

**\* This is a free issue from May 2012. [CLICK HERE](#) to subscribe for the latest issue \***

## 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](http://MarketFolly.com), updates and analyzes the latest portfolios of prominent investment managers. The positions herein represent a hedge fund's first quarter holdings as of March 31st, 2012. 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

## First Quarter Summary:

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

### Consensus Buy/Add:

Google (GOOG)  
Apple (AAPL)  
Express Scripts (ESRX)  
TripAdvisor (TRIP)  
Crown Castle (CCI)

### Consensus Sell/Reduce:

Michael Kors (KORS)  
Marvell Technology (MRVL)  
Viacom (VIA.B)  
Baidu (BIDU)  
CareFusion (CFN)

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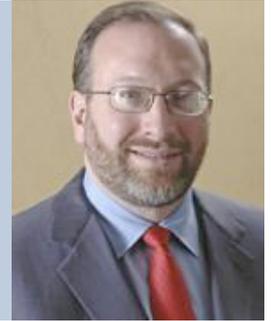
# Baupost Group

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:**

n/a

### **Sold Completely Out Of:**

PDL BioPharma (PDLI)  
Genworth Financial (GNW)  
Targacept (TRGT)

Baupost Group was recently listed as one of the [top 10 hedge funds by net gains since inception](#). Coming in at number four on the list, it's no surprise that investors are always looking to see where Seth Klarman has been investing. Baupost Group's first quarter 13F filed with the SEC shows that they had \$2.96 billion allocated to long US equity positions. Assuming Baupost's assets under management (AUM) are around ~\$22 billion, this means only just over 13% of their AUM is tied up in US equity exposure. Given Baupost's distressed focus, that's just something worth keeping in mind. Additionally, the firm typically holds around a ~20% cash position as a natural hedge as they wait for compelling opportunities. Lastly, be aware that [Baupost has a stake in foreign traded Vivendi](#) as well. As of February 29<sup>th</sup>, Baupost owned 25.5 million shares in the company. At that time, the stake was worth over \$400 million. But since then, shares have decreased in value and their stake is now worth around \$323 million (assuming they still hold the entire position). Comparing this amount to Baupost's disclosed US positions, this would slot Vivendi in around their fourth largest disclosed holding, behind the likes of ViaSat (VSAT), BP (BP), and Hewlett Packard (HPQ).

In terms of US equity additions and

subtractions, Baupost Group completely exited three stakes including PDL BioPharma (PDLI), Genworth Financial (GNW), and Targacept (TRGT). They also trimmed two previously sizable positions: Microsoft (MSFT) and BP (BP). While they still hold these names, they've certainly allocated less capital to them (especially in MSFT's case).

On the buying side of the portfolio, Baupost continued to purchase shares of Idenix Pharmaceuticals (IDIX) and NovaGold Resources (NG) during the first quarter. These two stocks were flagged in the last issue of Hedge Fund Wisdom (HFW). Baupost continued to add to its stake in Idenix by 45% and NovaGold by 33%. Since the close of the first quarter, NG shares have fallen even further below where Klarman's shop was purchasing them. Given his propensity to scoop up shares when valuation is cheap, it will be interesting to see if he picks up even more gold exposure via this miner.

Apart from these maneuvers, Klarman left his equity book largely unchanged. The only other activity was largely selling out of his previously smaller stakes in Multimedia Games (MGAM) and Alere (ALR).

For some recent resources on this legendary investor, head to [notes from Seth Klarman's Margin of Safety](#) as well as an [interview Klarman did with Charlie Rose](#).

View Baupost Group's Updated Portfolio on the Next Page



# Baupost Group

First Quarter 2012 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	ViaSat Inc.	VSAT		17.1%	Unchanged	\$506,205	10,499,992
2	BP plc	BP		14.2%	Cut -22%	\$419,441	9,320,900
3	Hewlett-Packard Co	HPQ		13.9%	Cut -8%	\$411,068	17,250,000
4	News Corp.	NWSA		10.0%	Unchanged	\$296,471	15,041,665
5	Theravance Inc.	THRX		9.6%	Added 2%	\$283,799	14,553,800
6	Microsoft Corporation	MSFT		7.6%	Cut -42%	\$225,785	7,000,000
7	News Corp.	NWS		7.2%	Unchanged	\$212,847	10,658,335
8	Allied Nevada Gold	ANV		4.4%	Unchanged	\$130,535	4,012,750
9	Idenix Pharmaceuticals	IDIX		2.7%	Add 46%	\$80,758	8,249,000
10	NovaGold Resources	NG		2.4%	Add 34%	\$71,800	10,000,000
11	AVEO Pharmaceuticals	AVEO		2.1%	Unchanged	\$63,101	5,084,652
12	Enzon Pharmaceuticals	ENZN		2.1%	Unchanged	\$61,566	9,000,878
13	THERAVANCE NOTE	THRX		1.8%	Unchanged	\$52,211	51,000,000
14	Syneron Medical Ltd.	ELOS		1.5%	Unchanged	\$42,880	4,000,000
15	Alliance One Intl	AOI		1.1%	Unchanged	\$33,126	8,786,700
16	Central Pacific Financial	CPF		0.8%	Unchanged	\$23,310	1,800,000
17	IturanLocation&Control	ITRN		0.8%	Unchanged	\$22,655	1,685,666
18	Sycamore Networks Inc.	SCMR		0.3%	Unchanged	\$9,418	530,871
19	Multimedia Games Inc.	MGAM		0.2%	Cut -77%	\$6,396	583,538
20	Alere Inc.	ALR		0.1%	Cut -93%	\$3,582	137,700
21	Genworth Financial Inc.	GNW			<b>Sold</b>		-
22	PDL BioPharma, Inc.	PDLI			<b>Sold</b>		-
23	Targacept, Inc.	TRGT			<b>Sold</b>		-

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:

General Motors (GM)  
Viacom (VIA.B)

### Sold Completely Out Of:

Comdisco (CDCO.OB)

Berkshire Hathaway's portfolio continues to be dominated by smaller activity by its new portfolio managers: Todd Combs and Ted Weschler. Last quarter's newsletter highlighted how Berkshire initiated stakes in Liberty Media (LMCA) and DaVita (DVA). Both of these stakes are assumed to be attributed to Ted Weschler given that they were both past holdings at his old hedge fund, Peninsula Capital Advisors. He continued to buy shares of both for Berkshire in the first quarter, boosting his holdings in Liberty Media by 76% and DaVita by 123%. And given the style of portfolio Weschler ran at his old shop, it's not out of the question to attribute Berkshire's new buy of Viacom (VIA.B) to him as well. But despite which manager may have initiated each stake, the main takeaways here are the fact that the Berkshire crew also started a brand new position in General Motors (GM) and heavily added to its stake in The Bank of New York Mellon (BK).

During Berkshire's recent annual meeting in Omaha, Buffett and Charlie Munger commented that they are very happy with the new managers and are pleased with their returns. Both Combs and Weschler receive a base salary of \$1 million as well as a performance incentive for 10% of outperformance versus the S&P 500 (on a rolling basis of 3 years). What's also interesting is that 80% of their performance bonus will be based on the manager's own return, while 20% is based on the return of the other manager.

Buffett also shed some light as to how much money each gentleman is managing. They each started with a portfolio of \$1.75 billion, but they are now managing \$2.75 billion each.

In terms of portfolio activity directly attributable to Buffett, there doesn't seem to be much apart from adding ever so slightly to his pre-existing Wells Fargo (WFC) position and adding to his stake in Walmart (WMT) by 19%. It is worth noting, however, that Buffett has once again been granted confidentiality by the SEC regarding some of his activity. The fine print of the 13F filing says that, "confidential information has been omitted from the Form 13F and filed separately with the Commission." Buffett has done this numerous times in the past, typically when he is building a position and doesn't want to publicly reveal it before he's done buying. At Berkshire's recent annual meeting, he did mention that he was considering a \$22 billion deal a few months ago. He said that in order to get the deal done, he would have had to sell some stocks to get it done and he didn't want to do that. It will be interesting to see what (if anything) Buffett has been buying in the disclosure next quarter.

On the selling end of the portfolio, Berkshire reduced its position in Intel (INTC) by 32%, Verisk Analytics (VRSK) by 35%, and Dollar General (DG) by 19%.

For recent resources on this legendary investor, be sure to check out [notes from Buffett's meeting with MBA students](#), where he mentioned he had been buying Korean equities for his personal portfolio. Also check out key takeaways from [Buffett's 2011 annual letter](#) and a [tour of Buffett's office](#).

View Berkshire Hathaway's Updated Portfolio on the Next Page



# Berkshire Hathaway

First Quarter 2012 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	The Coca-Cola Company	KO		19.7%	Unchanged	\$14,802,000	200,000,000
2	Wells Fargo & Company	WFC		17.9%	Added 3%	\$13,462,596	394,334,928
3	IBM	IBM		17.8%	Added 1%	\$13,436,163	64,395,700
4	American Express Co	AXP		11.7%	Unchanged	\$8,772,196	151,610,700
5	Procter & Gamble Co.	PG		6.5%	Cut -5%	\$4,923,411	73,254,136
6	Kraft Foods Inc.	KFT		3.9%	Cut -10%	\$2,965,432	78,017,165
7	Wal-Mart Stores Inc.	WMT		3.8%	Added 20%	\$2,858,538	46,708,142
8	ConocoPhillips	COP		2.9%	Unchanged	\$2,211,963	29,100,937
9	U.S. Bancorp	USB		2.9%	Cut 0%	\$2,187,165	69,039,326
10	Johnson & Johnson	JNJ		2.5%	Unchanged	\$1,914,036	29,018,127
11	Moody's Corp.	MCO		1.6%	Unchanged	\$1,196,282	28,415,250
12	DIRECTV	DTV		1.5%	Added 13%	\$1,134,800	22,999,600
13	The Washington Post	WPO		0.9%	Unchanged	\$645,441	1,727,765
14	DaVita, Inc.	DVA		0.7%	Add 124%	\$541,020	6,000,000
15	M&T Bank Corp.	MTB		0.6%	Unchanged	\$467,591	5,382,040
16	Costco Wholesale Corp	COST		0.5%	Unchanged	\$393,469	4,333,363
17	Visa, Inc.	V		0.5%	Unchanged	\$338,071	2,865,008
18	CVS Caremark Corp	CVS		0.4%	Unchanged	\$318,371	7,106,500
19	USG Corp.	USG		0.4%	Unchanged	\$293,642	17,072,192
20	General Dynamics Corp.	GD		0.4%	Unchanged	\$284,503	3,877,122
21	Liberty Media	LMCA		0.4%	Added 76%	\$264,450	3,000,000
22	General Motors	GM		0.3%	New	\$256,500	10,000,000
23	Intel Corporation	INTC		0.3%	Cut -33%	\$217,751	7,745,000
24	Torchmark Corp.	TMK		0.3%	Unchanged	\$211,156	4,235,818
25	Mastercard Incorporated	MA		0.2%	Unchanged	\$170,319	405,000
26	Dollar General Corp	DG		0.2%	Cut -19%	\$168,037	3,637,164
27	General Electric Co.	GE		0.2%	Unchanged	\$156,102	7,777,900
28	Sanofi-Aventis	SNY		0.2%	Unchanged	\$157,467	4,063,675
29	Bank of New York Mellon	BK		0.2%	Add 213%	\$135,308	5,607,466
30	United Parcel Service	UPS		0.2%	Unchanged	\$115,365	1,429,200
31	Verisk Analytics, Inc.	VRSK		0.1%	Cut -35%	\$104,750	2,230,148
32	Viacom Inc 6.85% Pfd	VIAB		0.1%	New	\$75,541	1,591,670
33	GlaxoSmithKline plc	GSK		0.1%	Unchanged	\$67,837	1,510,500
34	Gannett Co., Inc.	GCI		0.0%	Unchanged	\$26,678	1,740,231
35	Ingersoll-Rand Plc	IR		0.0%	Cut 0%	\$26,299	636,000
36	Comdisco Holding Co	CDCO			<b>Sold</b>		-

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:**

Computer Sciences Corp (CSC)  
Expedia (EXPE)  
Roundy's (RNDY)

### **Sold Completely Out Of:**

OmniVision Tech (OVTI)  
Broadridge Financial Solutions (BR)  
Yahoo! (YHOO)  
Travelers (TRV)  
Furiex Pharma (FURX)  
First Solar (FSLR) Puts  
Energy Partners (EPL)

The first thing worth highlighting with Greenlight Capital's portfolio is the fact that Apple (AAPL) now represents almost 16% of their reported US equity longs. A lot of this seems to be tied to price appreciation as Einhorn's allowed the position size to grow as well. After all, past newsletter issues have highlighted that he bought the bulk of his AAPL at \$248 per share. But despite the fact that shares now trade north of \$500, Einhorn recently reiterated his conviction in the name at the Ira Sohn Conference in New York. He said that many people have miscategorized the company as a hardware play. Instead, he says it's a software company that happens to sell high margin hardware, calling their iOS platform "sticky" as it "captured the customer." While many detractors say that a trillion dollar market cap for a company is absurd, Einhorn says it's obviously not prohibited and anything can happen. To combat another bear argument that everyone already owns Apple, Einhorn argued that hedge funds actually have less than 2% of assets. He simply thinks the company is cheap and will continue to

grow. Dan Loeb of Third Point agrees with him and his thoughts on the stock are outlined a few pages down.

At the Ira Sohn event, Einhorn also made numerous other comments worth highlighting, including the fact that he said to short Martin Marietta Materials (MLM), arguing that at a 35 P/E ratio, the stock is overvalued. He thinks that a one time fiscal stimulus has goosed earnings. Additionally, he mentioned that Dick's Sporting Goods (DKS) would suffer due to Amazon.com's (AMZN) entrance into the sporting goods category. The Greenlight manager also had negative comments about Amazon, saying that the company grows revenue, but criticized their weak profit growth. However, he did not say he was shorting them. He did say to short US Steel (X) as well as Zara/Inditex.

In terms of notable first quarter portfolio activity, Greenlight cut its stakes in Microsoft (MSFT) and Research in Motion (RIMM) in half. The hedge fund also completely exited shares of Yahoo! (YHOO) for the second time as Dan Loeb continues his activist fight there. Apart from three smaller new buys, Einhorn wasn't doing much purchasing at all. This could be a function of his view on valuations at the time given that he's a long-term value oriented investor. Regardless, he was reducing position sizes across the portfolio, that's for certain.

David Einhorn will be presenting investment ideas at the Value Investing Congress in NYC in October and newsletter readers can receive a [discount to the event by clicking here](#) and using discount code: N12MF3

View Greenlight Capital's  
Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Apple Inc.	AAPL		15.9%	Unchanged	\$877,445	1,463,700
2	Seagate Technology PLC	STX		7.1%	Added 1%	\$391,803	14,538,126
3	General Motors Company	GM		6.9%	Cut -22%	\$379,957	14,813,163
4	Gold Miners ETF	GDX		6.5%	Unchanged	\$360,125	7,264,971
5	Marvell Technology	MRVL		5.2%	Added 6%	\$288,995	18,372,247
6	CareFusion Corporation	CFN		4.9%	Cut -14%	\$269,994	10,412,441
7	DELPHI AUTOMOTIVE	DLPH		4.6%	Unchanged	\$252,633	8,194,661
8	Microsoft Corporation	MSFT		4.4%	Cut -51%	\$241,465	7,487,295
9	Enscopl	ESV		3.7%	Cut -24%	\$203,377	3,842,365
10	Dell Inc.	DELL		3.6%	Cut -15%	\$198,610	11,964,405
11	Sprint Nextel Corp.	S		3.5%	Cut -7%	\$194,555	68,265,000
12	Best Buy Co. Inc.	BBY		3.3%	Unchanged	\$182,676	7,714,375
13	NCR Corp.	NCR		3.3%	Cut -13%	\$182,093	8,387,490
14	Einstein Noah Restaurant	BAGL		2.9%	Unchanged	\$160,143	10,733,469
15	CBS CORP CL B	CBS		2.8%	Cut -24%	\$153,568	4,528,681
16	Xerox Corp.	XRX		2.3%	Cut -9%	\$124,373	15,392,717
17	Aspen Insurance Holdings	AHL		2.1%	Cut -9%	\$114,581	4,101,000
18	HUNTINGTON INGALLS	HII		2.0%	Cut -15%	\$110,700	2,750,995
19	HCA HLDGS INC COM	HCA		1.9%	Cut -26%	\$103,290	4,175,000
20	Legg Mason Inc.	LM		1.7%	Unchanged	\$94,962	3,400,000
21	Liberty Media	LMCA		1.6%	Unchanged	\$86,387	980,000
22	DST Systems Inc.	DST		1.5%	Added 39%	\$85,018	1,567,734
23	Computer Sciences Corp	CSC		1.3%	New	\$71,856	2,400,000
24	CA Technologies	CA		1.3%	Cut 0%	\$69,878	2,535,472
25	NVR Inc.	NVR		0.8%	Cut -37%	\$46,521	64,050
26	Barrick Gold Corporation	ABX		0.8%	Cut -25%	\$44,024	1,012,500
27	Compuware Corporation	CPWR		0.7%	Unchanged	\$40,979	4,459,027
28	STATE BANK FINANCIAL	STBZ		0.7%	Unchanged	\$36,771	2,100,000
29	Expedia Inc.	EXPE		0.6%	New	\$33,440	1,000,000
30	Junior Gold Miners ETF	GDXJ		0.5%	Cut -37%	\$29,460	1,200,000
31	Research In Motion	RIMM		0.4%	Cut -45%	\$23,536	1,600,000
32	Fifth Street Finance Corp.	FSC		0.4%	Unchanged	\$19,508	1,998,692
33	BioFuel Energy Corp.	BIOF		0.3%	Unchanged	\$17,660	27,168,879
34	Republic Airways	RJET		0.3%	Unchanged	\$16,859	3,412,800
35	Tessera Tech	TSRA		0.2%	Unchanged	\$11,999	695,580
36	SYMMETRICOM, INC.	SYMM		0.2%	Unchanged	\$9,866	1,709,846
37	ROUNDY'S, INC.	RNDY		0.1%	New	\$6,013	561,934
38	OmniVision Tech	OVTI			<b>Sold</b>		-
39	Broadridge Financial	BR			<b>Sold</b>		-
40	Yahoo! Inc.	YHOO			<b>Sold</b>		-
41	The Travelers Co	TRV			<b>Sold</b>		-
42	Furiex Pharma	FURX			<b>Sold</b>		-
43	First Solar, Inc.	FSLR	PUT		<b>Sold</b>		-
44	Energy Partners Ltd.	EPL			<b>Sold</b>		-

See what stocks hedge funds have been buying and selling in Q2:

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Next Page: Lone Pine Capital

# Lone Pine Capital

## Stephen Mandel

Seeks to identify companies with good management teams that are trading below intrinsic value

Previously a consumer analyst at Julian Robertson's hedge fund Tiger Management



### Key Takeaways

#### **New Positions:**

AutoZone (AZO)  
Gap (GPS)  
Walt Disney (DIS)  
Ross Stores (ROST)  
BE Aerospace (BEAV)  
Estee Lauder (EL)  
Ulta Salon (ULTA)  
Banco Santander Brasil (BSBR)  
Owens Corning (OC)  
Wynn Resorts (WYNN)  
TripAdvisor (TRIP)  
Weyerhaeuser (WY) Puts

#### **Sold Completely Out Of:**

NetApp (NTAP)  
Baidu (BIDU)  
Williams Sonoma (WSM)  
FMC Technologies (GTI)  
Willis Group (WSH)  
eBay (EBAY)  
Ameriprise (AMP)

Steve Mandel spoke at the Ira Sohn Conference a few days ago where he mentioned that he had recently gone long department store Kohl's (KSS). He also said he likes the "tech leader" companies. He's obviously referring to his large positions in Apple (AAPL), Priceline.com (PCLN), and Google (GOOG). He would have also been referring to Baidu (BIDU), except for the fact that Lone Pine completely exited shares in the first quarter. This name had previously been lumped in with the others under the "tech leader" theme.

Shifting to Lone Pine's latest portfolio disclosure, it's quite evident the hedge fund is playing the El Paso (EP) merger arbitrage as the company was their top holding at the end of the first quarter after they boosted their position by

a whopping 382%. The top of their portfolio was slightly changed as they also took profits in highfliers like Apple (AAPL) and Priceline.com (PCLN), cutting each by 41% and 26% respectively. In terms of new purchases, there are six worth highlighting due to their size: AutoZone (AZO), Gap (GPS), Walt Disney (DIS), Ross Stores (ROST), BE Aerospace (BEAV) and Estee Lauder (EL) ~ the last of which was a previously longstanding holding for the firm. They exited shares in Q4 of 2011, only to turn around and re-establish their stake in Q1 of 2012.

Lone Pine's portfolio is centered on a few key themes. The rise of the emerging market consumer is certainly a big one as they've been long casinos like Las Vegas Sands (LVS) with its Singapore and Cotai exposure, fine retail goods such as Ralph Lauren (RL) and additionally they've disclosed positions in Esprit (traded in Hong Kong: 0330). They've played the rise of outsourcing via Cognizant Technology Solutions (CTSH) and Michael Page in the UK. It's clear they see internet plays as worthwhile, investing in dominant companies such as Google (GOOG) and Priceline.com (PCLN). Lastly, the rise of mobile computing is another theme you see in their portfolio via Apple (AAPL), Qualcomm (QCOM), and Crown Castle (CCI).

On the short side of the portfolio, it's been revealed that [Lone Pine has been short Neopost SA](#) in France. Their thesis there seems to be that with the proliferation of digital content, people are printing and mailing items less and less. As such, there's less demand for mailing and postage equipment.

View Lone Pine Capital's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	El Paso Corp.	EP		5.7%	Added 382%	\$934,838	31,635,809
2	Google Inc.	GOOG		5.1%	Cut -3%	\$838,301	1,307,312
3	Priceline.com Inc	PCLN		4.7%	Cut -26%	\$775,681	1,081,089
4	Apple Inc.	AAPL		4.6%	Cut -41%	\$754,800	1,258,944
5	Dollar General Corp	DG		3.8%	Cut -12%	\$621,237	13,446,688
6	SPDR Gold Shares	GLD		3.7%	Unchanged	\$608,081	3,750,348
7	Visa, Inc.	V		3.3%	Cut -5%	\$535,294	4,536,386
8	Polo Ralph Lauren	RL		3.2%	Cut -35%	\$527,179	3,024,031
9	QUALCOMM Inc	QCOM		3.2%	Added 21%	\$522,588	7,678,339
10	Monsanto Co.	MON		3.2%	Added 10%	\$519,075	6,507,957
11	NETEASE INC	NTES		3.2%	Added 20%	\$520,384	8,956,696
12	Equinix, Inc.	EQIX		3.0%	Added 14%	\$498,192	3,164,127
13	Teradata Corporation	TDC		3.0%	Added 4%	\$492,599	7,228,162
14	LAS VEGAS SANDS CORP	LVS		2.8%	Cut -17%	\$465,345	8,083,114
15	Cognizant Tech Solutions	CTSH		2.7%	Cut -12%	\$447,132	5,810,687
16	Crown Castle Intl	CCI		2.7%	Cut -22%	\$439,368	8,237,127
17	Express Scripts Inc.	ESRX		2.5%	Cut -45%	\$410,378	7,574,345
18	Oceaneering Intl	OII		2.5%	Cut -4%	\$404,051	7,497,700
19	AutoZone Inc.	AZO		2.4%	New	\$395,781	1,064,500
20	TransDigm Group	TDG		2.4%	Added 7%	\$385,696	3,331,859
21	Wyndham Worldwide	WYN		1.9%	Cut -18%	\$314,806	6,768,567
22	Gap Inc.	GPS		1.8%	New	\$293,055	11,210,965
23	Lululemon Athletica Inc.	LULU		1.7%	Cut -16%	\$284,639	3,808,895
24	Green Mountain Coffee	GMCR		1.7%	Added 115%	\$280,406	5,986,474
25	New Oriental Education	EDU		1.6%	Cut -2%	\$268,180	9,766,210
26	Walt Disney Co.	DIS		1.6%	New	\$257,987	5,892,808
27	WABCO Holdings Inc.	WBC		1.5%	Cut -15%	\$252,222	4,170,336
28	Fossil, Inc.	FOSL		1.5%	Cut -37%	\$248,795	1,885,095
29	MICHAEL KORS	KORS		1.5%	Added 44%	\$245,059	5,259,900
30	Ross Stores Inc.	ROST		1.4%	New	\$231,081	3,977,296
31	Liberty Media Corp	LMCA		1.2%	Unchanged	\$199,507	2,263,262
32	Sensata Technologies	ST		1.2%	Cut -4%	\$197,962	5,912,845
33	BE Aerospace Inc.	BEAV		1.2%	New	\$197,950	4,259,738
34	Estee Lauder	EL		1.2%	New	\$195,956	3,163,643
35	V.F. Corporation	VFC		1.2%	Cut -3%	\$192,803	1,320,750
36	W.R. Grace & Co.	GRA		1.2%	Added 68%	\$192,562	3,331,525
37	Accretive Health, Inc.	AH		1.1%	Cut -2%	\$176,984	8,862,492
38	KINDER MORGAN	KMI		1.0%	Added 130%	\$163,856	4,239,475
39	Ulta Salon	ULTA		0.8%	New	\$123,568	1,330,266
40	Sears Holdings Corp	SHLD	PUT	0.7%	Added 40%	\$121,443	1,833,100
41	Banco Santander	BSBR		0.7%	New	\$114,806	12,519,785
42	Ctrip.com International	CTRP		0.7%	Cut -44%	\$113,401	5,240,339
43	VanceInfo Technologies	VIT		0.6%	Cut -3%	\$91,717	7,617,690
44	Owens Corning	OC		0.5%	New	\$89,597	2,486,720
45	Wynn Resorts Ltd.	WYNN		0.5%	New	\$86,817	695,207

Continued on next page...

# Lone Pine Capital

First Quarter 2012 Portfolio:  
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	MedcoHealth	MHS	CALL	0.5%	Unchanged	\$77,330	1,100,000
47	TRIPADVISOR	TRIP		0.4%	New	\$66,546	1,865,613
48	iPath S&P 500 VIX	VXX	PUT	0.3%	Cut -67%	\$53,698	3,200,000
49	Ariba Inc.	ARBA		0.3%	New	\$50,839	1,554,231
50	Weyerhaeuser Co.	WY	PUT	0.3%	New	\$47,566	2,170,000
51	ISOFTSTONE HOLDINGS	ISS		0.3%	Unchanged	\$46,391	5,253,739
52	Intel Corporation	INTC	PUT	0.2%	Unchanged	\$26,569	945,000
53	Tractor Supply Company	TSCO		0.1%	New	\$21,492	237,326
54	7 Days Group Holdings	SVN		0.1%	Cut -19%	\$13,888	1,108,375
55	China Lodging Group	HTHT		0.1%	Cut -44%	\$11,110	950,364
56	Baidu, Inc.	BIDU			<b>Sold</b>		-
57	ARCOS DORADOS	ARCO			<b>Sold</b>		-
58	eBay Inc.	EBAY			<b>Sold</b>		-
59	Willis Group Holdings	WSH			<b>Sold</b>		-
60	Tesla Motors, Inc.	TSLA	PUT		<b>Sold</b>		-
61	FMC Technologies, Inc.	FTI			<b>Sold</b>		-
62	Home Inns & Hotels	HMIN			<b>Sold</b>		-
63	Green Mountain Coffee	GMCR	CALL		<b>Sold</b>		-
64	NetApp, Inc.	NTAP			<b>Sold</b>		-
65	Williams-Sonoma Inc.	WSM			<b>Sold</b>		-
66	Ameriprise Financial Inc.	AMP			<b>Sold</b>		-
67	YANDEX N V	YNDX			<b>Sold</b>		-
68	News Corp.	NWSA			<b>Sold</b>		-
69	Fossil, Inc.	FOSL	CALL		<b>Sold</b>		-
70	SolarWinds, Inc.	SWI			<b>Sold</b>		-
71	Bed Bath & Beyond, Inc.	BBBY	PUT		<b>Sold</b>		-
72	NetApp, Inc.	NTAP	CALL		<b>Sold</b>		-

Next Page: Appaloosa Management

# Appaloosa Management

David Tepper

Has compounded 30% for investors over 17 years

Takes concentrated positions in distressed debt & equity

Profiled in the new book: [The Alpha Masters](#)



## Key Takeaways

### **New Positions:**

Powershares QQQ (QQQ)  
Citigroup (C)  
Google (GOOG)  
Qualcomm (QCOM)  
Broadcom (BRCM)  
Ford Motor (F)  
Huntsman (HUN)  
Bank of America (BAC)  
Delta Air Lines (DAL)  
Hartford Financial (HIG)  
General Motors (GM)  
Owens Corning (OC)  
EMC (EMC)  
Marvell Technology (MRVL)  
SanDisk (SNDK)  
Fusion-IO (FIO)  
Two Harbors (TWO)  
Nuance Communications (NUAN)  
SPDR S&P 500 (SPY)

### **Sold Completely Out Of:**

Boston Scientific (BSX)

After largely selling a lot of names for the past two quarters, David Tepper's hedge fund firm Appaloosa Management waded into the buying pool in the new year. In fact, Appaloosa only completely exited one name: Boston Scientific (BSX). Tepper's latest portfolio activity can be easily summarized with one word: technology. Last quarter's issue highlighted how Tepper's firm had almost quadrupled its stake in Apple (AAPL). Well, the hedge fund was out buying even more shares in the first quarter, boosting its position size by 277%. At the end of the quarter, AAPL was their second largest disclosed holding. But if you

examine their portfolio closer, you'll see that they technically have even more gross exposure to AAPL. Appaloosa started a massive new stake in the PowerShares QQQ (QQQ) during the first quarter, bringing it all the way up to their top holding as they allocated over \$1.2 billion to the exchange traded fund. Examining the QQQ's top ten holdings, you'll see that its top holding is Apple at 18.57% of the index. The exact same thing can be said about Appaloosa's gross exposure to Google (GOOG) as well. While they bought the stock outright in the quarter (new position), Google is also 5.5% of the QQQ. Lastly, they gained a lot of exposure to Qualcomm (QCOM) the same way: buying the stock outright and then via the QQQ's 3.82% allocation to the company.

So while Tepper was out buying technology in size during the first quarter, his purchases in the financial sector weren't far behind. Citigroup (C) garnered the most capital from the hedge fund in the sector as this new position is now Appaloosa's third largest disclosed holding. They also decided to allocate capital to Bank of America (BAC) as well.

The last major takeaway here is that Appaloosa Management was also out buying airlines in size during the quarter. They increased their United Continental (UAL) stake by 571%, US Airways (LCC) position by 229%, and started a new stake in Delta Air Lines (DAL).

For an in-depth look at Appaloosa, David Tepper is profiled and interviewed in the new book [The Alpha Masters](#) along with numerous other famous hedge fund managers, so definitely check it out.

View Appaloosa Management's Updated Portfolio on the Next Page



# Appaloosa Management

First Quarter 2012 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	PowerShares QQQ	QQQ		31.4%	New	\$1,273,602	18,854,218
2	Apple Inc.	AAPL		10.1%	Added 277%	\$410,637	685,000
3	Citigroup, Inc.	C		5.5%	New	\$222,747	6,094,305
4	United Continental	UAL		4.2%	Added 571%	\$171,313	7,968,035
5	Google Inc.	GOOG		2.6%	New	\$103,969	162,137
6	QUALCOMM Incorporated	QCOM		2.5%	New	\$102,947	1,513,486
7	Goodyear Tire & Rubber Co.	GT		2.4%	Added 43%	\$97,070	8,651,496
8	Broadcom Corp.	BRCM		2.3%	New	\$95,009	2,417,523
9	CVR Energy, Inc.	CVI		2.1%	Cut -36%	\$85,865	3,209,911
10	Ford Motor Co.	F		2.0%	New	\$81,631	6,535,715
11	US Airways Group, Inc.	LCC		2.0%	Added 229%	\$80,888	10,657,243
12	Huntsman Corporation	HUN		1.8%	New	\$71,980	5,137,764
13	Bank of America Corp	BAC		1.8%	New	\$71,358	7,456,408
14	Oracle Corp.	ORCL		1.7%	Added 92%	\$68,056	2,333,883
15	Delta Air Lines Inc.	DAL		1.7%	New	\$66,795	6,740,189
16	Financial Select Sector	XLF		1.6%	Added 96%	\$66,532	4,216,200
17	Valero Energy Corp.	VLO		1.6%	Added 181%	\$65,769	2,552,161
18	Hartford Financial	HIG		1.5%	New	\$60,199	2,855,744
19	General Motors	GM		1.4%	New	\$56,485	2,202,153
20	Masco Corporation	MAS		1.4%	Added 2755%	\$55,502	4,151,256
21	Dean Foods Co.	DF		1.3%	Cut -28%	\$53,612	4,427,112
22	Owens Corning	OC		1.3%	New	\$52,938	1,469,279
23	EMC Corporation	EMC		1.2%	New	\$49,011	1,640,261
24	RBS Pfd N	RBS-PN		1.2%	Cut -13%	\$47,108	2,915,072
25	Marvell Technology	MRVL		1.0%	New	\$41,378	2,630,524
26	Microsoft Corporation	MSFT		1.0%	Added 72%	\$40,313	1,250,000
27	RBS Pfd S	RBS-PS		0.9%	Cut -2%	\$35,663	2,135,514
28	Calumet Specialty Products	CLMT		0.8%	Unchanged	\$34,054	1,288,944
29	SanDisk Corp.	SNDK		0.8%	New	\$33,772	681,021
30	FUSION-IO	FIO		0.8%	New	\$32,782	1,153,879
31	RBS Pfd T	RBS-PT		0.8%	Cut -10%	\$32,775	1,725,014
32	Mueller Water Products	MWA		0.8%	Unchanged	\$31,441	9,441,736
33	Two Harbors Investment	TWO		0.8%	New	\$30,420	3,000,000
34	RBS Pfd Q	RBS-PQ		0.6%	Cut -8%	\$24,943	1,468,102
35	Nuance Communications	NUAN		0.6%	New	\$24,093	941,869
36	SPDR S&P 500	SPY		0.5%	New	\$21,682	154,079
37	RBS Pfd M	RBS-PM		0.5%	Cut -3%	\$21,457	1,305,196
38	International Paper Co.	IP		0.5%	Cut -24%	\$19,350	551,287
39	Macy's, Inc.	M		0.5%	Cut -37%	\$18,554	467,001
40	Hartford Financial Warrant	HIG/WS		0.4%	Unchanged	\$16,989	1,275,475
41	CF Industries Holdings, Inc.	CF		0.3%	Added 41%	\$12,663	69,332
42	Chimera Investment Corp	CIM		0.3%	New	\$12,505	4,418,884
43	RBS Pfd L	RBS-PL		0.3%	Cut -19%	\$10,872	582,962
44	MPG Office Trust, Inc.	MPG		0.3%	Unchanged	\$10,044	4,292,354
45	MFA Financial, Inc.	MFA		0.2%	New	\$7,691	1,029,583

Continued on next page...

# Appaloosa Management

First Quarter 2012 Portfolio:  
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	DELPHI	DLPH		0.2%	Unchanged	\$7,244	229,236
47	Boyd Gaming Corp.	BYD		0.1%	New	\$5,456	695,975
48	DowJonesConstruction	ITB		0.1%	New	\$4,734	321,595
49	NetApp, Inc.	NTAP		0.1%	New	\$4,477	100,000
50	General Motors Warrant	GM/WS/A		0.1%	Unchanged	\$2,920	175,561
51	General Motors Warrant	GM/WS/B		0.1%	Unchanged	\$1,966	175,561
52	Beazer Homes USA Inc.	BZH		0.0%	Unchanged	\$931	286,614
53	Oracle Corp.	ORCL	CALL	0.0%	New	\$189	20,100
54	Boston Scientific Corp	BSX			<b>Sold</b>		-

**This is a free past issue. For the brand new issue, please go to  
[www.hedgefundwisdom.com](http://www.hedgefundwisdom.com)**

Next Page: Pershing Square



## Key Takeaways

### New Positions:

n/a

### Sold Completely Out Of:

J.C. Penney (JCP) Calls

Bill Ackman's Pershing Square did practically no buying during the first quarter and the only notable activity from this hedge fund came on the selling side. Pershing sold 27% of its stake in Kraft (KFT), which is interesting considering that there's a catalyst on the horizon as the company will be splitting up later into a North American grocer specialist and an emerging snacks business.

Ackman also cut his stake in Fortune Brands Home & Security (FBHS) by 36% during the first quarter. And in a recent 13G filed with the SEC in early May, Pershing has actually disclosed that they no longer own a stake in FBHS at all. This company came to be as a result of Fortune Brands' split into FBHS and Beam Inc (BEAM). It's worth noting that Pershing continues to hold a sizable chunk of BEAM as they clearly favor one split entity over the other.

The biggest sale Ackman made in the quarter, though, involved his stake in Family Dollar (FDO). He drastically reduced his position by almost 70%. And again, by way of recent 13G filed with the SEC, Ackman has actually disclosed that he no longer owns FDO as of the middle of May.

The Pershing Square founder also recently gave a presentation at the Ira Sohn Conference in New York where he touched on

his investment in J.C. Penney (JCP). He says that the best ideas are often contrarian, just like his old play of buying GGP right before bankruptcy and his short of MBIA back in the day. JCP's recent comps came out worse than expected but Ackman says the company is still moving ahead with the turnaround and that the customer is starting to understand the process. Ackman tried to focus on the cost savings, saying JCP spends 31% on SG&A while Kohl's (KSS) spends only about 21%. Comparing ads, Ackman points to JCP spending 6% of revenue on ads while KSS only 4.5%. He said, "Not a lean company trying to cut costs, they are running fat." He also pointed out that at JCP, employees used 20% of corporate bandwidth for Netflix and need to re-focus.

In general, Ackman's thesis on J.C. Penney is that you can invest in a cyclically depressed national retailer at a discount to fair value. Here are some excerpts from Ackman's presentation: "Cheap relative to trailing earnings (adjusted for year end cash and non-store real estate portfolio ... Sales productivity and margins remain depressed creating material leverage to a recovery ... Company's reported pension expense masks true cash flow ... JCP owns substantial core and non-core fee and long-term leasehold real estate interests."

Ackman has also been involved with Justice Holdings, a specialty purpose acquisition company (SPAC) that recently took a stake in Burger King with plans to bring the company public again.

The brand new book [The Alpha Masters](#) features an in-depth profile of Ackman along with many other managers this newsletter covers and it's definitely a must-read.

View Pershing Square's Updated Portfolio on the Next Page

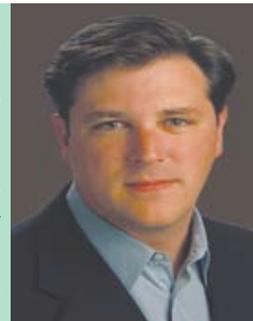


# Pershing Square

First Quarter 2012 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Canadian Pacific Rail	CP		22.7%	Added 0%	\$1,834,943	24,159,888
2	J. C. Penney Company	JCP		17.2%	Added 1%	\$1,384,454	39,075,771
3	General Growth Properties	GGP		15.2%	Unchanged	\$1,227,250	72,233,712
4	Beam, Inc.	BEAM		15.1%	Unchanged	\$1,219,342	20,818,545
5	Citigroup, Inc.	C		11.8%	Added 0%	\$954,854	26,124,594
6	Kraft Foods Inc.	KFT		7.3%	Cut -27%	\$589,390	15,506,172
7	FortuneBrands Home&Security	FBHS		3.6%	Cut -36%	\$294,044	13,323,249
8	Howard Hughes Corporation	HHC		2.8%	Unchanged	\$227,889	3,568,017
9	Alexander & Baldwin, Inc.	ALEX		2.2%	Added 2%	\$176,594	3,644,870
10	Family Dollar Stores Inc.	FDO		2.1%	Cut -69%	\$165,468	2,614,863
11	J. C. Penney Company, Inc.	JCP	CALL		<b>Sold</b>		-

Next Page: Maverick Capital



## Key Takeaways

### **New Positions:**

Skyworks Solutions (SWKS)  
Macy's (M)  
Priceline.com (PCLN)  
DirecTV (DTV)  
Valeant Pharmaceuticals (VRX)  
Express Scripts (ESRX)  
Green Mountain Coffee (GMCR)  
Fomento Econ (FMX)  
Liberty Global (LBTYA)  
Sears Holdings (SHLD)  
Aetna (AET)  
H&R Block (HRB)

### **Sold Completely Out Of:**

US Bancorp (USB)  
Marvell Technology (MRVL)  
Wells Fargo (WFC)  
Amazon.com (AMZN)  
First Solar (FSLR)  
Home Inns & Hotels (MIN)  
Apollo Group (APOL)  
Corning (GLW)  
Trina Solar (TSL)  
HCA (HCA)  
Banco Santander-Chile (BSAC)  
Royal Bank of Scotland Preferreds

Lee Ainslie's Maverick Capital was out trimming quite a few positions by the end of the first quarter. One theme that's quite evident is their desire to reduce financials exposure. They sold 72% of their massive stake in JPMorgan Chase (JPM) during the quarter. And even after that, it's still their seventh largest holding. But they also completely exited shares of US Bancorp (USB), Wells Fargo (WFC), and sold almost 90% of their Citigroup (C) stake. The wave of selling literally affected Maverick's top

thirteen disclosed holdings. Last quarter, Tyco (TYC) and Corning (GLW) were Maverick's top two disclosed positions. This time around, both are nowhere to be found in their top 20 holdings. Maverick dumped its GLW position entirely and sold 82% of its TYC stake after buying it hand over fist the past two quarters.

After all the selling in the first quarter, Maverick's top five holdings are now Cigna (CI), Avago Technologies (AVGO), Qualcomm (QCOM), Apple (AAPL), and Google (GOOG). The last two were consensus buys among hedge funds profiled in this issue (even though Ainslie's firm was reducing their stakes in each).

The hedge fund had a rough 2011 and Ainslie addressed this in his year-end letter to investors, writing: "While the environment for fundamental investing was certainly unfavorable last year, such factors do not fully account for our results. Maverick's poor performance was primarily driven by a handful of individual mistakes and insufficient risk constraints." In order to address risk management, they've implemented MavRank, a quantitative system driven by fundamental inputs that helps make recommendations for position sizing. The manager also touched on the investment environment, writing, "(Last year) stocks moved in tandem with one another to a degree never before seen and were less responsive to idiosyncratic risks, such as fundamental factors, than ever before ... equities have maintained correlation above the long-term average for almost six years now, creating a sustained, unfavorable headwind for fundamental investors."

View Maverick Capital's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	CIGNA Corporation	CI		4.6%	Cut -49%	\$321,728	6,532,539
2	Avago Technologies	AVGO		4.5%	Cut -41%	\$314,147	8,061,247
3	QUALCOMM	QCOM		4.5%	Cut -11%	\$311,357	4,574,744
4	Apple Inc.	AAPL		4.4%	Cut -63%	\$308,608	514,733
5	Google Inc.	GOOG		4.0%	Cut -3%	\$279,786	436,320
6	CareFusion Corp	CFN		3.2%	Cut -46%	\$220,962	8,521,463
7	JPMorgan Chase & Co.	JPM		3.1%	Cut -72%	\$214,971	4,675,308
8	CVS Caremark	CVS		3.1%	Cut -16%	\$213,718	4,770,502
9	Endo Pharma	ENDP		3.1%	Cut -7%	\$213,357	5,508,833
10	McKesson Corporation	MCK		3.1%	Cut -51%	\$213,615	2,433,806
11	YOUKU.COM INC.	YOKU		2.9%	Cut -50%	\$203,918	9,273,198
12	Sara Lee Corp.	SLE		2.9%	Cut -58%	\$203,292	9,442,246
13	Pfizer Inc.	PFE		2.4%	Cut -60%	\$163,647	7,226,628
14	Skyworks Solutions Inc.	SWKS		2.3%	New	\$161,684	5,847,539
15	Dollar General Corp	DG		2.3%	Cut -37%	\$161,540	3,496,541
16	Macy's, Inc.	M		1.9%	New	\$130,824	3,292,818
17	Amdocs Ltd.	DOX		1.9%	Cut -68%	\$130,621	4,136,208
18	Priceline.com Inc	PCLN		1.8%	New	\$126,926	176,900
19	Credicorp Ltd.	BAP		1.8%	Cut -20%	\$121,654	922,880
20	DIRECTV	DTV		1.7%	New	\$120,108	2,434,300
21	NetApp, Inc.	NTAP		1.7%	Cut -81%	\$118,646	2,650,118
22	Tyco International Ltd.	TYC		1.7%	Cut -82%	\$118,860	2,115,703
23	Oracle Corp.	ORCL		1.7%	Cut -26%	\$118,877	4,076,728
24	Valeant Pharma	VRX		1.7%	New	\$116,720	2,175,793
25	Avery Dennison Corp	AVY		1.7%	Cut -63%	\$115,464	3,832,190
26	TransDigm Group	TDG		1.6%	Cut -16%	\$113,113	977,138
27	Express Scripts Inc.	ESRX		1.6%	New	\$112,539	2,077,140
28	Green Mountain Coffee	GMCR		1.5%	New	\$107,381	2,292,500
29	GROUPON INC	GRPN		1.5%	Unchanged	\$104,729	6,331,120
30	Aeropostale, Inc.	ARO		1.5%	Cut -65%	\$102,536	4,742,623
31	SLM Corporation	SLM		1.4%	Cut -76%	\$99,771	6,330,638
32	Fomento Econ	FMX		1.4%	New	\$98,659	1,199,215
33	News Corp.	NWSA		1.4%	Cut -74%	\$96,965	4,919,590
34	Comcast Corporation	CMCSA		1.4%	Cut -68%	\$96,943	3,230,372
35	Owens Corning	OC		1.1%	Cut -73%	\$75,864	2,105,582
36	Liberty Global Inc.	LBTYA		1.1%	New	\$73,202	1,461,709
37	Sears Holdings	SHLD		1.0%	New	\$72,395	1,092,755
38	Anheuser-Busch InBev	BUD		1.0%	Cut -25%	\$66,289	911,568
39	Citigroup, Inc.	C		0.9%	Cut -89%	\$60,266	1,648,854
40	Comcast Corporation	CMCSK		0.8%	Cut -78%	\$58,267	1,974,497
41	CognizantTechSolutions	CTSH		0.8%	Cut -55%	\$56,579	735,265
42	Aetna Inc.	AET		0.8%	New	\$56,652	1,129,430
43	Progressive Corp.	PGR		0.8%	Cut -86%	\$56,245	2,426,447
44	Teradata Corporation	TDC		0.8%	Cut -81%	\$55,005	807,120
45	Sirona Dental Systems	SIRO		0.8%	Cut -70%	\$55,236	1,071,713

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	H&R Block, Inc.	HRB		0.8%	New	\$53,531	3,250,208
47	DaVita, Inc.	DVA		0.8%	New	\$52,805	585,616
48	Citrix Systems, Inc.	CTXS		0.7%	New	\$49,682	629,598
49	Family Dollar Stores	FDO		0.6%	New	\$42,569	672,712
50	Urban Outfitters Inc.	URBN		0.6%	Cut -91%	\$38,553	1,324,400
51	J. C. Penney Co	JCP		0.5%	Cut -75%	\$35,044	989,118
52	CARBO Ceramics Inc.	CRR		0.5%	New	\$32,186	305,223
53	Six Flags Entertainment	SIX		0.4%	Cut -51%	\$29,246	625,315
54	Capital One Financial	COF		0.4%	Cut -78%	\$28,781	516,348
55	Ironwood Pharma	IRWD		0.4%	Cut -50%	\$27,974	2,101,695
56	HSN, Inc.	HSNI		0.3%	Cut -60%	\$20,866	548,679
57	Caribou Coffee Co	CBOU		0.3%	Add 206%	\$18,786	1,007,828
58	Sanderson Farms, Inc.	SAFM		0.3%	Cut -50%	\$17,558	331,088
59	China Lodging Group	HTHT		0.3%	Cut -55%	\$17,086	1,461,549
60	RENREN INC	RENN		0.2%	New	\$16,940	3,068,829
61	BANKRATE INC	RATE		0.2%	Cut -50%	\$14,869	600,764
62	TriQuint Semi	TQNT		0.2%	New	\$14,466	2,097,981
63	SolarWinds, Inc.	SWI		0.2%	New	\$13,874	358,968
64	Pacific Biosciences	PACB		0.2%	Cut -50%	\$12,118	3,543,333
65	BRIGHTCOVE INC	BCOV		0.2%	New	\$11,210	502,252
66	RBSPfd Q	RBS-PQ		0.2%	Cut -79%	\$11,180	658,031
67	Signet Jewelers Limited	SIG		0.2%	Cut -74%	\$10,678	225,840
68	RBS Pfd M	RBS-PM		0.2%	Cut -58%	\$10,634	646,839
69	RBS Pfd S	RBS-PS		0.1%	Cut -84%	\$7,671	459,329
70	MEDLEY CAPITAL	MCC		0.1%	Cut -59%	\$7,747	687,420
71	Bluefly Inc.	BFLY		0.1%	Cut -50%	\$6,853	3,704,101
72	Wet Seal Inc.	WTSLA		0.1%	Cut -58%	\$6,059	1,756,106
73	icad Inc.	ICAD		0.0%	Cut -62%	\$80	184,141
74	RBS Pfd N	RBS-PN			<b>Sold</b>		-
75	Banco Santander-Chile	BSAC			<b>Sold</b>		-
76	RBS Pfd T	RBS-PT			<b>Sold</b>		-
77	HCA HLDGS	HCA			<b>Sold</b>		-
78	Trina Solar Ltd.	TSL			<b>Sold</b>		-
79	Par Pharma	PRX			<b>Sold</b>		-
80	ETFS Physical Platinum	PPLT			<b>Sold</b>		-
81	U.S. Bancorp	USB			<b>Sold</b>		-
82	Marvell Technology	MRVL			<b>Sold</b>		-
83	Wells Fargo & Co	WFC			<b>Sold</b>		-
84	Amazon.com Inc.	AMZN			<b>Sold</b>		-
85	Corning Inc.	GLW			<b>Sold</b>		-
86	Apollo Group Inc.	APOL			<b>Sold</b>		-
87	Home Inns & Hotels	HMIN			<b>Sold</b>		-
88	First Solar, Inc.	FSLR			<b>Sold</b>		-
89	Yingli Green Energy	YGE			<b>Sold</b>		-
90	Citigroup Dividend	C/PH			<b>Sold</b>		-
91	AMBEV	ABV			<b>Sold</b>		-
92	Cardiovascular Systems	CSII			<b>Sold</b>		-
93	Las Vegas Sands	LVS			<b>Sold</b>		-

Next Page: Third Point

Offshore fund has returned 18.4% annualized since inception

Focuses on event-driven and distressed plays

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## Key Takeaways

### **New Positions:**

Delphi (DLPH) ~ owned pre-IPO  
Apple (AAPL)  
United Technologies (UTX)  
Google (GOOG)  
Express Scripts (ESRX)  
Family Dollar (FDO)  
Capital One (COF)  
Cisco Systems (CSCO)  
Abercrombie & Fitch (ANF)  
Wells Fargo (WFC)  
Teradyne (TER)  
Pioneer Natural Resources (PXD)  
Devon Energy (DVN)

### **Sold Completely Out Of:**

Big Lots (BIG)  
Plains Exploration (PXP)  
Liberty Interactive (LINTA)  
Expedia (EXPE)  
Sunoco (SUN)  
Skyworks Solutions (SWKS)  
Newell Rubbermaid (NWL)

Third Point continues to lead the activist charge in Yahoo! (YHOO) and they were out buying even more shares in the first quarter. Third Point won their proxy contest and ousted the CEO. But now the problem still remains: how do you fix the company?

Loeb's firm started a sizable new position in Apple (AAPL) during the first quarter. He purchased shares at \$445 and wrote his thoughts on the company in his [Q1 letter](#): "Currently, Apple is trading at 13.4x CY2012 EPS of \$45, and 11.6x CY2013 EPS of \$52 ... Adjusting for cash, Apple's valuation drops to 11.1x CY2012 EPS and 9.6x C2013, leaving it inexpensive relative to the S&P 500." He points to the product 'halo' effect as more users become entrenched in the company's operating system as well as growth in China as key drivers

going forward.

Third Point also started new stakes in Medco Health and Express Scripts (ESRX) during the quarter, playing the merger arbitrage. Express Scripts received regulatory approval to acquire Medco and the deal went through. Post-merger, Loeb continues to like the combined entity, writing, "Based on our analysis of the combined MHS/ESRX entity, we believe that Express Scripts remains an attractive investment candidate, combining 15+% EPS growth, the opportunity for accelerated synergy realization, and a reasonable forward PE multiple (13x 2013 EPS)."

The hedge fund continued to add to its position in Sara Lee (SLE) during the quarter. This should come as no surprise given the catalysts ahead. The company has announced a special dividend of \$3 per share after the tea & coffee division is spun-off in June. Existing shareholders of SLE will receive shares in the new company, which plans to list in the Netherlands.

When viewing Third Point's equity portfolio on the next page, just remember they also invest in debt and other asset classes as well. Third Point's actual top five holdings as of the end of April are: Yahoo (YHOO), gold, Delphi (DLPH), Apple (AAPL), and Eksportfinans ASA. Also, Delphi shows up as a 'new' stake on the next page, but that's only because the company completed its IPO. In reality, Third Point owned it beforehand.

Loeb is also profiled in the excellent new book [The Alpha Masters](#) along with numerous other top managers.

View Third Point's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Yahoo! Inc.	YHOO		26.42%	Add 26%	\$1,073,016	70,500,400
2	DELPHI	DLPH		10.29%	New	\$417,990	13,339,711
3	Sara Lee Corp.	SLE		5.45%	Add 32%	\$221,221	10,275,000
4	Apple Inc.	AAPL		5.34%	New	\$217,037	362,000
5	United Technologies	UTX		4.49%	New	\$182,468	2,200,000
6	Google Inc.	GOOG		4.42%	New	\$179,547	280,000
7	Marvell Technology	MRVL		3.58%	Cut -8%	\$145,503	9,250,000
8	MedcoHealth Solutions	MHS		3.46%	New	\$140,600	2,000,000
9	Family Dollar Stores	FDO		3.35%	New	\$136,052	2,150,000
10	Capital One Financial	COF		2.95%	New	\$119,841	2,150,000
11	El Paso Corp.	EP		2.91%	Cut -28%	\$118,200	4,000,000
12	Cisco Systems, Inc.	CSCO		2.60%	New	\$105,750	5,000,000
13	Abercrombie & Fitch	ANF		2.26%	New	\$91,778	1,850,000
14	Wells Fargo & Co	WFC		2.14%	New	\$87,057	2,550,000
15	Teradyne Inc.	TER		2.08%	New	\$84,450	5,000,000
16	Express Scripts	ESRX		2.00%	New	\$81,270	1,500,000
17	Pioneer Natural	PXD		1.79%	New	\$72,534	650,000
18	Devon Energy Corp	DVN		1.75%	New	\$71,120	1,000,000
19	Weatherford	WFT		1.71%	New	\$69,414	4,600,000
20	DISH NETWORK	DISH		1.62%	Cut -50%	\$65,860	2,000,000
21	Ivanhoe Mines Ltd.	IVN		1.26%	New	\$51,155	3,250,000
22	Liberty Media	LMCA		1.19%	Added 10%	\$48,482	550,000
23	McKesson Corporation	MCK		1.19%	New	\$48,274	550,000
24	Teva Pharmaceutical	TEVA		0.89%	New	\$36,048	800,000
25	SPDR Gold Shares	GLD		0.64%	Unchanged	\$25,939	160,000
26	Goldman Sachs	GS		0.61%	Cut -33%	\$24,874	200,000
27	Genworth Financial Inc.	GNW		0.51%	Cut -29%	\$20,800	2,500,000
28	RBS Pfd T	RBS-PT		0.45%	New	\$18,335	965,000
29	Liberty Global Inc.	LBTYA		0.44%	New	\$17,964	358,700
30	Thoratec Corp.	THOR		0.42%	New	\$16,855	500,000
31	Mead Johnson Nutrition	MJN		0.41%	Cut -85%	\$16,496	200,000
32	Barrick Gold Corporation	ABX		0.26%	Adde49%	\$10,609	244,000
33	RBS Pfd S	RBS-PS		0.25%	New	\$10,020	600,000
34	Xerium Technologies Inc.	XRM		0.22%	Cut -20%	\$8,733	1,354,000
35	RBS Pfd Q	RBS-PQ		0.22%	New	\$9,005	530,000
36	RBS Pfd N	RBS-PN		0.10%	New	\$4,040	250,000
37	BioFuel Energy Corp.	BIOF		0.09%	Unchanged	\$3,626	5,578,800
38	RBS Pfd M	RBS-PM		0.09%	New	\$3,452	210,000
39	McKesson Corporation	MCK	CALL	0.04%	New	\$1,512	500,000
40	KINDER MORGAN	KMI	CALL	0.04%	New	\$1,625	2,500,000
41	RBS Pfd P	RBS-PP		0.03%	New	\$1,304	80,000
42	QUESTCOR PHARMA	QCOR	PUT	0.01%	New	\$484	510,000
43	Qihoo 360 Technology	QIHU	PUT	0.01%	New	\$458	228,900

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
44	Potash Corp	POT			Sold		-
45	Newell Rubbermaid Inc.	NWL			Sold		-
46	HOLLYFRONTIER	HFC			Sold		-
47	Gilead Sciences Inc.	GILD			Sold		-
48	Liberty Media Interactive	LINTA			Sold		-
49	Crexus Investment Corp.	CXS			Sold		-
50	MGIC Investment Corp.	MTG			Sold		-
51	Gardner Denver Inc.	GDI			Sold		-
52	ABRAXAS PETROLEUM	AXAS			Sold		-
53	MEMC Electronic	WFR			Sold		-
54	SanDisk Corp.	SNDK			Sold		-
55	Big Lots Inc.	BIG			Sold		-
56	Plains Exploration	PXP			Sold		-
57	Celanese Corp.	CE			Sold		-
58	FMC Corp.	FMC			Sold		-
59	Williams Companies, Inc.	WMB			Sold		-
60	GrafTech Intl	GTI			Sold		-
61	WPX ENERGY INC	WPX			Sold		-
62	SUNCOKE ENERGY	SXC			Sold		-
63	ETRADE Financial	ETFC			Sold		-
64	EAGLE ROCK ENERGY	EROCW			Sold		-
65	Skyworks Solutions Inc.	SWKS			Sold		-
66	Sunoco Inc.	SUN			Sold		-
67	YPF S.A.	YPF			Sold		-
68	Yahoo! Inc.	YHOO	CALL		Sold		-
69	Expedia Inc.	EXPE			Sold		-
70	Diamond Foods, Inc.	DMND	PUT		Sold		-

# Blue Ridge Capital

John Griffin

Classifies investments as catalyst driven or time arbitrage & previously was Julian Robertson's right-hand man

View his [recommended reading list](#)



## Key Takeaways

### **New Positions:**

TripAdvisor (TRIP)  
Martin Marietta (MLM)  
Michael Kors (KORS)

### **Sold Completely Out Of:**

Level 3 Communications (LVLT)  
Market Vectors Gold Miners (GDX)  
EchoStar (SATS)  
Valeant Pharmaceuticals (VRX)  
Illumina (ILMN)  
PennyMac Mortgage (PMT)  
American Capital Agency (AGNC)  
NRG Energy (NRG)  
Dunkin Brands (DNKN)  
KKR (KKR)

Blue Ridge Capital made a few significant sells during the first quarter. They liquidated their longstanding position in Valeant Pharmaceuticals (VRX), previously their sixth largest holding. They also completely exited shares of Level 3 Communications (LVLT). While they expected the company to further its market position after the acquisition of Global Crossing, shares of LVLT largely haven't done much. Additionally, they trimmed their previously largest holding, Range Resources, by 25% during the quarter. They still own it, though, as it's now their tenth largest disclosed stake. The last stock worth highlighting on the selling side is NovaGold Resources (NG). Blue Ridge cut its position in half, which is intriguing when you consider that Seth Klarman's Baupost Group was buying during the quarter. Not to mention, shares have slid even lower since the close of the quarter.

On the buying side of the equation, Blue Ridge ratcheted up their position in Apple

(AAPL) in a big way, almost doubling their position size. They've long been a holder of the stock, but they sold almost 70% of their position in the fourth quarter. They quickly changed their mind on that decision, bringing it back up to their top holding in the first quarter. The hedge fund also started three new stakes worth highlighting. TripAdvisor (TRIP) was spun-off from Expedia (EXPE) in the fourth quarter and John Griffin's firm likes the newly separate company as they bought over 4.5 million TRIP shares. Michael Kors (KORS) completed its initial public offering (IPO) in the fourth quarter, but Blue Ridge waited until the first quarter to initiate a position in the name. Lastly, Martin Marietta (MLM) garnered new capital from the hedge fund as well. Regarding MLM, Tom Russo of Gardner, Russo, & Gardner recently made comments about the investment thesis on the company with [Columbia Business School](#): "(Its) business, stone quarrying, tends toward natural monopolies. It is very expensive to haul stone on a truck and stone isn't valuable enough to allow it to recoup shipping costs. Within 25 miles is about the only distance that you can draw from to get stone ... so if you own a quarry in an urban region, you have a very valuable asset."

As you'll notice from their portfolio on the next page, Blue Ridge is one of the better hedge funds to track via 13F due to the lower amount of turnover. Many of the positions remain 'unchanged' from the prior quarter. John Griffin's firm typically categorizes its investments into either a) time arbitrage (long-term investors) or b) catalyst driven.

View Blue Ridge Capital's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Apple Inc.	AAPL		7.2%	Added 92%	\$431,976	720,500
2	Priceline.com Inc	PCLN		6.6%	Unchanged	\$397,495	554,000
3	Amazon.com Inc.	AMZN		5.8%	Unchanged	\$352,751	1,741,896
4	Monsanto Co.	MON		5.7%	Unchanged	\$345,760	4,335,000
5	Google Inc.	GOOG		5.5%	Added 4%	\$333,445	520,000
6	JPMorgan Chase & Co.	JPM		4.7%	Added 43%	\$282,087	6,135,000
7	Netflix, Inc.	NFLX		4.5%	Unchanged	\$272,070	2,365,000
8	Sensata Technologies	ST		4.4%	Unchanged	\$263,655	7,875,000
9	Thermo Fisher Scientific	TMO		4.4%	Unchanged	\$262,731	4,660,000
10	Range Resources Corp	RRC		4.1%	Cut -25%	\$249,404	4,289,720
11	Liberty Global Inc.	LBTYA		4.1%	Added 1%	\$244,641	4,885,000
12	Lowe's Companies Inc.	LOW		3.7%	Unchanged	\$222,672	7,096,000
13	HCA HLDGS INC COM	HCA		3.1%	Added 14%	\$186,787	7,550,000
14	DOLLAR TREE STORES	DLTR		3.0%	Unchanged	\$181,421	1,920,000
15	TRIPADVISOR	TRIP		2.8%	New	\$166,757	4,675,000
16	Polo Ralph Lauren Corp.	RL		2.7%	Unchanged	\$162,999	935,000
17	VeriSign Inc.	VRSN		2.5%	Added 86%	\$148,031	3,860,000
18	Gilead Sciences Inc.	GILD		2.4%	Add 122%	\$145,114	2,970,000
19	SIRIUS XM Radio Inc.	SIRI		2.4%	Added 12%	\$143,197	61,990,000
20	MARTIN MARIETTA	MLM		2.3%	New	\$138,721	1,620,000
21	Delta Air Lines Inc.	DAL		2.0%	Unchanged	\$122,946	12,400,000
22	BlackRock, Inc.	BLK		2.0%	Unchanged	\$117,818	575,000
23	WABCO Holdings Inc.	WBC		1.8%	Added 27%	\$105,538	1,745,000
24	MICHAEL KORS	KORS		1.7%	New	\$103,663	2,225,000
25	TD AMERITRADE	AMTD		1.6%	Unchanged	\$96,825	4,905,000
26	United Continental	UAL		1.4%	Unchanged	\$86,982	4,045,678
27	Baidu, Inc.	BIDU		1.4%	Unchanged	\$82,724	567,500
28	Citigroup, Inc.	C		1.3%	Added 76%	\$81,141	2,220,000
29	YOUKU.COM INC.	YOKU		1.3%	Added 3%	\$79,164	3,600,000
30	MGIC Investment Corp.	MTG		0.8%	Unchanged	\$49,107	9,900,600
31	Xinyuan Real Estate	XIN		0.8%	Unchanged	\$47,723	13,752,933
32	YANDEX N V	YNDX		0.7%	Unchanged	\$44,067	1,640,000
33	NovaGold Resources Inc.	NG		0.4%	Cut -50%	\$25,830	3,597,500
34	Tesla Motors, Inc.	TSLA		0.4%	Unchanged	\$21,413	575,000
35	Ivanhoe Energy Inc.	IVAN		0.3%	Unchanged	\$16,784	15,985,000
36	JPMorgan Chase Warrants	JPM/WS		0.2%	Unchanged	\$12,484	933,000
37	AIG When Issued	AIG/WS		0.2%	Unchanged	\$12,236	1,150,000
38	PACIFIC BIOSCIENCES	PACB		0.1%	Unchanged	\$2,975	870,000
39	Northeast Bancorp	NBN		0.0%	Cut -27%	\$1,440	114,300

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
40	Level 3 Communications	LVLT			<b>Sold</b>		-
41	PennyMac Mortgage	PMT			<b>Sold</b>		-
42	American Capital Agency	AGNC			<b>Sold</b>		-
43	Gold Miners ETF	GDX			<b>Sold</b>		-
44	NRG Energy, Inc.	NRG			<b>Sold</b>		-
45	DUNKIN' BRANDS GROUP	DNKN			<b>Sold</b>		-
46	Kohlberg Kravis Roberts	KKR			<b>Sold</b>		-
47	GOLUB CAPITAL	GBDC			<b>Sold</b>		-
48	Ivanhoe Mines Ltd.	IVN			<b>Sold</b>		-
49	EchoStar Corp.	SATS			<b>Sold</b>		-
50	Greenlight Capital Re	GLRE			<b>Sold</b>		-
51	Valeant Pharmaceuticals	VRX			<b>Sold</b>		-
52	Dynegy Inc.	DYN			<b>Sold</b>		-
53	East West Bancorp	EWBC			<b>Sold</b>		-
54	ARCOS DORADOS	ARCO			<b>Sold</b>		-
55	Illumina Inc.	ILMN			<b>Sold</b>		-

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View an in-depth look at [Paulson's gold fund](#)



### Key Takeaways

#### **New Positions:**

Caesars (CZR)  
Covidien (COV)  
Novellus (NVLS)  
AboveNet (ABVT)  
Thomas & Betts (TNB)  
Viacom (VIA.B)  
Quest Software (QSFT)

#### **Sold Completely Out Of:**

Transocean (RIG)  
CB Richard Ellis (CBG)  
Pharmasset ~ bought out  
Southern Union ~ bought out  
Whirlpool (WHR)  
Mosaic (MOS)  
Beazer Homes (BZMD)  
Vail Resorts (MTN)  
FelCor Lodging (FCH-PA)

John Paulson is profiled and interviewed in the new book, [The Alpha Masters](#), a true must-read due to the unparalleled access to numerous top managers the book provides. He also recently made an appearance at the Ira Sohn Conference in New York City where he presented three long ideas. The first of which, Caesars (CZR), was one he just started a position in during the first quarter. His thesis on buying the equity of this highly leveraged name is that he's treating it essentially as a stock with a high option value. He says that common stock is only 7% of valuation and gets the upside as the company is turning around. Paulson argues the key to CZR could not only be gaming properties but social gaming, which could be worth \$6-9, and online gaming could be worth \$24 per share. The key is growth and he says the company is already seeing revenue per available room (RevPAR) growth. Paulson

points to CZR having no debt due until 2015 and he likes hotels because the rates increase with inflation. He argued the stock could have 10x upside.

His second idea at the conference was AngloGold Ashanti (AU), a position he's held for a while now and one that's currently his third largest disclosed long. Paulson says this play is pure gold upside and noted it's been selling off much more than the price of gold as the correlation has broken down. While bears say to just buy the SPDR Gold Trust exchange traded fund (GLD), Paulson says you're essentially paying more by doing that. He argues you're buying the company at only \$133 per proven reserves.

Paulson's last idea at the Ira Sohn Conference was an arbitrage play (his specialty). He's playing the CVR Energy (CVI) takeover by Carl Icahn and is tendering his shares into the offer. So if you buy shares at \$30.35 and tender to the offer at \$30, you're only paying \$0.35 for contingent cash payment rights (CCP). So if Icahn turns around and shops the company and sells it for \$36.15, the CCP could be worth \$6.15, which is a 17.6x return on the \$0.35 paid initially.

Touching on some of Paulson's first quarter portfolio activity, he was mainly out adding to risk arbitrage positions for takeovers (El Paso, Medco Health, AboveNet, etc). And after selling over 80% of his position in Transocean (RIG) in the fourth quarter, John Paulson completely liquidated the rest of his shares as RIG continued to trade lower.

View Paulson & Co's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	SPDR Gold Shares	GLD		18.7%	Unchanged	\$2,806,452	17,310,952
2	DELPHI	DLPH		9.6%	Cut -12%	\$1,438,898	45,534,758
3	AngloGold Ashanti Ltd.	AU		8.2%	Cut -3%	\$1,224,358	33,162,460
4	Hartford Financial	HIG		5.3%	Added 0%	\$789,882	37,470,676
5	Mylan, Inc.	MYL		3.8%	Added 16%	\$574,605	24,503,400
6	MGM Resorts	MGM		3.4%	Added 1%	\$512,782	37,649,200
7	Anadarko Petroleum Corp	APC		3.1%	Cut -38%	\$468,657	5,982,345
8	Capital One Financial	COF		3.0%	Cut -14%	\$457,068	8,200,000
9	Motorola Mobility	MMI		2.9%	Unchanged	\$431,640	11,000,000
10	Baxter International Inc.	BAX		2.2%	Added 89%	\$322,812	5,400,000
11	CNO FINL GROUP NOTE	CNO		2.1%	Unchanged	\$312,462	199,976,000
12	MedcoHealth Solutions	MHS		1.9%	Add 100%	\$281,200	4,000,000
13	Gold Fields Ltd.	GFI		1.8%	Cut -20%	\$262,121	18,857,600
14	AMC NETWORKS	AMCX		1.7%	Unchanged	\$256,623	5,750,000
15	JPMorgan Chase Warrant	JPM/WS		1.7%	Cut 0%	\$247,042	18,463,500
16	XL Group plc	XL		1.6%	Cut -34%	\$244,915	11,291,600
17	Life Technologies Corp	LIFE		1.6%	Added 2%	\$243,016	4,977,792
18	El Paso Corp.	EP		1.6%	Add 100%	\$236,400	8,000,000
19	NovaGold Resources Inc.	NG		1.5%	Added 39%	\$229,292	31,937,018
20	CNO Financial Group, Inc.	CNO		1.2%	Cut -1%	\$181,129	23,281,369
21	CAESARS Entertainment	CZR		1.2%	New	\$182,376	12,372,835
22	Goodrich Corp.	GR		1.2%	Unchanged	\$179,084	1,427,649
23	American Capital, Ltd.	ACAS		1.1%	Cut -43%	\$157,790	18,199,543
24	Bank of America Warrant	BAC/WS/A		1.0%	Added 0%	\$147,085	31,631,200
25	Scripps Networks	SNI		1.0%	Cut -23%	\$146,070	3,000,000
26	InterDigital, Inc.	IDCC		0.9%	Added 36%	\$139,440	4,000,000
27	SunTrust Banks, Inc.	STI		0.9%	Cut -52%	\$136,606	5,651,894
28	Popular Inc.	BPOP		0.9%	Unchanged	\$134,830	65,770,600
29	Rock-Tenn Co.	RKT		0.9%	Cut -37%	\$135,120	2,000,000
30	AngloGold Converts	AU/PA		0.9%	Unchanged	\$131,092	3,043,000
31	MetLife, Inc.	MET		0.9%	Cut -21%	\$129,402	1,829,782
32	Wells Fargo & Company	WFC		0.8%	Unchanged	\$119,183	3,491,000
33	Ralcorp Holdings Inc.	RAH		0.7%	Unchanged	\$111,135	1,500,000
34	Covidien plc	COV		0.7%	New	\$98,424	1,800,000
35	Novellus Systems, Inc.	NVLS		0.7%	New	\$99,820	2,000,000
36	Family Dollar Stores Inc.	FDO		0.6%	Unchanged	\$94,920	1,500,000
37	Capital One Warrants	COF/WS		0.6%	Unchanged	\$91,109	3,992,520
38	GRIFOLS, S.A.	GRFS		0.6%	Cut -1%	\$86,396	11,205,745
39	AboveNet, Inc.	ABVT		0.6%	New	\$82,800	1,000,000
40	Randgold Resources Ltd.	GOLD		0.6%	Cut -1%	\$81,866	930,502
41	Howard Hughes Corp	HHC		0.5%	Cut -25%	\$75,367	1,180,000
42	Thomas & Betts Corp.	TNB		0.5%	New	\$71,910	1,000,000
43	GENON ENERGY INC	GEN		0.4%	Add 565%	\$65,670	31,571,989
44	Boise Inc.	BZ		0.4%	Cut 0%	\$57,604	7,016,300
45	IAMGOLD Corp.	IAG		0.3%	Added 40%	\$51,590	3,881,900
46	Viacom Inc 6.85% Pfd	VIAB		0.3%	New	\$47,460	1,000,000
47	Quest Software Inc.	QSFT		0.3%	New	\$46,540	2,000,000
48	AbitibiBowater Inc.	ABH		0.3%	Cut -30%	\$47,124	3,300,000
49	Gaylord Entertainment Co.	GET		0.3%	New	\$41,888	1,360,000
50	Barrick Gold Corporation	ABX		0.3%	Cut -1%	\$39,784	915,000

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
51	HCA HLDGS INC COM	HCA		0.3%	New	\$39,584	1,600,000
52	United Rentals, Inc.	URI		0.2%	Unchanged	\$35,809	834,900
53	Agnico-Eagle Mines Ltd.	AEM		0.2%	Cut -1%	\$33,934	1,016,600
54	Allied Nevada Gold Corp.	ANV		0.2%	New	\$32,807	1,008,521
55	Walter Energy, Inc.	WLT		0.2%	Unchanged	\$29,605	500,000
56	POST HOLDINGS INC	POST		0.2%	New	\$27,342	830,300
57	Medicis Pharmaceutical	MRX		0.2%	Unchanged	\$25,614	681,400
58	International Tower Hill	THM		0.2%	Cut -1%	\$21,894	5,103,500
59	STATE BANK FINANCIAL	STBZ		0.2%	Cut -35%	\$22,101	1,262,200
60	FelCor Lodging Trust Inc.	FCH		0.1%	Unchanged	\$20,520	5,700,000
61	Prestige Brands Holdings	PBH		0.1%	New	\$17,480	1,000,000
62	Tenet Healthcare Corp.	THC		0.1%	Cut -73%	\$14,337	2,700,000
63	RBS Pfd N	RBS-PN		0.1%	Added 10%	\$13,259	820,490
64	Bank of America Warrant	BAC/WS/B		0.1%	Unchanged	\$13,694	13,041,600
65	RBS Pfd M	RBS-PM		0.1%	Unchanged	\$13,728	835,051
66	RBS Pfd P	RBS-PP		0.1%	Unchanged	\$9,820	602,433
67	RBS Pfd Q	RBS-PQ		0.1%	Unchanged	\$10,493	617,578
68	STRATEGIC HOTELS	SGCHZ		0.1%	Cut -71%	\$10,791	1,640,000
69	RBS Pfd R	RBS-PR		0.1%	Unchanged	\$10,171	623,968
70	RBS Pfd S	RBS-PS		0.1%	Unchanged	\$8,526	510,524
71	RBS Pfd T	RBS-PT		0.1%	Unchanged	\$7,717	406,180
72	Beazer Homes USA Inc.	BZH		0.1%	Cut -53%	\$7,480	2,301,483
73	News Corp.	NWS		0.0%	Cut -94%	\$5,994	300,000
74	SuperMedia Inc.	SPMD		0.0%	Unchanged	\$6,232	2,607,504
75	Teva Pharmaceutical	TEVA		0.0%	Unchanged	\$6,362	141,193
76	Dex One Corporation	DEXO		0.0%	Unchanged	\$5,220	3,676,394
77	FAIRPOINT COMM	FRP		0.0%	Cut -52%	\$4,136	1,100,000
78	CHEMTURA CORP	CHMT		0.0%	Added 32%	\$4,964	292,325
79	Sunstone Hotel Investors	SHO		0.0%	Cut -87%	\$2,401	246,458
80	Hartford Financial Wrrnt	HIG/WS		0.0%	Unchanged	\$928	70,000
81	Quad/Graphics, Inc.	QUAD		0.0%	Cut -86%	\$2,085	150,000
82	Sara Lee Corp.	SLE		0.0%	New	\$1,507	70,000
83	Transocean Ltd.	RIG			<b>Sold</b>		-
84	FelCor Lodging Trust	FCH-PA			<b>Sold</b>		-
85	CB Richard Ellis Group	CBG			<b>Sold</b>		-
86	PHARMASSET	VRUS			<b>Sold</b>		-
87	Southern Union	SUG			<b>Sold</b>		-
88	Whirlpool Corp.	WHR			<b>Sold</b>		-
89	Mosaic Co.	MOS			<b>Sold</b>		-
90	PMI GROUP INC	PPMIQ			<b>Sold</b>		-
91	Transatlantic Holdings	TRH			<b>Sold</b>		-
92	Veeco Instruments	VECO			<b>Sold</b>		-
93	Beazer Homes USA	BZMD			<b>Sold</b>		-
94	Vail Resorts Inc.	MTN			<b>Sold</b>		-

# Tiger Management

## Julian Robertson

Mentored the 'Tiger Cub' hedge funds & seeded other talented up & coming managers

Featured in the book [A Tiger in the Land of Bulls and Bears](#)

View a [profile of Tiger Management](#)



### Key Takeaways

#### **New Positions:**

HCA (HCA)  
Starbucks (SBUX)  
Sherwin Williams (SHW)  
VeriSign (VRSN)  
Express-1 Expedited Solutions (XPO)  
Netflix (NFLX)  
SanDisk (SNDK)  
Callidus Software (CALD)  
Remark Media (MARK)

#### **Sold Completely Out Of:**

Valeant Pharmaceuticals (VRX)  
Citigroup (C)  
Digital Globe (DGI)  
Sonoco Products (SON)

The upper echelon of Tiger Management's portfolio saw some interesting changes during the first quarter. The most notable change would be the fact that Julian Robertson's firm sold completely out of its previously large stake in Valeant Pharmaceuticals (VRX). His former number two right-hand man, John Griffin, also sold out of VRX in the quarter. Given that Robertson often talks with his former employees, this similar movement is probably not a coincidence.

After selling out of Netflix (NFLX) in the fourth quarter (after shares plummeted), Tiger Management re-entered a NFLX position just one quarter later. NFLX currently trades around \$74. The lowest Tiger could have paid was \$72 and the highest \$129 based on NFLX's trading during the quarter. Needless to say, it's been a wild ride. Tiger also started a bevy of positions, including: HCA (HCA), Starbucks (SBUX), Sherwin Williams (SHW) and VeriSign (VRSN). SHW shares have been on a monster

run this year as numerous other hedge funds got involved. Robertson's firm also added to existing positions in Apple (AAPL) and Mastercard (MA), boosting their holdings by almost 30% each. AAPL remains Tiger's top holding, while MA jumped up from 7<sup>th</sup> largest position to 3<sup>rd</sup> largest. And after buying baskets of gold miners and junior miners last quarter, they continued to buy shares of GDX and GDXJ.

Robertson recently gave a rare interview to [Columbia Business School](#) where he shared some of his latest thoughts. He mentioned he likes WuXi PharmaTech (WX), saying that, "I love WuXi which is a Chinese-based employment agency for PHD's, primarily in the drug industry ... the company's earnings are certainly increasing beautifully at about 20% a year and it still sells at 10x earnings." Robertson actually sold 25% of his WX position during the first quarter, but it's still his seventh largest disclosed position.

The Tiger Management founder also shared some wisdom as to how he approaches investing: "I believe that the best way to manage money is to go long and short stocks. My theory is that if the 50 best stocks you can come up with don't outperform the 50 worst stocks you can come up with, you should be in another business ... For my shorts, I look for a bad management team, and a wildly overvalued company in an industry that is declining or misunderstood." In the interview, he also reiterated his bullish stance on shares of Apple (AAPL) and Google (GOOG).

View Tiger Management's  
Updated Portfolio on the Next Page



# Tiger Management

First Quarter 2012 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Apple Inc.	AAPL		15.1%	Added 29%	\$53,174	88,690
2	The Goldman Sachs Group	GS		8.9%	Added 9%	\$31,225	251,065
3	Mastercard Incorporated	MA		6.3%	Added 29%	\$22,286	52,994
4	Liberty Global Inc.	LBTYA		5.8%	Unchanged	\$20,412	407,595
5	Google Inc.	GOOG		5.7%	Cut -13%	\$20,226	31,542
6	Visa, Inc.	V		5.7%	Added 21%	\$20,007	169,552
7	WuXi PharmaTech	WX		4.4%	Cut -25%	\$15,607	1,083,818
8	QUALCOMM Incorporated	QCOM		4.2%	Unchanged	\$14,703	216,030
9	PNC Financial Services	PNC		3.6%	Added 49%	\$12,711	197,100
10	Wells Fargo & Company	WFC		3.6%	Added 57%	\$12,659	370,800
11	HCA HLDGS INC COM	HCA		3.6%	New	\$12,533	506,600
12	Starbucks Corp.	SBUX		3.5%	New	\$12,212	218,500
13	Sherwin-Williams Co.	SHW		3.2%	New	\$11,171	102,800
14	VeriSign Inc.	VRSN		3.0%	New	\$10,700	279,000
15	Express-1 Expedited	XPO		2.8%	New	\$9,996	595,000
16	Market Vectors Gold Miners	GDX		2.8%	Added 28%	\$9,824	198,300
17	Netflix, Inc.	NFLX		2.6%	New	\$9,238	80,300
18	LCA-Vision Inc.	LCAV		2.5%	Unchanged	\$8,620	1,372,577
19	Cablevision Systems Corporation	CVC		2.3%	Unchanged	\$8,011	545,700
20	SanDisk Corp.	SNDK		2.0%	New	\$6,992	141,000
21	AutoNavi Holdings Limited	AMAP		1.9%	Unchanged	\$6,536	520,759
22	JuniorGoldMiners ETF	GDXJ		1.8%	Added 29%	\$6,439	262,300
23	Callidus Software Inc.	CALD		1.7%	New	\$5,896	754,900
24	Ryanair Holdings plc	RYAAY		1.3%	Unchanged	\$4,463	123,022
25	Suncor Energy Inc.	SU		0.6%	Unchanged	\$2,240	68,500
26	REMARK MEDIA	MARK		0.4%	New	\$1,530	254,183
27	Cardiome Pharma Corp.	CRME		0.3%	Unchanged	\$1,125	1,596,106
28	Sealed Air Corporation	SEE		0.3%	Unchanged	\$938	48,600
29	Nexen Inc.	NXY		0.2%	Unchanged	\$513	27,950
30	Carnival Corporation	CCL		0.1%	Unchanged	\$319	9,950
31	SIRIUS XM Radio Inc.	SIRI		0.1%	Unchanged	\$231	100,000
32	Valeant Pharmaceuticals	VRX			<b>Sold</b>		-
33	Citigroup, Inc.	C			<b>Sold</b>		-
34	DigitalGlobe, Inc.	DGI			<b>Sold</b>		-
35	Sonoco Products Co.	SON			<b>Sold</b>		-

Next Page: Soros Fund Management

# Soros Fund Mgmt

George Soros

Famously broke the Bank of England with a huge bet against the British Pound

Renowned global macro hedge fund

Author of [The Alchemy of Finance](#)



## Key Takeaways

### **New Positions:**

PowerShares QQQ (QQQ) Puts  
Lucent Technologies (LU) Note  
Digital River (DRIV) Note  
Hologic (HOLX) Note  
Quantum Corp (QTM) Note  
CVR Energy (CVI)  
SunTrust Banks (STI)  
Chevron (CVX)  
Macy's (M)

### **Sold Completely Out Of:**

SanDisk (SNDK)  
Dendreon (DNDN)  
Mead Johnson Nutrition (MJN)  
Viacom (VIA.B)  
US Steel (X)  
NII Holdings (NIHD)  
EchoStar (SATS)  
Google (GOOG)  
Walgreen (WAG)

As you can see above, convertible notes are the name of the game for Soros Fund Management. George Soros' hedge fund turned family office holds six of its top ten positions in the form of notes instead of equity. Micron Technology (MU) notes continues to be their top holding. Their second largest position, however, is now SPDR S&P 500 (SPY) put options as a hedge to the overall portfolio as they boosted their notional exposure by 150%. They also initiated another put option position in the quarter: PowerShares QQQ (QQQ) puts as they seek to hedge their large technology exposure. And speaking of technology, SanDisk (SNDK) notes are Soros' third largest holding. They clearly prefer playing convertibles here instead of equity as they sold their SNDK common stock during the quarter. SanDisk has

had a very volatile past few weeks after the company posted weak guidance that generated sufficient investor concern. Over the past few months, SNDK shares are down 32% but Soros at least exited their common stock before the carnage.

Two brand new stakes for George Soros' firm worth highlighting are Lucent Technologies (LU) notes as well as Digital River (DRIV) notes. In a 13G filed with the SEC recently, Soros disclosed they have continued to buy Digital River convertible bonds and now own 4,162,494 shares via these notes. The filing also discloses that they own two separate sets of notes. The majority of their position is in the 2.00% convertible bonds due 2030 with a conversion price of 49.13 (these mature on November 1<sup>st</sup>, 2030). The second set of notes they have a much smaller stake in is the 1.25% convertible bonds due 2024 with a conversion price of 44.06.

Of the equity holdings Soros does own, you'll see a common theme: event-driven/catalysts. They own Sara Lee (SLE) in size as the company is completing a spin-off soon. They also own CVR Energy (CVI), which received a takeover offer from activist investor Carl Icahn. Additionally, Soros also bought more Express Scripts (ESRX), who just purchased Medco Health.

Given that Soros' family office owns so many positions and has higher turnover, the newsletter will only focus on their sizable positions. Be sure to head to MarketFolly to read a portfolio manager's take on the potential rationale as to why Soros owns Comverse Technology (CMVT) [by clicking here](#).

View Soros Fund Management's Updated Portfolio on the Next Page



# Soros Fund Mgmt

First Quarter 2012 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Micron Technology Note	MU		12.1%	Added 2%	\$829,819	804,915,000
2	SPDR S&P 500	SPY	PUT	7.5%	Added 150%	\$509,336	3,619,500
3	SANDISK CORP NOTE	SNDK		6.3%	Added 22%	\$429,357	428,286,000
4	PowerShares QQQ	QQQ	PUT	4.3%	New	\$294,856	4,365,000
5	JDS UNIPHASE NOTE	JDSU		4.2%	Added 23%	\$289,672	288,770,000
6	ADECOAGRO S.A.	AGRO		4.0%	Unchanged	\$274,402	25,384,049
7	CIENA CORP NOTE	CIEN		3.4%	Added 11%	\$231,583	236,109,000
8	Sara Lee Corp.	SLE		2.3%	Adde697%	\$159,234	7,395,910
9	Lucent Technologies Note	LU		2.3%	New	\$155,499	157,467,000
10	DIGITAL RIV INC NOTE	DRIV		2.2%	New	\$152,149	157,226,000
11	Cadence Design Note	CDNS		2.0%	Added 28%	\$139,294	139,556,000
12	Motorola Solutions, Inc.	MSI		2.0%	Cut -45%	\$139,011	2,734,816
13	HOLOGIC INC NOTE	HOLX		2.0%	New	\$134,847	135,100,000
14	Westport Innovations	WPRT		1.8%	Cut -9%	\$120,820	2,952,606
15	QUANTUM CORP NOTE	QTM		1.7%	New	\$112,992	111,735,000
16	Comverse Technology	CMVT		1.6%	Added 10%	\$111,065	16,166,666
17	Acacia Research Corp	ACTG		1.6%	Add 532%	\$105,666	2,531,518
18	Orbital Sciences NOTE	ORB		1.5%	Added 11%	\$102,794	101,966,000
19	CVR Energy, Inc.	CVI		1.5%	New	\$100,195	3,745,600
20	ARRIS GROUP NOTE	ARRS		1.4%	Added 1%	\$96,848	94,027,000
21	InterOil Corporation	IOC		1.2%	Cut -64%	\$80,758	1,570,858
22	ROVI CORP NOTE	ROVI		1.2%	Added 81%	\$80,513	76,679,000
23	SunTrust Banks, Inc.	STI		1.1%	New	\$77,054	3,188,000
24	CERADYNE INC NOTE	CRDN		1.1%	Unchanged	\$75,098	74,585,000
25	Chevron Corp.	CVX		1.1%	New	\$73,137	682,000
26	DISH NETWORK	DISH		1.0%	Added 87%	\$68,052	2,066,597
27	Charter Communications	CHTR		1.0%	Add 209%	\$67,778	1,068,203
28	Elan Corp. plc	ELN		0.9%	Add 1014%	\$58,540	3,900,000
29	Macy's, Inc.	M		0.8%	New	\$57,410	1,445,000
30	Exar Corp.	EXAR		0.8%	Unchanged	\$56,000	6,666,666
31	SPDR Gold Shares	GLD		0.8%	Add 274%	\$51,812	319,550
32	Express Scripts Inc.	ESRX		0.8%	Added 33%	\$52,013	960,000
33	Consumer Staples SPDR	XLP		0.6%	New	\$37,624	1,104,000
34	Health Care SPDR	XLV	PUT	0.6%	New	\$37,590	1,000,000
35	Tesoro Corporation	TSO		0.5%	New	\$34,194	1,274,000
36	Extreme Networks Inc.	EXTR		0.5%	Added 7%	\$33,691	8,796,666
37	IXIA NOTE	XXIA		0.5%	Cut -14%	\$33,655	32,361,000
38	RF MICRO NOTE	RFMD		0.5%	New	\$33,256	33,310,000
39	Salesforce.com	CRM		0.5%	New	\$30,902	200,000
40	SPDR Metals&Mining	XME	CALL	0.4%	New	\$29,820	600,000
41	JPMorgan Chase & Co.	JPM		0.4%	New	\$27,882	606,400
42	LINEAR TECH NOTE	LLTC		0.4%	Cut -80%	\$27,771	26,000,000
43	Russell 2000 Index	IWM	PUT	0.4%	Cut -50%	\$26,761	323,000
44	Marathon Petroleum	MPC		0.4%	New	\$25,149	580,000
45	Transocean Ltd.	RIG		0.4%	New	\$24,998	457,000

Continued on Next Page...

# Soros Fund Mgmt

First Quarter 2012 Portfolio:  
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	MERCURY COMPUTER	MRCY		0.4%	Cut -17%	\$25,110	1,895,120
47	General Electric Co.	GE		0.4%	New	\$25,128	1,252,000
48	DIRECTV	DTV		0.4%	Added 8%	\$25,387	514,529
49	Apple Inc.	AAPL		0.4%	Cut -58%	\$23,982	40,000
50	HOLLYFRONTIER CORP	HFC		0.3%	New	\$22,923	713,000
51	GENERAL MOTORS B	GM/PB		0.3%	Unchanged	\$23,164	550,700
52	MicroStrategy Inc.	MSTR		0.3%	New	\$23,213	165,805
53	Valero Energy Corp.	VLO		0.3%	New	\$23,090	896,000
54	Fifth Third Bancorp	FITB		0.3%	New	\$21,313	1,517,500
55	XYLEM INC.	XYL		0.3%	Add 329%	\$20,693	745,688
56	Gilead Sciences Inc.	GILD	CALL	0.3%	New	\$19,544	400,000
57	TRIPADVISOR	TRIP		0.3%	Added 45%	\$18,995	532,510
58	Loral Space & Comm	LORL		0.3%	Added 3%	\$18,150	228,011
59	Pfizer Inc.	PFE		0.3%	Add 3381%	\$18,015	795,000
60	Capital One Financial	COF		0.3%	New	\$17,112	307,000
61	Level 3 Communications	LVLT		0.3%	New	\$17,141	666,200
62	Churchill Downs Inc.	CHDN		0.3%	Added 69%	\$17,082	305,576
63	DaVita, Inc.	DVA		0.2%	Cut -42%	\$15,780	175,000
64	Goldman Sachs Group	GS		0.2%	New	\$14,924	120,000
65	Citigroup, Inc.	C		0.2%	New	\$15,351	420,000
66	Bancolumbia S.A.	CIB		0.2%	New	\$14,766	228,361
67	Wells Fargo & Company	WFC		0.2%	Cut -63%	\$15,056	441,000
68	SPDR HOMEBUILDERS	XHB	PUT	0.2%	New	\$14,931	700,000
69	Regions Financial Corp.	RF		0.2%	New	\$15,098	2,291,000
70	Newmont Mining Corp.	NEM	CALL	0.2%	New	\$14,612	285,000
71	Kraft Foods Inc.	KFT		0.2%	Added 11%	\$13,722	361,000
72	Spreadtrum Comm	SPRD		0.2%	New	\$13,943	845,000
73	Visteon Corp	VC		0.2%	Unchanged	\$13,247	249,950
74	MedcoHealth Solutions	MHS	CALL	0.2%	New	\$13,294	189,100
75	Owens Corning	OC		0.2%	Added 74%	\$13,151	365,000
76	Home Inns & Hotels	HMIN		0.2%	Add 846%	\$12,069	473,100
77	Bluefly Inc.	BFLY		0.2%	Unchanged	\$11,988	6,480,070
78	Aspen Technology Inc.	AZPN		0.2%	Add 100%	\$12,318	600,000
79	Liberty Media Corp	LMCA		0.2%	Cut -3%	\$12,492	141,712
80	General Motors	GM		0.2%	Unchanged	\$11,576	451,300
81	DELPHI AUTOMOTIVE	DLPH		0.2%	Cut -29%	\$11,629	368,000
82	ClickSoftware Tech	CKSW		0.2%	Added 8%	\$11,886	937,399
83	Pepsico, Inc.	PEP		0.2%	Added 13%	\$11,180	168,500
84	iShares Xinhua China	FXI	CALL	0.2%	Added 20%	\$10,989	300,000
85	E-House (China)	EJ		0.2%	Cut -37%	\$11,003	1,897,000
86	Energy Select Sector	XLE	CALL	0.2%	New	\$10,760	150,000
87	Expedia Inc.	EXPE		0.2%	Added 3%	\$11,042	330,210
88	Ariad Pharmaceuticals	ARIA		0.2%	New	\$10,148	635,000
89	CIENA Corp.	CIEN		0.2%	Add 333%	\$10,524	650,000
90	CF Industries Holdings	CF	PUT	0.2%	New	\$10,502	57,500

Next Page: Bridger Management

# Bridger Management

Roberto Mignone

Typically focuses on the healthcare sector

Known for his sleuthing abilities on the short side



## Key Takeaways

### **New Positions:**

TripAdvisor (TRIP)  
Charles River Labs (CRL)  
Monsanto (MON)  
Cemex (CX)  
MetLife (MET)  
Arcos Dorados (ARCO)  
Rubicon Minerals (RBY)  
Response Genetics (RGDX)  
Pinnacle Entertainment (PNK)

### **Sold Completely Out Of:**

PennyMac Mortgage (PMT)  
MAKO Surgical (MAKO)  
Inhibitex (INHX)  
Cardiome Pharma (CRME)  
Citigroup (C) Calls  
Goldman Sachs (GS) Calls  
Salix Pharma (SLXP)  
MAP Pharma (MAPP)  
Pharmasset ~ bought out

Robert Mignone's top holdings remain largely unchanged from the last quarter. His top position continues to be United Rentals (URI) and last quarter's newsletter highlighted the company in the equity analysis section as a secular tailwinds story so be sure to login and download it if you want to see the bull and bear case on URI. His hedge fund did trim the position 36% during the quarter but as mentioned above, it still remains his largest disclosed allocation. Bridger Management also trimmed its stakes in tech giants Apple (AAPL) and Google (GOOG) by 14% and 21% each. It appears as though they zigged while other hedge funds zagged. After all, both names were consensus buys among hedge funds during the

quarter.

The largest brand new stake for Bridger is in TripAdvisor (TRIP). This company was spun-off from Expedia (EXPE) at the end of the fourth quarter and Bridger obviously sees a positive path ahead for TRIP. Apart from that, the only new stakes of any real size are Bridger's new positions in Charles River Labs (CRL), Wright Medical Group (WMGI), Monsanto (MON), and Cemex (CX).

On the selling side of the portfolio, it's definitely worth highlighting Mignone's sale of 45% of his position in CareFusion (CFN). Long-time Hedge Fund Wisdom readers will recall this company was highlighted in 2010 in the second issue ever published. CFN was spun-off from Cardinal Health (CAH) and past issues have flagged large stakes held by Bridger as well as David Einhorn's Greenlight Capital, Lee Ainslie's Maverick Capital, and Andreas Halvorsen's Viking Global. All of these funds sold CFN shares during the quarter though they all continue to be some of the company's largest holders. This activity is worth drawing attention to though, as it is the second consecutive quarter in which Bridger has substantially reduced its position size.

Last quarter's newsletter noted that Pharmasset was being acquired by Gilead Sciences (GILD) and wondered whether or not Mignone's firm would continue to hold a stake in the combined entity. Well they did, however they sold almost 70% of the position by quarter's end.

View Bridger Management's  
Updated Portfolio on the Next Page



# Bridger Management

First Quarter 2012 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	United Rentals, Inc.	URI		7.1%	Cut -36%	\$101,857	2,374,848
2	Morgan Stanley	MS		7.0%	Unchanged	\$100,808	5,132,800
3	Apple Inc.	AAPL		6.8%	Cut -14%	\$97,727	163,000
4	Google Inc.	GOOG		6.6%	Cut -21%	\$95,545	149,000
5	Assured Guaranty Ltd.	AGO		5.5%	Unchanged	\$79,558	4,815,837
6	Hyatt Hotels Corporation	H		5.2%	Unchanged	\$75,512	1,767,610
7	TRIPADVISOR	TRIP		5.0%	New	\$71,340	2,000,000
8	General Motors	GM		4.9%	Cut -25%	\$69,896	2,725,000
9	DIRECTV	DTV		4.3%	Cut -35%	\$62,168	1,260,000
10	Abbott Laboratories	ABT		3.4%	Unchanged	\$49,645	810,000
11	HCA	HCA		3.3%	Cut -41%	\$47,625	1,925,000
12	Cott Corporation	COT		3.0%	Unchanged	\$43,612	6,617,855
13	Acorda Therapeutics	ACOR		2.8%	Added 11%	\$39,825	1,500,000
14	CareFusion Corporation	CFN		2.7%	Cut -45%	\$38,895	1,500,000
15	Allergan Inc.	AGN		2.6%	Unchanged	\$37,294	390,800
16	Avis Budget Group	CAR		2.5%	Cut -29%	\$36,436	2,575,000
17	Starwood Hotels&Resorts	HOT		2.4%	Cut -22%	\$35,102	622,273
18	MGM Resorts	MGM		2.2%	Add 32%	\$31,871	2,340,000
19	Charles River Labs	CRL		2.0%	New	\$28,357	785,730
20	Ironwood Pharma	IRWD		1.7%	Unchanged	\$25,014	1,879,375
21	Gilead Sciences Inc.	GILD		1.5%	Cut -69%	\$21,987	450,000
22	Wright Medical Group	WMGI		1.5%	New	\$20,933	1,083,487
23	Pharmacyclics Inc.	PCYC		1.4%	Cut -17%	\$20,820	750,000
24	Monsanto Co.	MON		1.4%	New	\$20,339	255,000
25	CEMEX, S.A.B. de C.V.	CX		1.3%	New	\$19,369	2,496,000
26	Onyx Pharmaceuticals	ONXX		1.3%	Cut -53%	\$18,840	500,000
27	MetLife, Inc.	MET		1.3%	New	\$18,675	500,000
28	Popular Inc.	BPOP		1.2%	Added 14%	\$17,494	8,533,715
29	iStar Financial Inc.	SFI		0.9%	Unchanged	\$12,997	1,792,712
30	Casella Waste Systems	CWST		0.8%	Unchanged	\$11,174	1,793,507
31	hiSoft Technology Intl	HSFT		0.8%	Unchanged	\$11,070	737,000
32	ARCOS DORADOS	ARCO		0.7%	New	\$10,673	590,000
33	Seattle Genetics Inc.	SGEN		0.7%	Unchanged	\$10,190	500,000
34	Boston Beer Co. Inc.	SAM		0.7%	Unchanged	\$9,718	91,000
35	Amicus Therapeutics	FOLD		0.6%	Added 74%	\$9,011	1,706,568
36	Bank of America Warrant	BAC/WS/A		0.6%	Unchanged	\$8,838	1,900,700
37	Rubicon Minerals Corp	RBV		0.5%	New	\$6,773	2,070,000
38	Response Genetics, Inc	RGDX		0.4%	New	\$6,000	3,000,000
39	Pinnacle Entertainment	PNK		0.4%	New	\$5,879	510,795
40	Anthera Pharmaceuticals	ANTH		0.3%	Unchanged	\$3,619	1,637,428
41	VERASTEM, INC.	VSTM		0.2%	New	\$2,186	200,000
42	Allison Transmission	ALSN		0.1%	New	\$1,791	75,000
43	BPZ Resources, Inc.	BPZ		0.1%	Cut -36%	\$1,112	275,830
44	BPZ Resources, Inc.	BPZ	CALL	0.1%	New	\$913	226,700
45	BPZ Resources Notes	BPZ		0.1%	Cut -37%	\$666	728,330

Continued on next page...

# Bridger Management

First Quarter 2012 Portfolio:  
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	DexCom, Inc.	DXCM		0.0%	New	\$465	44,554
47	CurrencyShares Euro	FXE	PUT	0.0%	Cut -99%	\$478	3,600
48	SPDR S&P 500	SPY	PUT	0.0%	New	\$465	3,300
49	Fortuna Silver Mines	FSM		0.0%	New	\$376	83,489
50	iShares Brazil Index	EWZ		0.0%	New	\$278	4,300
51	iShares Brazil Index	EWZ	PUT	0.0%	New	\$349	5,400
52	MAP Pharmaceuticals	MAPP			<b>Sold</b>		-
53	PHARMASSET	VRUS			<b>Sold</b>		-
54	Salix Pharmaceuticals	SLXP			<b>Sold</b>		-
55	Goldman Sachs	GS	CALL		<b>Sold</b>		-
56	Banco Santander-Chile	BSAC			<b>Sold</b>		-
57	Citigroup, Inc.	C	CALL		<b>Sold</b>		-
58	Cardiome Pharma Corp.	CRME			<b>Sold</b>		-
59	SPDR S&P 500	SPY	CALL		<b>Sold</b>		-
60	PennyMac Mortgage	PMT			<b>Sold</b>		-
61	PHARMASSET	VRUS	PUT		<b>Sold</b>		-
62	MAKO Surgical Corp.	MAKO			<b>Sold</b>		-
63	INHIBITEX INC	INHX			<b>Sold</b>		-

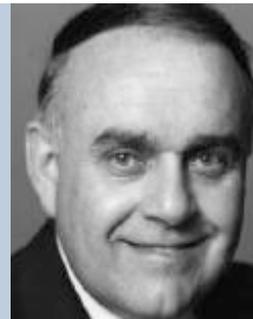
Next Page: Omega Advisors

# 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:**

Sprint Nextel (S)  
Ocwen Financial (OCN)  
Google (GOOG)  
Citigroup (C)  
Bank of America (BAC)  
Wells Fargo (WFC)  
American International Group (AIG)  
Blackstone Group (BX)  
Kinder Morgan (KMI)  
Range Resources (RRC)  
VeriSign (VRSN)

#### **Sold Completely Out Of:**

Express Scripts (ESRX)  
Aon Corp (AON)  
EchoStar (SATS)  
MBIA (MBI)  
Forest Oil (FST)  
Cablevision (CVC)  
eBay (EBAY)

Leon Cooperman's Omega Advisors apparently decided that the first quarter was the right time to get into financials as they acquired new stakes in a plethora of "too big to fail" institutions such as Bank of America (BAC), Citigroup (C), Wells Fargo (WFC), and American International Group (AIG). While these decently sized stakes are noted, the largest new position for Cooperman's firm is in beleaguered wireless provider Sprint Nextel (S). This has turned a few heads as the company struggles to compete with the larger players like AT&T (T) and Verizon (VZ).

The upper echelon of Omega's portfolio is largely energy heavy. Six of their top eleven holdings are focused on this sector: Atlas Pipeline Partners (APL), Linn Energy (LINE),

El Paso (EP), Transocean (RIG), and Atlas Energy (ATLS). Apart from these energy plays, Cooperman's largest disclosed US equity long is SLM Corp (SLM) and he also holds large stakes in Apple (AAPL), WellPoint (WLP), and Unitedhealth (UNH). He essentially doubled his stakes in the last two during the first quarter.

At the Skybridge Alternatives Conference in Las Vegas a couple of weeks ago, Cooperman reiterated his stance that US government bonds are fundamentally overvalued. He thinks that at a 2% return, bonds are risky and that in two or three years in the future everyone will be worrying about inflation and interest rates will be higher. He highlighted his holdings in AIG, Capital One (COF), and Western Union (WU) in his talk ~ all brand new holdings during the quarter. He also mentioned (as he always seems to) shares of E\*Trade Financial (ETFC). He's long pitched the company as an ideal takeover target as they get their loan losses under control and improve their retail brokerage business. It's just interesting that he chose to mention that name considering he sold 30% of his stake during the quarter. In a separate television interview, Cooperman also dismissed the idea of investing in high yield bonds as they are 'fully priced.' He prefers to invest in cheap stocks that will yield more than bonds and are good companies that will grow over time. Commenting on his large stake in AAPL, he thinks the company is worth well over \$600 (and it did reach \$630 during the first quarter before selling off to current levels in the low \$5xx's).

[View Omega Advisors' Updated Portfolio on the Next Page](#)



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	SLM Corporation	SLM		5.4%	Cut -3%	\$269,610	17,107,224
2	Atlas Pipeline Partners LP	APL		3.8%	Cut 0%	\$189,740	5,362,918
3	Linn Energy, LLC	LINE		3.7%	Added 21%	\$185,188	4,854,200
4	Apple Inc.	AAPL		3.5%	Added 23%	\$175,647	293,004
5	El Paso Corp.	EP		3.3%	Added 7%	\$163,116	5,520,000
6	Transocean Ltd.	RIG		3.1%	Added 11%	\$154,432	2,823,245
7	WellPoint Inc.	WLP		3.1%	Added 118%	\$154,110	2,088,207
8	KKR FINANCIAL CORP.	KFN		2.8%	Unchanged	\$142,118	15,430,867
9	Unitedhealth Group, Inc.	UNH		2.7%	Added 93%	\$133,873	2,271,348
10	QUALCOMM Incorporated	QCOM		2.5%	Added 3%	\$126,476	1,859,400
11	Atlas Energy, L.P.	ATLS		2.5%	Unchanged	\$125,118	3,791,447
12	The McGraw-Hill Companies	MHP		2.5%	Cut -12%	\$123,855	2,555,300
13	ENERGY XXI	EXXI		2.5%	Cut -10%	\$122,642	3,396,343
14	Citrix Systems, Inc.	CTXS		2.3%	Cut -7%	\$115,114	1,458,799
15	XL Group plc	XL		2.2%	Added 6%	\$110,848	5,110,537
16	ALTISOURCE PORTFOLIO	ASPS		2.2%	Added 3%	\$108,697	1,792,500
17	Boston Scientific Corporation	BSX		2.1%	Added 4%	\$102,632	17,162,600
18	JPMorgan Chase & Co.	JPM		2.0%	Added 153%	\$102,115	2,220,864
19	Williams Companies, Inc.	WMB		2.0%	Added 7%	\$99,366	3,225,108
20	Sprint Nextel Corp.	S		1.8%	New	\$91,486	32,100,400
21	ETRADE Financial Corp	ETFC		1.7%	Cut -30%	\$87,169	7,960,609
22	Lincoln National Corp.	LNC		1.7%	Unchanged	\$86,076	3,265,416
23	CVS Caremark Corporation	CVS		1.7%	Unchanged	\$84,683	1,890,255
24	SPDR Gold Shares	GLD		1.7%	Cut -44%	\$84,167	519,100
25	Broadridge Financial	BR		1.7%	Added 7%	\$82,514	3,451,014
26	Kohlberg Kravis Roberts & Co.	KKR		1.7%	Added 4%	\$82,719	5,577,787
27	MetLife, Inc.	MET		1.6%	Added 10%	\$78,894	2,112,285
28	DISH NETWORK	DISH		1.6%	Added 22%	\$78,775	2,392,200
29	Charming Shoppes Inc.	CHRS		1.5%	Added 6%	\$75,572	12,808,764
30	Ocwen Financial Corp.	OCN		1.5%	New	\$74,328	4,755,440
31	Google Inc.	GOOG		1.4%	New	\$70,440	109,850
32	NYSE Euronext, Inc.	NYX		1.4%	Added 11%	\$69,524	2,316,700
33	Denbury Resources Inc.	DNR		1.4%	Unchanged	\$67,946	3,727,127
34	Anadarko Petroleum Corp	APC		1.4%	Add 303%	\$67,427	860,700
35	Sunoco Inc.	SUN		1.3%	Cut -44%	\$67,224	1,762,100
36	United Continental Holdings	UAL		1.3%	Unchanged	\$65,765	3,058,836
37	Citigroup, Inc.	C		1.3%	New	\$65,512	1,792,400
38	Bank of America Corp	BAC		1.2%	New	\$61,950	6,473,400
39	Halliburton Company	HAL		1.2%	Add 606%	\$61,836	1,863,100
40	Wells Fargo & Company	WFC		1.1%	New	\$52,535	1,538,800
41	ACE Limited	ACE		1.0%	Unchanged	\$51,481	703,293
42	AIG	AIG		0.9%	New	\$45,166	1,465,000
43	The Blackstone Group	BX		0.9%	New	\$44,606	2,798,400
44	Given Imaging Ltd.	GIVN		0.9%	Cut -7%	\$44,415	2,371,337
45	KINDER MORGAN, INC	KMI		0.9%	New	\$42,890	1,109,700

Continued on next page...

# Omega Advisors

First Quarter 2012 Portfolio:  
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	Loral Space & Comm	LORL		0.8%	Unchanged	\$41,058	515,800
47	ATLAS RESOURCES	ARP		0.8%	New	\$40,596	1,537,102
48	Range Resources Corp	RRC		0.7%	New	\$33,820	581,700
49	VeriSign Inc.	VRSN		0.7%	New	\$32,658	851,800
50	McMoRan Exploration Co.	MMR		0.7%	Added 61%	\$32,451	3,032,800
51	Phillips-Van Heusen Corp.	PVH		0.6%	Unchanged	\$31,471	352,300
52	Seagate Technology PLC	STX		0.5%	New	\$27,058	1,004,000
53	Regal Entertainment Group	RGC		0.5%	Cut -50%	\$25,829	1,899,225
54	Western Union Co.	WU		0.5%	New	\$25,949	1,474,353
55	Gannett Co., Inc.	GCI		0.5%	New	\$23,234	1,515,600
56	Motorola Solutions, Inc.	MSI		0.5%	New	\$22,823	449,000
57	Vodafone Group plc	VOD		0.4%	Unchanged	\$22,226	803,256
58	Domtar Corporation	UFS		0.4%	Cut -12%	\$19,076	200,000
59	WPX ENERGY INC	WPX		0.4%	New	\$18,161	1,008,364
60	SPDR S&P 500	SPY		0.4%	Unchanged	\$17,970	127,700
61	THL Credit, Inc.	TCRD		0.3%	Unchanged	\$17,009	1,322,607
62	Family Dollar Stores Inc.	FDO		0.3%	New	\$15,187	240,000
63	Ford Motor Co.	F		0.3%	New	\$12,490	1,000,000
64	Validus Holdings	VR		0.2%	Add 3637%	\$11,798	381,200
65	SIRIUS XM Radio Inc.	SIRI		0.2%	New	\$9,332	4,040,000
66	Capital One Financial Corp.	COF		0.2%	New	\$9,755	175,000
67	Home Loan Servicing	HLSS		0.1%	New	\$6,549	469,817
68	Lam Research Corporation	LRCX		0.1%	New	\$6,608	148,100
69	Center Bancorp Inc.	CNBC		0.1%	Unchanged	\$5,466	545,000
70	SUNCOKE ENERGY	SXC		0.1%	New	\$5,121	360,414
71	Crown Holdings Inc.	CCK		0.1%	New	\$4,972	135,000
72	Dean Foods Co.	DF			<b>Sold</b>		-
73	Discovery Communications	DISCK			<b>Sold</b>		-
74	NRG Energy, Inc.	NRG			<b>Sold</b>		-
75	eBay Inc.	EBAY			<b>Sold</b>		-
76	Express Scripts Inc.	ESRX			<b>Sold</b>		-
77	H&R Block, Inc.	HRB			<b>Sold</b>		-
78	PNC Financial Services	PNC			<b>Sold</b>		-
79	TEKELEC INC	TKLC			<b>Sold</b>		-
80	Teekay Corporation	TK			<b>Sold</b>		-
81	Best Buy Co. Inc.	BBY			<b>Sold</b>		-
82	Cablevision Systems	CVC			<b>Sold</b>		-
83	NutriSystem Inc.	NTRI			<b>Sold</b>		-
84	Forest Oil Corp.	FST			<b>Sold</b>		-
85	Microsoft Corporation	MSFT			<b>Sold</b>		-
86	Ruby Tuesday, Inc.	RT			<b>Sold</b>		-
87	Office Depot, Inc.	ODP			<b>Sold</b>		-
88	Research In Motion	RIMM			<b>Sold</b>		-
89	iShares InvestGradeCorpBond	LQD			<b>Sold</b>		-
90	Warnaco Group Inc.	WRC			<b>Sold</b>		-
91	MedcoHealth Solutions	MHS			<b>Sold</b>		-
92	Aon Corporation	AON			<b>Sold</b>		-
93	EchoStar Corp.	SATS			<b>Sold</b>		-
94	Valassis Communications	VCI			<b>Sold</b>		-
95	GMX Resources Inc.	GMXR			<b>Sold</b>		-
96	MBIA Inc.	MBI			<b>Sold</b>		-

Next Page: Coatue Management

# Coatue Management

Philippe Laffont

Manages a long/short fund focused on technology, media, & telecom

One of his mantras is “dare to be different”



## Key Takeaways

### **New Positions:**

Equinix (EQIX)  
Virgin Media (VMED)  
Liberty Global (LBTYA)  
Broadcom (BRCM)  
Informatica (INFA)  
Netflix (NFLX)  
Sirius XM Radio (SIRI)  
Dunkin Brands (DNKN)  
American Tower (AMT)

### **Sold Completely Out Of:**

Wynn Resorts (WYNN)  
Fusion-IO (FIO)  
Net App (NTAP)  
QuinStreet (QNST)  
Green Mountain Coffee (GMCR)  
Cognizant Tech Solutions (CTSH)  
Williams Sonoma (WSM)

Coatue Management's founder Philippe Laffont spoke at the Ira Sohn Conference in New York and talked about the thesis behind two of his largest new bets. His second largest disclosed position is a new stake in Equinix (EQIX). He said that data centers are the new core and that they have a huge share of the internet's backbone. Laffont likes the company's prime locations they secured through request for proposals (RFPs) because the company secured these spots before everyone else even knew how important they'd be. He points to EQIX's 50% return on equity with minimal leverage and he thinks the stock triples or more.

Laffont's second pick is his fourth largest disclosed holding: Virgin Media (VMED). Of this stake, he says that everyone needs faster internet (50-100Mbps, up from 10-20 in the

past). As the proliferation of HD video continues, this plays right into the company's wheelhouse as they own the fastest cable broadband network in the UK. What's also interesting he says is that the company is really buying back shares (10% this year alone, 25% in the last few years). So, they have the capacity to literally buy back all of their shares over the next 5 years.

The Coatue founder also made his first-ever television appearance after the event where he touched on his firm's concentrated portfolio approach. He said that, “concentration is a problem over the short-run, but it sort of goes away over the long run. We try to invest over the long run and are willing to take the volatility. The less concentrated you are, the more your returns will look like the S&P. If you want to try to outperform, you have to focus on your best ideas. It is something we transmitted to investors from day one. They understand the risk. It puts a premium on being right.” Laffont also touched on the Facebook IPO, saying he would like to get as many shares as possible as he really likes the management team. It's reasonable to assume that given Coatue's prime broker relationships and status as a well-known tech fund that they received plenty of IPO shares. Laffont also mentioned LinkedIn (LNKD), which he also has a small position in, saying he thinks it could be a completely different company in 10 years. Lastly, he commented on his top holding: Apple (AAPL). The hedgeie first got involved with the name back in 2003 and thinks the iPhone 5 and potential Apple TV are good catalysts. At 5-10% of the market, he thinks they can take much bigger market share.

**View Coatue Management's  
Portfolio on the Next Page**



# Coatue Management

First Quarter 2012 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Apple Inc.	AAPL		17.9%	Added 15%	\$884,133	1,474,661
2	Equinix, Inc.	EQIX		11.6%	New	\$572,763	3,637,747
3	Google Inc.	GOOG		9.8%	Cut -3%	\$482,636	752,660
4	Virgin Media, Inc.	VMED		7.0%	New	\$345,193	13,818,739
5	Priceline.com Inc	PCLN		6.4%	Added 5%	\$318,343	443,684
6	QUALCOMM Inc	QCOM		6.0%	Cut -3%	\$297,414	4,369,879
7	Liberty Global Inc.	LBTYA		5.3%	New	\$262,615	5,243,914
8	Broadcom Corp.	BRCM		3.4%	New	\$165,834	4,219,683
9	Informatica Corp	INFA		3.3%	New	\$164,018	3,100,535
10	Intuit Inc.	INTU		3.3%	Added 51%	\$160,768	2,672,352
11	Amazon.com Inc.	AMZN		3.2%	Cut -28%	\$160,302	791,574
12	Chipotle Mexican Grill	CMG		3.2%	Added 18%	\$159,320	381,148
13	Netflix, Inc.	NFLX		2.9%	New	\$144,308	1,254,415
14	SIRIUS XM Radio Inc.	SIRI		2.7%	New	\$133,587	57,829,793
15	DUNKIN' BRANDS	DNKN		2.4%	New	\$116,250	3,864,679
16	Baidu, Inc.	BIDU		2.1%	Cut -62%	\$103,775	711,909
17	American Tower Corp.	AMT		2.1%	New	\$102,145	1,620,840
18	LINKEDIN CORP	LNKD		1.4%	Cut 0%	\$68,786	674,444
19	Check Point Software	CHKP		1.2%	Cut -16%	\$59,789	936,552
20	J. C. Penney Company	JCP		0.9%	New	\$43,830	1,237,083
21	Research In Motion	RIMM		0.8%	Add 239%	\$37,541	2,553,791
22	Molycorp, Inc.	MCP		0.7%	Unchanged	\$36,541	1,080,136
23	Red Hat, Inc.	RHT		0.7%	Cut -51%	\$32,599	544,328
24	NII Holdings Inc.	NIHD	CALL	0.6%	New	\$31,662	1,729,200
25	H&R Block, Inc.	HRB		0.6%	Unchanged	\$30,904	1,876,360
26	Level 3 Communications	LVLT		0.3%	Unchanged	\$13,100	509,122
27	Digital River Inc.	DRIV		0.1%	Cut -57%	\$4,624	247,130
28	AOL, Inc.	AOL		0.1%	Cut -89%	\$3,713	195,700
29	NutriSystem Inc.	NTRI		0.1%	Cut -58%	\$3,435	305,875
30	STEC, Inc.	STEC		0.1%	Cut -85%	\$2,725	288,641
31	INVENSENSE INC	INVN		0.1%	New	\$3,077	170,000
32	GROUPON INC	GRPN		0.0%	Unchanged	\$919	50,000
33	Nokia Corporation	NOK	CALL	0.0%	New	\$386	70,300
34	Logitech International SA	LOGI		0.0%	Cut -98%	\$178	22,800
35	Atmel Corporation	ATML			<b>Sold</b>		-
36	Silicon Laboratories, Inc.	SLAB			<b>Sold</b>		-
37	Wynn Resorts Ltd.	WYNN			<b>Sold</b>		-
38	FUSION-IO, INC	FIO			<b>Sold</b>		-
39	NetApp, Inc.	NTAP			<b>Sold</b>		-
40	QuinStreet, Inc.	QNST			<b>Sold</b>		-
41	Green Mountain Coffee	GMCR			<b>Sold</b>		-
42	Research In Motion Limited	RIMM	CALL		<b>Sold</b>		-
43	Williams-Sonoma Inc.	WSM			<b>Sold</b>		-
44	CognizantTechnologySolutions	CTSH			<b>Sold</b>		-

Next Page: Fairholme Capital

# Fairholme Capital

## Bruce Berkowitz

Named Morningstar's Fund Manager of the Decade

Manages over \$10 billion and runs a highly concentrated portfolio, making him ideal to track



### Key Takeaways

#### **New Positions:**

Orchard Supply (OSH) ~ spun-off SHLD  
Mercury General (MCY)

#### **Sold Completely Out Of:**

Goldman Sachs (GS)

Bruce Berkowitz's Fairholme is the definition of a concentrated portfolio. His latest first quarter disclosure shows a massive 36.3% of reported assets tied up in AIG (AIG). Given that he has so much money invested in the name, it's obviously worth drawing attention to the information Berkowitz has revealed regarding his train of thought. He frames the company as one that trades at less than one-half tangible book value, has a fortress balance sheet, has a shareholder equity-to-assets ratio of 15%, and has a leading position in its market. Berkowitz feels that a 10% return on owner's equity equals a 20% implied annual return on investment. The Fairholme man has experience with insurance companies and found one trading at attractive prices so it's directly within his circle of competence. In terms of margin of safety, he feels that AIG is a situation where you pay \$25 and receive \$45 worth of assets. Given the volatility in the stock, he certainly has courage of conviction. With his contrarian approach, it's no surprise that Fairholme's slogan is "ignore the crowd." Many successful investors have reiterated the fact that your highest conviction picks should garner the most capital. There's no secret as to what Berkowitz's top pick is.

Turning to his third largest position, it's

also worth piecing together Berkowitz's rationale for owning Bank of America (BAC) as well. There's an obvious theme in Fairholme's portfolio: 'out of favor' plays. Berkowitz has revealed his thesis on BAC as well and his main reasons for owning shares are as follows: it trades at less than one third book value, its core businesses generate 1% return on assets and 10% return on equity, it has a fortress balance sheet, and it has the largest US retail deposit market share (serving one in every two US households). Berkowitz also seemingly highlights the company's status as 'too big to fail' as a positive, saying that Bank of America is "essential to global economic security."

Fairholme's manager sees a 20% implied annual return on his investment in Bank of America. He says that is a reasonable return when you consider that you're buying BAC for less than half of book value. Berkowitz likes the various economic trends unfolding which he thinks will benefit the big bank: an improving job market, a stabilizing housing market, and overall improving fundamentals in the financial sector. At \$7 per share, he argues that you're buying something worth \$20+. Summarizing his BAC thesis, he writes, "Its earnings power has been disguised by the intense provisioning for loan losses. But when the provisioning gets back to a normal level, you'll start to see that incredible earnings power come down to the bottom line. And it's as simple as that."

For Berkowitz's advice on becoming a better money manager, head to his [basic checklist for investing](#).

View Fairholme Capital's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	AIG	AIG		36.3%	Cut -1%	\$2,819,861	91,464,833
2	Sears Holdings Corp	SHLD		14.3%	Added 4%	\$1,113,893	16,813,480
3	Bank of America Corp	BAC		12.7%	Cut -1%	\$984,165	102,838,555
4	CIT Group, Inc.	CIT		9.8%	Cut -1%	\$763,869	18,522,529
5	The St. Joe Company	JOE		6.1%	Cut -2%	\$474,185	25,715,428
6	Leucadia National Corp.	LUK		6.1%	Cut -1%	\$474,524	18,180,980
7	MBIA Inc.	MBI		5.8%	Cut -1%	\$453,303	46,255,370
8	AIG Warrant	AIG/WS		3.4%	Added 0%	\$261,240	24,575,760
9	Berkshire Hathaway Inc.	BRK-A		2.5%	Cut -61%	\$191,749	1,573
10	Berkshire Hathaway Inc.	BRK-B		1.0%	Cut -65%	\$78,474	967,019
11	Jefferies Group Inc.	JEF		0.7%	Add 111%	\$50,817	2,697,300
12	Bank of America Warrant	BAC/WS/A		0.6%	Added 15%	\$45,495	9,783,828
13	Citigroup, Inc.	C		0.2%	Cut -81%	\$14,598	399,400
14	Orchard Supply Hardware	OSH		0.2%	New	\$14,792	716,322
15	Wells Fargo Warrants	WFC-WT		0.2%	Added 58%	\$13,045	1,296,695
16	JPMorgan Chase Warrant	JPM/WS		0.1%	Unchanged	\$6,485	484,700
17	Mercury General Corp	MCY		0.0%	New	\$3,101	70,900
18	Wells Fargo & Company	WFC		0.0%	Unchanged	\$1,072	31,400
19	Assured Guaranty Ltd.	AGO		0.0%	Unchanged	\$854	51,700
20	Regions Financial Corp.	RF		0.0%	Unchanged	\$138	20,900
21	Goldman Sachs Group	GS			<b>Sold</b>		-

**Want to know what hedge funds were buying in Q2? Head to [hedgefundwisdom.com](http://hedgefundwisdom.com) to receive our brand new issue**

Mentored and seeded by Julian Robertson of Tiger Management

From 2001-2007, he returned 47% on average

Descendant of Peter Stuyvesant, the man who built the 'wall' in Wall St



### Key Takeaways

#### **New Positions:**

Deckers (DECK)  
Frontier Communications (FTR)  
Ancestry.com (ACOM)  
RR Donnelley (RRD)  
Supervalu (SVU)  
Crown Castle (CCI)  
Focus Media (FMCN)

#### **Sold Completely Out Of:**

Coinstar (CSTR)  
Heckmann (HEK)  
Endurance Specialty Holdings (ENH)  
Priceline.com (PCLN) Calls  
Michael Kors (KORS)  
IAC Interactive (IACI)

The first position worth pointing out in Tiger Global's portfolio is one that won't appear on the next page because the company just completed its initial public offering (IPO): Facebook (FB). Tiger has previously owned a private stake in Facebook as they purchased 1% of the company at a \$24 billion valuation. And given that FB shares now trade with a market capitalization of \$104 billion, Tiger has made a pretty penny on their investment. Chase Coleman's early stage tech investments in private companies have paid off handsomely as many of these budding companies have come public. As such, it should come as no surprise that Coleman was named one of the [top 25 highest earning hedge fund managers of 2011](#).

Turning to Tiger Global's first quarter portfolio activity, it's very evident that they favored trimming positions more than anything. While they still hold sizable positions in their top seven holdings, they only added to one of those positions: Google (GOOG). This was par for the course in hedge fund land during the

quarter as GOOG was a consensus buy. Tiger's top two holdings of Yandex (YNDX) and Apple (AAPL) were both trimmed 25% and they also cut their stake in high-flier Priceline.com (PCLN) by 36%. PCLN was featured in the equity analysis section of the most recent issue of Hedge Fund Wisdom (Q4 2011) if you haven't had a chance to read the rationale behind owning that company. The most notable sales from Tiger during the quarter, though, were their reductions in their stakes in Baidu (BIDU), Viacom (VIA.B), and Liberty Media (LMCA). They trimmed each by 64%, 70%, and 50% respectively.

In terms of purchases, they were few and far between in Tiger's book. What's interesting is that instead of adding to many existing positions, they favored starting stakes in brand new companies. And even more intriguing is that instead of a tech oriented company, Tiger's largest new buy is in that of Deckers (DECK), the purveyor of the trendy and fuzzy UGG boots.

As you look through Chase Coleman's portfolio on the next page, you'll notice a few key themes. He's playing the 'dominant' internet plays (i.e. search engines) via Yandex, Google, and Baidu. He also has a lot of capital allocated to travel with a focus on international exposure via Priceline, MakeMyTrip, and HomeAway. Coleman also likes the big duopoly in payment processing (Mastercard & Visa) as the world continues its secular shift from using physical currency to paying with plastic (debit & credit cards). The important aspect of these two is that they bear no credit risk; they merely process the payments and take a cut.

View Tiger Global's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	YANDEX N V	YNDX		18.1%	Cut -25%	\$1,074,800	40,000,000
2	Apple Inc.	AAPL		12.4%	Cut -24%	\$734,449	1,225,000
3	Google Inc.	GOOG		10.1%	Added 29%	\$598,918	934,000
4	Priceline.com Inc	PCLN		9.5%	Cut -36%	\$563,238	785,000
5	Liberty Global Inc.	LBTYA		6.8%	Cut -15%	\$404,396	8,075,000
6	Visa, Inc.	V		5.4%	Cut -10%	\$319,190	2,705,000
7	Mastercard Incorporated	MA		5.3%	Cut -4%	\$311,620	741,000
8	Liberty Global Inc.	LBTYK		3.0%	Cut -10%	\$179,094	3,739,703
9	MakeMyTrip Limited	MMYT		2.8%	Unchanged	\$165,037	7,184,866
10	Live Nation Entertainment	LYV		2.6%	Cut -3%	\$151,265	16,092,048
11	Baidu, Inc.	BIDU		2.1%	Cut -64%	\$126,820	870,000
12	HOMEAWAY INC	AWAY		2.0%	Unchanged	\$118,846	4,691,881
13	Deckers Outdoor Corp.	DECK		2.0%	New	\$118,219	1,875,000
14	Energy Select Sector SPDR	XLE	CALL	1.9%	Cut -3%	\$111,213	1,550,000
15	Frontier Communications	FTR		1.7%	New	\$100,080	24,000,000
16	Liberty Media Corp	LMCA		1.4%	Cut -50%	\$84,086	953,898
17	Viacom Inc 6.85% Pfd	VIAB		1.2%	Cut -70%	\$73,088	1,540,000
18	Genpact Ltd.	G		1.2%	Unchanged	\$68,440	4,198,790
19	Ancestry.com Inc.	ACOM		0.8%	New	\$45,480	2,000,000
20	R.R. Donnelley & Sons Co	RRD		0.8%	New	\$44,604	3,600,000
21	SUPERVALU Inc.	SVU		0.7%	New	\$42,825	7,500,000
22	RenaissanceRe Holdings	RNR		0.6%	Added 54%	\$37,865	500,000
23	Amazon.com Inc.	AMZN		0.6%	Cut -80%	\$36,857	182,000
24	CompaniaCerveceriasUnidas	CU		0.6%	Cut -6%	\$36,290	461,179
25	Crown Castle International	CCI		0.6%	New	\$35,471	665,000
26	Polypore International Inc.	PPO		0.6%	Unchanged	\$35,160	1,000,000
27	Focus Media Holding Ltd.	FMCN		0.6%	New	\$35,168	1,400,000
28	UBIQUITI NETWORKS	UBNT		0.6%	Added 175%	\$34,793	1,100,000
29	Qihoo 360 Technology	QIHU		0.6%	New	\$33,114	1,354,343
30	LINKEDIN CORP	LNKD		0.5%	Unchanged	\$30,597	300,000
31	W.R. Grace & Co.	GRA		0.5%	New	\$30,345	525,000
32	Sony Corporation	SNE	CALL	0.5%	Added 27%	\$27,001	1,300,000
33	C&J ENERGY	CJES		0.4%	Unchanged	\$22,238	1,250,000
34	Northern Oil and Gas	NOG		0.4%	New	\$20,740	1,000,000
35	Northern Oil and Gas	NOG	PUT	0.4%	New	\$20,740	1,000,000
36	KIT digital, Inc.	KITD		0.3%	New	\$16,390	2,276,400
37	ARCOS DORADOS	ARCO		0.3%	Added 110%	\$16,781	927,645
38	hhgregg, Inc.	HGG		0.2%	Added 10%	\$12,506	1,098,932
39	BITAUTO HOLDINGS	BITA		0.2%	Cut -37%	\$8,834	1,666,761
40	TAL Education Group	XRS		0.2%	Unchanged	\$8,880	800,000
41	YELP INC	YELP		0.1%	New	\$4,034	150,000

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
42	Sears Holdings	SHLD			<b>Sold</b>		-
43	Coinstar Inc.	CSTR			<b>Sold</b>		-
44	Heckmann Corp	HEK			<b>Sold</b>		-
45	Endurance Specialty	ENH			<b>Sold</b>		-
46	Validus Holdings, Ltd.	VR			<b>Sold</b>		-
47	Priceline.com Inc	PCLN	CALL		<b>Sold</b>		-
48	MICHAEL KORS	KORS			<b>Sold</b>		-
49	IAC/InterActiveCorp.	IACI			<b>Sold</b>		-
50	Sears Holdings Corp	SHLD	PUT		<b>Sold</b>		-
51	Axis Capital Holdings Ltd.	AXS			<b>Sold</b>		-
52	Harry Winston Diamond	HWD			<b>Sold</b>		-
53	Everest Re Group Ltd.	RE			<b>Sold</b>		-

Has returned 22% annualized

Makes plays based on macro themes; has thought markets to be overvalued for many years now

Received his MBA from Stanford & undergraduate degree from Duke



### Key Takeaways

#### **New Positions:**

SPDR S&P 500 (SPY) Puts  
Deere (DE) Puts  
US Natural Gas (UNG) Puts  
Pretium (PVG)  
Materials Select Sector (XLB) Puts  
Netflix (NFLX) Puts  
Wynn (WYNN)  
St Jude (STJ) Puts  
Methanex (MEOH)  
S&P Metals and Mining (XME) Puts  
Solutia (SOA)

#### **Sold Completely Out Of:**

Adecoagro (AGRO)  
Pilgrim's Pride (PPC)  
US Steel (X)  
CF Industries (CF)  
Mead Johnson Nutrition (MJN)  
Mosaic (MOS)  
Alpha Natural Resources (ANR)  
Monsanto (MON)

John Burbank's Passport Capital purchased a huge (in terms of notional value) put option position on the S&P 500 during the first quarter. Given that movement, it won't surprise you either to learn that Passport's main Global Fund has actually been net short. Burbank is decisively bearish and has high conviction in his stance because he feels a recession is coming in the United States in the second half of the year. As the market has drifted lower lately, Burbank has to love the action. He addressed his bearishness in his first quarter letter to investors, writing, "For several years now, we have said that we would raise our risk budget when we felt it was prudent. In large part this would generally require three things to occur: 1) a lower correlation regime that could benefit idiosyncratic stock selection;

2) the potential for a less-skewed distribution between stock winners and losers; and 3) conviction in our macro bottom-up view. Since the March 2009 equity low, the S&P has rallied 122%. The Russell 2000 has rallied over 152% in that time. Given our forwardlooking economic assessment, this is the first time in a long while where we believe the best opportunity to derive idiosyncratic alpha is in security selection on the short side."

Burbank feels that central bank liquidity has fueled violent rallies and that the easy money has already been made. So while he obviously has long positions (detailed on the next page), take these with a grain of salt given his net positioning to the short side. He also has stated that he favors Saudi equities on the long side. Realistically, three Saudi plays are in his top ten holdings that won't be listed on the next page: Yanbu National Petroleum (YANSAB AB), Etihad Etisalat (EEC AB), and Saudi Basic Industries (SABIC AB).

Vivus (VVUS) in the US continues to be Passport's top long investment. Of this stake, Burbank writes that, "Vivus announced that the FDA delayed their decision date on whether to approve the obesity pill Qnexa by three months to July 17<sup>th</sup>. We believe this delay is for more drug-labeling discussion and does not change our view that a pre-approval trial is unlikely to be required. We continue to believe that a positive outcome this summer coupled with M&A activity prior to launch of the drug in the second half of the year would create an ideal situation to maximize profits."

**View Passport Capital's Updated Portfolio on the Next Page**



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	SPDR S&P 500	SPY	PUT	27.1%	New	\$798,586	5,675,000
2	Cytec Industries Inc.	CYT		6.0%	Cut -1%	\$176,710	2,906,900
3	iShares Russell 2000	IWM	PUT	5.9%	Add 386%	\$173,157	2,090,000
4	VIVUS Inc.	VVUS		5.6%	Added 72%	\$165,213	7,388,793
5	SPDR Gold Shares	GLD	PUT	3.9%	Added 545%	\$115,119	710,000
6	Marathon Petroleum	MPC		3.6%	Cut -37%	\$104,459	2,409,100
7	Deere & Company	DE	PUT	2.8%	New	\$80,900	1,000,000
8	Google Inc.	GOOG		2.1%	Added 393%	\$62,008	96,700
9	Liberty Media Interactive	LINTA		2.1%	Cut -27%	\$60,973	3,194,000
10	US Natural Gas Fund LP	XUNGX	PUT	2.0%	New	\$57,312	3,600,000
11	Apple Inc.	AAPL		1.9%	Added 257%	\$54,859	91,500
12	PRETIUM RES INCCOM	PVG		1.8%	New	\$53,317	3,730,336
13	Materials Select Sector	XLB	PUT	1.6%	New	\$46,952	1,270,000
14	Netflix, Inc.	NFLX	PUT	1.6%	New	\$46,016	400,000
15	Wynn Resorts Ltd.	WYNN		1.5%	New	\$44,058	352,800
16	St. Jude Medical Inc.	STJ	PUT	1.5%	New	\$44,310	1,000,000
17	Methanex Corp.	MEOH		1.4%	New	\$42,037	1,295,400
18	SPDR Metals & Mining	XME	PUT	1.4%	New	\$40,257	810,000
19	Thoratec Corp.	THOR		1.3%	Cut -44%	\$37,634	1,116,400
20	Huntsman Corporation	HUN		1.3%	Added 29%	\$37,339	2,665,200
21	Accuray Incorporated	ARAY		1.2%	Unchanged	\$35,300	5,000,000
22	Solutia Inc.	SOA		1.1%	New	\$33,075	1,183,800
23	Praxair Inc.	PX		1.1%	Add 304%	\$32,638	284,700
24	Georgia Gulf Corp.	GGC		1.1%	New	\$32,742	938,700
25	Mercadolibre, Inc.	MELI		1.0%	Cut -8%	\$28,672	293,200
26	HCA HLDGS INC COM	HCA		1.0%	Cut -3%	\$27,904	1,127,900
27	Timken Co.	TKR		0.8%	Added 77%	\$24,873	490,200
28	Amazon.com Inc.	AMZN		0.7%	New	\$21,669	107,000
29	GoldMiners ETF	GDX	PUT	0.7%	New	\$20,819	420,000
30	QUALCOMM	QCOM		0.6%	Added 297%	\$18,601	273,300
31	Family Dollar Stores Inc.	FDO		0.6%	Added 142%	\$17,889	282,700
32	SPDR Gold Shares	GLD		0.5%	Added 8%	\$16,001	98,700
33	Airgas Inc.	ARG		0.5%	New	\$15,632	175,700
34	VMware, Inc.	VMW		0.5%	Added 511%	\$15,732	140,000
35	Thomas & Betts Corp.	TNB		0.5%	New	\$15,310	212,900
36	Owens-Illinois, Inc.	OI		0.5%	Unchanged	\$15,257	653,700
37	LyondellBasell Industries	LYB		0.5%	New	\$15,356	351,800
38	Superior Energy Services	SPN		0.5%	Cut -10%	\$14,972	568,000
39	Tyco International Ltd.	TYC		0.5%	Added 109%	\$13,427	239,000
40	Sherwin-Williams Co.	SHW		0.5%	New	\$13,475	124,000
41	Ecolab Inc.	ECL		0.5%	Unchanged	\$13,202	213,900
42	Procter & Gamble Co.	PG		0.4%	New	\$12,817	190,700
43	Boise Inc.	BZ		0.4%	Cut -21%	\$11,772	1,433,900
44	Sina Corp.	SINA		0.3%	Added 135%	\$10,049	154,600
45	Teck Resources Limited	TCK		0.3%	Cut -44%	\$9,949	279,000

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	OCEAN RIG	ORIG		0.3%	Cut -59%	\$9,482	561,070
47	CHEMTURA CORP	CHMT		0.3%	Cut -58%	\$7,974	469,600
48	eBay Inc.	EBAY		0.3%	New	\$7,380	200,000
49	PACIFIC DRILLING	PACD		0.2%	Unchanged	\$7,205	711,911
50	News Corp.	NWSA		0.2%	New	\$7,096	360,000
51	Nevsun Resources Ltd.	NSU		0.2%	Cut -62%	\$6,926	1,877,700
52	Cliffs Natural Resources	CLF		0.2%	Cut -43%	\$6,774	97,800
53	Watson Pharmaceuticals	WPI		0.2%	New	\$6,706	100,000
54	W.R. Grace & Co.	GRA		0.2%	Cut -33%	\$6,595	114,100
55	Southern Copper Corp.	SCCO		0.2%	Cut -74%	\$6,466	203,899
56	Abbott Laboratories	ABT		0.2%	New	\$6,129	100,000
57	Alcoa, Inc.	AA		0.2%	Cut -33%	\$6,120	610,800
58	Gilead Sciences Inc.	GILD		0.2%	New	\$6,108	125,000
59	Rock-Tenn Co.	RKT		0.2%	Cut -45%	\$5,553	82,200
60	WebMD Health Corp.	WBMD		0.2%	Cut -71%	\$5,671	221,700
61	Dendreon Corp.	DNDN		0.2%	New	\$5,328	500,000
62	Walter Energy, Inc.	WLT		0.2%	Cut -76%	\$5,181	87,500
63	Keegan Resources Inc.	KGN		0.2%	Cut -30%	\$5,050	1,332,900
64	Idenix Pharmaceuticals	IDIX		0.2%	New	\$4,895	500,000
65	Dollar General Corp	DG		0.2%	New	\$4,851	105,000
66	Allot Communications	ALLT		0.1%	New	\$4,135	177,850
67	Illumina Inc.	ILMN		0.1%	New	\$4,209	80,000
68	Las Vegas Sands	LVS		0.1%	Added 16%	\$4,260	74,000
69	Amylin Pharmaceuticals	AMLN		0.1%	New	\$3,744	150,000
70	Ingersoll-Rand Plc	IR		0.1%	New	\$3,903	94,400
71	Deckers Outdoor Corp.	DECK		0.1%	New	\$3,531	56,000
72	Deckers Outdoor Corp.	DECK	PUT	0.1%	New	\$3,468	55,000
73	Targacept, Inc.	TRGT	CALL	0.1%	New	\$3,210	627,000
74	China Ming Yang Wind	MY		0.1%	Unchanged	\$2,800	1,186,500
75	Western Refining Inc.	WNR		0.1%	Unchanged	\$2,823	150,000
76	NIELSEN HOLDINGS	NLSN		0.1%	Cut -5%	\$3,014	100,000
77	Anheuser-Busch InBev	BUD		0.1%	Cut -22%	\$2,712	37,300
78	SPX Corporation	SPW		0.1%	New	\$2,671	34,450
79	CARBO Ceramics Inc.	CRR		0.1%	Unchanged	\$2,710	25,700
80	Express Scripts Inc.	ESRX		0.1%	New	\$2,709	50,000
81	Qihoo 360 Technology Co	QIHU		0.1%	Cut -53%	\$2,738	112,000
82	Halozyne Therapeutics	HALO		0.1%	New	\$2,552	200,000
83	Caterpillar Inc.	CAT		0.1%	New	\$2,482	23,300
84	Momenta Pharma	MNTA		0.1%	New	\$2,298	150,000
85	MONSTER BEVERAGE	MNST		0.1%	Cut -15%	\$2,422	39,000
86	Key Energy Services Inc.	KEG		0.1%	Unchanged	\$2,322	150,300
87	PioneerNatural Resources	PXD		0.1%	New	\$2,388	21,400
88	Union Pacific Corporation	UNP		0.1%	New	\$2,488	23,150
89	Masimo Corporation	MASI		0.1%	New	\$2,338	100,000
90	National Oilwell Varco	NOV		0.1%	Unchanged	\$2,177	27,400

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
91	HSN, Inc.	HSNI		0.1%	Added 93%	\$2,206	58,000
92	zipRealty Inc.	ZIPR		0.1%	Unchanged	\$2,081	1,519,058
93	TUDOU	TUDO		0.1%	Added 31%	\$1,636	55,400
94	PulteGroup, Inc.	PHM	PUT	0.1%	New	\$1,416	160,000
95	MSC Industrial Direct	MSM		0.0%	New	\$1,249	15,000
96	Baker Hughes	BHI		0.0%	Cut -35%	\$1,158	27,600
97	Research In Motion	RIMM	CALL	0.0%	Added 143%	\$1,250	85,000
98	Giant Interactive Group	GA		0.0%	Unchanged	\$929	189,500
99	Albemarle Corp.	ALB		0.0%	Unchanged	\$888	13,900
100	Celldex Therapeutics	CLDX	CALL	0.0%	New	\$509	100,000
101	SandRidge Energy	SD		0.0%	Unchanged	\$392	50,000
102	Halliburton Company	HAL		0.0%	Unchanged	\$7	200
103	NCI Building Systems	NCS		0.0%	New	\$78	6,800
104	MISSION NEWENERGY	MNELF		0.0%	Unchanged	\$4	8,233
105	Watts Water Technologies	WTS		0.0%	New	\$77	1,900
106	ITC Holdings Corp.	ITC		0.0%	Unchanged	\$77	1,000
107	Tetra Tech Inc.	TTEK		0.0%	Unchanged	\$116	4,400
108	Pike Electric Corporation	PIKE		0.0%	New	\$83	10,100
109	Johnson Controls Inc.	JCI		0.0%	Unchanged	\$62	1,900
110	The Andersons, Inc.	ANDE		0.0%	Unchanged	\$107	2,200
111	Pentair, Inc.	PNR		0.0%	Cut -21%	\$90	1,900
112	Rentech, Inc.	RTK		0.0%	New	\$83	39,800
113	Cosan Ltd.	CZZ		0.0%	Cut -95%	\$79	5,300
114	AVX Corp.	AVX		0.0%	Unchanged	\$80	6,000
115	MYR Group, Inc.	MYRG		0.0%	Cut -50%	\$57	3,200
116	AO Smith Corp.	AOS		0.0%	New	\$76	1,700
117	Acuity Brands, Inc.	AYI		0.0%	New	\$82	1,300
118	Barrick Gold Corp	ABX			<b>Sold</b>		-
119	Shutterfly, Inc.	SFLY			<b>Sold</b>		-
120	The Home Depot	HD	PUT		<b>Sold</b>		-
121	ADECOAGRO S.A.	AGRO			<b>Sold</b>		-
122	Pilgrim's Pride Corp	PPC			<b>Sold</b>		-
123	20+ Year Treasury	TLT	CALL		<b>Sold</b>		-
124	NextEra Energy, Inc.	NEE			<b>Sold</b>		-
125	Arcelor Mittal	MT			<b>Sold</b>		-
126	United States Steel Corp.	X			<b>Sold</b>		-
127	Monsanto Co.	MON	CALL		<b>Sold</b>		-
128	Rowan Companies Inc.	RDC			<b>Sold</b>		-
129	CF Industries Holdings	CF			<b>Sold</b>		-
130	Mead Johnson Nutrition	MJN			<b>Sold</b>		-
131	First Solar, Inc.	FSLR			<b>Sold</b>		-
132	AK Steel Holding Corp	AKS			<b>Sold</b>		-
133	Mosaic Co.	MOS			<b>Sold</b>		-
134	Alpha Natural Resources	ANR			<b>Sold</b>		-
135	Trina Solar Ltd.	TSL			<b>Sold</b>		-

Continued on next page...

# Passport Capital

First Quarter 2012 Portfolio:  
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
136	Wells Fargo & Company	WFC	PUT		<b>Sold</b>		-
137	Priceline.com Inc	PCLN			<b>Sold</b>		-
138	YOUKU.COM INC.	YOKU			<b>Sold</b>		-
139	Expedia Inc.	EXPE			<b>Sold</b>		-
140	Suncor Energy Inc.	SU	CALL		<b>Sold</b>		-
141	Kronos Worldwide Inc.	KRO			<b>Sold</b>		-
142	Quanta Services, Inc.	PWR			<b>Sold</b>		-
143	Dole Food Company Inc.	DOLE			<b>Sold</b>		-
144	Monsanto Co.	MON			<b>Sold</b>		-
145	Alkermes, Inc.	ALKS			<b>Sold</b>		-
146	Tiffany & Co.	TIF			<b>Sold</b>		-
147	Hexcel Corp.	HXL			<b>Sold</b>		-
148	Vale S.A.	VALE			<b>Sold</b>		-
149	Acorda Therapeutics	ACOR			<b>Sold</b>		-
150	AmericanCapitalAgency	AGNC			<b>Sold</b>		-

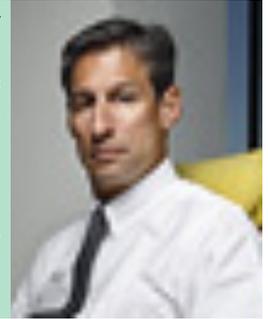
Next Page: Perry Capital

# Perry Capital

## Richard Perry

Average return of over 15% since inception; only 1 losing year in 22 years (2008)

Seeks to deliver strong returns with low correlations to equity markets



### Key Takeaways

#### **New Positions:**

Express Scripts (ESRX)  
Avon Products (AVP)  
SPDR S&P 500 (SPY)  
Agnico-Eagle Mines (AEM)  
Allied Nevada Gold (ANV)  
Teva Pharma (TEVA) Calls  
iShares Russell 2000 (IWM) Puts

#### **Sold Completely Out Of:**

Hertz (HTZ)  
Dollar Thrifty (DTG)  
Motorola Mobility (MMI)  
Goodrich (GR)  
Rite Aid (RAD)  
RBS Preferred (RBS-PR)  
RBS Preferred (RBS-PP)  
Southern Union ~ bought out

11.5x 2013 combined earnings does not reflect that of a market leading healthcare company which expects to grow earnings by more than 15% over the next three years. The deal closed on April 2, 2012 and we continue to find the risk/reward compelling.”

The hedge fund firm also initiated new holdings in two gold miners: Agnico-Eagle Mines (AEM) and Allied Nevada Gold (ANV). They believe that AEM will be able to create value from its assets and can further increase its dividend yield. Perry feels that ANV is undertaking a massive expansion project where it attempts to expand production six-fold and so the stock should “re-rate” over time. They also hypothesize that the company could be a takeover target as two of the world’s largest gold miners also reside in ANV’s home state of Nevada. Perry has hedged the exposure to these individual equity plays with a basket of senior gold mining companies.

The last interesting takeaway from Perry’s portfolio is the fact that they completely exited their risk arbitrage plays in Motorola Mobility (MMI) and Goodrich (GR). This is a bit peculiar considering both are being taken over in the near future and have an impending catalyst. Given Perry’s propensity to invest in event-driven plays, perhaps they found more compelling places to allocate capital for the time being. Lastly, while the next page shows a new stake in Avon Products (AVP) from the first quarter, note that Perry has actually significantly reduced their position recently.

Richard Perry’s firm started a massive new stake in pharmacy benefit manager Express Scripts (ESRX) during the quarter. They originally initiated the position as a way to play the merger between ESRX and Medco Health. But upon the conclusion of the deal, they continue to see opportunity in the combined entity. Perry Partners outlined their thesis behind ESRX in their first quarter letter to investors, writing, “At the levels we bought stock, our analysis suggests the market is underestimating the earnings power of the combined company. We believe that over time the company will realize close to \$1.4 billion in cost synergies, well in excess of the \$1 billion management is currently guiding towards. In addition, the company should be able to resume share repurchases within 18 months once it pays down much of the leverage raised to finance the merger. The current valuation of

View Perry Capital’s Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Express Scripts Inc.	ESRX		12.85%	New	\$267,107	4,930,000
2	American Tower Corp.	AMT		9.82%	Added 12%	\$204,241	3,240,886
3	Yahoo! Inc.	YHOO		9.53%	Added 23%	\$198,022	13,010,675
4	DELPHI	DLPH		9.06%	Cut -20%	\$188,397	5,961,919
5	BP plc	BP	CALL	6.49%	Cut -22%	\$135,000	3,000,000
6	Avon Products Inc.	AVP		5.12%	New	\$106,480	5,500,000
7	Universal American Corp	UAM		3.99%	Unchanged	\$82,943	7,694,185
8	Anadarko Petroleum Co	APC	CALL	3.91%	Added 7%	\$81,239	1,037,000
9	SPDR S&P 500	SPY		3.87%	New	\$80,547	572,026
10	RBS Pfd M	RBS-PM		3.69%	Cut -3%	\$76,745	4,668,176
11	Agnico-Eagle Mines Ltd.	AEM		3.32%	New	\$68,938	2,065,258
12	Anadarko Petroleum Corp	APC		3.26%	Cut -59%	\$67,848	866,067
13	RBS Pfd S	RBS-PS		3.20%	Unchanged	\$66,576	3,986,560
14	BP plc	BP		3.08%	Cut -53%	\$64,067	1,423,700
15	Allied Nevada Gold Corp.	ANV		2.60%	New	\$53,971	1,659,100
16	Teva Pharmaceutical	TEVA	CALL	2.26%	New	\$46,980	1,042,600
17	RBS Pfd T	RBS-PT		2.24%	Cut -29%	\$46,672	2,456,395
18	RBS Pfd Q	RBS-PQ		2.16%	Unchanged	\$44,941	2,645,164
19	iShares Russell 2000 Index	IWM	PUT	1.82%	New	\$37,753	455,900
20	Johnson & Johnson	JNJ		1.48%	Unchanged	\$30,741	466,051
21	RBS Pfd N	RBS-PN		1.27%	Cut -10%	\$26,348	1,630,451
22	North American Energy	NOA		1.08%	Unchanged	\$22,532	4,598,466
23	United Community Banks	UCBI		0.95%	Cut 0%	\$19,822	2,033,030
24	Teva Pharmaceutical	TEVA		0.51%	New	\$10,668	236,755
25	Kinross Gold Corporation	KGC		0.47%	New	\$9,790	1,000,000
26	SanofiContingentValueRight	GCVRZ		0.37%	Cut 0%	\$7,628	5,650,572
27	CAESARS ENTERTAINMENT	CZR		0.29%	New	\$5,938	402,839
28	Bristol-Myers Squibb Co	BYM	CALL	0.06%	New	\$1,350	40,000
29	Cisco Systems, Inc.	CSCO		0.04%	New	\$755	35,700
30	BioMarin Pharmaceutical Inc.	BMRN		0.04%	New	\$784	22,900
31	Edwards Lifesciences Corp.	EW		0.04%	New	\$778	10,700
32	Northrop Grumman Co	NOC		0.04%	New	\$745	12,200
33	General Motors Warrants	GM/WS/A		0.04%	Cut -1%	\$761	45,743
34	Becton, Dickinson and Co	BDX		0.04%	New	\$745	9,600
35	Arrow Electronics, Inc.	ARW		0.04%	New	\$739	17,600
36	Hyatt Hotels Corporation	H		0.04%	New	\$786	18,400
37	McGraw-Hill Companies	MHP		0.04%	New	\$771	15,900
38	Intel Corporation	INTC		0.04%	New	\$745	26,500
39	iShares Silver Trust	SLV	CALL	0.04%	New	\$785	25,000
40	International Flavors	IFF		0.04%	New	\$809	13,800
41	General Mills Inc.	GIS		0.04%	New	\$753	19,100
42	Bristol-Myers Squibb	BYM		0.04%	New	\$749	22,200
43	Fidelity National Financial	FNF		0.04%	New	\$759	42,100
44	Wal-Mart Stores Inc.	WMT		0.04%	New	\$808	13,200
45	Dollar General Corporation	DG		0.04%	New	\$762	16,500

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Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	Essex Property Trust Inc.	ESS		0.04%	New	\$758	5,000
47	Microchip Technology Inc.	MCHP		0.04%	New	\$755	20,300
48	AFLAC Inc.	AFL		0.03%	New	\$676	14,700
49	Silver Wheaton Corp.	SLW		0.03%	New	\$608	18,300
50	Wynn Resorts Ltd.	WYNN		0.03%	New	\$574	4,600
51	Atmel Corporation	ATML		0.03%	New	\$586	59,400
52	Titanium Metals Corp	TIE		0.03%	New	\$542	40,000
53	Southern Copper	SCCO		0.03%	New	\$545	17,200
54	Pfizer Inc.	PFE		0.03%	New	\$657	29,000
55	NVIDIA Corporation	NVDA		0.03%	New	\$636	41,300
56	United Therapeutics	UTHR		0.03%	New	\$721	15,300
57	Smithfield Foods	SFD		0.03%	New	\$661	30,000
58	Morgan Stanley	MS		0.03%	New	\$568	28,900
59	Pepsico, Inc.	PEP		0.03%	New	\$531	8,000
60	SPDR Gold Shares	GLD	CALL	0.02%	New	\$405	2,500
61	Sohu.com Inc.	SOHU		0.02%	New	\$513	9,300
62	Human Genome Sciences	HGSI		0.02%	New	\$494	59,900
63	Paychex Inc.	PAYX		0.02%	New	\$496	16,000
64	General Motors Warrants	GM/WS/B		0.02%	Cut -1%	\$512	45,743
65	Amazon.com Inc.	AMZN		0.01%	New	\$304	1,500
66	MBIA Inc.	MBI		0.01%	New	\$299	30,500
67	CARPENTER TECH	CRS		0.01%	New	\$245	4,700
68	ADTRAN Inc.	ADTN		0.01%	New	\$299	9,600
69	Cypress Semiconductor	CY		0.01%	New	\$234	15,000
70	The Cooper Companies Inc.	COO			<b>Sold</b>		-
71	RBS Pfd R	RBS-PR			<b>Sold</b>		-
72	HERTZ GLOBAL HOLDING	HTZ			<b>Sold</b>		-
73	Dollar Thrifty Automotive	DTG			<b>Sold</b>		-
74	MedcoHealth Solutions Inc.	MHS			<b>Sold</b>		-
75	Motorola Mobility Holdings	MMI			<b>Sold</b>		-
76	Walgreen Co.	WAG	CALL		<b>Sold</b>		-
77	iShares Emerging Markets	EEM	PUT		<b>Sold</b>		-
78	Goodrich Corp.	GR			<b>Sold</b>		-
79	RBS Pfd P	RBS-PP			<b>Sold</b>		-
80	The Cooper Companies Inc.	COO	CALL		<b>Sold</b>		-
81	AFLAC Inc.	AFL	PUT		<b>Sold</b>		-
82	Rite Aid Corp.	RAD			<b>Sold</b>		-
83	Yahoo! Inc.	YHOO	CALL		<b>Sold</b>		-
84	Southern Union Co.	SUG			<b>Sold</b>		-
85	General Motors	GM			<b>Sold</b>		-



### Key Takeaways

#### **New Positions:**

Tenet Healthcare (THC)  
McKesson (MCK) Calls  
Aetna (AET)  
E\*Trade Financial (ETFC)  
Citigroup (C)  
Apple (AAPL)  
Ingersoll Rand (IR)  
Hospira (HSP)

#### **Sold Completely Out Of:**

Quest Diagnostics (DGX)  
Viacom (VIA.B)  
CVS Caremark (CVS)  
RR Donnelley (RRD)  
Family Dollar (FDO)  
Seagate Technology (STX)  
Laboratory Corp (LH)

to earnings ratio averages of 8.1x for the sector, he likes this play. In other health sector plays, Robbins started a brand new stake in Tenet Healthcare (THC) in March. He also over doubled his position in Health Management Associates (HMA).

Robbins recently also provided a short idea that is worth highlighting considering the rarity in which hedge fund managers reveal them. He says to short the utility play ITC Holdings (ITC), a transmission company. He argues they're essentially overcharging customers as the users overpay by anywhere between \$260 million to \$550 million. Robbins says there's no accounting issues but the company is just getting a "sweetheart deal" that regulators won't let go on forever. He says that if you cut the company's return on equity by 194 basis points, earnings get hit by 18%. While the consensus EPS is \$4.00, he thinks it could really be \$2.00.

Glenview Capital's largest disclosed position continues to be Life Technologies (LIFE), a company that sells equipment and consumables to pharma & biotech companies, hospitals, etc. Most of their revenue is high margin and recurring, which is attractive. The bull case on this stock centers on its purchase of Ion Torrent (they make a genetic sequencer). Once free cashflow from this ramps up in a few years, LIFE could potentially be worth much more. Overall, the company should benefit from an aging population and strong trends in genetic technology. The potential risk with this company is that it derives over 40% of its revenue from the government and education sectors, so budget cuts could potentially put this in jeopardy.

**View Glenview Capital's Updated Portfolio on the Next Page**



At the Ira Sohn Conference in New York, Larry Robbins recently shared his thoughts on what he's investing in. He basically said to go long hospitals and life sciences and to short treasuries, utilities, and the defense sector. He's not alone in the 'short treasuries' camp as Leon Cooperman has been blasting the asset class for some time now. Robbins laid out his long thesis for hospitals by pointing out that EBITDA has grown every year for them as they offer 9% CAGR, 1% admission growth, and 2% leverage. He says hospitals benefit from Medicaid eligibility as it reduces bad debt expense. The Glenview manager pointed out that half of hospitals are non-profit and "just get by." HCA Holdings (HCA) is one of his top longs and runs a private network of hospitals. Robbins points out that it's unlikely that the government could unilaterally take a for profit hospital's profits from reimbursement. At price

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Life Technologies Corp	LIFE		10.4%	Cut -15%	\$573,927	11,755,972
2	Crown Castle International	CCI		5.9%	Cut -15%	\$327,068	6,131,756
3	Flextronics International	FLEX		5.6%	Added 17%	\$312,029	43,217,244
4	AIG	AIG		5.2%	Added 29%	\$289,354	9,385,465
5	Thermo Fisher Scientific	TMO		4.7%	Added 0%	\$262,138	4,649,487
6	CIGNA Corporation	CI		4.6%	Added 88%	\$253,498	5,147,161
7	Fidelity National Info	FIS		4.6%	Added 4%	\$252,817	7,633,374
8	Cardinal Health, Inc.	CAH		4.5%	Added 141%	\$248,206	5,757,505
9	BMC Software Inc.	BMC		4.1%	Added 3%	\$224,765	5,596,736
10	Xerox Corp.	XRX		3.6%	Cut -2%	\$201,364	24,936,694
11	HCA HLDGS INC COM	HCA		3.5%	Cut -11%	\$192,235	7,770,229
12	Aon Corporation	AON		3.2%	Unchanged	\$176,132	3,590,138
13	Time Warner Cable Inc.	TWC		2.9%	Added 30%	\$162,857	1,998,240
14	URS Corporation	URS		2.8%	Added 1%	\$152,529	3,587,234
15	Lincare Holdings Inc.	LNCR		2.5%	Cut -1%	\$140,704	5,436,790
16	McKesson Corporation	MCK		2.5%	Cut -66%	\$138,778	1,581,152
17	Tenet Healthcare Corp.	THC		2.4%	New	\$134,905	25,405,900
18	Lowe's Companies Inc.	LOW		2.2%	Cut -13%	\$123,622	3,939,500
19	Tyco International Ltd.	TYC		2.1%	Cut -53%	\$117,987	2,100,152
20	McKesson Corporation	MCK	CALL	1.6%	New	\$87,770	1,000,000
21	The Babcock & Wilcox Co	BWC		1.5%	Added 27%	\$81,223	3,154,277
22	Health Management Assoc	HMA		1.4%	Added 118%	\$75,763	11,274,276
23	Take-Two Interactive	TTWO		1.4%	Cut -12%	\$75,686	4,919,489
24	Liberty Global Inc.	LBTYA		1.3%	Added 23%	\$72,849	1,454,647
25	American Tower Corp.	AMT		1.3%	Cut -57%	\$72,207	1,145,780
26	Sealed Air Corporation	SEE		1.3%	Cut -22%	\$71,356	3,695,310
27	Target Corp.	TGT		1.2%	Cut -56%	\$66,583	1,142,658
28	Meritor, Inc.	MTOR		1.1%	Cut -3%	\$61,714	7,647,279
29	General Motors	GM		1.0%	Cut -18%	\$52,823	2,059,371
30	Aetna Inc.	AET		0.9%	New	\$51,493	1,026,583
31	Lifepoint Hospitals Inc.	LPNT		0.9%	Add 154%	\$49,649	1,258,860
32	ETRADE Financial Corp	ETFC		0.9%	New	\$49,172	4,490,565
33	Sprint Nextel Corp.	S		0.8%	Added 45%	\$45,618	16,006,206
34	Citigroup, Inc.	C		0.8%	New	\$42,493	1,162,600
35	Clearwire Corporation	CLWR		0.7%	Unchanged	\$39,807	17,459,027
36	Apple Inc.	AAPL		0.5%	New	\$28,838	48,100
37	Ingersoll-Rand Plc	IR		0.5%	New	\$27,568	666,700
38	Mueller Water Products	MWA		0.5%	Added 16%	\$25,563	7,676,685
39	Hospira Inc.	HSP		0.4%	New	\$24,561	656,900
40	State Street Corp.	STT		0.4%	Cut -14%	\$23,558	517,755
41	Rovi Corporation	ROVI		0.4%	New	\$23,143	711,000
42	Express Scripts Inc.	ESRX		0.4%	Cut -64%	\$21,506	396,936
43	Apollo Group Inc.	APOL		0.4%	New	\$21,221	549,200
44	Time Warner Inc.	TWX		0.3%	New	\$14,349	380,100
45	TRIPADVISOR	TRIP		0.2%	New	\$11,967	335,500

Continued on Next Page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	Hartford Financial	HIG		0.2%	New	\$11,472	544,200
47	Hartford Financial Warrant	HIG/WS		0.1%	Unchanged	\$7,016	526,750
48	UNWIRED PLANET INC	UPIP		0.1%	Unchanged	\$5,829	2,568,031
49	RBS Pfd S	RBS-PS		0.1%	Unchanged	\$4,178	250,000
50	Citigroup Warrant	C/WS/A		0.1%	Unchanged	\$3,682	8,561,020
51	RBS Pfd N	RBS-PN		0.0%	Unchanged	\$933	57,565
52	RBS Pfd P	RBS-PP		0.0%	Unchanged	\$535	32,819
53	First American Financial	FAF		0.0%	New	\$760	45,700
54	RBS Pfd R	RBS-PR		0.0%	Unchanged	\$330	20,000
55	Quest Diagnostics Inc.	DGX			<b>Sold</b>		-
56	Viacom Inc 6.85% Pfd	VIAB			<b>Sold</b>		-
57	Fiserv, Inc.	FISV			<b>Sold</b>		-
58	R.R. Donnelley & Sons	RRD			<b>Sold</b>		-
59	CVS Caremark Corp	CVS			<b>Sold</b>		-
60	Oracle Corp.	ORCL			<b>Sold</b>		-
61	Family Dollar Stores Inc.	FDO			<b>Sold</b>		-
62	Seagate Technology PLC	STX			<b>Sold</b>		-
63	Expedia Inc.	EXPE			<b>Sold</b>		-
64	Laboratory Corp	LH			<b>Sold</b>		-
65	Textron Inc.	TXT			<b>Sold</b>		-

Has returned an average of 13% annually over the past decade

Has been directing more capital to Viking's 'best ideas' & is taking a more concentrated portfolio approach than in the past



### Key Takeaways

#### **New Positions:**

Google (GOOG)  
TripAdvisor (TRIP)  
Wynn (WYNN)  
Schlumberger (SLB)  
Stericycle (SRCL)  
Watson Pharma (WPI)  
Crown Castle (CCI)  
Home Depot (HD)  
Noble (NE)  
Berkshire Hathaway (BRK-B)  
Goldman Sachs (GS)  
Illumina (ILMN)  
Thermo Fisher Scientific (TMO)

#### **Sold Completely Out Of:**

Cigna (CI)  
Capital One (COF)  
Gilead Sciences (GILD)  
FedEx (FDX)  
MetLife (MET)  
eBay (EBAY)  
Express Scripts (ESRX)  
Chevron (CVX)  
DR Horton (DHI)  
Tata Motors (TTM)  
Assured Guaranty (AGO)  
Pioneer Natural Resources (PXD)  
Inhibitex (INHX)  
CheckPoint Software (CHKP)

responsible for around 15% of their portfolio (mainly in the technology, media, and telecom sector as well as financials). Viking closed its flagship fund to new investments back in October as its larger size was starting to affect its investment strategy.

The main reason for pointing out this personnel change is because high-level departures have become somewhat of a trend at Viking, to the point that it's a bit concerning. Before Parsons, another investment committee member, Dris Upitis, left in 2011. Additionally, David Ott, former CIO and one of the founders of the firm, left the year prior. While it's obviously reassuring that the founder Andreas Halvorsen is still heading the Viking ship, it's also a bit disconcerting that so many key members that have helped Viking succeed in the past are now gone (after all, Halvorsen said that Parsons made "significant contributions"). Viking's Global Equities III fund finished 2011 up 7.69%. After all the departures, Tom Purcell and Dan Sundheim are now tagged as co-chief investment officers.

Turning to Viking's latest portfolio activity, the massive addition to their pre-existing stake in Cisco Systems (CSCO) is the headline here. It's now their top holding as they boosted the position by over 330% during the quarter. The hedge fund also began a brand new stake in Google (GOOG), as it ended the quarter as their second largest disclosed position. They also initiated a sizable stake in TripAdvisor (TRIP), the online travel website that was spun-off from Expedia (EXPE) a few months ago.

The first thing worth highlighting in regards to Viking Global pertains not to its portfolio, but rather to its personnel. In March, Jim Parsons (portfolio manager and management committee member) left the firm apparently due to differences regarding the direction Viking was heading. He was

View Viking Global's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Cisco Systems, Inc.	CSCO		5.6%	Added 335%	\$682,950	32,290,800
2	Google Inc.	GOOG		5.5%	New	\$675,482	1,053,400
3	Invesco Ltd.	IVZ		5.4%	Cut -5%	\$662,942	24,857,253
4	LyondellBasell Industries	LYB		5.1%	Added 16%	\$621,366	14,235,209
5	Mastercard Incorporated	MA		4.8%	Added 21%	\$583,987	1,388,662
6	Priceline.com Incorporated	PCLN		3.9%	Added 15%	\$476,036	663,466
7	Valeant Pharmaceuticals	VRX		3.7%	Added 25%	\$450,348	8,387,949
8	U.S. Bancorp	USB		3.4%	Cut -39%	\$415,071	13,102,000
9	Biogen Idec Inc.	BIIB		3.3%	Added 118%	\$405,151	3,215,487
10	H&R Block, Inc.	HRB		3.2%	Added 0%	\$389,853	23,670,511
11	TRIPADVISOR	TRIP		3.0%	New	\$372,444	10,441,404
12	Citigroup, Inc.	C		2.5%	Added 324%	\$308,841	8,449,838
13	Wynn Resorts Ltd.	WYNN		2.5%	New	\$307,179	2,459,800
14	Albemarle Corp.	ALB		2.1%	Added 26%	\$262,355	4,104,428
15	News Corp.	NWSA		1.9%	Added 143%	\$233,232	11,833,200
16	Humana Inc.	HUM		1.9%	Added 21%	\$232,992	2,519,381
17	Schlumberger Limited	SLB		1.9%	New	\$227,819	3,257,817
18	QUALCOMM Incorporated	QCOM		1.8%	Cut -61%	\$223,313	3,281,127
19	Cardinal Health, Inc.	CAH		1.8%	Added 409%	\$222,448	5,160,026
20	Universal Health Services	UHS		1.6%	Added 3%	\$192,404	4,590,894
21	Stericycle, Inc.	SRCL		1.6%	New	\$189,643	2,267,373
22	Estee Lauder Companies	EL		1.5%	Added 24%	\$185,344	2,992,318
23	Prudential Financial, Inc.	PRU		1.3%	Cut -35%	\$162,963	2,570,800
24	Carter's, Inc.	CRI		1.3%	Added 32%	\$161,583	3,246,600
25	HOST HOTELS & RESORT	HST		1.3%	Cut 0%	\$152,820	9,306,978
26	Texas Instruments Inc.	TXN		1.3%	Added 1%	\$153,248	4,559,614
27	CareFusion Corporation	CFN		1.2%	Cut -44%	\$150,849	5,817,571
28	Watson Pharmaceuticals	WPI		1.2%	New	\$149,584	2,230,600
29	Crown Castle International	CCI		1.2%	New	\$143,984	2,699,368
30	The Home Depot, Inc.	HD		1.1%	New	\$134,967	2,682,721
31	Noble Corp.	NE		1.1%	New	\$134,007	3,576,400
32	DaVita, Inc.	DVA		1.1%	Cut -59%	\$133,009	1,475,102
33	Marsh & McLennan Co	MMC		1.1%	Added 141%	\$133,617	4,074,959
34	Berkshire Hathaway	BRK-B		1.0%	New	\$127,478	1,570,900
35	EOG Resources, Inc.	EOG		0.9%	Added 40%	\$110,161	991,549
36	Goldman Sachs	GS		0.9%	New	\$108,674	873,800
37	Illumina Inc.	ILMN		0.9%	New	\$108,818	2,068,400
38	Apple Inc.	AAPL		0.9%	Cut -87%	\$103,902	173,300
39	Sherwin-Williams Co.	SHW		0.8%	Cut -38%	\$102,448	942,751
40	Thermo Fisher Scientific	TMO		0.8%	New	\$99,419	1,763,385
41	American Tower Corp.	AMT		0.7%	Cut -56%	\$90,563	1,437,061
42	Baidu, Inc.	BIDU		0.7%	Cut -86%	\$88,307	605,800
43	SanDisk Corp.	SNDK		0.7%	Cut -47%	\$85,470	1,723,546
44	JPMorgan Chase & Co.	JPM		0.6%	Cut -53%	\$78,124	1,699,100
45	ACE Limited	ACE		0.6%	New	\$77,104	1,053,335

Continued on Next Page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	LAS VEGAS SANDS	LVS		0.6%	New	\$77,057	1,338,500
47	Agrium Inc.	AGU		0.6%	New	\$76,168	881,885
48	MEDNAX, Inc.	MD		0.6%	Cut -22%	\$74,478	1,001,463
49	Banco Santander (Brasil)	BSBR		0.6%	New	\$72,995	7,960,200
50	Linear Technology Corp.	LLTC		0.6%	Cut -8%	\$68,084	2,020,300
51	Health Management Assoc	HMA		0.5%	Cut -10%	\$66,354	9,874,124
52	CBS CORP CL B	CBS		0.5%	New	\$61,546	1,815,000
53	St. Jude Medical Inc.	STJ		0.5%	Added 59%	\$57,297	1,293,100
54	Cobalt International	CIE		0.5%	New	\$56,135	1,869,300
55	AmerisourceBergen	ABC		0.5%	Added 729%	\$55,889	1,408,500
56	Visa, Inc.	V		0.5%	New	\$54,586	462,600
57	AMERIGROUP Corp	AGP		0.4%	New	\$52,222	776,200
58	EQT Corporation	EQT		0.4%	New	\$46,585	966,300
59	Monsanto Co.	MON		0.4%	Cut -50%	\$44,234	554,600
60	First Horizon National	FHN		0.4%	New	\$44,166	4,255,000
61	Huntsman Corporation	HUN		0.3%	New	\$42,155	3,008,961
62	Cognizant Tech Solutions	CTSH		0.3%	New	\$35,690	463,817
63	Penn West Energy Trust	PWE		0.3%	Cut -78%	\$35,084	1,792,785
64	Hartford Financial Services	HIG		0.2%	New	\$29,769	1,412,219
65	WellCare Health Plans	WCG		0.2%	New	\$23,569	327,900
66	Aetna Inc.	AET		0.2%	New	\$23,676	472,020
67	Oncothyreon Inc	ONTY		0.1%	Added 5%	\$14,223	3,262,215
68	BioMarin Pharmaceutical	BMRN		0.1%	New	\$14,793	431,923
69	PNC Financial Services	PNC		0.1%	New	\$10,506	162,922
70	Coach Inc.	COH		0.0%	New	\$231	3,000
71	CIGNA Corporation	CI			<b>Sold</b>		-
72	Capital One Financial Corp.	COF			<b>Sold</b>		-
73	Gilead Sciences Inc.	GILD			<b>Sold</b>		-
74	INHIBITEX INC	INHX			<b>Sold</b>		-
75	Pioneer Natural Resources	PXD			<b>Sold</b>		-
76	FedEx Corporation	FDX			<b>Sold</b>		-
77	MetLife, Inc.	MET			<b>Sold</b>		-
78	Assured Guaranty Ltd.	AGO			<b>Sold</b>		-
79	eBay Inc.	EBAY			<b>Sold</b>		-
80	Check Point Software	CHKP			<b>Sold</b>		-
81	Alexion Pharmaceuticals	ALXN			<b>Sold</b>		-
82	Express Scripts Inc.	ESRX			<b>Sold</b>		-
83	Axis Capital Holdings	AXS			<b>Sold</b>		-
84	Chevron Corp.	CVX			<b>Sold</b>		-
85	DR Horton Inc.	DHI			<b>Sold</b>		-
86	GRIFOLS, S.A.	GRFS			<b>Sold</b>		-
87	Occidental Petroleum	OXY			<b>Sold</b>		-
88	Tata Motors Ltd.	TTM			<b>Sold</b>		-

Next: Farallon Capital



### Key Takeaways

#### **New Positions:**

Apple (AAPL)  
Priceline.com (PCLN)  
CBS (CBS)  
Equinix (EQIX)  
Warnaco (WRC)  
Progress Energy (PGN)  
WebMD (WBMD)  
Copa Holdings (CPA)  
CareFusion (CFN)  
VCA Antech (WOOF)  
Telus (TU)

#### **Sold Completely Out Of:**

Exxon Mobil (XOM) Puts  
Chevron (CVX) Puts  
Pharmasset ~ bought out  
SI Corp (SONE)  
Linktone (LTON)  
Advanced Analogic (AATI)  
GeoEye (GEOY)  
HCA Holdings (HCA)  
Wells Fargo (WFC)  
Shanda Interactive (SNDA)  
United Rentals (URI)  
NYSE Euronext (NYSE)

Thomas Steyer's Farallon Capital was recently named one of the [top 10 hedge funds by net gains since inception](#). They came in at number nine on the list with a \$12.2 billion net gain since inception in 1992. They're the arbitrage focused hedge fund the newsletter tracks to keep an eye on what deals they see as most likely to close that offer a compelling spread. Their top holding at the end of the quarter was El Paso (EP) as the company will be taken over by Kinder Morgan (KMI). Farallon added to its EP position by 54% during the

quarter and it now represents over 13.7% of their reported holdings. The deal offers EP shareholders numerous options for payment including Kinder Morgan stock, warrants, and cash in various arrangements.

Steyer's firm boosted its holdings in Medco Health Solutions during the quarter as they were betting on the takeover by Express Scripts (ESRX) coming to fruition. They substantially increased their sharecount by over 380%. Their wager paid off as the deal recently closed and Medco is now part of Express Scripts (ESRX). It will be interesting to see if Farallon will continue to own shares in the combined entity or if they were simply playing the deal spread and will move on to their next play. Perry Partners, profiled earlier in this issue, was also playing the deal but has determined that the new entity is also a compelling investment opportunity.

Four of Farallon's top five holdings are risk arbitrage plays (they're also waiting for Motorola Mobility (MMI) to be acquired by Google (GOOG) and for Goodrich (GR) to be acquired by United Technologies (UTX)). Their fifth largest holding is intriguing in the form of Owens-Illinois (OI) shares. Some analysts believe the company is an ideal takeover target. The company manufactures and sells glass containers for beverages. It is a simple business that offers scale and has very little competition. However, there has been somewhat of a secular decline in the use of glass as beverage makers increasingly elect to package their products in plastic and aluminum containers.

View Farallon Capital's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	El Paso Corp.	EP		13.72%	Added 54%	\$664,592	22,490,420
2	MedcoHealth Solutions	MHS		10.14%	Add 382%	\$491,046	6,985,000
3	Motorola Mobility	MMI		8.97%	Cut -6%	\$434,191	11,065,000
4	Goodrich Corp.	GR		7.25%	Cut -18%	\$351,232	2,800,000
5	Owens-Illinois, Inc.	OI		3.38%	Cut -31%	\$163,660	7,012,000
6	Hudson Pacific Properties	HPP		3.20%	Unchanged	\$154,838	10,233,860
7	Oracle Corp.	ORCL		3.09%	Cut -8%	\$149,503	5,127,000
8	Visa, Inc.	V		3.04%	Added 27%	\$147,245	1,247,837
9	State Street Corp.	STT		2.53%	Cut -18%	\$122,395	2,690,000
10	Google Inc.	GOOG		2.47%	Cut -3%	\$119,527	186,400
11	TransDigm Group	TDG		2.40%	Added 32%	\$116,397	1,005,500
12	Apple Inc.	AAPL		2.38%	New	\$115,458	192,600
13	American Tower Corp.	AMT		2.13%	Added 16%	\$103,038	1,635,000
14	Union Pacific Corporation	UNP		2.09%	Cut -13%	\$101,031	940,000
15	Target Corp.	TGT		2.01%	Cut -21%	\$97,151	1,667,256
16	Priceline.com Incorporated	PCLN		1.66%	New	\$80,360	112,000
17	QUALCOMM Incorporated	QCOM		1.60%	Added 4%	\$77,543	1,140,000
18	General Dynamics Corp.	GD		1.58%	Cut -22%	\$76,682	1,045,000
19	CBS CORP CL B	CBS		1.58%	New	\$76,298	2,250,000
20	News Corp.	NWSA		1.54%	Cut -51%	\$74,724	3,795,000
21	Check Point Software	CHKP		1.50%	Cut -8%	\$72,778	1,140,000
22	WellPoint Inc.	WLP		1.48%	Cut -3%	\$71,586	970,000
23	Progressive Waste Solutions	BIN		1.46%	Unchanged	\$70,527	3,253,100
24	Equinix, Inc.	EQIX		1.46%	New	\$70,695	449,000
25	Knology, Inc.	KNOL		1.35%	Unchanged	\$65,291	3,587,394
26	Comcast Corporation	CMCSA		1.25%	Cut -53%	\$60,620	2,020,000
27	Pall Corp.	PLL		1.12%	Cut -4%	\$54,224	909,336
28	Warnaco Group Inc.	WRC		1.12%	New	\$54,312	930,000
29	Fidelity National Info	FIS		1.08%	Cut -44%	\$52,495	1,585,000
30	Microsoft Corporation	MSFT		1.06%	Cut -59%	\$51,116	1,585,000
31	Town Sports International	CLUB		1.06%	Unchanged	\$51,279	4,060,082
32	Progress Energy Inc.	PGN		0.83%	New	\$40,098	755,000
33	BP plc	BP		0.79%	Cut -53%	\$38,025	845,000
34	FEI Co.	FEIC		0.70%	Unchanged	\$34,005	692,428
35	Life Technologies Corp	LIFE		0.54%	Unchanged	\$26,381	540,364
36	Yahoo! Inc.	YHOO		0.50%	Added 69%	\$23,987	1,576,000
37	eBay Inc.	EBAY		0.49%	Added 29%	\$23,637	640,745
38	WebMD Health Corp.	WBMD		0.48%	New	\$23,150	905,000
39	Copa Holdings SA	CPA		0.43%	New	\$20,592	260,000
40	CareFusion Corp	CFN		0.42%	New	\$20,433	788,000
41	VCA Antech Inc.	WOOF		0.38%	New	\$18,568	800,000
42	Tenet Healthcare	THC		0.29%	Cut -35%	\$14,087	2,652,900
43	Baxter International	BAX		0.27%	Cut -76%	\$12,912	216,000
44	CVS Caremark	CVS		0.27%	Cut -24%	\$13,097	292,336
45	EnCana Corp.	ECA		0.27%	Unchanged	\$13,119	667,636

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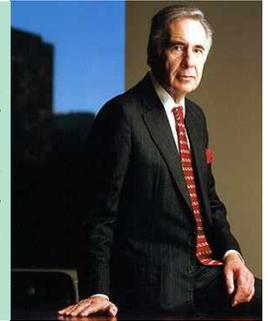
Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	Fuel Systems Solutions	FSYS		0.26%	Added 8%	\$12,738	486,945
47	TELUS Corporation	TU		0.23%	New	\$11,365	200,000
48	Illumina Inc.	ILMN		0.21%	New	\$10,259	195,000
49	Westport Innovations	WPRT		0.20%	Unchanged	\$9,583	234,200
50	Potash Corp	POT		0.17%	Unchanged	\$8,473	185,455
51	Fresh Del Monte Produce	FDP		0.16%	Added 19%	\$7,964	348,682
52	Schlumberger Limited	SLB		0.16%	New	\$7,636	109,200
53	NOVADAQ TECH	NVDQ		0.15%	New	\$7,350	1,103,800
54	Chiquita Brands	CQB		0.14%	Unchanged	\$6,652	756,727
55	Tata Motors Ltd.	TTM		0.13%	Cut -39%	\$6,244	231,514
56	SanofiContingentValueRight	GCVRZ		0.13%	Unchanged	\$6,143	4,550,000
57	LOOPNET INC COM STK	LOOP		0.11%	New	\$5,540	295,000
58	Ultra Petroleum Corp.	UPL		0.11%	New	\$5,354	236,600
59	LPL INVESTMENT	LPLA		0.10%	Unchanged	\$5,054	133,206
60	FLIR Systems, Inc.	FLIR		0.08%	Unchanged	\$4,105	162,182
61	Dole Food Company Inc.	DOLE		0.07%	Unchanged	\$3,629	363,636
62	Horsehead Holding Corp.	ZINC		0.05%	Unchanged	\$2,427	213,100
63	Beacon Roofing Supply	BECN		0.05%	Cut -79%	\$2,339	90,790
64	TUDOU HOLDINGS	TUDO		0.04%	New	\$1,852	62,700
65	DELPHI	DLPH		0.03%	Unchanged	\$1,497	47,368
66	DigitalGlobe, Inc.	DGI		0.02%	New	\$1,067	80,000
67	SAVIENT PHARMA	SVNT		0.01%	Unchanged	\$654	300,000
68	Cninsure Inc.	CISG		0.01%	Unchanged	\$500	80,000
69	ADECOAGRO S.A.	AGRO		0.01%	New	\$323	29,887
70	Exxon Mobil Corp.	XOM	PUT		<b>Sold</b>		-
71	Chevron Corp.	CVX	PUT		<b>Sold</b>		-
72	PHARMASSET, INC. COM	VRUS			<b>Sold</b>		-
73	SI CORPORATION	SONE			<b>Sold</b>		-
74	Linktone Ltd.	LTON			<b>Sold</b>		-
75	ADVANCED ANALOGIC	AATI			<b>Sold</b>		-
76	GeoEye, Inc.	GEOY			<b>Sold</b>		-
77	BLUE COAT SYS	BCSI			<b>Sold</b>		-
78	HCA HLDGS INC COM	HCA			<b>Sold</b>		-
79	Wells Fargo & Company	WFC			<b>Sold</b>		-
80	PHARMASSET, INC. COM	VRUS	PUT		<b>Sold</b>		-
81	SHANDA INTERACTIVE	SNDA			<b>Sold</b>		-
82	United Rentals, Inc.	URI			<b>Sold</b>		-
83	NYSE Euronext, Inc.	NYX			<b>Sold</b>		-

# Icahn Capital

Carl Icahn

Known as a 'rabblrouser' and a corporate raider

Typically takes controlling stakes & uses activism to generate shareholder value



## Key Takeaways

### New Positions:

n/a

### Sold Completely Out Of:

Motorola Solutions (MSI)

El Paso (EP)

When Carl Icahn finally succeeded in splitting the old Motorola entity up into Motorola Mobility (MMI) and Motorola Solutions (MSI), the newsletter pondered whether he would continue to hold both companies. Well, he did hold both for a brief while at least. Icahn's latest portfolio disclosure shows he has disposed of his position in Motorola Solutions (MSI). And with Motorola Mobility set to be acquired by Google (GOOG), Icahn will soon have no trace of Motorola left in his portfolio at all.

Last quarter's issue highlighted Icahn's rapid acquisition of CVR Energy (CVI) shares. In the first quarter, he boosted his position by 229% and has made a bid for the entire company. His tender offer comes in at \$30 per share and CVI currently trades at a slight premium to that offer. The reason shares are trading above his offer is because he's sweetened his bid by adding a contingent cash payment agreement which essentially provides shareholders the right to any amount above the \$30 he's offering if he's able to flip the company to another buyer for an even higher price within the next nine months. And as detailed earlier in this newsletter, John Paulson has taken up Icahn on the offer as he has tendered his CVI shares into the \$30 offer and is content to take the contingent value right. Paulson has done so mainly because of the extremely skewed risk/reward the opportunity provides. The

Paulson & Co founder says that you essentially pay around 35-40 cents for the contingent value right and if Icahn's able to sell the company for even higher, you'll make a high multiple on that initial capital outlay. It's essentially treated as an option because there's defined risk and a timetable of nine months (expiration). Paulson clearly likes those odds.

The only other portfolio activity from Icahn during the quarter was that he added to his position in WebMD Health (WBMD) by 18%. As to what Icahn might see in the company: WebMD is the most visited health related website in the US. The stock has suffered as its primary ad buyers (pharma companies and the like) have cut their ad spending. If WebMD is able to turn around these revenue declines and cut costs, then the stock would obviously be trading higher. The company tried to sell itself in the past unsuccessfully so it raises the question as to whether there are any natural buyers out there.

For the most part in the first quarter, Icahn's overall portfolio was largely unchanged. He was named one of the [top 25 highest earning hedge fund managers of 2011](#), sliding in at the number two position on the list with \$2.5 billion.

View Icahn Capital's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Icahn Enterprises	IEP		41.0%	Added 17%	\$4,008,551	92,812,051
2	Federal-Mogul Corp.	FDML		13.5%	Unchanged	\$1,314,590	76,385,255
3	Motorola Mobility	MMI		10.4%	Cut -14%	\$1,020,240	26,000,000
4	Forest Labs	FRX		9.4%	Unchanged	\$914,487	26,361,686
5	Amylin Pharma	AMLN		3.7%	Unchanged	\$358,973	14,381,925
6	CVR Energy, Inc.	CVI		3.4%	Add 229%	\$336,628	12,584,227
7	Hain Celestial Group	HAIN		3.2%	Unchanged	\$312,390	7,130,563
8	Navistar International	NAV		3.0%	Unchanged	\$293,320	7,251,426
9	American Railcar	ARII		2.9%	Unchanged	\$278,568	11,848,898
10	Mentor Graphics Corp.	MENT		2.5%	Unchanged	\$239,547	16,120,289
11	Oshkosh Corporation	OSK		2.1%	Unchanged	\$200,774	8,665,260
12	WebMD Health Corp.	WBMD		1.8%	Added 18%	\$171,400	6,700,525
13	Commercial Metals	CMC		1.6%	Cut -9%	\$154,958	10,455,991
14	Take-Two Interactive	TTWO		1.2%	Unchanged	\$112,397	7,305,626
15	Enzon Pharma	ENZN		0.4%	Unchanged	\$40,389	5,904,863
16	Dynegy Inc.	DYN		0.1%	Unchanged	\$10,104	18,042,212
17	Motricity, Inc.	MOTR		0.1%	Unchanged	\$7,460	6,782,039
18	Motorola Solutions	MSI			<b>Sold</b>		-
19	El Paso Corp.	EP			<b>Sold</b>		-

Next: JANA Partners

# JANA Partners

Barry Rosenstein

Has returned 14.3% annualized since inception in 2001

“Value-oriented fund with an event-driven strategy which invests in companies considering or implementing change.”



## Key Takeaways

### **New Positions:**

DirecTV (DTV)  
Coventry HealthCare (CVH)  
Hess (HES)  
Visteon (VC)  
Barnes & Noble (BKS)  
Coca Cola Enterprises (CCE)  
Avis Budget (CAR)  
Strayer Education (STRA)  
Darling (DAR)  
Carnival (CCL)  
Norfolk Southern (NSC)  
Forest Oil (FST)

### **Sold Completely Out Of:**

Cytec (CYT)  
Rock Tenn (RKT)  
Life Technologies (LIFE)  
Sunoco (SUN)  
TripAdvisor (TRIP)  
Marriott Vacations (VAC)  
HCA Holdings (HCA)  
Google (GOOG)  
BMC Software (BMC)  
Delphi (DLPH)

Jana Partners made a splash in the market when they revealed a large stake in beleaguered bookseller Barnes & Noble (BKS). Their portfolio on the next page shows they owned 5.5 million shares of the last remaining bookstore giant at the end of the first quarter. Note that since then, they continued buying into the second quarter and own around 6 million shares. While Barry Rosenstein's firm are typically activist investors, they intriguingly did not pursue activist measures on BKS, instead electing to play a passive role while the likes of

larger shareholders Len Riggio and John Malone's Liberty lead the charge. Even bigger news pertaining to Barnes & Noble hit literally days after JANA publicly revealed its stake when Microsoft announced it had invested in BKS' e-reading platform, Nook. JANA thinks a sum of the parts valuation on BKS yields \$11 per share for the retail and college bookstore segment and \$26 per share for the Nook segment, yielding a total of \$37 per share, or around 230% upside from where they established their stake. While shares of BKS initially traded north of \$25 per share on the news of Microsoft's investment, they've settled back down around the \$17 range. It seems though that JANA's entire investment thesis hinges on the Nook. They note that the biggest risk to their investment in BKS is the future of the e-reader segment and the execution of monetizing it. You can read JANA's entire [thesis on BKS here](#).

At the Skybridge Alternatives Conference in Las Vegas a few weeks ago, Rosenstein commented that he's been involved in activist investing since the 1980's and he thinks today's environment is the best he's seen for it. The hedge fund manager also talked about his firm's lack of exposure to financials, pointing out that he thinks the sector is too hard to analyze.

Rosenstein will be presenting his newest investment ideas at the Value Investing Congress in New York City in October along with David Einhorn and numerous other hedge fund managers. Newsletter readers can receive a [huge discount to the event by clicking here](#) and entering discount code: N12MF3

View JANA Partners' Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Marathon Petroleum	MPC		11.5%	Cut -61%	\$279,851	6,454,131
2	El Paso Corp.	EP		6.6%	Added 7%	\$160,739	5,439,559
3	DIRECTV	DTV		6.5%	New	\$157,959	3,201,441
4	Expedia Inc.	EXPE		5.4%	Added 29%	\$131,782	3,940,857
5	Energizer Holdings Inc.	ENR		5.4%	Added 78%	\$131,691	1,775,288
6	Liberty Media Corp	LMCA		5.3%	Added 12%	\$128,722	1,460,256
7	McGraw-Hill Co	MHP		5.3%	Cut -70%	\$128,205	2,645,031
8	Apple Inc.	AAPL		4.9%	Cut -23%	\$119,479	199,281
9	Coventry Health Care Inc.	CVH		4.7%	New	\$115,017	3,233,532
10	Motorola Solutions, Inc.	MSI		4.7%	Added 123%	\$113,749	2,237,823
11	Anadarko Petroleum	APC		4.1%	Added 3%	\$99,880	1,274,954
12	Hess Corporation	HES		4.1%	New	\$99,612	1,689,767
13	Visteon Corp	VC		3.2%	New	\$77,133	1,455,335
14	Barnes & Noble, Inc.	BKS		3.0%	New	\$73,844	5,573,111
15	Coca-Cola Enterprises Inc.	CCE		3.0%	New	\$73,361	2,565,073
16	Liberty Media Interactive	LINTA		2.6%	Cut -15%	\$63,142	3,307,615
17	Avis Budget Group, Inc.	CAR		2.3%	New	\$55,511	3,923,050
18	Comverse Technology Inc.	CMVT		2.1%	Added 22%	\$51,462	7,490,821
19	Strayer Education Inc.	STRA		2.0%	New	\$48,450	513,900
20	Netflix, Inc.	NFLX		1.9%	Cut -39%	\$45,830	398,383
21	SEMGROUP CORP A	SEMX		1.7%	Cut -27%	\$41,625	1,428,453
22	Darling International Inc.	DAR		1.6%	New	\$38,624	2,217,233
23	Carnival Corporation	CCL		1.6%	New	\$38,042	1,185,851
24	Norfolk Southern Corp.	NSC		1.5%	New	\$36,426	553,332
25	SPDR Gold Shares	GLD		1.2%	Added 43%	\$27,903	172,115
26	Forest Oil Corp.	FST		1.0%	New	\$24,842	2,049,704
27	Anadarko Petroleum Corp	APC	CALL	0.9%	New	\$22,562	288,000
28	Convergys Corporation	CVG		0.7%	Added 6%	\$16,636	1,246,168
29	SUNCOKE ENERGY	SXC		0.6%	New	\$15,283	1,075,491
30	Opko Health, Inc.	OPK		0.5%	Added 34%	\$12,682	2,681,193
31	Marathon Petroleum	MPC	CALL		<b>Sold</b>		-
32	Life Technologies Corp	LIFE			<b>Sold</b>		-
33	Rock-Tenn Co.	RKT			<b>Sold</b>		-
34	Cytec Industries Inc.	CYT			<b>Sold</b>		-
35	Savient Pharmaceuticals	SVNT			<b>Sold</b>		-
36	Sunoco Inc.	SUN			<b>Sold</b>		-
37	WPX ENERGY INC	WPX			<b>Sold</b>		-
38	TRIPADVISOR	TRIP			<b>Sold</b>		-
39	MARRIOTT VACATIONS	VAC			<b>Sold</b>		-
40	HCA HLDGS INC COM	HCA			<b>Sold</b>		-
41	Google Inc.	GOOG			<b>Sold</b>		-
42	BMC Software Inc.	BMC			<b>Sold</b>		-
43	EXELIS INC	XLS			<b>Sold</b>		-
44	DELPHI	DLPH			<b>Sold</b>		-

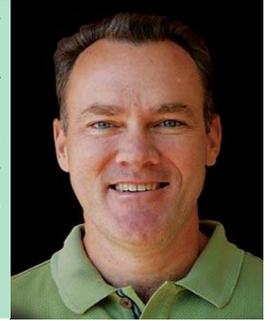
Next: Pennant Capital

# Pennant Capital

Alan Fournier

Pursues a long/short equity strategy

Before founding Pennant in 2001, he was responsible for the global equity portfolio for David Tepper's Appaloosa Management



## Key Takeaways

### **New Positions:**

Priceline.com (PCLN)  
WABCO (WBC)  
Canadian Natural Resources (CNQ)

### **Sold Completely Out Of:**

Sprint Nextel (S)  
Abercrombie & Fitch (ANF)  
Symetra Financial (SYA)  
Babcock & Wilcox (BWC)  
Willis Group (WSH)

Pennant Capital was largely out trimming position sizes during the first quarter of the year as they sold shares of seven of their top ten positions. That being said, none of the position sizes were reduced by meaningful size. Of their top holdings, Apple (AAPL) was the position that saw the most selling and even then they only sliced off 23% of their position. For the most part, it looks as though Pennant was just managing exposure levels.

The hedge fund did do some buying during the quarter, mainly via starting new positions in Priceline.com (PCLN), WABCO (WBC), and Canadian Natural Resources (CNQ), the latter being a much smaller position relative to the other two. If you missed the write-up on Priceline from last quarter's issue of Hedge Fund Wisdom, be sure to login and check it out as numerous top hedge funds now own stakes.

Pennant's addition of WABCO is intriguing so it's worth examining the potential thesis there further. The company is headquartered in Europe and as such shares have slipped as the crisis on that continent continues. WABCO stands for the Westinghouse Air Brake Company and, as its

name implies, focuses on the production of braking supplies for vehicles. The company has high market share with a dominant competitive position and strong returns on capital (ROIC average more than 20%). The problem is that truck production and demand for brakes is highly cyclical. However, the company also sells replacement parts for its brakes to help pad the gap when new orders are slow to roll in. The reason this position is worth highlighting is because due to its cyclical nature, Pennant would be more likely to hold this investment for some time. As is often the case with cyclical plays, it can take some time for improvements in the business to translate into material share price gains.

During the first quarter when Pennant was buying, shares of WBC traded as low as \$45 and as high as \$63. Currently, WBC has sold off with the market and shares sit around \$51. Various value firms were out buying WBC in size back in the third quarter of 2011 as the markets (and WBC shares in particular) were decimated. Given that shares have now fallen back down to the average level of trading price from the first quarter when Pennant was buying, it seems logical to draw attention to this name.

Pennant's top ten holdings remain largely unchanged from the quarter prior. Their lower level of turnover makes them an ideal fund to track.

View Pennant Capital's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	DaVita, Inc.	DVA		6.3%	Cut -6%	\$279,543	3,100,181
2	TransDigm Group	TDG		6.2%	Cut -15%	\$274,754	2,373,482
3	Fidelity National Info	FIS		6.0%	Cut -9%	\$266,256	8,039,144
4	QUALCOMM Incorporated	QCOM		5.7%	Cut -15%	\$253,441	3,723,781
5	WellPoint Inc.	WLP		4.8%	Added 2%	\$210,101	2,846,892
6	Dollar General Corporation	DG		4.6%	Cut -4%	\$204,505	4,426,516
7	Apple Inc.	AAPL		4.4%	Cut -23%	\$194,227	323,955
8	NVR Inc.	NVR		4.2%	Added 19%	\$187,475	258,113
9	TRIPADVISOR INC COM	TRIP		4.1%	Cut -15%	\$182,661	5,120,850
10	Family Dollar Stores Inc.	FDO		4.1%	Added 17%	\$181,442	2,867,281
11	HUNTINGTON INGALLS	HII		4.0%	Added 23%	\$174,943	4,347,499
12	Terex Corp.	TEX		3.9%	Cut -2%	\$171,526	7,623,370
13	Sensata Technologies	ST		3.7%	Cut -4%	\$162,857	4,864,316
14	Coca-Cola Enterprises Inc.	CCE		3.4%	Cut -1%	\$149,409	5,224,106
15	WESCO International Inc.	WCC		3.1%	Cut 0%	\$137,884	2,111,224
16	Union Pacific Corporation	UNP		3.1%	Cut 0%	\$137,495	1,279,263
17	Priceline.com Incorporated	PCLN		2.9%	New	\$129,868	181,000
18	Unitedhealth Group, Inc.	UNH		2.9%	Cut -1%	\$127,035	2,155,331
19	Citigroup, Inc.	C		2.7%	Added 13%	\$120,291	3,291,122
20	WABCO Holdings Inc.	WBC		2.5%	New	\$110,163	1,821,471
21	Range Resources Corp	RRC		2.3%	Cut -1%	\$101,589	1,747,316
22	Google Inc.	GOOG		2.0%	Cut -1%	\$88,805	138,489
23	PHH CORP	PHH		1.9%	Unchanged	\$85,249	5,510,629
24	Pfizer Inc.	PFE		1.9%	Unchanged	\$82,803	3,656,574
25	Hologic Inc.	HOLX		1.6%	Cut -15%	\$70,404	3,267,027
26	Old Republic Intl	ORI		1.2%	Cut -1%	\$52,495	4,975,868
27	AEROFLEX HOLDING	ARX		0.9%	Added 6%	\$39,377	3,534,708
28	Middleby Corp.	MIDD		0.8%	Cut -10%	\$34,685	342,809
29	Universal Stainless & Alloy	USAP		0.7%	Unchanged	\$29,296	685,770
30	Petroleo Brasileiro	PBR-A		0.6%	Cut -7%	\$27,349	1,070,000
31	Valero Energy Corp.	VLO		0.6%	Cut -13%	\$26,028	1,010,000
32	Quest Diagnostics Inc.	DGX		0.6%	Cut -4%	\$25,072	410,000
33	Fluor Corporation	FLR		0.6%	Cut -7%	\$24,616	410,000
34	PHH CORP NOTE	PHH		0.5%	Unchanged	\$23,931	23,900,000
35	Foster Wheeler AG	FWLT		0.4%	Added 40%	\$15,818	695,000
36	Broadcom Corp.	BRCM		0.4%	Cut -20%	\$15,720	400,000
37	Canadian Natural	CNQ		0.2%	New	\$10,784	325,000
38	Amgen Inc.	AMGN		0.2%	Added 13%	\$9,176	135,000
39	Human Genome Sciences	HGSI		0.1%	Add 374%	\$3,626	440,000
40	Sprint Nextel Corp.	S			<b>Sold</b>		-
41	Abercrombie & Fitch Co.	ANF			<b>Sold</b>		-
42	Symetra Financial Corp	SYA			<b>Sold</b>		-
43	The Babcock & Wilcox Co	BWC			<b>Sold</b>		-
44	Willis Group Holdings	WSH			<b>Sold</b>		-

Next: Equity Analysis Section

## 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 a company seeing robust secular growth trends and REIT-ification optionality versus threat of low-price competition from wholesalers and fear of overcapacity:

- **Equinix (EQIX)**

Also included is an investment thesis summary of a company with a superior product but competition might be catching up:

- **Tempur-Pedic (TPX)**

Lastly, this issue features analysis of a company combating industry slowdown with company-specific growth levers (but it's trading at the top of its historical valuation range):

- **Autozone (AZO)**

Next: Analysis of Equinix (EQIX)



## Secular Growth Trends

### Hedge Fund Activity

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Philippe Laffont's Coatue Management and John Thaler's JAT Capital both started significant new positions in Equinix (EQIX). Two Sigma, Scout Capital, Hoplite Capital, and Farallon Capital also started new positions. Lone Pine Capital and Och-Ziff increased their exposure. The stock traded in the range of \$101 - \$157 during the quarter, and it's currently at \$148.

### Company Background

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EQIX was founded in 1998 by ex-DEC managers who believed that the proliferation of internet networks and rapid growth in the infrastructure would need hubs to bring the networks together in order to efficiently exchange data. The company has become a leader in IT infrastructure collocation and network interconnections. EQIX has the most data centers globally in strategic high-density locations in order to provide close proximity to the largest number of end-users as well as companies that are outsourcing their IT.

Data centers offer access to locations with technology, power, and security required to host other companies' servers. Collocation qualifies as property-generated revenue, which is relevant to the REIT structure. In addition to collocation, EQIX offers interconnections and managed infrastructure as value-added services. Interconnection refers to connecting one network to another so that they can exchange data.

If an internet user is using a network like AT&T, but he needs to access data from a company that is relying on Sprint's network, then data needs to get exchanged, or 'hop' from one network to the other. In a data transmission, data may require a number of hops if the intermediaries or facilitators don't have both networks physically located in the same area. The more hops involved in a transmission, the greater the delay. As data consumption increases exponentially and clients need ever faster access to data, e.g., high-frequency traders or video viewing, the growing need for localized ecosystems with as many networks and companies at the same place as possible is filled by companies like EQIX.

EQIX operates state-of-the art facilities with all the power, cooling, and security required. The company has targeted specific verticals with low latency needs, and worked on bringing many customers in the same locations, so that they could all benefit from faster data transfers. A great example is the financial industry, where brokers, data providers, and traders can all be hosted in machines that are very close to each other and can thus exchange data without the delay of rerouting them through different networks and data exchange providers.



### A Look at the Industry

The US hosting services industry is an \$11bn market and consists of collocation and managed services. Collocation is provided by wholesale and retail data center operators. Wholesale data centers tend to provide an empty box, whereas retail providers bundle managed infrastructure and other value-added services.

Larger companies tend to opt for wholesale services, where they commit to 10-year contracts and larger spaces but at a much lower cost of ~\$30 per month per sq.ft. Smaller companies choose 2-5 year contracts and managed services, but may end up paying more than double. Occasionally, when companies become sustainable, they transition from retail to wholesale collocation. The cost differential and similarity of the offering seemingly makes wholesale collocators and a company like EQIX direct competitors, and EQIX wouldn't compare favorably.

However, the big difference is that wholesalers cater primarily to standalone networks, i.e., customers who don't benefit particularly from interconnections. EQIX's model instead is to provide both collocation and network interconnections, which creates powerful network effects and adds value to customers. Therefore, the threat from wholesale collocators to compete on pricing or capture market share is not as big as it would seem. EQIX has built highly interconnected ecosystems: for example, a high-frequency trader derives substantial benefits from being in close proximity to various networks and in the same location as brokers and exchanges.

Even though wholesale providers could theoretically expand their service offerings,

execution is very different because they need to focus on clustering and network effects, such as EQIX's strategy of deep coverage by vertical. Separately, since collocation revenue qualifies as rental-property revenue, wholesalers have converted into REITs because of the tax efficiency of the structure: as long as 90% of annual taxable income is distributed to shareholders, the corporation doesn't pay taxes. Therefore, another barrier to competing with someone like EQIX is that value-added services do not qualify as sales generated from property ownership, which can put a REIT structure at risk (REITs have to generate at least 75% of their sales directly from property ownership).

The wholesalers are DuPont Fabros (DFT), Digital Realty (DLR), and CoreSite Realty (COR). The retailers used to be EQIX, Rackspace (RAX), Savvis (SVVS), Terremark (TMRK), and Telecity (TCY LN), but some of these companies have been recently absorbed by larger telecommunications corporations that wanted access to this high-growth industry. The remaining independents are EQIX, RAX, and TCY.



### Industry Background (Continued)

Of the wholesalers, DLR is the largest player with a \$7.5bn market cap and an \$11.4bn EV, and it trades at 18x EV/EBITDA. DFT has a \$1.6bn market cap and a \$3.0bn EV, and it trades at 16x EV/EBITDA. COR has a \$0.5bn market cap and a \$1.0bn EV, and it trades at 15x EV/EBITDA. It was owned by Carlyle and IPO'd as a REIT in November 2011. All these wholesalers are REITs, so a more appropriate valuation metric is "adjusted funds from operation", which is effectively equity cashflows. However, for comparability purposes, we'll stick to using EV/EBITDA, which is a good proxy for relative valuations.

Of the retailers, EQIX is the largest with a \$7.0bn market cap and a \$9.2bn EV, and it trades at 13x EV/EBITDA. RAX is much more focused on managed IT services (customer service is a big company differentiator), it has a \$6.6bn market cap and a \$6.5bn EV, and it trades at 19x EV/EBITDA. The high multiple can be justified by the company's focus on cloud services, faster growth, and lower capital intensity (services vs collocation). TCY is predominantly a European player, it has a \$1.5bn market cap and a \$1.7bn EV, and it trades at 16x EV/EBITDA. Its premium can be justified because of its smaller size, which makes incremental growth easier to achieve, and takeover premium (EQIX is deemed too large).

SVVS was acquired by CenturyLink (CTL) for \$2.4bn, which valued SVVS at 13x EBITDA, in July 2011. TMRK was acquired by Verizon (VZ) for \$1.7bn, which valued the company at

21x EBITDA, in April 2011. TMRK's higher multiple can be justified by its high mix of value-added services and focus on cloud services, which accelerated VZ's expansion in that high-growth space.

*“Of the retailers, EQIX is the largest with a \$7 billion market cap, a \$9.2 billion EV, and it trades at 13x EV/EBITDA.”*



### Valuation

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On the trading side, TCY is the closest comparable to EQIX, and on the transaction side, SVVS is the most relevant. TCY trades at 16x EV/EBITDA and SVVS was acquired for 13x EBITDA. Historically, EQIX seems to trade around 10-15x EBITDA. Therefore, the current 13x multiple seems fair, though it likely already incorporates – at least in part – investors' expectation that the company will eventually convert into a REIT. At this valuation, the company needs to deliver consistently strong results quarter after quarter. Any slip up in customer churn or pricing could cause investors to get concerned about the opportunity.

The upside from a REIT conversion can be assessed by comparing EQIX to the wholesalers, who trade at 15-18x EBITDA. Assuming a mid-range multiple of 16.5x would imply upside of 35%. At DLR's multiple, EQIX would have a 50% upside. EQIX is projected to grow faster than the REIT wholesalers in the next few years as it can utilize its strong cashflow and has many opportunities to expand. This would justify a premium multiple, but the uncertainty in the timing of the conversion is an offset.

It is more difficult to assess the probability and timing of a potential conversion. In order to qualify for a REIT, EQIX needs to generate at least 75% of rental-type sales and dividend at least 90% of its taxable income to shareholders every year. On the former, EQIX's sales mix is currently very close to the 75% minimum requirement, which doesn't give it a lot of room for any change in the mix and limits its expansion opportunities into more service-based revenue. On the latter, it currently has high CAPEX plans for the next few years, so converting at this point might be premature because it would limit its capital flexibility.

There are tradeoffs to the REIT structure, and it may be that EQIX's business model may not have matured enough yet to pursue a conversion. The timeframe from starting the process, preparing the company, and eventually converting into a REIT is estimated at 2 years based on the recent experience at American Tower (AMT). Since EQIX is currently just evaluating the option, it could be a 3-5 year event.

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### The Bull Case

EQIX is the leading pure-play retail data center provider. It has successfully created deep ecosystems across a number of verticals, which create network effects that translate into barriers to entry, growth opportunities, and pricing power. EQIX is a way to play the growth in digital data consumption, driven by a secular growth trend in cloud and media. In addition, EQIX has the option to convert into a REIT structure, which will provide tax efficiency and a large number of substantial incremental stockholders. Compared to its historical multiple, EQIX trades at a reasonable valuation, but compared to REITs in the same industry (wholesale data centers) it could have an upside of 30-50%.

### The Bear Case

The company has been exploring a REIT conversion for years, so it may not happen in the near term. In the meantime it is at least fully valued. Even though 95% of its sales are considered recurring, they are subject to ~3 year contracts as opposed to 10 years for REITs, which have much more stable cashflows. There are competitive threats from the REIT wholesalers, who offer substantial cost-savings, and from large companies building their own infrastructure, e.g., Amazon and Google building their own data centers. Another key risk that investors are keenly aware of is the threat of a supply glut coming from over-expansion. New facilities need to be added at a very measured pace in order to avoid the post-internet bubble situation, when there was an overcapacity of network facilities that led to depressed prices and company liquidations.

### Summary

EQIX is a leader in a market fueled by strong secular growth trends and it trades at a reasonable multiple. Substantial upside can come from market outgrowth or from the conversion into a tax-efficient REIT structure. On the other hand, the REIT structure has been under evaluation for years, and it takes years to implement. EQIX's business and strategy may not be compatible with the REIT structure. Also, it faces increasing competition from wholesale data center providers, who offer a much cheaper alternative.

**\*\*\* Since this analysis was written, EQIX is up over 23%**

Next: Analysis of Tempur-Pedic (TPX)



### Hedge Fund Activity

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John Thaler's JAT Capital bought Tempur-Pedic (TPX) in Q1, allocating 10% of its reported assets, making it its largest disclosed position. Conatus Capital also bought a new stake.

### Company Background

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TPX is headquartered in Lexington, KY, has annual sales of \$1.4bn, and a market capitalization of \$2.9bn. It is the largest manufacturer, marketer, and distributor of specialty bedding (no springs or coils) with ~25% market share. It makes high-end mattresses that are more comfortable because they use temperature-sensitive high-density visco-elastic (memory foam) material that conforms to your body. Its beds and pillows relieve pressure and align the neck and spine, thus alleviating back pain. The beds are typically priced at more than \$1K. The primary competitor is Select Comfort (SCSS), which makes its own specialty bed, the Sleep Number bed, which allows a couple of set the firmness on their side of the bed individually.

The National Aeronautics and Space Administration (NASA) developed a visco-elastic pressure-relieving material to cushion astronauts from the G-force experienced during lift-off, a material that became available to the public in the 1980s. A Swedish company developed a commercial material in the early 1990s and produced the first Tempur-Pedic mattress. The owners of the Swedish company gave the rights to a company that was formed in the US to introduce the mattress to the market. This company, along with other international distributors of the mattresses merged in the late 1990s. In late 2002, the private equity firms TA Associates and Friedman, Fleischer and Lowe bought the holding company for ~\$400mm, and then took it public in December 2003. Mattress companies have been the target of private equity firms because the bedding market is quite stable and the industry has very low capital investment requirements. The high cashflow generation means that the companies can support high loads of debt, repay them quickly, and buy back shares. However, in the case of Tempur-Pedic, the investment was made to support expansion because of the large market opportunity with a superior and differentiated product.

TPX's strategy is to be very focused on customer needs and innovate its bedding in order to always offer the most comfortable sleeping surfaces possible. More than 2/3 of its sales come from mattresses, 90% of which are sold through the retail channel (furniture stores) and the rest are sold direct, through chiropractors, or 3<sup>rd</sup>-party distributors. Retail sales carry a 50% gross margin, while direct sales have an 80% margin. 2/3 of the sales are domestic with a 50% gross and 20% operating margin; the international sales have 5-10% higher margins and are growing faster due to the lower penetration. The other 1/3 of sales comes from pillows, adjustable bed bases, and other products, which can have even higher margins.

TPX IPO'd in mid-Dec 2003 at \$14 and hit a pre-crisis peak of \$37 in late 2007. It troughed below \$5 in March 2009, and in mid-April 2012 hit its all-time high of \$86. During 1Q12, the stock traded in the range of \$53 to \$84. Since disappointing investors on its earnings call on April 19, it has dropped 45% to \$46. After it IPO'd, TPX had \$600mm in annual sales and was trading at ~10x EV/EBITDA. By late 2007, when the stock price hit a high, the sales run-rate had almost doubled. But by mid-2009 it had dropped close to its IPO levels. Since the financial crisis, it has doubled.

### Industry Background

The US mattress market is a \$6bn industry, and the international market is double the size. Traditional mattresses are made with coils or springs and account for 90% of the units but 75% of the sales because of their lower average sales price (ASP). Specialty mattresses don't use coils or springs but rather rely on specialty materials. They account for the rest of the units and sales, with an ASP usually 3.5x that of a traditional mattress.

Historically, the industry has been dominated by 4 large players who control >50% of the market: Select Comfort, Sealy, Simmons, and Serta. The first two are public and the last two are private companies. They are referred to as "the 4Ss".

Select Comfort (SCSS) has \$750mm sales and a \$1.4bn market cap. SCSS is TPX's main competitor in specialty bedding and is considered a rapidly rising major player in the segment with its Sleep Number bed. The company was formed in 1987 from an employee who left Comfortair, a company that invented adjustable air-supported sleep systems. As it is smaller and has lower brand awareness, it is considered to have the highest growth potential.

Sealy (ZZ) used to be the leading mattress manufacturer, but it has recently been overtaken as its sales have been on a decline. It has been unable to compete in the high-growth specialty bedding segment. It is the maker of the PosturPedic brand and has \$1.2bn sales, but its market cap is only \$165mm, 1/10<sup>th</sup> of what it was in 2007. It was bought by KKR (the company's 3<sup>rd</sup> private equity owner) from Bain Capital for \$1.5bn in 2004, but since the IPO in 2006 the stock price has declined ~90%. The company was founded in the late 1800s.

Simmons is a private company, has a 135-year history in the industry, and is the maker of the BeautyRest and NaturalCare

brands. Serta has an 80-year history, is the private company that makes the PerfectSleeper bed, and is known for its counting-sheep commercials.

The vast majority of sales in the industry occur through the retail channel, which is highly fragmented (local furniture stores). Stores have a certain number of "slots" on the floor, which refer to the spaces where a bed set can be shown. Usually, more than half of the slots go to the dominant players (the 4Ss), where one of them usually takes a majority share; the rest go to specialty beds and smaller brands.

Given that many specialty beds cost upwards of \$1K, they are a highly discretionary item. As incomes rise and customers learn the benefits of specialty bedding, this segment increases penetration. However, during tough economic conditions, sales can be more volatile because of the higher price point. For example, the mattress industry unit sales declined 8% in 2008, whereas specialty units dropped by more than twice that. Pricing had to adjust substantially the following year for the sector to stabilize, with specialty mattress ASPs down ~15% (traditional ASPs were down half that).

Customers usually purchase a new bed every 7-10 years. The fact that customers are out of the market for such a long period of time allows the industry to have some pricing power, since price increases are difficult to notice and interpret. Further confusing customers and making historical as well as cross-brand comparisons more difficult is the proliferation of SKUs (some companies offering more than 100 different beds). As a result, the industry has been successful at raising prices by a few percentage points annually.

## Valuation

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In 1Q, the stock traded in the range of \$53 - \$84, and it's currently at \$46. Analysts expect the mattress industry to grow at a rate of only a few percent over the next few years, but specialty bedding is forecasted to grow 2-3x as fast. TPX also has international growth opportunities, where its penetration is significantly lower than in the US. It is estimated that TPX will be able to grow top line at a 15% clip for at least a few years. EPS should grow at >20% based on operating leverage and free cashflow deployment in the form of share buybacks.

TPX has a market cap of \$2.9bn and net debt of \$0.4bn for an EV of \$3.4bn. It trades at 8.3x 2011 EBITDA and 7.6x consensus 2012 EBITDA. Historically, it has traded in the 6-12x LTM EBITDA range, with an average of ~9x, which would imply a <10% upside. On a P/E basis, it trades at 14x 2011 EPS, 12x 2012 EPS, and 10x 2013 EPS. Historically, it has usually traded in the 10-30x range, averaging 20x. However, as the company is transitioning from a high-growth, low-hanging-fruit story to a more mature company where growth comes from tougher incremental penetration and it's facing increasing competition from other established layers, the multiple will probably have to compress. A mid-to-lower range 15-17.5x multiple sounds reasonable, which would imply 7-25% upside.

The two publicly-traded peers are SCSS and ZZ, with SCSS being a more direct comparable to TPX. SCSS has a market cap of \$1.4bn and an EV of \$1.2bn. It trades at an EV/EBITDA of 11x LTM and almost 9x 2012, and a P/E of 21x LTM, 17x 2012 and 14x 2013. It is smaller than TPX \$750mm sales, so it is considered to have higher growth potential as it catches up with a very similar strategy and business model.

ZZ is a bigger player in traditional mattresses and is highly levered following the LBO recapitalization by KKR in 2004. It has a market cap of \$165mm and an EV of \$850mm. It is trading at an EV/EBITDA of 7x LTM and 2012 as analysts don't project any growth, and a P/E of ~40x for both LTM and 2012. As a highly levered company that is close to breakeven in terms of profitability, small changes in growth or efficiency can have a dramatic impact on the P/E ratio, which is expected to drop to 16x of 2013 earnings. Despite being the worst-positioned company, ZZ has the highest 2013 EPS multiple because it is more of a turnaround story with low margins and the opportunity to compete more aggressively in the premium segment of the market.

Compared to its peers – especially SCSS – TPX seems to have 15% upside to SCSS' 2012 EV/EBITDA multiple and 40% to SCSS' 2013 EPS multiple. Assuming that SCSS deserves a premium multiple for its higher growth prospects still indicates that a ~20% might be reasonable. In early May, TPX was trading at \$60 (30% higher than the current price level), and before its earnings in mid/late-April it was trading above \$80 (80% higher).



## Current Situation

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Following its 1Q earnings call after the market close on April 19<sup>th</sup>, TPX shares lost 20% from \$84 to \$67. The company reported robust growth of 18% in sales, which was in line with analyst expectations, as were its earnings. However, the impression is that the industry grew faster than TPX, which was a big blow to the stock. Also, the company reaffirmed its 2012 guidance of \$3.80-3.95 on \$1.6bn of sales, which fell short of consensus of \$4.06 EPS and \$1.7bn sales. Analysts became less sanguine about the stock's growth prospects because of intensifying competition in the specialty bedding segment and the potential of cannibalization from the introduction of lower-priced beds.

More intense competition in specialty beds will translate into slower growth for TPX and potentially lower prices and margins. Also, TPX has been focused on the higher end of the premium segment with very few low-priced offerings. In order to continue growing, it has to expand its product line into lower-priced products. These products may satisfy some of TPX's current customers, thus resulting in a down-mix shift.

On May 7, TPX made a surprise announcement that it will be offering its Cloud Supreme mattress on sale from mid-May to July. Offering sales discounts is very uncharacteristic of TPX and goes against its strategy, which is why the market reacted so negatively. The stock lost almost 20% within a couple of days as the move was interpreted as a red flag that could signal deeper fundamental issues and slowing growth.



### The Bull Case

TPX is the premier specialty-bedding manufacturer and is taking market share from traditional mattresses. The combination of operating leverage and focus on cost cutting, in conjunction with aggressive share buybacks, creates a very positive earnings trajectory. TPX went through an aggressive expansion phase in the mid-2000s, so it currently has substantial excess capacity and it won't need any material CAPX in the medium term. It generates a ~7% free cashflow yield, which gets allocated primarily to share repurchases. The company has already bought back ~ 1/3 of outstanding shares since 2005.

Management is shareholder-friendly and has been delivering solid results since the financial crisis. Looking forward, specialty bedding should continue in its high growth trajectory and TPX should remain the leader in this segment because of its high-quality product, solid execution and successful introduction of new products, and penetration opportunities (expanding distribution and capturing more retail slots, both domestically and internationally).

### The Bear Case

The company's growth cycle has matured, so it doesn't deserve the historically high valuation multiples that reflected much higher growth. The risk is that SCSS has a lot of ground to cover in terms of increasing its brand awareness and distribution before it can catch up to TPX, which means that SCSS may capture most of the incremental segment growth. In addition, the high growth of the segment has attracted significant competition. Therefore, growth may be more difficult to achieve than expected. What's more, TPX has leading margins, but as competition intensifies it may have to give back some of its pricing power. If EPS growth doesn't materialize at >20% for the next couple of years, there is downside to the stock.

### Summary

Hedge funds have been attracted to TPX because of its strong balance sheet, shareholder-friendly management, robust growth, and solid execution. It has all the ingredients to continue growing earnings at a rapid pace. However, competition is intensifying and what has made TPX successful can also be viewed as a source of risk to the relatively rich valuation: growth can slow down with more players, and margins can compress. The stock price took a big hit following disappointing guidance and concerns that the company needs to resort to discounts in order to boost sales.

**\*\*\* Since publication, shares of TPX have fallen over 30% on the concerns highlighted above**    Next: Analysis of AutoZone (AZO) 

# AutoZone (AZO)

## Hedge Fund Activity

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Steve Mandel's Lone Pine Capital established a new \$400 million position in AutoZone (AZO) during the quarter. Scout Capital and Hoplite Capital also started new positions in the name. What's interesting is that many hedge funds are becoming interested in the stock just as large stakeholder Eddie Lampert and his RBS Partners have been selling shares.



## Company Background

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AZO is the largest retailer of automotive parts and accessories. It was founded in 1979 as part of a wholesale grocer by one of the grocer's founders, at which time it was known as Auto Shack. Within 5 years it grew from 1 store to almost 200. At that time, the grocer's management believed that the entire company was undervalued, so they approached and eventually completed a management buyout with KKR in 1984.

By 1987, it was evident that the auto parts business was the most promising division, so KKR with management decided to spin it out and sell the grocer. That was the year of the name change to AutoZone. With KKR's assistance, AZO grew very rapidly by investing in new technologies, leveraging infrastructure, and building out its store network. AZO IPO'd in 1991 at a \$1bn valuation. KKR retained 2/3 ownership following the IPO and eventually exited in 1996. In 1998, Eddie Lampert / RBS Partners became a significant shareholder. Currently, AZO has ~4,900 retail stores.



# AutoZone (AZO)

## Industry Background

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The auto parts aftermarket has two segments: the Do It Yourself (DIY) segment, which caters to car owners looking to repair and maintain their vehicles without the help of professionals; and the Do It For Me (DIFM) or commercial segment, which caters to individuals who pay service shops for repairs and maintenance. Through commercial sales programs, retailers deliver auto parts to local garages, auto dealers, and service stations. DIY is a \$44bn market and has been growing at a 4% annual rate. DIFM is a larger and highly-fragmented market growing at a slightly slower pace.

The main driver-dynamics in the industry are: the increasing age of vehicles on the road increases the demand for replacement parts as older vehicles break down more frequently (especially relevant are cars 7 years or older as they come out of warranty), the decreasing number of miles driven is negative for demand because of the slower wear and tear of the cars, increasing gas prices can make customers more budget conscious about maintenance, as well as eventually shift their focus to the purchase of new cars that are much more fuel efficient.

The auto parts aftermarket has been benefiting from a tailwind in the aftermath of the financial crisis. During the crisis, demand dropped as customers postponed maintenance and brought their auto spending to halt. However, even though miles driven declined, car maintenance isn't entirely discretionary and can only get pushed out to a certain extent, generating pent-up demand, which was manifested in the following years. As new car sales dropped dramatically, the average age of cars has been steadily increasing. The result has been strong same-store-sales growth at auto parts retailers.

However, as the economy improves, the DIY market is at risk of slowing down. It is also expected that the growth of the DIFM market will eventually outpace DIY growth as cars become increasingly complicated. This is why retailers are shifting resources towards the commercial / DIFM market, where their market share is much lower and they can grow much faster by increasing their penetration. The "Big 3" have 1/3 of the DIY market but only 10% of the DIFM market. AZO, the largest retailer, still has a <2% market share in DIFM. This presents a growth opportunity for retailers as they add commercial capabilities to more of their stores. As DIY slows down, retailers will increasingly shift focus to DIFM.

There are three big retailers in the auto parts aftermarket (the "Big 3"): AutoZone, Advance Auto Parts, and O'Reilly Auto Parts. AZO is the largest player in the industry with \$8bn in sales (up from \$6bn in 2007) and it is the most profitable with a 21% EBITDA margin. It has a \$14.5bn market cap and a \$17.9bn EV, and it trades at 10x EBITDA and 17.5x EPS.



## Industry Background (Continued)

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Advance Auto Parts (AAP) is the 2<sup>nd</sup> largest auto aftermarket distributor with ~3,650 stores. AAP generates slightly more than \$6bn in sales (up from slightly less than \$5bn in 2007) and is the least profitable with a 13% EBITDA margin. It started in 1929 as a general merchandiser with the name Advance Stores, but refocused on auto parts in the late 1980's and switched its name.

AAP executed a DIFM expansion strategy earlier than AZO, achieved organic growth but sacrificed incremental margins, and now it is cutting expenses in order to improve profitability. However, the strategy has resulted in lower margins because of the investments in a larger headcount and in lost market share in the core DIY segment, perhaps because of lost management focus. The company's same-store-sales have lagged the industry for the past couple of years.

As a result, even though AAP is the 2<sup>nd</sup> largest in terms of distribution network, it has only a \$4.9bn market cap and \$5.1bn EV (valued at less than half of ORLY), and it trades at 6x EBITDA and 12x EPS. AAP trades at the lowest multiple of the Big 3 because of its lagging growth, both on same-store-sales and because it has allowed the 3<sup>rd</sup> player, ORLY, to catch up with a much more successful acquisition-based growth strategy. Its competitors have continued to invest and may be taking market share, while AAP has been focused more on improving margins.

O'Reilly Auto Parts (ORLY) has ~3,800 stores and generates slightly less than \$6bn in sales (up from \$2.5bn in sales in 2007) with a 17% EBITDA margin. It used to be significantly smaller than AAP but caught up through aggressive growth and acquisitions, as AAP shifted towards organic growth in more recent years. ORLY started in 1957, when a parent and son team disagreed with the restructuring of the auto supply company they were working at, which would have retired the father and relocated the son, so they decided to start their own auto parts business in a market they knew well. The company became publicly traded in 1993. ORLY has an \$11.8bn market cap and a \$12.0bn EV, and it trades at 11x EBITDA and 23x EPS. ORLY trades at a high premium because it has been successfully growing through acquisitions that generate synergies, it has made significant investments that should reduce its inventory capital requirements going forward, and it is expected to generate incremental excess cashflow to support further share buybacks.

Two other competitors that aren't part of the Big 3 are Genuine Parts Company (GPC) and CarQuest. CarQuest is a private company slightly smaller than AAP and ORLY in terms of distribution. GPC generates the same amount of sales from auto parts as AAP and ORLY, but it is a more diversified company. It distributes replacement parts for cars, as well as parts for industrial machinery and office supplies. The auto parts segment accounts for half the company's sales.

# AutoZone (AZO)

## Valuation

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AZO has traded historically at 7-10x EBITDA and 13-18x P/E. It is currently trading at 10x EBITDA and 17.5x P/E, the top end of its range. This reflects bullish investor expectations as the company's strategy has been to take advantage of the tailwinds in the DIY market (rapidly increasing average age of cars on the road as car owners delayed new car purchasers) and invest into marketing and in its commercial segment. As a result, AZO's commercial sales have been growing at a >20% rate and its earnings have been beating consensus for 12 quarters straight. Sell-side analysts have the most conviction in this stock out of the Big 3 because of its strong execution, leading industry metrics, recent investments, and superior organic growth profile. Nevertheless, based on its historical valuation range, AZO seems fairly valued.

Compared to the public peers, AZO is usually valued at a premium forward P/E multiple to AAP and a discount to what at least used to be a smaller and faster-growing ORLY. Historically, AZO has traded at a 10-20% discount to ORLY and a similar premium to AAP. AZO currently trades at almost 15x 2012 EPS. AAP's lagging same-store-sales trends are reflected in relatively flat EPS in 2012, so it trades at 12x 2012 EPS. ORLY's faster growth is reflected in a premium multiple of 20x 2012 EPS. The trading multiples indicate that there could be some upside in AZO's shares if it can deliver consistent growth through its commercial segment, but the market seems to be a bit skeptical.



# AutoZone (AZO)

## The Bull Case

AZO has generated high and consistent returns on capital and growth. Given macro uncertainty, it is unlikely that new car purchases will spike anytime soon, so the modest improvement in the new car market shouldn't have as large of a negative impact as investors fear. Even though the aging trend of cars on the road will slow down, AZO has more growth levers than peers because it is underpenetrated in the commercial segment, which accounts for only 15% of its sales, compared to 35-40% for peers. In addition, management has been driving high EPS growth through free cashflow deployment into share buybacks. AZO is a shareholder-friendly market leader, with demonstrated robust execution and strong performance metrics, trading at reasonable valuation levels that indicate upside potential. Consensus has consistently under-appreciated AZO's growth potential, so the forward P/E multiple may prove artificially high and may expand further.

## The Bear Case

AZO's and other aftermarket auto retailers' performance has benefited from the recent crisis and continued uncertainty that has translated into fewer new car purchases and more older cars on the roads. This in turn drives sales of auto parts and maintenance services. However, there is a point at which technological advances in fuel efficiency start making more economic sense as opposed to maintaining an old car. New car purchases are already on an upwards trajectory. In conjunction with high oil prices, demand for aftermarket auto parts may shrink going forward. Valuations seem extended as stocks are trading at the higher end of their historical valuation ranges.

On May 17<sup>th</sup>, AAP held a disappointing earnings call (weak same-store-sales growth and outlook), and the stock has dropped 25% since then, while ORLY and AZO have lost <10%. Investors have interpreted AAP's weakness to be company-specific, but weakening same-store-sales could be a DIY-segment issue industry-wide. More optimistic investors have attributed the organic growth issues to the warm winter weather.

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## Summary

The auto parts aftermarket retailers have been benefiting from tailwinds in the aftermath of the financial crisis, but these tailwinds are already slowing down and could reverse as the economy improves and pent-up demand for new cars starts reducing the average age of cars on the road. Nevertheless, AZO is well-positioned to continue its rapid earnings growth due to its recent investments into beefing up its commercial segment, where its market share has been lagging. In an increasingly challenging environment, AZO still has a favorable growth profile, but its valuation is already at the top of its historical range.

This concludes the Q1 2012 edition of Hedge Fund Wisdom

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