Globally, the Private Equity industry had a good year. Despite divergent growth levels across developed economies, key performance indicators of the industry such as fundraising, M&A and IPO market activity showed very positive trends for 2014. As a fund centre and an acquisition platform for the Private Equity industry, Luxembourg benefited from these positive trends with robust activity throughout the various levels of the PE value chain. One should not ignore the impact of the AIFM regulation which brought considerable new business to the market place.

FROM AN ECONOMIC POINT OF VIEW, THE EU IS STILL SUFFERING FROM LOW ECONOMIC GROWTH. WHAT WAS THE IMPACT ON THE PE INDUSTRY AND HOW IS IT RESPONDING TO THE CHALLENGES OF THIS LOW-GROWTH ENVIRONMENT?

The EU economy is clearly struggling to gain traction, due to the slowness to implement the reforms needed and an overall lack of agility. Besides the indirect impact that a slow economic growth has on investor confidence and other stakeholders within the economy, it has a direct effect on the ability of the PE funds to make profitable investments in the EU and generate good returns. Low economic growth results in fewer opportunities to improve profitability in portfolio companies. Consequently, it becomes more difficult and takes longer to increase the value of portfolio companies to bring them to the right stage for exit. There is unfortunately no magic solution to this issue. The ability to identify those companies that will be the winners of tomorrow and deploy actions improving their earnings has historically been the unique route to succeed. This is also true in a low-growth environment, but requires even more patience and focus.

AIFMD FUNDAMENTALLY CHANGED THE PE INDUSTRY IN THE WAY IT OPERATES. HOW WAS LUXEMBOURG AFFECTED SINCE IT IS HOME TO MANY PE FUNDS AND UNREGULATED ENTITIES? WHAT CHANGES CAN YOU SEE SINCE ITS INTRODUCTION IN 2013?

Firstly, I do not believe that AIFMD has greatly altered the fundamentals under which the PE industry operates. Acquiring a company at a good price, developing it and selling it at a higher price was, in the past and will continue to
Interview

By now, Luxembourg has been evolving into a well-established place for PE funds, similar to UCITS funds when they were introduced in 1988. Is there still room for improvement?

As long as there will be PE funds incorporated in another country, there will indeed be room for improvement for Luxembourg!...

WHICH ADVANTAGES DOES LUXEMBOURG HAVE VIS-À-VIS ITS COMPETITOR JURISDICTIONS AS A DOMICILE FOR PE FUNDS?

In my view, there is one really tangible advantage that nobody could dispute: the stability of the country. Over the years we have seen that political elections and other external factors have not fundamentally changed the landscape for the PE industry or impaired the rating of the country. Luxembourg is a stable and safe place to run Private Equity activities and there are few countries that can boast such stability, especially in the on-shore and regulated world of today.

WITH AIFMD, LUXEMBOURG INTRODUCED THE SPECIAL LIMITED PARTNERSHIP STRUCTURE, THE “SLP”, WITH THE OBJECTIVE TO MAKE LUXEMBOURG MORE ATTRACTIVE FOR PE HOUSES FROM THE ANGLO-SAXON COUNTRIES. THESE COUNTRIES ARE MORE FAMILIAR WITH PARTNERSHIP CONTRACTS THAN FUNDS IN THE LEGAL FORM OF COMPANIES. WERE EXPECTATIONS MET SO FAR?

There is no doubt that the SLP was the missing part of the puzzle to attract more Private Equity funds and we can clearly state that the SLP is a success for the country. Going forward, for the success story to be complete, we would need a couple of the largest Private Equity houses structuring their flagship funds with a master incorporated as an SLP in Luxembourg. The Luxembourg PE community is working at this and I am optimistic to see concrete results soon.

“AIFMD HAS CHANGED THE WAY PE FIRMS AND THEIR FUNDS ARE STRUCTURED, NOT THE BUSINESS ITSELF.”

be in the future, the way PE funds work; AIFMD has not and will not change that. I would rather say that AIFMD has changed the way PE firms and their funds are structured. We have seen a large number of managers reengineering their operations through Luxembourg with additional people and structures. Overall, we see a positive trend with more PE business in Luxembourg, in particular from PE houses resident in non-EU countries with existing or potential limited partners in the EU. I however believe it is probably too early to conclude whether Luxembourg will be the big winner from AIFMD as i) some key questions are still open, ii) other countries also want to attract new business from this regulation and are massively investing to make it happen and iii) the tax aspects are also going through major changes which will also impact the final outcome.
IN A NUTSHELL, WHAT ARE LUXEMBOURG’S KEY STRENGTHS IN RELATION TO PRIVATE EQUITY FOR YOU?
As I said, stability is the number one strength. The possibility that Luxembourg offers to structure funds, AIFM and the acquisition structures in one country is also a major strength that we should not ignore. Finally, the Luxembourg PE community to which the LPEA, my competitors and I belong already is a strong catalyst to strengthen the position of the country globally.

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