Q4 2011

hedge fund wisdom

a quarterly publication by **marketfolly.com**

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Background:

Each quarter, hedge funds and institutional managers are required to disclose their portfolios to the SEC via 13F filing. These filings disclose long U.S. equity positions, American Depositary Receipts (ADRs), stock options (puts/calls), as well as convertible notes. The 13F filing does not disclose positions in other asset classes (such as commodities, currencies, or debt). It also does not reveal short sales or cash positions.

Hedge Fund Wisdom, a quarterly publication by MarketFolly.com, updates and analyzes the latest portfolios of prominent investment managers. The positions herein represent a hedge fund's fourth quarter holdings as of December 31st, 2011. Keep in mind these updates are not reflective of a fund's entire overall portfolio.

In This Issue:

- Portfolio updates on **25** prominent hedge fund managers
- Equity analysis written by hedge fund analysts that examines the investment thesis behind **3** stocks hedgies were buying
- Expert commentary on each fund's portfolio moves

Fourth Quarter Summary:

The table below outlines the most frequent buys & sells in the fourth quarter among the 25 prominent hedge funds profiled in this issue.

Consensus Buy/Add:	Consensus Sell/Reduce:
To see the consensus buys & sells from this quarter, please click here to subscribe for the full issue	

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Next Page: Baupost Group's Updated Portfolio

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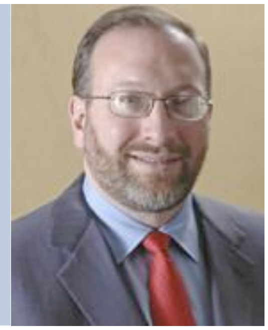
Baupost Group

Seth Klarman

Graduated from Harvard Business School & regarded as one of the best investors of all time

Author of Margin of Safety

View Seth Klarman's Recommended Reading List



Key Takeaways

New Positions In:
Targacept (TRGT)

Sold Completely Out Of:
Breitburn Energy Partners (BBEP)

Baupost Group completely exited its longstanding stake in Breitburn Energy Partners (BBEP) in the fourth quarter. And while they still own stakes in PDL BioPharma (PDLI) and Alere (ALR), the hedge fund firm reduced their position size by 48% and 35% respectively during the quarter. Since then, Klarman's firm has continued to sell down its exposure to PDLI as they sold another five million shares in late January, bringing their ownership down to only three million shares.

Klarman's firm initiated a stake in News Corp (NWS) in the third quarter and again acquired that specific News Corp share class in the fourth quarter, boosting its holdings by 148%. At the same time, Baupost reduced its holdings in News Corp's NWSA share class by almost 30%. Perhaps the spread between the two share classes provided rationale for making such an adjustment, but there's no way to know for sure. In other buying, Baupost more than doubled its position in Idenix Pharmaceuticals (IDIX) and ratcheted up exposure to NovaGold Resources (NG) by 49% after initially starting a position in the third quarter.

Shares of BP (BP) continue to be Baupost Group's largest US equity long position. While the next page shows it as a 15.63% position for them, remember that this is a percentage of assets reported on the 13F filing rather than their overall assets under management (AUM). While BP is by far their largest equity holding in US markets, it's realistically sized like a normal position and here's why. Assumming a pool of ~$20 billion assets under management, their $512 million stake in BP would be around a 2.5% position size relative to their entire portfolio, which would be a core position size for many large hedge funds. To that effect, Baupost also maintains a $484 million stake in ViaSat (VSAT), and a $483 million position in tech giant, Hewlett Packard (HPQ). Sliding further down their portfolio depth chart, you'll see that Theravance (THRX) continues to be a $314 million stake for the hedge fund, as they've owned it for some time now.

They also continue to own a $311 million position in the tech giant founded by Bill Gates: Microsoft (MSFT). Numerous value investors have acquired shares of this company over the past few years. One prominent value investor that has not invested in MSFT, though, would be Warren Buffett. He sticks to his forte of not investing in things he doesn't understand.

As always when viewing Seth Klarman's portfolio on the next page, recall that Baupost invests in various asset classes and markets around the world. They typically focus on distressed debt but also have been focusing on structured products and commercial real estate. The firm just named George Rizk as partner in charge of private equity and U.S. real estate.

Assuming Baupost's assets under management are around ~$20 billion, their $3.3 billion in US equity exposure represents around 16.6% of their overall AUM.

View Baupost Group's Updated Portfolio on the Next Page

Baupost Group

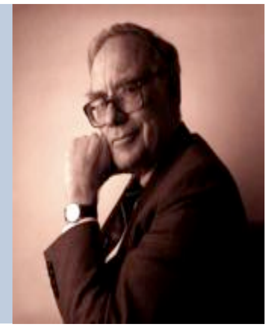
Fourth Quarter 2011 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x $1000	# of Shares
1	BP plc	BP		15.4%	Cut -13%	$512,880	12,000,000
2	ViaSat Inc.	VSAT		14.5%	Unchanged	$484,260	10,499,992
3	Hewlett-Packard Company	HPQ		14.5%	Cut -10%	$483,000	18,750,000
4	Theravance Inc.	THRX		9.4%	Unchanged	$314,394	14,225,961
5	Microsoft Corporation	MSFT		9.3%	Unchanged	$311,520	12,000,000
6	News Corp.	NWSA		8.0%	Cut -29%	$268,343	15,041,665
7	News Corp.	NWS		5.8%	Add 149%	$193,769	10,658,335
8	Allied Nevada Gold Corp.	ANV		3.6%	Added 15%	$121,506	4,012,750
9	AVEO Pharmaceuticals, Inc.	AVEO		2.6%	Added 2%	$87,456	5,084,652
10	Genworth Financial Inc.	GNW		2.0%	Unchanged	$65,500	10,000,000
11	NovaGold Resources Inc.	NG		1.9%	Add 49%	$63,314	7,466,275
12	Enzon Pharmaceuticals Inc.	ENZN		1.8%	Unchanged	$60,306	9,000,878
13	THERAVANCE INC NOTE	THRX		1.6%	Unchanged	$54,443	51,000,000
14	PDL BioPharma, Inc.	PDLI		1.5%	Cut -49%	$49,600	8,000,000
15	Alere Inc.	ALR		1.4%	Cut -35%	$46,180	2,000,000
16	Syneron Medical Ltd.	ELOS		1.3%	Unchanged	$44,280	4,000,000
17	Idenix Pharmaceuticals Inc.	IDIX		1.3%	Add 127%	$42,176	5,665,000
18	Targacept, Inc.	TRGT		1.0%	New	$33,420	6,000,000
19	Alliance One International	AOI		0.7%	Unchanged	$23,900	8,786,700
20	Central Pacific Financial Corp.	CPF		0.7%	Unchanged	$23,256	1,800,000
21	Ituran Location & Control Ltd.	ITRN		0.7%	Unchanged	$23,026	1,685,666
22	Multimedia Games Inc.	MGAM		0.6%	Unchanged	$20,049	2,525,000
23	Sycamore Networks Inc.	SCMR		0.3%	Unchanged	$9,503	530,871
24	Breitburn Energy Partners LP	BBEP			**Sold**		

Next Page: Berkshire Hathaway

Berkshire Hathaway

Warren Buffett



Mentored by Benjamin Graham in the ways of value investing

Third richest person in the world according to *Forbes*

View Buffett's Recommended Reading List

Key Takeaways

New Positions:

DaVita (DVA)

Liberty Media (LMCA)

[redacted]

This is the second quarter in a row where Berkshire's Hathaway portfolio has had a decent amount of trading activity. This can largely be attributed to a transitional period that saw Lou Simpson step down from managing the GEICO portfolio and Warren Buffett add two new portfolio managers: Todd Combs and Ted Weschler. As these new protégés have settled in, they've clearly started to leave their mark on the new Berkshire portfolio. Todd Combs arrived earlier and in the third quarter built up stakes in the likes of Mastercard (MA), Dollar General (DG), and CVS Caremark (CVS). He also added shares of DirecTV (DTV), a favorite of Ted Weschler's old hedge fund.

The fourth quarter marked yet another round of buying from Buffett's new right-hand men. Berkshire continued to scoop up shares of DTV hand over fist, increasing their position size by 378% in the most recent quarter. This is by far the most aggressive buying we've seen regarding their new positions. After all, DirecTV was Weschler's second largest holding at his old hedge fund Peninsula Capital, so it seems he's advised that they build up a stake. It also appears as though Combs continued to buy shares of CVS, General Dynamics (GD), Visa (V), and Intel (INTC), boosting each position by around 25%. Berkshire also initiated a stake in DaVita (DVA), spending $203 million for the position. This company is yet another favorite of Ted Weschler, as his old hedge fund had almost 18% of its reported assets invested in the company before shutting down. Yet another Berkshire portfolio move from the fourth quarter can be attributed to Weschler as well: Liberty Media (LMCA). Berkshire shows a tiny new stake in the company this time around. Weschler had previously allocated 11% of the reported assets at his hedge fund to Liberty Capital (formerly LCAPA). During the quarter, LMCA was created as the new ticker to track both LCAPA and Liberty Starz (formerly LSTZA).

Given Weschler's propensity to purchase stocks he previously owned, here is a list of the remaining stocks his old hedge fund held that Berkshire has not yet purchased: W.R. Grace (GRA), Valassis (VCI), Cincinnati Bell (CBB), Cogent Communications (CCOI), WSFS Financial (WSFS), and FiberTower (FTWR). While there's no way to know if Berkshire will purchase them in the future, it's worth keeping an eye on.

On the selling side of things, Buffett's behemoth completely exited shares of Exxon Mobil (XOM). It's clear that Conoco Phillips (COP) is his preferred oil play as he retains a $2 billion position in the name. COP will be spinning off its refining arm in the second quarter of this year. Under this arrangement, shareholders will receive one share in the new refining company for every two shares of COP they own. Berkshire also reduced its holdings in Johnson & Johnson (JNJ) by 22% and in Kraft (KFT) by 3%. Kraft is also planning a spin-off that will split the company into two segments: a snacks business and a North American grocery specialist. Once this catalyst occurs, it will be interesting to see if Buffett favors one business over the other, or if he will continue to own both.

View Berkshire Hathaway's Updated Portfolio on the Next Page

Berkshire Hathaway

Fourth Quarter 2011 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x $1000	# of Shares
1	The Coca-Cola Company	KO		21.2%	Unchanged	$13,994,002	200,000,000
2	InternationalBusinessMachines	IBM		17.8%	Added 11%	$11,751,023	63,905,931
3	Wells Fargo & Company	WFC		16.0%	Added 6%	$10,574,872	383,703,628
4	American Express Company	AXP		10.8%	Unchanged	$7,151,476	151,610,700
5	Procter & Gamble Co.	PG		7.7%	Unchanged	$5,121,062	76,766,036
6	Kraft Foods Inc.	KFT		4.9%	Cut -3%	$3,251,616	87,034,713
7	Wal-Mart Stores Inc.	WMT		3.5%	Unchanged	$2,332,860	39,037,142
8	ConocoPhillips	COP		3.2%	Unchanged	$2,120,585	29,100,937
9	Johnson & Johnson	JNJ		2.9%	Cut -23%	$1,903,009	29,018,127
10	U.S. Bancorp	USB		2.8%	Unchanged	$1,867,516	69,039,426
11	Moody's Corp.	MCO		1.5%	Unchanged	$957,025	28,415,250
12	DIRECTV	DTV		1.3%	Add 379%	$870,098	20,348,400
13	The Washington Post Company	WPO		1.0%	Unchanged	$651,039	1,727,765
14	M&T Bank Corp.	MTB		0.6%	Unchanged	$410,865	5,382,040
15	Costco Wholesale Corporation	COST		0.6%	Unchanged	$361,056	4,333,363
16	CVS Caremark Corporation	CVS		0.4%	Added 26%	$289,803	7,106,500
17	Visa, Inc.	V		0.4%	Added 25%	$290,884	2,865,008
18	Intel Corporation	INTC		0.4%	Added 23%	$278,754	11,495,000
19	General Dynamics Corp.	GD		0.4%	Added 27%	$257,480	3,877,122
20	DaVita, Inc.	DVA		0.3%	New	$203,512	2,684,500
21	Torchmark Corp.	TMK		0.3%	Unchanged	$183,791	4,235,818
22	Dollar General Corporation	DG		0.3%	Unchanged	$185,017	4,497,247
23	USG Corp.	USG		0.3%	Unchanged	$173,453	17,072,192
24	Mastercard Incorporated	MA		0.2%	Unchanged	$150,992	405,000
25	Sanofi-Aventis	SNY		0.2%	Unchanged	$148,487	4,063,675
26	Verisk Analytics, Inc.	VRSK		0.2%	Added 64%	$138,249	3,445,029
27	General Electric Co.	GE		0.2%	Unchanged	$139,302	7,777,900
28	Liberty Media Corp	LMCA		0.2%	New	$132,794	1,701,400
29	United Parcel Service	UPS		0.2%	Unchanged	$104,603	1,429,200
30	GlaxoSmithKline plc	GSK		0.1%	Unchanged	$68,924	1,510,500
31	The Bank of New York Mellon	BK		0.1%	Unchanged	$35,717	1,793,915
32	Gannett Co., Inc.	GCI		0.0%	Unchanged	$23,267	1,740,231
33	Ingersoll-Rand Plc	IR		0.0%	Unchanged	$19,379	636,600
34	Comdisco Holding	CDCO		0.0%	Unchanged	$9,075	1,538,377
35	Exxon Mobil Corp.	XOM			**Sold**		

Next Page: Greenlight Capital

Greenlight Capital

David Einhorn

Has returned 21.5% annualized

Predicted & profited from the demise of Lehman Brothers

Author of [Fooling Some of the People All of the Time]

Key Takeaways

New Positions:
Dell (DELL)
Delphi (DLPH) ~ IPO
Xerox (XRX)
CA Technologies (CA)
DST Systems (DST)
Yahoo! (YHOO)
Research in Motion (RIMM)

Sold Completely Out Of:
Becton Dickinson (BDX)
Marathon Oil (MRO)
Lyondell Basell (LYB)
CVS Caremark (CVS)
Ingram Micro (IM)

Greenlight Capital started a bevy of new tech positions during the fourth quarter. Of these, their stake in Dell (DELL) is the most sizable at 4% of reported assets. The thesis here is largely predicated on a shift in company focus from personal computing to the enterprise and the market's underappreciation for such advances. In their year-end letter to investors, Greenlight writes that, "DELL's P/E multiple is about 7x, and net of the cash and investments, it is less than 4x. This reflects a valuation usually associated with collapsing businesses. We expect DELL to continue to grow its earnings per share, albeit at a modest rate." Einhorn built his position at an average price of $15.53 (DELL currently trades just under $18). Greenlight goes on to further explain their thesis: "Over the years, DELL has done a miserable job of allocating capital. During the dot-com heyday, when the P/E multiple was sky-high, DELL routinely plowed every available dollar back into share repurchases. After the tech bubble burst and the P/E came down to earth, it opted to hoard cash and pay fancy multiples to acquire growth. More recently, it seems to have figured out that buying back stock at nosebleed prices makes no sense, but share repurchases at bargain prices can add real shareholder value. During the first three quarters of 2011, DELL repurchased 7.5% of the company and has the balance sheet to do much more."

Einhorn's new position in Research in Motion (RIMM) will turn heads as the hedgie scooped up some shares of the beaten down Blackberry maker. At a recent Columbia Business School conference, Einhorn said that RIMM is not a great company but it's been beaten down too much to be a short. He thinks they have critical mass problems, but a reasonable balance sheet. He also commented on the company RIMM is losing market share to: Apple (AAPL). This continues to be Greenlight's largest equity holding. He's positive on the company, but cautioned that TV's are a lousy margin business and AAPL's would need to be revolutionary in order to overcome that hurdle if they were to make one.

While Greenlight's position in Delphi (DLPH) appears as a 'new' holding, keep in mind this is only due to the fact that the company completed its initial public offering (IPO) during the quarter. In reality, Greenlight (along with numerous other hedge funds) owned Delphi prior to its IPO.

On the selling side of the portfolio, Greenlight exited Becton Dickinson (BDX) due to disappointing guidance and exited CVS Caremark (CVS) in favor of pursuing more compelling opportunities.

View Greenlight Capital's Updated Portfolio on the Next Page

Greenlight Capital

Fourth Quarter 2011 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x $1000	# of Shares
1	Apple Inc.	AAPL		11.3%	Added 11%	$592,799	1,463,700
2	Microsoft Corporation	MSFT		7.5%	Unchanged	$393,837	15,170,942
3	General Motors	GM		7.4%	Add 29%	$385,321	19,009,408
4	Gold Miners ETF	GDX		7.2%	Unchanged	$373,637	7,264,971
5	CareFusion Corporation	CFN		5.9%	Cut -5%	$308,818	12,153,424
6	Marvell Technology Group	MRVL		4.6%	Added 4%	$240,624	17,373,557
7	Ensco plc	ESV		4.5%	Added 9%	$237,032	5,051,838
8	Seagate Technology PLC	STX		4.5%	Unchanged	$236,963	14,448,973
9	Dell Inc.	DELL		4.0%	New	$206,282	14,100,000
10	Best Buy Co. Inc.	BBY		3.5%	Added 10%	$180,285	7,714,375
11	Sprint Nextel Corp.	S		3.3%	Unchanged	$172,610	73,765,000
12	Einstein Noah Restaurant	BAGL		3.3%	Unchanged	$169,803	10,733,469
13	DELPHI AUTOMOTIVE PLC	DLPH		3.2%	New	$167,405	8,194,661
14	CBS CORP CL B	CBS		3.1%	Added 18%	$160,793	5,924,539
15	NCR Corp.	NCR		3.0%	Cut -3%	$158,191	9,610,630
16	Xerox Corp.	XRX		2.6%	New	$134,942	16,952,432
17	HCA HLDGS INC COM	HCA		2.4%	Cut 0%	$123,578	5,609,534
18	Aspen Insurance Holdings	AHL		2.3%	Cut -7%	$119,073	4,493,349
19	HUNTINGTON INGALLS	HII		1.9%	Cut -7%	$100,924	3,226,458
20	Legg Mason Inc.	LM		1.6%	Added 31%	$81,770	3,400,000
21	Liberty Media Corp	LMCA		1.5%	New	$76,489	980,000
22	NVR Inc.	NVR		1.3%	Cut -21%	$69,812	101,767
23	Barrick Gold Corporation	ABX		1.2%	Unchanged	$61,088	1,350,000
24	The Travelers Companies, Inc.	TRV		1.1%	Cut -78%	$55,136	931,825
25	DST Systems Inc.	DST		1.0%	New	$51,209	1,125,000
26	CA Technologies	CA		1.0%	New	$51,275	2,535,872
27	Yahoo! Inc.	YHOO		0.9%	New	$48,695	3,018,887
28	Junior Gold Miners ETF	GDXJ		0.9%	Unchanged	$46,929	1,900,000
29	Research In Motion Limited	RIMM		0.8%	New	$42,388	2,923,317
30	Compuware Corporation	CPWR		0.7%	Unchanged	$37,099	4,459,027
31	STATE BANK FINANCIAL	STBZ		0.6%	Unchanged	$31,731	2,100,000
32	Energy Partners Ltd.	EPL		0.4%	Cut -24%	$19,272	1,320,000
33	Fifth Street Finance Corp.	FSC		0.4%	Unchanged	$19,128	1,998,692
34	BioFuel Energy Corp.	BIOF		0.4%	Unchanged	$18,475	27,168,879
35	Republic Airways Holdings	RJET		0.2%	Unchanged	$11,706	3,412,800
36	Tessera Technologies Inc.	TSRA		0.2%	New	$11,651	695,580
37	SYMMETRICOM, INC.	SYMM		0.2%	Unchanged	$9,216	1,709,846
38	Broadridge Financial Solutions	BR		0.2%	Cut -85%	$9,069	402,143
39	Furiex Pharmaceuticals, Inc.	FURX		0.1%	Cut -9%	$7,425	444,424
40	First Solar, Inc.	FSLR	PUT	0.1%	Cut -81%	$3,822	113,200
41	OmniVision Technologies Inc.	OVTI		0.1%	New	$2,409	196,966
42	LyondellBasell Industries NV	LYB			**Sold**		
43	SEMGROUP CORP A	SEMX			**Sold**		
44	Marathon Oil Corporation	MRO			**Sold**		
45	Employers Holdings, Inc.	EIG			**Sold**		
46	Ingram Micro Inc.	IM			**Sold**		
47	Becton, Dickinson	BDX			**Sold**		
48	Synaptics Inc.	SYNA			**Sold**		
49	CVS Caremark Corporation	CVS			**Sold**		

Next Page: Omega Advisors

Omega Advisors

Leon Cooperman

Has returned 16% annualized over 18 years

Prior to founding Omega, he spent 25 years at Goldman Sachs and was Chief Executive Officer of Goldman's Asset Management division

Key Takeaways

New Positions:
Express Scripts (ESRX)
Warnaco (WRC)
Phillips Van Heusen (PVH)
Medco Health (MHS)
Anadarko Petroleum (APC)
S&P 500 (SPY)
Echostar (SATS)
NRG Energy (NRG)
Tekelec (TKLC)
MBIA (MBI)
Halliburton (HAL)

Sold Completely Out Of:
General Motors (GM)
Time Warner (TWX)
Jabil Circuit (JBL)
Cephalon ~ bought out

Leon Cooperman's Omega Advisors started a plethora of new positions in the fourth quarter, though they are all each relatively small as a percentrage of reported assets. It will probably take another quarter to truly tell if any of these stocks will become core positions for the hedge fund firm. Shifting focus to Cooperman's bigger bets, it's clear he sees value in owning gold via SPDR Gold Trust (GLD), an exchange traded fund he increased his position size in to the tune of 27%. And like many other hedgies, Cooperman likes the buyout offer El Paso (EP) received from Kinder Morgan (KMI) as he bought more shares of this risk arbitrage play, now his fifth largest holding. One other holding he added to was McGraw Hill (MHP). Last quarter's issue of Hedge Fund Wisdom examined the investment thesis behind this pick as fellow hedge fund JANA Partners is the activist leading the charge in this name. If you missed it, you can view JANA's slideshow presentation on why MHP should split-up further.

John Paulson's activity in Transocean (RIG) was flagged earlier in this issue as the manager fell on tough times and seemingly was forced to liquidate many stakes. Cooperman seems to have taken advantage of the weakness in shares of RIG and has accumulated even more, boosting his position by over 70% in the quarter. Continuing to compare and contrast the dichotomy of hedge fund manager opinion, it's worth pointing out that Omega Advisors liquidated its stake in General Motors (GM) during Q4. At the same time, David Einhorn's Greenlight Capital was buying shares, as it's now their third largest US equity long position.

Cooperman also bought new positions in both standalone pharmacy benefit managers (PBMs): Express Scripts (ESRX) and Medco Health (MHS). ESRX actually made a bid for MHS worth $29 billion. There's been much skepticism surrounding whether or not the FTC would allow such a merger that would combine two of the three largest PBMs. After all, such a merged entity would then garner over 30% market share. The Food Marketing Institute (FMI) has readily opposed the deal. The FMI includes the likes of Safeway (SWY), Supervalu (SVU), and Walmart (WMT) ~ all grocery retailers that also have pharmacy businesses. Express Scripts argues that the deal is good for American consumers, but shares of Medco Health continue to reflect some skepticism that the deal will pass with ease. MHS shares currently trade around $63 and only went as high as $66 when the deal was first announced (ESRX offered $71.xx).

View Omega Advisors' Updated Portfolio on the Next Page

Omega Advisors

Fourth Quarter 2011 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x $1000	# of Shares
1	SLM Corporation	SLM		5.9%	Cut -7%	$235,429	17,569,300
2	Atlas Pipeline Partners LP	APL		5.0%	Cut -7%	$199,236	5,363,018
3	Linn Energy, LLC	LINE		3.8%	Cut -1%	$151,879	4,006,300
4	SPDR Gold Shares	GLD		3.5%	Added 27%	$139,770	919,600
5	El Paso Corp.	EP		3.5%	Added 26%	$137,646	5,180,500
6	KKR Financial	KFN		3.4%	Unchanged	$134,711	15,430,867
7	McGraw-Hill	MHP		3.3%	Added 29%	$130,260	2,896,600
8	Sunoco Inc.	SUN		3.3%	Cut -2%	$129,103	3,147,312
9	ENERGY XXI	EXXI		3.0%	Cut -2%	$120,645	3,784,338
10	Williams Companies	WMB		2.5%	Added 0%	$99,889	3,025,108
11	QUALCOMM	QCOM		2.5%	Added 31%	$98,865	1,807,400
12	Transocean Ltd.	RIG		2.5%	Added 72%	$97,455	2,538,545
13	Apple Inc.	AAPL		2.4%	Added 16%	$96,635	238,604
14	Citrix Systems, Inc.	CTXS		2.4%	Added 32%	$95,172	1,567,399
15	XL Group plc	XL		2.4%	Added 4%	$94,883	4,799,337
16	Atlas Energy, L.P.	ATLS		2.3%	Cut -4%	$92,132	3,791,447
17	ETRADE Financial	ETFC		2.3%	Added 15%	$90,990	11,430,909
18	Boston Scientific	BSX		2.2%	Cut -2%	$87,876	16,456,100
19	Altisource Portfolio	ASPS		2.2%	Cut -10%	$87,599	1,745,700
20	CVS Caremark Corp	CVS		1.9%	Cut -29%	$77,085	1,890,255
21	Broadridge Financial	BR		1.8%	Cut -2%	$72,571	3,218,214
22	eBay Inc.	EBAY		1.8%	Cut -36%	$70,041	2,309,300
23	Kohlberg Kravis Roberts	KKR		1.7%	Added 1%	$68,734	5,357,287
24	Discovery Comm	DISCK		1.7%	Cut -24%	$67,301	1,785,172
25	Lincoln National Corp.	LNC		1.6%	Added 20%	$63,414	3,265,416
26	WellPoint Inc.	WLP		1.6%	Cut -2%	$63,541	959,107
27	MetLife, Inc.	MET		1.5%	Cut -2%	$59,719	1,915,285
28	Unitedhealth Group, Inc.	UNH		1.5%	Cut -1%	$59,612	1,176,248
29	Charming Shoppes Inc.	CHRS		1.5%	Added 47%	$59,213	12,084,264
30	United Continental	UAL		1.5%	Added 86%	$57,720	3,058,836
31	Denbury Resources Inc.	DNR		1.4%	Cut 0%	$56,280	3,727,127
32	Dish Network	DISH		1.4%	Cut -21%	$55,744	1,957,300
33	NYSE Euronext	NYX		1.4%	Add 129%	$54,512	2,088,600
34	Cablevision Systems Corp	CVC		1.4%	Added 19%	$53,987	3,796,531
35	ACE Limited	ACE		1.2%	Added 3%	$49,315	703,293
36	Regal Entertainment	RGC		1.1%	Cut -14%	$45,273	3,791,682
37	Given Imaging Ltd.	GIVN		1.1%	Cut 0%	$44,259	2,539,228
38	Research In Motion	RIMM		1.1%	Add 106%	$42,650	2,941,400
39	Teekay Corporation	TK		1.0%	Cut -12%	$41,429	1,549,900
40	Microsoft Corporation	MSFT		1.0%	Added 9%	$38,374	1,478,200
41	Loral Space & Comm	LORL		0.8%	Added 19%	$33,465	515,800
42	Forest Oil Corp.	FST		0.8%	Added 52%	$33,469	2,470,000
43	Express Scripts Inc.	ESRX		0.8%	New	$32,132	719,000
44	JPMorgan Chase & Co.	JPM		0.7%	Added 27%	$29,179	877,564
45	McMoRan Exploration Co.	MMR		0.7%	Added 38%	$27,456	1,887,000

Continued on next page…

Omega Advisors

Fourth Quarter 2011 Portfolio:
…Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x $1000	# of Shares
46	Valassis Communications	VCI		0.7%	Added 3%	$26,150	1,359,839
47	Warnaco Group Inc.	WRC		0.6%	New	$25,425	508,100
48	Phillips-Van Heusen	PVH		0.6%	New	$24,834	352,300
49	Vodafone Group plc	VOD		0.6%	Cut -32%	$22,515	803,256
50	MedcoHealth Solutions	MHS		0.6%	New	$22,360	400,000
51	Domtar Corporation	UFS		0.5%	Cut -63%	$18,271	228,508
52	Anadarko Petroleum	APC		0.4%	New	$16,289	213,400
53	THL Credit, Inc.	TCRD		0.4%	Unchanged	$16,149	1,322,607
54	SPDR S&P 500	SPY		0.4%	New	$16,026	127,700
55	PNC Financial	PNC		0.4%	Cut -17%	$14,632	253,724
56	EchoStar Corp.	SATS		0.3%	New	$13,421	640,910
57	NRG Energy, Inc.	NRG		0.3%	New	$12,362	682,210
58	MBIA Inc.	MBI		0.3%	New	$9,724	839,000
59	TEKELEC INC	TKLC		0.3%	New	$9,933	908,742
60	Halliburton Company	HAL		0.2%	New	$9,104	263,800
61	Invest Grade Corp Bond	lqd		0.2%	Unchanged	$8,532	75,000
62	Aon Corporation	AON		0.2%	Cut -76%	$7,895	168,700
63	H&R Block, Inc.	HRB		0.1%	New	$5,327	326,200
64	Center Bancorp Inc.	CNBC		0.1%	Unchanged	$5,325	545,000
65	Ruby Tuesday, Inc.	RT		0.1%	New	$2,488	360,575
66	Best Buy Co. Inc.	BBY		0.0%	New	$1,753	75,000
67	Office Depot, Inc.	ODP		0.0%	Cut -36%	$1,017	473,044
68	NutriSystem Inc.	NTRI		0.0%	New	$1,322	102,275
69	Dean Foods Co.	DF		0.0%	New	$487	43,462
70	Validus Holdings, Ltd.	VR		0.0%	New	$321	10,200
71	GMX Resources Inc.	GMXR		0.0%	New	$290	232,297
72	General Motors	GM			**Sold**		
73	Wendy's/Arby's Group	WEN			**Sold**		
74	Time Warner Inc.	TWX			**Sold**		
75	CEPHALON INC	CEPH			**Sold**		
76	Jabil Circuit Inc.	JBL			**Sold**		
77	AmericanEagleOutfitters	AEO			**Sold**		

Next Page: Equity Analysis

Equity Analysis:
Investment Thesis Summaries

Overview

These analytical summaries examine why a hedge fund was buying a specific stock and what their potential investment thesis could be. Written by hedge fund analysts, this section highlights stocks that saw large hedge fund buying in the quarter. When presenting an investment idea to a fund manager, an analyst outlines numerous aspects of a thesis. This section aims to briefly summarize the following bullet points:

- Company background
- The business model & current situation
- The investment thesis
- The bull case versus the bear case
- Market valuation
- Potential catalysts (if any)
- Hedge fund activity in the stock

This quarter's issue features a write-up on an industry consolidation & secular growth story:

- **United Rentals (URI)**

Also included is an investment thesis summary of a stock that saw heavy hedge fund buying:

- **Priceline.com (PCLN)**

Lastly, this issue features a brief sum of the parts analysis of an event-driven play:

- **Tyco (TYC)**

Next: Analysis of United Rentals (URI)

Investment Thesis Summary

Secular Growth Story

United Rentals (URI)

Hedge Fund Activity

Caxton Associates, Paulson & Co, Westfield Capital, and Cobalt Capital all initiated new positions in the stock in the fourth quarter, with Caxton making it the largest position in its portfolio. Also, JAT Capital, Millennium Management, and Balyasny Asset Management increased their exposure by ~50%.

Company Background

United Rentals (URI) is a Greenwich, CT-based equipment rental company (ERC) with $2.6bn in sales. It was founded in 1997 and following a roll-up of ERCs in the early 2000s became the largest pure-play company in the industry with ~530 locations and more than 7,000 employees in North America. The roll-up resulted in below-industry margins until 2007, when the company's CEO started restructuring the company and now margins have caught up.

The company generates revenue primarily by renting out construction and industrial equipment (e.g., backhoes and forklifts), aerial work platforms, tools (pressure washers and water pumps), trench safety equipment (trench shields and shoring systems), and power equipment (portable generators).

It rents out its equipment on a daily, weekly, or monthly basis, and the vast majority of its business (~90%) comes from repeat customers. Even though construction accounts for 80% of URI's sales and the construction sector has yet to rebound, its sales and earnings have been growing in 2011. The company is benefiting from increasing rental penetration and market share capture away from smaller players who can't offer the same equipment breadth and national coverage to end customers.

A Look at the Industry

United Rentals (URI)

A Look at the Industry

Other ERCs similar to URI are RSC Holdings (RRR), H&E Equipment Services (HEES), and Hertz's Equipment Rentals (HTZ subsidiary), but small independent, "mom-and-pop" companies account for the majority of the market.

The industry is characterized by: high fragmentation with the four largest players accounting for less than 1/4 of the industry, high leverage because banks provide asset-based loans to purchase the equipment, high EBITDA margins to cover the high levels of capital expenditures, and cycles driven primarily by construction activity. Size is a competitive advantage, as large players can cater to the diverse needs of large customers, have more purchasing power on equipment manufacturers, and can optimize operations by sharing equipment and systems across offices nationwide.

Cycles tend to last 6-7 years. In the most recent cycle, URI's sales troughed at $2.5bn in 2003, then peaked at $3.7bn in 2007, and troughed again in 2010 at $2.2bn. URI reported losses for the 2002-2004 and the 2008-2010 periods. Losses are the result of low equipment utilization, so the equipment fail to generate sufficient income to pay the interest expense on the heavy debt load that is used to finance their purchase. As a result, ERCs often liquidate large parts of their fleet during downturns in order to repay debt and avoid bankruptcy. The risk is that sales proceeds during those periods tend to be much lower than expected.

Many ERCs lever up during boom years and pay top dollar for new equipment in order to take advantage of a rising tide, and end up bankrupt at the bottom of the cycle when they have to sell the equipment at rock-bottom prices as demand evaporates. Counter-intuitively, the better-managed and larger players in fact generate more cashflow during the bottom of the cycle and burn through cash during the early boom years as they over-invest in order to take advantage of lower equipment prices and a longer runway to generate their returns before the 'bust' part of the cycle ensues. Smaller players are slower to ramp up because of lack of access to financing, but keep spending for longer and buy equipment at higher prices, so they are more likely to end up in trouble.

The current cycle troughed in mid-2010, which based on past cycles would imply that the peak of the cycle will happen around late 2013 / early 2014, giving ERCs enough room to continue growing. Indeed, their management teams are very bullish that utilization and rental rates will continue increasing, and they are aggressively expanding fleets, expecting a peak sometime in 2014.

The ERC industry has benefited from a powerful tailwind in the form of increased rental penetration. In the US, rental penetration is ~40%, which is low relative to the UK and Japan, where rental penetration is ~60%. It will be a number of years before the US rental penetration catches up (assuming it does). This secular trend can lead to higher peaks and troughs in every cycle, thus dampening the impact of a downturn.

In the current environment, the dearth of available financing in the past few years has driven end customers increasingly to rent instead of own equipment. In addition, the volatile macro environment has contributed to sustained high uncertainty, so end customers are wary of committing capital to equipment. These two factors have contributed to higher rental penetration. But after end customers experience the benefits and flexibility afforded by renting instead of owning, they often don't return to owning.

Business Model

United Rentals (URI)

Business Model

ERCs effectively rent out their balance sheet to construction and industrial companies that need equipment but cannot drive full utilization. The rental company purchases the equipment and then drives utilization higher by transporting equipment regionally and renting it out to active job sites. The utilization of the equipment is more diversified across many customers, which makes the revenue stream more predictable and enables ERCs to obtain cheap asset-based financing (asset-based loans, or ABLs priced at LIBOR + a small spread, e.g., 150-200 bps) from banks in order to drive their costs lower.

The value proposition of ERCs is that they can rent out equipment to clients cheaper than what ownership would cost them by renting it out to more than a single client and by financing it cheaper. In addition, ERCs make money by selling their used equipment and providing maintenance services.

The main profitability drivers for an ERC are: the size of its fleet, its utilization, the average rental rate, and the cost to finance the equipment. Growth is driven by the addition of new equipment, increased utilization, and higher rates.

The profitability cycle evolves as follows: first utilization increases as end-market demand picks up, then pricing power improves and rental rates pick up as utilization becomes a bottleneck, and finally new equipment is purchased to add to capacity. Profitability extends with even higher prices as demand pushes utilization to peak levels but ERCs become more cautious about investing behind new fleet additions.

Higher prices have the most impact on profitability because they drop straight to the bottom line with the exception of ~2% paid out as commissions. At the larger players, EBITDA margin ranges from ~30% at the trough of the cycle to almost 50% at its peak. The through-cycle fleet unlevered IRR is ~10%, which based on high leverage and low financing rates results in a ~20% levered return on equity.

Current Situation & The Bull Case

United Rentals (URI)

Current Situation

In early 2009, URI traded as low as $3 per share, when high leverage and evaporating industry demand loomed over the industry's and the company's prospects. After surviving the financial crisis, the stock rallied in 2010 to $20. In mid/late 2011, as investors focused on macro issues driven by a potential recession in Europe and a slowdown in China, the stock dropped back down to the low teens. Since then, it has grown more than threefold to exceed $40.

The driver of the first leg up for the stock was increased investor confidence as management kept delivering on promises of continued growth in both volume and rental rates, thus steadily increasing its EBITDA margin. The second leg up came with the acquisition of URI's main competitor, RRR, which was announced in mid-December.

The deal was announced on December 16, 2011. The offer valued RRR at $18, of which $10.80 would be paid in cash and the rest in URI stock at a ratio of 0.2783 shares of URI for each share of RRR.

Taking over its main competitor was allowed by anti-trust agencies due to the industry's high degree of fragmentation. URI became a better-diversified company with the acquisition, and it should increase its purchasing power with equipment manufacturers as well as its pricing power with customers. The combination creates significant cost savings and opportunities to optimize equipment utilization that should drive profitability even higher.

The Bull Case

Investors have been buying URI for two reasons: initially in order to take advantage of the dual tailwind from increasing rental penetration and the inability of smaller players to obtain financing and compete, and secondly because of the value-creation potential of consolidating with a leading competitor.

Management has been surveying its customers and is very confident that it is in the early stages of the up-cycle, which should last at least another 2-3 years. Based on its average historical multiple and the upside in EBITDA margins from higher prices and cost-cutting from the integration of RRR, there is significant upside left in the stock.

There are few companies with strong secular tailwinds (higher rental penetration), favorable industry dynamics (leading market share and access to financing that eliminates a large part of the competition), and a significantly value-creating consolidation (RRR acquisition). Even in the event of an economic slowdown or downturn, URI has very strong underlying fundamentals to fuel its growth for the next few years, which it has already demonstrated by continuing to grow in a time when its end market demand is at a low point.

The Bear Case & Summary

United Rentals (URI)

The Bear Case

Non-investors question two main points: the secular growth story and the cash returns of the business model. Additionally, many investors are skeptical of the cost savings from the consolidation of RRR (estimated by URI's management at ~5% of the combined revenue base), as well as URI's projections for the combination's pro forma results.

The secular growth story is based on the fact that rental penetration has been increasing in the construction and industrial sectors. However, higher penetration has been facilitated by lack of financing by the equipment rental customers, who may want to purchase equipment but don't have access to financing to do so.

Also, many of these customers are unwilling to commit capital given the high uncertainty around the economy and sustainable growth. Therefore, they prefer to rent for longer, until the economic picture clears up. What will happen when steady demand returns and the capital markets improve? Will rental penetration rates remain at high levels or return to lower pre-crisis levels? Is the underlying growth truly a secular story or a cyclical one?

The IRR of the equipment rental business model seems to be highly dependent upon timing the cycle right. If an ERC misses the right entry point in the up-cycle when equipment is still cheap and rental rates will keep rising for a while, it may end up spending a lot of money buying expensive equipment with fewer years to raise rents. In addition, if the downturn comes sooner, it will earn a lower return, as it will have to dispose of equipment at unfavorable prices in order to pay off debt and maintain a reasonable leverage while revenue and profits start to fall.

Given the current uncertainty of the strength and sustainability of the economic rebound, ERCs may be buying too much equipment if demand levels off or rental penetration returns to pre-crisis levels, or they may be buying too early if another downturn is just around the corner. At this part of the cycle, ERCs don't generate any cash flow and are making a bet that utilization and rental rates will keep rising for a number of years. Otherwise, they will fail to earn their cost of capital.

Summary

URI has had a great run since late 2011, and justifiably so. The company has been executing well, delivering growth and profitability improvements despite a struggling end market, due to market share capture and rising rental penetration. In addition, the combination with RRR makes a lot of sense, and it is likely to generate significant upside from both cost and revenue synergies.

However, the "easy money" in the trade may have already been made. Further share gains will have to be supported with earnings beats, which investors are getting used to. Smaller players are starting to purchase equipment and are finally able to provide some more balanced competition in the industry. Nevertheless, there is no evidence of pricing pressure or abating demand for rental equipment so far.

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