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Lutetia/Lyxor merger arb UCITS fund triples assests in two months

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By Staff Writer Tue Oct 6, 2015 Paris-based arbitrage specialist Lutetia Capital has seen assets under management in its Lyxor Lutetia Merger Arbitrage UCITS fund swell to $125 million within just two months of launching on Lyxor Asset Management's Alternative UCITS Platform. Lutetia's fund follows a pure merger arbitrage strategy, with a specific focus on friendly takeovers in North American and European large-cap equities. It originally launched on the Lyxor platform in July with initial commitments of $40 million, with the aim of scoring regular absolute returns while preserving capital across all market conditions. The portfolio typically consists of 50-70 positions with a limited risk budget per deal of 1-2%, and scopes out its positions using a mix of quantitative and qualitative analysis of M&A deals. The fund also serves as a dedicated managed account for Société Générale's SGI Merger Arbitrage II flagship index. This index, which is up 4.47% year-to-date, has delivered an annualised performance of 6.23% since January 2013 with only four negative months. With a continued flurry of M&A activity globally in 2015, Lutetia officials see the pure merger arbitrage strategy as offering several benefits to investors, especially given the current low yield environment. The fund is uncorrelated to the broader equity markets, with beta of 0.08 and 0.09 against the EuroStoxx50 and S&P500, respectively. At the same time, the strategy is highly liquid, and claims to offer predictable returns with a known duration: the average annualised spread is approximately 7% on North American deals over $400 million, on an unlevered basis. "Today is probably one of the best times to be invested in pure merger arbitrage, with global M&A on track to hit the highest level since 1980," said Fabrice Seiman, managing partner of Lutetia Capital. "If the current pace of activity continues, takeover-deal announcements could reach $4.6 trillion this year. Three trends are responsible for these excellent deal-making conditions: the need for external growth to fuel earnings expectations, the return of corporate confidence and increased availability of cheap financing." Seiman added: "This successful launch is proof that investors are looking for predictable yield while preserving their capital and we are happy to see, with our partner Société Générale, more interest coming from different geographies. For two years now we have continually highlighted the consistent outperformance of merger arbitrage as a yield strategy versus bonds over time, for the exact same volatility. This outperformance is likely to accelerate in the next few years due to the rise in interest rates, which will likely hurt bond returns and benefit pure merger arbitrage strategies." Founded in 2009 with offices in Paris and London by co-founders Seiman and Jean-François Comte, Lutetia Capital focuses on arbitrage strategies in the merger and volatility areas. Comte was previously vice president in the Lazard M&A group in New York, while Seiman was formerly an advisor to the French finance minister and was also a member of the Investment Group at PAI Partners, the largest LBO firm in continental Europe.