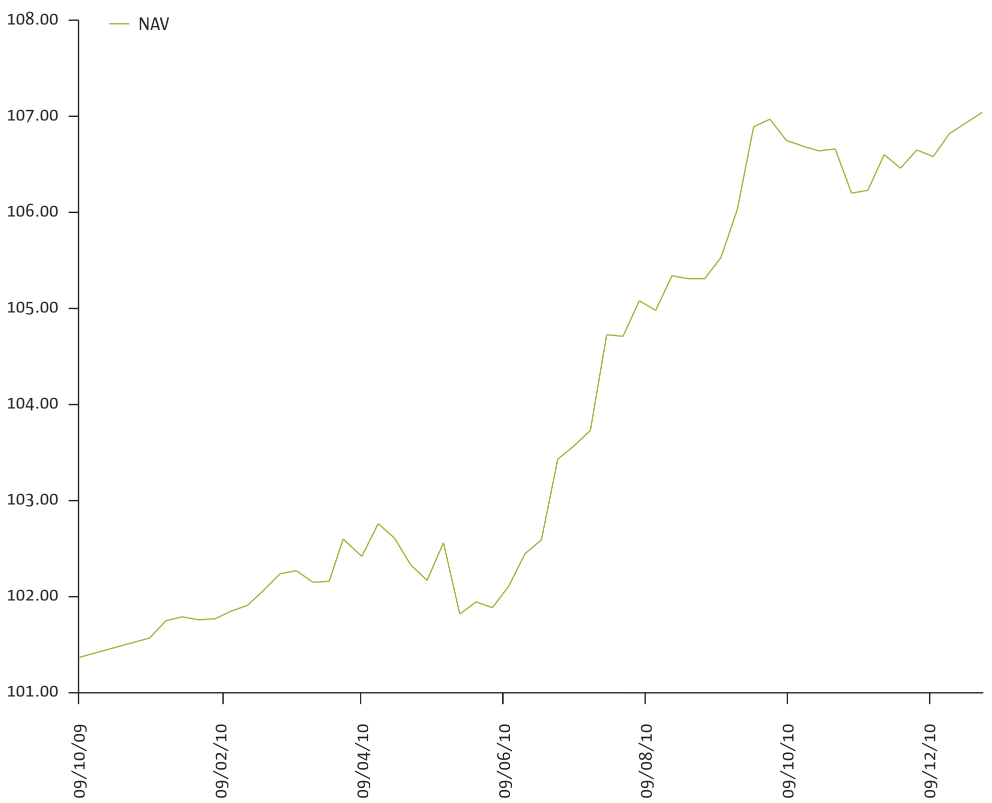
Lutetia Patrimoine Fund

Best Event Driven Fund

HAMLIN LOVELL

Fig.1 Fund Performance *Source: UCITS Hedge*



Key details
Fund name Lutetia Patrimoine
Management company Lutetia Capital
Promoter Lutetia Capital
Status Open
Inception date 10th November 2009

Strategy
Kind of fund Hedge Fund
Strategy group Relative value
Region Global Developed
Asset classes Equities, credit, convertible bonds

Particulars
Currency EUR, USD
Share class name I unit (EUR)
ISIN FR0010816819
Domicile France
Listing Not listed
Fund structure FCP
NAV calculation Weekly
Liquidity Weekly
Notice (banking days) 1
Minimum investment 500,000
Minimum retail 100
Min. investment currency USD
Income Accumulative

Fees
Entry fee 4%
Exit fee 0%
Management fee 1.5%
Performance fee 20%
High water mark Yes
Hurdle rate Yes
Hurdle Eonia

Analysis
2010 return 5.59%
Annualised return 5.57%
Annualised volatility (monthly data) 2.44%
Sharpe ratio (2%) (monthly data) 1.47
Correlation to S&P 500 (monthly data) 47.48%
Correlation to iBoxx (monthly data) -0.74%

Service providers
Administrator BNP Paribas Fund Services
Custodian BNP Paribas Securities Services
Auditor Deloitte

Manager Jean-Francois Comte worked on the sell side, advising on mergers and acquisitions for Lazard Freres in New York, before returning to Paris in 2009 to launch Lutetia Capital, with former private equity manager Fabrice Seiman – and the blessing and board presence of many illustrious figures in France.

The Lutetia Patrimoine Fund is one of their two UCITS funds, which combines plain vanilla, post-announcement merger arbitrage with some more anticipatory trades on the event driven side.

Yet theirs is a conservative strategy. Portfolio liquidity for this weekly dealing fund is maintained by concentrating mainly on market capitalisations over $1 billion. In terms of risk, as a "simple" UCITS it can run gross exposure up to 200% but has averaged 110% so far.

Since the long book is not expected to exceed 100% of the fund, the surplus is a consequence of using short equity index instruments to hedge equity beta from the book. The market neutral approach is associated with a volatility target between 2% and 4%. Trades in the event driven book have a 10% stop loss, but since they are hedged this effectively means they will be exited if they underperform the local market by 10%.

Position level stop losses are not feasible for announced arbitrage trades, because deal failures usually lead to larger losses. The trick with the core strategy is just to minimise the number, and cost, of deal breaks.

So far, the Canadian Government veto of BHP's bid for Potash has been Lutetia's only broken deal, and one that incurred only a modest loss; the managers have avoided some other deals that got vetoed by politicians.

Whilst some mergers have experienced delays or setbacks, Lutetia has often taken advantage of this as an opportunity to build up – or even initiate – positions at more attractive spreads for the merger sub-strategy.

The event driven bucket, around one-third of the fund, has thus far outpaced the bread and butter merger deals, generating a 30% return on capital invested. Lutetia has accurately foreseen takeovers including UK utility International Power, and drugs maker Javelin Pharmaceuticals.

Returns of at least 6% over cash are targeted, and have been achieved since inception in December 2009. Going forward the managers' positive outlook for the strategy may lead them to increase exposure. **THFJ**