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Lutetia Brings Big Mergers to Small Investors

By Reuters
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ZÜRICH, Switzerland (Reuters)—If amateur market buffs want to bet that Enfamil baby formula maker Mead Johnson will be taken over by food giant Nestlé, one hedge fund open to retail investors allows them to do just that.

European Union regulations on investments restrict many hedge fund trading and investment strategies to professional investors, but fund manager Fabrice Seiman told Reuters on Friday [Dec. 3] he has made his merger-focused fund accessible to retail investors.

"Even though it's focused on mergers, we could sell the entire U.S. and European portfolios in two hours if we needed to," said Mr. Seiman, a former investment banker and founding partner of Paris-based Lutetia Capital.

The fund, Lutetia Patrimoine, is compatible with the E.U.'s UCITS III regime, which restricts the use of leverage, imposes strict liquidity requirements and clear asset pricing and allows qualifying hedge funds to be sold to retail investors.

"For our strategy the UCITS format is not a burden at all and the advantage is the investor base is much wider," he said.

The fund looks for takeover targets among the largest companies, which are easiest to buy and sell and where mergers and acquisitions are picking up after the financial crisis. Up-market jeweler Tiffany, made famous in the Audrey Hepburn movie of the Truman Capote novel "Breakfast at Tiffany's," is one of his tips.

"Of the S&P 500 companies, around 3 percent are taken over each year. The game in this strategy is to increase the hit ratio from this 3 percent in your portfolio," said Mr. Seiman.

The €80 million ($105.5 million) fund's favorite sectors are energy, technology and, as evidenced by the Mead Johnson bet, some areas of consumer healthcare, which prompted the investment in Bristol-Myers spin-off Mead Johnson.

Healthcare is one area where M&A activity is almost guaranteed, he said.

"Most major pharma companies like Sanofi-Aventis are facing a patent cliff," said Mr. Seiman.

"Most of their blockbusters have licenses which expire in a few years, so they have to buy biotech companies which own a potential or proven blockbuster," he said, adding that recent Sanofi acquisition Genzyme has two.

Meanwhile some technology companies like Cisco Systems, Hewlett Packard have huge cash piles, which they will use for acquisitions as well as buybacks and dividends. Seiman said he is on the lookout for their target companies.

In energy, Mr. Seiman said he likes the United Kingdom's Wellstream, which he said is in talks with U.S. giant General Electric and National Oilwell Varco.

The fund also tries to profit by trading on share price differentials in done deals, for example buying shares trading at below their acquisition price.

"About a quarter of this year's deals have been hostile, which shows we are in post-crisis period. Sellers and buyers don't have the same expectations, so there are some negative spreads," said Mr. Seiman.

That means bid prices can be lower than the currently traded price of shares, and some funds try to take bets on whether the bid price will rise or the share price will drop.

"It makes profiting from done deals more difficult so experience is key," Mr. Seiman said.

By Martin de Sa'Pinto