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HEDGE FUNDS

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A hedge fund turned one-year-old this weekend. Its name is [Lutetia Capital](#), and for a fund of its type, it has the highest [Sharpe ratio](#) in the world. The number is a measure of rewards obtained over risk taken, and the fund beat out nearly 300 rivals, according to Bloomberg data.

Everyone knows reward is proportional to risk, but the trick is to increase the first and decrease the second. Lutetia, for the last year, has done just that. In that time, its assets under management have grown from \$3 million to \$80 million — an almost 27-fold increase.

It's a young fund run by two young men — Jean-François Comte et Fabrice Seiman — who from their high-ceilinged offices on Boulevard Haussmann pursue a strategy of absolute returns.

Their deal- and event-driven strategy focuses on firms whose shares may vary wildly with the prospects of an announced deal, as well as those companies it believes may become targets but haven't yet, much like John A. Paulson made his living, before he became famous for his subprime bets.

It bet and won on L-1 being bought by Safran for \$12 per share, and has gotten in on ongoing takeover struggles like that between Genzyme and Sanofi-Aventis, and between Airgas and Air Products. That said, the ease with which 3M bought Cogent handed the firm its second down month in 10 reported, showing the risks of a merger-driven strategy.

Mr. Comte was formerly a vice president at Lazard, working as an M&A banker before striking out for the buy side.

Mr. Seiman came to Lutetia from P.A.I., the large French private equity firm, after a stint working under Jean-François Copé at the finance ministry, before Mr. Copé became the general secretary of France's governing central-right party, the UMP.

Using the tools, models and ideas that they learned in investment banking and buyouts, they're now conducting similar accretive-dilutive analyses to sniff out potential takeover targets and predict the outcome of bids. Their biggest exposure is to companies in healthcare and IT.

It is often said on Wall Street that those who say, don't know, and those who know, don't say, but Lutetia's set out to change that by proving it can do both. Mr. Seiman does regular spots on BFM, the Paris business radio station, explaining their latest bets, and he thinks deal flow is set to expand.

"With the M&A cycle continuing to accelerate, we see great things for this fund," he said in a statement Monday.

That openness is part of a larger trend in Europe, as regulators [introduce new rules](#) governing hedge funds, and investors attempt to conform to them.

This month, Lutetia created a second fund to be run by Claude Tiramani, who was in charge of \$10 billion for BNP Paribas's emerging markets asset management unit, and now will be investing in those same markets for the hedge fund firm.

"The combination of the recent financial crisis and the surge of public debt in OECD countries has forced the recognition of and accelerated a new order in global economic growth that favors emerging countries. Within these countries, the emergence and growing importance of an urban middle class is the most significant societal transformation, and the most powerful economic trend," Lutetia said at the time.

Lutetia, an open-ended investment vehicle based in Paris, is classified under the E.U.'s Ucits III rules, which make it open to small investors and able to use some derivatives.

It aims to stay market neutral, uses Goldman Sachs and BNP Paribas, the largest bank in France, as its primary brokers, and charges fees at the typical rate of 2 and 20, discounted for larger investments.

The firm has just been nominated for two [Tremplin Multiratings-Morningstar prizes](#) for new funds, with results to be announced mid-December.