



ALTERNATIVE ASSET MANAGEMENT IN FRANCE



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Between objective analysis and subjective perception, what are the determining factors and levers for revitalising the market?

Despite recognised human and technical resources, French alternative asset management, for reasons specific to the French market, and because it is suffering from a lack of image particularly abroad, has not developed as hoped. The analysis shows that there are however opportunities to be seized in order to develop this management and all its related high added-value services.

FOREWORD

Alternative asset management is an economic stake, which, in France, is disturbing.

The development of alternative asset management is an economic stake because this management is a highly added-value activity which, whilst bringing together the interests of investors and service providers, is well paid and enables high level jobs to be developed through the management ecosystem. It is also an economic stake on the financial markets, because this alternative asset management has become essential to the diversification of long portfolios¹ and to the search for non-correlated returns from the main markets. The security and performance requirements of financial assets have been greatly reinforced particularly for assets allocated to pension funds and assets allocated to rainy day savings (preparation for educational costs, dependence expenses, etc.).

It is accepted and recognised that alternative asset management has enabled the development of innovative financial techniques for the benefit of investors. It contributes to more market liquidity by taking various positions since the management techniques practised develop interests in many directions².

It is because these stakes have been perceived by our "financial" regulators (AMF- Autorité des Marchés Financiers (the French Financial Markets Authority) - and the Treasury in particular) that regulations have been adapted to enable the development of this industry within a French framework. There is no longer a need to show that asset management management, in general, most often first benefits the place where the manager is based (leading of markets, participation in financial transactions, etc.), and the alternative asset management contributions in this domain are well known.

But alternative asset management is a topic which is disturbing, specifically in France. Summarising it into two words, "hedge funds", immediately gives it an iconoclastic and fiendish connotation completely upheld by political speeches, themselves widely brandished in the media, reflecting and diffusing a great misunderstanding of the subject.³

For this reason perhaps, but for others too, alternative asset management has not been developed in France, whereas it has undergone huge expansion in the Anglo-Saxon countries (in Europe and in the world) and also increasingly in Luxembourg and in Switzerland.

Knowing how to attract financial management businesses is a major economic stake for the different financial centres. The attractiveness is partly linked to the general financial frameworks developed mainly by the major centres (success of London, New York, etc.). But it is also due to the development of technologies and the globalisation of finance. This attractiveness is also linked to the quality of the laws, rules and service providers of less important centres which thus offer an attractive framework to management companies or to the domiciliation of the products which they manage (success of Luxembourg and Dublin).

¹ EDHEC Study: "La Place des Fonds Alternatifs en Gestion Actif-Passif", Lionel Martellini, Véronique Le Sourd, Volker Ziemann, 2007

² Apart from structural elements such as deleveraging, alternative asset management generates less of a "pack effect" on the markets.

³ Thus, whereas initially the political speeches ridiculed the hedge funds as guilty of the financial crisis, the analysis and the consensus show that they were perhaps a propagating element of this, certainly a victim, but by no means the source. Further, unlike the banks, the losses from alternative asset management have not been made up for by public money.

At a time when, due to the preparation of the AIFM and UCITS IV directives, the European regulatory landscape is in the midst of a major change and in great discussion, the AFG (the French Asset Management Association) has entrusted **Reinhold & Partners** with the task of finding out the reasons for the slow development of alternative asset management in France. The objective is to propose realistic actions to be implemented to give back to France an attractiveness which it has, in all evidence, lost, as the study shows, for real reasons and also due to a poor image.

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The Association Française de la Gestion Financière (French Asset Management Association - AFG)

The AFG is the professional management organisation for third parties. It brings together all market participants working for individual investors and collective investment schemes.

Its assignments:

- Representing the business, financial and corporate interests of its members, the entities that they manage (collective investment schemes) and their customers. As a talking partner of the public authorities of France and the European Union, the AFG makes an active contribution to new regulations.
- Informing and supporting its members. The AFG provides members with support on legal, tax, accounting and technical matters.
- Leading debate and discussion within the industry on rules of conduct, the protection and economic role of investment, corporate governance, investor representation, performance measurement, changes in management techniques, research, training, etc.
- Promoting the French asset management industry to investors, insurers, politicians and the media in France and abroad. The AFG represents the French industry - a world leader - in European and international bodies. It plays a very active role in the European Fund and Asset Management Association (EFAMA).

Reinhold & Partners

Reinhold & Partners is a consultancy firm based in Paris and Amsterdam, which provides its clients with their experience in all areas of regulated and offshore management.

Banks, management companies, investors and service providers benefit directly from multidisciplinary competence which accelerates the start-up of projects and guarantees their compliance with best practices.

Reinhold & Partners help their foreign clients that wish to set up in France, just as they assist their French clients that are developing international projects, by relying on a network of partners based in the main European centres.

Alongside their research and engineering activities, Reinhold & Partners assure operational due diligence, strategic advice and offer different governance solutions.

www.reinholdpartners.com

FRAMEWORK AND DEFINITIONS

Alternative asset management

The alternative asset management which we will define in an initial approach as asset management organised around contractual mechanisms, which use tools such as leverage and which seems to produce a more or less non-correlated performance from the financial markets, is a complex activity, achieving higher returns with higher margins, and hence a high added-value for the countries housing service providers.

- Alternative asset management usually uses two vehicles: the hedge funds and the contractual funds (or quasi-contractual in the case of lighter asset management requirements)⁴.
 - o Whilst the players are regulated, the products are generally not - and therefore fall under contractual law and not under regulatory constraints.
 - o The management of these products incorporates a measure of risk versus a deviation in relation to an index or benchmark.

Historically, the former British colonies of the Caribbean Islands have been major centres for the domicile of funds and, for some, have attracted the setting up of service providers and large financial institutions.

A simplified analysis thus enables an understanding of the emergence of the Cayman Islands and of all the countries which have organised for the investors and particularly the American investors⁵, in an environment where the legal framework dominates the regulatory framework, an offering relying on the mechanism of English contractual law.

The Cayman Islands (which are a British Overseas Territory) have been able to benefit from this natural "attractiveness" by developing appropriate laws and by attracting English and American talents to develop a market and offer all the expected services in order to create and develop alternative investment management products (hedge funds). Simultaneously, the simplicity of the regulatory and legal framework (a contract detailing all the product phases, responsibility focused on the Board, etc.) and the efforts of those involved (lawyers, auditors, but also governments, etc.) have enabled these products to become commonplace. They have become standards at international level, and are known by investors, which makes it easier to market them.

In Europe, two countries (excluding Switzerland) are making a great deal of effort to attract the alternative asset management funds. In particular, they are looking to benefit from the windfall effects created by the AIFM directive, the increase in the number of assets eligible for UCITS III funds, and the opinion campaign on the so-called tax havens⁶. These two countries are Ireland and Luxembourg, each focusing on different industrial, legal and regulatory advantages, progressively put in place and largely compared in various studies.

The location of the management companies is an entrepreneurial decision. This decision is taken in consideration of many complex requirements, including "the ecosystem", the taxation of companies and

⁴ Of course, there are other regulatory mechanisms authorising alternative asset management, including the UCITS format. Nevertheless, the format used most in the world is established on a contractual basis.

⁵ Which represent approximately 80% of global "consumption" of alternative asset management

⁶ We are not convinced that, in terms of product management, it is possible to talk about "tax havens" since, in most countries in the world, unit trusts - regardless of their name - are entities that are exempt from paying VAT and corporation tax. This is clearly the case in France Taxation is applied on the bearer, depending on the taxation specific to him, and not the domicile of the funds in which he has invested.

natural persons, the quality of life and lifestyle, the existence of a market, the support to creation and development, etc. all points contained in the study below.

In Europe, France is reputed for the quality of its training and has been able to attract managers for regulated products (UCITS III) by developing a secured regulation, a good quality offering of financial services (custodian, administrator), and access to quite well marked out institutional and retail markets.

The same does not apply however for alternative asset management which, in many cases, with French people in their teams, sees its European managers based mainly in London or in Switzerland for reasons which we analyse.

Attractiveness

*The attractiveness of a territory is the ability of a territory to attract the establishment of **production factors** (capital, labour, etc.) or to attract tourists. The economic players select the countries where they establish themselves by looking for a **competitive advantage**. The attractiveness of a territory is therefore the perception of this supposed competitive advantage. It therefore differs from **competitiveness**, which is one of the factors of attractiveness (source: Wikipedia)*

In reality⁷, the attractiveness is measured by rational and objective criteria and also by subjective and often emotional factors.

Selecting is usually done in two stages:

- An initial "assessment" phase, which consists of evaluating as objectively as possible a certain number of relevant criteria and factors in relation to the decision and applied to the different candidates. This phase leads to the drawing up of a short list, following a method such as, for example, that of the "minimax regret": the participants with the least number of negative points in relation to a fixed objective are selected
- A second "actual decision" phase most often established on subjective, or even personal, elements including desire, enthusiasm, etc. and focussing on seeking advantages.

In practice, it appears that the "assessment" is done on the basis of objective criteria applied to a visible population. The choice, i.e. the decision - a human act *par excellence* - incorporates a large subjective dimension.

The decision remains a human process in which satisfaction and pleasure may hinder the objective dimension. The subjective factors, such as facility, pleasure, image, etc. affect the choices made. These are the factors, veritable lures, which will require having an interest in such or such a centre which may force a decision from different "objective" possibilities.⁸

⁷ see "Douce France, que fais tu pour vendre ton charme?" by Marc Herubel and Pauline Leclerc-Glorieux under the supervision of Michel Berry (Ecole des Mines de Paris) - 1999
http://www.annales.org/gazette/Gazette_web_05.pdf

⁸ There is also a "sheep like" component. The decision is made easier when it leads to acting like others. The attractiveness adds to itself when it is recognised and has attracted enough players.

To be attractive means having the elements to be initially assessed, then qualified and finally chosen.

To be attractive means being given the desire to do something, and being allowed to do it easily... and knowing how to do it

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Alternative asset management in France

ANALYSIS OF THE OBJECTIVE AND SUBJECTIVE DETERMINING FACTORS RELATED TO THE ESTABLISHMENT AND DEVELOPMENT OF ALTERNATIVE ASSET MANAGEMENT IN FRANCE

Introduction:

Within the framework of its analysis of France's attractiveness in terms of alternative asset management, the Association Française de Gestion Financière (AFG) entrusted Reinhold & Partners with conducting a study aiming to identify the strengths and weaknesses of France as a financial centre, both according to objective criteria (tax, regulatory mechanisms, etc.) and according to subjective criteria (discriminatory criteria for the location, etc.).

France has strengths in many areas and benefits from many attractions, but it suffers from weaknesses that impact real or imagined perception and eventually the choice of domicile of management companies and/or funds.

To highlight these strengths and weaknesses and to identify the determining factors which lead to the creation, in France, of alternative asset management businesses, Reinhold & Partners conducted a survey aimed at French and foreign players in this industry (managers, investors, service providers, etc.).

The gathering and analysis of the data received, completed, where appropriate, by individual interviews, enabled to map out the strengths and weaknesses of the French alternative asset management industry and hence to draft out a reflection on the actual proposals which will lead to making France a land of opportunities for the development of this industry and of the services generally related to it.

To conduct this study, we were inspired by the methodology developed for similar works carried out in the past, and in particular:

- L'Entreprise et l'Hexagone (Report of the French Minister of the Economy, Finance and Industry, by FrexagoneLavenir, Alexandre Joubert-Bompard and Clude Wendling) – Les Editions de Bercy – 2001.

This report offers different levels of reading depending on the level of generalisation sought by the reader. Even if a detailed reading of each response is full of information, the different levels of summary proposed can be read separately and provide clarification as to the reasons for the difficulties of developing French alternative asset management, and also alternative asset management in France.

Methodology Overview

THE SCOPE OF THE STUDY:

The study was defined, together with the Association Française de Gestion Financière (AFG), to analyse simultaneously several problems which target management companies, alternative asset management vehicles, service providers, investors, etc.... whether they are French or foreign. These problems concern for example:

- 7 The identification of the problems encountered by French management companies
- 7 The objective and subjective determining factors of selecting France for the creation of portfolio management companies and/or the domicile of funds
- 7 The view of the French alternative asset management market by its players and its competitors, whether French or foreign
- 7 The identification of the real or imagined weaknesses which impact the perception of the French alternative asset management market
- 7 Benchmarking of the services proposed by "the ecosystem" in France and abroad
- 7 Brakes to the development of this ecosystem
- 7 Ideas on "technical" improvements in order to adopt regulations which comply with the best international standards on this matter.

It was decided to encompass in the scope of the study both direct alternative asset management players (the managers) but also *service providers*⁹ and investors in order to compare their perceptions of the French alternative asset management framework. **Indeed, if the aim is to put in place the most favourable conditions possible to the expansion of this management, account has to be taken of the entire ecosystem linked to it.**

The alternative asset management companies need to use specialist service providers (mostly Anglo-Saxon¹⁰) and these will only set up or return to France if they find a sufficient market that responds to international standards. Finally, and this is a considerable asset for France, these service providers use high potential human resources that are available in France thanks to the development of renowned specialist training courses. The impact on employment by new players establishing their business in France is considerable.

⁹ By "service providers" we mean the different providers who provide direct services to the alternative asset management investors and managers. This includes, *inter alia*, the custodians and Prime Brokers, the analysts, transfer agents, legal advisers, auditors, etc.




¹⁰ About 85% of alternative asset management is aimed at Anglo-Saxon investors, which has created a market, dominated by Anglo-Saxon service providers with an uncontested technical advance.

Knowledge of the opinion of investors, whether they are institutional or private (mostly *family offices*), French or foreign, is, for its part, an obvious requirement since they are the consumers of the alternative asset management products.

THE QUESTIONNAIRE:

The questionnaire was designed from the experience of Reinhold & Partners together with a pilot group from the AFG, chaired by M. Leclair and M. Bartholin. To address to the concerns expressed in the scoping of the study, it was designed in order to target, within the population of alternative asset management professionals, different groups of individuals.

These groups of individuals are differentiated:




-  Spatially: French, French expatriates, Foreigners in France, Foreigners
-  Operationally: Managers, Investors, Service providers, Regulators and Associations
-  Linguistically: Francophones, Anglophones

The questionnaire was designed in French (sent to French residents and non-residents and also to foreign Francophones) and in English both to question on an international basis the targeted individuals, but also to highlight a potential difference in perception between these two groups of individuals, all things being equal.

It was put on line on the Reinhold & Partners website with password-protected access in order to avoid spam, unsolicited responses but above all multiple responses from the same individual which could falsify the statistics.

To guarantee complete sincerity of responses, these are totally anonymous.

The collection of data is followed by processing and differentiated analyses:

-  Intra-group of individuals' analyses, in order to highlight the problems shared by a homogeneous population of individuals. Example: French management companies
-  Inter-group of individuals' analyses, in order to highlight the differences of problems between two homogeneous populations of individuals: Example: foreign service providers compared to French service providers
-  Overall analyses to highlight problems common to the entire population observed

Each group of individuals within the population is the subject of a "set" of differentiated questions: for the French players (Hedge funds, Investors, Service providers) it is totally "in blind": the questions, whether closed or open, are not directed by the pollsters so that only the perception of the respondent is taken into account. For the Foreign players, some questions are preceded by a reminder of French specificities or practices, to get the respondent to react (and avoid a "no

opinion"). This also enables French regulations on alternative asset management to be made known...

Finally, the last questions, common to all respondents, present in facts and figures the French management market and its regulation. The idea here is to highlight the perception of **what is real** within groups of individuals and to be able to compare these perceptions between the groups of individuals.

THE POPULATION OBSERVED:

The questionnaire was sent to 150 previously identified people (on 7 June). It was sent by email with a link to the web page of the questionnaire. In most cases, this email was sent in an individualised manner with, in addition to the reference text, personalisation of the email aiming to maximise the chances of return. To date, the response rate is higher than 70%.

REFERENCE TEXT:

DEAR ...,

AFG, (FRENCH ASSET MANAGEMENT ASSOCIATION – WWW.AFG.ASSO.FR), ASKED US TO ANALYSE THE REASONS FOR THE SLOW DEVELOPMENT OF THE ALTERNATIVE ASSET MANAGEMENT INDUSTRY IN FRANCE, WHILE OTHER EUROPEAN MARKETS HAVE ATTRACTED DOMICILING MANAGERS AND / OR FUNDS SUCCESSFULLY.

OF COURSE FRANCE HAS STRENGTHS IN MANY AREAS AND BENEFITS FROM MANY ATTRACTIONS, BUT IT SUFFERS FROM WEAKNESSES THAT IMPACT REAL OR IMAGINED PERCEPTION AND EVENTUALLY THE CHOICE OF DOMICILE.

THANK YOU IN ADVANCE FOR SPENDING THE FEW MINUTES NECESSARY TO COMPLETE THE QUESTIONNAIRE (ANONYMOUSLY) THAT WE HAVE PUT ONLINE

[HTTP://WWW.REINHOLDPARTNERS.COM/SURVEYS/ANALYSIS-OF-THE-FRENCH-ALTERNATIVE-INVESTMENTS-INDUSTRY/](http://WWW.REINHOLDPARTNERS.COM/SURVEYS/ANALYSIS-OF-THE-FRENCH-ALTERNATIVE-INVESTMENTS-INDUSTRY/)

PASSWORD: XXX

PLEASE NOTE THAT THIS QUESTIONNAIRE IS ANONYMOUS AND PROTECTED TO AVOID SPAM RESPONSES. THEREFORE IT IS IMPORTANT THAT YOU FILL IT IN AS YOU READ IT, AS IT WILL NOT BE ACCESSIBLE ANY MORE FOR MODIFICATION ONCE YOU HAVE CLOSED IT. FOR THE SAKE OF CLARITY, ONCE THE SURVEY HAS BEEN OPENED, YOU WILL BE UNABLE TO REACCESS IT AGAIN ONCE YOU HAVE CLOSED IT, SO BE SURE TO COMPLETE THE FORM ON THE FIRST INSTANCE OF OPENING IT

ONCE AGAIN, MANY THANKS FOR YOUR TIME, AND FEEL FREE TO CONTACT ME IF YOU HAVE ANY DIFFICULTIES.

BEST REGARDS,

The 150 people targeted present real diversity in terms:

- of nationality: French, Luxembourgish, Irish, Swiss, Dutch, American, Canadian, Hong Kong Chinese, English, Japanese, etc.
- of location of business: France, Cayman Islands, BVI, Luxembourg, Switzerland, Great Britain, United States, Dubai, Japan, etc.
- of business: managers, service providers, associations, investors, regulators, etc.
- of "vision": French (in France), French expatriates, foreigners in France, foreigners, etc.

Analysis conclusions

SUMMARY AND CONCLUSIONS

Douce France, que fais-tu pour vendre ton charme aux investisseurs ? (Sweet France, what are you doing to sell your charm to investors?) ¹¹

France is both a marvellous and a hopeless country.

It is a marvellous country, given the quality of infrastructures, social facilities, quality of personnel (educated, motivated, experienced... and reasonably paid),

And it is a hopeless country where everything is complicated, where hirings are difficult, where redundancies even more so, where the social and fiscal mechanisms are complex, without a real welcoming structure to help the applicant entrepreneur to set up there. Worse, these mechanisms are unstable, even retroactive, which weakens the foundations of any project.

This perception causes real discouragement, why would the manager who has to invest a large amount of his assets in his own fund, as required by the international investors¹², choose France where he will pay ISF (French wealth tax), when he is exempt from this in most other countries? What charms does France offer which justifies this cost? For the alternative manager, unfortunately, practically none.

A lack of image

The repetition of the following remark should be noted: the official positions ridiculing the hedge funds and alternative asset management create a negative image which no one is ready to endorse. Unfortunately this "destruction" is echoed by a lot of French institutional investors who, already greatly restricted by their own regulations, have parted with their alternative investments.

An appalling image, no domestic market, are two major hurdles to any desire to the establishment and to any possibility of development, for the existing companies.

A restricted market

It has been stressed to us that French alternative asset management is not generally risky enough, with returns lower than those of its British competitors¹³. It is not visible to international investors,

¹¹ La Gazette de la Société et des Techniques, No 5 November 2000 - Publication of the Annales des mines with the assistance of the Conseil général des mines and the École nationale supérieure des mines de Paris

¹² The "big" investors require that the interests of the manager and their own are perfectly aligned. We compare this requirement to that of having a pilot in a plane. All passengers benefit from his survival instinct.

¹³ Investment in an alternative fund has a high cost in capital (Solvency, Basel, etc.). Hence, investors who pay "a lot" for this type of investment accept higher risk taking for higher expected returns. French tradition, resulting from the demand of institutional investors in dynamic monetary funds, is not very adapted to these new requirements.

and, therefore, does not benefit from investments from large funds of funds, family offices, or pension funds¹⁴. Hence, the French alternative managers' market is not interesting for the big international service providers (prime brokers, administrators, transfer agents, but also legal advisers, software suppliers, etc.). Now, these service providers offer a great many high added-value services (start-up capital, financing, access to complex markets, sophisticated IT tools, international legal analyses, etc.) which partly escape the French managers and accentuate the difference that exists with the managers set up in better known places, mainly in the United Kingdom (international market of institutional investors) and Switzerland (large presence of private banking and family offices) in Europe.

As for the products of French law (excluding UCITS), they have had a little success in the sense that the regulator is recognised and the rules, in particular of contractual funds, are pragmatic. But this success is "little" as French language, the reference to the French legal system, and the (wrong) belief of the application of heavy taxation on these products, associated with a flagrant lack of interest of our domestic investors, are real factors of rejection.

Active and efficient competition

French alternative asset management suffers from significant competition without really reacting.

Here we will mention the international investment managers, the new UCITS products, and structured products.

International managers

Today, there is not really any difference in the treatment by an investor between an offshore fund and a contractual fund. Except that the offshore fund universe is considerable, and the contractual fund one is restricted. Now, whilst the international managers can conquer the world by ignoring French investors, the same does not apply for the French managers who will not develop abroad without a solid domestic base.

The new UCITS products

A lot of people question the technical pertinence of placing alternative asset management in UCITS products. This "rule breaking" which removes the responsibility from the investor is far from insignificant. But, it's a fact, the UCITS format allows for easy and wide distribution in Europe and benefits from this "label" in a great many countries, Asian ones in particular. Unfortunately for France, this label is associated in its image with Luxembourg. It emerges from this that "the" domicile of a fund for European distribution is Luxembourg, with some real reasons and a lot of marketing by this country's authorities.

Structured products

These products which "make apparently simple" what is "notoriously complicated", ... and enable regulatory arbitrages, have been hugely successful as here, also, they release the investor from a

¹⁴ International investors make their "market" in London. It is very difficult to make them come to Paris, because they will have few visits to make, they do not want to come up against "the language barrier", etc. French managers who can meet these investors have to go to London.

great many diligences, and can be structured on instruments which require less own funds than the alternative asset management products.

To conclude on this finding, we will cite the phrase which obtained the greatest consensus:

In terms of alternative asset management, "France is perceived as a local place serving a local market".

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How can this situation be changed knowing that, in terms of management, success is only measured by the amount of assets under management (or under custody for the custodians)?

To be seen, you need to be visible

French alternative asset management and its ecosystem have to be made visible within the universe of Anglo-Saxon competitors. You then have to "allow to do" and arrange at least *a minima* the tax, social and regulatory points to enable this industry to set up in France.

1. To make it visible it has to be given the means

- to exist: development of incubation structures, technical assistance in creation and development
- to develop: restoring appetite and encouraging institutional investors to select French alternative asset management.¹⁵

It is also a case of making it well known and presenting it in an attractive manner

- to structure the multilingual hosting (one-stop-shop covering the regulations, the taxation, the social aspects), with clear and simple online documentation
- to prove itself. As mentioned in the study highlighted, in all decisions there are objective elements and emotional elements.
 - The documentation, the websites enable "the objective" to be developed and wrong beliefs or perceptions to be corrected.
 - But the emotional must also be carefully cultivated: *"We therefore have to adapt to the need to attract and reassure the investor. First of all, this requires being able to answer questions which the investor will not always spontaneously ask, and which relate to the same concern of knowing whether everything will turn out well."*

¹⁵ In this respect, it should be noted that the putting in place of the ARIA regulation and contractual funds is a missed opportunity due solely to the fact of the non-simultaneous adaptation of investor regulations.

In particular there is a need to make the investor confident through the quality of the host teams and by giving him the feeling that he will be given effective support in finding his bearings in unknown territory. etc¹⁶". To be seen, known and recognised, it has to prove itself, explain and enter into dialogue. A marketing and communication strategy targeted at investors and those involved in alternative asset management in the world must be considered, in relation to the objectives of entrepreneurs and the analysis of their expectations and needs.

2. Allow to do

‘Allowing to do’ means solving the technical difficulties revealed by the study, in the fields of taxation and regulation. It also means organising host and support structures to help the entrepreneurs succeed and optimise their undertaking through the numerous laws imposed on them¹⁷.

The certainty which emerges from this study is that making French alternative asset management more attractive is a multidisciplinary task. It must be coordinated and supported by our politicians, by our regulators - particularly alongside the investors - and be highlighted to regulators and international investors that are the most active in this field by organising events in the main places.

But practically, those who are best placed to undertake this task and the most interested in its success are the professionals of this industry. Creating a force of promotion bringing together recognised professionals, offers the two-fold advantage of creating a knock-on effect, and also financial motivation since the success of everyone is to the benefit of each individual.

¹⁶ Extracts from ***Douce France, que fais-tu pour vendre ton charme aux investisseurs ?***

(La Gazette de la Société et des Techniques, No 5 November 2000 - Publication of the *Annales des mines* with the assistance of the Conseil général des mines and the École nationale supérieure des mines de Paris)

¹⁷ Support may also be given on "comfort" activities, such as "relocation" services, administrative help, etc.;

A FEW RECOMMENDATIONS

The survey conducted with those involved in alternative asset management, French and foreigners, investors and managers, has highlighted weaknesses in the French alternative asset management ecosystem.

What are the main conclusions?

Absence / lack of information / poor knowledge of the market and of French products:

- 7 reflect on the communication / marketing strategy
- 7 meet foreign players and more particularly "key influencers"

Rather negative perception of Paris as a financial centre

- 7 adapt the rules (laws, regulations, etc.) when this is possible
- 7 boost the environment through visible, targeted, promoted initiatives
- 7 encourage the setting up of innovative managers regardless of the type of funds managed¹⁸

Absence of a local pool of investors / absence of interest of foreign investors:

- 7 intensify efforts to create a market in France
- 7 integrate the requirements of French and foreign investors

The main areas for consideration are therefore summarised below; they result from the conclusions drawn from the detailed analysis of the study which follows.

¹⁸ This may seem strange to encourage non-French fund management by managers based in France. However, as underscored by André Orléan in "le pouvoir de la finance", the mimetic behaviours of financial players are particularly high in fund managers. This leads them to favour common locations in order to benefit from more information and the possibility of benchmarking. Before developing the French funds, it is fitting, in this way also, to encourage the agglomeration effect of managers in France.

Communication and marketing

- Set up a "one-stop shop" for information on alternative asset management: the "French Asset Management Centre", **dedicated** to asset management
 - Why: To help alternative asset management project developers but also the French and foreign investors and the service providers.
 - How: Create a single point of access to all the information necessary for managers and investors, which covers all subjects ranging from the creation of a portfolio management company to information on different types of funds. Accessible in English. Including links to service providers. Make available with a "guide to creating a management company"¹⁹.
 - Example: Holland Financial Centre, City of London...

- Rethink the branding of the OPCVM
 - Why: in France there are about 20 different types of funds, often differentiated by complicated, barely comprehensible and non-translatable acronyms (SPICAV RFA EL, etc.), the foreign - and even French - players can't easily identify.
 - How: Use simple names that comply more with foreign standards and avoid "false friends" (Contractual Fund = FCP and not "*fonds contractuel*", etc.).
 - Example: Luxembourg or Ireland.

- Inform the "opinion leaders" and the "key influencers"
 - Why: the alternative asset management project developers generally contact, first of all, their professional contacts: Prime Brokers, lawyers, etc. Currently, France is rarely in their "catalogues". They do not know enough about the French framework and its operating to give their clients details of it.
 - How: distribute as much information as possible on a regular and identifiable basis. Explain the French market, its specificities and also the business which the service providers could do there. Create and maintain a "French alternative asset management base" to make the market visible and therefore "marketable" through *ad-hoc* services.
 - Example: being visible in studies such as those in Appendix 1.

¹⁹ Improved version of the AMF document on this theme. It would also be fitting to make it more "business friendly", to include testimonies of managers set up in the country, names of service providers, to highlight the advantages of France, both for management but also outside...

Communicate with foreign investors

- Why: the study shows that they do not know the French market. They are however, after the French investors, an important relay of growth. Furthermore, some foreign investors are very fond of alternative asset management.
- How: other than the one-stop-shop presented above, make specific communications for the investors: "guide to French alternative asset management". Organise dedicated road shows abroad. Be present at conferences / summits on alternative asset management or dedicated to institutional investors.
- Example: representation of the ALFI in Asia and road shows through the world, GAIM in Monaco...

Prepare a wider information campaign on management in France

- Why: if French management is badly perceived, there is also a need to recognise that France is badly known. Setting up a business in France is a mixture of objective and subjective criteria. There is an essential and concomitant need to improve the image of management and France in the communications.
- How: write a report which presents the advantages of creating a management company in France. Find the right product (the company) / market (France) mix. Highlight France's strengths (education, welfare system, quality of life, etc.), minimise the weaknesses (combat the ideas of taxation of funds, etc.), whilst communicating on the management market. Combine with other initiatives (such as the French Agency for International Investments (AFII)).
- Example: Luxembourg For Finance on the social networks, "living and working in Luxembourg" brochure, "shopping & lifestyle" brochure of Ireland's International Financial Centre.

Promotion of France as a financial centre

- Encourage the stability of texts related to the management industry
 - Why: stability is an essential determining factor of the attractiveness of a financial centre. Foreigners complain about not being able to rely on a stable environment in France. Other countries make stability a sales pitch.
 - How: by encouraging the promulgation of texts which have been validated operationally and therefore analysed from this angle by all stakeholders. By encouraging the commitment by the public authorities of a certain stability of the texts, particularly fiscal ones. To this end, it seems vital for the French industry that the current taxation of funds continues to be as favourable as those of its Luxembourgish, Irish and Cayman Islands' competitors, etc.
 - Example: avoiding retroactive laws (taxation), showing a political will for stability of the texts.

- Show the commitment of the public authorities to the development of innovative management
 - Why: the signal sent by France abroad is that of a country which refuses alternative asset management and which abhors financial activities. Foreign respondents to the study are not therefore inclined to consider France as a business friendly country. And these entrepreneurs do not cultivate masochism.
 - How: clear and audible commitment of the public authorities.
 - Example: statements of Christine Lagarde (which could be more widely broadcast and translated into English...).

- Encourage innovating managers not managing French OPCVMs to set up their business in France
 - Why: even though we might regret it, the study shows that French vehicles are little known abroad. It also emphasises the difficulty of raising capital from French institutional investors. In some cases, it may be easier to create, first of all, a vehicle under a foreign law to raise capital and interest international investors.
 - How: by communicating more widely on the possibility of managing offshore funds from France. By helping the managers who, for business reasons and due to investor requirements, wish to manage offshore funds from Paris in order to carry their project to completion. By demonstrating in respect of projects to create foreign funds, the same care as for national projects when a management company is created in France.

- Example: managers who wish to manage from Paris Cayman Islands' funds for Middle Eastern clients.

Encourage seeding

- Why: this is clearly the problem area of alternative asset management in France. It is an essential determining factor, which organises the professional selection of the best talents and brings them to an economically viable size.
- How: Creation / development of a seed centre (in partnership with the "French Financial Centre", on the Dutch model). This model, for the development of alternative asset management, relies on several axes: assistance in setting up hedge funds with the contribution of funds (25ml euros per hedge fund on average), affordable premises and operational support. The managers selected have only one constraint: setting up in the Netherlands.
- How: In the Netherlands, the 250 million euros come from one pension fund, APG: encourage public-private partnerships

Improvement "in spread" of some vehicles

- Why: rationalising the ranges implies that with the same vehicle we can implement numerous management techniques.
- How: improve more the Contractual OPCVM, allow it to get into property, clarify the notion of contractualisation of the responsibility of the custodian.
- Example: accounting system not adapted to property, incomprehension by the players of the contractualisation of the responsibility of the custodian.

Maintain homogeneity in the product presentations

- Why: French management must present a coherent range if it wants to be understood, particularly abroad.
- How: within the framework of the UCITS IV reform, and particularly the KID part, ensure not to increase the obligations for the alternative funds in relation to UCITS (we are thinking in particular of the AlterUCITS).

Favour stand-alone texts

- Why: in addition to the relative difficulty of finding official texts, understanding them is a hard task, particularly due to the numerous references.

- How: favour stand-alone texts when this is possible, consider creating a "legal" database which would enable all the texts related to a specific subject to be found.
- Example: instructions on calculating the commitment.

Favour the emergence of a market

Continue the lobbying actions with the French institutional authorities

- Why: you cannot export products without a national investor base. It is not possible to attract service providers if there is no alternative asset management market in France.
- How: target all authorities to be approached, organise meetings which bring together managers but also institutional investors and service providers.
- Example: insurance authorities, APE...

Work more directly with the investors to improve the French framework

- Why: the survey shows that the investors, whether they are institutional or private, wish to improve some points in the operating of French funds.
- How: by working with them on subjects which represent determining factors in the investment decision. Reflection on the UCITS of hedge funds: how far can we go, what is the actual security? OPCVM with large lock-up: can a secondary market be created in France which is organised in units or shares? Governance: how can investors be stakeholders in the operating of some OPCVMs (club deal in a contractual fund)? Directorship: would the presence of an independent director be a good thing for selling abroad (alignment of managers / investors interests). Promote transparency and access to information...
- Example: see part on Investors in the study.

Make the fund distribution vehicles visible

- Why: French managers have a difficulty in targeting investors that are capable of investing in their funds.
- How: in agreement with the investors (institutional investors, family offices, funds of funds, etc.), draw up a list of who buys alternative asset management and under what constraints (track record, assets under management, due diligence to be carried out, degree of transparency, privileged or prohibited vehicles, etc.).

Attract service providers

- Why: a market needs service providers capable of providing, in France, services with high added value. The greater presence of Prime Brokers can give access to

"corporate" services such as start-up capital, directors can provide TA services or independent analysis of complex products, etc.

- How: by promoting the French market (even if it is restricted in the immediate future) and the business opportunities it has. By having a "can do" innovative management development policy, particularly at public authority level. By clearly explaining to them what services a management company can outsource, even abroad.

Compare France to competitor countries

- Why: to give France visibility and combat some instilled ideas which mean that, in all cases, businesses are not set up in France.
- How: don't think twice about doing "comparative advertising".
- Example: the status of impatriate in France, the taxation of French funds vs. those of European funds, statistics on the period of time it takes to create a contractual fund vs. an SIF (actual periods of time and not the "displayed" ones, etc.).

Gild anew the image with public opinion

- Why: public opinion is probably one of the main factors that slows down any change; the world of finance is also badly perceived.
- How: according to the principle of "what's in it for you": creation of jobs, attraction of wealth, etc.