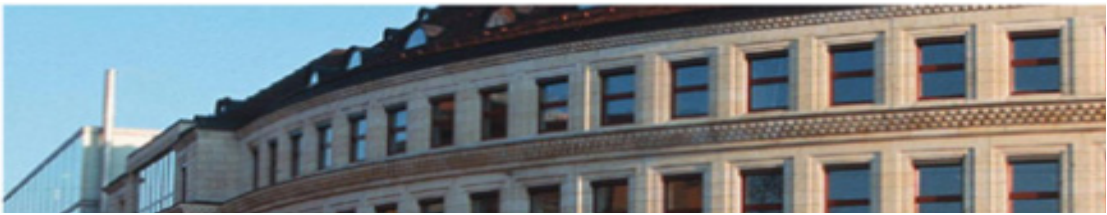


Zurich University
of Applied Sciences



Single Hedge Fund Managers in Switzerland: Evolution and Adaptation to a Changing Environment



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Single Hedge Fund Managers in Switzerland

Evolution and Adaptation to a Changing Environment

Preface

In June 2008, the ZHAW Centre Alternative Investments & Risk Management issued its first comprehensive report and survey on single hedge funds in Switzerland. On the back of the good response and taking into consideration the changing environment, an update was decided on. The new survey focuses again on Swiss-based single hedge fund managers and investment advisors with offshore or Swiss domiciled funds or managed accounts. In particular, the report takes a closer look at the Swiss single hedge funds landscape in the aftermath of the financial crisis.

Funds of hedge funds, as a form of alternative investment, have been a core business in Switzerland since the first of these funds was launched thirty years ago. In spite of the impact of the financial crisis, they have been able to maintain an impressive market share of over 30% of the global funds of hedge funds industry.

The position of the Swiss single hedge funds within Europe, on the other hand, falls well short of this: In 2009, with a market share of 4%, Switzerland ranked third behind London (74%) and Sweden (5%).

Attracting more single hedge funds should deepen and strengthen local skills and resources in the financial sector. An increase in single hedge funds is likely to trigger the creation of more top jobs for specialized service providers, such as lawyers, accountants, traders and research analysts.

This report was made possible through a dedicated financial contribution by Wegelin & Co. Private Bankers.

Further sponsors were IFIT and L&F Law and Finance SA.

September 2010

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Abbreviations

AG	Swiss stock corporation
AIMA	Alternative Investment Management Association
AuM	Assets under management
CISA	Collective investment schemes act
CISO	Swiss collective investment schemes ordinance of the Federal Council
CO	Swiss code of obligations
CTAs	Commodity trading advisor (hedge fund strategy)
FINMA	Swiss Financial Market Supervisory Authority
FoHF	Funds of hedge funds
FCP	Investment fund with a variable number of units
HFR	Hedge fund research
KAG	Kapitalanlagegesetz (Swiss federal act on collective capital investments)
NAV	Net asset value
SFA	Swiss Funds Association
SICAF	Société d'Investissement à capital fixe (investment company with fixed capital)
SICAV	Société d'Investissement à capital variable (investment company with variable capital)
SHF	Single hedge funds
SLP	Swiss limited partnership
TCF	Transparency Council FoHF
UCITS	Undertakings for collective investment in transferable securities (EU directives regarding the free operation of collective investment schemes within the EU)

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Executive Summary

What is the hedge fund universe?

While Switzerland is an important location for the distribution and management of funds of hedge funds, it is rather unattractive as a domicile for collective investment schemes. Some 90% of value added is generated in the areas of asset management and distribution, whereas production (administration) is largely conducted abroad. Switzerland is also “still underdeveloped as a location for the management companies of single hedge funds” (Federal Council, strategy report 2009).

Swiss funds of hedge funds (FoHF) have maintained a worldwide market share of over 30%, in spite of the negative impact of the financial crisis and the Madoff scandal. **The position of the Swiss single hedge funds industry within Europe**, on the other hand, falls well short of this: **In January 2010, with a market share of 4%, Switzerland ranked third behind London (74%) and Sweden (5%).** Nevertheless, contrary to our first survey among single hedge funds in Switzerland two years ago, there were no major complaints about the general Swiss framework. Uncertainties and external threats such as the new European Directive for Alternative Assets or the recent financial turbulences have taken priority.

According to our analysis, **the Swiss single hedge fund industry is still in its infancy with USD 14 billion AuM and 125 individual funds.**

Who are the Swiss single hedge funds?

50% of the founders and principals of the participants in our survey are Swiss. Another 33% have a European background. Over 80% of them are resident in Switzerland.

Many single hedge fund managers participating in our survey are still in the process of building up their capacity. **Two thirds of the single hedge fund companies in our sample were launched after 2004**, and over 20% of the firms established their hedge fund business after 2006.

However, one third of the participants in our first survey of two years ago have since gone out of the single hedge fund business: The majority of these have changed their business model and are now offering other asset management services. A small number of companies no longer exist. However, it has to be taken into consideration that none of these companies had managed assets of above USD 20 million.

Given the typical boutique/partnership style of single hedge funds, it is not surprising that 35% of the respondents operate with a team of no more than five persons located in Switzerland, and another 35% have a staff of 6–10.

Nearly one third of the individual single hedge funds in our survey have AuM of of less than CHF 20 million. Overall, 73% of the respondents manage a maximum of CHF 100 million per individual fund.

The typical “2&20 formula” (asset management fee 2%, performance fee 20%) no longer exists as a typical fee structure for Swiss single hedge funds. Interestingly enough, there is no correlation between the size of invested assets and the fee structure.

Who are the clients of Swiss single hedge funds?

Institutional investors now make up the most significant type of investor, representing 40% of the total versus only 20% two years ago.

In regard to the geographic location of investors, **the survey highlights the importance of Switzerland as an investor base**. A feasible explanation for this might be the growing institutionalization of the business, with Swiss single hedge fund suppliers increasingly approaching the Swiss client universe.

Single hedge funds – implications for Switzerland

As a result of Switzerland's rather decentralised structure, the **domestic hedge fund industry is concentrated in three different centres of the country**. These are Geneva, Nyon and Lausanne in the French-speaking part of Switzerland; Zurich, Pfäffikon and Zug in the German-speaking region; and Lugano in the Italian-speaking region.

In terms of the **geographical concentration of single hedge funds in Switzerland, Geneva was already the "hot spot" two years ago**. To some extent, in terms of migration, this development has accelerated in 2010, with Geneva representing the location of choice for selected major hedge fund institutions from the UK.

As the survey illustrates, **Zurich has become a growing hub for single hedge funds**. This development should enhance the formation of new clusters, which is essential for the attraction of further single hedge funds from abroad.

Personal reasons and quality of life are the key factors in a manager's decision to run a single hedge fund from Switzerland. Interestingly enough, nearly half of the firms participating in the survey name the competitive tax environment as a key reason for choosing Switzerland.

According to a strategy report issued by the Federal Council of Switzerland in December 2009 "...a relatively attractive tax situation with respect to other countries may be attained with the corresponding structuring of private equity or hedge funds. **For private equity and hedge fund managers, Switzerland offers a highly advantageous tax framework in comparison with other countries...** "

Where to from here

In the aftermath of the financial crisis, some single hedge fund managers have adjusted their business models. Over 20% of the participants confirmed that they have been closing some of their funds. 17% of the companies interviewed confirmed that they have been downsizing staff over the past two years. **In over 50% of the cases where funds were closed, new ones have subsequently been opened. Twice as many respondents have increased their staff as were reduced, which is an encouraging sign for the future.**

Three quarters of the respondents expect the growth trend of SHF versus FoHF to continue. According to the participants in the survey, key reasons for the expected favourable trend are, among others, the rising demand for control, transparency and liquidity from the side of investors.

Regulated by the Federal Act on Collective Investment Schemes (CISA), **a Swiss limited partnership for collective investment schemes (SLP) is an interesting vehicle from a tax point of view**. The SLP was conceived for investments considered as risk capital, such as hedge funds, with the expectation of generating above-average capital gain and added value. CISA does not provide provisions concerning investment restrictions, thus offering a large range of flexibility and creativity to the promoters.

I. Survey Approach

Survey

As in 2008, the survey focuses on single hedge fund (SHF) managers or investment advisors operating from Switzerland, with offshore or Swiss domiciled funds or managed accounts. It aims to provide a good insight into the structure, development and performance of the Swiss SHF industry. In addition, the purpose of this study is to record the views of Swiss-based SHF to understand how market forces and the changing regulatory landscape have affected them and what actions they have taken to prepare for the future. In the final section of the questionnaire, participants were asked for their views of the outlook for the hedge fund industry from a more general point of view.

Our first survey was entitled *Switzerland – A Growing Centre for Single Manager Hedge Funds*. As a result, a primary objective of our follow-up report was to identify, quantify and qualify the evolution over the last two years and to evaluate the prospects for the future.

The ZHAW Centre Alternative Investments & Risk Management ensured that the survey was independent and that the results of the individual questionnaires are kept strictly confidential.

Questionnaire

The survey was taken with an online questionnaire that was distributed through electronic mail (please see appendix A for a copy). The survey was taken in spring/summer 2010. The first response was received at the end of the first quarter 2010, the last one in early July 2010. We had expected the available base of possible contacts to be considerably more reliable than two years ago. This proved to be wrong, however. We realized that the single hedge fund market is a fast moving industry which remains difficult to assess. As a result, one third of the participants in our first survey of two years ago are no longer in the single hedge fund business: The majority of these have changed their business model and are now offering other asset management services. A small number of companies no longer exist.

The universe of single hedge funds identified by us is illustrated in table 1. According to our analysis, the Swiss single hedge fund industry is still in its infancy with USD 14 billion of assets and 125 individual funds.

Tbl. 1: Swiss single hedge funds: universe and participation rate

	Universe confirmed by ZHAW ¹⁾
Number of individual funds	125
Number of management companies	71
AuM in USD billion ²⁾	14
	survey participation rate: 40%

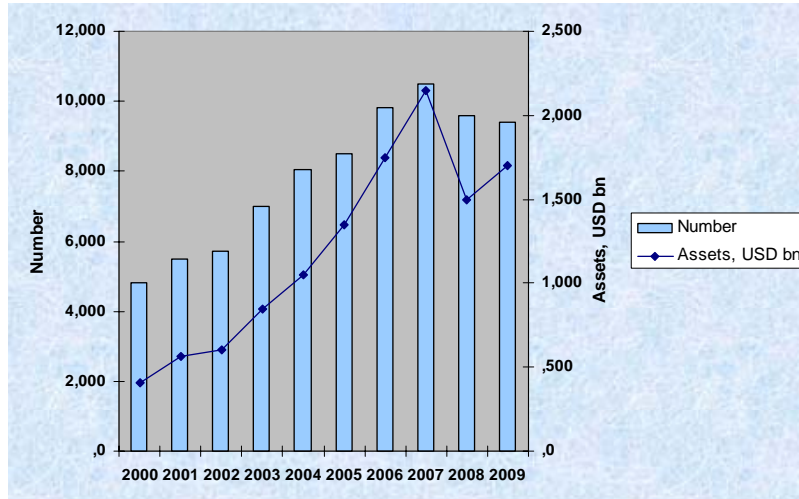
1) Based on various databases, adjusted for own investigation

2) Estimates

II. Universe of SHF in Switzerland

1. Swiss Single Hedge Funds in a global context

Fig. 1: Global hedge funds



Source: IFSL estimates, Hedge Funds 2010

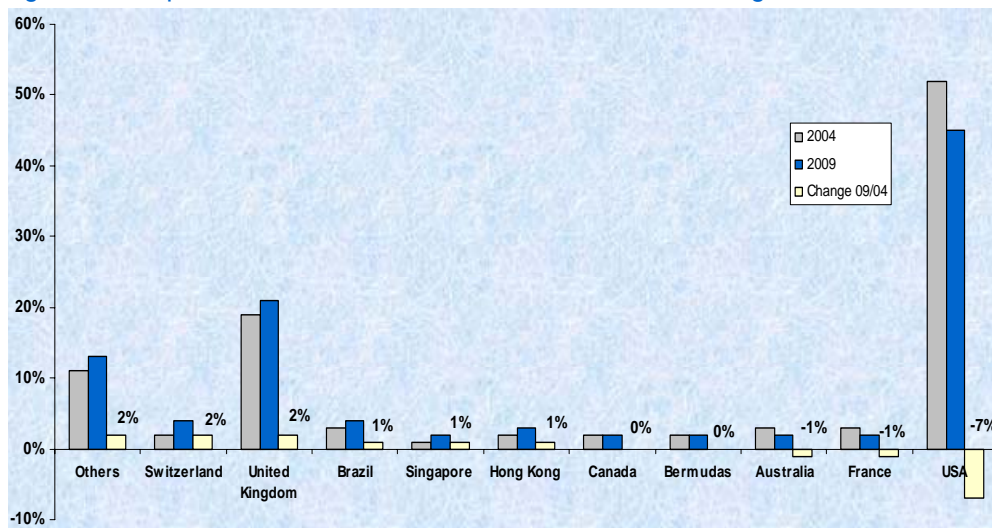
Industry size

According to International Financial Services London (IFSL), in 2009 assets under management of the global hedge fund industry increased by 13% to USD 1,700 billion, following a 30% decline in the previous year. The pace of redemptions slowed down compared to 2008. The 19% return in 2009 represented the best performance over the last decade, thus compensating the USD 85 billion in net outflows. The number of hedge funds totalled 9,400 at the end of 2009, representing a reduction of more than 1,000 from the peak reached two years ago. Three quarters of the total number of funds were single manager hedge funds.

Location of hedge fund management.....

Hedge funds are predominantly managed from onshore locations. The USA is by far the leading location for management of hedge fund assets. However, as illustrated by Fig. 2, its market share has decreased by 7% over the past four years.

Fig. 2: Development of market shares for domiciles of HF management



Source: own calculations, based on Eurohedge database

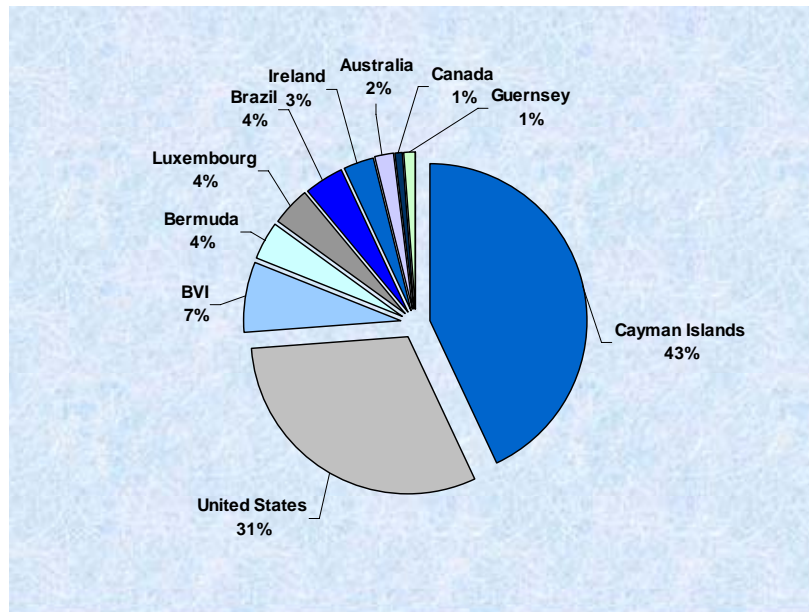
As Fig. 2 on page 7 illustrates, market shares have stayed quite stable since 2004, with the exception of the USA which is the only location with a clear decrease in market share. Switzerland has actually gained market share, however only marginally.

....versus registered location of hedge funds

An estimated 60% of hedge funds in 2009 were registered in offshore locations. Cayman Islands was the most popular registration location and accounted for over 40% of all off-shore hedge funds. Around 7% of global hedge funds are registered in the EU, primarily in Ireland and Luxembourg. However, currently there seems to be a drift away from the Cayman Islands to onshore locations in Europe, accelerated by the impending EU legislation. Luxembourg and Dublin, or even Malta might benefit from the rediscovery of more regulated centres.

Three quarters of the European SHF assets are managed out of the UK

Fig. 3: Hedge fund domicile locations in 2009

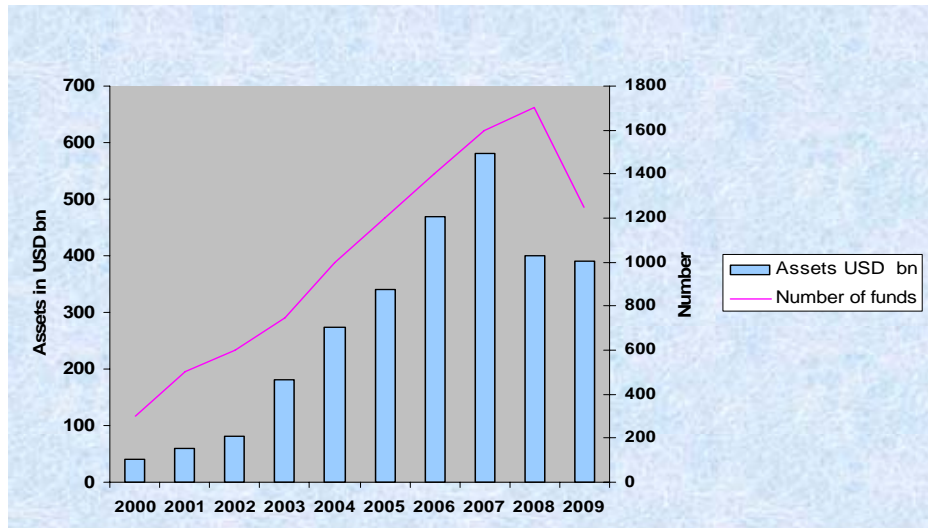


Source: Eurekahedge

2. Swiss SHF in a European context

Overall, in 2009 there were nearly 1,400 European-based hedge funds, of which two-thirds were located in London. According to Eurohedge, at the end of 2009 76% of European SHF assets totalling USD 382 billion were managed from the UK.

Fig. 4: European based hedge funds market (Source: Eurohedge)



Hedge fund launches

According to HedgeFund Intelligence (Global Review 2010), in 2009 the US and UK dominated the launch of new funds with assets of over USD 50 mn. Despite constant talk of moves to less regulated areas, the UK remained in second place with 49 launches representing a combined asset figure of USD 8 billion. Switzerland, on the other hand, saw only four fund launches with more than USD 50 million during 2009, which put it in sixth place, behind Hong Kong, Sweden and Singapore.

Tbl. 2: New funds of over USD 50 million by location of manager

Location	Number of new funds in 2009	AuM in USD mn Dec. 09
USA	52	14'376
UK	49	8'049
Hong Kong	11	1'071
Sweden	2	769
Singapore	7	582
Switzerland	4	256
Denmark	2	205
Italy	1	140
Russia	1	124
Japan	2	112

Switzerland has not been a key center for sizeable hedge fund launches in 2009

Source: HedgeFund Intelligence

The pace of hedge fund launches in Europe accelerated in the second half of 2009, after a sharp slowdown earlier in the year. According to EuroHedge research, at least 142 new hedge funds were launched in Europe in the 2009 calendar year, raising combined assets of some USD 11.1 billion. While 68% of the single hedge funds experienced net inflows, 73% of the funds of hedge funds still had to absorb net outflows during the third quarter.

3. [Industry changes](#)

Following the financial crisis, the industry experienced the following noticeable changes:

Signs of consolidation

The asset pool and the number of players have been shrinking from their peak. In many cases, small funds struggled to survive, whereas their larger counterparts expanded further.

Lower fees

Over the course of 2009, Preqin carried out two surveys of fund managers to ascertain the industry standard for fees charged by hedge funds. Over 900 hedge funds from across the globe contributed data. Key findings included:

- Only 38% of the single hedge funds follow the “2&20” formula: Single hedge funds charge an average 1.65% management fee. Performance fees for single hedge funds currently stand at an average of 18.9%. European single hedge funds have lower fees (1.6% management fee and 18.2% performance fee) than US-based funds (1.7% management fee and 19.1% performance fee).
- Managers that have compromised on fees have often negotiated longer lock-ups for their funds: Single hedge funds that charge a management fee of 1.5% have a mean lock-up of 7.3 months. Funds with a management fee of 2% have a mean lock-up of 5.4 months. Single manager funds that charged the highest performance fees (i.e. 20%+) generated the highest 12- and 24-month returns for their investors.

Managed accounts (MACs)

MACs increased in popularity, providing investors with access to managers while retaining control over liquidity risk and custody and gaining full transparency.

Regulatory issues

It is still unclear what direction regulation will ultimately take, but it evidently represents a key concern for the industry. A full chapter has thus been dedicated to this theme (c.f. page 43).

Drift to onshore locations

The shift to onshore locations could be accelerated by the impending EU Alternative Investment Fund manager directive. There is a substantial likelihood that this directive might involve stringent restrictions on the marketing of funds domiciled outside the EU to European investors.

Growing institutionalization

Institutional investors have become the biggest source of capital for hedge funds, overtaking high net worth individuals in 2008. Funds with a higher proportion of institutional investors fared better than those with private investors in stressed market conditions in 2008 and the early part of 2009.

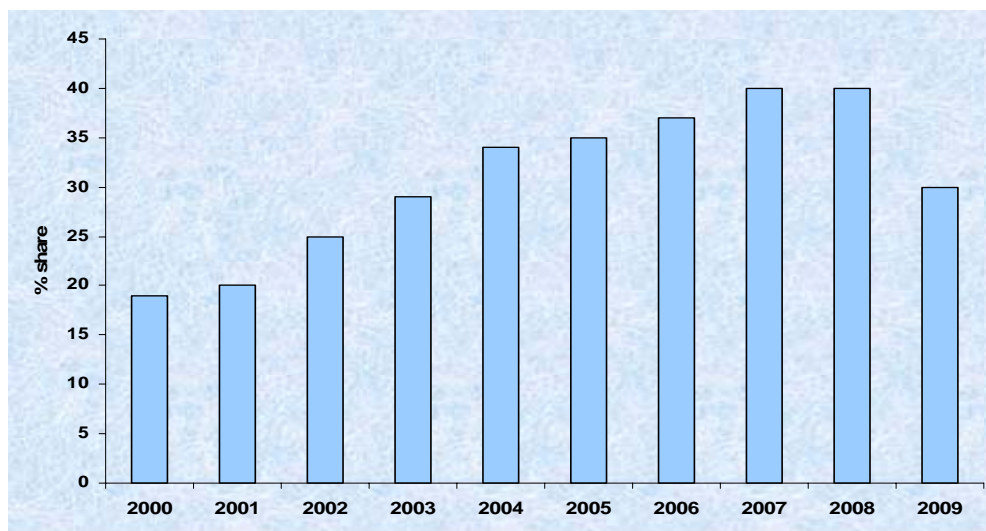
Tbl. 3: Countries with the most institutional investors in hedge funds

Country	% of global investors
US	52.0
UK	14.3
Switzerland	4.9
Australia	3.1
Canada	3.1
Germany	2.4
Japan	2.1
Netherlands	1.6
Sweden	1.7
France	1.3

Source: Preqin, Research report on institutional investor universe 2009, December 2009

A breakdown of institutional investors illustrates that funds of hedge funds accounted for 24% of assets, followed by public pension funds (17%), endowment plans (14%), private pension funds (14%) and family offices (13%). The remainder is split among asset managers, insurance companies, banks and investment companies. The geographical breakdown of institutional investors shows that more than half originate from the US, followed by the UK (14%) and Switzerland (5%).

Fig. 5: SHF capital provided by FoHF



Source: IFSL estimates; Hedge Funds 2010

At the same time, as illustrated by Fig. 5, the single hedge fund capital provided by FoHF diminished last year. This development was being confirmed in our survey as well.

Competition among hedge fund centres aiming to exploit the latest trends

Hedge funds are usually based offshore. However, over the last two years an estimated USD 35 billion has flowed into UCITS structures. These “Newcits” are set up mainly in Luxembourg and Dublin. Often managers keep their hedge fund strategy in a Caribbean-based fund and then establish a Dublin “lite” version for European use.

4. Single Hedge Fund Industry in Switzerland

Swiss FoHF maintained a worldwide market share of over 30% - despite Madoff

Funds of hedge funds (FoHF) have been a core business in Switzerland since the first of these funds was launched in the early 1980s. In spite of the negative impact of the financial crisis and the Madoff scandal, Swiss-registered FoHF have been able to maintain an impressive market share of over 30% of the global FoHF industry. Of the 114 multi-manager hedge fund providers with over USD 1 billion in assets under management, 22 are based in Switzerland or conduct a significant part of their business activity here and manage assets of some USD 200 billion. The “roundabout” Pfäffikon might even represent the biggest concentration of FoHF in the world.

Switzerland – the third largest SHF market in Europe

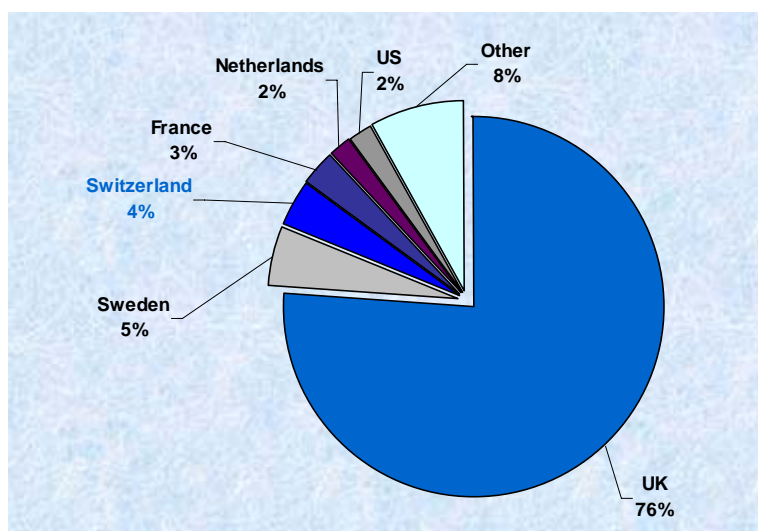
The position of the Swiss single hedge funds (SHF) within Europe, on the other hand, falls well short of this: In January 2010, with a market share of 4%, Switzerland ranked third behind London (76%) and Sweden (5%). Surprisingly, Sweden, where the bulk of assets are in onshore vehicles, remains a bigger centre for single hedge funds than Switzerland.

Switzerland’s single manager hedge fund community, at an estimated 121 funds, is dwarfed in size by London.

As a result of Switzerland’s rather decentralised structure, the domestic hedge fund industry is concentrated in three centres spread over the country. These are:

- Geneva, Nyon and Lausanne in the French-speaking part of Switzerland
- Zurich, Pfäffikon and Zug in the German-speaking region
- Lugano in the Italian-speaking region

Fig. 6: European based edge fund market



Source: Eurohedge

Biggest single hedge funds in Switzerland

Institution	AuM in USD billion
Jabre Capital Partners S.A.	4'313
Credit Suisse Group	1'700
Amplitude Capital AG	806
Pictet Asset Mgmt	667
Conservative Concept AG	666
Progressive Capital Partners Ltd	553
Arkos Capital	550
Premium Currencies Advisors AG	545
Wegelin & Co.	538
Tiresias Capital	537

Source: various databases

As the results of the individual questionnaires are strictly confidential, the above table of the biggest single hedge funds in Switzerland reflects the numbers available through official databases and does not provide any indication about the participants in our survey.

Possible reasons for the disappointing market share of Swiss SHF

What are the possible reasons for this disappointing market share? Based on our research over the last two years, we have identified the following factors:

- Not all new hedge fund launches succeeded; some of them had to be liquidated within the first five years or had to redefine their strategy, becoming a traditional asset manager. As highlighted already, one third of the participants in our first survey of two years ago are no longer in the single hedge fund business.
- Investors sometimes seem to prefer investing in a US- or UK-based vehicle rather than in a Swiss fund.
- Key investment banking activities (proprietary trading) were transferred to London years ago, thus there might be – at least to some extent – a certain cultural gap. However, we have identified a “cultural” shift in Zurich, with a new breed of fund managers getting active. Already back in 2008, some respondents had regarded the Swiss banking environment as (too) private banking oriented. A possible answer to this finding: Setting up a hedge fund.

Nevertheless, in the current survey there were no major complaints about the general Swiss framework anymore. Uncertainties and “external” threats such as the new European Directive for alternative assets or the financial turbulences are regarded as the bigger challenges.

Key SHF Locations in Switzerland

Fig. 7: Location of Swiss SHF



Tbl. 4: Geographic concentration of SHF

	Number of SHF companies ZHAW universe ¹⁾
Zurich / Zollikon / Küsnacht	24
Geneva / Vaud	22
Zug / Baar	12
Lugano	7
Pfäffikon / Freienbach / Unterägeri	3
Others	3

1) Numbers as per 2009; latest arrivals from the UK not included

Geneva – destination of choice for migrants from the UK

Geneva is home to the world headquarters of the International Committee of the Red Cross (ICRC), the World Health Organization (WHO), the International Labour Organization (ILO), the World Trade Organization (WTO), and other international organizations. Also to be found in Geneva are the European headquarters of the United Nations (UN). With a resident population that is 40% foreign, Geneva is an extraordinary “melting pot”. In terms of the geographical concentration of SHF in Switzerland, according to our estimates in our last survey, Geneva was already the “hot spot” for SHF. In 2007 Philippe Jabre opened a new hedge fund in Geneva, after his non-competition contract with GLG Partners expired. The fund was one of the largest new launches in recent years, as many of Jabre's old clients followed him to his new venture along with a significant number of new investors.

To some extent, in terms of migration, this development has accelerated lately, with Geneva representing the destination of choice for some major hedge fund institutions. Mr. Howard, the founder of Brevan Howard Asset Management, Europe's largest hedge fund, moved to the firm's newly opened Geneva office in 2010. Brevan Howard manages almost USD 30 billion, making it the fourth-largest hedge fund manager in the world. Brevan Howard is not alone in opening offices abroad. BlueCrest Capital (AuM: USD 19 billion) has also opened a Geneva office.

Ironically, Geneva has one of the highest tax rates in Switzerland. The canton of Vaud just outside Geneva – and home to many of its employees – promotes the availability of "supplementary" tax deductions on its website.

Zurich – runner up

While there is much talk about the growing activity in the single hedge fund area in Geneva, hardly anyone speaks of Zurich. However, as the survey on page 16 illustrates, slowly but steadily Zurich has developed into a truly growing centre for single hedge funds. This development might be essential for a steady creation of clusters which many observers judge to be essential for the attraction of further single hedge funds from abroad. Cluster activities are intended to optimize value and knowledge creation chains, to encourage innovation and to raise external awareness. In the recent past, the lack of clusters has been cited as one of the major disadvantages in the context of the comparative attraction of Zurich-based and London-based hedge funds.

In its minutes dated December 23, 2009, the Government Council of Canton Zurich answered a parliamentary enquiry regarding hedge funds and the taxation of hedge fund managers. In its detailed reply, the Government Council made it clear that the possible migration of hedge fund managers to Zurich is connected to the creation of new jobs, which obviously has positive implications for the financial centre of Zurich. As a result, such an influx of single hedge funds is welcome as a matter of principle. As a result, the cantonal tax authorities are helping to find satisfactory solutions regarding the taxation of fund managers, as long as they are in line with the common tax law. In its same reply, the Government Council indicated that the number of jobs in the hedge funds and private equity fund field "is growing in the Canton of Zurich as well", a statement which corresponds to the findings of our survey (c.f. page 16). In regard to tax statistics, hedge funds are not being captured separately by the tax authorities, however.

Tbl. 5: Key features of different Swiss locations

Comparison	Geneva	Rank	Zurich	Rank	Zug	Rank	Pfäffikon	Rank
Downtown offices, annual USD/sq.m.	612	2	508	1	508	1	508	1
Rent furnished 4-room apartment in USD	3'705	2	3'360	1	3'360	1	3'360	1
VAT	7.6%		7.6%		7.6%		7.6%	
Corporate tax (effective)	24.2%	4	21.2%	3	16.1%	2	14.7%	1
Private income tax (max.)	47%	4	40%	3	23.1%	2	19%	1
Individual capital gain tax	0%		0%		0%		0%	
Inheritance tax (spouse and children)	0%		0%		0%		0%	
Wealth tax (max.)	1%	4	0.65%	3	0.33%	2	0.17%	1
Mercer quality of life 2009 (rank)	3		2		2		n.a.	
Cost of living index	109.8	2	107.6	1	107.6	1	107.6	1
Purchasing power	112.1	2	115.6	1	115.6	1	115.6	1

Source: UBS Research, Mercer Consulting, Schofield & partner, Geneva, Jones Lang LaSalle, IMD Lausanne

Pfäffikon – Location of choice for FoHF

Pfäffikon has one of the lowest tax rates in Switzerland: the 2010 rates are 11.8% for corporations (including federal, canton and municipal taxes), 19% for individuals, and 10% on dividend income. Thus the obvious reason to incorporate a business there is tax. In contrast to Geneva, where construction projects are extremely restricted, thus creating an accommodation shortage, there is a huge real estate offensive in Pfäffikon. Nevertheless, while the “roundabout” Pfäffikon might represent the biggest concentration of FoHF in the world, there is not (yet) much momentum to be seen in the single hedge fund area.

Zug – pronounced fiscal attractions

Zug offers pronounced fiscal attractions, its educational level is above average, and it enjoys good transportation links by virtue of its location on the north/south routes. The opening of the A4 highway in Knonaueramt in November 2009 has brought Zug closer to the metropolis of Zurich. Basically, a company pays 16.3% of its net profits in total taxes. Certain companies qualify for tax privileges.

Lugano

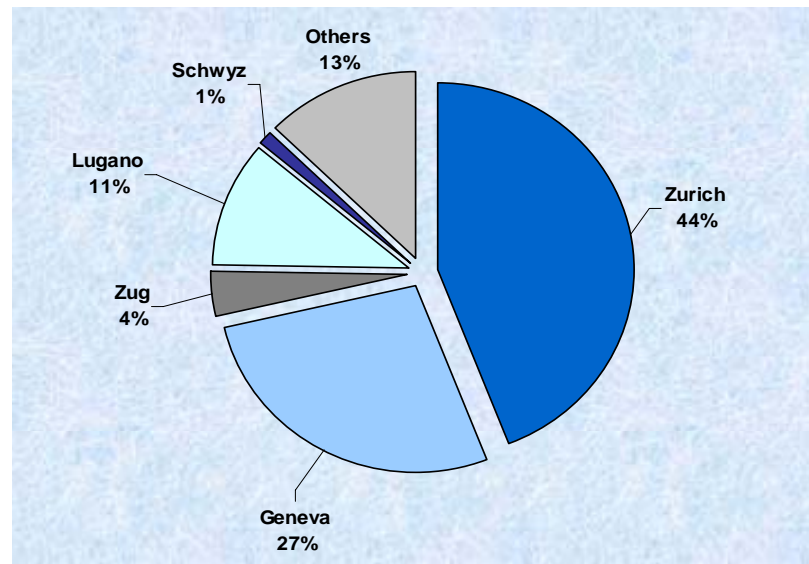
Lugano is the 10th largest financial centre in the world and over 70 banks are active in the canton of Ticino. The financial sector has consistently grown since 1950. In the past the region had mainly attracted Italian offshore money. In the past, the region had mainly attracted Italian offshore money. Italy's third tax amnesty aimed at bringing funds back to Italy by April 2010 has been less harmful to the canton of Ticino than originally expected.

III. Who Are the Swiss Single Hedge Funds?

Office Location

The survey results prove that the Swiss SHF industry is still in an early stage of development, with many companies and funds only being set up in recent times. As a consequence, average assets per company are still relatively low, and small teams of up to ten individuals are the key drivers of Swiss operations.

Fig. 8: Swiss office location - by AuM



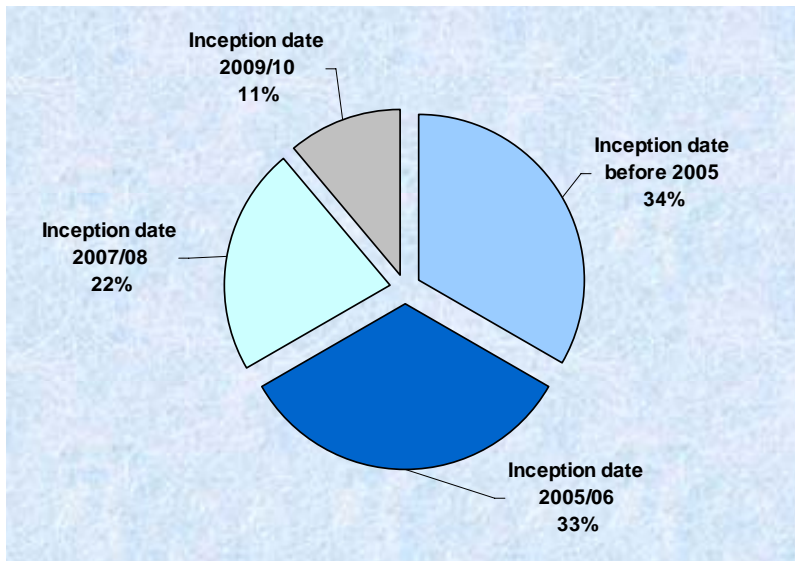
Zurich represents a growing hub for single hedge funds

As the survey illustrates, Zurich has developed into a growing hub for single hedge funds. As illustrated by Fig. 8, over 40% of our respondents (measured by their AuM) are based in Zurich. What does this tell us?

- Clearly, because of the limited reach of our survey, our radius is biased.
- Nevertheless, the number of relatively young single hedge funds in the Zurich area makes us believe that Zurich is a truly growing centre for single hedge funds: Over 50% of the Zurich based institutions were set up after 2006. As a result, in 90% of these cases managed SHF assets are small, amounting to a maximum of CHF 100 million. In three quarters of the institutions the number of employees is below 20. Personal reasons and the quality of life represent the key motivations for Zurich as the destination of choice.

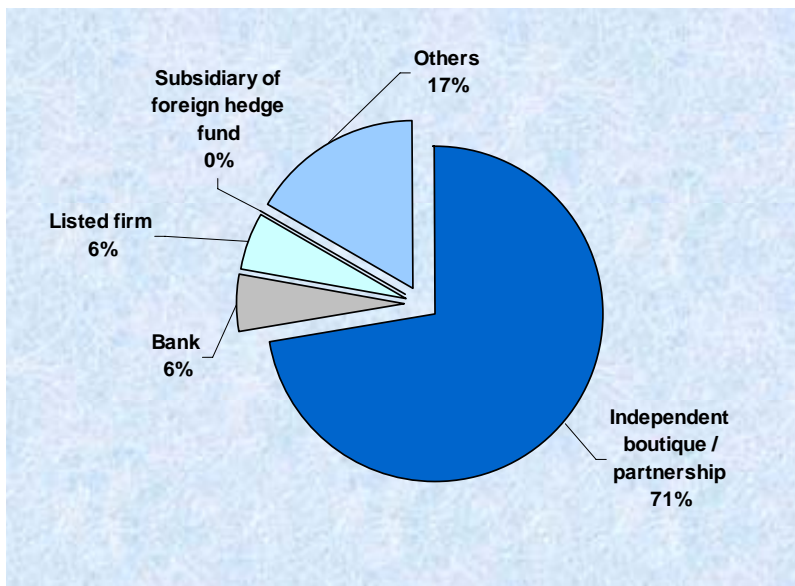
Inception date and legal structure

Fig. 9: Swiss single hedge fund industry - inception date



The majority of players have entered the market in the last five years. Many SHF managers participating in our survey are still in the process of building up their capacities. Two thirds of the single hedge fund companies in our sample were launched after 2004, and over 20% of the firms established their hedge fund business after 2006. Only 34% of the individual SHF analysed were incorporated before 2005.

Fig. 10: Legal set up of the firms



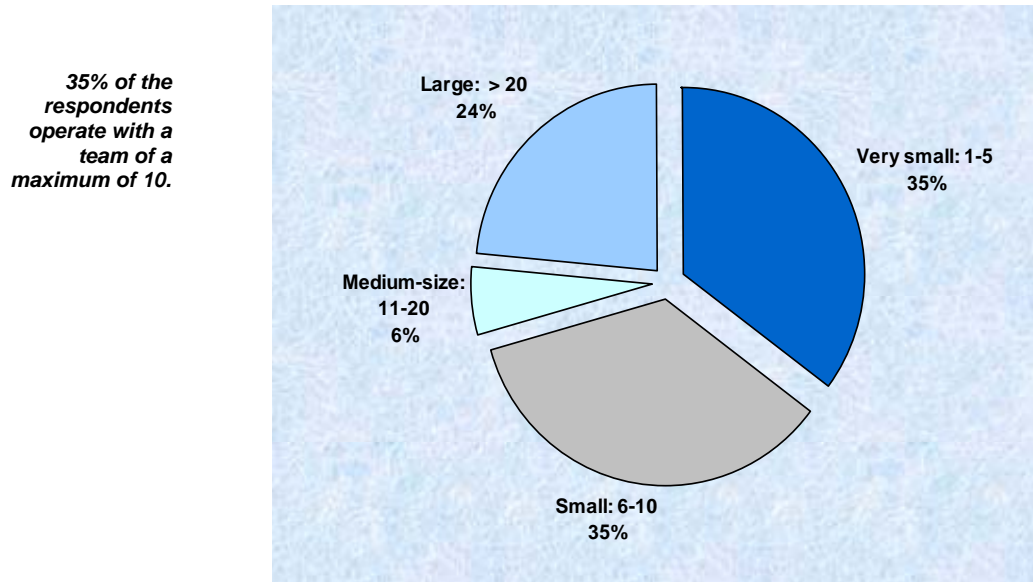
Boutiques and partnerships dominate the Swiss SHF universe

71% of the SHF players analysed have been set up as independent boutiques/partnerships. None of the respondents declared itself as a subsidiary of foreign hedge fund.

Number of Employees

Given the typical boutique/partnership style of SHF, it is not surprising that 35% of the respondents operate with a team of no more than five people located in Switzerland, and another 35% have a staff of six to ten.

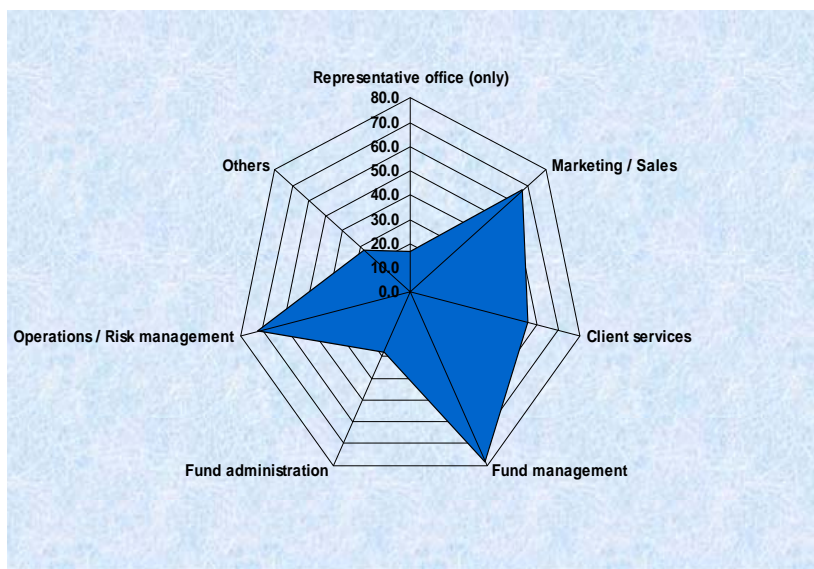
Fig. 11: How many employees does your firm have?



Functions carried out in Switzerland

78% of the respondents stated that their fund management is carried out in Switzerland, and two thirds of them execute their marketing and sales functions there. These results confirm that the focus in Switzerland tends to be more on investment management and advice and marketing & sales. On the other hand, with the majority of the funds domiciled abroad, other core functions such as administration and legal support are typically outsourced or conducted elsewhere.

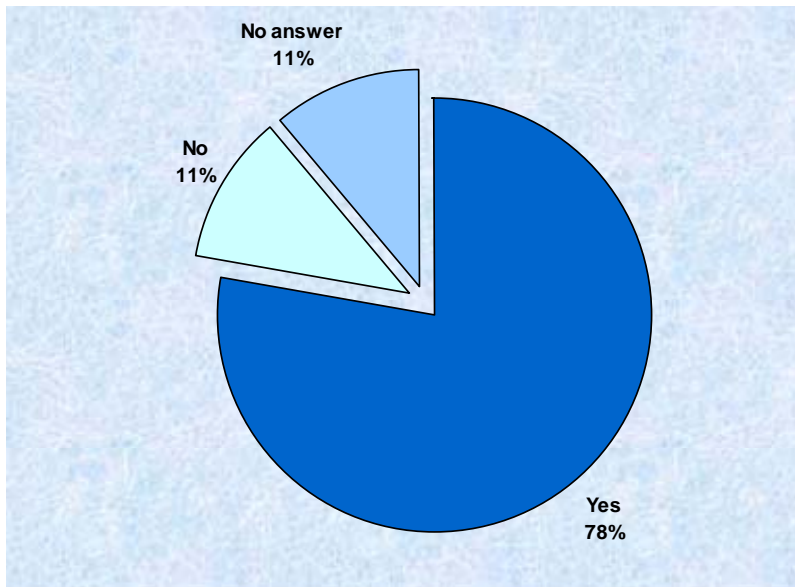
Fig. 12: Which functions do you cover in Switzerland?



Data will not add up to 100% (multiple selections)

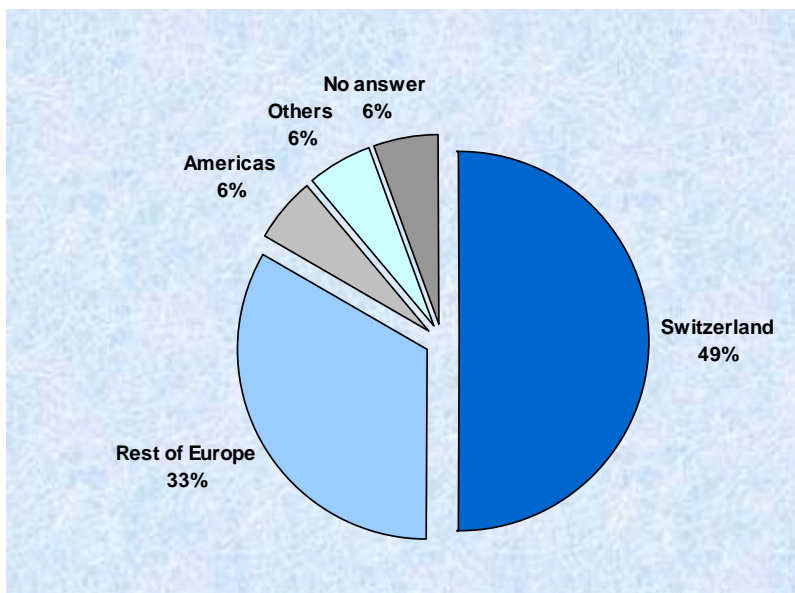
50% of the founders and principals of the participants in our survey are Swiss. Another 33% have a European background. Over 80% of them are resident in Switzerland. As we have already outlined on page 16, Zurich has developed into a growing hub for single hedge funds, with over 40% of our respondents (measured by their AuM) being based in Zurich. In terms of nationality and residency, Swiss managers dominate.

Fig. 13: Are some of the fund's principals resident in Switzerland?



50% of the founders and principals of the participants in our survey are Swiss

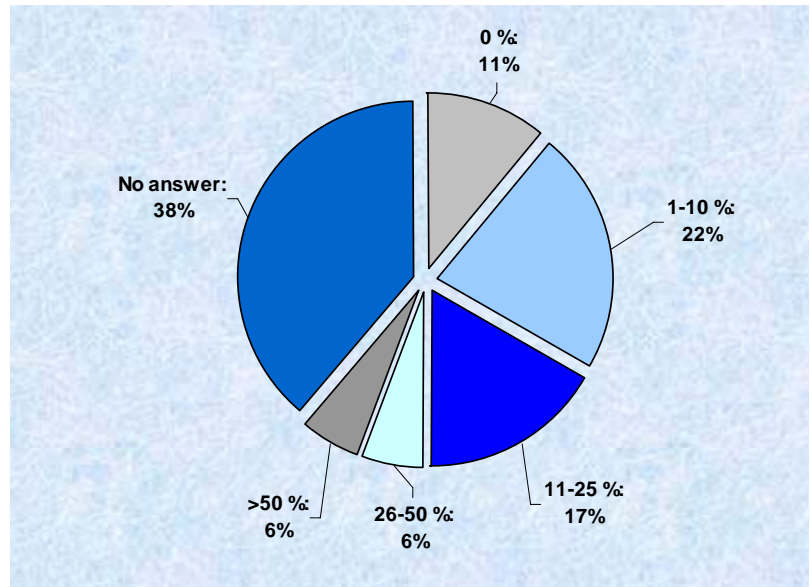
Fig. 14: What is the nationality of the fund's principals/founders?



In more than half of the companies sampled, senior management invest its own money in its funds.

SHF are real entrepreneurs, investing own money into their funds

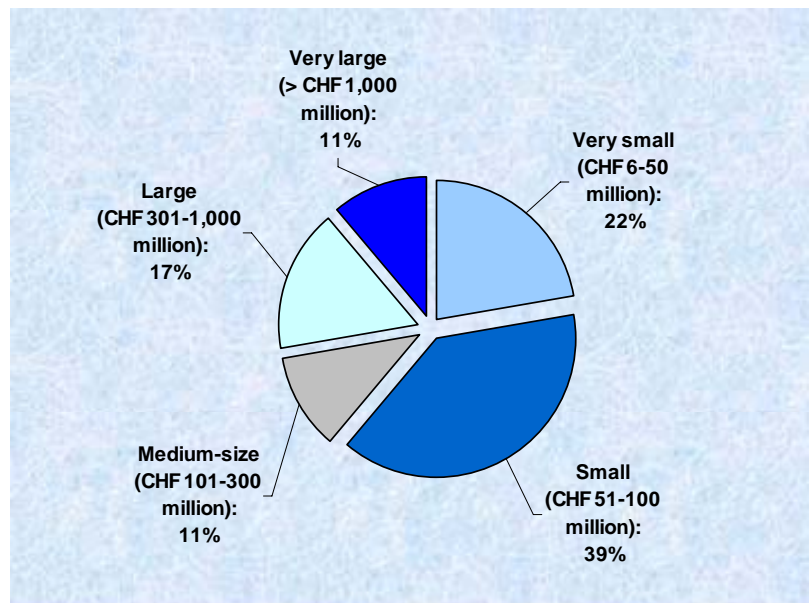
Fig. 15: What % of the fund's assets belongs to the principal?



Assets under management (AuM)

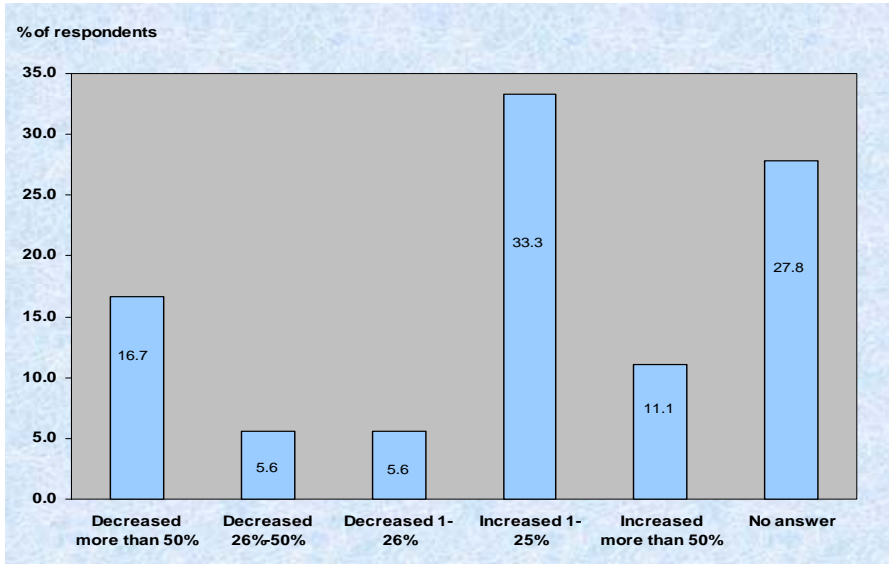
Over 60% of the firms participating in the survey manage up to CHF 100 million of SHF assets – sometimes spread over several funds. Overall, 72% of the respondents manage assets of up to CHF 300 million. Only 11% of the respondents are members of the “One Billion CHF Club”.

Fig. 16: AuM size of single hedge funds



Nearly one third of the respondents reported an AuM growth of up to 25% over the past three years. However, another 17% commented that their AuM had decreased by over 50% over the same period of time.

Fig. 17: How have the AuM developed over the last 3 years?

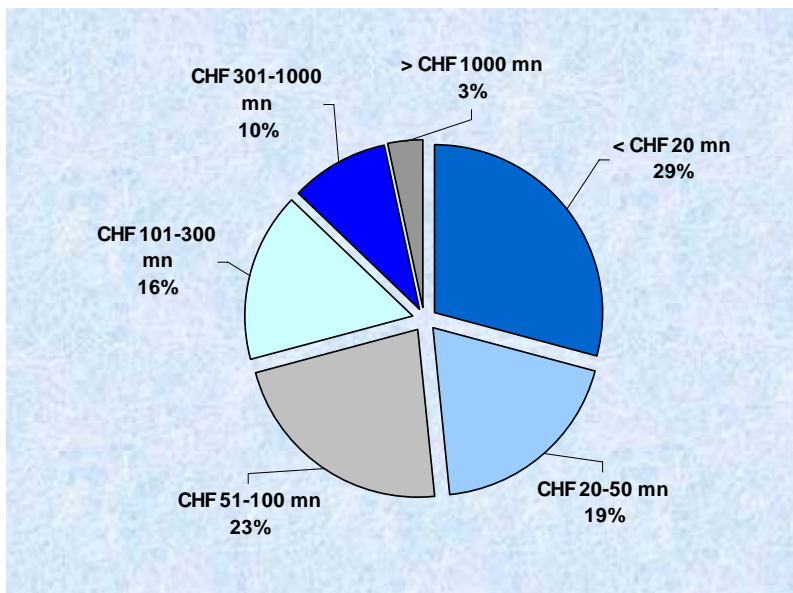


Data will not add up to 100% as multiple selections were allowed

AuM by individual fund

Our survey revealed that assets are highly concentrated within the Swiss single hedge fund industry: Nearly one third of the individual funds have a size of less than CHF 20 million. Overall, 73% of the respondents manage a maximum of CHF 100 million per individual fund.

Fig. 18: AuM size per fund

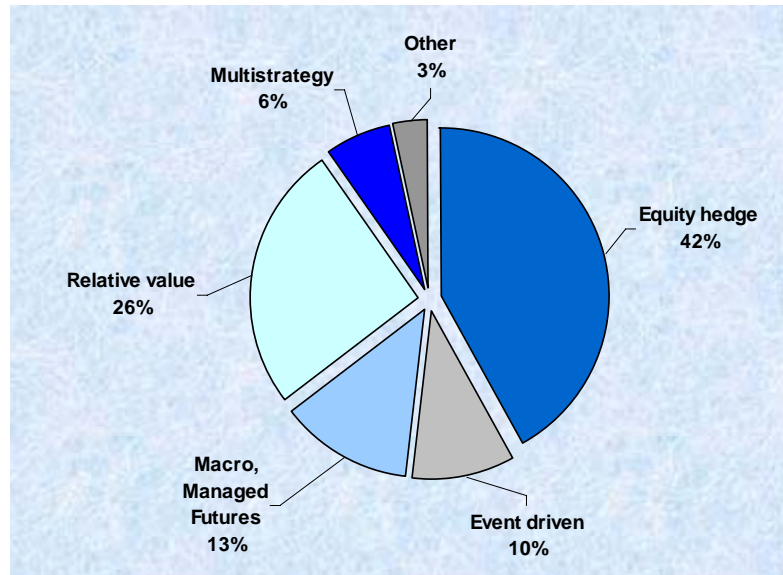


71% of the respondents manage a maximum of CHF 100 million per fund

Investment strategy

The survey reveals a clear preference for equity hedge strategies

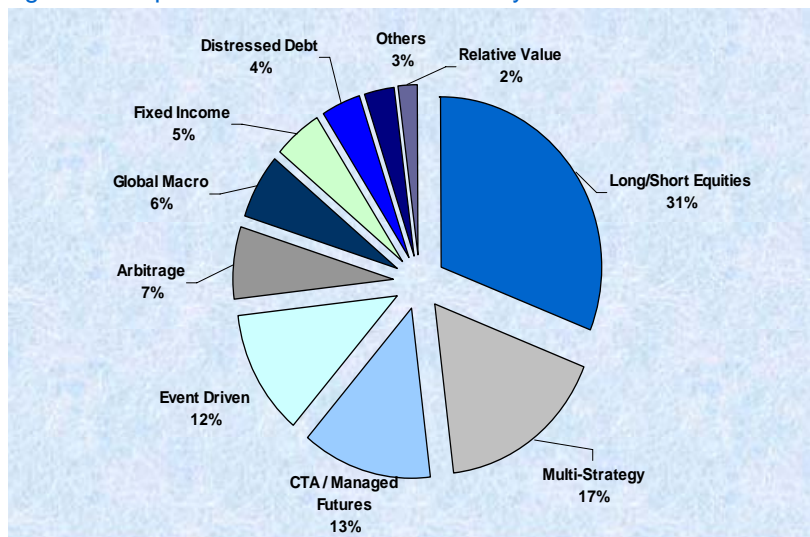
Fig. 19: Main investment strategy



Data will not add up to 100% as multiple selections were allowed

As Fig. 19 indicates, the survey reveals a clear preference of Swiss single hedge funds for equity hedge strategies. Compared with the generic market analysis, it seems that the participants have the same focus as the overall universe (see Fig. 20 below).

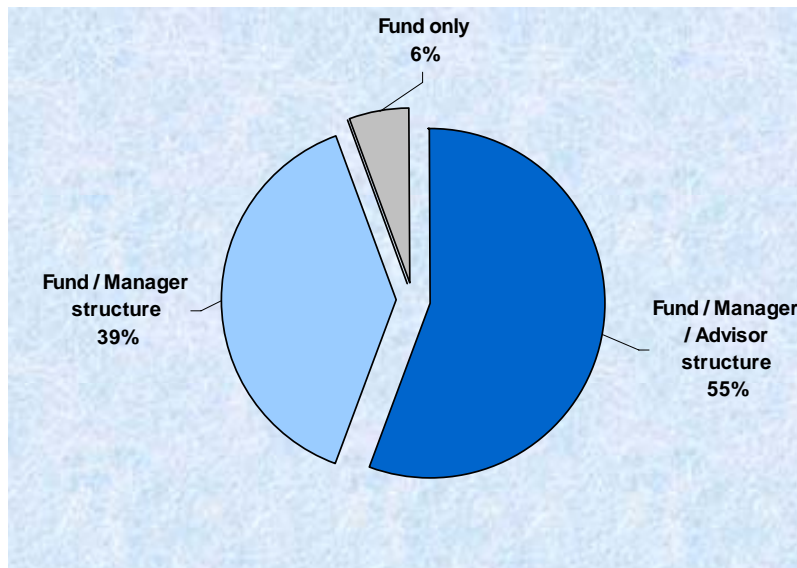
Fig. 20: European SHF: Main investment styles



Source: Eurekahedge

Organization of the funds

Fig. 21: How is the management of your fund organized?



Over 50% of our sample funds are structured as companies and are organized on the basis of a fund/manager/advisor structure.

Tbl. 6: General questions

		% of respondents
Do you run different funds with different strategies?	Yes	67
	No	33
	No answer	0
Do you offer managed accounts?	Yes	78
	No	22
	No answer	0
Have you been using side pockets in the past 2 years?	Yes	6
	No	77
	No answer	17
Have you gated some of your funds in the past 2 years?	Yes	6
	No	77
	No answer	17

As highlighted already on page 10 in terms of general industry changes, managed accounts have increased in popularity. Again, we identified the same pattern in Switzerland: 67% of the respondents employ managed accounts compared to a ratio of 56% two years ago. In most cases, our question regarding the potential use of side pockets and/or gates following the recent liquidity crisis has been answered with a clear “No”. Again, this does not really represent a major surprise, as many companies interviewed are still in an early phase of development.

The "2&20 formula" no longer exists as THE typical fee structure for Swiss SHF

Fee structures

In our 2008 survey we summarized THE typical fee structure of a Swiss SHF as the "2&20 formula" (asset management fee 2%, performance fee 20%). This no longer seem to be the case: Most respondents charge a management/advisory fee of between 1% and 2%, whereby 1% seems to be increasing in popularity, especially for institutional funds. Most funds continue to charge a performance fee. There are two typical patterns for the combination of management/performance fee: Either 1% / 10% or alternatively 2%/20%. There is no correlation between the AuM size and the fee structure.

High watermark

Performance fees of hedge funds are often subject to a high watermark. This means that the manager does not receive performance fees unless the price of the fund exceeds the highest price it has previously achieved. It is not surprising that 87% (2008: 79%) of our sampled funds do actually apply a high watermark, given that most of them charge a performance fee. By contrast, 70% of the respondents do not apply a hurdle rate. A hurdle rate means that the fund does not charge a performance fee until its annualised performance exceeds a pre-defined benchmark rate over a certain period.

Fig. 22: High water mark

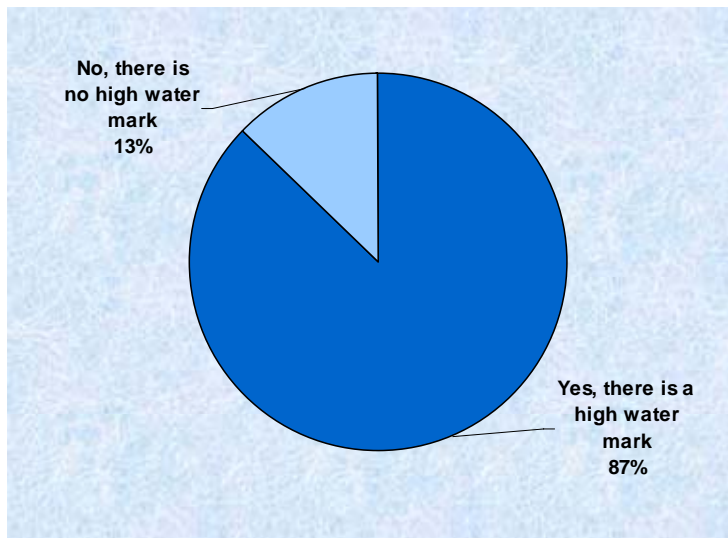
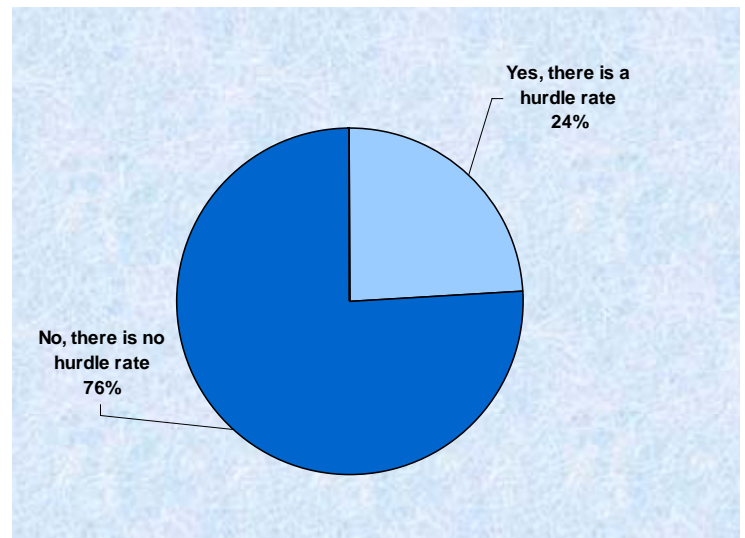
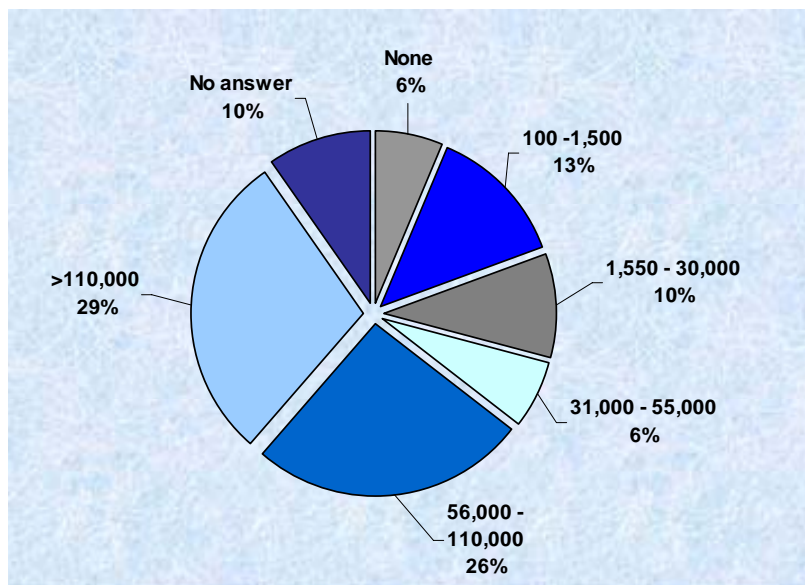


Fig. 23: Hurdle rate



Dealing terms

Fig. 24: Minimum investment size in Swiss Francs



Over 50% of the individual funds in question have a minimum investment size of over CHF 55,000. On the other hand, 19% of the funds operate with no restriction at all, or an entry level of maximum CHF 1,500. There is no evident correlation between the AuM size per fund and the minimum investment size required.

Fig. 25: Subscription terms

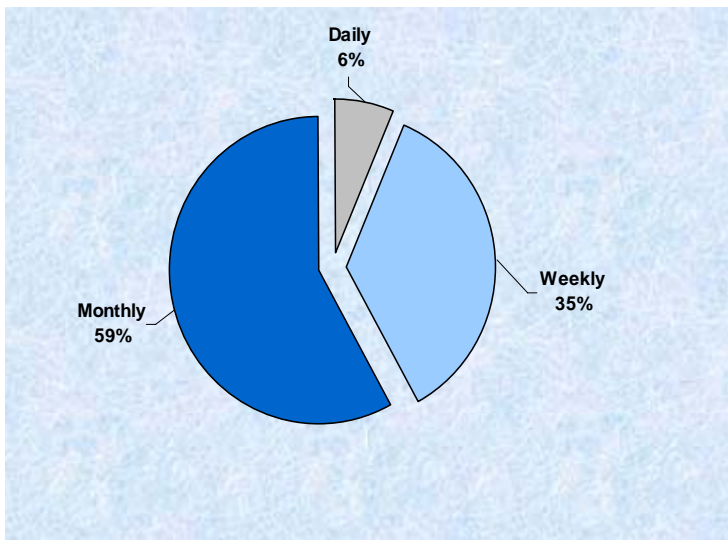
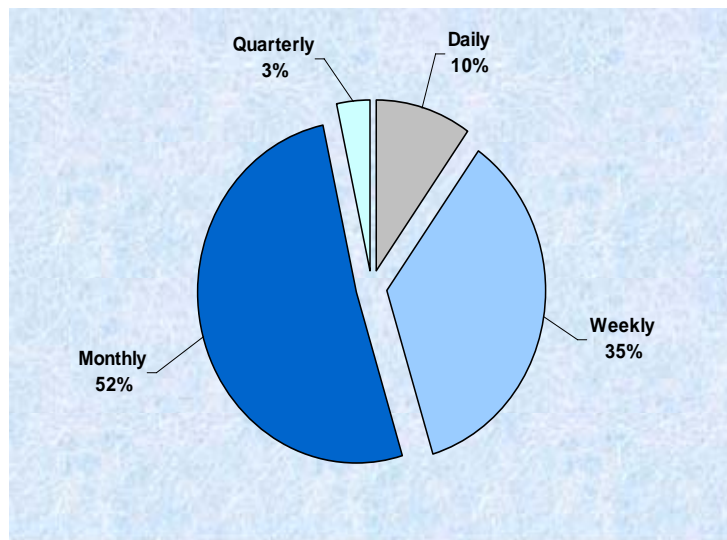
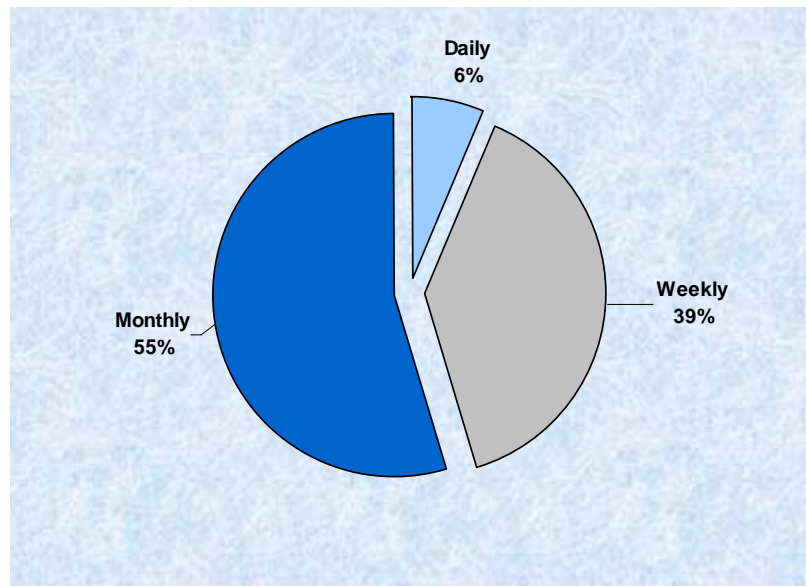


Fig. 26: Redemption terms



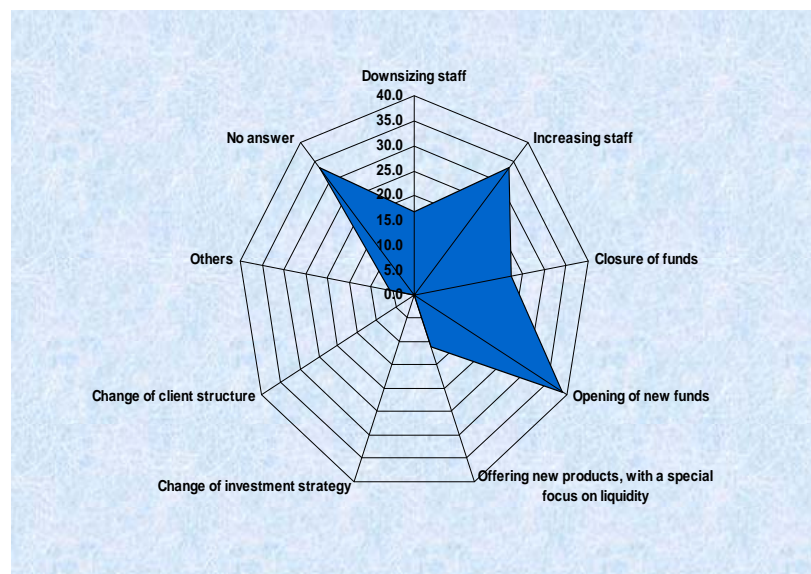
52% of the respondents offer monthly redemptions. We notice an encouraging shift towards more liquidity, which is obviously what clients want after the crisis: 35% of the individual funds offer weekly redemptions, compared to 18% in 2008. There is no correlation between the size of a fund's AuM and the redemption period. On the other hand, quarterly redemptions have become the absolute exception, whereas in 2008 they still represented 13%.

Fig. 27: Frequency of NAV calculation



Obviously, there is a very strong correlation between the frequency of the NAV calculation of the individual funds and the subscription and redemption terms.

Fig. 28: Have you initiated major company changes over the past two years?



Data will not add up to 100% as multiple selections were allowed

Business model – impact of the financial crisis

Following the financial crisis, in some cases single hedge fund managers adjusted their business models or their infrastructure. Over 20% of the participants confirmed that they have been closing some of their funds. 17% of the companies interviewed confirmed that they have been downsizing staff over the past two years. However, as Fig. 28 illustrates, new funds have been opened as well: In over 50% of the cases where funds were closed, new ones were subsequently opened. Twice as many respondents have increased their staff as were reduced, which is an encouraging sign for the future.

Several respondents indicated that they have transferred funds from Guernsey to Luxembourg in order to be UCITS III compliant or that they have launched a UCITS version of a hedge fund. This obviously confirms industry trends as described on page 10.

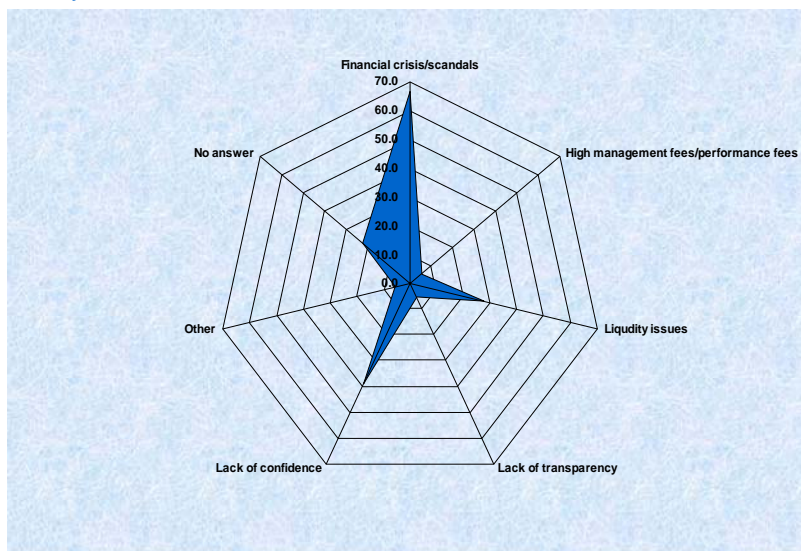
Change of dealing terms over the last two years

When asked to what extent dealing terms had been adjusted over the past two years, most fund managers confirmed that key terms had been changed as follows:

- Redemption terms: substantial reduction of notice period (e.g. from 90/60 to 30 calendar days); increased frequency of redemption dates; removal of redemption penalties
- Reduction of performance fee (e.g. from 25 % to 20%)
- Transfer of funds from Guernsey to Luxembourg, to be UCITS III compliant
- Launch of UCITS version of a hedge fund

67% of the respondents named the financial crisis and scandals as the dominating factors influencing their business over the past three years. Lack of confidence and liquidity issues were also high on the agenda.

Fig. 29: Which factors have influenced your business over the last three years?

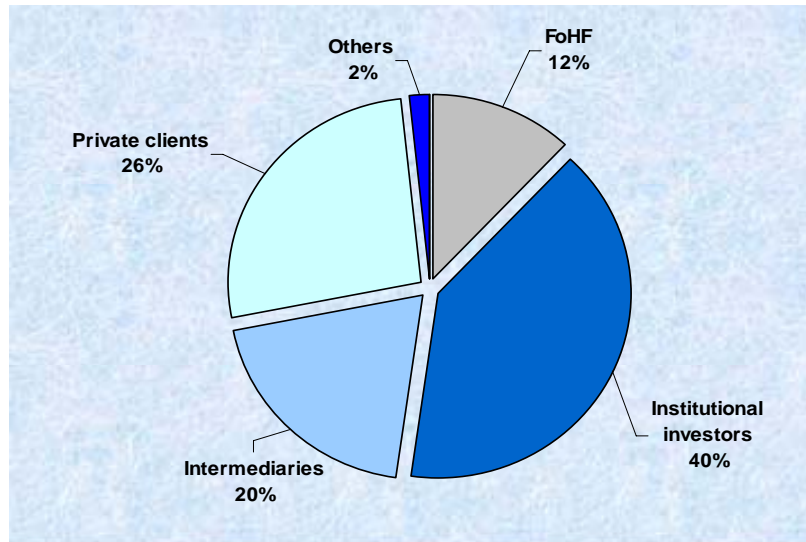


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IV. Who Are the Clients of the Swiss Single Hedge Funds?

Fig. 30: What is the AuM breakdown according to investor segments?

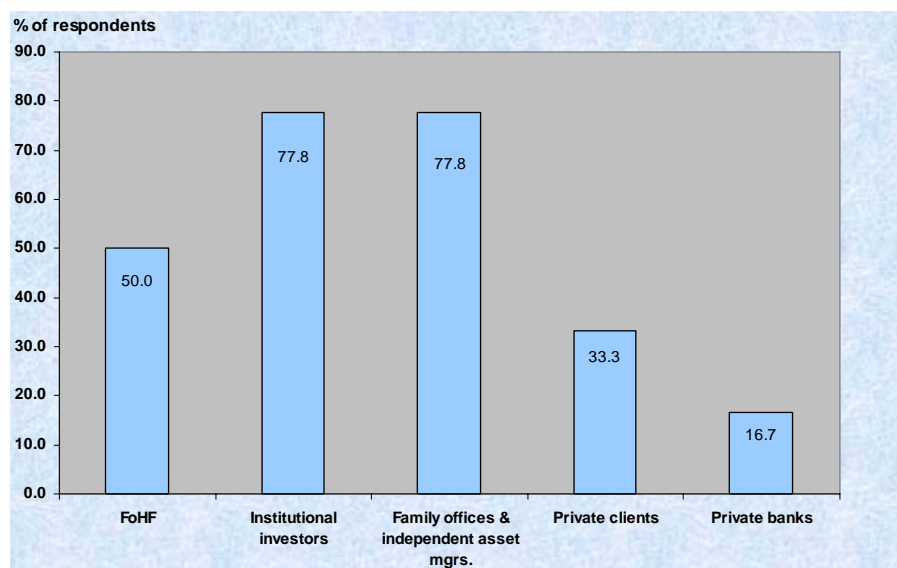
Institutionals represent the most important type of investor



Breakdown of fund assets by type of investor and geographic aspects

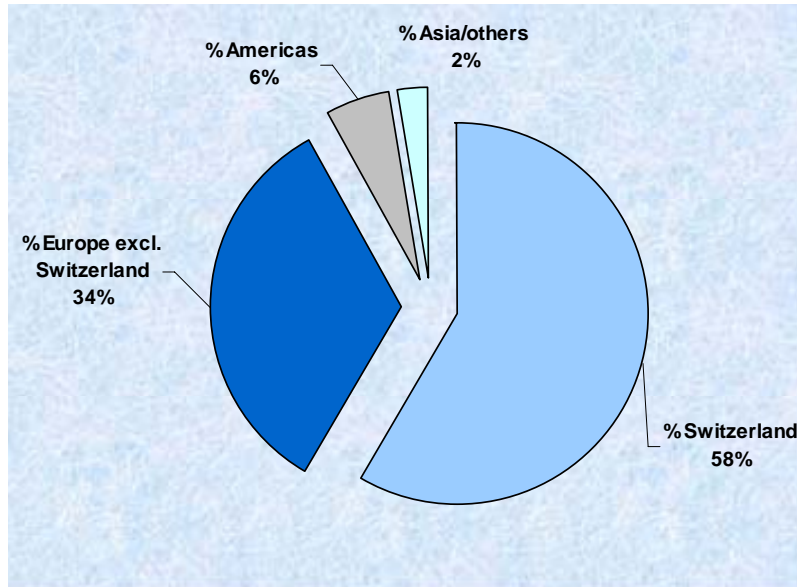
In our general comments on the hedge fund industry on page 10 we highlighted the growing importance of institutional investors. This trend has been confirmed by our survey as well, where institutional investors represent the most important type of investor (40% versus only 20% two years ago). Against the trend, funds of hedge funds remained stable (12%; same as two years ago). When asked about client target segments however, the major gap to the actual client breakdown is the weight allocated to funds of hedge funds. Respondents seem to believe that there is more potential to be exploited in the future.

Fig. 31: What are your main client target segments?



Data will not add up to 100% as multiple selections were allowed

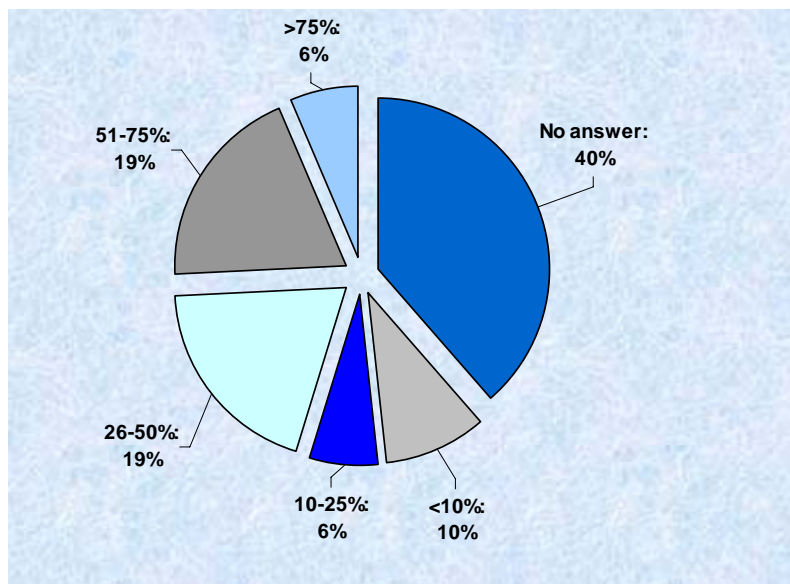
Fig. 32: Geographic location of investors



The survey highlights Switzerland's role as an investor base for single hedge funds

In regards to the geographic location of investors, the survey highlights the importance of Switzerland as an investor base. A feasible explanation for this might be the growing institutionalization of the business, with SHF suppliers increasingly approaching the Swiss universe of institutional investors.

Fig. 33: Percentage ownership of top three investors

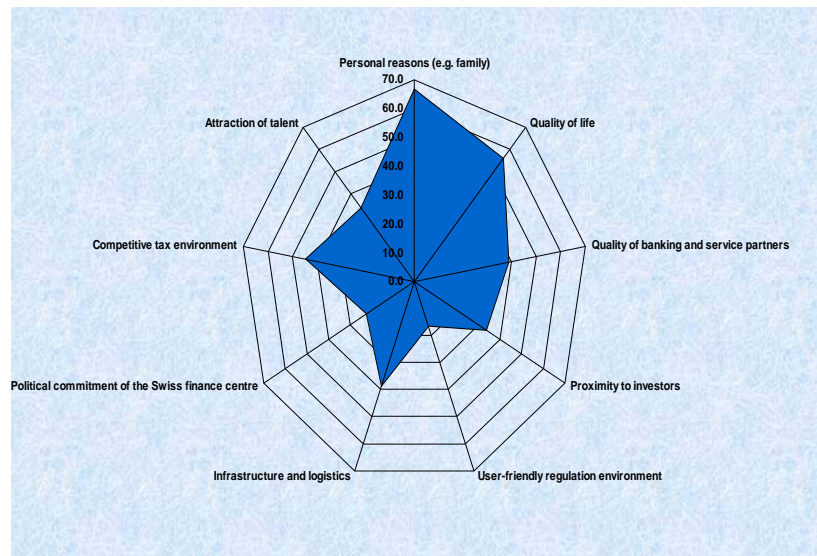


Quite a few institutions are not willing to disclose the ownership structure of their funds. But in those cases where we received the figures, there is a clear indication that the top three clients are of very high importance for the income stream of the institution, which indicates a certain lump risk.

V. Single Hedge Funds - Implications for Switzerland

Fig. 34: What is your main reason for choosing Switzerland?

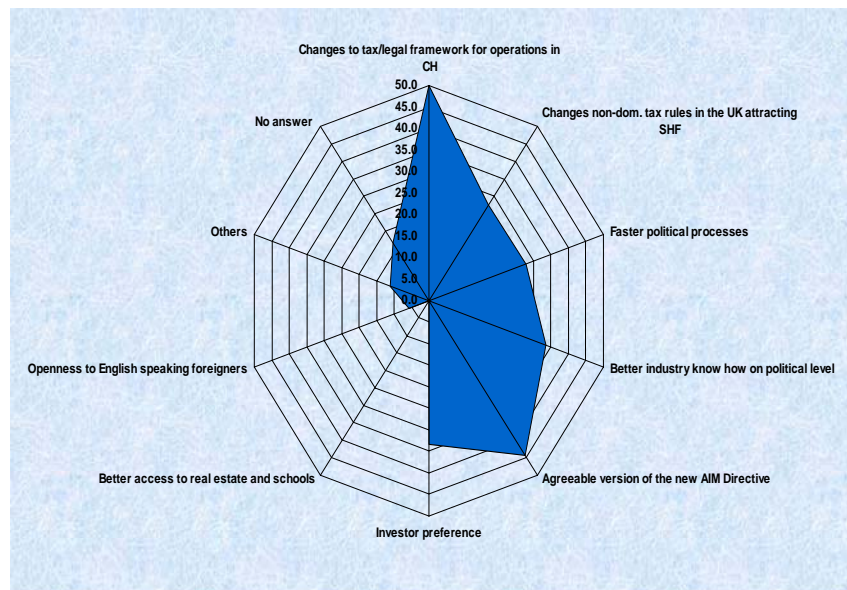
For 45% of the participants, the competitive tax environment is a key attraction of Switzerland



Data will not add up to 100% as multiple selections were allowed

Personal reasons and quality of life play the key role in a manager’s decision to run a single hedge fund from Switzerland, as illustrated by Fig. 34. Interestingly enough, nearly half of the firms participating in the survey name the competitive tax environment as a key reason for choosing Switzerland. This stands in rather sharp contrast to the judgment on Switzerland’s attraction from a regulatory angle; only 17% of the respondents named this as a major criteria.

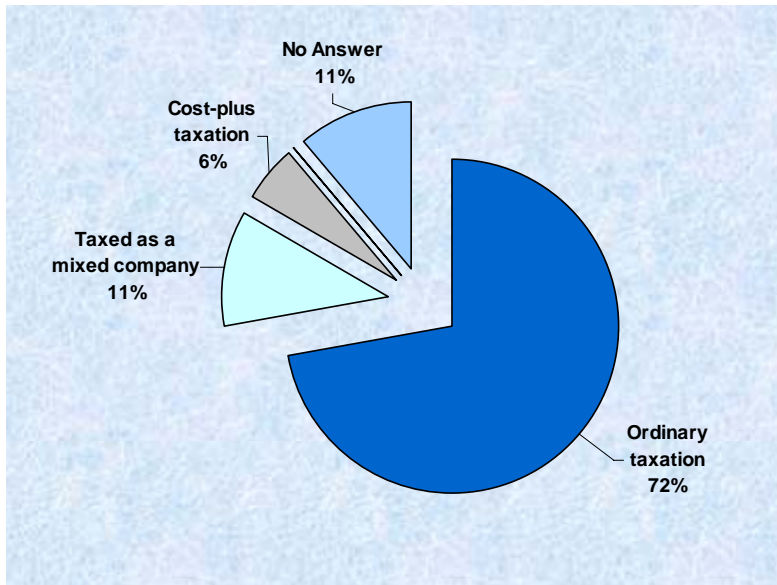
Fig. 35: Which factors could help/are helping to increase the attractiveness of Switzerland for SHF?



Data will not add up to 100% as multiple selections were allowed

When asked which factors could help to increase the attractiveness of Switzerland, changes to the tax/legal frame work, an agreeable version of the new AIM Directive, stability of worldwide financial markets and the attraction of new investors were mentioned most often. It was also expressed that a better coordination and promotion of the hedge fund industry should help to increase the attractiveness of Switzerland for single hedge funds.

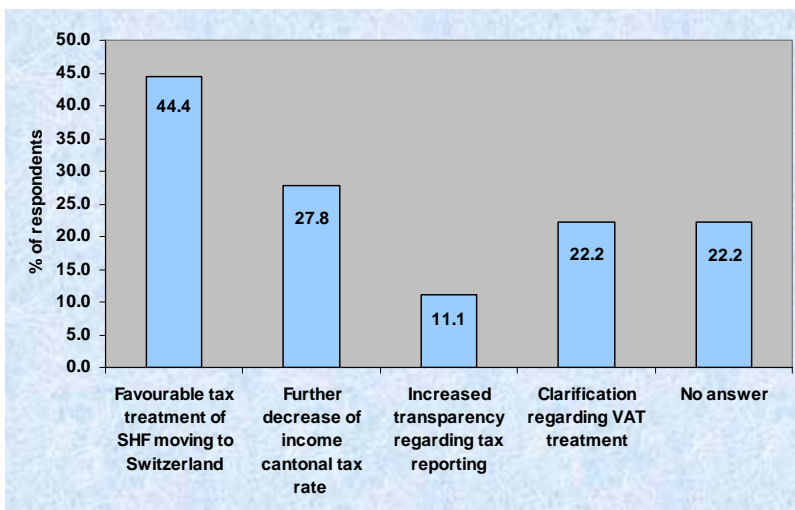
Fig. 36: How is the Swiss office taxed?



A favourable tax treatment is regarded as a key challenge for SHF moving to Switzerland

The results show a similar pattern to those of 2008: Ordinary taxation is the dominant tax style. As Figure 37 illustrates, a favourable tax treatment of SHF moving to Switzerland is regarded as the key challenge for SHF. Further decreases in the cantonal income tax rates and clarification regarding VAT treatment also ranked high on the agenda.

Fig. 37: Which are the key challenges for SHF from a tax perspective?

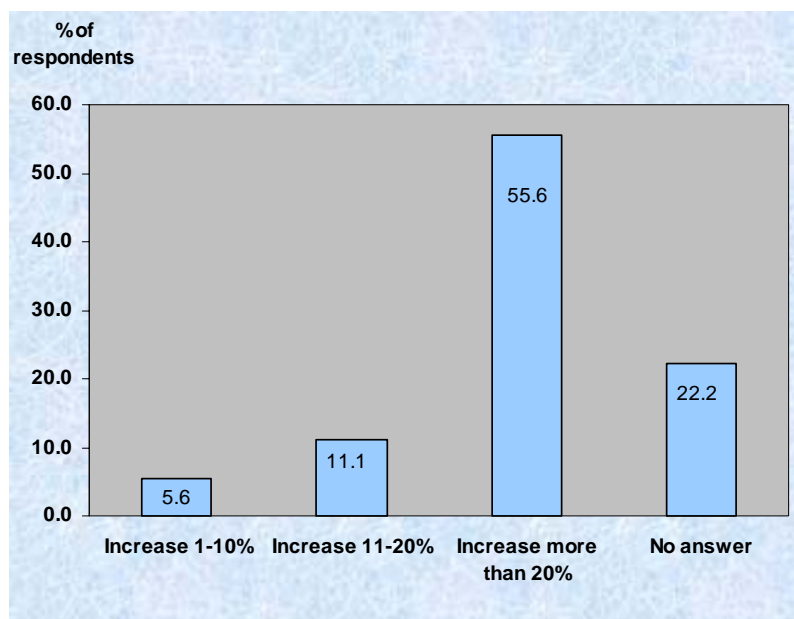


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VI. Swiss Single Hedge Funds – Where to from Here

56% of the respondents expect their AuM to grow by more than 20% within the next three years. Expectations have been adjusted to more moderate levels than two years ago, when 50% of the participants took the view that their AuM would be able to grow by over 50% within the next three years.

Fig. 38: What are your expectations for the next 3 years?



Data will not add up to 100% as multiple selections were allowed

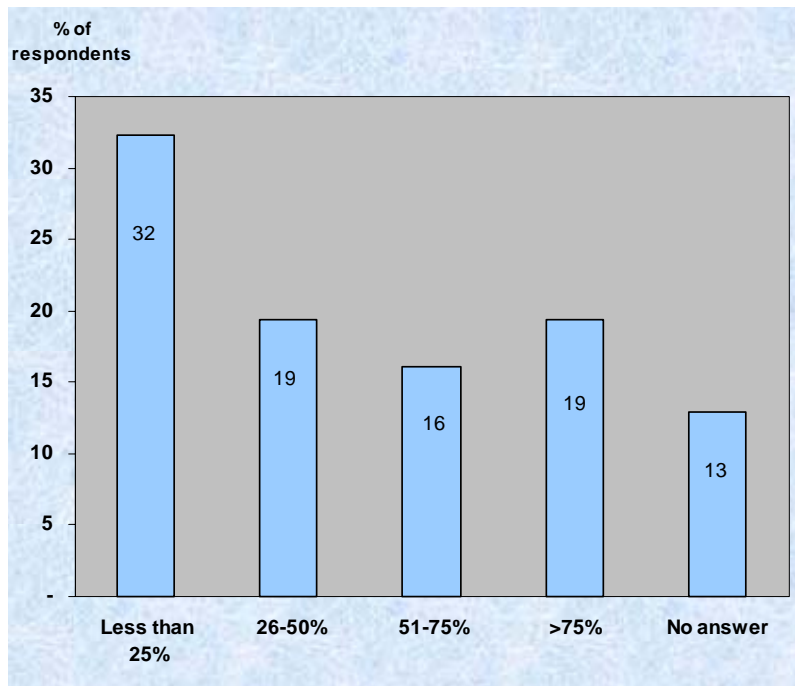
Three quarters of the respondents expect the growth trend of SHF versus FoHF to continue. According to the participants in the survey, key reasons for the expected favourable trend of SHF are the following:

- Hedge funds will increasingly become vehicles for sophisticated institutional investors who will be less interested in paying another layer of fees for questionable diversification.
- The FoHF model seems to be dead; niche SHF will increase.
- Investors are looking for unique strategies that can be monitored.
- As they become more sophisticated, investors are more confident to invest directly in SHF.
- Investors want more control, transparency and liquidity.
- The excellent business environment in terms of security, stability and infrastructure provides highly skilled human resources.

Use of core capacity by fund management

Surprisingly enough, the degree of capacity utilization has stayed quite resilient compared to our previous survey: 32% (2008: 33%) of managers operate at below 25% of their capacity. Over 50% (48%) of the fund managers operate at up to 50% of their capacity. One of the major reasons for the unused capacity seems to be that many managers are still in the process of building up their business model. On the other hand, as per year-end 2009, 19% (2008: 10%) of fund managers were operating at over 75% of their capacity.

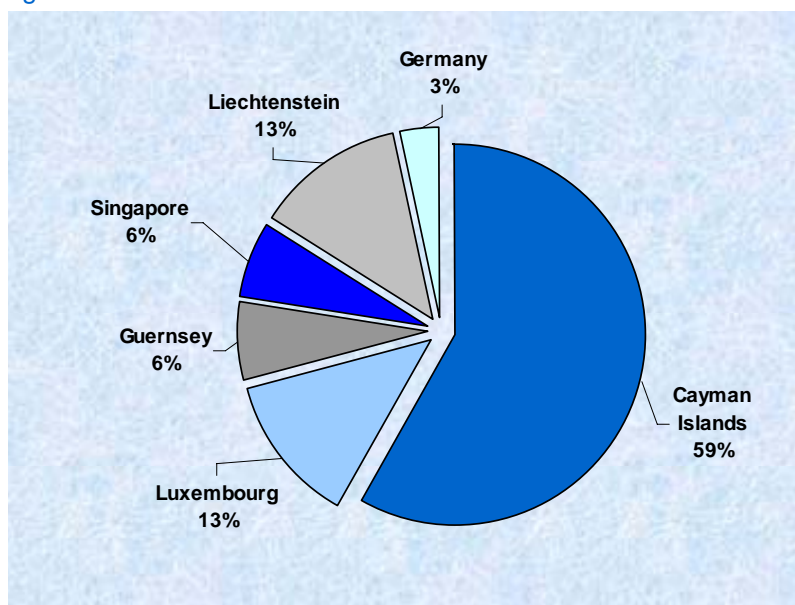
Fig. 39: Core capacity being utilized



One third of the respondents operate at less than 25% of their core capacity

Fund domicile

Fig. 40: Fund domicile



The Cayman Islands still represent THE preferred fund domicile for SHF

The dominance of the Cayman Islands for SHF was already evident in our previous survey two years ago. Nevertheless, we notice an increased preference for Liechtenstein and Luxembourg. As a comparison: For foreign Swiss registered FoHF Guernsey and Luxemburg steadily increased their significance as domicile for Swiss registered FoHF and account now for about 60% of AuM.

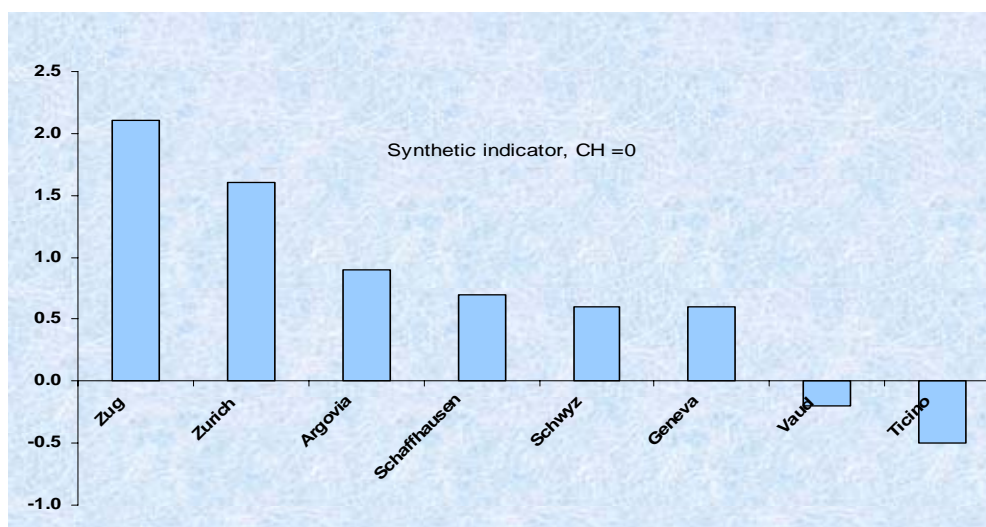
VI. Special Focus

1. Domiciliation

Locational Quality Indicator (LQI) for Swiss Cantons (Credit Suisse)

The Credit Suisse locational quality indicator focuses on the long-term potential of Swiss cantons and regions. The latest evaluation for 2010 illustrates the impact of the many tax cuts implemented by the cantons in recent years. The list is headed by the cantons of Zug and Zurich. Most of the cantons reported surpluses in their public finances in 2009. However, as a result of the challenging economy, the cantons expect tax revenues to fall over the next few years. This will reduce the pace and magnitude of tax cuts.

Fig. 41: Selected Swiss Cantons: Locational Quality in 2010



Source: Credit Suisse Economic Research

The economists from Credit Suisse take the view that in order to stay competitive for companies, locational quality is crucial. This means that locations can position themselves to appeal to the individual preferences of their target groups.

The LQI calculated by Credit Suisse economists covers the five most important success factors in the competition among locations that can be quantitatively measured: the tax burden on individuals and companies, the general educational level of the population, the availability of highly qualified specialist staff, and access by various forms of transportation. So-called soft factors (scenic beauty etc.) are not taken into account when calculating the LQI.

The undisputed leader of the LQI rankings is the canton of Zug. It offers pronounced fiscal attractions, its educational level is above average, and it enjoys good transportation links by virtue of its location on the north/south routes. The opening of the A4 highway in Knonaueramt in November 2009 has brought Zug closer to the metropolis of Zurich. In second place comes the canton of Zurich, whose role as Switzerland's business centre gives it numerous advantages as a location. LQI values between -0.3 and +0.3 can be regarded as average for Switzerland.

Tbl. 7: Compulsory social contributions

Country	Employer	Employee	Total
USA	7.50%	7.50%	15.00%
Switzerland	12.75%	10.55%	23.30%
Austria	21.90%	18.00%	39.90%
Germany	19.55%	19.55%	39.10%
Italy	40.33%	9.19%	49.52%
France	41.80%	20.90%	62.70%

Source: Corporate Consulting & Technology, Zurich, December 2008

An international survey shows the differences between compulsory employer's and employee's contributions as a percentage of a USD 100,000 annual gross income in various countries. This shows that employers and employees in Switzerland pay significantly less in social security costs than their counterparts in our neighbouring countries.

Tbl. 8: Financial skills are readily available (toward 10) or not (toward 0)

**Financial skills are readily available
(toward 10) or not (toward 0)**

Ireland	8.15
Switzerland	7.98
Singapore	7.33
USA	7.23
India	7.19
Belgium	6.91
Netherlands	6.90
France	6.83
Germany	6.76
Austria	6.67
UK	6.57
Hungary	5.90
Slovenia	5.60
Spain	5.38
Italy	5.25
China	4.43

Source: International Institute for Management Development (IMD); The World Competitiveness Yearbook 2009, Lausanne

As table 8 indicates, Switzerland is very attractive in terms of available financial skills.

2. Migration

Global financial reforms and their possible impact on hedge fund migration have been an ongoing topic in the investment management industry for some time. Swiss hedge fund managers are not obliged to register with the Swiss Financial Market Supervisory Authority and most register with only one of the country's twelve self-regulatory organisations, in order to comply with anti-money-laundering requirements. This makes it a pro-entrepreneurial legal environment, with not much capital requirements imposed. It is clearly evident that re-domiciliation to European domiciles is in fact taking place and the momentum is gaining. Within an EU context, Luxembourg, Ireland and Malta are the prime jurisdictions.

There may be various reasons for the board of a hedge fund to decide to re-domicile/migrate their platform:

- The AIFM Directive is one possible reason: It is a case of being prepared in the event that the EU AIFM Directive makes it necessary to have an EU-domiciled fund in order to access EU investors.
- There are, of course, cost considerations, particularly for fund administrators and auditors.
- Investor-led demand to re-domicile to the EU may also be a key consideration.
- UCITS has become a quality mark and its acceptance has markedly increased, even in non-EU jurisdictions. This means that re-domiciliation itself and the change to a UCIT structure increases the marketability of the fund.

Promotional activities from Switzerland

In the context of her Bachelor Thesis on hedge funds in Switzerland and Europe (May 2010, ZHAW School of Management and Law) Sandra Bächtold conducted a short survey among the representatives of the cantonal offices for economic promotion. Their representative highlighted the following locational advantages of their respective cantons:

- Zurich
 - Attraction of the strong financial centre of Zurich
 - Attractive tax situation
 - Political stability
 - Legal security
- Geneva
 - Base of potential investors in alternative investment funds
 - Base of highly qualified multilingual financial specialists
 - High quality of life
- Zug
 - Strong combination of low tax rate and very high quality of life
- Schwyz
 - Clusters of FoHF in Pfäffikon; networking among peer-groups
 - Availability of specialized financial services and staff
 - Attractive tax rates
 - Attractive transport connections
 - Healthy labour market

The Greater Zurich Area, one of Europe's economically strongest regions, comprises the area that can be reached roughly within a 60-minute drive from Zurich's airport. It strives to make an important contribution to Switzerland's competitiveness as a business location. Lately there have been several efforts to promote this region as a hub to the financial industry, among others also to hedge funds based in London. There are also individual efforts being organized by the offices for economic promotion of the individual cantons (above all Zurich, Zug, Schaffhausen, Pfäffikon). Whereas the representatives of the German-speaking part of Switzerland pro-actively approach potential parties of interest abroad, this is not the case for Geneva, it seems. Considering the stream of major hedge fund players moving (partially) to Geneva, this is understandable.

Quality of living

In Mercer's 2009 Quality of Living Survey, European cities dominate the top of the ranking. Switzerland's three largest cities Zurich, Geneva and Bern all rank within the top ten. The survey is based on different criteria, including leisure and relaxation, safety, cleanliness, political and economical stability, and medical care. From 2001 to 2008, Zurich was named as the city with the highest standard of living for seven years in succession. In 2009, Zurich was rated second and Geneva third. Cultural integration should be at a high level, as also reflected by the percentage of foreigners living in the different cantons (Geneva: 37.4%; Zurich: 23.2%; Zug: 22.9%).

Tbl. 9: Mercer's Quality of Living Survey

Rank 2010	City	Country
1	Vienna	Austria
2	Zurich	Switzerland
3	Geneva	Switzerland
4	Vancouver	Canada
5	Auckland	New Zealand
6	Düsseldorf	Germany
7	Frankfurt	Germany
7	Munich	Germany
9	Bern	Switzerland
10	Sydney	Australia

Source: Mercer, Quality of Living Survey, May 2010

Switzerland versus London

For many, it is surprising to learn that a leading M&A lawyer operating from Switzerland charges only about half as much as a London-based peer. Additionally, a suitable flat in one of the preferred districts of Zurich can still be rent at decent terms – at least from the perspective of a London financial expert. Moreover, even if Switzerland it is not really competitive compared to “tax havens”, it still offers a highly advantageous tax framework in comparison with other countries. In this context, the in-depth report “*Strategic directions for Switzerland's financial market policy*”, issued by the Federal Council in December 2009, stated that “these advantages should be better communicated to fund managers operating abroad and better publicized internationally.....even if there are no plans to grant tax privileges to hedge fund managers. A relatively attractive tax situation with respect to other countries may be attained with the corresponding structuring of hedge funds.”

As per April 2010, the UK income tax rate for earnings of more than GBP 150,000 has been raised to 50%. The impact of these tax increases is aggravated by the tightening of the resident non-domiciled rules in previous years which no longer permit UK resident but non-domiciled hedge fund managers to leave a portion of their income offshore.

Survey among London-based high-earners favours Switzerland

A survey among London-based high-earners undertaken by the international law firm Withers (116 respondents) has delivered interesting results: Those surveyed were all advisors to high net worth individuals and included bankers, accountants, independent financial advisors, trust companies and head-hunters. Lifestyle was highlighted as the most important factor behind the decision to relocate and personal tax the least important. Political uncertainty and bank payroll tax were also cited as factors. The poll, although not intended to be scientific, provides a clear indication of the intentions and concerns of Britain's high earners. Some 75 per cent of respondents said they were very likely or somewhat likely to move abroad in the next 12 months. Switzerland turned out to be by far the most popular destination amongst those thinking of leaving, being cited by nearly 63% of respondents as a possible location. The Channel Islands came second, with 14% considering relocating there. Other jurisdictions named included the US (13%), Hong Kong (11%), Monaco (10%), Singapore (9%), France and the UAE with 7.75% each and others.

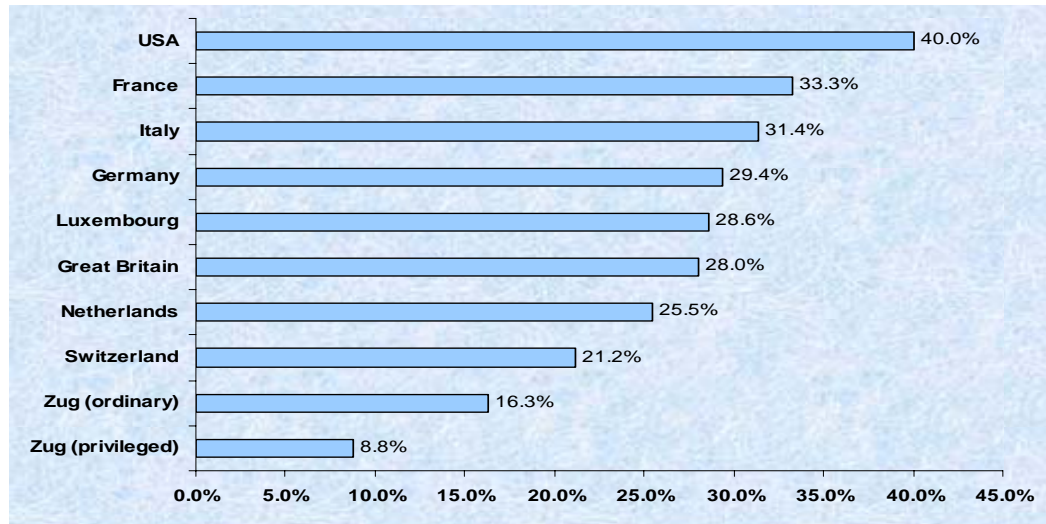
London continues to be THE financial centre of choice in Europe

London continues to be THE financial centre of choice in Europe. A dual set-up UK/Switzerland might allow managers to maintain their existing London network while enjoying Swiss tax benefits. Due to its favourable tax regime, sound infrastructure and large investor base, Switzerland might continue to gain attraction. The creation of new clusters outside of the "hot spot Geneva" which has slowly started to accelerate in the German-speaking part of Switzerland will be an additional asset in that respect.

3. Taxation

According to the Federal Council of Switzerland (Strategic directions for Switzerland's financial market policy, Berne: December 2009), a relatively attractive tax situation with respect to other countries may be attained with the corresponding structuring of private equity or hedge funds, the companies associated with the funds and their guarantors within the scope of the prevailing law. The same strategic paper also highlights that for private equity and hedge fund managers, Switzerland offers a highly advantageous tax framework in comparison with other countries. These advantages should be better communicated to fund managers operating abroad and better publicised internationally. However, there are no plans to grant tax privileges to hedge fund managers.

Fig. 42: Corporate entities average tax levy corporate profit



Source: KPMG Tax Rate Survey 2009

Swiss tax system – myth versus reality

Taxes in Switzerland are far less onerous and far less bureaucratic than in most western countries. What's more, companies can reduce their tax bills by taking advantage of various incentive schemes. At 7.6%, the rate of VAT is one of the lowest in Europe. The total tax take is less than 30% of GDP, which is well below the European average. The total tax paid by natural persons is one of the lowest of any developed country, and enterprises face a much lower burden than in the countries of the European Union. This moderate level of taxation is certainly one of the attractions for companies to set themselves up in Switzerland.

The tax system in Switzerland reflects the decentralised, federal structure of the state. Companies and individuals are required to pay tax at federal, cantonal and municipal level. The cantonal taxes are the highest, but each canton determines its own rates and social welfare charges. Thus there is healthy competition between the cantons, which enforces moderation. Taxpayers in Switzerland are not able to negotiate their tax rates with the authorities. In reality, federal and cantonal tax authorities cannot deviate from tax rates determined by the legislator. A lump sum taxation regime for individuals is generally not available to hedge fund managers as the legal conditions to qualify for lump sum taxation are usually not met. The average corporate income tax rate in Switzerland is approximately 21%. For individuals, cantonal tax rates range from approx. 20% to 45%. Due to a recently introduced tax reform individuals may benefit from a special tax relief on dividend income.

A central element in location development, and the easiest one to influence, is fiscal policy. 2009 was a year in which many cantons implemented tax relief mechanisms. The economic boom of 2005–2008 filled the cantons' coffers and made tax relief mechanisms possible. Since it takes time to amend fiscal legislation, numerous measures approved during the boom years did not come into force until January 1, 2009. This coincided exactly with the nadir of the last recession, giving them – more by luck than judgment – a contra-cyclical effect. Most of the cantons reported surpluses in their public finances in 2009. This picture is set to change in the next few years, because economic shocks are known from experience to affect financial budgeting only after a time lag. To avoid slipping into financial difficulties, most cantons will reduce the pace of tax relief mechanisms. The differences in the cantonal tax burdens apparent in 2009 will therefore persist for some time to come.

Tbl. 10: Tax expense in % of GDP

Country	Taxes in % of GDP 2008
USA	26.9%
Ireland	28.3%
Switzerland	29.6%
Canada	33.0%
Spain	33.0%
New Zealand	35.7%
UK	36.4%
Germany	38.3%
Luxembourg	42.8%
Finland	42.9%
Austria	43.1%
France	43.2%
Belgium	44.3%
Sweden	47.1%
Denmark	48.3%

Source: Swiss Federal Finance Dept.,
Nov, 2009 / OECD

Nearly all Swiss cantons have reduced their taxes over the last few years, in particular corporate income tax. Switzerland has a three-tier tax system with taxes being levied by the federation, the cantons and the municipalities. This has led to a state of competition among the cantons and municipalities and is one significant reason for Switzerland's low taxes. Compared to the systems in most OECD countries, the Swiss system is not complicated.

The Swiss debt to GDP ratio 2009 is one fifth below the level in 2005. Over the same period of time, the average debt to GDP ratio of the G20 countries (without developing countries) increased by 100%.

Swiss income taxation for individuals

- **Federal Tax:** The maximal federal income tax rate is 11.5%.
- **Cantonal and municipal tax:** The income tax rates for individuals vary between 18% and 41%, depending on the canton and the municipality of residence.
- The wealth tax varies between 0.17% and 0.7%, depending on the canton and the municipality of residence of real estate tax: Real estate gains and transfer taxes vary from canton to canton.
- **Capital gains, dividends:** Capital gains realized on the sale of privately held assets are exempt from income tax.
- **Relief on dividends from substantial participations:** Partial taxation on federal level due to new law if the participation amounts to at least 10% of the capital. Similar relief on most cantonal and communal level, e.g.:
 - Canton of Zug: Applies the federal method (reduction of taxable base of 50% for participations of at least 5%; fair market value of the participation of at least CHF 5 million).
 - Canton of Schwyz: Taxation at 25% of the applicable tax rate, if the distributed dividends stem from a participation of at least 5% in a Swiss company.
 - Canton of Zurich: Taxation at 50% of the applicable tax rate, if the distributed dividends stem from a participation of at least 10% of the capital.
 - Canton of Ticino: Introduction as of January 2010, applies the federal method (reduction of taxable base).
- **Fund income:** Fully taxed
- **Lump sum taxation:** Only under very strict conditions (claimant is not a Swiss citizen and was not subject to income taxation in Switzerland for at least the last 10 years; no employment in Switzerland....).

4. Regulation

The strategy report of the Federal Council of Switzerland (Strategic directions for Switzerland's financial market policy, Berne: December 2009), highlights that the financial industry would like to see a revision of the Collective Investment Schemes Act (CISA) so as to cover all asset managers of collective investment schemes managing so-called off-shore funds from Switzerland. The financial industry sees potential for growth not only in alternative assets, but also with respect to Qualified Investor Funds (QIFs).

According to the report, most growth potential, however, lies in cross-border business. In this area, further developments should be made in product creation in Switzerland and their sale abroad or institutional asset management (portfolio management), which has grown very little in recent years. These business areas rely heavily on a highly qualified workforce, which is why Switzerland needs to ensure an attractive working environment.

The paper highlights that regulation and supervision are increasingly being determined by international standards, which Switzerland should adopt in order to ensure the international recognition of equivalence of its own regulation and supervision. According to the report, this trend might represent certain threats, but also opportunities. One threat would be the lack of scope to generate regulatory competitive advantages through either non-regulation or under-regulation.

New EU hedge fund rules

The EU market access might change substantially with the introduction of the EU Directive on Alternative Investment Fund Managers.

Where Switzerland is being affected

One of the key issues still to be settled are the conditions under which funds and managers based outside the EU can market to professional investors within the bloc. Equally important and still unsettled is the question whether EU-based professional investors will be able to invest in funds based outside the bloc which do not comply with the new rules. Which fund managers get a so-called "passport" to market their products anywhere within the EU, provided they meet the standards to be agreed, still has to be decided.

The so-called "third country" issue refers to the terms on which funds and managers based outside the EU can sell products to professional investors. Under the EU's original proposed Alternative Investment Fund Managers Directive, vehicles based outside the 27-member bloc would be barred from being marketed to Europeans unless their host country adopted "equivalent legislation", a restrictive barrier. Under the lighter parliamentary version, funds and managers outside the EU would be able to get EU-wide marketing rights (European passport) provided strict conditions were satisfied.

Where we stand

It is believed that non-EU fund jurisdictions would only need to meet the following four criteria in order to avoid the "equivalence" stipulation:

- Existing cooperation agreement between domestic regulators and those in the EU
- No existing blacklisting for failure to prevent money laundering or terrorist financing
- Existing tax treaty with Europe
- Reciprocal access to own market for European products

The Swiss Funds Association (SFA) supports the harmonization of the alternative investment funds at the EU level and the appropriate, risk-adequate regulation. Accordingly, the SFA welcomes the fact that the initial direction has been set with the votes on the AIFM Directive in the European Parliament's Committee on Economic and Monetary Affairs (ECON) and in the Economic and Financial Affairs Council (ECOFIN). The SFA suggests that as soon as the definitive text of the law is set, the federal government and FINMA should initiate the corresponding negotiations with the EU and the member states and ESMA as quickly as possible. In addition to this, the required amendments should be made to the CISA for those Swiss asset managers who want to serve professional investors in the EU. This includes in particular the possibility of all asset managers who want to manage and distribute offshore funds being brought under the supervision of FINMA. Many Swiss alternative asset managers are very well positioned in institutional asset management worldwide and in Europe, with a client base primarily comprising professional investors. For Switzerland as a location, it is important for a number of reasons that these clients can continue to be served from Switzerland.

Switzerland versus Luxembourg and Dublin

Switzerland as a funds location lost the bulk of its products to EU locations such as Luxembourg and Dublin, and more recently also to EEA member Liechtenstein. With no bilateral agreement in this area, Switzerland has no access to the European market for UCITS16. Meanwhile, Switzerland has always taken a very liberal attitude to fund managers and their products from the EU. On the back of the financial crisis and the subsequent increase of regulatory initiatives in the EU, there is a more uniform and thus a much bigger European market for collective investment schemes. The financial industry regards it as crucial for Switzerland to negotiate the necessary reciprocity and retain the EU passport.

Switzerland versus the UK/US

The planned limits on hedge funds have provoked criticism in London. The industry there is particularly aggrieved, as three quarters of the European hedge funds are based in the UK. Half of all hedge funds in Britain are branches of US companies, thus we can talk of an Anglo-American industry.

However, there are other factors that are much more important when choosing the location for a company's headquarters. A survey by the commercial real estate agency Cushman and Wakefield showed that fund managers named proximity to international airports, local business infrastructure and access to well-educated staff as their top priorities. The financial metropolis of London excels Geneva on all these points. As a result, some companies moving to Switzerland might follow the example of Blue Crest Capital which recently opened a branch in Geneva, but kept its headquarters in London.

Switzerland: a hub for extra-European hedge funds

The EU still confronts extra-EU providers of hedge funds with a great threat of restrictions on serving clients within the EU with alternative investments, and it seems to be unwise to rely only on concessions with respect to the final AIFM directive or a liberal interpretation for the implementation of the law. Historically, Switzerland was an offshore centre and is still one of the largest countries for fund placement in general and alternatives in particular. So, it seems straightforward to elaborate solutions to set up alternative funds in Switzerland for extra-EU providers or investors. An adequate legal form already exists in form of the Swiss Limited Partnership as described in the next section. Unfortunately, it has not been applied to hedge funds so far.

5. Swiss Limited Partnership

Contribution: Marianne Volonté Rüeger, L&F Law and Finance SA, Lugano

The lean structure for alternative investments

Introduction

The Federal Act on Collective Investment Schemes (CISA) has been offering the innovative Swiss limited partnership structure since January 1, 2007. According to the Federal Council's message on CISA, the aim of making the Swiss fund market more attractive through the introduction of new investment vehicles was one of several reasons for amending the legislation governing collective investment schemes.

The new legislation means that Swiss legislation offers in particular a new solution for promoters of private equity and hedge funds. In the past, these have been constituted in foreign jurisdictions based on tax transparency, the possibility to establish closed-ended funds and high flexibility with regard to the instruments and investment strategies.

With the introduction of the Swiss Limited Partnership for collective investment schemes (SLP), CISA is now able to fulfil the same criteria and needs of modern investment management.

Definition and possible objectives

The SLP is a closed-end collective investment scheme under prudential supervision of the Swiss Financial Market Supervisory Authority FINMA (FINMA), in the form of a limited partnership. The partners consist of at least one general partner with unlimited liability and at least five limited partners liable up to their specific capital contribution. The general partner is the manager of the SLP and the limited partners the investors. The SLP has been conceived for investments considered as risk capital, such as direct or indirect financing of start ups, venture capital, private equity, hedge funds and real estate projects, with the expectation of generating above-average capital gain and added value.

CISA does not provide, as may be the case for mutual funds, provisions concerning investment restrictions, offering thus a large range of flexibility and creativity to the promoters.

Legal frame

The SLP is regulated by the provisions of the CISA and its Collective Investment Schemes Ordinance (CISO) as well as by the Swiss Code of Obligations (CO).

The SLP has been conceived on the basis of the ordinary limited partnership pursuant to art. 594 and following articles of the CO. Therefore, CISA constitutes a *lex specialis*, and for this reason the provisions of the CO apply in a subsidiary way.

Authorization

The basic legal document is the company agreement between the general partner (manager) and the limited partners (investors), which contains provisions regarding the duration of the company, the limited partner's contribution, the conditions of the limited partner's role (including exit provisions), the investment policy (with related restrictions), the risk diversification requirements and the delegation of the management and representation from the general partner to a third party (if any).

Since the SLP is a Swiss investment fund it is subject to FINMA's authorization. The application must give evidence that all legal requirements in connection with the company agreement, the personal and professional prerequisites of the promoters and the general partner are fulfilled. Promoters have to consider that the authorization procedures usually take a couple of months.

General partner

The general partner is responsible for the management of the SLP. It has to be a corporation with registered office in Switzerland and have a minimum paid-up share capital of CHF 100,000.

The limited partnership pursuant to art. 594 CO instead requires an individual person as general partner and excludes corporations from this role. The exception relating to the SLP is justified by the fact that since risk capital is involved no promoter would be willing to be personally liable for the SLP's obligations. The institution of a corporation as general partner grants more transparency because it has to publish the financial statements and its share capital as liability substance is clearly defined in the commercial register.

Pursuant to CISA, the general partner may only be active in one SLP. In other words, the general partner may not manage two or more SLPs with the same company, but may, if identified in the company agreement and provided that the interests of the limited partnership are not jeopardized, conduct other business transactions. In particular it may be active in other investments (for its own account or on behalf of third parties) and may participate in other companies.

As mentioned above, the general partner, being part of a collective investment scheme under FINMA's prudential supervision, must fulfil the authorization conditions set out in the CISA.

Authorization is granted if the persons responsible for management and business operations have a good reputation, guarantee irreproachable management and have the necessary professional qualifications. The general partner must also show an appropriate organizational structure through adequate internal regulations with an emphasis on risk management, organization and management regulations.

Qualified shareholders (i.e. holding 10% or more of the share capital of the general partner), must have a good reputation and may not exert their influence to the detriment of prudent and sound business practice.

Furthermore, the general partner must be compliant with the code of conduct of a specific industry body.

Limited partners

Due to the fact that the SLP invests in alternative investments (risk capital), with a higher degree of risk than mutual funds, and considering that it is a closed-end collective investment scheme, (i.e. investors do not have a redemption right on their participation), the Swiss legislator has limited the distribution of these investment vehicles to qualified investors only.

Pursuant to CISA, qualified investors include regulated financial intermediaries such as banks, securities dealers, fund management companies, asset managers under FINMA supervision, high-net-worth individuals holding at least CHF 2 mio of financial assets and investors who have concluded a written discretionary management agreement with a financial intermediary.

If compliant with the aforementioned definition of qualified investor, the limited partners may be private individuals or corporate entities, domiciled either in Switzerland or abroad.

CISA regulates *collective* investment schemes. As a consequence, collective investment schemes have to be managed for several investors. In addition, in order to avoid tax abuse (e.g. a single person or family converting a commercial activity into a SLP only for tax benefits), the Swiss federal council has stipulated that there must be a minimum number of five investors after one year of the launch of the fund.

The limited partners have no management powers, but as partners of the SLP they are entitled to attend and vote at the meetings of the partners, to inspect the business accounts of the SLP at any time and have the right to obtain information about the performance of the SLP at least quarterly.

As mentioned above, the main function of the limited partner is represented by its financial contribution. In fact, they must pay, proportionally to their participation, their capital commitment to the SLP which is noted in the commercial register as liability substance. Furthermore, as it is common in other jurisdictions, the limited partners may have a commitment to furnish additional capital, payable in further instalments on the request of the general partner. However, this additional capital is not noted in the commercial register as liability substance and is only relevant for the internal relationship, i.e. it represents additional equity for the SLP.

Similar to the general partner, the limited partners have the right to conduct other business transactions and to participate in other companies.

The conducting persons of the general partner may also invest as a limited partner if the other limited partners agree and if it is foreseen in the company agreement. The participation has to be part of their private assets and must be subscribed at the moment of the launch of the fund.

Tax

One of the reasons why Switzerland did not attract many hedge fund and private equity promoters in the past may be found in the tax treatment.

With the introduction of the SLP this situation has changed.

Being a collective investment scheme regulated by CISA, a SLP is also an interesting vehicle from a tax point of view:(The following considerations do not apply to a SLP that directly holds real estate property)

- The SLP is considered transparent for tax purposes, i.e. it is the investors and not the SLP itself that are subject to taxation..
- The investors (limited partners) are taxed, according to their personal tax status, on the income and distribution of profit from the SLP. Since the objective of the investments of SLPs normally is to achieve capital gain, the investor resident in Switzerland does not pay any taxes and the withholding tax for foreign investors does not apply.
- The tax regime of the general partner is ordinary. In consideration of the fact that the general partner is a corporate person, the applicable tax rates in Switzerland depend on the canton and therefore may vary between 15% and 25%.

Conclusion

The SLP is a fully recognized and supervised Swiss investment fund scheme and offers a notable and attractive option for alternative investment fund schemes. However, careful planning must be made a couple of months before launch.

The SLP offers many advantages with respect to other investment structures, such as:

- Cost efficiency (no need for administrator and custodian); full freedom and flexibility with respect to investment policy and strategy;
- Lean management with the general partner as investment manager (self-management possible);
- Tax transparency and tax efficiency that is competitive vis-à-vis other recognized jurisdictions

Appendix

A. Questionnaire

QUESTIONNAIRE

Structure, Evolution and Performance of Single Hedge Funds (SHF) in Switzerland

For all data, please use December 31, 2009 figures

I COMPANY PROFILE

1. Company overview

Name of fund management company: _____

Inception date in Switzerland: _____

Starting date hedge fund operation: _____

Address (main office location): _____

Phone number: _____

Website: _____

Name of CEO: _____

Name of key contact: _____

Email address: _____

2. What is the legal set up of your firm?

Independent boutique / partnership

Bank

Listed firm

Subsidiary of foreign hedge fund

Others, please specify: _____

3. Have you moved operations to Switzerland within the last two years?

Yes

If yes, what were the key reasons for moving: _____

If yes, where did you operate before? _____

No

4. How many employees does your firm currently have?

Total: _____ employees

Operations in Switzerland: _____ employees

Operations offshore: _____ employees

Marketing/Sales: _____ employees

Client services: _____ employees

Risk management: _____ employees

Trading: _____ employees

Research: _____ employees

Administration: _____ employees

Others: _____ employees

of which in Switzerland

5. Which functions do you cover mainly out of Switzerland?

Please tick all relevant boxes

- Representative office (only)
 Marketing/Sales
 Client services
 Fund management
 Fund administration
 Operations / Risk management
 Others, please specify: _____

6. What % of the funds assets belongs to the principal?

- 0 1-10 11-25 26-50 >50

7. What are the AuM of your management company?

Amount (total AuM), currency, date: _____

Single hedge funds: _____

8. What is the AuM breakdown in your single hedge funds?

- ___ % FoHF
 ___ % Institutional investors (pension funds, insurance companies, others)
 ___ % Intermediaries (private banks, family offices & independent asset managers)
 ___ % Private clients
 ___ % Others, please specify: _____

9. Who are your main target segments (check no more than 2)?

- FoHF
 Institutional investors
 Family offices & independent asset managers
 Private clients
 Private banks
 Others: _____

10. Where do your investors come from?

- ___ % Switzerland
 ___ % Europe excl. Switzerland
 ___ % Americas
 ___ % Asia/others

II FUND INFORMATION - OVERALL

1. How is the management of your fund organised?

- Fund / Manager / Advisor structure
 Fund / Manager structure (i.e. no advisor)
 Fund / Advisor structure (i.e. no manager)
 Fund only

2. What is the legal form of the Swiss office?

- Separate legal entity:
 AG | GmbH | private person | other legal person)
 Branch / rep. office of non-Swiss company

3. What is the main investment style of your company?

- Equity hedge Event driven
 Macro Relative value
 Multistrategy

4. Do you run different funds with different strategies?

- Yes
 No

5. Do you offer managed accounts?

- Yes
 No

6. Have you been using side pockets in the past 2 years?

- Yes
 No

7. Have you gated some of your funds in the past 2 years?

- Yes
 No

8. Have you changed the following dealing terms over the past two years? Specify, if possible.

- Yes, subscription terms: _____
 Yes, redemption terms: _____
 Yes, notice period: _____
 Yes, lock-up period: _____
 Yes, fees: _____
 Yes, others: _____

9. Have you initiated major company changes over the past two years? Specify, if possible.

- Downsizing staff _____
 Increasing staff _____
 Closure of funds _____
 Opening of new funds _____
 Offering new products, with a special focus on liquidity _____
 Change of investment strategy _____
 Change of client structure _____
 Others, please specify _____

III FUND INFORMATION – INDIVIDUAL FUNDS

	Fund 1	Fund 2	Fund 3
Fund details			
Fund name			
Main investment strategy:			
Equity hedge	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Event driven	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Macro	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Relative value	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Multistrategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fund manager			
Assets under mgmt. (incl. currency, date)			
Inception date			
Domicile			
Minimum investment size			
Size by fund			
Typical (in % of capital)			
Currency classes offered please indicate currencies			
Percentage ownership of top three investors			
Largest investor			
2nd largest investor			
3rd largest investor			
Frequency of NAV calculation			
Daily	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Weekly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monthly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quarterly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Subscription terms			
Daily	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Weekly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monthly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quarterly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Fund 1	Fund 2	Fund 3
Redemption terms			
Daily	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Weekly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Monthly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quarterly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Redemption notice period			
Lockup period	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Yes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
None	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Undisclosed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fee structure private clients in %			
Management/advisory fee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance fee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fee structure inst. clients in %			
Management/advisory fee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance fee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
High water mark			
Yes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
No	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hurdle rate in %			
Yes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
No	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Undisclosed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reporting frequency			
Monthly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quarterly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other, please specify	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
How much of the funds' total investment capacity is currently used?			
Less than 25%	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25-50%	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
51-75%	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
>75%	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Legal entity of your fund			
Onshore UCITS III fund	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cayman-based fund	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BVI-based fund	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Channel Island-based fund	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other, please specify	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

IV REGULATORY & DOMICILE ISSUES
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1. Does the company have a full-time compliance officer?

- Yes
 No

2. Is the company registered with any regulatory and/or supervisory body?

- Yes

If yes, please specify _____

- No

3. What is your main reason for choosing Switzerland?

Please tick all relevant boxes

- Personal reasons (e.g. family)
 Quality of life
 Quality of banking and service partners
 Proximity to investors / attractive time zone for client contacts abroad
 User-friendly regulatory environment
 Infrastructure and logistics
 Political commitment to the Swiss finance centre
 Competitive tax environment
 Attraction of talent
 Others, please specify: _____

4. Which factors could help/are helping to increase the attractiveness of Switzerland for SHF?

Please tick all relevant boxes

- Changes to the tax and legal framework for hedge fund operations in Switzerland
 Changes to non-domicile tax rules in the UK attracting London-based hedge fund managers
 Faster political processes
 Better industry know how on political level
 Agreeable version of the new AIM Directive
 Investor preference
 Better access to real estate and international / private schools
 Openness of population to English speaking foreigners
 Others, please specify:

5. How many jobs have you created in Switzerland?

Since establishment: _____

2008: _____

2009: _____

V TAX CONSIDERATIONS OF THE SINGLE HEDGE FUND MARKET IN SWITZERLAND**1. How is the Swiss office taxed?**

- Ordinary taxation
- Taxed as a mixed company
- Cost-plus taxation
- Full or partial tax holiday
- Others, please specify: _____

2. Are some of the fund's principals / founders resident in Switzerland?

- Yes
- No

3. Do the fund's principals, who reside in Switzerland, have a Swiss employment contract?

- Yes
- No

4. What is the nationality of the fund's principals / founders?

- Switzerland
- UK
- Rest of Europe
- Americas
- Other

5. Which are the key challenges for SHF from a tax perspective?

- Favourable tax treatment of SHF managers moving to Switzerland
- Further decrease of income tax rate on cantonal level
- Increased transparency regarding tax reporting
- Clarification regarding VAT treatment
- Other, please specify: _____

VI RECENT TRENDS VERSUS OUTLOOK
--

1. How have the firm's AuM developed over the last three years, and what are your expectations for the next three years?

Last three years

- | | |
|--|--|
| <input type="checkbox"/> Decreased more than 50% | <input type="checkbox"/> Increased 1– 25% |
| <input type="checkbox"/> Decreased 26 – 50% | <input type="checkbox"/> Increased 26 – 50% |
| <input type="checkbox"/> Decreased 1 – 26% | <input type="checkbox"/> Increased more than 50% |
| <input type="checkbox"/> Remained unchanged | |

Next three years

- | | |
|---|---|
| <input type="checkbox"/> Decrease more than 20% | <input type="checkbox"/> Increase 1 – 10% |
| <input type="checkbox"/> Decrease 1 – 20% | <input type="checkbox"/> Increase 11 – 20% |
| <input type="checkbox"/> Remain unchanged | <input type="checkbox"/> Increase more than 20% |

2. Which factors have influenced your business over the last three years?

Please tick all relevant boxes

- Financial crisis/scandals
- High management fees / performance fees
- Liquidity issues
- Lack of transparency
- Lack of confidence
- Others, please specify

3. On a scale of 1 to 10, over the next three years, how big will the influence of the following factors be?

- AIM Directive and its impact on Switzerland
- Effective place of management of funds
- Tax reporting
- Regulatory environment in Switzerland
- Compliance requirements for funds
- UCITS III/IV
- Stability of worldwide financial markets
- Attracting new investors
- Developing new products
- Capital gains taxation
- Bankers' taxation
- Managing operational risk
- Other, please specify: _____

4. Overall, how do you expect the growth trend of the SHF to develop versus FoHF, and why?

- Increase _____
- Decrease _____
- Equal _____

Reason: _____

5. What are your key plans in the next 5 years (check no more than 3)?

- Open new funds/strategies
- Close funds
- Also offer long only products
- Grow AuM
- Decrease fees
- Increase fees

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C. About Wegelin & Co. Private Bankers

Founded in 1741, Wegelin & Co. is Switzerland's oldest bank. As a limited partnership, it is one of the few remaining Swiss private banks whose partners have unlimited liability. Wegelin & Co. employs 700 staff in 12 locations in Switzerland and currently manages client assets of over CHF 26 billion. Wegelin & Co. specialises in asset management for private and institutional clients.

The institutional investment arm of the bank is Wegelin Asset Management (WAM). WAM is one of the largest managers of single hedge fund strategies in Switzerland and employs about 50 staff, including 10 PhDs. All of the WAM specialist strategies are UCITS III compliant. WAM's core competencies lie in research, the application of modern financial theory, and the development and implementation of quantitative investment strategies. A key factor here is the close cooperation with leading international universities and colleges.

WAM's investment philosophy is based on the following guiding principles:

- Sound economic theory wins
- Markets are frequently mispriced
- Mean reversion is real
- Broad diversification
- Discipline and risk control

The Asset Management & Portfolio Management team which is responsible for developing and implementing the quantitative investment strategies is headed by Dr. Magne Orgland. Dr. Christian Raubach is responsible for the Institutional Clients Service team, serving institutional clients such as pension funds, family offices and insurance companies. Both Dr. Orgland and Dr. Raubach are Managing Partners of Wegelin & Co.

www.wegelifunds.ch

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D. About other sponsors

Profile L&F Law and Finance

L&F Law and Finance, with offices in Lugano and Zurich, is a law firm with extensive experience in banking, finance, investment fund and corporate law, covering in particular the areas of legal & compliance, corporate governance, licences for financial intermediaries and collective investment schemes in Switzerland and abroad. L&F offers services to financial intermediaries such as banks, brokers, investment managers, promoters of alternative investment structures such as HF, FoHF, private equity, venture capital and risk capital. L&F is represented in the "legal & compliance committee" of the Swiss Funds Association SFA. The team is fluent in Italian, German, English and French.

Profile IFIT

In 2009 IFIT formally launched its Hedge Fund Habitat, pulling together what it had been doing for a number of years: providing the framework for managers and traders to efficiently go independent, i.e. to establish and bring hedge fund products to market, and to manage their own funds in a professional and state-of-the-art trading environment. IFIT's Hedge Fund Habitat is geared to proprietary traders, discretionary asset managers, and any other asset managers wishing to create a track record and bring a hedge fund product to market. The underlying philosophy of the Hedge Fund Habitat is to allow the asset manager to benefit from the economies of scale that IFIT provides through the use of its infrastructure whilst retaining the control of their business. The Hedge Fund Habitat offering aims to provide a turnkey solution whereby the asset manager's only concern will be generating alpha.

E. ZHAW Centre Alternative Investments & Risk Management

The Centre Alternative Investments & Risk Management is an institute of ZHAW School of Management and Law. A team of four full-time and three part-time specialists is headed by Prof. Dr. Peter Meier and focuses on education, research and advisory services in the area of alternative products, with a special focus on hedge funds. With support from the Confederation's innovation promotion agency (CTI) and Complementa Investment-Controlling AG they have developed www.hedgegate.com, a FoHF database comprising all Swiss FoHF and a growing universe of QI FoHF. In 2008, the centre developed the hedgegate Swiss FoHF Index, the first representative Swiss Funds of Hedge Funds index family. The official launch of FoHF performance ratings took place in January 2009. These ratings have also been developed with support from the CTI.

The ZHAW was inaugurated in September 2007, resulting from the merger of four previously independent institutions. The ZHAW now comprises eight schools, one of which is the School of Management and Law. The range of specialized fields across the eight schools allows the multidisciplinary ZHAW to foster interdisciplinary synergies that generate a wealth of positive impulses for both teaching and research.

Thanks to its internationally recognized bachelors degree programs, its new consecutive masters degree programs, its well-established, practice-oriented continuing education programs, and its innovative research and consultancy projects, the ZHAW School of Management and Law has become one of Switzerland's leading business schools.

F. Glossary

CORRELATION

A measure of how closely one set of returns, such as the performance of a fund, is related to another, such as the performance of the overall market.

GATE

A redemption gate limits the percentage of fund capital that can be redeemed on any redemption date.

HEDGE FUND

In his *Handbook of Alternative Assets* (2002) Mark J.P. Anson defines a hedge fund as a privately organized investment vehicle that manages a concentrated portfolio of public securities and derivative instruments on public securities that can invest both long and short, and can apply leverage.

FUND OF HEDGE FUND (FoHF)

Fund that invests in other hedge funds: The concept behind such funds is that they are able to move money between the best funds in the industry to take strategic advantage of changing market conditions.

SINGLE HEDGE FUND

Our study focused on managers or investment advisors operating out of Switzerland with offshore or Swiss-domiciled funds or managed accounts.

HIGH WATERMARK

The term is used with regard to performance fees. It is the greatest NAV recorded for a particular period (most often since inception). Increases in NAV beyond the high watermark make the investment manager eligible for performance fees.

HURDLE RATE

Rate that a manager must exceed in order to be qualified to receive an incentive fee (provided they exceed the high watermark).

LEVERAGE

The use of borrowed capital, such as margins, options or futures, commonly used to increase the potential return of an investment. The use of leverage is restricted to those funds whose investment guidelines permit its use, typically hedge funds.

MANAGED ACCOUNT

Investment account that the company entrusts to a manager, who decides when and where to invest the money.

MANAGEMENT FEE

A fee charged for managing a portfolio that is a fixed percentage of the NAV.

MASTER-FEEDER FUND STRUCTURE

A structure that enables hedge funds to accept assets from both foreign and domestic investors in the most tax and trading efficient manner possible.

NAV

The net asset value is calculated by taking the market value of all securities owned, plus all other assets, subtracting all liabilities, then dividing the result by the total number of shares outstanding.

PERFORMANCE FEE

Compensation for the investment manager, also called incentive fee, depending on the profits of a fund or vehicle (subject to high watermark and/or hurdle rate).

QUALIFIED INVESTOR (QI)

High net worth individual confirming that he/she holds financial investments of at least CHF 2 mn at the time of purchase (Art. 6 CISO).

SIDE POCKET

Segregated account set up to hold portfolio assets that the manager deems illiquid. When a side pocket is created, a corresponding portion of the investors' interests are generally converted into a new class of non-redeemable interests, representing the fund's investment in the illiquid assets.

UCIT III/IV

UCITS III is the second version of the European Commission directive outlining a framework for investment funds suitable for marketing to retail investors. It significantly enlarged the range of investment instruments that could be used, notably allowing some use of derivatives. This makes it possible for some hedge fund managers to launch versions of their strategies in a UCIT version so many more investors can access them. UCITS IV is underway and mostly aims to make cross border distribution easier by harmonising regulatory frameworks across the single European market

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