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Daily News
Regulatory/Legal
Strategies/Analysis
Technology
Opinion
People
Indexes

 Europe

All Stories
Daily News
Regulatory/Legal
Strategies/Analysis
Technology
Opinion
People
Indexes

 Asia/Australia

All Stories
Daily News
Regulatory/Legal
Strategies/Analysis
Technology
Opinion
People
Indexes

 International

All Stories
Daily News
Regulatory/Legal
Strategies/Analysis
Technology
Opinion
People
Indexes

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PARIS (HedgeWorld.com)—Laffitte Capital Management, a privately owned asset management firm established earlier this year, is to launch its first fund this week. Laffitte Risk Arbitrage, which is regulated by the Autorité des Marchés Financiers, the French regulator, will employ a merger arbitrage strategy with a specific focus on announced deals in Europe and the United States.

The members of the management team, Eric Robbe, Arnaud Yvinec, David Lenfant and Gabriel Teodorescu, have worked together for between seven and 17 years. Team members each spent more than 10 years at France's fourth-largest bank, Groupe Crédit Mutuel-CIC, where they were in charge of proprietary share and derivatives arbitrage for Europe and the United States.

They have been involved in a number of landmark events in Groupe Crédit Mutuel-CIC's history, including the establishment of a basket trading desk at CIC Equity Derivatives, a Crédit Industriel et Commercial subsidiary, in 1990; the opening of CIC's risk arbitrage desk in 1993; the merger of Groupe Crédit Mutuel and Crédit Industriel et Commercial in 2000; the introduction of a proprietary risk arbitrage model to the risk arbitrage desk in 2001; and the growth of the merger arbitrage portfolio to 1 billion euro (\$1.47 billion) by 2006.

In the new structure, the fund managers will be Mr. Yvinec, who will also hold the role of chief executive; and Mr. Teodorescu, who will be a managing partner. Mr. Robbe will be the chairman, and will be responsible for compliance and internal risk control. Mr. Lenfant, a managing partner, will oversee sales and marketing, as well as trading authorization.

Laffitte's four founders have invested their own money in the new fund, and will use these assets to test the firm's system until the end of December, when Laffitte will be looking to market Laffitte Risk Arb to outside investors, Mr. Lenfant told HedgeWorld. He confirmed that the fund is currently in the process of discussing a deal with potential seeders.

"We will be using a fundamental approach to evaluate announced M&A deals, and we can add value in this area since, as former basket traders, our pricing is very precise," said Mr. Lenfant. "We will also be using our own database of past M&A, for which we have developed a multi-criteria quant tool that can be applied to the M&A market." He said the firm's tools had been back-tested against past M&A deals in Europe and the United States, and had been fine-tuned through back-testing against information flows.

"Unlike many other funds in this strategy, we don't buy into all positions, we are more dynamic and can close and re-enter positions according to the indications of our evaluations and models," added Mr. Lenfant. He said the average holding period would be three to four months, "but it could be shorter because we will be working on announced deals, and the strategies will therefore be more liquid than if you were involved with event driven or activist strategies." The fund will use cash options and contracts for difference for hedging purposes. It will hold between 20 and 40 positions in a range of cash and stock deals, with a maximum of 50% of the portfolio consisting of cash deals.

Laffitte Risk Arb is considered an "ARIA EL"-type fund under AMF regulations, an alternative-type which is permitted to use leverage. The fund has set maximum leverage at four times assets. "We plan to use a leverage of two in our average portfolios, so if we reach our capacity of about 500 million euro [at which point the fund would hard close], it will effectively mean that we can invest up to a billion euro in our strategy," noted Mr. Lenfant. "There are good opportunities in this market segment, and at present there is a lack of single-strategy products with a well-established and proven process in France." However, he also noted that the use of alternative products is still fairly limited in France, though investors are beginning to get used to them. "It's an ongoing educational process," he said.

The minimum investment, which is regulated by AMF article 413-2, is 125,000 euro. Subscriptions will be weekly and redemptions weekly with 25 working days' notice. Redemptions required within 10 working days will be subject to a 2% penalty, which will be paid to the fund. Mr. Lenfant said the portfolio would maintain sufficient liquidity to manage redemptions. Net asset value will be calculated weekly.

The fund targets net returns of between 10% and 12%, with volatility below 5%, and is open to institutional and qualifying private investors. The fund is open to British, Swiss and mainland European investors, although assets must be deposited in France. It charges a 2% annual management fee and a 20% performance fee. As yet, no hurdle rate or high water mark has been set.

RBC Dexia will act as administrator and custodian, and Lehman Brothers has been engaged as prime broker. The auditor is Cabinet Sellam, while Gide Loyrette & Nouel has been appointed as legal adviser.

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