

La Vie en rose beckons for hedge funds

Although London is considered Europe's hedge fund capital, a few are ignoring this billing to set up in Paris. Opinion is divided on whether this is the beginning of a French hedge fund renaissance or just a brief fizzle before reverting to the Anglo-Saxon norm.

Emergence, the French institutional investor-backed seeder for hedge funds advised by seeding platform NewAlpha, has funded five deals with €30m each. Created in 2012 with the support of the Association Française de la Gestion Financière, the French asset management trade body, Emergence has nine large institutional investors.

The funds it has seeded are mostly Ucits IV vehicles, and include a credit fund from Eiffel Investment Group, a systematic trading strategy from KeyQuant and a macro fund from Rcube.

But even with this background and the possibility of receiving government funding to employ recent PhDs for research, the fate of the French industry could rest on the development of different regulatory initiatives, real or hypothetical. The imposition of a 75 per cent tax rate on high earners has chilled enthusiasm among would-be Parisian hedge fund managers, while a proposed European Union financial transaction tax could spell its rapid demise, according to Anne-Sophie d'Andlau, managing partner of CIAM, a merger arbitrage fund manager.

"This would give us a very negative competitive disadvantage," says Ms. d'Andlau, whose company would probably relocate outside the FTT zone in the case of its introduction. Geneva and London would be the likely winners, she predicts. Switzerland is outside the EU and the UK has said it would not implement such a tax.

However, it is also an EU-led regulatory initiative that could provide a burst of life for Parisian hedge funds. The Alternative Investment Fund Managers Directive, due to be implemented on July 22, may lead to increased interest in hedge funds from institutional investors across Europe. In that case, Paris's natural advantages would come into play.

Foremost among these advantages is the workforce. "One of the good reasons to be in France is that the education system is good," says Amit Shabi, co-manager and head of trading at Bernheim, Dreyfus, an event-driven hedge fund house based in Paris's embassy district. "It is easier to attract good people here."

The French education system is traditionally very mathematically focused, with additional emphasis on computer science – a perfect match for the requirements of hedge fund managers.

The Ucits version of Bernheim, Dreyfus's Diva strategy was seeded by Emergence, which has also seeded an AIFMD global alpha fund from Blue Hive.

"On the continent, institutions are warming to the new framework," says Ms. d'Andlau. She expects to see more hedge funds coming on board with the regulation, not because it is attractive in itself, but because "they

want the passport". Recognition as an alternative investment fund manager in one EU jurisdiction brings entitlement to a passport to other jurisdictions.

Increasing faith in the AIFM brand would also open up the large pool of French institutional money, hopes Ms. d'Andlau. Access to investors is another area where Paris's cons currently outweigh the pros. Although easily accessible for most of Western Europe, the city is often a step too far for US investors over to visit hedge funds in London. If the boost given by AIFMD invigorates the industry enough, the number of hedge funds might reach a tipping point for these investors to add a stop to their tour.

Location can also be a quality-of-life issue in a people-centred industry such as hedge fund management. Although London, a much bigger and more diverse city, may be attractive to the young, it is not so clear that it is better for family life.

"In Paris, you can rent bigger places, you don't spend as much on schools; the quality of life is great, because you can walk everywhere [and] it is easy to find people to work for you [in a domestic capacity]," says Ms d'Andlau. Although the buzz in London may be better, being able to walk the children to school is a big incentive to stay in Paris.

Mr. Shabi, an Israeli married to a French woman, agrees that Paris is a good place to live. "A lot of French people are very happy to work here," he says. "They go to London not because they prefer it, but because the jobs are there. If there were more hedge funds here, a lot of French people would come back."

Most of Mr. Shabi's French acquaintances in London return home to visit the doctor in any case, he says. The inbuilt certainty that France is superior in all things is hard to eradicate.