bpifrance | SERVING THE FUTURE

FUNDS OF FUNDS LE MAG'

2023 EDITION

EDITO

Dear Partners,

Bpifrance's funds of funds department is pleased to present this new edition of Le Mag'. The whole team has worked together to produce this summary of our vision of the private equity market in 2023.

In a changing environment impacted by health and geopolitical crisis, with a restricted access to liquidity, our industry must be constantly reinventing itself. We are proud to be able to work alongside private equity players to continue supporting ambitious businesses throughout the financing continuum, from startups to intermediate sized enterprises (ETIs).

In this edition, we have once again aimed to provide our analysis of developments in venture capital and private equity, to shed light on some of the major economic and technological changes at work today, decarbonization, watertech, for example, and to highlight some of the key themes in the renewal of our industry: emerging teams, gender balance, new investment themes such as Web3.

We hope you enjoy reading it.

Adeline Lemaire
and the funds of funds team

FUNDS OF FUNDS LE MAG'

VISION OF THE PRIVATE EQUITY INDUSTRY...

...RESILIENCE IN 2023

01.

We'd like to share our vision of the two market segments on which we focus: venture capital and private equity. Our figures cover the first half of the year, but these trends remain true in the second half.

The venture capital industry

Resilient La French Tech despite a European market in sharp decline

The first half of 2023 confirmed the already noticeable slowdown since the summer of 2022 in the French venture capital ecosystem, against a backdrop of macroeconomic uncertainty and rising interest rates. Nonetheless, France remains number one in continental Europe in terms of amounts invested, driven by momentum in the early-stage market and the cleantech sector.

After a period of massive liquidity inflows to recover from the Covid crisis, the French market contracted in terms of the amounts raised by La French Tech startups, which amounted to €4.3 Bn in the first half of 2023, down 49% in value terms compared to the first half of 2022. This trend is reflected in a decrease in the average size of funding rounds, estimated in France at €7.8 M compared with €13.5 M in the first half of 2022 and €11.5 M over the whole of 2022.

Mirroring European trends, this slowdown is due to the sharp drop in fundraising over €100 M (-78%), reflecting the growing difficulty of raising funds for more mature companies.

Seven companies raised megarounds in the first half: Driveco (€250 M - cleantech), Ÿnsect (€160 M - agritech), TSE (€450 M - cleantech), Amolyt Pharma (€130 M - life science) and Mistral AI (€105 M - artificial intelligence).

This top 5 illustrates France's momentum and leading role in Europe in certain sectors, such as artificial intelligence, or cleantech, with €1.2 Bn raised. This is strong growth in both volume and value terms (+76% and +26% respectively), contrasts with other sectors such as fintech. The market downturn in this sector is due to the correction in valuations seen over the 2020-2021 period, which some have termed a "bubble", as well as the significant drop in amounts invested (-82% in volume).

The French venture capital ecosystem kept its momentum in early-stage investing in the first half of 2023, with an increase in both the amounts raised and the number of deals. This trend is due to more stable valuations than in the growth segment, less uncertainty attracting GPs to seed and Series A strategies, and a new pool of C-level talent from scale-ups capable of generating new technological champions.

Like Criteo and Blablacar, whose former employees have created 31 and 24 startups respectively, the 25 French unicorns have in fact seeded 142 startups. With a 9% increase in the number of exits in France, scale-ups also offer liquidity opportunities for venture capital funds through startup buyouts, accounting for 25% of exits in the second quarter of 2023, *vs* 13% in 2022 and 5% in 2021.

While La French Tech has shown resilience in recent months, the correction in valuations and the slowdown in fundraising rounds are set to continue over the rest of the year. This is nevertheless a promising sign that the market is shifting towards companies with solid business models looking to achieve profitability more quickly.

Marine Le Lan
and Yasmine Terhzaz

Sources: Pitchbook, Dealroom, EY, Bpifrance and Les Echos.

The private equity industry

Resilience and adaptation at the heart of the model

After a year marked by Covid in 2020, the French private equity industry enjoyed two exceptional years in 2021 and 2022. Our partner GPs were very active, with a 40% increase in investments compared with 2019.

A slowdown can be seen from the second half of 2022 onwards, although this and the first half of 2023 remain in line with the activity levels before 2019.

In terms of exits, the trend is similar and returns have been excellent. Since 2017, average exit multiples have exceeded 2x every year, even outperforming in the “crisis” years when they were close to 3x. With an average return of 2.9x on exits completed in the first half of the year, 2023 is no exception to this rule.

Every year, a few exceptional exits at 5x or more (between 5% and 10% in number) boost this performance. Even in more difficult times, we continue to find companies that outperform, and have an outsize impact on the average returns due to the smaller number of transactions.

We can therefore continue to assert that the private equity industry is proving its resilience in a context of successive economic shocks.

The impact of the economic environment is still being felt, particularly in terms of fundraising, which is taking longer. Fund management companies are undoubtedly under much greater pressure to adapt their strategies to the current cycle, and to support their investments to continue creating value.

In this context, the underlying trend of team specialization, to varying degrees, continues, reflecting the growing maturity of the French private equity market. At the same time, strategies are diverging. Some players are choosing to target high-priced assets with a proven track record and/or in promising sectors (healthcare, digital, etc.). Others are imposing strict discipline on acquisition prices, favoring industrial sectors or situations with a certain degree of complexity.

The integration of climate issues into strategies continues to progress. What might have been considered differentiating 18 or 24 months ago, such as systematically carrying out carbon audits, is now a widespread market practice. It is essential for funds currently being deployed to adjust to these new practices.

Decarbonizing the French economy requires the involvement of SMEs and medium sized businesses, which account for 30% of France’s carbon footprint. Most of their managers are now aware of climate issues and have taken steps to reduce their companies’ emissions.

To tackle more ambitious initiatives, they will need investment capacity and support. We are convinced that private equity funds have an essential role to play in this transformation of the French economy.

Nils Laurent

02.

STRONG
MARKET TRENDS...

...INDUSTRIAL VENTURE, DECARBONIZATION OF INDUSTRY, CARBON CAPTURE, WATERTECH AND GENERATIVE AI

We cover a very broad spectrum of sectors. We have chosen to focus on certain verticals central to major economic and technological change.

Industrial venture

The rise of a new asset class based on reshaping the industrial and technological environment

The ambition of the "France 2030" industrial plan is to re-industrialize the country, with the creation of 100 new factories a year by 2030. An asset class of startups with strong industrial potential will emerge to help meet this major challenge.

Since 2010, the structure of the French seed ecosystem, supported by the *Fonds National d'Amorçage* (French National Seed Fund, or FNA), has enabled over 600 startups to raise a total of €6.3 Bn, mainly at the R&D stage. This generation of companies, including a large number of deeptechs, is mostly developing solutions in industry 4.0 sectors, mobility, energy, green chemistry, new materials, biotech and foodtech/agritech. This capacity represents a major opportunity for industrial deployment throughout France. While some of these companies, such as Ÿnsect and Exotec, have been able to obtain construction financing for their first factory, the majority continue to encounter difficulties in finding financial support to begin their industrialization phase.

However, positive signs of industrial momentum within the venture capital ecosystem have multiplied in recent years, as evidenced by the growing interest of fund management companies in startups with an industrial profile. Among **Bpifrance**'s partner GPs, 145 innovation teams, including pure players, target this vertical, having invested a total of €1.6 Bn in over 350 underlying companies since 2000.

However, most of these players still need to deepen their understanding of the development and value-creation cycles of industrial development and consider their view of longer-term risk.

To meet these challenges, ensure a continuum of investment and enable these startups to develop their own industrial know-how, the €350 M *Fonds National de Venture Industriel* (French National Industrial Venture Fund, or FNVI), created in 2022, will consolidate an ecosystem of venture capital funds to support first factory projects. At the same time, **Bpifrance**'s funds of funds department has developed a Green Industry Acceleration Program. Open to around ten GPs each year, this program aims to strengthen their capacity to support startups and industrial SMEs that are likely to play a part in the reindustrialization drive, along with the introduction of low-carbon processes.

Taken together, these actions will enable this seedbed of technology companies to develop, building a competitive industrial fabric that is more local and more environmentally friendly.

**Jean Orsoni
and Marine Le Lan**

Decarbonizing industry
An opportunity for France

The urgency of climate change, the rise of industry 4.0 and the challenges of industrial sovereignty create the conditions for a massive return to industrial activities in France. This industrial revival must be accompanied by decarbonization.

France's low-carbon energy mix thanks to its high nuclear component is its greatest asset for green reindustrialization as the electrification of industrial processes significantly reduces related emissions. The competitive advantage provided by this energy mix promotes the development of new industrial sites in France.

Combined with the development of industry 4.0 driving down costs, the repatriation of production units, such as the Ardèche textile industrial group Chamatex, can be considered. The strong growth in industry's electricity requirements has been adequately factored in by RTE, France's transmission system operator, which predicts that France will be able to meet this increase in demand with decarbonized electricity at a competitive price[(1)].

Through the *Stratégie Nationale Bas Carbone* (French Low Carbon National Strategy, or SNBC), France has set an 80% reduction in industrial emissions target by 2050. Achieving this objective will also require the use of existing decarbonization solutions and the development of new technologies such as CO_2 capture, chemical recycling, etc.

At a company level, decarbonization strategies must necessarily involve scope 3 of the carbon footprint (supplier and customer emissions). Even for an industrial company, this generally represents between 80% and 95% of emissions.

Decarbonization implies making strategic decisions in the choice of its business development and production chain. This generates opportunities for new suppliers with lower-emission solutions. For established players, a process to green their scope 3 emissions, working with the various stakeholders in their value chain, will also be valued by the major customers in their sector.

Collaboration also involves the development of low-carbon industrial hubs in local areas. Dunkirk is an iconic example. The "heat highway" project, which recovers the heat emitted by certain industrial sites to supply the energy needs of neighboring sites, is attracting new manufacturers to the region, particularly in battery production and recycling.

In addition to its environmental impact, this reindustrialization movement has a strong social impact. The inauguration of new factories on former industrial wastelands is revitalizing the region. This revival is organized around SMEs and ETIs investing in decarbonization, a growing number of industrial startups and the construction of gigafactories, flagships for this new chapter of industrialization.

This wave of green industrialization requires substantial investment, as well as industrial and environmental support. Public authorities are taking large-scale action, as is **Bpifrance,** which is mobilizing all its business lines to support players in the sector, from startups to major industrial groups.

We are convinced that private equity players also have an important role to play in supporting this transformation of the economy, which is generating some attractive investment opportunities.

Nils Laurent
and Colombe Le Cour Grandmaison

[(1)] Source: RTE.

Carbon capture

Innovative technologies create a new ecosystem

Although carbon capture technologies have been identified as one of the levers for achieving carbon neutrality by 2050 and have multiplied, there is still a long way to go. The volume currently processed by CCSU (Carbon Capture, Utilization & Storage) projects would have to increase 170-fold to meet the 2050 targets on a global scale!

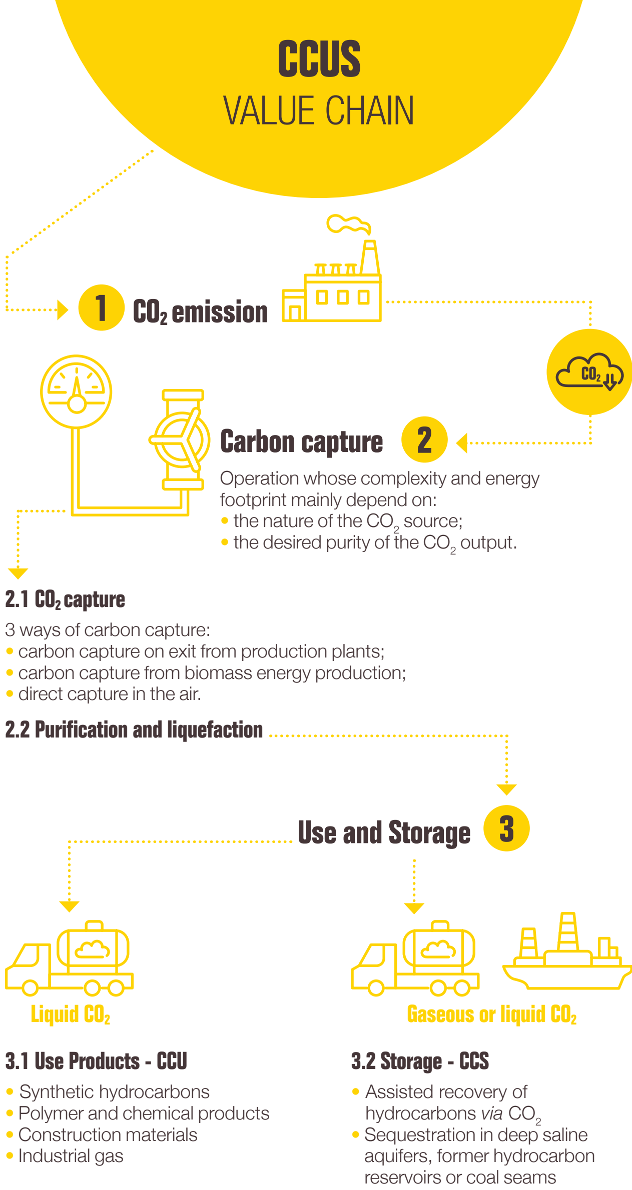
Startup projects in carbon capture, often deeptechs, are spread across the entire value chain, shown below. CCUS-related startups raised around €882 M in funding in 2022 worldwide, with a few megarounds such as Climeworks ($600 M), Carbon Clean ($150 M) and Verdox ($100 M). In France, the segment is still a very small minority.

The main obstacle to successfully scale up this technology lies in the current very low carbon market prices, which discourages private investment in carbon capture projects in the short term. Although CCUS has long been identified as one of the solutions for decarbonization, it is technologically immature, the associated costs very high and the regulatory barriers restrictive. Overall, the cost of this technique is between €100 and €150 per ton of CO_2 avoided, of which 60% is for capture, with the remainder split between storage and transport.

However, several GPs have recently bet on the success of disruptive technologies dedicated to CCUS, mainly in the United States, with the emergence of pure-play climate tech fund management companies, such as Lowercarbon and Beyond Net Zero. The trend has followed in Europe very recently, with new funds specializing in this vertical in Germany, Austria, Switzerland, the UK and the Nordic countries.

French players still play a marginal role on the European scene: a few established GPs have diversified into this vertical, and **Bpifrance,** the climate bank, is supporting them in this general transition drive.

Marine Le Lan



Source: Alcimed.

Watertech

The beginnings of a key ecosystem for the ecological transition

Most environmental issues are directly or indirectly dependent on an increasingly disrupted water cycle. However, this fact is still little understood and barely acknowledged in economic models.

Yet the mathematics of water are unforgiving:

- only 1% of the world's water is drinkable;
- one in seven people still have no access to clean water;
- 50% of the world's population will live in water-stressed regions by 2050[1].

This is compounded by ageing technologies, years of chronic under-investment in the sector and extremely complex decision-making processes.

However, through more frequent and intense episodes of drought and flooding worsened byobsolete or inadequate infrastructure, as well as increased regulation and public awareness, we can see the emergence of a new narrative included in climate strategies: watertech.

As a technological ecosystem, watertech includes companies developing both hardware and software solutions that target the entire water value chain: from the management of aquatic environments and water resources to the treatment of wastewater, the production of water in terms of quantity and quality, and even the improvement of its properties.

Initial investments remain cautious (€300 M in Europe in 2022[1]), but the process is underway and has all the hallmarks of a sustainable market. The emergence of dedicated investment funds such as Swen Blue Ocean is a case in point.

[1] Source: MIT.

These funds support the development of various technologies with a high innovation potential: ultrafiltration, desalination, atmospheric generation, selective extraction, short circuit treatment, predictive risk analysis, etc.

In addition to the way in which these technologies are addressing water-market issues, a favorable political and regulatory environment is emerging. The "Water Plan" announced in March 2023 by the French President aims to support local authorities, industries and users in better managing, preserving and reusing water resources.

In addition, the relationship between water and energy is complex: 55% of the operational cost of water is linked to energy (drinking water and wastewater treatment, construction and operation of networks, distribution), while 5% of the Earth's water is used in energy production (mining and refineries, fuel production, hydropower, power plant cooling).

On top of this comes a rarely highlighted dichotomy between water and carbon, whose relationship is often reversed. This is illustrated by the various decarbonization technologies (such as biofuels, carbon capture and storage, hydrogen and nuclear power), which are particularly water-intensive. If they do not respond effectively to this challenge, their development could be limited by water scarcity or exacerbate existing problems with this resource.

In this way, alongside energy, carbon and biodiversity, water should take center stage in the environmental transition, whose critical paths and development strategies can only be defined holistically.

Teodora Ene
and Antonin Cobolet

Generative Artificial Intelligence

A new technological (r)evolution?

AI (Artificial Intelligence) is anything but a recent innovation, but in recent months it has monopolized the spotlight with its generative AI branch, thanks to some major advances.

GPT (Generative Pre-trained Transformer) models, developed by the Microsoft-backed American company OpenAI, are based on transformers and feature massive pre-learning.

Before being used for a specific task, GPT learns on large datasets, covering a wide variety of texts from the internet. This enables GPT to capture general knowledge about language, enabling it to produce more consistent and relevant results, by being able to analyze and understand complex relationships between different parts of a sequence, such as relationships between words or phrases in the same text.

ChatGPT is the most visible solution, but it conceals a flourishing ecosystem with players such as Meta, Google and Microsoft, as well as startups heavily backed by venture capitalists.

A surge in generative AI investment

In early-stage, the median valuations of generative AI companies have increased by 16% compared to 2022, while on average the valuations of other companies having raised Series A and B funding have fallen by around 24%.

Last year, $4.5 Bn was invested in generative AI startups, while the first quarter of 2023 alone saw $12 Bn invested (completed or announced) in these startups.

This enthusiasm for the sector can also be seen among the CVCs (Corporate Venture Capital) of major technology groups such as Salesforce. With an initial size of $250 M, Salesforce Ventures' Generative AI Fund doubled in size by March 2023. Venture capitalists are well aware of the speed of innovation in this field and its future economic importance.

While American players are deploying colossal resources to position themselves as world leaders in generative AI, France shares this ambition and is planning *"massive investment to strengthen our computing abilities and accelerate generative AI development",* as the Elysée Palace emphasized following President Emmanuel Macron's participation in the VivaTech 2023 trade show. The President also announced at the show the allocation of more than €500 M to AI, to create AI champions. In its 2023-2028 strategic plan, **Bpifrance** plans to invest €5 Bn in generative AI.

A number of promising companies have emerged from the French ecosystem, such as Dataiku, Owkin and most recently Mistral AI, which launched in 2023, just a few months before completing a €105 M funding round last June. The French startup's ambition is to develop better generative AI models capable of competing with the American giants.

Paradoxically slow integration into professional use

There's a real contradiction between the number of individual accounts created at ChatGPT's launch (an all-time record for consumer services) or the number of demonstrations published daily in the media, and the fact that "traditional" companies are still not using this seemingly accessible technology.

Let's not forget that developing a framework to leverage this technology using its own business data remains an expensive project for any company. However, companies that have the means to do so have not necessarily done so. Some European banks, which are highly sensitive to data security, have even gone so far as to prohibit access to this technology from corporate computers and networks in order to protect their core assets.

Security could therefore be a major brake on the mass enterprise deployment of generative AI. The good news is that these concerns seem to have been acknowledged, since the announcements made in September 2023 dealt mainly with data security issues: whether it's the enterprise version of GPT-4, Meta's lama 2, which enables generative AI to be used locally, or Bing Chat Enterprise from the Microsoft suite, which says that it protects user data.

Yasmine Terhzaz and Thomas Rocher

Source: ChatGPT, Pitchbook, Maddyness and Elysee.fr.

GPs . . .

. . . CONSTANTLY EVOLVING

03.

A new liquidity paradigm

Far-reaching changes in the French GP market

Today, French GPs face a different set of challenges to those they faced recently. Our partner GPs have to be highly adaptable if they are to continue growing in a world of increasingly scarce liquidity.

A new kind of fundraising

Most **fundraisings,** whatever the segment involved, from seed capital to private equity, are facing major changes.

Overall, **amounts raised are down,** to a greater or lesser extent depending on the segment. The hard cap is harder to reach than in the past, and our partner GPs need to take this into account in their fund-raising strategies.

In the current market cycle, **funds take longer on average to raise.** Teams have to anticipate delays at every stage of the process, from making appointments to the time needed to reflect and decide.

A more varied investor base

Secondly, the current economic climate is changing the LP base.

- Some investors are choosing to restrict or even temporarily halt their private equity investments, forcing GPs to **diversify their investor base.** There are more family offices, business angels and other new entrants in the cap tables. The average ticket size is smaller and spread over a larger number of stakeholders.
- Bringing in **foreign investors** can be a solution for expanding the LP base. However, because of the difficulties involved in the set-up and the long-term investment it represents, this approach is often only used by fund management companies that have already reached a minimum size that enables them to bear its inherent costs.
- **Retail** and the use of individual investors is also a developing channel, although to date remains small. Teams who use this channel do so through intermediaries (such as private banks) or directly with dedicated platforms.
- The **"investor relations" function** is particularly important for GPs seeking a close relationship with their LPs.

The exception of ESG/climate funds

In this context, **ESG and climate funds are often the exception rather than the rule,** as they meet a genuine demand from limited partners. Partner GPs are taking steps to promote the transition, with initiatives such as recruiting a dedicated ESG manager, indexing a portion of carried interest on extra-financial criteria, or taking actions to promote gender balance.

Structural changes within GPs

As is common in mature industries, **the private equity market is undergoing a rationalization phase.**

- Fund management companies are continuing their drive to **create platforms,** enabling them to pool costs such as marketing and operating partners, etc.
- Sometimes this involves **teams joining forces,** helping to consolidate the market.
- Some also choose to use **specially-adapted vehicles, such as continuation funds.** These funds can meet investors' liquidity needs, while enabling GPs to support their portfolio companies for longer.
- **Offering a stake in the fund management company's capital** or resorting to a **GP-stake** can also free up liquidity. Few partner GPs currently use this option, due to the risks associated with the independence of the initial GPs, especially when such transactions involve a majority shareholding.

In an environment of reduced liquidity, **the alignment of interests between GPs and their LPs** assumes greater importance. Indeed, tangible proof of alignment, such as GP-commitment, takes on a special character and often becomes indispensable to any successful fundraising.

Lise de Courville,
Géraldine Fiani,
Marianne Wlassewitch
and Jean-Eudes Leleu

Gender balance in the private equity sector

Recent progress, strong commitments but parity still a long way off

The private equity sector, like many other financial professions, has historically had poor gender balance. In 2022, women represented 41% of the workforce of **Bpifrance**'s partner fund management companies, but only 29% of their investment teams.

However, the progress made in recent years should be highlighted. Indeed, the private equity sector has undergone a significant transformation over the past decade, with an increasing share of women.

In 2010, 37% of management company staff were women, and only 17% of investment teams, representing improvements of 4 and 12 percentage points respectively. Convinced of the significant impact that a more inclusive team can have on performance and growth, fund management companies have recruited more women for all their business lines.

It is also worth noting that, thanks to greater awareness and incentives on the part of LPs, French fund management companies stand ahead of the global average. Indeed, according to a McKinsey study on the topic, women represented 33% of management company staff and 23% of investment teams in 2022 worldwide, well below the French ratios cited above. The French ecosystem has in fact taken numerous initiatives to promote gender balance in the private equity industry, such as France Invest's gender balance Charter and the Sista Charter.

Our studies highlight a key issue for fund management companies: retaining female talent. The proportion of women declines the higher up the hierarchy you go. Within investment teams, women account for 39% of Juniors, 29% of Investment Directors and 15% of Partners.

Attempting to infuse gender balance from the bottom up is certainly necessary, but clearly not sufficient. Recruiting, retaining and promoting female talent: these are all challenges that will be met by changing work cultures, setting up mentoring programs and increasing the number of female role models.

Kenza Zebdani
and Lucas Bailliart

% OF FEMALE WORKFORCE **IN 2022**

41%
fund management companies

29%
investment teams

33%
fund management companies

23%
investment teams

% OF FEMALE WORKFORCE **IN 2010**

37%
fund management companies

17%
investment teams

Note: in 2022, France Invest's private equity parity study presents figures similar to our own. As we have no historical data on our own portfolio, we consider our figures to be similar to those of France Invest and have therefore used those of France Invest for the 2010 figures.

First-time funds

Bpifrance supports the emergence of new players

Between 2007 and 2022, **Bpifrance** has invested in 119 first-time funds, for a total investment of €2.8 Bn, across all segments (venture capital and private equity, national and regional funds)[(1)].

Bpifrance's significant support for these first-time funds, which represents 24% of the amounts invested over the period, has several objectives, in particular:

- **ensuring a continuum of financing** by supporting:
  - vertical sector strategies. Many first-time funds have chosen to specialize in sectors such as foodtech/agritech, medtech or climate;
  - involvement in new market segments. Recently, **Bpifrance** has supported the emergence of the growth asset class, to ensure the funding for an increasingly mature innovation ecosystem. A next step would for an ecosystem of tech buy-out or crossover funds to emerge, able to support La French Tech champions and offer liquidity opportunities for historical shareholders;
- **enabling the market to reinvent itself,** by working on innovative models both in terms of operational support and, to a lesser extent, sourcing:
  - support has developed considerably over the last few decades: there are many ways of doing this, each specific to each fund management company, but it is often the first funds that have enabled new operating models to emerge.

[(1)] Study carried out on 119 first-time funds from vintages 2007-2022: first-time funds include all subscriptions since 2007 in first-generation funds. This includes teams already set up or created to manage a new fund, as well as new and existing fund management companies.

This first-time funds strategy is in line with **Bpifrance**'s objectives of helping new teams to emerge with innovative strategies in underserved segments.

Investing in first-time funds also diversifies **Bpifrance**'s portfolio, thanks to differentiating strategies and generates superior average performance.

All in all, the bet seems to have paid off. Although the performance distribution is wider, the strategy nonetheless outperformed on average in the case of first-time funds. Between 2007 and 2020, the total value to paid in (TVPI) of the first teams was on average 0.06 points higher than that of established funds, and this gap reached 0.15 points for innovation funds[(2)].

In addition, supporting the first funds enables **Bpifrance** to create preferential, long-term business relationships with the teams. This enables **Bpifrance** to support and gain access to the best-performing successor funds.

Anne Germain
and Mathias Lebouvier

REVIEW

24%

share of first-time funds
in amounts invested by Bpifrance between 2007 and 2022

0.06

additional TVPI points for the first-time funds
compared with funds established between 2007 and 2020

[(2)] Study carried out on 94 first-time funds from vintages 2007-2020 and 225 successor funds, based on performance to 12/31/2022.

Extra-financial criteria and regulations

A strategy and structuring driver for funds and their GPs?

The new requirements for extra-financial metrics, and in particular the SFDR (Sustainable Finance Disclosure Regulation), are driving a strategic pivot by GPs, who are adapting their structure and practices to meet the dual challenges of meeting the demands of the private equity market and aligning themselves with national sustainability objectives.

Extra-financial criteria have become increasingly important in the investment business over the past few years, and the engineering being developed around these topics is becoming increasingly sophisticated. ESG questionnaires are evolving, being strengthened and supplemented by ad hoc analyses. Nevertheless, taking extra-financial issues into consideration must go well beyond data collection to both better respond to societal challenges and to integrate the expectations of LPs and new regulations. GPs are encouraged to adopt a more comprehensive, strategic approach.

The SFDR regulation has sometimes led to misunderstandings: some feared that only "Article 9" funds would be considered by LPs, while others may have believed that Article 9 only applied to impact funds.

Above all, the SFDR sets standards for greater transparency, based on:

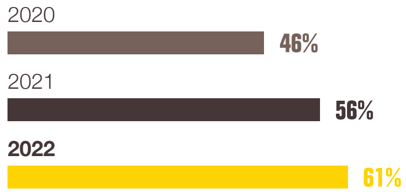
1. the definition and description of an investment strategy that incorporates sustainability criteria;
2. the operational monitoring of this strategy over the life of the fund.

However, regulations are constantly evolving. This is why they must be used to define a clear extra-financial strategy, consistent with the fund's thesis and shared transparently with the LPs.

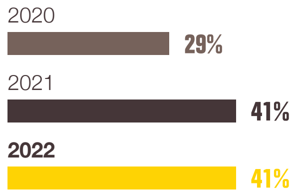
- **ESTABLISHMENT OF A FORMAL, PUBLIC POLICY FOR INTEGRATING ESG CRITERIA INTO THE INVESTMENT PROCESS**

However, progress can still be made in expanding movement within portfolios, to ensure that these policies are implemented on the ground.

- **IDENTIFICATION OF PRIORITY ESG ACTIONS TO BE IMPLEMENTED IN THE POST-INVESTMENT PHASE**



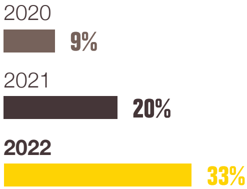
- **DESIGN OF ESG IMPROVEMENT PLANS WITH UNDERLYING PORTFOLIO COMPANIES**



Supporting investment managers in the integration of extra-financial issues, focusing on the challenges of global warming, defining relevant KPIs, translating them into a sustainable roadmap, collecting, analyzing and monitoring them... these are all new skills to be developed within GPs.

Against this backdrop of intensifying extra-financial challenges, new structures are emerging: impact committees, operating partners with specific expertise, ESG teams dedicated to data management and analysis, and specialist consultancies.

- **DEDICATED TEAM RESPONSIBLE FOR IMPLEMENTING ESG POLICY AND/OR RESPONSIBLE INVESTMENT APPROACH**



But beyond developing specific expertise, disseminating knowledge and skills throughout the GP organization is critically important:

- setting up internal and/or external training programs;
- involvement in marketplace working groups;
- communicating the key points of the regulations, their evolution and their impact on the business.

Sandra Goussu
and Colombe Le Cour Grandmaison

Source: declarative survey (ESG campaign) carried out each year among Bpifrance partner GPs, figures expressed as a % of partner fund management companies responding to the annual survey.

Web3 and crypto

A transition from “bear market” to “build market”?

At last! Media coverage surrounding startups is focusing more on generative AI solutions than on cryptocurrencies, while this may displease some, this is excellent news for the sector. The end of this period of euphoria has ushered in an era in which only useful blockchain-built technological innovations are discussed. In this regard, it can only be a good thing.

With around 200 million users worldwide, Web3 now has as many users as the internet did in the 1990s, long before the American hegemony of Amazon, Google and Apple. Although the sector is still in its infancy, the new blockchain-enabled uses are endless and impact many fields: tokenization of financial assets, loyalty programs based on NFTs, product traceability and certification, play-to-earn video games, cross-border payments.

Like the rest of the tech world, the crypto sector has been experiencing a “bear market” since March 2022, characterized by a drop in crypto asset prices. It is also reflected in a significant drop in the amounts raised by crypto startups (€830 M in the first half of 2022 *vs* €240 M in the first half of 2023).

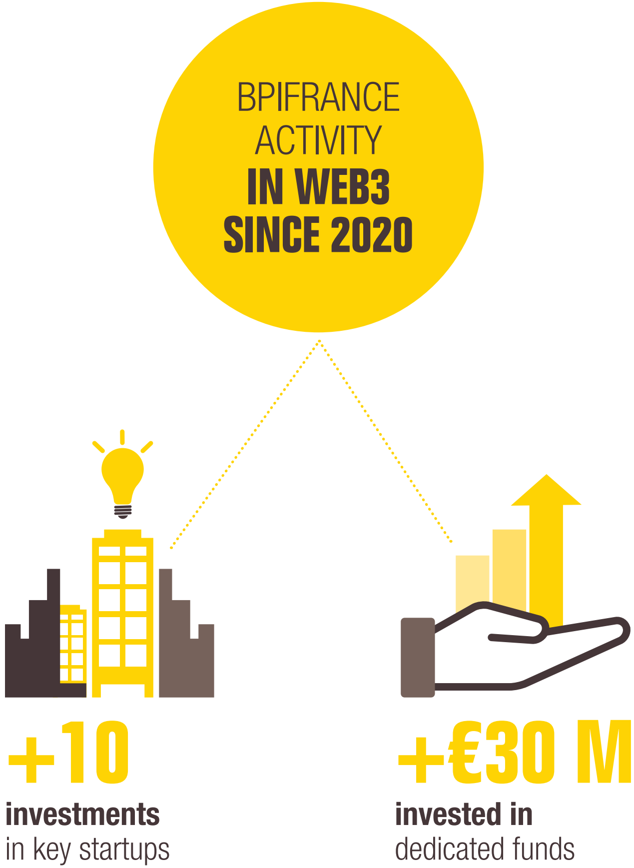
Historically, these periods are times of high creative focus. The last “bear market” in the Web3 world (from 2018 to “DeFi Summer” in 2021, a summer that saw a boom in many decentralized finance projects) gave birth to several of the key companies in today's ecosystem (Fireblocks, Sorare, Uniswap). The current market also has a strong presence of entrepreneurs, new services and renewed industrial and institutional interest in the sector.

At **Bpifrance,** we have chosen to be among the first European institutional investors to support the emergence of this industry. Over the past three years, we have made more than a dozen investments in key startups in the sector, and invested over €30 M in funds dedicated to Web3.

From Société Générale Forge (CoinVertible project) to Visa (partnership with Solana) to the ECB (project for a “Cash+” digital euro based on blockchain by 2025-26), institutions are also taking advantage of this relative calm to join the cause. Startups are increasingly focusing on concrete projects backed by Real World Assets (RWAs), in order to use technology to serve existing assets.

The current “bear market” could betransformed into a “build market”, where the entire economy is seizing on this new technology to use it to benefit the ecosystem. France's rich pool of companies is already showing initiative in this area, and **Bpifrance**'s vertical strategy aims to accelerate this trend.

Adam Chour and Julien Gakpe



04.

... SUPPORTING INDUSTRY STRUCTURING

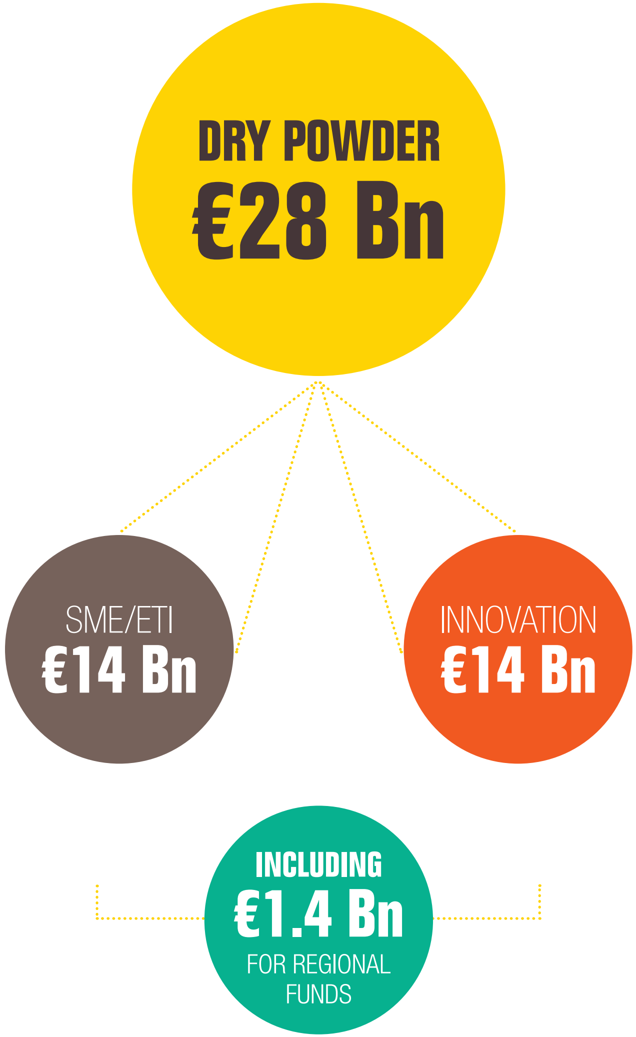
FUNDS OF FUNDS INITIATIVES ...

Review 2022/2023

In 2022, **Bpifrance**'s subscriptions continued to grow, reaching €1.6 Bn, an almost 60% increase in five years.

In 2023, activity remains brisk, with roughly the same number of projects under consideration as in 2021 and 2022. However, fundraising tends to take longer. **Bpifrance**'s role is to underpin the first closings, while supporting major transformations in industry and society.

Against this backdrop, our partner GPs have a record level of dry powder of €28 Bn (*vs* €10 Bn five years ago), which will be invested in startups, SMEs and ETIs over the next few years.



Source: figures to June 2023.

The "France Investissement Assureurs" Partnership

A long-term partnership to support the growth and internationalization of French SMEs and startups

Supporting innovative unlisted companies, promoting their growth and internationalization: these are the objectives of the "France Investissement Assureurs" (FIA) Partnership, launched in 2012 at the initiative of **Bpifrance.**

This FIA Partnership brings together insurers who commit, over a period of three to five years, to financing independent French SMEs by subscribing, alongside **Bpifrance,** to investment funds. The partnership encompasses venture capital and small buyout capital.

Bpifrance leads the partnership in the spirit of an "investor club". Regular, structured exchanges ensure that funds are eligible for FIA funding and provide an opportunity to share **Bpifrance**'s dealflow and market vision with other partners.

In the first generation of the Partnership between 2012 and 2015, the FIA included Axa France, Allianz France, BNP Paribas Cardif, CNP Assurances and Crédit Agricole Assurances. In 2019, three new insurers joined the scheme: Société Générale Assurances, Assurances du Crédit Mutuel and Abeille Assurances.

For the third generation of the Partnership (2019-2022), the eight partner insurers had committed to subscribing €2 Bn over the period in funds eligible for the FIA Partnership. With €2.3 Bn invested in 83 funds over the period, their target has been comfortably exceeded with **Bpifrance** investing €4.2 Bn alongside them.

In total, therefore, the partners have raised €6.5 Bn for growth SMEs, and a total of €33 Bn with the leverage effect. Over this period, 1,420 companies benefited from FIA funds, mainly in the information and communication technology sector (43%), followed by services (26%), industry (14%), life sciences (13%) and cleantech (5%).

Since its inception over 10 years ago, the scheme has gone from strength to strength. With each generation of the Partnership, the insurers have exceeded their targets, which have been regularly revised upwards. Over the first period (2012-2015), the partners invested €690 M (against a target of €600 M), and between 2015 and 2018, they invested €1.2 Bn (against a target of €1 Bn).

Since 2012, €60 Bn have been raised for unlisted French SMEs and startups (through the leverage effect).

This year, the eight partner insurers decided to continue their involvement and have committed to subscribe a record €3 Bn between 2023 and 2027!

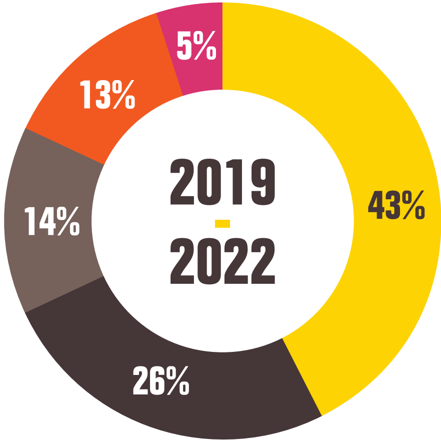
Justine Palluat de Besset

Our partner insurers

- **TARGET AMOUNTS AND AMOUNTS INVESTED BY THE FIA PARTNERSHIP**

	Target amounts		Amounts invested
2012 - 2015	€600 M	VS	€690 M
2015 - 2018	€1 Bn	VS	€1.2 Bn
2019 - 2022	€2 Bn	VS	€2.3 Bn
2023 - 2027	€3 Bn		

- **SECTOR BREAKDOWN OF FIA PARTNERSHIP INVESTMENTS**



- Information and communication technologies
- Services
- Industry
- Life sciences
- Cleantech

FFRER

An asset for local recovery alongside the regions

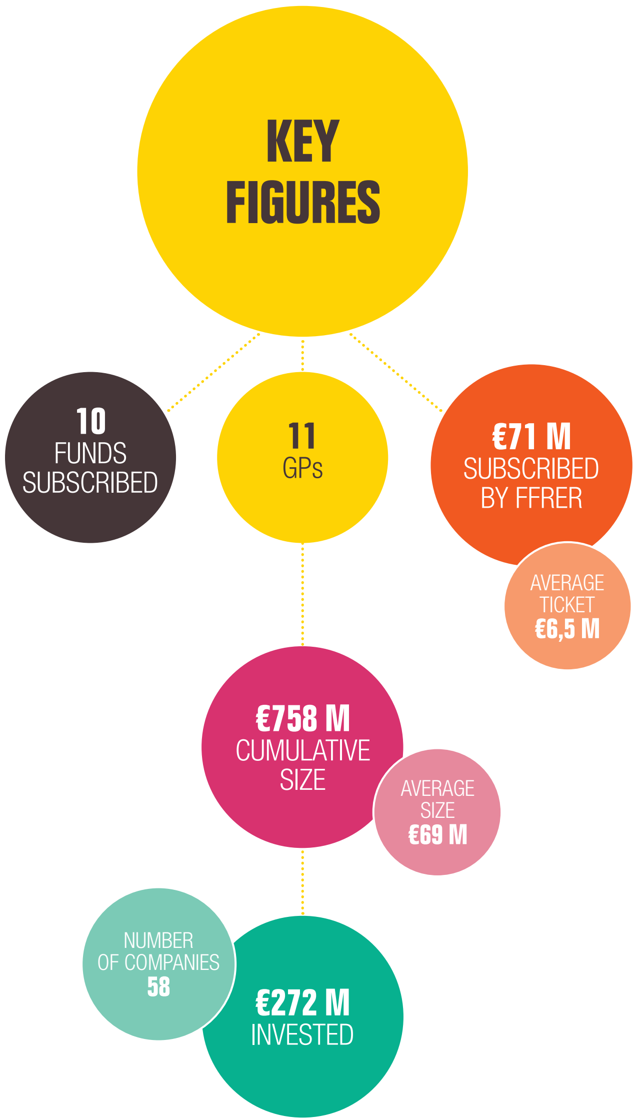
Launched at the end of 2021 as part of the France Relance program and managed by **Bpifrance,** the €250 M *Fonds France Relance État Régions* (French State Regional Recovery Fund, or FFRER) aims to support the resilience and competitiveness of regional SMEs.

FFRER's first two years of deployment have been particularly fast-paced, thanks to the unprecedented involvement of several regions, which wanted to boost the equity capital available to SMEs in their regions.

In less than two years, €127 M were committed to 14 projects, and €71 M has been subscribed by eight regions in 11 funds representing a cumulative size of €758 M. These funds benefit from significant leverage from private investors, who account for two-thirds of the amounts subscribed.

To date, these 11 funds have invested in some sixty companies, including 80% SMEs and 20% medium-sized businesses, with more than a third in the industrial sector.

Eduardo Sampaio



ELTIF2 regulations

Or the creation of a single private equity market for individuals in Europe?

Following a first version of the ELTIF (European Long Term Investment Fund) regulation in 2015, aimed at "boosting long-term European investment in the real economy", the new "ELTIF 2" regulation[1] was published in March 2023 and will come into force in January 2024 throughout Europe.

Since 2015, fewer than a hundred funds across Europe have obtained this "label". Once granted in its host country, an ELTIF fund can be marketed in other European countries to non-professional investors (MiFID2 classification), with a simple notification to the local regulator.

This latest version of ELTIF is part of a simplification of the rules and could become a founding text in the democratization of private equity in Europe.

ELTIF2 removes several barriers that have limited access to alternative assets for the general public and should make life easier for fund managers by offering them new options for structuring this type of fund:

- no minimum entry ticket (*vs* ELTIF, where it was set at €10 000) and no exposure limit in the non-professional investor's portfolio;
- length of more than 10 years;
- the ability to structure funds of funds, open-ended and evergreen funds;
- more flexible investment rules, including a broader scope of eligible assets, a lowering of the minimum quota for investment in eligible assets from 70% to 55%, and more flexible diversification ratios (20%).

These measures should significantly help to create more favorable conditions for the development of retail private equity throughout Europe, by enabling GPs to expand internationally beyond their local markets.

Gorka Gonzalez

[1] Regulation (EU) 2023/606 of the European Parliament and of the Council of 15 March 2023 amending Regulation (EU) 2015/760.

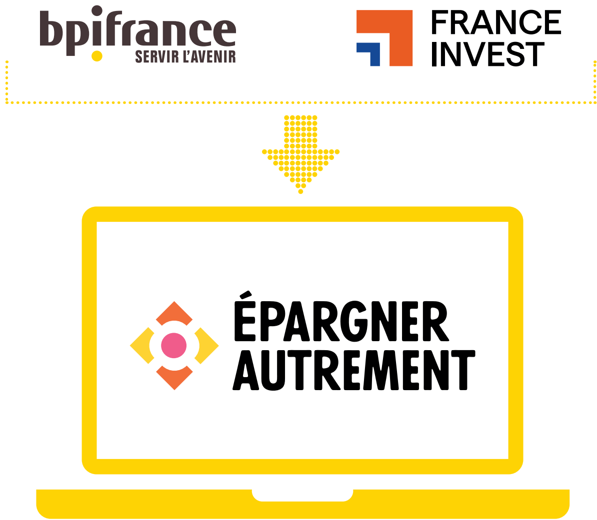
Épargner Autrement

Discover private equity to diversify your savings

Épargner Autrement (Save Differently) is a brand-new website jointly proposed by **Bpifrance** and **France Invest,** dedicated to retail investors wanting to better understand private equity.

In line with the movement to democratize private equity and their shared values of education and support, **Bpifrance** and **France Invest** provide a comprehensive toolbox to allow retail investors to understand this specific asset class and integrate it into the management of their long-term assets.

Visit us: **epargner-autrement.fr**



New climate strategies

A private equity market structured around climate issues

Driven by national and international regulations, major corporations and listed companies are beginning to implement policies and measures to reduce their greenhouse gas emissions. Similarly, unlisted companies must also take up the climate issue.

Given the proportion of the economic fabric they represent, the energy and ecological transition necessarily depends on the strategies these companies can implement. This transition involves choices and know-how, but also significant capital resources.

The "climate" issue is therefore a challenge for investment funds, which must support their shareholdings in their efforts to achieve responsible growth.

In France and abroad, a number of investment funds are spearheading efforts in this area and have already adopted dedicated themes. While they all aim to make it possible to achieve the objectives set by the Paris Agreements at COP21 in 2015, their strategies and positions are diverse:

- "grey to green" strategies, dedicated to supporting players in transition, for example by adapting production tools, implementing eco-design and circular models, reviewing sourcing or optimizing the energy mix;
- "pure player" strategies, dedicated to investing in solutions that facilitate the transition (e.g.: carbon capture/storage solutions, new energies, new materials, sustainable mobility technologies, etc.);
- at the intersection of these strategies, mixed portfolios combining pure players and support for players in transition.

This multiplicity of approaches is also reflected in strategies for building portfolios and managing the climate objectives pursued:

- defining the objectives at the level of each shareholding by a KPI tailored to the specifics of each company (e.g.: share of eco-designed products, weight of circularity in the model, etc.);
- setting an overall target for the portfolio (e.g.: reducing CO_2 emissions by x%).

Alignment of interests on these issues is essential at all levels. Between GPs and LPs, this may involve indexing carried interest to the results obtained thanks to the climate strategy implemented. Similarly, between GPs and the management teams of portfolio companies, management packages can be indexed to these same results.

While many climate funds currently focus on reducing CO_2 emissions, other climate challenges are becoming increasingly urgent, such as preservation and restoration of biodiversity, water and soil, all of which will provide new opportunities for pioneering climate funds.

We are convinced that the expertise and support of private equity players are essential for these companies to succeed in their transition.

Bpifrance, in line with its overall climate strategy spanning all its business lines, is launching a Climate Fund of funds to support investment funds targeting this theme in the innovation and private equity segments.

Teodora Ene
and Colombe Le Cour Grandmaison

Regular events organized by the funds of funds team

A few examples of the events organized for the funds of funds' ecosystem

France Investissement Assureurs
Partnership management

Club CVC
Themed workshops with leading French CVC companies

Green Industry Accelerator
Annual promotion of GPs concerned

Investor Relations Community
Co-hosting with partner GPs' investor relations teams

Workshops for partner GPs
Discussion of topical issues for GPs

LPs/GPs meetings
Coordination between French GPs and foreign LPs

Capital Invest
Meet with the funds of funds Division's ecosystems

Don't forget!

To access all the content produced as part of our initiatives to support our ecosystem, or to make a referral, please contact your usual contacts or **fof@bpifrance.fr**

BPIFRANCE AND THE FUNDS OF FUNDS ACTIVITY

KEY POINTS

05.

KEY POINTS BPIFRANCE 2023

€97 Bn
ASSETS UNDER MANAGEMENT

INCLUDING

€51 Bn
for investment
- €17 Bn in funds of funds
- €34 Bn in direct investment

€46 Bn
for banking activities

11
INTERNATIONAL LOCATIONS

50
REGIONAL LOCATIONS

3,500
EMPLOYEES

Source: Bpifrance figures at June 30, 2023.

FOCUS ON

THE FUNDS OF FUNDS ACTIVITY

€17 Bn
IN ASSETS UNDER MANAGEMENT

600 funds
IN THE PORTFOLIO MANAGED BY 200 PARTNER FUND MANAGEMENT COMPANIES

+ 5,500
COMPANIES SUPPORTED BY PARTNER GPs

+€1,5 Bn
INVESTED ANNUALLY

3 investment teams
- INNOVATION
- PRIVATE EQUITY
- REGIONAL

1 development team
- SUPPORT FOR PARTNER GPs
- LP-RELATIONS
- OPEN INNOVATION
- DIGITAL ACCELERATION

1 retail team

1 dedicated middle/back office

Source: figures to June 2023.

Contact

For further information, please contact the funds of funds team *via* your usual contacts or **fof@bpifrance.fr**

Editorial coordination: Lise de Courville

SERVIR
L'AVENIR

November 2023.