

MARCH 2021

# LEO

THE FINANCIAL CENTRE'S MAG

**PRIVATE  
EQUITY**

CREATING VALUE

FINANCING A  
SUSTAINABLE FUTURE  
PRIVATE EQUITY AND  
THE REAL ECONOMY  
CENTRALISED DATA AS THE  
GOLDEN SOURCE OF TRUTH

Dear readers,

**I**t gives me great pleasure to introduce the LEO magazine, which is focused on Private Equity. Not only is this a fascinating topic, but the magazine's release on 8 March - International Women's Day - gives it added significance.

This all female edition is not just a tribute to the role women play in the financial services industry, it is also an invitation. We want to see more women build a career in the world of finance, becoming the kind of decision makers who will drive the future of finance, just as our interviewees have.

Hopefully, we can progress and narrow the gap, so that one day in the near future, there won't be a need to publish an all female magazine anymore. Rather, we will be able to focus on other important issues in finance, such as innovation, digital transformation and sustainability.

These issues are central because, as our interviewees rightly point out, a change of paradigm has occurred in private equity, and finance more generally. Firstly, sustainability has moved from a negative investment signal to a positive one. And secondly, financial services has become hyper-competitive - without innovation and digitalisation, companies falter. COVID has only accelerated these trends.

In this light, private equity firms use their expertise and their pivotal place in the market, to do more than generate value for investors. Through the creation of jobs and the stability which they can provide to the companies they support, society as a whole benefits.



LYNN ROBBROECKX,  
SECRETARY GENERAL,  
LUXEMBOURG FOR FINANCE

Capitalising on opportunities will, however, require at all times careful consideration and wise choices. The direct correlation between gender balance, diversity of perspective, and quality of decision making has bearing on this matter. In this context, we should consider an addition to W. Churchill's famous quote: We should not 'waste a good crisis.' That's true, but nor can we afford to waste good talent either. To do so would be to short change our own future.

For our *Financing a Sustainable Future* series we sat down with Justina Alders-Sheya, Fund Manager at Triodos Investment Management, to learn more about their

Luxembourg-based *Sustainability Finance Real Economies* fund. This fund is the first of its kind - established solely with private capital, to finance values-based banks, globally.

Rounding this issue off, we literally take a helicopter view of the COVID-19 pandemic, with Luxembourg Air Rescue (LAR). For more than 30 years, the company has been devoted to saving lives by operating rescue helicopters and ambulance jets in Luxembourg and around the world.

Enjoy the read and Happy International Women's Day!

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For over 30 years Luxembourg Air Rescue has played a crucial role, saving lives across the globe with the help of a state-of-the-art intensive care medical fleet and a team of medical specialists who go above and beyond.

### **28 UPCOMING EVENTS**



ANY QUESTIONS?

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## LUXEMBOURG FINANCIAL CENTRE PROVES RESILIENT IN 2020 DESPITE PANDEMIC HEADWINDS

Luxembourg's economic stability and the expertise available in its specialised ecosystem continues to attract global financial firms, amidst the Covid-19 pandemic, with 82 new entities being licenced to operate by the country's two financial regulators during 2020.

## TOTAL NET ASSETS IN LUXEMBOURG INVESTMENT FUNDS HIT EUR 5 TRILLION MARK

The total assets under management in Luxembourg domiciled investment funds hit another all-time record of EUR 5,050.132 billion as at 31 January 2021. This evolution highlights the strong demand for Luxembourg UCITS funds and private, which have seen consistent growth over recent years.

## AAA FOR LUXEMBOURG FOR GOOD ESG PERFORMANCE

Credit rating agency Moody's has certified Luxembourg's good environmental, social and governance (ESG) performance, following the recent introduction of "ESG" aspects in its assessment methodology.

## SHAPING FINANCE PODCAST SERIES

Our podcast series, Shaping Finance, brings together high-level decision makers from across international finance. Our latest two episodes feature Karine Szenberg, Head of Europe and Middle East at Schroders and Claude Marx, Director General of the CSSF.

## FINTECH PINGPONG SECURES E-MONEY LICENSE IN LUXEMBOURG

Payments Firm PingPong has secured an electronic money institution (EMI) license from the CSSF, Luxembourg's financial regulator. The license enables PingPong to offer a more flexible array of services and increase the scope of customers in the future.

## LUXEMBOURG SUSTAINABLE FINANCE STRATEGY LAUNCHED

The Luxembourg Sustainable Finance Initiative (LSFI) has launched the Luxembourg Sustainable Finance Strategy, which defines concrete actions based on the Luxembourg Sustainable Finance Roadmap recommendations, a document drafted in partnership with the UN Environment Programme Finance Initiative.

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PODCAST SERIES:



# FINANCING A SUSTAINABLE FUTURE

THE GROWING SUCCESS OF SUSTAINABLE INVESTMENT FUNDS REFLECTS AN INCREASING AWARENESS OF CLIMATE CHANGE AND ITS CONSEQUENCES. TO THE WIDER PUBLIC, SUSTAINABLE FINANCE MAY SEEM A RECENT TREND, BUT TO TRIODOS BANK IT HAS BEEN THEIR CORE ACTIVITY SINCE THEY WERE FOUNDED IN 1980.

FOR OUR FINANCING A SUSTAINABLE FUTURE SERIES, LFF SAT DOWN WITH JUSTINA ALDERS-SHEYA, FUND MANAGER AT TRIODOS INVESTMENT MANAGEMENT, THE INVESTMENT ARM OF TRIODOS BANK, TO LEARN MORE ABOUT THEIR IMPACT INVESTMENT PHILOSOPHY AND, IN PARTICULAR, THEIR LUXEMBOURG-BASED SUSTAINABILITY FINANCE REAL ECONOMIES FUND (SFRE FUND). THE FUND IS THE FIRST OF ITS KIND ESTABLISHED SOLELY WITH PRIVATE CAPITAL TO FINANCE VALUES-BASED BANKS GLOBALLY.

Triodos Investment Management was founded with the mission to make money work for positive, social, environmental and cultural change. It finances and invests only in sustainable companies, ranging from microfinance institutions to renewable energy projects. All EUR 4.9 billion in assets under management directly contribute to a more sustainable future.

**LFF: WHAT CAN YOU TELL US ABOUT TRIODOS INVESTMENT MANAGEMENT, ITS INVESTMENT THESIS, AND ITS ROLE WITHIN SUSTAINABLE FINANCE?**

**JA-S:** Triodos Investment Management, a wholly owned subsidiary of Triodos Bank,

has been investing in sustainable businesses and companies that create a positive impact for over 25 years. Themes that we focus on are energy and climate, sustainable food and agriculture as well as financial inclusion. The funds that I manage are active in the latter important category.

Statistics show that around 1.7 billion people globally are completely left out of the financial cycle, which means that they are either underserved or have no access at all to financial services.

By investing in financial inclusion, we provide access to financial services and thus access to basic needs. These basic

“People, planet and profit – also called triple bottom line - is creating a positive impact with money by looking at not only a profit, but also including the social and environmental impact.”

JUSTINA ALDERS-SHEYA



JUSTINA ALDERS-SHEYA,  
FUND MANAGER,  
TRIODOS INVESTMENT MANAGEMENT

needs include access to education, being able to save money, purchase insurance or obtaining a loan to set up a business.

We try not only to provide access to financial services but also address the challenges that people face when they are excluded from these services.

**LFF: WHAT TYPES OF COMPANIES ARE CORE TO YOUR INVESTMENT PIPELINE AND WHAT ARE THE SELECTION CRITERIA WITH WHICH YOU EVALUATE THEM?**

**JA-S:** Two of our funds provide an excellent overview of some core aspects of our focus. Firstly, our Sustainable Finance Real Economies (SFRE) fund which predominantly invests in values-based banks. These are banks that are rooted in their community. Their products and services are designed for small and medium sized enterprises as opposed to the interbank transactions of systemic banks. Values-based banks lend more than 80% of their assets in the form of loans for financing local businesses such as bakeries, organic farmers or the local shoemakers. We see these as totally different types of financial institutions compared to mainstream banks. The banks we invest in, heavily support entrepreneurship in the real economy and their focus is on both people, planet, and profit.

The second fund is the Triodos Microfinance Fund which focuses on emerging markets areas such as Asia, Latin-America and Africa. Through this fund we invest in microfinance institutions and FinTech companies in those regions. The world is clearly digitalising, especially in emerging markets, where there is a big boost in digital services for financial inclusion.

You will also find what we call specialised financial institutions. These are companies set up to address a specific problem. Varthana is a good example of such a company, they primarily focus on financing affordable schools and education in India.

**LFF: WHAT IS THE STORY BEHIND THE SFRE FUND?**

**JA-S:** The SFRE fund was initiated by a network called Global Alliance for Banking on Values (GABV). The Alliance brings together 66 values-based banks worldwide, both in developed and emerging markets. The fund has an evergreen approach, thereby safeguarding its investee companies' independence, entrepreneurship and mission.

The fund was set up because the GABV realised there is a lack of what you would call mission aligned patient capital. Banks need tier one and tier two capital to help grow and expand so that they can finance larger and more ambitious companies and projects. They found it difficult to get that kind of funding from mainstream asset managers, and this is where the SFRE fund came in. The idea was to create a vehicle that can be made available to other investors and is specifically set up to invest in and fund value-based banks across the globe.

We've managed the SFRE Fund since 2018 as Triodos Investment Management, and we really do believe in the idea of what this fund is trying to create: People, planet and profit – also called triple bottom line - is creating a positive impact with money by looking at not only a profit, but also including the social and environmental impact.

**LFF: HOW LONG IS YOUR INVESTMENT TIMELINE AND WHAT MIGHT DRIVE YOU TO CONSIDER SELLING A POSITION IN YOUR PORTFOLIO?**

**JA-S:** The timeline for both funds is quite long, on average seven to ten years. They are open-ended funds and don't have an exit period. There is obviously a difference whether you are talking about an equity investment or a debt investment, the funds do both. Debt investments tend to have a shorter time period than an equity investments. We are long-term focused and not constrained by forced exits.

“We finance these companies to make it possible for them to increase their overall chances to access other financing sources, so they can mature and develop while keeping their mission.”

JUSTINA ALDERS-SHEYA

We finance these companies to make it possible for them to increase their overall chances to access other financing sources, so they can mature and develop while keeping their mission. Responsible exits are important to us as we are mindful of the risk of mission drift. Therefore, when considering an exit, it is most important to us to look for investors that are like-minded.

**LFF: CAN YOU SHARE SOME “ON THE GROUND” EXAMPLES OF SUSTAINABLE SUCCESS AS A RESULT OF YOUR INVESTMENTS?**

**JA-S:** One of my favourite success stories from our SFRE fund is that of the Southern Bancorp, a company based in Arkansas and operating in the Mississippi Delta in the US, one of the poorest regions in the United States. Southern Bancorp provides financial education to people so that they are able to grow a credit history. With a credit history these clients are able to borrow money to start their own businesses. I visited one of these families the last time that I was in the Mississippi Delta. A family that used to live month by month through payday lenders, not able to create a credit history. They now own a hair salon and a water saving carwash business.

There seems to be this premise that emerging economies require more assistance than developed markets, however there is often a lack of mission aligned patient capital even in countries like the US. The funding gap is everywhere.

**LFF: WHY DID YOU CHOOSE LUXEMBOURG AS A LOCATION TO SET UP THESE TWO FUNDS?**

**JA-S:** The Luxembourg regulatory framework and cross-border expertise is unique. Its credibility in the investor community allows for the funds to attract investors both from within and outside the European Union, which is important for us. The SFRE fund is a SICAV-SIF and Luxembourg was the natural choice for us.

“There seems to be this premise that emerging economies require more assistance than developed markets, however there is often a lack of mission aligned patient capital even in countries like the US. The funding gap is everywhere.”

JUSTINA ALDERS-SHEYA

**LFF: HOW DO YOU SEE THE UPCOMING SUSTAINABLE FINANCE DISCLOSURE REGULATION IMPACTING YOUR FUND BOTH DIRECTLY AND RELATIVE TO OTHER FUNDS?**

**JA-S:** I think it's a positive development to start with.

A regulation that focuses on transparency when it comes to sustainability and ESG factors is needed to take out all potential ambiguities when it comes to how sustainable they really are as a fund or as a company. I think that this new regulation will make it clearer as to which funds and financial institution are really sustainable, as opposed to those that are greenwashing in some way or another.

From a Triodos perspective, the regulation will not change our strategies because our strategies have always been to create positive impact, and to be aware of the negative impact that we may be creating with our investments. I expect that it will even help us differentiate ourselves from other funds and other fund managers, but more so, I think it will bring transparency and hopefully some level of comparability between funds.

“The Luxembourg regulatory framework and cross-border expertise is unique. Its credibility in the investor community allows for the funds to attract investors both from within and outside the European Union, which is important for us.”

JUSTINA ALDERS-SHEYA

**LFF: WHAT WOULD YOU SUGGEST INVESTORS WHO ARE TRULY SEEKING TO MAKE A DIFFERENCE AND ARE IN THE PROCESS OF SELECTING A FUND OR A FUND MANAGER?**

**JA-S:** I would suggest they critically analyse the portfolios of the fund that they are selecting. Most investors do their due diligence well, but they should also look into the qualitative aspect of an asset manager and their strategic direction. The tone at the top is very important. So, not just focus and be blinded by the numbers. On a fund level, don't just look at the fund but also at who is actually offering it. You will often see, especially with big players, that many have one or two sustainable funds. But at the same time, the majority of their funds offer products that are still negatively impacting our planet, environment and our people.

Investors could look into the labeling that a fund or asset manager has. Our Triodos Microfinance Fund, for instance, has a LuxFLAG label. I also would advise investors to look at how an asset manager assesses the sustainability criteria. We have tools that assess the more qualitative part of

an organisation, the management conduct and the strategy of the organisation. We look at how impact and sustainability is really embedded in the company. We also take a close look at the quantitative part because obviously we are not a charitable organisation, we also want to create healthy returns for our investors.

**LFF: HOW DO YOU SEE THE FUTURE OF SUSTAINABLE FINANCE DEVELOPING?**

**JA-S:** I am an optimist and it's my sector and it's a crucial sector. I actually think financial institutions should be partners in this development, and many are moving in this direction. I read a recent IMF report that stated that the Covid crisis has set development back 10 years.

Therefore, the need for financial institutions to get increasingly involved in development and recovery is growing every day. As we move out of Covid and look to the recovery, I think that the future of sustainable finance and of financial services is definitely bright because there is this clear need to partner together in order to reach development levels prior to Covid.

This being said, across financial services we shouldn't continue financing companies or financing institutions that are not creating positive impact. There are choices to be made. This is a great moment for financial institutions to say: "Let's take this moment to make the right choices when we invest." I'm expecting that there will be much more focus on sustainable finance.

A few years ago, we saw the exclusion lists becoming mainstream. Everyone now avoids weapons or child labour for example, but we want to see more people focusing on positive screening. We really have a chance to be a force for good and especially as sustainable finance is here to stay.

MvH

# MUST READ LUXEMBOURG LP STRUCTURES – A FLEXIBILITY THAT IS DIFFICULT TO FIND ELSEWHERE

LUXEMBOURG'S ECOSYSTEM FOR BOTH, TRADITIONAL AND ALTERNATIVE FUNDS REMAINS HARD TO MATCH. THE GRAND DUCHY'S TOOLBOX AND IN PARTICULAR ITS LIMITED PARTNERSHIP REGIME ARE PARTICULARLY ATTRACTIVE FOR PRIVATE EQUITY FUNDS.

Adriana Boixados, Associate Partner at Ernst & Young Luxembourg, highlights the flexibility of Luxembourg limited partnership regimes which explains their wide use within a PE context to accommodate fund vehicles and (co-investment) holding strategies alike. *"The common limited partnership (SCS) and, in particular, the special limited partnership (SCSp) have just proved themselves as very useful structuring tools in the private equity business. Nowadays, there are very few private equity managers that are not using a Luxembourg limited partnership in one form or the other,"* highlights Adriana.

The modernisation of the Luxembourg limited partnership regime achieved with the introduction of the SCSp is still second to none. In this respect, the reforms undertaken by other neighboring fund jurisdictions of their limited partnership regimes are lagging behind Luxembourg as they benefit only those limited partnerships qualifying as fund vehicles.

*"The lack of legal personality of the SCSp which is helpful to align the Luxembourg*

*tax treatment of this vehicle with the one at investors' and investee's respective jurisdictions or a relaxation of reporting requirements to LPs, among other features, had been very welcome by PE sponsors,"* explains Adriana.

To Adriana, Luxembourg LP regimes focus on contractual freedom paired with the Grand Duchy's legal, political and economic stability *"contributed greatly to building a one-stop shop within the EU for the private equity business which is still in the search of a competitor"*.

JW

**"Nowadays, there are very few private equity managers that are not using a Luxembourg limited partnership in one form or the other."**

ADRIANA BOIXADOS PRIO

“Contributed greatly to building a one-stop shop within the EU for the private equity business which is still in the search of a competitor.”

ADRIANA BOIXADOS PRIO

ADRIANA BOIXADOS PRIO,  
ASSOCIATE PARTNER,  
ERNST & YOUNG LUXEMBOURG

# PRIVATE EQUITY AND THE REAL ECONOMY

WHAT DO HERTZ, J CREW, DEBENHAM'S, AND NIEMAN MARCUS HAVE IN COMMON? ALL WERE, IN SOME WAY, SHAPE OR FORM PART OF A PRIVATE EQUITY DEAL IN RECENT YEARS. THEY HAVE ALSO ALL FILED FOR BANKRUPTCY DURING THE COVID-19 CRISIS. PUNDITS OFTEN DRAG THESE NAMES OUT AS A PRECURSOR TO ARGUING AGAINST PRIVATE EQUITY AND ITS SO-CALLED BLACK BOX OF FINANCING. HOWEVER, WHILE REGRETTABLY SOLUTIONS COULD NOT BE FOUND IN THESE CASES, DEMONISING PRIVATE EQUITY IGNORES THE MANY BENEFITS THAT IT BRINGS, THE JOBS IT CREATES, AND THE STABILITY AND EXPERTISE THAT IT CAN PROVIDE TO COMPANIES.

“Making the right decisions in terms of protection for teams and their employment beyond the crisis called for genuine strategic thinking support in the early days of the crisis.”

ANNE CANEL

The Covid-19 crisis has presented far-reaching and unprecedented challenges for the global economy. Once fairly safe assumptions surrounding the economy shifted rapidly as businesses, cities and countries were shuttered to prevent the spread of the disease. In light of the sudden shift, operational teams in private equity houses were rapidly deployed in order to assist portfolio companies. “We saw private equity houses use the traditional green, yellow and red traffic light system to indicate the level of engagement and support each business was expected to need,” Elena Cuesta Urquia, Private Equity Specialist at Indosuez Wealth Management in Luxembourg, highlights. “Making the right decisions in terms of protection for teams and their employment beyond the

crisis called for genuine strategic thinking support in the early days of the crisis,” states Anne Canel, Director for HLD Associates Europe.

When the crisis first hit, the driving need was to assist companies in ensuring employee well-being, a natural precursor to securing operations. “The reality quickly set in that some companies would not survive with months of deteriorated income or low liquidity, so teams worked with portfolio companies on modified business plans that often far surpassed downturn scenarios,” explains Cuesta Urquia. In order to account for this, HLD Associates Europe looked to “keep bank confidence and obtain ‘covenant holidays’ and accompanying measures” for its portfolio companies,



ELENA CUESTA URQUIA,  
PRIVATE EQUITY SPECIALIST,  
INDOSUEZ WEALTH MANAGEMENT IN LUXEMBOURG

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ELENA CUESTA URQUIA

which were successful in part due to the firms' projections as well as the "guarantee of a committed stakeholder," notes Canel.

The flurry of initial reaction has since settled into day-to-day support for many portfolio companies, as well as the shifting of business models for others as industries adapt to changing consumer behaviour. Despite the challenges, private equity backed firms have historically weathered crises better than similar ones according to a study performed by Kellogg Business School. This may be due to the fact that they have access to a healthy pot of capital to draw on in times of need, despite usually having large amounts of debt on their balance sheets.

For Cuesta Urquia, private equity firms also have the luxury of time, with "many companies simply having stayed in the portfolios of funds longer than expected until they manage to recover." This has been observed across the industry, with many exits being delayed until the companies are once again healthy. Canel highlights that AIFMD was also a beneficial introduction prior to the crisis, as "extreme debt situations are rare in Europe given the regulations that have been set up in the sector." Further to this, the industry was sitting on record levels of dry powder that could be tapped in the case of the need to refinance.

Canel, however, notes that given the high level of government support available during the crisis, not much of the dry powder has been used. "Dry powder remains at this point a guarantee, however we will face the 'day after' the crisis in the months and years to come when the industry will need to tap this and will need to be cautious in the companies that are selected for refinancing." Given the financing packages and government aid during the

crisis, managers must ensure they do not confuse the availability of liquidity with healthy balance sheets and successful business models, as doubling down on the wrong business could cause confidence issues.

Despite this, the Covid situation has provided some opportunities for private equity firms as well. "Some unexpected opportunities have appeared, with decreases in excessive prices, new challenges in technology versus the complexity in real estate as an example," states Canel. Capitalising on these opportunities will, however, require significantly careful decisions and choices. Near-term uncertainty in various sectors, as well as valuation challenges will mean that managers are likely to be slower in deploying capital given more meticulous due diligence requirements. Cuesta Urquia highlights that "opportunities will arise from the crisis, but private equity is a long-term asset class, and managers need the time to find the right opportunities."

Covid has acted as an accelerator of certain trends, meaning that the right opportunities could be found in varying sectors. "Certain sectors have thrived during the crisis, such as parts of the healthcare or logistics sector, even some tech companies, and there have been some promising deals done up to this point," Cuesta Urquia goes on to explain. Companies that have weathered the Covid crisis could make attractive targets, however sectors are likely to be markedly different post-crisis. Canel echoes the Chinese proverb of never letting a crisis go to waste, emphasising that "this crisis is definitely an opportunity for the best private equity managers to express their vision and talents."

But where will this vision and talent take the private equity industry in the coming years? The industry is well known for

"Private equity firms have a unique ability to 'take positions in struggling sectors and help transform and develop businesses steadily, over a time horizon of several years, which is quite particular to the industry.'"

ELENA CUESTA URQUIA



ANNE CANEL,  
DIRECTOR,  
HLD ASSOCIATES EUROPE

“This crisis is definitely an opportunity for the best private equity managers to express their vision and talents.”

ANNE CANEL

its ability to adapt and evolve and find new ways to generate value. For Cuesta Urquia, private equity firms have a unique ability to *“take positions in struggling sectors and help transform and develop businesses steadily, over a time horizon of several years, which is quite particular to the industry.”*

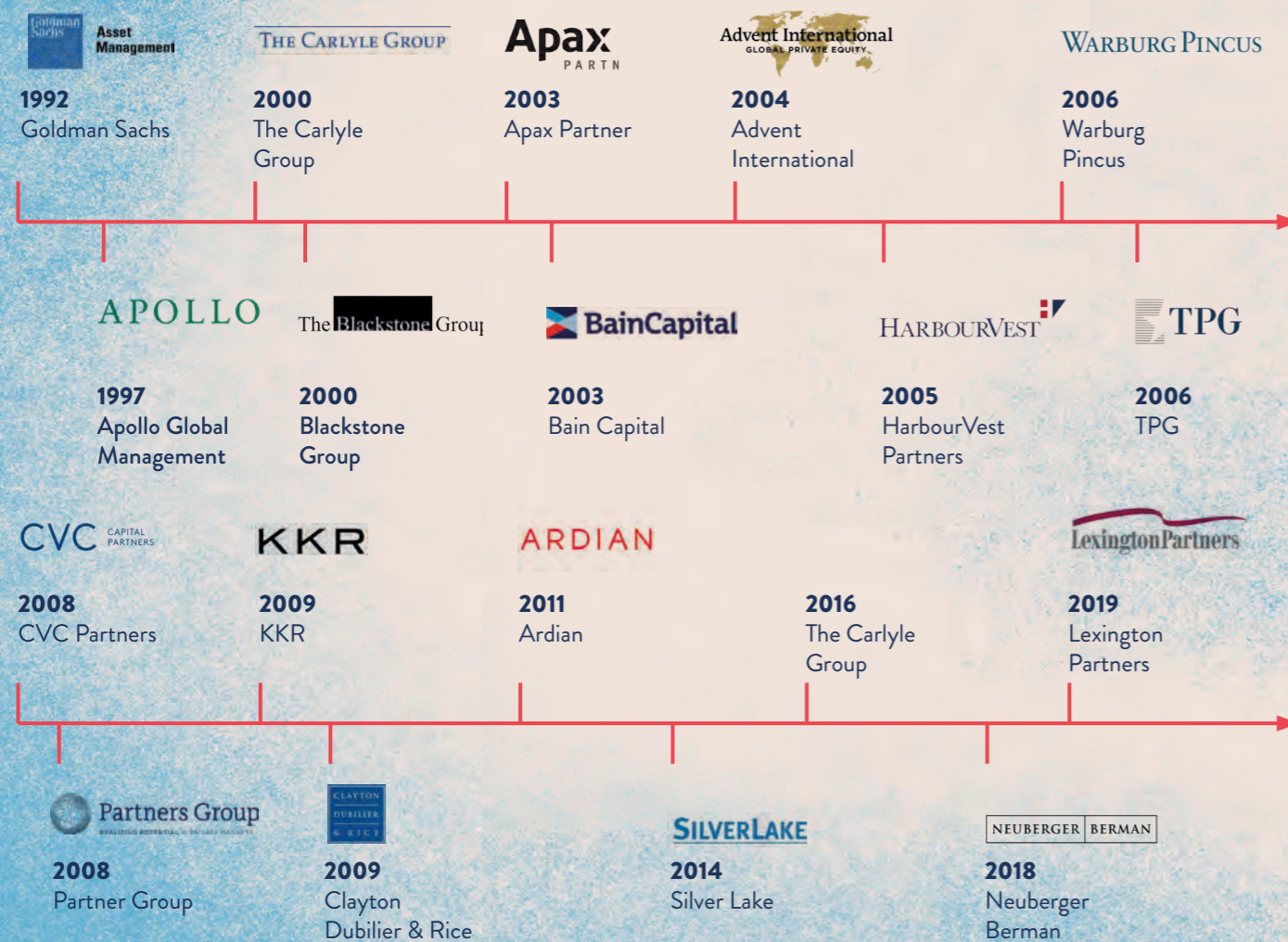
As we move post-Covid, long-term sustainable development will play an increasingly larger role. There are many ways for a company to finance its growth, from bank loans to listing on a stock exchange for larger companies. In Europe, until the CMU is completed, SMEs will find the latter more difficult to achieve. In light of this, private equity continues to play a pivotal role in financing the expansion of a key-driver of the global economy. In fact, given a short-termism that often plagues public markets, we could see more and more companies looking to private equity for their medium-term business plans. Canel points out that financial institutions increasingly adopt ESG into their organisations, *“private investments will be central to reorganising the financial scheme.”* Cuesta Urquia highlights that investor interest will also continue to ensure private equity has a role to play noting that more are looking to private equity for alpha generation *“and also as a way of investing in the real economy.”*

JW

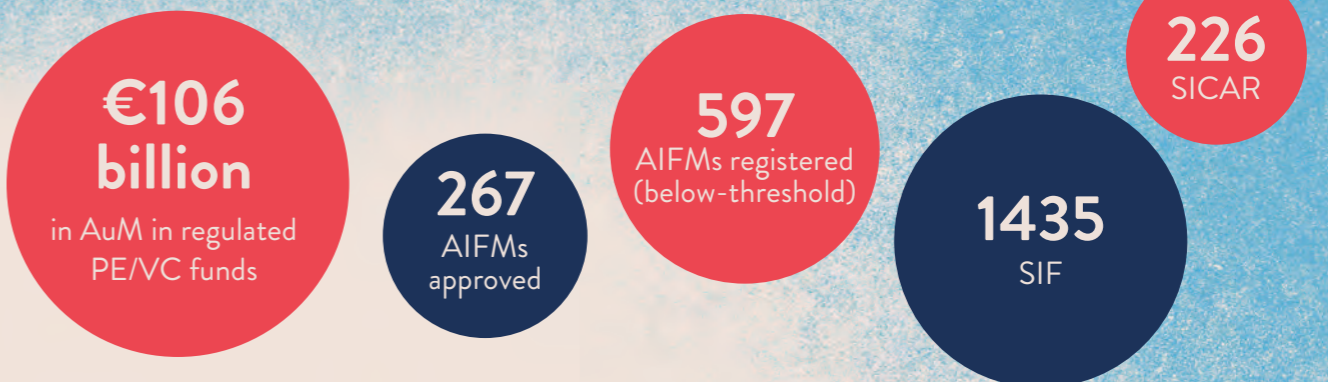
# A GLOBAL PRIVATE EQUITY HUB

Luxembourg's expertise and unique ecosystem make it ideally placed for private equity firms from across the globe.

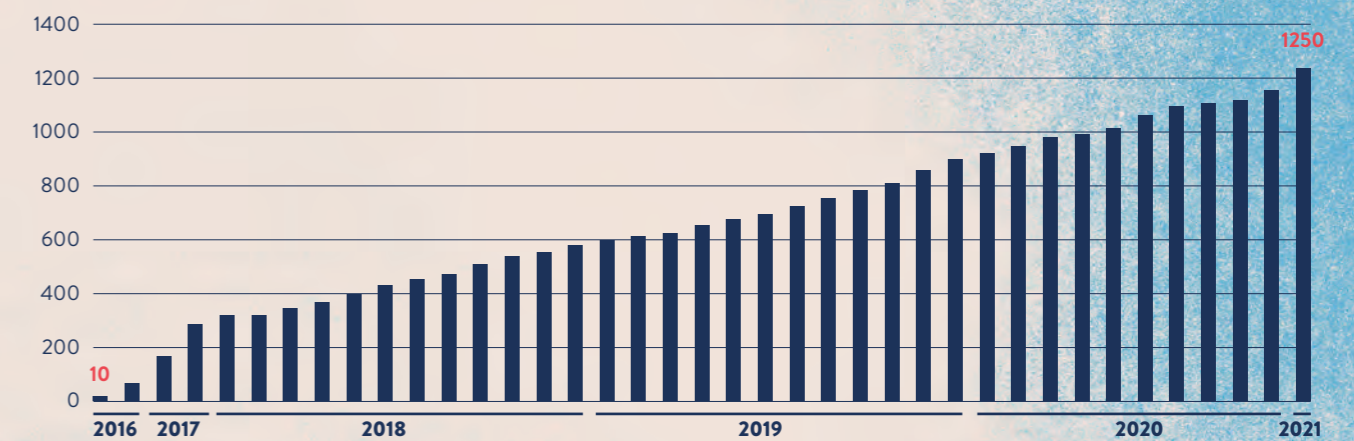
**18 out of 20 of the world's largest private equity firms have operations in Luxembourg:**



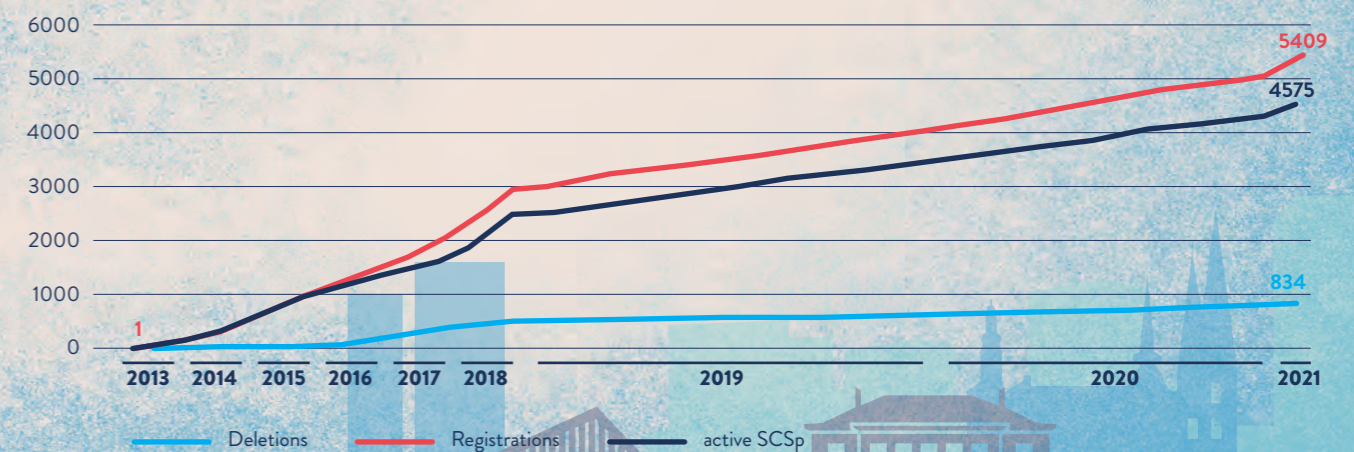
## A snapshot of the industry



RAIF Evolution  
Net



SCSp Evolution  
Accumulated and net



# CENTRALISED DATA AS GOLDEN SOURCE OF TRUTH - DIGITAL TRANSFORMATION FOR PRIVATE EQUITY

FINANCIAL SERVICES HAVE BECOME HYPER-COMPETITIVE: WITHOUT INNOVATION COMPANIES FALTER AND PRIVATE EQUITY IS NO DIFFERENT. A SUSTAINABLE DIGITAL TRANSFORMATION STRATEGY IS KEY TO BRINGING ABOUT ENHANCED OPERATIONAL PROCESSES, EFFICIENCIES ACROSS THE VALUE CHAIN AND ULTIMATELY, ACCELERATED GROWTH FOR PORTFOLIO COMPANIES. WE SPEAK TO KARIN ERFURTH, PROJECT MANAGEMENT DIRECTOR AT EQT TO GET A SENSE OF WHAT IS KEY FOR ALTERNATIVE INVESTMENT FIRMS AS THEY EXECUTE THEIR DIGITAL TRANSFORMATION STRATEGY.

As more and more private equity firms embark on their transformation journey, they are looking to build out robust data strategies, scalable platforms, customer centric viewpoints, and frameworks that foster digital talent. As operations are being digitised, data management becomes all the more important to enable the above. Erfurth notes that the ability to comply with an increasing number of regulations, increasing investor interest in more extensive reporting (e.g. ESG related KPIs) and cybersecurity make it necessary for asset managers to speed up their digital transformation. Ensuring *“inhouse and real time access to accurate data is the foundation to building efficient and scalable processes”*.

However, as with most things, it's easier said than done. There are three key challenges, according to Erfurth, that private equity firms face when adopting new technologies, namely a lack of standardised processes, a certain friction in the technology and ways of working between asset managers and third-party service providers, such as quarterly accounting vs. the wish to access real time data, and a required shift

in the mindset of people to adapt to new ways of working. *“It always needs to be a combined approach considering the people, the organisation, the processes, and the systems. All of these aspects need to go hand-in-hand to make a true transformation successful”* emphasises Erfurth. *“To take everyone along on the journey, make sure not to lose talented people and that the organisation is mature enough to value the new ways of working and to embrace them into the company culture takes more time than just introducing new tools.”*

Digitalisation will impact the operations teams' day to day as their focus will shift away from data collection as well as low variance processes that can be automated, and towards processes with higher variance and lower standardisation. That's where the teams' expert knowledge adds the most value.

## DATA, DATA, DATA...

In the past much of the focus has been on the back and middle office, where efficiencies of scale, in terms of digital transformation, can be gained. Increasingly, however, this

KARIN ERFURTH,  
PROJECT MANAGEMENT DIRECTOR,  
EQT PARTNERS

“It always needs to be a combined approach considering the people, the organisation, the processes, and the systems. All of these aspects need to go hand-in-hand to make a true transformation successful.”

KARIN ERFURTH

**“What started as an ad hoc activity following the initial impact of Covid has since grown into a full digital support concept for portfolio companies, including dedicated EQT digital relationship leads.”**

KARIN ERFURTH

focus is also shifting to the front office, to an enhanced investment selection and portfolio company development strategy. It is here that the robust data strategies and the value of data-powered decision making can shine, where a centralised data platform, a “golden source of truth” can lead to even better results.

Many firms have begun to embrace cloud-based platforms that centralise data and drive efficiency, in terms of cost and time. This centralisation or aggregation also brings with it the increased possibility of providing real-time insights and sophisticated analyses, adding value in the decision-making process and building the foundation for the automation of non-value added tasks.

EQT has gone one step further in this respect, creating *Motherbrain*; a platform that leverages data and machine learning. Solutions, such as Motherbrain, crunch, find, and analyse digital patterns across enormous amounts of company, people, market, and consumer data from multiple sources, to identify industry trends and provide recommendations for new deals to front office staff. Erfurth highlights that “*some of EQT Ventures’ best performing investments were sourced using the Motherbrain platform.*”

## ENGAGING WITH INVESTORS AND PORTFOLIO COMPANIES

Alongside the drive to bring new technology into operations, digitalisation can significantly increase the transparency, security and availability of information to investors. Online communication platforms, such as the EQT Investor Portal, where EQT’s fund investors receive account statements, drawdown notices and other investment related information in a secure and centralised place, are replacing emails entirely. Covid also put an emphasis on the ability to perform fundraising in a digital way.

Besides their investors, private equity firms put a strong focus on the development of their portfolio companies. Helping them to adapt to the right technologies is a key priority. This has been further enhanced by Covid. In this respect, within days of switching to remote working, EQT reached out to the portfolio companies and offered them support with best practices around remote ways of working, virtual training sessions and technology recommendations to help them to maximise online collaboration and productivity of their workforce as well as to increase cybersecurity. “*What started as an ad hoc activity following the initial impact of Covid has since grown into a full digital support concept for portfolio companies, including dedicated EQT digital relationship leads with ongoing dialogue with the portfolio companies to discuss digital strategy and value creation opportunities,*” Erfurth notes. This has since morphed into ensuring these companies develop their expertise for digital capabilities and incorporate new technologies into their day-to-day work.

## LOOKING TO THE FUTURE

Bringing data in-house and having a proper data management strategy is only the first step, next in line is the automation of standardised processes based on this data. This will allow teams to spend less time on labour-intensive low value tasks and spend more time on value adding activities. Erfurth highlights that they are already looking into

*“the automation of payment instructions and treasury functions, as well as implementing more digital authentication methods”* as further examples how digitalisation can support scaling and efficiency.

Covid has accelerated this digital transformation and broadened its scope as it lowers the threshold for virtually gathering important stakeholders and increases the acceptance of digital tools in general. Digital investor meetings and team events are also becoming the new “normal”.

Erfurth espouses that “*everything can always be improved... This is one of EQT’s key mission statements. The goal is to make EQT a smarter investor, owner and seller and to future-proof all portfolio companies by making them digital leaders in their industries.*” Given the growing industry competition, those private equity firms that are set up to succeed in the coming years are those that are able to harness the value of data management and the new technologies to remain top performers and provide stakeholders with the best digitally-enabled solutions.

JW

**“Everything can always be improved... This is one of EQT’s key mission statements. The goal is to make EQT a smarter investor, owner and seller and to future-proof all portfolio companies by making them digital leaders in their industries.”**

KARIN ERFURTH

# ESG – A CRUCIAL ELEMENT OF VALUE CREATION

TPG, ONE OF THE PRIVATE EQUITY WORLD'S GIANTS, MADE HEADLINES IN 2016 FOR THE LAUNCH OF THEIR RISE IMPACT FUND WITH JEFF SKOLL AND U2'S BONO. THE FUND HAS \$5 BILLION IN AUM THAT IT AIMS TO INVEST IN MISSION-DRIVEN GROWTH STAGE COMPANIES THAT HAVE "THE POWER TO CHANGE THE WORLD". SHORTLY AFTER, BAIN CAPITAL LAUNCHED ITS DOUBLE IMPACT FUND, AIMING TO FINANCE COMPANIES WHICH ARE SOLVING CRITICAL GLOBAL SOLUTION IN A SUSTAINABLE MANNER. IN EARLY 2020, ANOTHER PRIVATE EQUITY GIANT, KKR, CLOSED ITS \$1.3 BILLION GLOBAL IMPACT FUND. BLACKSTONE, IN 2019, LAUNCHED AN IMPACT INVESTING PLATFORM THAT TARGETS FOUR SPECIFIC INVESTMENT THEMES ALL THE WHILE DELIVERING A POSITIVE FINANCE IMPACT. APOLLO GLOBAL MANAGEMENT HAS ALSO ANNOUNCED IT PLANS TO ENTER THE IMPACT INVESTING MARKET SEEKING TO LAUNCH A \$1 BILLION FUND.

Clearly, and if you'll pardon the pun, ESG is having an impact on private equity. Combine the drive seen within private equity firms, with the fact that private companies with over 500 employees outnumber public ones two to one, and it's easy to realise that private equity firms are beginning to have an outsized impact on ESG. Given this, in January 2021, Luxembourg for Finance had the pleasure of hosting Hedda Pahlson-Moller, Founder and CEO of TIIME, and Vanessa Camilleri, Conducting Officer and Head of the Luxembourg Office at Partners Group, at our Focus On Private Equity event to discuss, among other topics, ESG and its importance in the private equity sphere.

A shift has occurred, both in investor expectations and asset management perceptions, over the last 15 years – one that introduced a completely new paradigm within the world of finance. Sustainability

has moved from a negative investment signal to a positive one. The guiding theory that one needs to sacrifice financial return in order to have a sustainable return no longer holds. A number of studies have debunked this. Pahlson-Moller points to the fact that *"ESG is not, or rather not necessarily or directly, about positive screening*

**"ESG is not, or rather not necessarily or directly, about positive screening to contribute solutions for societal problems. It's simply smart investing."**

HEDDA PAHLSON-MOLLER

HEDDA PAHLSON-MOLLER,  
FOUNDER AND CEO,  
TIIME

*to contribute solutions for societal problems. It's simply smart investing. It's looking at risks and opportunities based on nonfinancial criteria."*

Its value goes beyond financial returns into the common good – for investors, society and societal equity, and the planet. It is also an opportunity for private equity firms to adapt to new regulations, markets and investor demand. The private equity industry is uniquely positioned to use its expertise and place in the market to not only generate value for investors but for society as a whole. Camilleri pointed out that for private equity firms it's critical to have *"ESG specific teams integrated directly with value creation teams, so investments are screened in the due diligence process."* In this manner, private equity houses can take what they do best, driving transformation more rapidly than others, and use this power to further sustainability across their various portfolio companies.

While many private equity firms have already taken on ESG considerations into their own operations, it's critical that this is further embedded into their investments and portfolio companies. In order to do so, private equity houses should focus on what is material and according to Pahlson-Moller, let the UN Sustainable Development Goals be a guiding factor.

**"There's a strong push towards racial equity that's a long overdue discussion."**

HEDDA PAHLSON-MOLLER

These will provide firms with the ability to more easily identify possible material risks mapped to these specific thematic. Pahlson-Moller emphasizes this noting that firms can *"screen out the industries and companies to follow ESG performance or venture towards impact investing philosophy setting values that can filter."* While evaluating new investments on this basis is critical, firms should also implement time sensitive turnaround strategies for existing portfolio companies to green production facilities or to increase diversity within management and boards.

In fact, while much emphasis has been placed on the "E" category, an increasing number of firms are looking to the "S" and "G" as well. Pahlson-Moller highlights that there is clear value creation around diversity, and that despite there only being *"approximately 10% of women in senior positions, there are data-driven arguments why and how it correlates to improved performance and results."* Camilleri echoed this, noting that assessing investments from different geographies or industries requires various perspectives. *"These different perspectives enable us to source the best deals and create the best bespoke solutions for our clients. There's a direct correlation between diversity, different perspectives, and better conclusions."*

To achieve a more balanced representation a number of initiatives across the globe have already been, or are in the process of being, implemented. Germany has, for example, mandated 30% women on boards, Level 20 in the UK is powering a number of initiatives for the private equity industry, and NASDAQ has requested SEC approval for new listings with board diversity requirements. While the gender issue is concerning, Pahlson-Moller notes that *"there's a strong push towards racial equity that's a long overdue discussion."*

In Europe, the regulatory agenda is also setting the pace and private equity fund managers will not be immune. The SFDR will require firms to disclose how ESG



VANESSA CAMILLERI,  
CONDUCTING OFFICER AND HEAD OF THE LUXEMBOURG OFFICE,  
PARTNERS GROUP

forms a part of their investment process. Further, societal expectations as well as internal stakeholders, are putting pressure on private equity firms to bolster their ESG credentials. New employees are increasingly calling for firms to not only talk-the-talk, but walk-the-walk when it comes to ESG and to demonstrate their commitment.

Clearly ESG has already become a critical issue for the private equity industry, not least due to the fact that investors are increasingly calling for their money not only to do good for their bottom line.

Across the private equity sphere, it is clear that ESG mitigates certain risks, creates a longer-term sustainable value that fits with private equity investment timelines and enhances value for all parties, be it the investor, the private equity firm, the company or the clientele.

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“Different perspectives enable us to source the best deals and create the best bespoke solutions for our clients. There’s a direct correlation between diversity, different perspectives, and better conclusions.”

VANESSA CAMILLERI

# LUXEMBOURG AIR RESCUE: THE FLYING INTENSIVE CARE UNIT

AND WHAT IF AN AMBULANCE HAPPENS TO FLY? AS SOON AS THE COVID-19 PANDEMIC STARTED TO SPREAD WORLDWIDE, LUXEMBOURG AIR RESCUE (LAR) WAS CALLED TO THE FRONT LINE TO AIRLIFT HIGHLY INFECTIOUS PATIENTS. AS A RESULT OF THEIR OUTSTANDING CROSS-BORDER COLLABORATION, DRF LUFTRETTUNG AND LAR WERE AWARDED THE 2020 ADENAUER-DE GAULLE PRIZE BY THE FRENCH AND GERMAN GOVERNMENTS.

*"The call for assistance is a part of our duty and we proudly responded. We are used to dealing with high-pressure situations and working in exceptional circumstances, which means that we can be very agile and adapt quickly,"* says Antje Voss, Head of Marketing & PR at Luxembourg Air Rescue.

For over 30 years, the company has been devoted to saving lives by operating rescue helicopters and ambulance jets in Luxembourg and around the world, using their own state-of-the-art intensive-care medical fleet staffed with LAR-pilots and an LAR-specialised medical team.

*"With our subsidiary, Luxembourg Air Ambulance (LAA), we have a fleet of six MD-902 helicopters and six cutting-edge Learjet 45XR ambulance jets. In recent years, we have flown more than 52 million kilometres, the equivalent of almost 1,300 times around the world."*

## AIR RESCUE WITHOUT BORDERS

Last spring, as the situation became dire in the North-East of France with hospitals stretched too thin to cope with the surge in the number of patients, the air ambulance company went into full support mode to help manage healthcare capacity.

*"There are no political borders when it comes to air rescue. We told everybody we can help. We have the people and the right equipment on board."*

**"In recent years, we have flown more than 52 million kilometres, the equivalent of almost 1,300 times around the world."**

ANTJE VOSS



ANTJE VOSS,  
HEAD OF MARKETING & PR,  
LUXEMBOURG AIR RESCUE

At the peak of the crisis, LAR started to operate transfers of French patients on behalf of the Luxembourg government to intensive care units in Luxembourg. Soon after, the cooperation continued on behalf of the French Health Authorities, with the transport of COVID-19 patients within France and also to Germany and back.

Luxembourg Air Rescue has already transported a lot of COVID-19 patients and does not plan on stopping. Voss recalls: *"We airlifted one patient to a hospital in Luxembourg and flew him back home after a few weeks once he recovered. It was something very special for us as we normally don't get to see the patient a second time."*

Last February, the company extended its fight against the virus and one of its doctor was assigned to a medical team which went out to Portugal to help the country's health service cope with fast-increasing hospitalisations.

### INNOVATION AS A RESPONSE

COVID-19 is not their first run-in with viral outbreaks, so when the pandemic started to surge, the company and staff were already well-prepared.

*"The Ebola crisis of 2015 in particular gave us a very valuable insight into the transport of highly infectious patients. At that time, our medical team developed a tent-like Infectious Disease Module that can be installed within 2 hours for the safe transport of patients. The air is filtered and the whole crew - doctor, nurse and pilot - is protected. It has since been quickly adapted for the transport of COVID-19 patients."*

At that time, Luxembourg Air Rescue was one of the only two companies worldwide able to transport patients affected by the Ebola virus.

The current pandemic highlights the challenges air ambulance services are facing when transporting highly infectious patients for several hours in enclosed spaces.

*"Special situations, such as tackling the highly contagious Coronavirus, require special measures and one has to be on constant alert to what is a fast-evolving situation. Despite the fact that we had already much of the required equipment, we decided to invest in an "EpiShuttle" to provide even better protection for the crew and the patients,"* says Voss.

An EpiShuttle is an isolation stretcher under a transparent plastic dome. Air-tight tubing connects the patient to an intensive care ventilation system so that the patient can be treated and monitored at the same time.

*"A further advantage is that the lengthy and complex disinfection of the helicopter cabin is no longer necessary. This means turnarounds following missions are now much faster."*

Furthermore, two additional Isolation Chambers have been purchased with the support of the COVID-19 foundation, under the aegis of the *Fondation de Luxembourg*, for the transport of highly infectious patients in LAR's ambulance jets.

**"The Ebola crisis of 2015 in particular gave us a very valuable insight into the transport of highly infectious patients."**

ANTJE VOSS

“A further advantage is that the lengthy and complex disinfection of the helicopter cabin is no longer necessary.”

ANTJE VOSS

## EXPANDING THE AIRCRAFT PORTFOLIO

Challenges abound for LAR. The pandemic has complicated the operating processes, which now require a lengthy logistical planning.

*“Last week, we had a repatriation mission to Rwanda. In the past, we would need between three or four hours to plan such a mission, but now it is taking two or three days because of the difficulty getting overflight and landing permissions during the pandemic.”*

Never let a good crisis go to waste. To help cope with the new hurdles involved in transporting highly infectious patients and managing crew rest times for long journeys, the company decided to adapt its fleet and replace two of its Learjets with a long-range Challenger 605 aircraft.

*“It has twice the range of the Learjet, meaning that fuel stops every 4,500 km are no longer necessary.”*

The aircraft can also accommodate a double crew allowing the team to pick up a patient and transport him back in one journey without needing to overnight.

## RESILIENCE IN THE FACE OF CHALLENGES

Even in such a crisis situation, the company has been hard at work running other operations.

*“What has changed is that we operate fewer medical repatriation flights because of the impact on the tourist business, the travel restrictions and quarantine requirements, which are in place all over the world. Everything else is just like before.”*

For over 15 years, the company has had a cross-border collaboration with Germany, dedicated to missions in Rhineland-Palatinate and Saarland. In addition, it holds the exclusive contract for the delivery of organ transplants – recently renewed for five years – for the whole of France excluding Paris.

*“We frequently transport livers, hearts and other vital organs. We also intervene daily for*

*serious emergencies in Luxembourg, as well as in Saarland and Rhineland-Palatinate.”*

In cooperation with the Luxembourg government and NATO, LAR is also being called on to ensure the medical repatriation of NATO members.

Voss is confident about what the future holds: *“The crisis has amply demonstrated again LAR’s ability to adapt, innovate and improvise as new challenges arise in the future. We will remain as passionate about our work as we were when we started. That passion has driven our success and we intend to keep that flame alive.”*

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“We will remain as passionate about our work as we were when we started. That passion has driven our success and we intend to keep that flame alive.”

ANTJE VOSS



# EVENTS AGENDA

## FOCUS ON CAPITAL MARKETS UNION

Since launch in September 2015, the European Union's Capital Markets Union action plan has ambitiously looked at what needs to be done to make access to finance more widely available to EU companies, in particular SMEs. Just over five years on, what measures have already been taken, and what more needs to be done?



## SAVE THE DATES

**2021**  
**08.04**

**FOCUS ON INDIA**

**2021**  
**22.04**

**FOCUS ON PENSIONS**

**2021**  
**11-12.05**

**CHINA FINANCE FORUM**

**2021**  
**20-21.10**

**SUSTAINABLE FINANCE FORUM**



# FINANCING A SUSTAINABLE FUTURE



## **LUXEMBOURG'S FINANCIAL EXPERTISE WILL HELP SHAPE THE WORLD OF TOMORROW.**

Financial services are essential to stimulate economic activity. They are part of the solution to help our economies recover from the Covid-19 crisis in order to generate growth and create jobs. Expertise clustered in financial centers like Luxembourg is key in achieving this goal. Luxembourg's unique cross-border expertise helps you raise capital from global investors and allocate these investments to firms and projects in Europe and around the world. Our stability and resilience offer you a perfect base to grow your business. Our openness to innovation helps you look beyond today. Our longstanding commitment to sustainable finance connects you with the needs of tomorrow's economy.