIEWED BY LAURENT CAPOLAGHI, PRIVATE EQUITY LEADER EY LUXEMBOURG AND MEMBER OF THE EXECUTIVE COMMITTEE OF THE LPEA.

INTERVIEW by **Laurent Capolaghi**
Member of the LPEA's Executive Committee
and Private Equity Leader, EY

Laurent: Universal-Investment Group is amongst the largest independent investment companies in German-speaking Europe. The Group decided long ago to set up a subsidiary in Luxembourg: that was in the year 2000 and as such you are twice as old as LPEA. Sean - can you please tell us about your Luxembourg track record?
Sean: The decision to establish an office in Luxembourg was made as German clients increasingly requested solutions that could be best delivered through the world's second biggest fund domicile. This primarily involved Alternative Investments in a well-respected and strong regulatory environment. Since then, we have continued to evolve this way: developing our fund administration services, ManCo offerings and solutions to meet our clients' needs. In the past twenty years, we managed to increase our Assets under Administration to 85 bn Euros, of which approximately 62 per cent are allocated in Alternative Investments.

Laurent: Can you please elaborate on the assets that you are managing and the profile of the asset owner?
Sean: The Alternative Investments I mentioned are primarily managed for German - and increasingly European - institutional investors, among them pension schemes, insurers or corporates. The fact that many of our direct clients are institutional has allowed us to develop a strong expertise and understanding of their needs and requirements including fund raising capacities. Nevertheless, we are also increasingly active with asset managers not only in Europe but also in Asia and the USA.

Our significant investments since our creation allow us to cover most of the alternative asset classes: private equity, real estate, infrastructure and debt. In addition, we also offer UCITS solutions. A significant portion of our local client base in this area are fund initiators with proven track records in their local market, aiming to bring their investment strategies to a broader audience across Europe and the world.

Laurent: You mentioned your fund-raising capacity, can you please expand on this?
Sean: We are confident that distribution capabilities will become more important in the future and have thus made investments in our own abilities to connect asset managers with investors. We have developed a distribution and asset raising service model covering the DACH region and currently explore options of expanding that coverage across Europe and beyond. Our aim is to set up a one-stop distribution platform. In this sense, we have acquired a start-up called CAPinside last year. They successfully run a digital marketing and distribution platform for the investment community.

Laurent: You cover the complete range of asset classes. Which role does private equity and debt play as of today and which role do you expect it to play in the future?
Sean: Both asset classes have become major cornerstones in our asset development in the past five years. At the beginning of 2015, we managed a little less than 10 bn Euros in assets in hedge funds, private equity, private debt and securitizations in Luxembourg. This volume more than quintupled since then. Today, private equity makes up 42 percent of our assets, whereas debt structures hold about a third.

With no end in sight of the low interest rate environment, we believe that investors' appetite for private equity and private debt will continue to be strong.

Particularly private debt and loan origination has enjoyed strong growth on our platform in recent months and we think this trend will continue. Investors will continue to look for returns outside the bond segment and are going to exhaust their investment limits for real estate and alternative investments.

Laurent: There is a long-lasting debate about Luxembourg becoming a more attractive location for portfolio management teams and expanding its value chain. What is your view on this?
Sean: Luxembourg has a strong track record as a fund domicile, but for various reasons not as a portfolio management hub. Nevertheless, in the last two decades the Grand Duchy developed a great eco-system for the fund industry that can be further built on. I think the current situation in Europe offers a lot of opportunities for the location to become more attractive for portfolio management services.

> **WITH NO END IN SIGHT OF THE LOW INTEREST RATE ENVIRONMENT, WE BELIEVE THAT INVESTORS' APPETITE FOR PRIVATE EQUITY AND PRIVATE DEBT WILL CONTINUE TO BE STRONG.**
>
> Sean O'Driscoll

The Brexit will have long-term effects on the city that we are not seeing to its full extend yet. In combination with the ongoing pandemic, employees and employers will look at different options. The high standard of living that Luxembourg promises in combination with the existing structures of the financial industry is a plus. However, I think the educational infrastructure could be more targeted - I am thinking here of the London School of Economics or the Frankfurt School.

Laurent: Since 2017, you are Private Equity backed. How has this partnership impacted your business? Did it also change the culture respectively the values of Universal-Investment Group?

Sean: Indeed, our shareholder Montagu Private Equity has impacted our business quite significantly, but not in the way most people would think when they hear private equity. Montagu has significantly been investing in the further development of the group and driving the internationalization of our business. Being myself a US citizen, my appointment as Country Head of Universal-Investment Luxembourg can presumably serve as further proof of our internationalization process.

Since Montagu's engagement we have been investing significantly in our IT capabilities, we created an innovation agenda along our value chain and built up an Emerging Tech Team that analyses, evaluates and implements technology. For example, we have implemented an Artificial Intelligence and Machine Learning solution to unburden staff from manual, repetitive workload and gain in efficiency. We are also looking at the blockchain technology, which will probably have the biggest revolutionary impact on the investment industry in the next year.

Laurent: Universal has made some recent acquisitions, can you please expand on these acquisitions?

Sean: Next to organic growth, digital transformation and internalization, M&A has been an important pillar in our group's strategy. The objectives are to extend our service offerings and to enter new markets. I think we have made great progress in this area. In early 2019, we further extended our value chain by taking over UI labs, a leading IT service provider for the financial industry offering, among other services, front office solutions.

The most recent acquisitions have been CAPinside, which I mentioned, but also the acquisition of a large fund administration platform, which will allow us to offer clients solutions in Europe's three major funds hubs: Luxembourg, Frankfurt and Dublin.

Laurent: Speaking about Luxembourg, what would you consider the key differentiating factor of Luxembourg as a business place? What would you consider its key advantage and what its biggest disadvantage?

Sean: Luxembourg has had an amazing 30-year streak in the funds business, being the benchmark in terms of efficiency, pricing and time to market. However, we need to keep this focus, as the international market is increasingly competitive. What I also consider a key advantage as a business place is its diversity. As people from various countries, with multiple language skills, come and work together - there are always multiple ways to approaching a problem and finding a solution.

However, Luxembourg's biggest challenge is also tied to this aspect. Recruitment is becoming increasingly difficult as resources are scarce and the industry constantly needs to attract very skilled, knowledgeable and experienced people with specific competencies. Luxembourg is competing for ESG, alternative funds, along with risk and compliance experts. With enhanced substance requirements, introduction of the RC (responsable du contrôle du respect des obligations) and other requirements, it is not just business we are competing for, it is also skilled resources. It is thus important that both Luxembourg as a location and our firm maintain a highly attractive brand! ●

THE "NEW" CAPITAL MARKETS UNION

KEY INSIGHTS ON THE NEW ACTION PLAN OF THE EUROPEAN COMMISSION FOR THE CAPITAL MARKETS UNION.

By Julia Journée
Senior Legal Advisor
at Quintet Luxembourg

On 24 September 2020, the European Commission (the Commission) published its "new, ambitious" Capital Markets Union Action Plan. Alongside the related press releases and Q&As, the Commission is making clear from the outset that the key objectives of the Action Plan are:

- the recovery in the aftermath of the Covid-19 outbreak;
- an acceleration in the transition towards a digital, green and sustainable economy;
- the creation of a more inclusive and resilient economy and society.

"The coronavirus crisis has injected real urgency into our work to create a Capital Markets Union." stated Valdis Dombrovskis, Executive Vice-President of the Commissioners' Group on an Economy that Works for People. The strength of the economic recovery will depend crucially on "how well our capital markets function and whether people and businesses can access the investment opportunities and market financing they need." The new action plan will need to "generate massive investments to make the EU economy more sustainable, digital, inclusive and resilient" – in summary, to tackle head-on some of the remaining barriers to a true single market for capital.

In this context, the Commission has put forward 16 targeted measures to make real progress to complete the Capital Market Union (CMU).
Here are some key insights on selected main measures:

- **Securitisation**

Targeted amendments to the current regulatory framework for securitisation are envisaged to facilitate the use of securitisation as a tool in Europe's economic recovery from the Covid-19 crisis by enabling banks to improve their balance sheets and increase their lending capabilities, in particular to SMEs.

- **Listing rules**

Since public listing is too cumbersome and costly, especially for SMEs, the Commission is seeking to simplify the listing rules for public markets. This also implies, amongst other measures, a potential simplification of the market abuse regime. The goal is to promote and diversify small and innovative companies' access to funding.

- **Access to information**

To tackle the lack of accessible and comparable company data for potential cross-border investors, the Commission suggests setting up a European single access point, which will be an EU-wide platform providing seamless access to financial and

EUROPE HAS ONE OF THE HIGHEST INDIVIDUAL SAVINGS RATES IN THE WORLD. HOWEVER, THE LEVEL OF RETAIL INVESTOR PARTICIPATION IN CAPITAL MARKETS REMAINS VERY LOW COMPARED TO OTHER ECONOMIES.

Julia Journée

sustainability-related company information.

- **Insolvency proceedings**

In order to achieve a genuine European single capital market and to counter the economic impact of Covid-19 on SMEs, one of the proposed solutions is to make the outcome of cross-border investment more predictable as regards insolvency proceedings. During her hearing at the European Parliament on 2 October 2020, Mairead McGuiness, commissioner-designate financial services, financial stability and the CMU, highlighted that "very important progress towards greater convergence of insolvency proceedings" can still be made. This is envisaged for Q2 2022.

- **Systematize the redirection of declined SME credit applications to alternative funding solutions**

To support and enhance the accessibility to funding for SMEs, the Commission is committed to assessing the feasibility of setting up a referral scheme that would require banks to direct SMEs whose credit application they have declined to providers of alternative funding.

- **Shareholder engagement**

In the aftermath of the Shareholder Rights Directive 2 (SRD 2), the Commission will examine whether any national regulatory roadblocks remain to the use of new digital technologies that could accelerate communication between intermediaries, issuers and shareholders.

- **Enhanced single rulebook for capital markets**

The Commission will work towards an enhanced single rulebook for capital markets by assessing the need for further harmonisation of EU rules to achieve truly integrated and convergent supervision. According to the Commission, this is an essential condition for the well-functioning CMU and it is particularly relevant in a post-Brexit world with multiple financial centers across the EU.

- **Improving financial literacy**

Considering that financial literacy is essential for effective and sound investment decisions and that retail investors should be appropriately shielded from the complexities of financial systems, the Commission intends to launch a European financial competence framework. It will also take measures to promote financial education amongst the Member States.

- **Incentivize use of European Long-Term Investments Funds (ELTIFs)**

Compared to the initial CMU action plan in 2015, the new action plan also launches an interesting debate on the future of long-term investments. Europe has one of the highest individual savings rates in the world. However, the level of retail investor participation in capital markets remains very low compared to other economies. In addition, the first lockdown has confirmed this trend as savings on accounts with low yield have drastically increased. This deprives EU companies, and the EU economy in general, of much needed long-term investment. According to Fabrice Demarigny, Chairman of the Next CMU High-level Expert Group, "the clear intention to reform European Long-Term Investments Funds (ELTIFs), to make them more accessible and likely to be invested in equities, not only on regulated markets but also in private equity funds in a broader sense, is very welcome".
The measures will now be implemented in legislative proposals which will be published within the next 12 to 18 months to allow the European Parliament to adopt them before the end of its mandate (May 2024). ●

Women Special: Private Equity on High Heels

© DR

SUPPORTING FEMALE TALENT IN INTERNATIONAL LAW FIRMS – A PERSONAL EXPERIENCE

By **Florence Forster**
Managing Associate,
Linklaters Luxembourg

According to both internal and external research (e.g. the PWC Law Firm Survey 2018), more than 55 % of the lawyers recruited by international law firms are female, but more than 80% of the partners are male. In some countries, like Germany, the ratio is even more striking with only 1 in 10 partners a female.

In light of these figures, law firms have initiated specific programmes to support women in their career aspirations. One of these is the *Women's Leadership Programme* at Linklaters, in which I am currently enrolled.

I am a Managing Associate in the Corporate Department at Linklaters Luxembourg, successfully advising Private Equity clients. I have always been interested in international and cross-border business relations and - after studying in Germany, France and the US - have been admitted to the bar in Paris, New York and Luxembourg. Like most of my fellow female associates (87%), I kept working full time after welcoming my kids in 2013 and 2019, juggling the joys and challenges of parenthood with those of my career. And it was when I came back from my second maternity leave that I felt ready for the next step in my career. But what I didn't know was: how was I to approach this best?

It is telling that I still vividly remember my male fellow law students at the time of our graduation announcing their goal of becoming a partner in a major law firm – at a time when for me, being hired as an associate in an international law firm was all I aspired to.

Let me introduce you to the programme!

And now, here I am - part of the *Women's Leadership Programme*, which was introduced in 2012 to develop and retain talented female managing associates and ultimately grow the population of female partners.

TAKE TIME TO THINK ABOUT YOUR CAREER: LOOK FOR YOUR UNIQUE SELLING POINT, WHAT KIND OF CAREER YOU WANT AND HOW YOU WANT CLIENTS AND COLLEAGUES TO PERCEIVE YOU.

Florence Forster

The programme includes:

- a series of trainings on key topics such as obtaining feedback, strategic networking, external perspective and image management,
- coaching by an external coach,
- monthly calls with a dedicated "development" partner,
- networking within the cohort.

A strict application process must be passed and every year approximately 30 female lawyers out of approximately 300 female managing associates working in different Linklaters offices in Europe, the US and Asia are accepted. The programme runs for a 9-month period, beginning in June. Participants are gathered in coaching groups of 5 lawyers to share their knowledge and develop career plans. A unique feature of the programme is the "development" partner – these are volunteers who, although they do not know the lawyer they're matched with, understand the workings of the firm and are able to give advice, support and guidance during their relationship.

How do I experience the programme?

Due to the Covid-19 pandemic the 2020/2021 programme has been organised fully virtually. Webinars on topics such as "Seeking Feedback", "Networking", "Image Management" and "Business Development" have been particularly helpful.

I attend monthly coaching sessions with an external coach together with four other managing associates working in the London, New York and Lisbon offices. They helped me realise that my female peers were facing similar challenges and situations. It is extremely helpful to brainstorm, exchange ideas and support each other in these sessions.

The discussions with my development partner have proven extremely valuable. He answers all my questions sincerely and provides me with very transparent views of the career paths at the firm. The development partner working in a different office and a different practice helps to talk openly. My development partner regularly challenges me with questions, putting me in a position to make decisions and – more importantly – vocalize them. Moreover, he advises me how partners see and value things, what are the "Dos" and "Don'ts".

From my perspective, this relationship is the most valuable part of the programme, giving me confidence in proceeding with my career aspirations, going step by step and taking things in my own hands. ●

KEY TAKE-AWAYS

Take time to think about your career: look for your unique selling point, what kind of career you want and how you want clients and colleagues to perceive you.

Set objectives and vocalize them: set objectives and vocalize your ambitions.

Talk to the partners: talk to partners frequently and openly. Discuss your career aspirations, assess your opportunities and monitor your progress. Don't be shy.

Seek feedback: actively seek for feedback. Ask for it regularly and ask for specific feedback. It is extremely valuable and gives you new energy and perspective. It pushes you to continuously improve but also helps seeing successes. It will make you stronger to develop your own brand.

Women Special: Private Equity on High Heels

SEIZE OPPORTUNITIES, LEARN AND DISCOVER

By Vanessa Camilleri
Head of AIFM, Conducting Officer,
Partners Group (Luxembourg) S.A.

I vividly recall my first day in the office in picturesque Guernsey, way back in September 2006! I had just landed a job in the Partners Group legal and transactions team and I was beyond elated. At the time, Partners Group was much smaller than we are nowadays. I believe I was employee no. 160. Today we count in excess of 1,500 employees.
Partners Group being a dynamic and fast paced environment, I was quickly exposed to different types of asset classes and a myriad of transactions. I suppose one of the first challenges was adapting to being an in-house lawyer, where one is part of the decision-making process and not an advisor with an outside view. Despite the challenges and the steep J-curve, I thoroughly enjoyed the solutions-oriented environment and the camaraderie with the investment teams. Solutions, wanting to better things and working together remains one of the hallmarks of Partners Group.

Over time, I wanted to expand my role, broaden my horizons and learn about other aspects of the organisation. I was entrusted with various responsibilities throughout the years, such as acting as director on some of our Partners Group entities, building an in-house depositary business and heading the Luxembourg AIFM. This helped understand the value chain and join the dots. This not only expanded my horizons and equipped me with further experience to see the broader picture, but it also enabled me to grow on the professional and personal front.

What have I learnt throughout the years and what would my tips be?

As always, I think, what is key is for one to do what one is passionate about. It is also fundamental that what one does gives a person purpose in life. For instance, knowing that Partners Group is fulfilling the dreams of retirees, through delivering sustainable returns to our pension scheme clients, or creating jobs through our portfolio companies, humbles me and drives me to continue delivering my best.

Also, seize every opportunity to learn and to discover new things. Stay curious! Be humble to accept what you don't know, accept what you need to improve and work hard on developing. Speak to your colleagues, help them out in true team spirit and work towards a common objective. Not only is there pride in achieving together, there is also joy in sharing the success with others. Lastly, do not fear challenge or plunging into non-comfort zones: we grow professionally and personally through stretch assignments. Go for them! ●

AS ALWAYS, I THINK, WHAT IS KEY IS FOR ONE TO DO WHAT ONE IS PASSIONATE ABOUT. IT IS ALSO FUNDAMENTAL THAT WHAT ONE DOES GIVES A PERSON PURPOSE IN LIFE.

Vanessa Camilleri

SURVIVAL KIT FOR A WOMAN IN A MALE INDUSTRY

By Anja Grenner
Head of Sales Fund Services Luxembourg
at TMF Group

This is a male dominated industry. It has been for centuries in every country. And there has been little change since I started to work in this industry 28 years ago. To whichever conference I may go, whichever client I may see, the top positions are occupied by men. 28 years ago and today. That is reality.

Now, I don't have the perfect recipe for how to make a career as a woman opposed to a man and this is also not a cookbook. But over the years there have a couple of lessons that I learned – some more entertaining, some a bit more painful. So here's now a few that worked for me:

1. Be simply better than your male counterpart – which means in this industry in particular – technically better. You should be able to answer at least 95% of all questions on the spot that potential or existing clients may have – no matter how technical. Today that also means being able to answer questions about systems, systems architecture, security etc. If a woman can answer those questions, it gains the respect of clients.
2. Have confidence in yourself. You can do it – don't ask yourself the question if you can do it – just do it. If you think you don't have the skills at the moment: by the time you start a new job you can develop them. The other (male) candidates will likely say yes too, probably with as much or little knowledge as you. But they will go for it, assuming that they will learn on the job. Women put themselves too much into question.
3. And if it goes wrong, don't take it personally. Women tend to start a self-analysis what they did wrong, while men often – maybe as a self-defense mechanism – find external factors responsible for a failure. So, yes, do the analysis but then try it again, like most men do. Developing a teflon skin helps standing up and doing it again, don't be intimidated. For me also the main reason why there are so few women entrepreneurs...
4. Develop smarter relationships. If you want to get something or somewhere, and you are falling on deaf ears, find yourself some allies. Don't give up. It can take a bit longer to drill holes as a woman. Networking also works for women, you don't have to join your colleague's beer evenings.
5. Learn to be assertive and learn the difference between this and aggression. Even if you are not a boxer, sometimes do make use of your elbows. Not that this should be a standard weapon but sometimes some people just do not get it. If you really want something, say that you want it, professionally but assertively. Give reasons why you think you should get it and nobody else. If you don't, likely that someone else will.
6. Think twice before you get emotional. For example: you are being consistently ignored in meetings though you have the better ideas, you actually voice them but your boss does not listen – but when somebody else – male obviously – reformulates your idea and your boss finds it a fantastic idea... what do you do? Remain silent and start a fight or send a nasty mail to your colleague afterwards, send a mail to your boss that this was your idea and not the one of your colleague? These things happen again and again. I still haven't found the perfect answer how to handle people that do not take you seriously as a woman but the solution for sure is not becoming over-emotional (speak: freaking out or getting frustrating and giving up). Unfortunately, this simply fits the male stereotype that we are fighting against.
7. Be clear on your goals and set your standards higher than simply "doing a good job". Women often subconsciously expect recognition for softer skills – things which often go unnoticed and don't affect the company's bottom line. Defining more clearly what you want to achieve and how this will benefit the business will naturally lead you to demonstrating the right skills to get you noticed and get to where you want to be.

I love working with particularly younger women. I have always tried to give them the feeling that they can do it too. But I also like it if I am the only woman in a crowd of men, which is fortunate – because mostly I am! ●

DEVELOP SMARTER RELATIONSHIPS. IF YOU WANT TO GET SOMETHING OR SOMEWHERE, AND YOU ARE FALLING ON DEAF EARS, FIND YOURSELF SOME ALLIES. DON'T GIVE UP.

Anja Grenner

Women Special: Private Equity on High Heels

DIVERSITY IS IMPORTANT FOR A BUSINESS TO FLOURISH

By Daniela Klasen-Martin
Group Head of Management Company Services, Managing Director at Crestbridge

I started my career in 1991 in the automotive business as a financial controller, working in Stockholm and Paris before moving to Luxembourg in 1997. I spent nearly 10 years working for Schroders where I was head of finance and a member of the executive committee. In 2006 I moved from Schroders to The Directors Office as CEO and joined Crestbridge in 2010 to set-up the Luxembourg office and third party ManCo services.

I have always worked in a predominantly male environment, the automotive business forced me to set the boundaries early on. As a woman, this is an important and subtle process, it is something you portray in your demeanour and behaviour as opposed to in direct statements. There is a certain amount of confidence involved, you need to be able to show that you are unimpressed with any kind of dominant behaviour and that you can stand up for yourself.

I had to show that I was ambitious and competitive. Whether through nature or nurture, competitiveness seems to be more natural or engrained in men. I had to prove that I was just as ambitious, if not more so, than my male colleagues and ensure that I was considered and respected.

I have always been very ambitious and pushed frequently for new challenges and progression. I think that women work very hard to provide quality but seldom ask for reward. You need to believe in yourself and you shouldn't be shy to ask for things that you want.

I would also advise finding a mentor. I have never had a mentor but I had a few bosses that directly or indirectly led me to progress. I had one boss that was key for me, he was very charismatic and convinced me to take a new challenge, which was determinative for my career. He was known for being difficult, though once you had gained his respect he would push you to the next step. I learned from him how to be tough and not to be afraid to speak out.

Finally, I would stress that though women can learn from some male behaviours, they should keep their own style. Diversity is important for a business to flourish. When I came back to work after having my first child I was repeatedly asked by my boss if I was sure I didn't want to work part time. I found that very disturbing and I made it clear that I didn't. It has happened that when I walk into a meeting with a male colleague the other men in the room naturally assume that my colleague is the boss, not me. I generally take that with humour. In all cases it is important to make your position clear. ●

I WOULD STRESS THAT THOUGH WOMEN CAN LEARN FROM SOME MALE BEHAVIOURS, THEY SHOULD KEEP THEIR OWN STYLE. DIVERSITY IS IMPORTANT FOR A BUSINESS TO FLOURISH.

Daniela Klasen-Martin

WALKING ON THE EDGE TO "HAVE IT ALL"

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By Catherine Pogorzelski
Country Managing Partner - DLA Piper Luxembourg

I generally don't like to talk about myself and even less so in relation to 'success'. What is 'success', after all? Success may be one sided and short lived and will typically be sequenced. I would rather discuss gender equality, broader access of women to still men-oriented fields of work and diversity (be it gender, cultural or cognitive) as successes with long lasting effects. These topics are much closer to my vision of leadership.

As far as I can remember, I always wanted to 'have it all'. Early on I had a clear sense of what I wanted to achieve and I was ready to work hard to make it possible. I actually never took as role models, women who made the career choice to the detriment of their personal and family life. It was simply not me - and I also believe that there is no need to do so - but instead I knew that finding the right partner to both encourage me and to share the burden was an essential part of the plan. I found that partner and we work collaboratively as a team at home as I do with my colleagues at work.

As a teenager I was hooked up to horseback riding and jumping in particular. This is a discipline that requires hard work, resilience, humility and even courage. Today, I rely on my ability to look ahead and focus on long-term goals without being distracted or afraid of potential short-term challenges that inevitably arise on the way. Also, I force myself not to be distracted by the famous imposter syndrome - no time nor energy to waste on that! However I push myself too much and too far at times and I find myself walking on the edge. This is when I take a step back to consider and reflect on the situation. Sometimes for hours and days...

When back on track, I aim to do well and to be fair quite intuitively; combined with a forward looking mindset and my ability not to stick to difficulties and struggles, not to be resentful or ruminate have proven really useful on my career path. That being said, I would not consider myself as being overly positive nor deprived of any self-doubts. Just being able to go through career life frustrations as something normal but which has no power to hold me back. After all, you need to keep your mind open to seize opportunities which in turns allow me to stay open to others and to connect easily. Interactions thus nourish me and allow me to recharge.

Also, I don't really believe in feminine or masculine traits or any kind of such categorisation which I find dangerous insofar as they have no scientifically evidenced foundations and certainly have the power of crystallizing socially-built differences. I just believe in the power of being fully myself with all my diversity and complexity. This means that I have the right to fail, the right to be stressed and I can be (very) difficult to deal with at times. When I follow my instinct I want to grow, learn, discover and get surprised and finally embrace this 'who I am' in an intuitive way without trying to fit artificially in a norm or a model that would by nature not fit me.

Enough said about me and my inner beliefs. Referring to Elena Morrissey's book I fully concur with her that it's 'a good time to be a girl'. ●

ANYTHING MAY HAPPEN WHEN WOMANHOOD HAS CEASED TO BE A PROTECTED OCCUPATION.

Virginia Woolf, A Room of One's Own

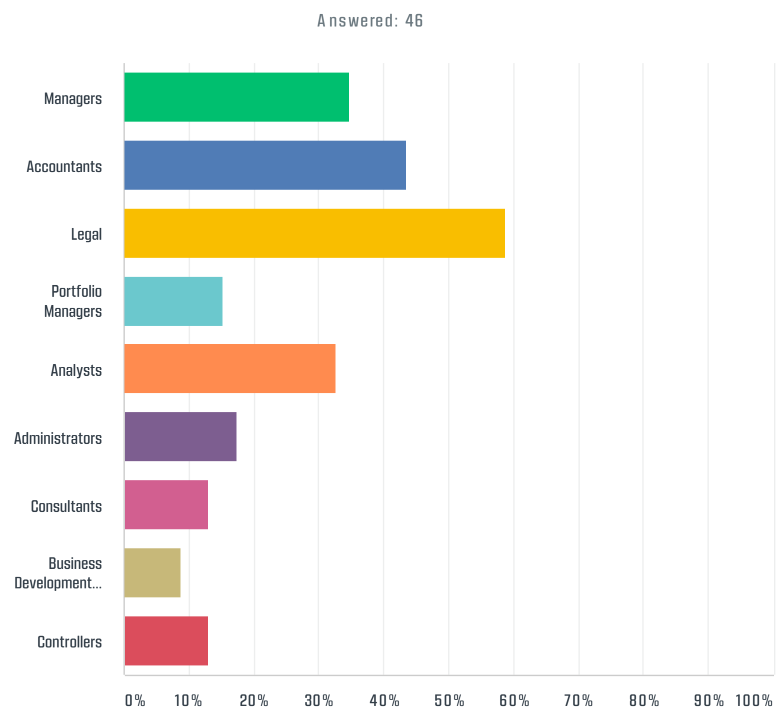
PRIVATE EQUITY:

HR TRENDS IN LUXEMBOURG

THE HR CLUB STARTED AT THE END OF 2020 IN ORDER TO LOOK AT THE MAIN HR TRENDS IN PE. IT CONDUCTED A SURVEY DURING THE E-NSIGHTS CONFERENCE IN NOVEMBER 2020 TO FIND OUT WHAT HAS CHANGED IN LUXEMBOURG MARKET REQUIREMENTS AND WHAT PROFILES ARE THE MOST DESIRED BY FIRMS OPERATING IN PRIVATE EQUITY.

By Lindie Fourie
Managing Director Sanne Group Luxembourg S.A. and Co-Chair of the LPEA HR Club

In recent years leading up to Brexit, Luxembourg has focused on domestic grow through training, programs such as the Luxembourg School of Finance and LPEA Academy. It is surprising to note that over the course of 2020, demand has increased for Analysts, Risk and Portfolio Management specialists. Accountants and Legal professionals still remain the front runners, yet we see more demand for senior experienced candidates compared to previous years. As many GPs have moved onshore into Luxembourg with their own offices and presence in the market to attract European Investors, the market is moving toward being more of a middle/front office than the old image of solely being a back-office jurisdiction.



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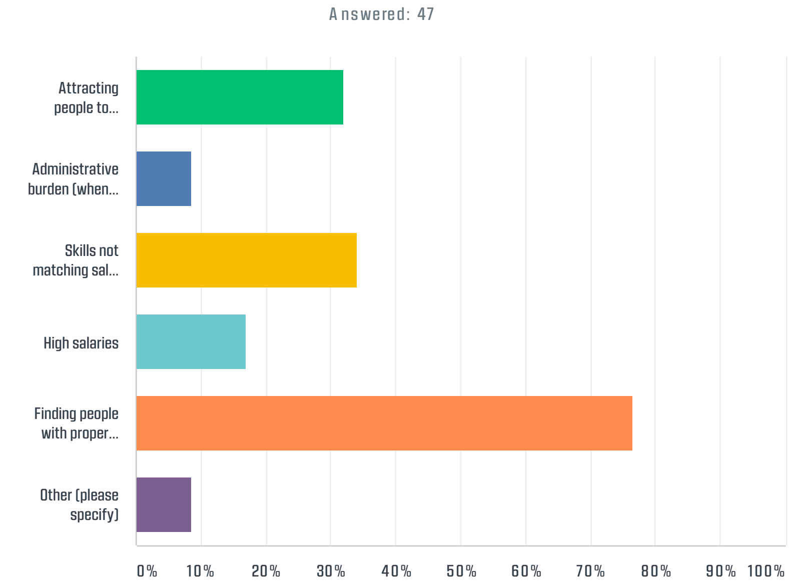
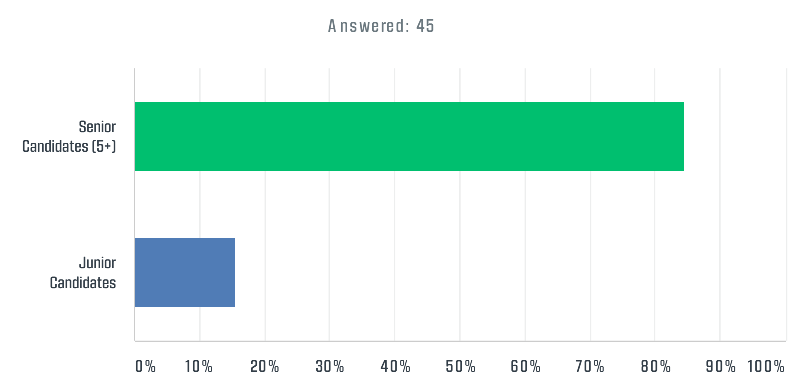


THE SURVEY CONCLUDED THAT 85% OF THE PARTICIPANTS HAVE TROUBLE IN FINDING SENIOR CANDIDATES.

Lindie Fourie

However, the survey concluded that 85% of the participants have trouble in finding senior candidates (5+ years of experience) in these fields. The feedback shows that senior candidates available in the market do not have the required skills for the current PE industry needs, be it related to industry knowledge (UCITS experience vs PE) or the experience itself (Back office vs Front office). This would mean that an initiative in the cross-training of seniors in Private Equity such as offered by the LPEA Academy will be key. Employers should thus consider onboarding candidates that do not match all their requirements in the short term and go through specialized programs/academies to train their staff.



Luxembourg and its surrounding areas have numerous experienced profiles that have transferable skills but, perhaps, lack, a certain topic knowledge or have never worked in Alternative Asset Classes such as Private Equity. This is still where many of the candidates are sourced, but to find experienced candidates should we go further afield? (recruiting abroad, getting more visibility to attract relevant applicants) or should we try not to grow, but convert candidates to provide for an evolving market? Indeed, many companies have already outsourced part of their back office activities to lower-cost locations, training former back office profiles on the current PE needs (front and middle office) would enable both companies and employees to convert and adapt to an evolving market. All of the above options are viable, it is down to the firms in Luxembourg to make that investment with the support of government and organisations such as LPEA.

These are some of the items the Club will be focusing on in 2021 and your feedback on what you would like to see Luxembourg become or ideas on how we can attract the proper candidates, feel free to join the HR Club. We will provide an update at the end of the year outlining the trends in Luxembourg and compare it with our current outlook.

To add more about the HR Club at LPEA, we are representatives of the members of LPEA from client facing, legal, consulting and HR professional backgrounds with a focus on how we can promote Luxembourg as a work destination of choice by focusing on what would attract candidates to Luxembourg. Its Finance environment, the type of roles on offer, training and development opportunities and in turn asking the important question... Is it work-life balance? And how does that compare to compensation? If you are interested in participating in this discussion on how to attract more professionals to Luxembourg and Private equity, please join the HR Club. ●

SUBSTANCE SURVEY:

PRIVATE EQUITY AIFM LICENCES ON THE RISE

By Christophe Diricks
Head of Alternative Investments, KPMG Luxembourg

Luxembourg AIFM licenses in the private equity sector: an escalating trend

For more than two decades, private equity houses have adopted Luxembourg as a regional investment platform, mainly setting up holding and financing special purpose vehicles (SPVs). And, since the SCSp and the RAIF were introduced in 2013 and 2016 respectively, they have started setting up their funds in Luxembourg as well.

The 2020 edition of KPMG Luxembourg's Substance Survey aims to provide a window into asset managers with a footprint in Luxembourg. For this third edition, 65 alternative investment asset managers were interviewed, allowing us to identify dynamic trends by comparing the results with previous editions.

Today, almost 80% of the alternative investment asset managers surveyed have an investment fund in Luxembourg. And, because of Brexit, they are establishing their AIFM platform in the Grand Duchy as well.

Private equity managers' offices in Luxembourg: what's the trend?

The percentage of alternative investment asset managers with an AIFM license in Luxembourg has doubled in a year. Compared to last year's edition, the 2020 Substance Survey shows a dramatic jump in asset managers securing the license — from around 30 to 60% of those surveyed.

Without a doubt, Brexit is a major catalyst for this license boom. In 2019, only 40 percent of UK-headquartered asset managers held an AIFM license in the EU, let alone Luxembourg. The large majority were playing the "private placement regime" card, generally locating their funds and management companies in the Channel Islands. The foreseen shift was finally realized in 2020, escalating the percentage of UK-headquartered asset managers with an AIFM license to 80%. And, Luxembourg is now their preferred location — 70% have their license here.

How does this trend change the organization of the office?

This trend has inflated the usual headcount of an asset manager's Luxembourg office. Last year's results already showed a surge in the number of workers performing middle-office functions within private equity firms' Luxembourg offices; for example, AIFM conducting officers or asset and portfolio managers.

This trend has strengthened in this year's results, and it will come as no surprise that the population of AIFM conducting officers is growing faster than any other. In turn, the number of administrative staff has also increased, with AIFM conducting officers requiring administrative support.

We expect this staff expansion to continue, as Luxembourg private equity and real estate firms plan to take on more people to support their AIFM functions this year — two-thirds of those surveyed expect to onboard an average of two people over the next six months.

To what extent does a Luxembourg AIFM license affect substance confidence?

Luxembourg's shift from a holding location for SPVs to a locality for regulatory units also reinforces the idea of the regional investment platform, where a pool of regional investments is managed as depicted in the OECD Principal Purpose Test's draft examples[1]. When an asset manager launches Luxembourgish funds supervised by a Luxembourg-based AIFM, a foreign tax authority can find it challenging to demonstrate that one of the principal purposes was to obtain tax benefits.

As a result, the asset managers surveyed are more confident in their level of substance — rising from 50 to 80% in this year's survey.

Explore the results of The Private Equity and Real Estate Substance Survey.

> 70 PERCENT OF REAL ESTATE ASSET MANAGERS SURVEYED HAVE A LUXEMBOURG AIFM LICENSE, THIS FIGURE IS ONLY 36 PERCENT IN THE PRIVATE EQUITY SECTOR.
>
> Christophe Diricks

Is Luxembourg the hub for all types of asset classes?

While the overall number of asset managers with a Luxembourg AIFM has rocketed, to grasp the full picture, it is necessary to dive a little deeper into the types of AIFM licenses requested in Luxembourg.

Private equity investors and managers have a strong preference for unregulated partnerships: 75% of Luxembourg private equity funds are established as unregulated SCSps, but these only represent 10 percent of all real estate funds created in Luxembourg. Real estate investors have generally favored regulated (SIF) or supervised vehicles (RAIF).

Unsurprisingly therefore, while almost 70 percent of real estate asset managers surveyed have a Luxembourg AIFM license, this figure is only 36 percent in the private equity sector. However, even though private equity players' appetite for Luxembourg AIFMs isn't as strong as real estate players', it is nevertheless growing. And, we can expect this trend to continue over the coming years for two reasons.

- Firstly, the number of private equity asset managers without an AIFM license in the EU is still significant, i.e. 43% of the population interviewed for this survey. And, while unregulated SCSps are the most common form of funds in the private equity sector, the weight of SIF, RAIF and SICARs in the Luxembourg private equity fund landscape isn't unsubstantial.
- Secondly, Luxembourg is best in class for hosting AIFM licenses for several reasons, including its proximity to EU investments due to its central location, as well as a highly qualified workforce with seasoned expertise in the alternative investment industry. Luxembourg is more than just a candidate for the setup of an AIFM.

This growing trend will continue to fuel the need for resources. The Grand Duchy will need to play a key role in providing high-quality education in the fields of risk and asset management, as it seems Luxembourg AIFMs are currently encountering hiring challenges due to a lack of a specialized workforce in these fields.

If you would like to learn more about our survey, please explore our dedicated website. ●

1. BEPS Action 6 – Examples on treaty entitlement of non-CIV funds, 3 February 2017

PRIVATE EQUITY INSIGHT/OUT #17

TAX CIRCULAR ON INTEREST LIMITATION RULE: KEY TAKEAWAYS FOR PE AND VC PLAYERS

ON 8 JANUARY 2021, THE LUXEMBOURG TAX AUTHORITIES RELEASED THE CIRCULAR LITL N°168BIS/1 (THE "CIRCULAR") WITH RESPECT TO THE INTEREST LIMITATION RULE INTRODUCED IN THE LUXEMBOURG INCOME TAX LAW ("LITL") THROUGH THE LAW OF 21 DECEMBER 2018 ("ATAD LAW").

By **Pierre-Régis Dukmedjian**
Partner, Simmons & Simmons Luxembourg LLP

and **Nadejda Girleanu**
Managing Associate, Simmons & Simmons Luxembourg LLP

and **Eléonore Delville**
Associate, Simmons & Simmons Luxembourg LLP

As a reminder, under article 168bis LITL, tax deductions for exceeding borrowing cost are limited to 30% of the fiscal Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") or up to an amount of €3,000,000, whichever is higher. In other words, the taxpayer whose exceeding borrowing costs do not exceed €3,000,000 can deduct said costs without any limitation.

These rules are of importance for private equity funds which regularly finance their investments by using debt financing.

The Circular confirms that such interest limitation rule (the "Rule") does not make any differences between borrowing costs contracted domestically, at a EU Member State or third country level. Further clarifications provided by the Circular are detailed below.

The concept of Borrowing costs

According to the Circular, 'borrowing costs' are divided into three categories:

(i) interest expense on any type of debt;
(ii) other costs economically equivalent to interest; and
(iii) expenses borne in the context of financing.

Only borrowing costs that are tax deductible should be considered to determine the exceeding borrowing costs. Hence, it should be first checked if any tax provision other than the one provided by the Rule could lead to a total or partial denial of the tax deductibility of an expense. In short, if an expense based on this analysis is not tax deductible, the latter cannot be considered as a borrowing cost.

It is as well important to note that any transfer pricing adjustment in relation to borrowing costs should be taken into account for the application of the Rule.

While interest expenses are defined in the ATAD Law, interest income remained unaddressed. The Luxembourg tax administration takes the position that a symmetrical approach should be taken, i.e. interest and other income economically equivalent to interest should constitute the counterpart of the borrowing costs as defined by the ATAD Law.

Fiscal EBITDA

The taxpayer's EBITDA is equal to the total net income increased by the exceeding borrowing costs, amortisations and deductions for depreciation calculated. The Circular specifies that the exempt income of the taxpayer should not be taken into account for the determination of its fiscal EBITDA.

Grandfathering clause (June 17, 2016)

The Rule provides for a grandfathering clause covering loans contracted by companies before 17 June 2016, to the extent that the terms and conditions of such loans remain unchanged from 17 June 2016. It follows that in the event of a subsequent modification in a loan after 17 June 2016, the grandfathering clause will only apply to the initial terms and conditions of the loan as they were set before that date.

In principle, the following changes, which are not exhaustive, should not to be considered as a subsequent modification of a loan concluded before 17 June 2016:

- modification of the term of the loan as of 17 June 2016, where such modification was contractually foreseen before 17 June 2016 and does not require the agreement of the parties concerned, but arises from the implementation of the loan;
- modification of the interest rate or the calculation of interest from 17 June 2016, when such modification was contractually foreseen before 17 June 2016;

ONLY BORROWING COSTS THAT ARE TAX DEDUCTIBLE SHOULD BE CONSIDERED TO DETERMINE THE EXCEEDING BORROWING COSTS.

- draw-downs from a credit line from 17 June 2016 under a credit agreement entered into prior to 17 June 2016 in accordance with the terms and conditions of this agreement and in particular up to the maximum amount of credit provided before 17 June 2016;
- transfer to Luxembourg of the registered office or central administration of an entity that is a party to a loan entered into prior to 17 June 2016 without being any modification of the terms and conditions of the loan.

Long-term public infrastructure projects

The Circular provides some details with respect to the public infrastructure projects for which, under conditions, exceeding borrowing costs are out of the scope of the Rule.

Precisions on financial undertakings and participations in tax transparent entities

A financial undertaking should not fall within the scope of the Rule. Companies which are not regulated by a European Directive or Regulation are not covered by this definition, except for the investment company in risk capital (known as "SICAR").

Finally, the Circular provides that where the Rule applies to a taxpayer who holds a participation in a transparent entity for tax purposes, whatever the nature of the activities carried out by such entity, the taxpayer realises in proportion to the fraction held in this entity, the deductible borrowing costs, taxable interest income and other taxable income economically equivalent of that entity.

Although some points might remain open, the Circular gives useful insights for PE and VC players on the application of the Rule. Taxpayers should ensure that they are up to date with the new clarifications provided by the tax administration, as it could have an impact for fiscal year starting as from 1 January 2019. ●

SUSTAINABLE: TO BE OR NOT TO BE, THE SFDR DILEMMA

ONLY A FEW WEEKS TO GO BEFORE THE SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR) IMPLEMENTATION DEADLINE, 10 MARCH 2021 AND MANY PLAYERS STILL BALANCE ON HOW TO CATEGORIZE THEIR AIF'S: NEUTRAL, ESG (SFDR ARTICLE 8) OR SUSTAINABLE (SFDR ARTICLE 9)?

By **Nathalie Dogniez**
AWM EMEA ESG leader, PwC

This decision has a key strategic dimension, when 77% of European Institutional investors intend to stop investing in non-ESG fund. In that context, the implications of the choice for the neutral classification (neither article 8 nor article 9) needs to be carefully assessed, gauging the impact of the potential misalignment between the AIF classification under SFDR with the investor's own choices. Funds choosing to be considered as "neutral" will need to ensure that their marketing documentation is consistent with such neutrality choice, refraining to overly communicate on ESG characteristics or attributes of the investments (in other term, refraining to communicate in a way that could create the impression that the fund select investment based on ESG characteristics). And reducing ESG communication could reveal counterproductive when investors increasingly favor ESG.

But on the other hand, compliance officers (rightly) argue that, as the detailed disclosure requirements under article 8 or 9 are not yet finalized (and will not be finalized ahead of 10 March 2021), committing to article 8 or 9 equates to signing a blank check, i.e. committing to disclosure rules not yet known. Here again, careful tradeoff is to be made between eagerness, or not, to report on ESG matter and investors ESG appetite. Hence, the "neutral" choice may appear the safer choice, aligning to the "business as usual" safe harbor. But SFDR article 6 is not business as usual for all funds, as it requires assessing and disclosing impact of sustainability risks, i.e. ESG risks that could have a material impact on the value of the investments. Contrary to the approach prevailing in the past where sustainability consideration was frequently contrasted with the managers fiduciary duty to focus primary on financial performance, integration of material sustainability risks is now considered as part of managers fiduciary duties. Managers are required to assess such risks to determine which ones are relevant and be transparent in their PPM on their assessment and policies thereof.

Shall all the AIF's update their PPM in order to reflect the new sustainability risks disclosures? SFDR, being a high level cross sectorial regulation, just refer to the broader definition of AIF and AIFM's, raising the question whether registered AIFM and non-EU AIFM, and their funds, are under the scope. This question remains open, as highlighted in a letter sent by the European regulators to the European Commission, urging for rapid clarification as the implementation deadline is approaching. And what about the closed AIFS, shall they be required to update their PPM when they are not marketed anymore? In the absence of grandfathering close in the regulation, market participants seem to agree that updating sales documents of funds not marketed anymore would not make sense. One shall nevertheless remember that SFDR is not just about being transparent at the point of sale but also , for article 8 and article 9 funds, throughout the fund life cycle, as it requires reporting on the actual outcome of the sustainability policies implemented through website and periodic reports.

In that context, another question that is often raised is "what are the minimum requirements for a fund ESG approach to be considered as compliant with SFDR article 8"? Similarly to the fact that there has never been an ESG-compliant concept (as there are many ways in integrating and considering ESG as many managers managing funds sustainably), SFDR

MANAGERS WHO WILL HAVE SUCCESSFULLY ACCOMPANIED THEIR PORTFOLIO COMPANIES IN REPORTING AN INCREASED LEVEL OF ALIGNMENT WITH THE TAXONOMY THRESHOLDS WILL CERTAINLY INCREASE THEIR EXIT STRATEGY SUCCESS.

Nathalie Dogniez

is a disclosure or transparency regulation, not a compliance regulation: the objective being to avoid greenwashing, that a fund would claim to be sustainable when in fact its ESG process is really light, or at the sole discretion of the manager, with little or no measurable impact on the decisions being made. In other term, the triggering factor is how the fund is being promoted rather than how it is invested. But as soon as a fund promote environmental or social characteristics, full transparency over the process implemented, results thereof and investments KPIs shall be provided in the PPM, website and annual report.

If the fund claims to be sustainable (article 9), it shall then be transparent on the environmental or social objectives pursued, the positive impact generated as well as the process implemented to ensure that the investment does not significant harm other environ-

FUNDS CLAIMING TO PURSUE SOCIAL OBJECTIVES WILL, FOR THE TIME BEING, HAVE TO DEVELOP AND COMMUNICATE ON THEIR OWN ASSESSMENT METHODOLOGY.

Nathalie Dogniez

mental or social objectives. Funds claiming to pursue social objectives will, for the time being, have to develop and communicate on their own assessment methodology but those pursuing environmental objectives will be able to leverage the set of rules developed under the EU taxonomy on environmentally sustainable activities.

The regulation establishes a common framework of technical screening criteria, combined with negative assessment criteria (DNSH) to determine when an activity, including certain transitioning sectors and enabling activities, is environmentally sustainable.

The first set of rules, addressing climate change challenges, have been exposed for consultation in December 2020, with a view of being adopted in 2021 and implemented from 1 January 2022. Article 8 and article 9 funds will be required to be transparent on their alignment with the taxonomy. As the work to complete the taxonomy framework will continue in 2021, we expect that the degree of taxonomy alignment will progressively become the benchmark to compare the greenness of funds. But the use case of the taxonomy will not be limited to funds and financial products: large listed companies, asset managers, banks and insurance companies will be also required to disclose the degree of alignment of their operations and books of business with the taxonomy framework. As the Taxonomy will become over time the environmental KPI in Europe, companies demonstrating high degree of alignment are expected to get easier access to financing. And managers who will have successfully accompanied their portfolio companies in reporting an increased level of alignment with the taxonomy thresholds will certainly increase their exit strategy success.
The last strategy question managers shall be addressing now is in relation with principal adverse on sustainability factors (PAI), i.e. policies to consider negative environmental and social impacts of the companies in portfolio. Players with less than 500 employees (at entity of group level) can opt out and shall, by consequence, be require including a disclaimer on their website and PPM. Managers choosing to opt-in will gain time in order to determine how these policies are implemented on a product by product level (up until 30 December 2022), allowing them to assess the practical implications of the (yet to come) final RTS on the PAI, the relevance of such indicators for their sustainable funds and the extend to which institutional investors will be requiring these data to satisfy their own SFDR reporting requirements.

Key strategic decision will be required by 10 March 2021, leading to some PPM updates. For regulated products requiring official approval, fast-track procedures are available for AIFMs, provided there is no significant change in the investment approach. But 10 March only represents the first step of the sustainability journey: over the coming years, successful managers will adapt their new fund launch to the increasing investors appetite for sustainable products, ensure portfolio companies adequately measure and report on the new sustainability KPI's (taxonomy, positive impact measurement, PAI) and will redesign accordingly their investors reporting. ●

© DR

Kazuo Shiraga was a Japanese artist best known for his performative painting practice. Shiraga was a representative of Gutai art movement and his gestural style was influenced by American Abstract Expressionism.

THE ART MARKET IN 2020: HERALD OF STRUCTURAL SHIFTS OR STATUS QUO?

By Aude Lemogne
Managing Director, LINK Management

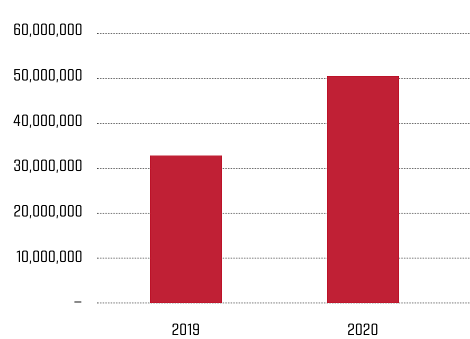
and Aymeric Thuault
Managing Director and Co-Founder, LINK Management

The Art Market in 2021

In 2020, in line with global shifts, the art market experienced a 'digitalization wave': auctions houses, galleries and international art fairs faced the challenge of migrating their activities online. Digital auctions have been quite successful for the major auction houses, whilst art fairs displayed far more muted results with their digital showrooms. Besides the digitalization challenges, a few profound trends in 2020 are noteworthy. We observed:

- A rebalancing of art history in favor of women and artists of color, and the powerful narrative of inclusion and diversity.
- An acquisition frenzy at the market's most speculative end, pushing newcomers and shooting stars into unseen price territory for that category (this trend partly overlaps with the preceding one).
- And a sustained enthusiasm for young and often untested artists, with limited museum and market validation (according to Arttactic, auction sales for artists 40 and younger at the top three houses surged 54%).

Contemporary Art total auction sales
(Artists under 40's)



Combined sales at Christie's and Sotheby's, in USD

Naturally these trends need to be put in the specific context of the pandemic and the broader tendencies of the economy.

PRIVATE EQUITY INSIGHT/OUT #17

BOREDOM DURING THE PANDEMIC AND EXCESSIVE LIQUIDITY SUPPORTED SPECULATIVE BEHAVIORS THAT NATURALLY FAVORED EMERGING ARTISTS.

Indeed, supply of blue-chip artists[1] has been constrained, as collectors were wary of uncertain economic conditions and skeptical of the effectiveness of virtual marketing of consigned artworks.

At the same time, boredom during the pandemic and excessive liquidity supported speculative behaviors that naturally favored emerging artists (lower entry prices, higher supply levels, speedier rewards).
And, as also observed in financial markets, existing trends reinforced themselves (winners rising further, with no or very limited corrections and consensus chasing the same momentum trades).

Early 2021: numerous fundamentals have not changed yet

- Liquidity is still exceptionally high
- Political uncertainties have increased
- The disconnect between financial market performance and the real economy persists
- Safe haven assets have become expensive, but simultaneously essential for asset allocations purposes, notably as a hedge against monetary debasement, potential inflation and unexpected financial disruptions
- And to top it, a negative real rate environment is exacerbating the search for yield.

Winners and Laggers

In that context, blue-chip works of art and artworks that demonstrate attributes of scarcity and superior quality, will continue to attract inflows of liquidity, as they will be viewed as a hedge against inflation and monetary debasement.

Simultaneously, the speculative instincts, sharpened by a search for yield (and ideally rapid profits), should continue to support the bubbly end of the market in the short-term.

In this scenario, the laggers will be Tier 2 quality works of art and to a certain extend the mid-market, where neither the prospect of a sharp price appreciation, nor the safe haven attributes to lure collectors to engage markedly. Why should you rush to buy an artwork, when you know that no near term catalyst can truly impact its value positively (unless it's a 'coup de coeur')?

This pattern was already discernable in early 2020; the growth drivers of contemporary auction sales came from the high-end and to a lesser extent, from emerging artists.

Mei Moses Art Indices from H1 2019 to H1 2020

TOP 5% CONTEMPORARY	12,50%
MIDDLE market CONTEMPORARY	-2,5%
BOTTOM 5% CONTEMPORARY (below 15k USD)	7,50%

As these second tier/ mid-market works represent the majority of the art supply, it will become essential, now more than ever, to adopt a very selective approach in any acquisition process, in terms of aesthetics, historical significance and market momentum.

The outlook for art secured financing

As the collectors' audience is shifting to a younger crowd with a higher percentage of entrepreneurs, the appetite for leveraging their collection is evolving.

Indeed, a new generation of collectors increasingly manages their art collection as a capital asset, from which they can unlock and redeploy capital into other investment areas and they can capture value appreciations of individual works of art, without giving up future upside.

In addition, as economic uncertainties might linger on, bridge financing to a sale will remain an attractive option for collectors.

As Mei Moses highlighted, one factor explaining the art market's resilience in 2020 (especially in comparison with 2009) is the robustness of the art lending industry. Indeed, it has supported the art market, by allowing collectors to avoid distressed selling situations, and has kept the volume of offers light versus an increasing number of bidders. ●

1. Blue chip artworks are those which have been created by the most important and widely recognized artists, whose position in the auction market has been solidified by exceptional sales volumes over the course of several years.

LINK Management is an art wealth management firm, and advising private collectors and family offices, and transacting in multi-million works of art.

LINK Management has set-up, with the banking group Reyl & Cie, Griffin Art Partners, a proprietary securitization fund that provides non-recourse, art-backed loans.

Each loan is structured by issuing notes with an international ISIN code and financed by a limited pool of institutional and private investors, looking for yield on a short-to-medium term horizon. Art backed notes provide an exposure to art but with reduced risk, (maximum loan-to-value of 50%) while generating a fixed return of 5% to 10% per annum.

ARE PRIVATE EQUITY CORE SYSTEM PROVIDERS READY TO ADDRESS MANAGERS' RISING APPETITE FOR TECHNOLOGY?

THE PRIVATE EQUITY (PE) SECTOR PLAYERS SPAN ACROSS A MULTITUDE OF SMALL COMPANIES TO A FEW LARGE AND WELL-KNOWN ACTORS. THE SMALLER PLAYERS MOSTLY RELY ON EMAIL EXCHANGE OF SPREADSHEETS AND BASIC ACCOUNTING SOFTWARE TO PERFORM CRITICAL BUSINESS OPERATIONS, WHILE SOME OF THE LARGER PLAYERS HAVE INVESTED IN SYSTEMS OR DEVELOPMENTS THAT STILL ONLY COVER SOME OF THE BUSINESS AREAS BUT NOT ALL.

By Thibault Chollet
Partner at Deloitte Luxembourg

and Arnaud Bon
Partner at Deloitte Luxembourg

However, as the sector grows these companies will struggle to manage increasing volumes because of little overall operational efficiency and scalability. They are not fully automated, lack system integration and still require human labor to carry out low-added-value data collection and transformation to exchange data between management systems, compute net asset values or prepare reports. This results in a heavy technology debt: the high cost of software maintenance coupled with poor agility to accommodate new developments.
One strategy to resolve this complexity is to implement one core software package that covers most business domains. This minimizes integration requirements while ensuring the software remains up to date and caters to industry changes. But do these solutions exist on the market? And to what extent do they cover all PE business domains?

Surveyed company and solution profiles

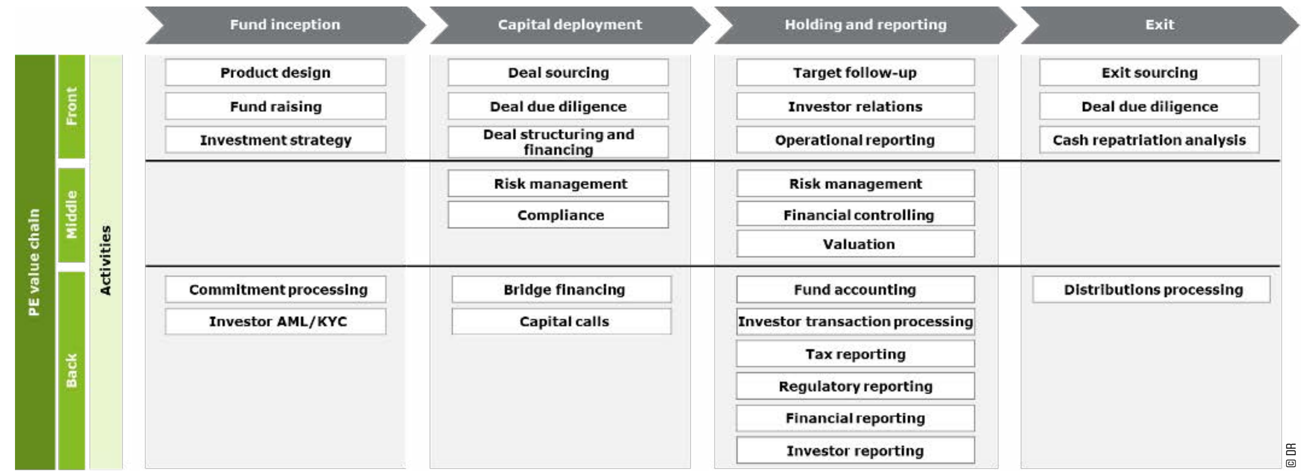
To answer these questions Deloitte Luxembourg conducted a software vendor survey limited to companies offering solutions that should cover most of the PE value chain. Respondents ranged from larger players with global footprint to smaller players in Europe. Companies only operating in limited geographies such as North America or Asia-Pacific were not included.

A general observation is that most software providers started with a solution that focused on one area of the value chain and later expanded their capabilities to further areas. All the software package vendors surveyed favor an "adopt and not adapt" approach, in which clients change their processes and ways of working to adopt the vendor's system logic.

Findings on system functionalities

Fund inception

All surveyed vendors cover the most typical types of fund and ownership structures. However, differences in software capabilities can be observed for complex matters such as equalization calculation for different subsequent closings and fee calculations with only a few service providers able to cover the more complex requirements. This is a clear differentiating factor that investment managers offering complex products or have advanced special purchase vehicle (SPV) structures should consider.
Investors are more and more restricted in terms of type and location of investments, fund's risk, etc. In addition, management companies must comply with an increasing number of rules and are required to perform regular compliance checks. The surveyed software providers are aware of these requirements, and they can implement business rules into their solutions; for example, flag compliance breaches, create alerts, and block an investor from a distribution payment when certain rules are not respected.



> A GENERAL OBSERVATION IS THAT MOST SOFTWARE PROVIDERS STARTED WITH A SOLUTION THAT FOCUSED ON ONE AREA OF THE VALUE CHAIN AND LATER EXPANDED THEIR CAPABILITIES TO FURTHER AREAS.
>
> Thibault Chollet

Investment management

Some of the software providers are able to generate automatic escalation reports that allow the management company to keep track of late payments while others generate notices and proxies for annual or extraordinary general meetings.
From a transaction processing perspective, in order to ease deal due diligence all software solutions of the survey allow categorization by activity, sector, industry and country. The main differentiator among them was the ability to allocate legal due diligence reports and signed resolutions to different levels, i.e. to a fund or a company. This functionality can ease compliance verifications and provide a better overview.
The analysis of transaction capabilities shows that the software solutions surveyed are already well developed. As such, they can support portfolios made up of different share classes and calculate debt gearing ratios and management fees. A reconciliation between the capital called and the received amount is also well-developed among vendors.

Holding and reporting

During the investment holding period, management companies are required to send notices and other communications to their investors. Manually preparing these notices is labor-intensive and prone to operational errors.
As regards valuation, all participating software solutions allow information storage, the upload of valuation reports, and support net asset value

(NAV) computation. However, some functionalities are not uniformly covered by all the software solutions; for example, the computation of complex NAV.

All participating software solutions offer a broad range of accounting functionalities. This comes as no surprise, as they all placed accounting at the core of their software development. Indeed, most of the screened software providers started their business developing accounting functionalities and then widened their software solution to other areas. The differences identified by the survey, are in the level of customization required to cover accounting functionalities. This includes the automatic booking of transactions following a cash flow, the possibility of extracting analytical information from the general ledger, and the ways accrual accounting information can be reported. It is worth noting that the integration of sub-ledgers, user-defined cash flows and the support of currency indicators are not covered by all surveyed vendors.

Exit

Exit is not a focus of our respondents' solution functionalities. Most solutions support exit processes with basic MS Excel integration into their core platform, and in most cases, complex computations are performed through it or Visual Basic. Only a few offer more advanced features, e.g. the ability for clients to create waterfalls themselves, generate automatic trades by using stored distribution rates, or take the lockup period and exit conditions into account before generating the trades.

THE MARKET IS CONSTANTLY EVOLVING AND COMPETITION BETWEEN SOFTWARE PROVIDERS IS HEATING UP.

A wide array of solutions and the importance of thorough due diligence

Only a few of the vendors surveyed are leading the pack by providing more advanced features to support complex business requirements through configuration. These providers have also acknowledged the importance of offering clients control of the software and to allow full customization through web interface. License prices aside, this requires clients to have an internal team that can configure and maintain the system which smaller investment managers may not be able or willing to afford.

One of the main findings of this survey is that the solutions available on the market can widely differ and performing a preliminary identification of business requirements and selection process is essential in choosing the most appropriate software solution. PE players should take into account not only the functional and non-functional requirements, but also the available deployment models, geographic footprint, local presence, and availability of local experts.

Furthermore, all of the providers in the survey confirmed important investments into enhancing their software solutions. They are using their experience and customer feedback to identify software pain points and improvement priorities to improve functionalities, usability and integration capabilities.

The market is constantly evolving and competition between software providers is heating up. New players leveraging the latest technologies or previously focused on the liquid market are now looking to establish themselves on the private market by developing or acquiring alternative investment software. ●

Disclaimer: the survey focused on software systems that are currently supporting the PE value chain in an integrated manner. Among the different providers we only selected standard solutions that cover most of the value chain and excluded the ones that only specialized in certain areas.

ABOUT LPEA

The Luxembourg Private Equity and Venture Capital Association (LPEA) is the most trusted and relevant representative body of private equity and venture capital practitioners with a presence in Luxembourg.

Created in 2010 by a leading group of private equity and venture capital players in Luxembourg, with 299 members today, LPEA plays a leading role locally actively promoting PE and VC in Luxembourg.

LPEA provides a dynamic and interactive platform which helps investors and advisors to navigate through latest trends in the industry. International by nature, the association allows members to network, exchange experience, expand their knowledge and grow professionally attending workshops and trainings held on a regular basis. If Luxembourg is your location of choice for private equity, LPEA is your choice to achieve outstanding results.

LPEA's mission towards its members is to represent and promote the interest of Private Equity and Venture Capital ("PE") players based in Luxembourg and abroad.

LPEA's mission towards Luxembourg is to support government and private initiatives to enhance the attractiveness of Luxembourg as an international hub for carrying out PE business and/or servicing the PE/VC industry in all its dimensions.

In summary, LPEA is the go-to platform where PE practitioners can share knowledge, network and get updated on the latest trends of the industry across the value chain.

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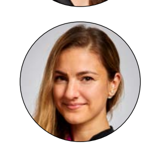

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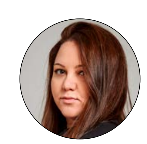

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