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# Opalesque Round Table Series '09
# FRANCE

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# Editors' Note

Dear Reader,

It is time that we turn our attention to France – for many reasons. With over 32 billion EURO, France is the **second largest hedge fund center in Europe**. Already in the 90s, there was (and still is) a strong CTA community, with some players already reaching one billion assets then.

Another peculiarity is the **skill factor** – France produces some of the best graduates through its universities. Most global banks employ large numbers of French professionals, often in very senior positions. The graduates have a good mathematical and scientific background, which is an excellent base for statistical, systematic trading and risk management. We could almost argue that the French love models and investments based on models, and are less comfortable with discretionary investments. These propensities also determine **the make-up of the French asset management industry**.

But being based in Paris, the City of Lights, can also have a downside. Says one manager: "We are 300 kilometers away from London, but we could be **10,000 kilometers away from London**. People from Geneva never go to Paris with the exception of a few romantic weekends with their partner or spouse. It is really funny, when you try to set up a meeting with someone, you have to target either Friday or Monday…"

But UCITS III (and UCITS IV) have turned things around – substantially. There are over 100 asset management companies active in the country, and many of them report a surge of visitors who come and "shop" for **superior UCITS 3 products**.

The Roundtable also comes with a **couple of warnings**. A lot of people, especially non Europeans, assume that the UCITS 3 format is homogeneous in Europe, whereas in practice this is not the case. For example, there are huge differences between a Luxembourg or Ireland and a France based UCITS III fund. There were issues for both Luxemburg and Ireland domiciled funds related to Madoff and Lehman, and this Roundtable elaborates on the superior regulation on the manager and the security of the funds and investments within the French framework, which with the new "Fond Contractuel" framework has become flexible and interesting enough to compete even on a global scale.

We also examine why the **French fund of funds largely outperformed their international peers**, the pros and cons of UCITS generally, and **what to do with non-UCITsable hedge fund strategies**.

This Roundtable was sponsored by Gide Loyrette Nouel (www.gide.com) and took place in November 2009 at their Paris office with:

- **Christian Bartholin,** Managing Director and Secretary General, HDF Finance
- **Nathanaël Benzaken,** Managing Director, Lyxor
- **Denis Beaudoin,** CEO, Finaltis
- **Géraud Dambrine,** Directeur Général, Lombard Odier France
- **Laurent Dupeyron,** CEO – Président, Olympia Capital Management
- **Manuel Kalbreier,** Partner, Boussard & Gavaudan

- **Xavier Lépine,** Chairman, UFG Group
- **David Malamed,** Partner, Gide Loyrette Nouel
- **Olivier Neau,** Chairman of the Executive Committee, Edmond de Rothschild Investment Managers
- **Stéphane Puel,** Partner, Gide Loyrette Nouel
- **Sophie van Straelen,** Founder and Managing Director, Asterias Ltd
- **Thaddée Tyl,** CEO, Rivoli Fund Management

Enjoy "listening in" to the Opalesque France Roundtable!

Matthias Knab
Director Opalesque Ltd.

Knab@opalesque.com

Cover Photo: Notre Dame Cathedral, Paris

# Participant Profiles

Standing left to right: Sophie van Straelen, Olivier Neau, Nathanaël Benzaken, Manuel Kalbreier, Laurent Dupeyron, Denis Beaudoin, Stephane Puel, David Malamed
Seated: Géraud Dambrine, Thaddée Tyl, Xavier Lépine, Christian Bartholin

# Introduction

**Nathanael Benzaken**

I am Nathanael Benzaken. I am managing director at Lyxor, in charge of managed account development. Lyxor has about $120 billion of assets, out of which around $10 billion are in our hedge fund managed account platform specifically. Lyxor is also active in the UCITS III market with both single funds and multi-manager products.

**Sophie van Straelen**

Sophie van Straelen, Founder and Director of Asterias Limited, which is an independent consultant analyzing the evolution of hedge funds in Europe.

**Olivier Neau**

Olivier Neau, I am the CIO of Edmond Rothschild Investment Managers. We manage funds of hedge funds (mostly French domiciled).

**Laurent Dupeyron**

Laurent Dupeyron, I am CEO and President of Olympia. We are a fund of hedge funds based in Paris, New York, 3urich and London. We currently manage approximately USD 3 billion in fund of hedge funds, either through mandates or comingled vehicles. We have been in business since 1989 and our flagship fund, Olympia Star 1, now has a track record of over 18 years. We also manage several thematic fund of funds, including energy related investments, global macro hedge funds and others.

**Manuel Kalbreier**

Manuel Kalbreier, partner at Boussard & Gavaudan, in charge of Distribution and Development. B&G was set-up in 2002 Our main fund, Sark is a market neutral arbitrage fund. B&G has offices in Paris, London, and Hong Kong. We manage around $2 billion.

**Géraud Dambrine**

Géraud Dambrine, General Manager (Directeur Général) at Lombard Odier Darier Hentsch Gestion. Lombard Odier is a 200-year-old Geneva Private Banker. This Firm manages more than 140 billion Swiss Francs in assets of which 30 billion are from institutional clients. I am in charge of the sales team in France. Our office is a local asset management company that manages 3.5 billion Euros for private and institutional clients.

**David Malamed**

I am David Malamed from Gide here in Paris, and before that I ran our New York Office for about 10 years. I work with my colleague Stephane Puel on hedge funds.

**Denis Beaudoin**

I am Denis Beaudoin, I founded Finaltis in 2001. We are a  multi-strategy quantitative hedge fund and still based in Paris for now.

**Stephane Puel**

My name is Stephane Puel from Gide. I am the partner heading the “Investment Funds group” mainly focusing on the structuration of private equity, hedge, infra and real estate funds.

**Xavier Lépine**

Xavier Lépine, President of the Board of UFG-LFP, an asset management firm. Our group was created following the merger of UFG and La FranUaise des Placements. We aspire to give new meaning to Finance, to offer a large range of investment solutions to our customer base which includes institutional and private investors, targeted directly or via financial advisers. We manage approximately 32 billion Euros in assets covering real estate, private equity, traditional long-only assets and funds of hedge funds. Our experience in funds of hedge funds management began in 2001 with Alteram. UFG-LFP offers a full range of management strategies and occupies a leading position in France, with a 15% market share.

**Christian Bartholin**

Christian Bartholin, I am a member of the Executive Committee of HDF Finance. HDF was founded in 1986 and has been ever since its creation an asset-management firm specialized in multimanagement, mostly management of funds of hedge funds. We manage currently about $2.5 billion through two ranges of funds, one based in Luxemburg and one based in France. Our customer base is made of institutional (80%) and retail (20%) investors, both in France and in various foreign markets.

**Thaddée Tyl**

I founded Rivoli Fund Management 12 years ago, in association with Vincent Gleyze and therefore, we have gained a significant experience, especially through the various financial crisis we have gone through without any problem. Rivoli is an independent firm, owned by its founders and key people. Rivoli has a specific expertise in computerized systematic trading, We have three programs: a diversified CTA program, a fixed income program, and an equity market neutral program. We target institutions, fund of funds and family offices worldwide and we recently started to market domestic institutions and retail clients. Along with our experience, our added value is a proven ability to perform even in the worst situations.

**Matthias Knab**

**What is the make up of the French hedge funds industry? France is a peculiar place in this respect. For example, there are a lot more fund of funds than single managers, while on the other hand the French are very well known for their quantitative and systematic approaches. What are the reasons for that?**

**Thaddée Tyl**

This is true that a lot of very skilled talents are coming out of France, because the country has a range of very good universities, particularly in the scientific fields. The graduates have a pretty good mathematical and scientific background, which is a good base for statistical, systematic trading, risk, and so on. If you look at certain areas within the global investment banks, a remarkable number of the technicians and risk experts are French.

However, when you look at France as a base for an asset manager, there aren't that many around, for reasons that are not perfectly clear. There could be tax reasons or legal reasons, but it is mainly due to the fact that many domestic institutions are restricted from investing in hedge funds, so there is no strong domestic client base. Entrepreneurial spirit is also not really encouraged, and is not necessarily well regarded.

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Since recently, and in terms of asset raising, fund of funds have been more successful than single managers because from a business point of view they fit much better to large banking institutions (economies of scale), from a marketing point of view they looked less risky, and from a legal point of view, they have been promoted much more actively by the regulators.

**Laurent Dupeyron**

Creating from scratch a private, small to medium size, financial enterprise, which is what hedge funds are, has been embedded in the culture of our anglo-saxon friends, whereas historically in France there might have been less of an entrepreneurial spirit. We can trace this back to the tradition of dirigisme and excellence of our schools, where the economy had to be more centralized and planned. Therefore traditionally a lot of the talent went into larger institutions, as oppose to setting up their own structure. This is changing now and if regulation permits, I would not be surprised to see more and more hedge fund shops being set up in France.

**Sophie van Straelen**

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**And then remember back in the mid-90s, there was very strong CTA community here, like Epsilon who was above 1 billion at that time. Maybe some of you can add more details on the history of the French marketplace.**

**And then there was a phase where structured products were very successful – a lot of French investors would go through a structured product, because they was no way for them to invest directly. The structured products in turn would invest in single managers.**

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On the fund of funds level, we have a history of regulation and products, but so far the initiative to create a similar legal framework for single managers did not work out. Despite the intention to have a very strong and secure environment for single hedge funds, we did not really create that environment so far.

**Denis Beaudoin**

We have to specify what we mean by "being based in Paris". Does it mean that your investment company is based in Paris, or that the fund is a French-managed, French-regulated fund? In our view, we should focus on the manager's location for the sake of this discussion.

If you think about London, the hedge fund managers in London are not running U.K. regulated funds at all, and they do not care. We should not care either.

The problem in our view is simply that Paris is not attracting investors, and we have with the exception of some family offices and private banks, no real domestic investor base. I would even say that having established ourselves in Paris proved to be a mistake. We should have established ourselves in London as far as assets are concerned.

Even the French based fund of hedge funds do not invest a lot with French managers. Secondly, it turns out that we are off the main tracks. We are 300 kilometers away from London, but we could be 10,000 kilometers away from London, it would be the same.

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**People based in Geneva tend to go to London every week or every other week. They never go to Paris with the exception of a few romantic weekends with their partner or spouse. It is really funny, when you try to set up a meeting with someone, you have to target either Friday or Monday just to make sure that the visitor can stay over the weekend...**

**This has been the problem so far. As a financial center, we are not that attractive simply because there are not enough managers to justify for someone to come here. However, this situation may change because of the UCITS III regulation.**

**UK-based investors who come to Paris now because of the UCITS III opportunities to visit French managers – and there are still over 100 French asset management companies out there. What they find is that however small the manager may be, these investors are stunned at the level of service, regulation and compliance they find. They don't see this kind of regulation with U.K.-based managers, especially hedge fund managers, whose regulatory framework may not be even strict enough to be called a regulation.**

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So we are no longer talking about hedge funds so to speak, we are talking about the UCITS III wrappers. This is a totally new perspective that comes up for French managers. We are used to running funds under a heavy burden of regulations, it is not a problem for us.

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UCITS III funds are a chance and an opportunity for France. I believe that the future looks bright for us, despite of the past which was gloom and the present  which is not too great, but we are excited at the visitors who started to come here and shop for superior UCITS III products.

**Matthias Knab** **Thank you for that historical review. Denis and Thaddée, both of you did succeed setting up a single fund operation here in France. Who is your investor base?**

**Thaddée Tyl** When we started, our investor base was mainly French, but it has changed dramatically. We have a percentage of money coming out of France, which is something like 70% and this percentage increases very quickly. As opposed to that, the money that we raise from French institutions has been reduced in the recent past dramatically as well.

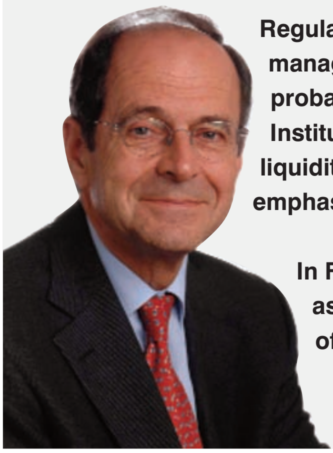
I think that we can really promote our products either UCITS III and domestic non UCITS III to professional clients everywhere on the globe, because our products are regulated, offer a great level of both liquidity and transparency, and therefore provide investors with a great level of comfort and security. I agree with what you said Denis. Just this morning I had a meeting with a huge investor coming from Japan, that is quite interested with us. So we can attract these sorts of clients, we can do that. There is no problem at all.

**Denis Beaudoin** How long did it take for you to attract them?

**Thaddée Tyl** Well, you know, the sales cycle tends to be very long for Asian institutions. It has taken us two years to close that investment. However, it becomes also true for a growing number of institutions, the due diligence processes are getting more and more complex and detailed especially regarding the aspects that are not purely related to asset management techniques, such as operations, legal and so on.

**Denis Beaudoin** See, and in London, this may have been closed in two weeks. Well, I am exaggerating, and sure the sales cycle in Asia is longer, but there is this downside to being based in Paris....

**Christian Bartholin** Regulators in France put more emphasis on the regulation of products than on the regulation of managers, as in the first place they have the protection of retail investors in mind. This is probably a source of complication when it comes to the actual marketing of products to Institutional investors. Institutional and retail investors have different needs, especially in terms of liquidity and investment horizon. When dealing with institutional investors it makes more sense to emphasize the regulation of managers than the regulation of products.



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**In France, we did not make this distinction clear enough between those two investor bases, and as a result we have a set of regulations that as a whole makes sense, but that may also be one of the reasons why the institutional investor base in France is not as wide as it could be today.**

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**Laurent Dupeyron**

Let me share a couple of thoughts. On the funds' format, at the moment, Olympia Capital is moving from a model where a majority of our fund-of-funds are based offshore - Cayman and BVI - to a Luxembourg based environment. We want our funds to be located in a jurisdiction that is seen as safe and we also need a "brand" that is marketable in more than one place, so that we can distribute our funds in Holland, Switzerland, Hong Kong, and so on. Even though French funds enable us to have the required degree of flexibility for our hedge fund investments, we have experienced that in the asset management business, the brand France is unfortunately less visible abroad compared to the Luxembourg one for example.

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Laurent Dupeyron

On building hedge funds and fund of funds in UCITS III, we are more cautious. We believe it will create a lot of issues for the managers who  are going to try, for marketing purposes mainly, to shoehorn their investment styles into something that is not initially designed for them. Remember that hedge funds were designed for sophisticated investors who could bear the risks of leverage, little diversification, and non standard investments; whereas UCITS III is more geared towards mass distribution. We might revise our judgment at a later stage, but at this point we think it is too dangerous to to enter the UCIT III market through, for example, building a UCIT 3 fund of hedge fund as only a few, very specific strategies fit into this framework.  Liquidity is of particular concern to us: one of the lessons from the crisis is that managers have generally overpromised in terms of the liquidity they can provide. For example, we at Olympia, had never gone into the field of providing weekly or daily liquidity and that ended up being a good thing, even though we might have missed some asset gathering opportunities during the good years. We want to stick to that sound strategy, and, especially after the liquidity crisis we have witnessed, avoid diving into vehicles that force the managers to have very frequent liquidity terms. It is as if no one has learnt the lesson.

**Sophie van Straelen**

We are in contact with managers both from the U.K. and the U.S. and U.S. managers are not running for a tax benefit, but for lifestyle. Switzerland is a great place to raise children.

**Laurent Dupeyron**

Both, it is too early to create a  UCITS III fund that would invest in other UCITS III. Remember that the French investor base does not have the best perception of hedge funds as French investors in general entered late in the cycle as we had several blow ups in so-called enhanced money market funds, which was a combination of money market and hedge fund investments. They took off with a big bang, and then ended in tears. As a consequence we have to be very careful with the marketing of hedge funds in France; we can not over promise and we have to explain clearly to the investment community exactly what we are doing. In my view, UCITS III or sometimes managed account products, as they are based on the promise of liquid Libor enhanced returns can create misperception. People shouldn't try to sell something which is risky as a risk-less investment and hedge funds should be reserved for qualified and sophisticated  investors.

On the type of hedge funds that you will find in France, you should bear in mind that the French love mathematical models and love investments based on models. They are less comfortable with purely discretionary investments. That is why there are few pure discretionary shops that have been set up by  French nationals.  Most of them will be quantitative CTAs, volatility arbitrage or model driven type funds.  But we have also observed that there is now a new generation of French

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**From our point of view, out of the 90 hedge funds we are investing in, I think there is only one that is based in France, but there are a lot of French portfolio managers in the New York or London based hedge funds we are investing in.**

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**Manuel Kalbreier**

There are several factors in favour of France as a place to set up a hedge fund.

There is the obvious talent pool. France produces some of the best graduates through its universities. As we mentioned, most American and English banks based in London employ large numbers of French professionals, often in very senior positions. One can assume that at some point in their career, many will consider coming back to France, be it only for family reasons?

**France produces some of the best graduates through its universities. As we mentioned, most American and English banks based in London employ large numbers of French professionals, often in very senior positions. One can assume that at some point in their career, many will consider coming back to France, be it only for family reasons?**

**This decision is conditional on two factors: The first one is the fiscal framework. Here, the playing field is being leveled. The marginal tax rate in the UK is going from 40% to 50%, the English "dual contract" was abolished in 2005, and finally the "contrat d'impatriation" is taking away the tax burden of a return to France. So Paris is increasingly on an even keel with London.**

**The second factor is regulation. We are currently regulated by the AMF, the FSA and are voluntarily registered with the SEC. We are happy with this regulatory framework. We also consider moving our fund onshore. Echoing Laurent's point, Cayman regulation currently suffers from negative press. A number of fund managers are looking at other jurisdictions. The two main choices are: UCITS III or onshore structures such as SIF, QIF or "Fond Contractuel".**

**We believe that the "Fond Contractuel" is actually a very interesting framework. It is flexible and enables managers to match the liquidity of their investment vehicle to the assets they buy. This is one of the key drawbacks of UCITS III.**

**The question is whether one is able to sell the "Fond Contractuel" to investors? Will it become a brand like UCITS? UCITS III potentially presents some dangers in terms of mismatch between asset and liabilities.**

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The question is whether one is able to sell the "Fond Contractuel" to investors? Will it become a brand like UCITS? Eventually, clients will also decide if they feel comfortable with this structure. But we believe that in principle, the regulatory framework of the "Fond Contractuel" is very well adapted to hedge funds like ours.

Furthermore, UCITS III potentially presents some dangers in terms of mismatch between asset and liabilities. One has to be aware of the transformation process, which the financial industry is still working out. The issue is liquidity management: raising or borrowing weekly or monthly money and investing into illiquid assets. It happened in hedge funds as well as long-only funds. Several long-only managers offered daily liquidity and bought large stakes in small caps they could not sell.

UCITS III is a good framework for CTAs and global macro funds that are not too leveraged. But style drift is a risk. What is to stop UCITS III fund from buying illiquid small caps or bonds to generate returns? At least, in a managed account one can actually limit style drift since there is active risk management in place. UCITS III does not offer that level of monitoring.

**Xavier Lepine** The hedge fund industry is driven by demand, and the demand is not coming from the domestic French investors, but as Thadée said, 70% of our hedge fund assets are coming from abroad, and most of the demand has been directed towards hedge fund of funds and not the single managers. Therefore, also the European regulation is directed at this product type.

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**Matthias Knab** **What do you think is behind that outperformance?**

**Xavier Lepine**

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Xavier Lepine

**Matthias Knab** **Is it because of a better risk management**

**Xavier Lepine**

I guess it is definitely a question of risk management and liquidity considerations when we invest. We have to provide liquidity to investors, therefore we have a clear focus on the liquidity issues. For example, if we notice a style drift in a fund towards illiquid investments, we redeem.

**Laurent Dupeyron**

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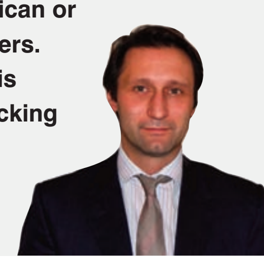
**We have delegated to our teams based outside of France – New York and London – where American or English experts do what they do best, namely a discretionary assessment of hedge fund managers. Back in Paris, we have our quant and risk teams, who are doing what the French do best, which is building portfolios, looking at it purely from a numerical point of view, looking at alphas and checking if the managers are trying to sell us alpha as beta, etc. These are purely quantitative exercises and done by teams of French quant engineers, who in turn are very good at what they do.**

Laurent Dupeyron



We have delegated to our teams based outside of France – New York and London – where American or English experts do what they do best, namely a discretionary assessment of hedge fund managers. Back in Paris, we have our quant and risk teams, who are doing what the French do best, which is building portfolios, looking at it purely from a numerical point of view, looking at alphas and checking if the managers are trying to sell us alpha as beta, etc. These are purely quantitative exercises and done by teams of French quant engineers, who in turn are very good at what they do.

I believe that combining these two approaches, having the information and assessments from people on the ground plus the French quant and risk management is certainly one of the reasons why we think we did well and avoided some of the mistakes. That probably explains the outperformance mentioned before.

**Olivier Neau**

Let me go back to French products for a moment. If you run French products, you will have to sell to French clients, because it is very difficult to sell French products to international clients. Besides, for a French firm managing off-shore products meant in the past taking some tax risks.

As a regulated French investment manager, your regulator will be the AMF, who is very smart and very proactive. Why are French managers so present in CTAs, for example? That is because we have scientific training, but we have also the product the FCIMT (Fonds Commun d'Investissement sur les Marchés à Terme), which has been offered in France (with the AMF approval) since I guess 1991?

**Sophie van Straelen**

1988.

**Olivier Neau**

So since 1988, CTAs are regulated with daily liquidity and price transparency which they get from the clearing houses. It is very clean, simple, transparent, and very successful in Paris.

If you look beyond CTAs, the AMF is concerned about the investors, and they are rightly so. For example, as an investor of offshore hedge fund products, you should know what is a prime brokerage agreement, what are the market practices, the financial documentation etc. - this is a huge barrier of entry for investors. For the retail investors, offshore hedge funds are thus out of scope, and even for institutions it is generally an expensive process to conduct proper due diligence before investment.

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**For those reasons, the AMF has set up a French domiciled "hedge fund like" product, with defined rules for prime brokers for example (especially on re-hypothecation and custodian responsibility). Those rules and guidelines for proved very useful when Lehman defaulted last year as the custodians of the funds "prime brokered by Lehman" had to immediately restitute assets to investors! This level of investor protection used to be completely neglected by investors.**

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**Nathanael Benzaken**

Lyxor has been active in managed accounts for 11 years now. We looked at the UCITS III model which keeps developing, and actually we sympathize a lot with it. We are working on some projects with external managers on some UCITS funds.

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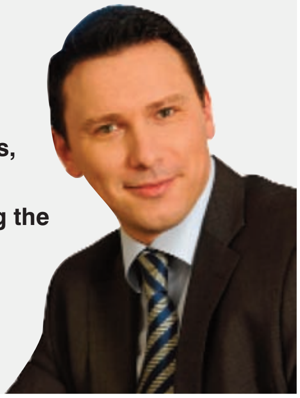
**I am sharing your concern that a regulated product does not mean you will have full protection.**

**Investors need to understand that there will be no capital protection, and that hedge funds can carry a lot of risk, especially reputation risk. For the most part, hedge funds are run by boutiques, and while some of them may have turned into supposedly institutional formats, they are still boutiques. There could be some risks for the UCITS model, if we are not careful when explaining the value proposition when distributing it. And investors may want to favor independent UCITS III platforms where managers are under stricter controls, especially from a risk management standpoint.**



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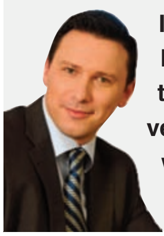
**Sophie van Straelen**

What do you mean too difficult to sell? Is it a branding issue?

**Nathanael Benzaken**

Not only that, sometimes it even starts with the fund presentation. If you compare a typical Anglo-Saxon presentation of a hedge fund with one created by a French manager in English, I can tell you there is often a gap in terms of the sophistication of the English, the way the firm and the strategy are presented. The French can be sometimes too complicated, whereas the English ones are very laconic, straight to the point and easier to understand. This is particularly important for managers who want to raise assets out of France, where most of the assets are (e.g. USA, UK, Asia, Middle East ...). I cannot speak for the fund of funds here, but the way the single hedge funds present can be largely improved. It is very much a marketing issue.



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**Sophie van Straelen**

It is interesting you are saying that, because what I am now doing a lot in my day to day job is to help managers in their marketing issues. This includes everything around image, branding, presentations, logo, wording, and so on. I often find that the messages are clear in the mind of the manager, but not clear on the paper.

Managers are usually not aware of the significance of Corporate Image including  logo, but fact is there is a lot of rationality that comes into play just to develop a proper logo. And then there are the names – a lot of French names you cannot be pronounced well in English, that is another thing to look at.

**Géraud Dambrine**

Our view at Lombard Odier is that the French market is extremely smart in part because of its educational system. Their strong analytical skills provide French fund selectors the ability to express very sound and accurate judgments on complex investment processes. As such, we are committed to serving French clients as they are opinion leaders in investment management and more specifically the field of fund selection.

I would agree with other panelists in that there are significant investment restrictions today which regulate the use of alternative strategies. There are investment restrictions imposed on institutions here in France and elsewhere in Europe specifically on solvency ratios. Having said this, there is a huge amount of money invested with insurance companies in France and the rest of Europe which truly benefit from greater diversification. Therefore we strongly believe that going forward regulation will take into consideration this greater need for diversification.

On France per se as an investment management hub, we at Lombard Odier are Geneva based and therefore francophone in nature: France is always our first stop. Our reporting is in French, our internal reporting in Geneva is also in French.

Lombard Odier is a partnership owned by eight Managing Partners. They have decided some years ago to develop a single hedge fund platform running both a long-short and a macro program. We discussed internally the fact that the French were very good at systematic strategies and also excellent at global macro. In consequence, it was decided that our global macro tactical program be run by a team in our Paris-based asset management company.

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**Practically speaking, this means that we put two thirds of our risk budget within our global macro program into Paris. Why have we done so? We did so because we believe that there is true talent and capacity to produce alpha here. Interestingly the managers running the money are actually ex-civil servants from the French Ministry of Finance in charge of macroeconomic policy. So what they have learned in macro economics under government affairs, they can actually aptly apply in the hedge fund realm, which is interesting.**

**On a broader European scale we are considering UCITS III format for some of our hedge fund strategies – we do think the framework is quite compelling. It's a label that opens a lot of doors.**

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On a broader European scale we are considering UCITS III format for some of our hedge fund strategies – we do think the framework is quite compelling. It's a label that opens a lot of doors. When you are selling products to certain parts of Asia or the Middle East, you need to show that your regulatory label is well-known and widely used. We believe that UCITS III is actually a good way to democratize a lot of the innovation that has come out of the hedge fund land into the broader universe of clients.

**Stephane Puel**

I think it is fair to say that AMF, the French regulator, has very much evolved in the recent years and has now allowed the creation of entrepreneurial firms which are managing French onshore and offshore funds as well.

I have been very much involved in the different crises of 2007 and 2008 and can attest that the quality of the regulators' side – in the U.K., Luxemburg, France – is really incomparable.

The AMF understands the product, they understand the issues, they understand what the managers or security lawyers are talking about and are able to react very quickly.

In France, the Lehman crisis was resolved in weeks in France, whereas the Madoff case in Luxemburg could take years... Even when we are talking about exotic products, our regulator understands the products and is able to assess their risks and to provide the accurate information to the investors. The AMF is a very good asset for France.

For years, the regulation has been very much managers driven and not really product driven. Thanks to the revamping of the contractual fund regulation, the AMF and the French Ministry of Finance have now understood that we could have much more relaxed rules for institutional investors. On that front, the contractual fund is probably one of the most flexible funds that exists in Europe, even more flexible than what exists in Luxembourg with the Specialised Investment Fund or the Qualifying Investors Fund in Ireland.

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As an example, the custodian has a great liability in France, and there is really no comparable protection elsewhere Europe. The French regulations are more protective than in Luxembourg.

So that means the French marketplace is very much regulated, but can it also grow, evolve and innovate from where we are, and even add some international marketing, that shows our strengths, on top?

**Christian Bartholin**

It is common practice to be critical of French regulations. Surely, some aspects of the French regulatory environment can be criticized and improved, as most sets of regulations can be improved in any country. On the other hand, in many cases, this negative view is unfounded. I would urge foreign investors to go beyond the usual clichés about the image of France as being all around uncompetitive from a tax point of view and cumbersome from a regulations standpoint.

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**It turns out that (a) the taxation of funds domiciled in France is strictly the same as, for instance, that applicable to Cayman capitalization funds (investors are only taxed on capital gains at time of redemption but the fund itself is not taxed on capital gains it generates) (b) the French Financial Markets Authority ("AMF") has enacted, starting in 2003, a set of specific regulations concerning funds of hedge funds and also single manager hedge funds. These regulations are generally very sensible; they created a clear and formal framework in terms of governance, due diligence and risk management and made it possible to attract a significant number of French and even non-French investors, both institutional and private investors.**

**In addition, French regulations governing the depository function (les "dépositaires") have proven, in the recent financial crisis, more robust than those applied in Luxemburg, for instance, with a clear definition of responsibilities regarding the control of the asset manager investment decisions and the oversight of its fund management mandate.**

**I also agree that the French asset management community has not really marketed itself efficiently outside of France. As head of the Alternative Management Commission of AFG, the French Asset Management Association, I was asked to undertake a review of the steps that should be taken to make the French marketplace and regulations better known outside of France. We started working on this recently in association with Paris Europlace, the French business group dedicated to the promotion of Paris as an international business and financial center. The intent is to match, among foreign institutional investor communities, the communication efforts of centers like Luxembourg or Dublin.**

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As Stephane just emphasized, most of those regulations make sense and are geared to protect investors.

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**Xavier Lepine**

Our regulations are very developed and targeted towards the asset side – how we manage assets, but we also need to develop our expertise in liabilities management and how to adapt our regulation in this area. I believe this is the main critical issue when further developing the French market.

**Thaddée Tyl**

Let me come back for a moment to the UCITS III format.  UCITS III also allows for some hedge fund strategies. This is not itself a problem, but it has to be properly disclosed to the investors, and I am afraid this is not always the case. In practice certain people may think they buy a plain vanilla  long-only fund, when in practice it is not the case. So there is a danger there. There is always a risk of misunderstanding in these sort of situations, that may lead to disappointments.

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**There is another big issue that I would like to address. A lot of people, especially non Europeans, assume that the UCITS III format is homogeneous in Europe, whereas in practice this is not the case. For example, there are huge differences between a Luxembourg and a France based UCITS III fund. These kinds of differences should be made clear to investors, so that there is no misunderstanding.**

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**Matthias Knab**

**What are some of the differences?**

**Thaddée Tyl**

We mentioned already the responsibility to the custodian, which is far larger under the French regulation as opposed to the Luxembourg based UCITS III funds. The Luxembourg regulators are also much more flexible in terms of indexes, derivatives instruments, and in fact what you can put behind the derivatives instruments and so on. These issues are not extremely visible from the investor side.

**Denis Beaudoin**

We have major differences from one country to another.  Just to mention another one which is in our view quite striking. You can go short on equities in UCITS III based in Ireland, however you cannot go short within France-based UCITS III. You go through equity swaps but you cannot go outright short.

In terms of VAR, the differences are even more compelling. France has a VAR limit of 5%, it is a seven days VAR. Luxembourg has a monthly VAR, but the limit is 20%. Despite of the perception of being one regulation, UCITS are not homogeneous at all and can be very different from one country to the other. When it comes to the France domiciled funds, I believe we offer on the one side the most flexible framework through the contract-based funds, and we are also the most secure place when it comes to UCITS III.

For our own UCITS III fund set-up, we selected France for those reasons. It simply corresponds with our own image - highly liquid, very secured and a  very risk-driven process.

There were issues for both Luxemburg and Ireland domiciled funds related to Madoff and Lehman. We do not know what happens with those places in the future, but the same problems in France were settled swiftly. Should a problem occur in the UCITS III world - and there will be problems in the UCITS III world, because lots of managers are trying to press their strategy into a regulation

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**Nathanael Benzaken**

UCITS III is very much a European model, for European investors and then now for the growing Asian market. It has not been designed for the U.S. markets, which is the largest in size. If we look at UCITS from the angle of the hedge fund manager – like here a French-based asset manager looking to attract non-French assets - we have to make sure that the product range is attractive for as many as possible.

**UCITS is a reflection of investors wanting to be safe, and if we want to go beyond CTAs and the mentioned simple strategies, we have not found yet a better vehicle than managed accounts to provide a safe wrapper for – if I may use this term - *non-UCITsable* strategies.**

**Nathanael Benzaken**

There is also a limitation in regard to the styles or strategies. UCITS III is amenable for CTAs and un-leveraged long-short equity, and maybe some liquid event driven – so what about the rest of the hedge fund industry? UCITS is a reflection of investors wanting to be safe, and if we want to go beyond CTAs and the mentioned simple strategies, we have not found yet a better vehicle than managed accounts to provide a safe wrapper for – if I may use this term - *non-UCITsable* strategies.

This is also my conclusion returning from a trip to the U.S., where basically the institutional investors are very determined to impose their rules on the industry. I am sure that all of us here want to attract US investors into our asset base.

**Matthias Knab** **What are some of those rules they want to impose?**

**Nathanael Benzaken**

There are mainly four points I heard repeatedly. One, they want transparency. So far, managers have not been very transparent on . Investors wants to understand their risks now. With sufficient granularities and much higher frequency.

Second, they want to have better liquidity. It does not mean that they want to have daily or weekly, but they want to have the best liquidity possible in a given strategy given the nature of the liquidity of the underlying portfolio. If a manager does long-short equity large-cap, there is no need for quarterly liquidity or 90 days notice, you do not need it. It is often for the manager's comfort to run the business. A distressed manager on the other side can easily justify to have quarterly and 90 days notice with potentially one year or, two year lock up. It makes sense.

Thirdly, the investors want to have more alignment of interest and this is the trickiest point, because it involves a fee discussion. The investors feel that hedge funds are expensive and the "2 and 20" model is not sustainable anymore. But more importantly, they want to change the fees structure to make sure managers are motivated to search for long term gains.

They want to change the fee formula moving closer to what banks are trying to impose for their traders. The new formulas could be based on multi-years performance and may include, claw-backs, hurdles and so on. However so far, we have not seen any move of that kind yet on existing hedge funds, with the exception of some being in a re-structuring mode. Let's wait and see how newly launched hedge funds will position themselves on that matter..

So the revolution in the fee universe comes about slow, and maybe it may continue to be slow because good hedge funds are a rare-commodity with limited investment capacity, and the negotiation power may well still be in the manager's hands.

The fourth one addresses corporate governance. Institutional investors do not want to be "trapped" with hedge funds anymore. They want to have their say when it comes to pricing, liquidation mode, gating, basically how the hedge fund is run.

There are not many solutions to address these issues. Unless we invent some new fund structures, and hopefully lawyers will be creative on that front. At the moment, those U.S. investors push very hard for managed accounts. Some of them use platforms like ours or go for their own, dedicated managed accounts. It is a big trend.

Interestingly enough we expect this trend to be long term. This is made possible because it seems that the managed account solution has been embraced by the manager community as a whole as a respectable way to grow, diversify and stabilize their asset base and client mix. With the support of facilitators (prime brokers, administrators etc.) and technology, running a managed account is seamless.

At Lyxor we are proud to have been able to partner with best-of-breed managers over the years. Amongst our most recent partnership are Tudor, Marathon, Apollo, Gartmore Capella ... and more to come of the same vein.

**Laurent Dupeyron**

I think there is one thing we need to be aware of when it comes to managed accounts. In the same way as we discussed it for UCITS III, a lot of hedge fund strategies do not fit into managed accounts. They are simply not practical, which is what managers tell us and we very often see managers admit that actually they do have difficulty running their flagship pari passu with their managed accounts.

At Olympia we have completed a study showing that actually there is a difference in terms of performance between managed accounts and the equivalent flagship hedge fund. We basically found that the liquidity and other constraints do come at a price as they will restrict the manager's strategy and how he trades, therefore affecting performance in the end..
So again not everything can fit in a managed account.

Coming back to the discussion about Paris as an attractive place for finance, we deal with the fact that after a while perception creates reality. We may have a superb framework and regulations, but if you think of the political noise surrounding hedge funds you can sometimes have in Paris, and if you put yourself into the shoes of a Swiss, Dutch, or Asian investor, many of them would not think of Paris as a very hedge fund friendly place. That is most of the time for the wrong reasons but that is when perception becomes reality.

**Matthias Knab** **What is the reality? All of you have funds and run businesses here. What is the reality then?**

**Laurent Dupeyron** The reality is that France is more business friendly than what people think on average. The AMF is a good regulator, they are smart and understand what we as asset managers are trying to do and what type of protection investors require. It is a safe place to do business, which is what people want now, with an adequate regulation. Most of what we can do at Olympia in terms of fund management in Luxembourg or BVI, we can also do in a French regulated fund. But are we perceived that way, as an investor friendly country? The answer is no and that is a shame because in this more regulated environment, we do have our strengths, but perception is more derived from the noise that is been made against hedge funds in general in France. That negative publicity was very damaging; authorities for example in Switzerland or U.K have been much smarter about it as they have been more hedge fund friendly and as a consequence they are now positioned as centers of excellence for asset management businesses.

If I had one wish, it would be for a more business-friendly pitch by our regulators and politicians.

The second issue we have is that the investor base in France for hedge funds is rather small. Most of the savings are channeled through insurance companies and due to their regulation they are not a natural vehicle for investing in hedge funds.

So I think we would all be much stronger if we had a more developed pension fund community and if we had a different retirement savings scheme in general. It is going to be very difficult without proper pension funds in the future and when you see that the only big pension fund we have, which is FRR, does not even invest in hedge funds, you can see that there is a significant task ahead of us; but, again, if I had two wishes which I think would benefit us all, it would be to have a stronger investor base and pension fund community in France and have less political interference with the hedge fund industry in general.

**Manuel Kalbreier** When talking about general corporate governance of hedge funds, we should keep in mind that back in 2003 there was about three times as much equity invested in prop desks of banks than in hedge funds.

At the moment, despite the drop in hedge funds' assets, that ratio is probably one-to-one. The ratio is likely to increase as people like George Soros and some US officials demand that prop desks should be moved out of banks and into hedge funds.

To that end, the hedge fund industry has to become more institutionalized. This is already happening. As hedge funds take on banks' positions, they have to address topics such as resettable high watermarks, gating and generally adequate match of asset liquidity and liabilities. The demands voiced by institutional investors are actually necessary as they will lead to a more stable and mature hedge fund industry.

**David Malamed** There is one important comment I would like to add in respect of French regulations. The trend for the past 20 years has been to basically create a new type of fund structure whenever a new product came up. We may have now about fifteen to twenty types of funds in France. This creates an enormous complexity for everyone involved. Now, compare that to the U.S., where you have rather one type of structure - a limited partnership – which can be used for a wide range of investments, including private equity and hedge funds.

And I think what we are finally getting at with the new OPCVM contractuel is a simplification of the whole system. I also think without taking too many risks that the regulator will actually push that instrument internationally, so that we have a greater flexibility and visibility outside of France.

So if we have one type of fund for professional investors - the OPCVM Contractuel -, the European rules - UCITS III and UCITS IV - for retail, and we manage to get a certain tax stability, which I think we will get, then Paris should be in a position to compete internationally.

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**When we compare jurisdictions like France versus Luxemburg, Luxemburg is of course very small and compact. All the players speak to each other all the time - the lawyers speak to the accountant, who speaks to the manager etc. - whereas in Paris, we have not started such a kind of process. This Roundtable here is probably a good beginning.**

**David Malamed**

When we compare jurisdictions like France versus Luxemburg, Luxemburg is of course very small and compact. All the players speak to each other all the time - the lawyers speak to the accountant, who speaks to the manager etc. - whereas in Paris, we have not started such a kind of process. This Roundtable here is probably a good beginning. One of the key strengths of Luxemburg is presumably that connection that all actors have together. On top of that, they are motivated because they know they are playing for their country - because without the funds, there is no Luxemburg. We can certainly appreciate this kind of team spirit, and should develop this here in Paris as well.

**Stephane Puel**

Let us also look at what is coming - UCITS III is today, but UCITS IV is for tomorrow. Within UCITS IV, a management company for example based in Luxembourg, Ireland or in Malta - with a much less stringent regulation - will be able to manage Luxembourg-, France-, German- or Italy-based etc. UCITS funds.

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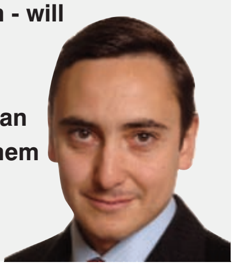

You could argue that when the instrument - the UCITS fund - becomes the key consideration, rather than the location of the manager, there could be a challenge ahead for France to attract talent, or to keep them from going abroad.

We know that some managers are having reflections about going to Luxembourg, or Ireland for example, because those countries have understood what is at stake and taken certain initiatives like tax or regulatory advantages for managers willing to settle down in their country.

But again, when it comes to the level of regulation on the manager and the security of the funds and investments, France has a great role to play as the rules for investor protection are probably more stringently applied in France than currently in a place like Luxemburg. This will be a key consideration in the due diligence of investors.

**Christian Bartholin**

At HDF, we have been working on the transformation of 3 of our funds of funds that are hybrid funds (which blend long only and alternative strategies) into UCITS III funds of funds. Pursuant to the AMF approval, these 3 funds will acquire the UCITS III status on January 1st 2010.

**Thaddée Tyl**

We do promote our range of UCITS III products in Europe, and in the U.S. and in Asia we are promoting our non-UCITS III funds - regulated in France which come, even as non-UCITS III, with a high level of investor protection, as we discussed. Of course, we do promote our managed accounts, because there is demand for those as well. We feel very comfortable and see nice inflows into our firm.

**Xavier Lepine**

Another trend is certainly setting up dedicated funds for our institutional clients, as no one wants to be exposed to a liquidity issue coming from a co-investor.

**Nathanael Benzaken**

May I be provocative for a minute and say that the crisis that we had last year was necessary, if not a sound one. On the negative side, a lot of investors were quite disappointed by how hedge fund managers performed and behaved with their money. But I believe that with this recent crisis also came an opportunity to build new foundations, a new environment that allows for a clearer separation between beta, which can be accessed cheaply through vehicles like ETFs or futures, and alpha, which of course will always carry a higher price. Hedge funds are of course playing in the alpha camp. With managed accounts we are simply transforming “boutiques” into an investment solution of institutional quality, which is absolutely necessary to contribute to the growth the hedge fund industry going forward.

**Sophie van Straelen**

I agree, in order to overcome the governance issue, I can see more concentration in the industry going forward. I strongly believe that small boutiques will have to search some sort of institutional back up. This institutional back up needs to be implemented and executed very carefully. The hedge fund manager has to retain his flexibility. I have an example in mind that seems to have worked well, the alliance of Ivy with Bank of New York back in 2001. I believe that we may see similar deals and alliances also in France going forward, as part of the evolution of the marketplace.

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**Sophie van Straelen**

**Manuel Kalbreier**

Let us consider how hedge funds generally fared in 2008. Given the circumstances of the financial storm that took place in all markets during 2008, the hedge fund industry has actually weathered the crisis incredibly well. From a performance point of view, most hedge funds have massively out-performed the equity markets on the way down, but have also performed decently in the bounce.

I do agree that hedge funds have to become more institutionalized, but if one compares hedge funds with financial institutions such as banks, the outcome is in favour of hedge funds. In contrast to 1998 and LTCM, Hedge Funds, this time around, posed no systemic risk unlike banks.

Touching briefly on new developments we see a tremendous opportunity in Asia both from an investment perspective and from the demand side. Wealth is being created in Asia surprisingly fast. Eventually, Asian investors will want to have Asian hedge fund products.

Another area for development is our long-only fund. We believe our expertise in managing a hedge fund can be directly applied to generate alpha in long-only strategies. We have done this successfully over the last five years.

**Géraud Dambrine**

On the general context, we at Lombard Odier see three important areas that we think will be relevant for our industry going forward.

One is the change in volatility regimes, which affects a lot of strategies. This is a key area to focus on. Managers going forward will have to be more tactical as opposed to just directional on the markets they cover. Absolute return offerings are back in fashion. This is due to higher volatility regimes.

The second one refers to the emerging markets as the drivers for growth. Emerging markets have done much better during the last crisis than developed markets. The shift of power towards those regions will continue. We alpha factories will need to develop and sharpen the skills required to cover these regions.

When we look at just the first two factors – the change of volatility regimes and the growth from the emerging markets - we really do think that hedge funds have a great future in front of them. Hedge funds and hedge funds selection units will become strategically relevant, given that these markets are very inefficient and the alpha components are very mobile. Smart money is mobile and very nimble. So hedge funds and hedge fund selection units will continue to grow.

In terms of the product there are some key takeaways to this crisis. One of them is ensuring a constant liquidity for the benefit of the clients. Liquidity is basic, yet fundamental, and it comes with a whole host of questions surrounding risk measurement and management? How do you manage risk? How do you make sure that you are not in a crowded trade or that you are not yourself a crowded trade, which could also happen when you become very big. So on, the back of investment appetite for liquidity we believe managed accounts will prosper.

We feel that beta driven asset managers will be forced to merge for cost purposes. Conversely we still feel that the alpha side of the business is smart, is still very mobile, still very nimble.

We've benefited from this crisis at Lombard Odier by hiring a lot of talent in the asset management industry, and more specifically in the single hedge funds' activity that we have recently developed. Our results in this field are very encouraging.