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Pecora eyes foothold in ‘prohibitive’ Germany

Despite its reputation, the country has some attractions for managers looking to explore new markets

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It has a reputation for its hostility towards hedge funds, with labour officials recently attacking “locust-style” activist investors after Elliott Management and Cevian Capital pressured the CEO of industrial conglomerate ThyssenKrupp to resign.

Germany is often counted among the jurisdictions perceived to be hardest to reach for hedge funds.

Recent research by HFM Insights found managers ranked Germany alongside China as the most ‘prohibitive’ markets in Europe and Apac.

But the research found that jurisdictions seen as having ‘prohibitive’ regulation are easier to navigate than they might appear.

Those actively marketing into Germany, China as well as France and Japan all said these markets were far less ‘prohibitive’ in terms of costs and regulation than those who were not marketing into them.

Pecora Capital, a boutique global macro investment management firm with operations in Zurich, is one manager looking to crack Germany.

It expected to open a German office by the end of the year, pending regulatory clearance.

The quant firm, launched by ex-Morgan Stanley executive Aaron Smith in 2012, is planning to bring on a team of four people by the end of the year to work in the new office, which initially will focus on managed accounts but could potentially launch a commingled fund in the long term.

“The biggest advantage in the market is much less competition compared to other markets or almost no or very little competition for our differentiated value strategy,” said Thomas Kleber, global head of equities at the firm.

“We have noticed an urgency on the investor side,” Kleber added.

The HFM Insights report, Navigating New Markets, found that despite Germany’s reputation for froideur towards hedge funds, a receptive family office community was one of its attractions.

German institutions willing to invest in hedge fund products may be in relatively short supply (estimates suggest 30 to 40), and although it has a significantly smaller investor pool than Switzerland and the Nordics, Germany has a large family office community that makes regular hedge fund investments and readily makes recommendations to peers.

The HFM Insights report, which explores the difficulties new managers face in certain European and Asia-Pacific markets, surveyed 96 hedge fund managers on the jurisdictions they considered to have the most hurdles to overcome.

When asked to rank France, Germany, Italy, the Nordics and Switzerland, Germany scored highest for marketing costs and marketing regulation. The Nordics and Switzerland were the least prohibitive.

According to the hedge fund managers surveyed, translating documents and complicated tax filings were cited as notable frustrations in Germany.

One interviewee based in Hong Kong said Germany requires considerable outside help to prepare investor paperwork; a commonly voiced sentiment.

Another Asian manager suggested a German ticket needed to be over $20m to cover the additional expenses, such as hiring an external German tax advisor and compliance consultants.

The report also looked at the number of reverse solicitation enquiries from local investors in the key European and Apac markets.

In Europe, it found Italian investors reach out least, and Swiss investors are most active. The few German investors reaching out are institutional-grade seeking larger managers.

Read the full report here.