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Opalesque Exclusive: Switzerland's 116 hedge fund offices - where are they based? How Pfaeffikon is catching up with Geneva, Zurich

Friday, February 26, 2010

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For those thinking of opening up an office in Switzerland, a small town in the center of the country, with Lake Zurich's in front and the Alpine mountains on the back, already has a claim on the finance – and especially the hedge fund – world. This town, where the 7000 or so inhabitants speak Swiss-German - and English, I am told - is Pfaeffikon. And it is at the moment in the midst of a boom, with building grounds and projects, as it is preparing to welcome an even greater international community.

Some of the firms that either have an office or head-quarters in Pfaeffikon or the area are:

- Man Group, one of the biggest listed hedge fund groups, which manages around \$42bn;
- LGT Capital Management, a traditional asset manager with around CHF16.8bn, and the affiliated LGT Capital Partners, an alternative asset manager with \$18bn in AuM;
- Horizon 21, an independent investment manager managing \$8.4bn;
- Aeris Capital, a private equity fund and financial advisor with \$3bn;
- Quaesta Capital, an independent financial services provider specialized in FX managing CHF1bn;
- Mercury Forex, a currency manager;
- 47 Degrees North Capital Management, a specialist alternative investment firm formed by nine former RMF and Man Investment analysts;
- Swiss Alpha, a quant hedge fund manager with \$120m;
- Constellation Capital Advisors, another quant hedge fund manager;
- True North Capital AG, an independent Swiss financial advisor specializing in global equity;
- Cevian Capital, a Swedish private investment firm that invests in European public companies.

In total, these firms may manage anything up to \$100bn. Around 1,500 people are employed in those firms, roughly half of whom living in Zurich, the rest in Pfaeffikon or in the surrounding area.

For the geographical technicalities, Pfaeffikon is part of the municipality of Freienbach and in the Canton of Schwyz (SZ) in the Greater Zurich Area – not to be confused with Pfaeffikon ZH or Pfeffikon LU.

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So what is the attraction of Pfaeffikon for these asset managers? Marcel Jouault is a representative for the city and a property developer, as well as an ex-hedge fund manager from Frankfurt who settled in Pfaeffikon with his family a few years ago. According to him, it is all in the taxes.

The town has the lowest tax rates in Switzerland: the 2010 rates are 11.8% for corporates (including federal, canton and municipal taxes), 19% for individuals, and 10% on dividend. That is compared to Zug (15.3%, 23% and 12.5%); Geneva (24.4%, 44% and 27%), Zurich (21.2%, 40% and 21%) and Basel (14.8%, 37% and 20%). It also boasts a zero tax on gifts and inheritance.

“But there are not tax deals to be made,” Jouault told Opalesque. “I don’t think any company can do tax deals with Swiss authorities.”

Taxes might be as certain as death, but they are not all that matters. Quality of life does, too; Freinbach (the main town within the municipality) was rated second out of 854 Swiss towns for its quality of life by Swiss daily Die Weltwoche in November-09. As for nearby Zurich, the financial and cultural centre of Switzerland, it has been named the "city with the best quality of life in the world" a number of times - although also for being one of the most expensive.

Pfaeffikon itself is on a hill. If you go West, it is a short car drive (17 minutes, 32km) or a 24-minute train ride to Zurich. North of Pfaeffikon is where the Lake is, and North-East, a bridge crossing it. The Etzel Mountain and others are southward. (To get a taster of what it looks like, watch this video on Pfaeffikon done by Swiss TV station SF, which Man Group sent Opalesque - and if you can understand German with a Swiss accent, so much the better).

Werner Schuenemann, from Swiss Alpha, does not live in Pfaeffikon but he works there. He told Opalesque: “Pfaeffikon is situated on the northern end of Lake Zurich, approx 30 minutes by train from downtown Zurich and 50 minutes from the international airport. It is a very quiet town, and from first sight, no one would expect the number of world class companies that are based here.

“Compared to Zug, it lacks the choice of restaurants, shops and charm. The obvious reason to incorporate a business here is tax. The surrounding villages offer a very good quality of life, good public transportation with winter and summer sports in abundance, and no traffic problems and delays getting to work to worry about.”

Contrary to Geneva, where construction projects are extremely restricted, thus creating an accommodation shortage, there is a huge real estate offensive in Pfaeffikon, according to Jouault. Building projects for office and private apartments by Mufag Real Estate (4700sqm completed in Feb, another 3500sqm to be completed next year) and by Helvetia Insurance Co (20,000sqm for 2013) are underway. A lot of them started between 2005 and 2008, as lots of enquires came their way and no space was available at the time.

There are also three international schools and one bilingual school in the surrounding area, Marcel Jouault noted. The University of St. Gallen is close to Zurich, offering the potential for manpower. The city also claims a swimming pool with slides, a casino, a few hotels, boats and trains and brand new fibreglass optics lines from Colt – and soon a luxury health club too.

“Twenty years ago, it was pretty much a farmers’ village, but in the last 15 years or so, it has seen a boom in capital from the finance and the asset management industries due to its low tax regime,” Thomas Suter, CEO of Quaesta Capital AG, told Opalesque. “Now there are lots of big offices from big international companies. And nice sceneries too.”

Suter started working there five years ago and was concerned about the network opportunities that he might miss in this “small village.” Indeed, networking was meant to take place in Zurich. But then quite a few of his friends and ex-colleagues started coming to work in Pfaeffikon. And investors soon came to know about the place too.

“Since a lot of companies, bigger ones than ours, are based here, you can expect that those people who want to see us tend to pay others a visit too, so it is never a problem for them to come here for a day or two. Companies here are about 200 meters away from each other.” According to Suter, who lives a few kilometres away from Pfaeffikon, living here (or in the surrounding area) means you live in a “quiet place, good for family life.” And the closest ski resorts are a 30-to-45-minute drive away.

If the location is so full of financial companies, so close to Zurich, and has such low taxes, why have we not heard much about it before? “There is a lot of lobbying going on from other Swiss locations. And so consulting firms tend to recommend Geneva or Zug or Zurich; but they are not up to date on their research,” Marcel Joualt said.

Switzerland on the map

According to the Swiss Funds Association (SFA), Switzerland has a leading position in the alternative investments sector and manages approximately 23% of global alternative investments.

27 FoHFs (20%) of InvestHedge’s billion dollar club are based in or have significant operations in Switzerland (FoHFs’ total AuM in the country amounted to \$280bn in 2008.)

The SFA sent a list of the number of single hedge fund offices throughout the country to Opalesque:

Geneva	40
Zurich.....	24
Lugano.....	14
Zug area.....	11
Pfaeffikon area...	11
Schaffhausen	4
Others	12
Total	116

According to EuroHedge, as of June-09, among the various European locations, UK’s 828 single hedge funds managed around \$263.2bn, and that was followed by Sweden which 71 funds managed \$17.3bn and Switzerland with 136 funds and \$13.2bn.