



“We launched the world’s first commercial deployment of blockchain for the private equity market.”

EDWIN CHAN,
SENIOR VICE-PRESIDENT
FOR EMEA BUSINESS DEVELOPMENT,
NORTHERN TRUST

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Northern Trust

Luxembourg leads the way as a private equity hub

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LUXEMBOURG’S EMERGENCE AS A LEADING PRIVATE EQUITY CENTRE HAS BEEN DRIVEN BY THE DEVELOPMENT OF NEW PRODUCTS TAILORED FOR THE SECTOR, AS WELL AS THE INDUSTRY’S BROAD EXPERIENCE IN SERVICING ALTERNATIVE FUNDS, SAYS EDWIN CHAN, SENIOR VICE-PRESIDENT FOR EMEA BUSINESS DEVELOPMENT AT NORTHERN TRUST.

What factors have helped the transformation of Luxembourg into a private equity hub?

As an established centre of investment fund expertise, Luxembourg is playing a pivotal role in supporting the growing global demand for private equity investments; both as a domicile and servicing hub. It offers a toolbox of solutions to meet the needs across fund promoters, managers and investors. These include Luxembourg’s Reserved Alternative Investment Fund (RAIF) regime, introduced in 2016, that offers a more expedient time to market than other structures – often critical for private equity firms – while benefitting from the protection of the Alternative Investment Fund Managers Directive (AIFMD) framework. RAIFs now account for 5% of all private equity funds in Luxembourg and 6% of all real estate funds according to figures released by the Association of the Luxembourg Fund Industry (ALFI) at its recent Private Equity and Real Estate conference. Another advantage is the Special Limited Partnership regime, which emulates the established Anglo-Saxon-style common law partnership familiar to the US and UK private equity industry. Luxembourg also offers broad sector-relevant expertise in areas such as administration, custody, depository, legal, audit, compliance and risk. This gives managers access to all the cross-border fund expertise in a single location.

What opportunities and threats do you see for the future?

Luxembourg currently enjoys a significant opportunity to expand its role in alternative investments with institutional investors looking to invest in fund vehicles domiciled in well-regulated and stable jurisdictions. Meanwhile, asset managers are exploring alternative domicile options such as Luxembourg to future proof their post-Brexit access to the EU single market. However, we believe the UK will continue to remain an important private equity

domicile regardless of the negotiation outcomes. Among the threats are ensuring Luxembourg continues to develop the depth of private equity specialists to meet the anticipated significant increases in activity. The industry also needs to keep a close eye on increased EU regulation which potentially adds to the industry’s costs and may not be particularly suited to the specific characteristics of private equity. The sector faces its own challenges in the volume of ‘dry powder’ held by funds that are struggling to find target companies to invest in. As demand is outstripping supply managers are concerned that some target companies are overvalued. This is delaying the investment phase of recently launched funds as managers spend more time looking for attractively priced investment opportunities in a market with limited supply.

How is Northern Trust adapting to this new environment?

Northern Trust services worldwide more than \$1trn in alternative assets for asset managers and asset owners. We are further expanding our private equity team in Luxembourg in response to the increasing opportunities as our clients boost their private equity allocation. The team works closely with our specialist hubs in the Americas, Europe and Asia which support Northern Trust’s global network of offices, giving our clients flexibility to grow and evolve their strategies. We are also embracing innovative technology to serve them more efficiently, for example, we launched the world’s first commercial deployment of blockchain for the private equity market. The security rich blockchain, or distributed ledger solution, aims to make the process of managing and investing in a private equity fund more streamlined, secure and transparent for all stakeholders offering a major breakthrough for a traditionally very paper-based business, therefore removing some of the frictions for investors that are increasing their allocation to this asset class.