

hedge fund wisdom

a quarterly publication by **marketfolly.com**

Background:

Each quarter, hedge funds are required to disclose their portfolios to the Securities & Exchange Commission (SEC) via 13F filing.

These filings disclose long U.S. equity positions, American Depositary Receipts (ADRs), stock options (puts/calls), warrants, as well as convertible notes. They do not disclose positions in other asset classes (such as commodities, currencies, or debt). They also do not reveal foreign market holdings, short sales or cash positions.

Hedge Fund Wisdom, a quarterly publication by MarketFolly.com, aggregates, updates, and analyzes the latest portfolios of top hedge funds. This issue reveals second quarter holdings as of June 30th, 2014.

In This Issue:

- Consensus buy & sell lists revealing which stocks were most frequently traded by these managers
- Portfolio updates on 25 prominent hedge funds: data tables, expert commentary & historical context on each fund's moves
- Equity analysis section examining 2 stocks hedge funds were buying
- To navigate the newsletter, simply click on a page number in the Table of Contents column on the right to go to that page

Quote of the Quarter:

"Despite strong recent data on jobs and manufacturing, it remains unclear whether growth will be robust enough to merit tightening action by the Fed this year. We believe we are entering a decisive period and normalized Third Quarter economic growth will mark a key inflection point."

~ Third Point's Q2 Letter



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Hedge Fund Consensus Buy List

Consensus New Positions

Allergan (AGN): This was by far and away the most popular new buy among hedge funds in this issue. Farallon Capital, Viking Global, Perry Capital, and Paulson & Co were all out establishing new stakes. Expanding AGN activity beyond the scope of this newsletter, tons of other hedge funds were buying as well: York Capital, Steadfast Capital, Senator Investment Group and more. At the end of Q2, Allergan's shareholder list basically became a "who's who" of hedge funds. This has mainly become an arbitrage play as Valeant Pharmaceutical (VRX) has been trying to buy AGN, but AGN management has rejected the offers. Bill Ackman's Pershing Square is the large activist AGN shareholder leading the charge here.

DirectTV (DTV): This is yet another arbitrage related purchase as the company received a takeover offer from AT&T (T). Hedge funds that bought DTV shares include Passport Capital, Farallon Capital, and Paulson & Co.

Covidien (COV): Do you see a theme this quarter? In yet another arbitrage related play, hedge funds were gobbling up shares of Covidien (COV) as the company received a takeover offer from Medtronic (MDT). Soros Fund, Farallon, and Paulson & Co purchased COV during Q2.

Ally Financial (ALLY): Ally Financial completed its initial public offering (IPO) during the quarter. However, some hedge funds already owned positions in Ally's capital structure prior to the IPO. So while their equity stakes are new, some funds have been involved in this name for some time. Soros Fund, Paulson, Perry, and Third Point all show equity positions now.

Google (GOOG): This stock appears on this list purely for informational purposes. This wasn't a consensus open market buy. Instead, Google had a stock split during the quarter and decided to payout shareholders in a new shareclass. That new shareclass inherited the ticker GOOG and the old shareclass switched tickers from GOOG to GOOGL. Throughout the issue, you'll see numerous funds with 'new' positions in GOOG shares, but this is just the new shareclass showing up in their filing that they received from the split.

Consensus Increase List



Hedge Fund Consensus Increase List

Consensus Increased Positions

Actavis (ACT): This tax inversion play has been popular among hedge funds lately. During the second quarter, Omega Advisors, Viking Global, Lone Pine Capital, Soros Fund and JANA Partners all added to their pre-existing positions in the name.

eBay (EBAY): This e-commerce giant has become somewhat of a value play as shares have slumped and traded sideways. Perry, Omega, Soros, and Carl Icahn were all out buying more shares during Q2. Additionally, Seth Klarman's Baupost Group disclosed a new position in the company. eBay's most valuable asset is considered its payments platform, PayPal.

Liberty Global (LBTYA): Hedge funds have been bullish on John Malone's European cable conglomerate that is consolidating the industry. Maverick Capital, Coatue Management, Soros Fund, and Berkshire Hathaway were all out increasing their exposure during Q2.

Valeant Pharmaceutical (VRX): Shares of VRX fell for two reasons during the quarter. Firstly, some short sellers started attacking the stock, questioning the company's accounting surrounding its roll-up strategy. Secondly, arbitrage short selling pressured the stock as well. Once VRX announced its bid for Allergan (AGN), arbitrageurs went long AGN and short VRX. Since this proposed deal is payable partially in stock, the classic merger arbitrage playbook is to buy shares of the company being acquired and to short the acquirer's stock. Due to this selling pressure, many non-arbitrage related hedge funds utilized the dip to add to their long positions in VRX. These funds include Lone Pine, Viking, Maverick, and Soros.

General Motors (GM): After the company had a rough first quarter, shares largely languished around the same levels. Some hedge funds decided to beef up their positions, such as Glenview Capital, Appaloosa Management, Berkshire Hathaway, and Soros Fund. However, in reality GM was more of a 'mixed activity' name. As you'll see on the next page, numerous funds were out selling as well.

Consensus Sell List



Hedge Fund Consensus Sell List

Consensus Sold Positions

Dollar General (DG): Hedge funds that exited their DG stakes include Omega, Farallon, Passport, Pennant Capital, and Soros Fund. After quarter end, the company just recently announced a bid for Family Dollar (FDO), which rival Dollar Tree (DLTR) has also made a bid on.

UnitedHealth Group (UNH): The following hedge funds removed this stock from their portfolio during the second quarter: Bridger Management, Glenview Capital, and Soros Fund.

MetLife (MET): This stock was sold by Appaloosa Management, Tiger Management, and Viking Global during Q2.

Google (GOOGL): As detailed a few pages ago, Google had a stock split during the quarter and paid out investors in a new shareclass. The new shareclass inherited the GOOG ticker, while the old shareclass was given the GOOGL ticker. After the split, some hedge funds such as Blue Ridge Capital decided to consolidate their holdings into one shareclass as they liquidated their GOOGL shares and retained their GOOG shares. Other hedge funds decided to merely liquidate their positions altogether.

General Motors (GM): While many funds sold GM entirely (JANA Partners, Passport, and Paulson), this stock was realistically more of a 'mixed activity' name. As you saw on the page prior, a number of hedge funds in this issue were also out buying as well.

Consensus Decrease List



Hedge Fund Consensus Decrease List

Consensus Decreased Positions

American International Group (AIG): This stock appears on this list for the third straight quarter. Hedge funds continue to trim their stake as the discount to book value slowly narrows. And while this was a consensus decrease name, keep in mind that many of the hedge funds that were selling still own quite sizable stakes in AIG. As the price has appreciated, their position sizes have gotten larger so they could also be trimming merely for portfolio construction/risk management reasons as well. Appaloosa, Pennant, Omega, Blue Ridge, and Fairholme sold some shares in Q2.

Liberty Global (LBTYK): The quarter prior, this non-voting 'K' shareclass was created and paid out to owners of Liberty Global's LBTYA shares. After this occurred, it looks like many funds were out increasing their stakes in LBTYA and reducing their exposure to LBTYK. Funds that cut exposure to the 'K' shares include Third Point, Maverick, Lone Pine, and Soros.

Citigroup (C): Funds that reduced their exposure to Citi during the second quarter were Blue Ridge, Glenview, Omega, and Appaloosa.

Crown Castle International (CCI): In Q2, Viking, Soros, Glenview, and Lone Pine all trimmed their stakes in this wireless tower operator as shares largely traded in a sideways range.

Citrix Systems (CTXS): Tiger Management, Perry Capital, Third Point, and Soros Fund all cut back their position sizes in Citrix during the second quarter.

Next: Hedge Fund Portfolios (Baupost Group)

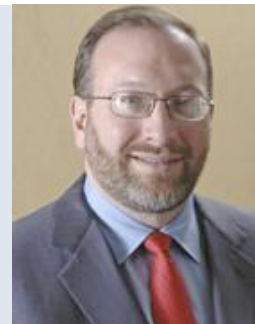


Baupost Group

Seth Klarman

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

View [Seth Klarman's Recommended Reading List](#)



Key Takeaways

New Positions:

eBay (EBAY)

Theravance Biopharma (TBPH) ~ spin off

SunEdison Semiconductor (SEMI)

Kosmos Energy (KOS)

Boyd Gaming (BYD)

Sold Out:

BP (BP)

has sniffed out a few crevices of value it appears. The two most noticeable positions are eBay (EBAY) and Theravance Biopharma (TBPH). The former has been labeled a value play by many investors and has even attracted the likes of activist Carl Icahn. He pushed the company to spinoff its valuable payments unit, PayPal, but was unsuccessful in his quest. Instead, his organization won a seat on the board. Shares of EBAY declined during the quarter due to mixed results, the disclosure of a cyberattack, and some changes in Google's search algorithm that could negatively impact eBay's appearance in certain search results. Additionally, the president of PayPal, David Marcus, left the company for Facebook. The share decline obviously attracted Baupost though, as they now own a \$222 million stake.

Secondly, Baupost's new position in Theravance Biopharma (TBPH) was received due to their pre-existing ownership of Theravance (THR). TBPH was spun-off from THR during Q2.

On the selling side of the portfolio, it's worth highlighting the fact that Baupost Group finally liquidated the rest of their position in BP (BP) after they cut their stake in half last quarter. They originally saw opportunity here after the gulf oil spill sank shares and have since ridden them back to recovery.

In portfolio activity since the end of the second quarter, Baupost has also filed a 13G with the SEC, disclosing a stake in Veritiv (VRTV). Per the filing, the firm now owns 14.06% of the company with over 2.24 million shares. The company just went public in June and is involved in business-to-business distribution solutions.

Investors will be quick to take notice that Seth Klarman's firm started a bevy of new positions during the second quarter. This is notable because Baupost Group typically is more selective when it comes to adding new positions. Not to mention, equities don't make up a large percentage of their overall assets under management (AUM). Since they primarily focus on distressed assets, it often requires a great margin of safety to attract them to certain equities. From the first quarter to the second, Baupost's reported US equity exposure increased from \$4.1 billion to \$6.1 billion. While some of this can be attributed to price appreciation in their holdings, it's still worth highlighting given that Klarman has been a bit vocal about assets becoming somewhat overvalued. In his year-end 2013 letter, Klarman wrote, "Whether you see today's investment glass as half full or half empty depends on your age and personality type, as well as your 'lifetime' of experiences in the markets and how you interpret them. Our assessment is that the Fed's continuing stimulus and suppression of volatility has triggered a resurgence of speculative froth."

Nevertheless, while certain corners of the market might be overpriced, Klarman's equity team

View Baupost Group's Updated Portfolio on the Next Page



Baupost Group

Second Quarter 2014 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Micron Technology, Inc.	MU		27.72%	Unchanged	\$1,702,047	51,655,434
2	Idenix Pharmaceuticals	IDIX		20.67%	Unchanged	\$1,269,560	53,331,109
3	Viasat Inc.	VSAT		10.89%	Added 1%	\$668,461	11,533,137
4	Theravance Inc	THRAX		9.89%	Cut -2%	\$607,365	20,395,056
5	Cheniere Energy Inc	LNG		6.99%	Added 6%	\$429,335	5,987,930
6	eBay Inc.	EBAY		3.62%	New	\$222,081	4,436,300
7	Theravance Bioph	TBPH		3.15%	New	\$193,232	6,061,228
8	Keryx Biopharmaceuticals	KERX		2.64%	Added 67%	\$162,105	10,539,986
9	PBF Energy Inc	PBF		2.43%	Added 3%	\$149,114	5,595,286
10	RF Micro Devices, Inc.	RFMD		1.52%	Added 48%	\$93,591	9,759,185
11	TriQuint Semiconductor	TQNT		1.51%	Added 54%	\$92,974	5,880,696
12	Novagold Resources Inc.	NG		1.49%	Unchanged	\$91,308	21,688,300
13	ChipMOS Technologies	IMOS		1.29%	Unchanged	\$79,224	3,283,235
14	Citigroup Warrants	C/WS/A		1.22%	Added 18%	\$74,755	122,573,007
15	SunEdison Semiconductor	SEMI		1.14%	New	\$70,181	4,145,379
16	Kosmos Energy, Inc.	KOS		0.87%	New	\$53,343	4,750,000
17	KINDRED BIOSCNCS	KIN		0.84%	Unchanged	\$51,518	2,763,848
18	Syneron Medical Ltd	ELOS		0.67%	Unchanged	\$41,280	4,000,000
19	Boyd Gaming Corp.	BYD		0.55%	New	\$33,899	2,794,630
20	AIG Warrants	AIG.W		0.34%	Added 20%	\$20,987	788,998
21	Alliance One International	AOI		0.26%	Unchanged	\$15,959	6,383,641
22	AVEO Pharmaceuticals Inc	AVEO		0.11%	Unchanged	\$7,008	3,829,350
23	Alon USA Partners L.P.	ALDW		0.10%	Unchanged	\$5,902	329,188
24	Novacopper Inc	NCQ		0.09%	Unchanged	\$5,456	5,005,298
	BP Plc	BP			Sold		

Thanks for checking out a free sample of Hedge Fund Wisdom

A brand new issue will be released soon!

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Next Page: Berkshire Hathaway

Berkshire Hathaway

Warren Buffett

Mentored by Benjamin Graham in the ways of value investing & one of the greatest investors of all time

View [Buffett's Recommended Reading List](#)



Key Takeaways

New Positions:

Charter Communications (CHTR)
Now Inc (DNO) ~ spin off

Sold Out:

Starz (STZ)

After initiating a new position in Verizon (VZ) in the first quarter, Warren Buffett's Berkshire Hathaway continued to buy in the second quarter, adding to their stake by 36%. They also shuffled around a number of their core portfolio holdings by trimming or adding to various stakes. They trimmed a third of their DirecTV (DTV) stake while adding to their Suncor (SU) position by 26%. Berkshire also continued to sell down its exposure to Philips 66 (PSX) for the second straight quarter. But in an even bigger move, they drastically reduced their position in Conoco Phillips (COP), selling 87% of their position.

The most intriguing move in Berkshire's portfolio during Q2 comes from Buffett's new portfolio managers, Ted Weschler and Todd Combs. They initiated a brand new position in Charter Communications (CHTR). This has been a hedge fund favorite and now Berkshire has jumped into the fray with a \$365 million stake. Charter is 'cable cowboy' John Malone's wager on cable in the United States. His Liberty Media vehicle (LMCA ~ which Berkshire also owns), holds a substantial stake in CHTR. Charter is run by Tom Rutledge, a former executive at Cablevision who is guiding the company through its transition from analog to digital. The thesis here is a bit of a turnaround play as Malone looks for the cable industry to consolidate. The dominoes have already started to

fall as Comcast (CMCSA) seeks regulatory approval for its takeover of Time Warner Cable (TWC). As part of that deal, the combined company would be divesting some subscribers, which CHTR would acquire. Additionally, a separate spin-off company would be created if the merger is approved and CHTR should see gains from that as well.

And while Weschler and/or Combs just recently started a direct position in CHTR, they've already had exposure to the name via a \$546 million stake in John Malone's Liberty Media (LMCA). LMCA is set to create a tracking stock (Liberty Broadband) for their Charter stake and other assets.

This isn't the only cable play in Berkshire's portfolio either (or their only exposure to John Malone for that matter). They also have been out buying Liberty Global (LBTYA, LBTYK), which is John Malone's European cable conglomerate. Berkshire was out adding to that position during Q2 as well. LBTYA has been consolidating various European cable companies under one roof and has recently started accumulating content as well. Needless to say, the new Berkshire boys are betting big on John Malone and cable.

Also, please note that Berkshire's new position in Now Inc (DNO) is a result of a spin off. They received DNO shares due to their ownership of National Oilwell Varco (NOV).

In portfolio activity since the end of Q2, Berkshire Hathaway has filed an amended 13G with the SEC updating their stake in Verisign (VRSN). Per the filing, they now own 10.4% of the company with almost 13 million shares.

For more on Buffett, check out notes from [Berkshire's 2014 annual meeting](#).

View Berkshire Hathaway's Updated Portfolio on the Next Page



Berkshire Hathaway

Second Quarter 2014 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Wells Fargo & Co.	WFC		22.64%	Unchanged	\$24,359,359	463,458,123
2	Coca Cola Co.	KO		15.75%	Unchanged	\$16,944,000	400,000,000
3	American Express	AXP		13.37%	Unchanged	\$14,383,308	151,610,700
4	IBM	IBM		11.82%	Added 3%	\$12,720,437	70,173,978
5	Wal-Mart Stores	WMT		4.10%	Added 1%	\$4,413,910	58,797,259
6	Procter & Gamble	PG		3.86%	Unchanged	\$4,149,008	52,793,078
7	Exxon Mobil Corp.	XOM		3.85%	Unchanged	\$4,140,932	41,129,643
8	U.S. Bancorp	USB		3.23%	Added 0%	\$3,469,692	80,094,497
9	DaVita	DVA		2.53%	Unchanged	\$2,720,762	37,621,152
10	Moodys Corp	MCO		2.01%	Unchanged	\$2,162,553	24,669,778
11	Goldman Sachs Group	GS		1.97%	Unchanged	\$2,115,024	12,631,531
12	DIRECTV Corp.	DTV		1.85%	Cut -32%	\$1,995,014	23,467,995
13	General Motors Co.	GM		1.11%	Added 10%	\$1,196,451	32,960,056
14	USG Corp.	USG		1.09%	Added 12%	\$1,175,131	39,002,016
15	Bank of New York Mellon	BK		0.86%	Unchanged	\$923,989	24,652,836
16	Verizon Communications	VZ		0.68%	Added 36%	\$733,996	15,000,928
17	Chicago Bridge & Iron	CBI		0.68%	Added 12%	\$729,816	10,701,110
18	Suncor Energy, Inc.	SU		0.65%	Added 27%	\$701,619	16,458,330
19	M&T Bank Corp.	MTB		0.62%	Unchanged	\$667,642	5,382,040
20	Viacom Inc.	VIAB		0.61%	Unchanged	\$659,772	7,607,200
21	VeriSign Inc.	VRSN		0.59%	Added 11%	\$633,798	12,985,000
22	National Oilwell Varco	NOV		0.56%	Cut -18%	\$601,342	7,302,278
23	Liberty Media	LMCA		0.51%	Cut -25%	\$546,720	4,000,000
24	Phillips 66	PSX		0.49%	Cut -33%	\$522,457	6,495,800
25	Costco Co.	COST		0.46%	Unchanged	\$499,030	4,333,363
26	Precision Castparts Corp.	PCP		0.44%	Cut -5%	\$473,659	1,876,622
27	Liberty Global Class A	LBTYA		0.41%	Added 34%	\$436,299	9,866,546
28	Wabco Holdings Inc	WBC		0.40%	Unchanged	\$435,433	4,076,325
29	VISA Inc	V		0.35%	Added 16%	\$379,225	1,799,749
30	Charter Communications	CHTR		0.34%	New	\$365,701	2,309,013
31	Deere & Co.	DE		0.33%	Unchanged	\$360,277	3,978,767
32	Torchmark Corp.	TMK		0.32%	Unchanged	\$346,998	4,235,818
33	Liberty Global Class C	LBTYK		0.29%	Unchanged	\$310,850	7,346,968
34	MasterCard	MA		0.28%	Unchanged	\$297,554	4,050,000
35	General Electric Co	GE		0.26%	Unchanged	\$278,186	10,585,502
36	Sanofi Oyj ADR	SNY		0.19%	Unchanged	\$207,676	3,905,875
37	ConocoPhillips	COP		0.11%	Cut -88%	\$116,184	1,355,228
38	Media General	MEG		0.09%	Unchanged	\$95,387	4,646,220
39	Verisk Analytics	VRSK		0.09%	Unchanged	\$93,837	1,563,434
40	Graham Holdings, Inc.	GHC		0.07%	Cut -94%	\$77,251	107,575
41	NOW INC	DNOW		0.06%	New	\$66,104	1,825,569
42	Johnson & Johnson Co.	JNJ		0.03%	Unchanged	\$34,221	327,100
43	Mondelez International	MDLZ		0.02%	Unchanged	\$21,739	578,000
44	UPS	UPS		0.01%	Unchanged	\$6,098	59,400
45	Kraft Foods Group, Inc.	KRFT		0.01%	Unchanged	\$11,550	192,666
46	Lee Enterprises, Inc.	LEE		0.00%	Unchanged	\$395	88,863
	Starz, Series A	STRZA			Sold		

Next Page: Greenlight Capital

Greenlight Capital

David Einhorn

Has returned 19.4% annualized

Predicted & profited from the demise
of Lehman Brothers

Author of [Fooling Some of the
People All of the Time](#)



Key Takeaways

New Positions:

Civeo (CVEO) ~ spin off
AerCap Holdings (AER)
Time Inc (TIME)
Northstar Realty Finance (NRF)
Chemtura (CHMT)

Sold Out:

Lorillard (LO) Puts
Apple (AAPL) Calls
Aspen Insurance (AHL)
Nokia (NOK)
Penn National Gaming (PENN)
Rite Aid (RAD)

The largest new position in David Einhorn's portfolio is Civeo (CVEO), which he received in a spin off from his big holding in Oil States International (OIS). Greenlight Capital also started a new stake in AerCap Holdings (AER) during the second quarter. The company purchased AIG's International Lease Finance Corp (ILFC) unit and has transformed itself into the dominant player in the aircraft leasing industry.

Einhorn's firm also was out buying shares of Lam Research (LRCX) in size during the quarter. The hedge fund's second quarter letter details their thesis: "As transistors get smaller and smaller, the conversion of semiconductor designs into working chips becomes more difficult. The solution, known as "multi-patterning", involves running each layer of the chip through the manufacturing line multiple times, etching away the excess material until the chip works properly. This forces chip manufacturers to buy more of LRCX's etchers and deposition tools for each manufacturing line. We purchased the position at an

average price of \$54.07 representing 7x our calendar 2015 earnings estimate, net of cash on the balance sheet."

On the selling side of the portfolio, Greenlight liquidated its longstanding position in Aspen Insurance (AHL) as their thesis played out. Additionally, they sold out of their Rite Aid (RAD) stake for a sizable gain. Longtime readers will recall RAD was featured in the equity analysis section of the Q2 2013 issue of Hedge Fund Wisdom and shares are up around 80% since then. Other notable changes in Einhorn's portfolio include a 32% reduction in his Apple (AAPL) position. Even after trimming his stake, he still owns over \$878 million worth of shares. He continues to feel that the company is undervalued and likes that they're buying back a lot of stock.

Greenlight's Q2 letter also reveals some of Einhorn's thinking on the short side of the portfolio, noting that they were short Questcor (QCOR). However, the company received a takeover offer from Mallinckrodt (MNK). If the merger goes through, Greenlight likes the combined entity as a short candidate.

Lastly, keep in mind that Greenlight has international positions that aren't disclosed on the next page. They've been holders of Altice, the French telecommunications company that they like due to the consolidating nature of the industry, as well as Resona Holdings, a Japanese financial services play that plans to buyback the government's stake. Additionally, Greenlight continues to own a longstanding position in physical gold. Although it's not listed on the next page (since they're not required to disclose it), it's realistically one of their top six holdings.

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	Micron Technology, Inc.	MU		18.52%	Cut -8%	\$1,329,345	40,344,293
2	Apple Inc	AAPL		12.24%	Cut -32%	\$878,406	9,452,342
3	Marvell Technology Group	MRVL		7.90%	Unchanged	\$567,171	39,579,328
4	SunEdison Inc	SUNE		6.71%	Add 80%	\$481,458	21,303,488
5	CIGNA Corp.	CI		3.97%	Cut -26%	\$284,760	3,096,230
6	Aetna Inc	AET		3.64%	Unchanged	\$261,113	3,220,440
7	Gold Miners ETF	GDX		3.19%	Unchanged	\$228,895	8,653,896
8	Lam Research Corp.	LRCX		2.49%	Add 115%	\$178,411	2,640,000
9	Oil States International	OIS		2.46%	Unchanged	\$176,247	2,750,000
10	Conn's Inc	CONN		2.41%	Add 6%	\$172,865	3,500,000
11	EMC Corp.	EMC		2.17%	Unchanged	\$155,406	5,900,000
12	CIVEO CORP 0188	CVEO		2.15%	New	\$154,044	6,154,400
13	Computer Sciences Corp.	CSC		2.05%	Cut -25%	\$146,940	2,325,000
14	Voya Financial, Inc	VOYA		2.05%	Unchanged	\$146,863	4,041,368
15	National Oilwell Varco	NOV		2.01%	Add 43%	\$144,454	1,754,147
16	Liberty Global Inc., Series C	LBTYK		1.83%	Unchanged	\$131,545	3,109,080
17	IAC/InterActiveCorp	IACI		1.81%	Add 37%	\$130,148	1,879,930
18	American Capital Agency	AGNC		1.71%	Unchanged	\$122,628	5,238,308
19	Anadarko Petroleum Corp.	APC		1.70%	Cut -50%	\$122,059	1,115,000
20	Spirit Aerosystems	SPR		1.52%	Unchanged	\$108,930	3,232,364
21	Einstein Noah Restaurant	BAGL		1.51%	Unchanged	\$108,139	6,733,469
22	Tempur Sealy	TPX		1.50%	Unchanged	\$107,460	1,800,000
23	Take-Two Interactive	TTWO		1.49%	Unchanged	\$106,751	4,800,000
24	Amdocs Ltd	DOX		1.49%	Unchanged	\$106,662	2,302,245
25	Aercap Holdings N V	AER		1.42%	New	\$101,905	2,225,000
26	URS Corp.	URS		1.22%	Unchanged	\$87,751	1,913,879
27	McDermott International	MDR		1.21%	Cut -23%	\$87,145	10,771,864
28	TIME INC	TIME		1.13%	New	\$81,137	3,350,000
29	NorthStar Realty Finance	NRF		1.10%	New	\$78,899	4,539,575
30	BP Plc ADR	BP		1.09%	Unchanged	\$78,071	1,480,000
31	Chemtura Corp	CHMT		1.06%	New	\$76,337	2,921,428
32	Liberty Global Inc, Class A	LBTYA		0.77%	Unchanged	\$55,139	1,246,918
33	Babcock & Wilcox Co	BWC		0.67%	Cut -61%	\$48,292	1,487,751
34	Chicos FAS	CHS		0.44%	Cut -29%	\$31,815	1,875,895
35	TALMER BANCORP INC	TLMR		0.43%	Unchanged	\$30,728	2,306,158
36	Vodafone Group	VOD		0.35%	Unchanged	\$25,023	749,394
37	Fifth Street Finance Corp	FSC		0.27%	Unchanged	\$19,646	1,998,692
38	BioFuel Energy Corp	BIOF		0.14%	Unchanged	\$9,809	1,427,825
39	Intrexon Corp	XON		0.13%	Cut -73%	\$9,424	375,000
40	DSW Inc. Class A	DSW		0.07%	New	\$5,073	181,574
	Nokia Corp. ADR Class A	NOK			Sold		
	Aspan Insurance	AHL			Sold		
	Apple Inc	AAPL	CALL		Sold		
	Penn National Gaming Inc.	PENN			Sold		
	Rite Aid Corp.	RAD			Sold		
	Lorillard Inc	LO	PUT		Sold		
	Hatteras Financial Corp	HTS			Sold		
	Blackhawk Network	HAWK			Sold		

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:

Comcast (CMCSA)
Comcast (CMCSA) Calls
Canadian Pacific (CP)
Spirit Airlines (SAVE)
Williams (WMB)
Under Armour (UA)
JD.com (JD)
Baidu (BIDU) Calls
TripAdvisor (TRIP)
American Airlines (AAL)
Williams Sonoma (WSM)

Sold Out:

Monsanto (MON)
Endo Intl (ENDP)
BE Aerospace (BEAV)
Qualcomm (QCOM)
Wyndham (WYN)
DaVita (DVA)

are undergoing favorable management and strategic changes not yet realized in their valuations. While not in favor currently, this approach has characterized our investing since our founding and we believe strongly in its long-term validity.”

The largest new position in Lone Pine's portfolio from Q2 is Comcast (CMCSA) as they acquired common stock and call options. The company has a pending merger with Time Warner Cable (TWC) and the thesis here is that the market isn't fully pricing in the potential changes.

Turning to what shares Lone Pine was selling, it's immediately noticeable that they've exited their stake in Qualcomm (QCOM) entirely. This has been a longstanding successful position for them as it was a bet on smartphone proliferation.

One portfolio position to keep an eye on next quarter is Michael Kors (KORS). They held \$1 billion worth of stock at the end of Q2 but since then shares have fallen on concerns that the company might be expanding too quickly, starting to discount too much product and potentially might fall victim to the same fate as Coach (COH). Consumer discretionary retail is a tough game and it will be interesting to see what Lone Pine does with this position given the weakness in shares and the fact that they made it such a large position recently.

In activity since the close of Q2, Lone Pine just filed a 13G with the SEC regarding their long-term position in Cognizant Technology Solutions (CTSH). Per the filing, they now own 5.3% of the company with over 32.1 million shares. Shares recently dropped from \$50 to \$42 and Lone Pine took advantage of the drop to add to their position. They've purchased over 2.6 million more CTSH shares since the close of Q2.

Lone Pine has had a bit of a tough year as many of their top holdings have seen waves of sell-offs. Their Lone Cypress Fund is down 2.9% net of fees for the year as of the end of Q2, while their Lone Cascade Fund is down 0.9% over the same timeframe. In their second quarter letter, Lone Pine notes that many investors are piling into dividend stocks, yearning for yield. This means that companies that invest their cash are afforded lower valuations. While the market isn't currently seeing the value in these types of plays, Lone Pine has always invested in that mold and says they will continue to do so. They write, “Our investments tend to favor either companies that compound value through organic earnings growth or companies that

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	Baidu Inc	BIDU		6.74%	Added 14%	\$1,666,979	8,923,393
2	Cognizant Technology	CTSH		5.83%	Added 3%	\$1,443,326	29,509,835
3	Valeant Pharmaceuticals	VRX		5.14%	Added 14%	\$1,272,481	10,089,450
4	Microsoft Corp.	MSFT		4.44%	Cut -6%	\$1,098,678	26,347,204
5	McGraw-Hill Financial	MHFI		4.20%	Added 14%	\$1,038,170	12,503,547
6	Michael Kors Holdings	KORS		4.13%	Added 27%	\$1,021,735	11,525,497
7	SBA Communications	SBAC		3.60%	Cut -3%	\$890,085	8,700,738
8	MasterCard Inc. Class A	MA		3.49%	Added 61%	\$864,471	11,766,312
9	Adobe Systems, Inc.	ADBE		3.48%	Added 80%	\$860,323	11,889,484
10	Priceline Group Inc	PCLN		3.36%	Added 138%	\$832,050	691,646
11	Gap	GPS		3.24%	Cut -3%	\$800,857	19,265,265
12	FleetCor Technologies	FLT		3.22%	Added 11%	\$795,890	6,038,616
13	Liberty Global Inc., Series C	LBTYK		2.70%	Cut -26%	\$668,774	15,806,512
14	Comcast Corp	CMCSA		2.64%	New	\$652,281	12,151,289
15	IntercontinentalExchange	ICE		2.60%	Added 3%	\$642,961	3,403,713
16	Canadian Pacific	CP		2.57%	New	\$635,669	3,509,269
17	Crown Castle	CCI		2.53%	Cut -7%	\$625,646	8,425,071
18	21st Century Fox, Class A	FOXA		2.28%	Cut -20%	\$564,000	16,045,522
19	Actavis Plc	ACT		2.23%	Added 4%	\$552,858	2,478,628
20	Realogy Holdings Corp	RLGY		2.08%	Added 6%	\$514,851	13,652,898
21	Equinix Inc	EQIX		1.95%	Added 2%	\$483,042	2,299,216
22	Ulta Salon Cosmetics	ULTA		1.92%	Unchanged	\$475,571	5,202,611
23	Wynn Resorts Ltd	WYNN		1.74%	Added 75%	\$429,868	2,071,053
24	Tiffany & Co.	TIF		1.72%	Added 60%	\$424,947	4,238,872
25	LPL Financial Holdings	LPLA		1.71%	Unchanged	\$423,704	8,518,366
26	Dollar General Corp	DG		1.65%	Cut -31%	\$407,792	7,109,343
27	Workday Inc	WDAY		1.28%	Added 18%	\$315,953	3,516,060
28	Jazz Pharma Plc	JAZZ		1.24%	Cut -11%	\$306,829	2,087,127
29	AutoNation, Inc.	AN		1.22%	Added 27%	\$302,417	5,067,310
30	Oceaneering International	OII		1.20%	Unchanged	\$297,667	3,809,894
31	Liberty Global Inc, Class A	LBTYA		1.17%	Cut -7%	\$288,302	6,519,720
32	Williams Cos	WMB		1.15%	New	\$284,938	4,895,000
33	Under Armour Inc, Class A	UA		1.14%	New	\$282,516	4,748,964
34	SolarWinds, Inc.	SWI		1.02%	Unchanged	\$251,924	6,516,396
35	Soufun Holdings Limited	SFUN		1.00%	Added 15%	\$248,294	25,361,965
36	JD.COM INC ADR	JD		0.97%	New	\$239,632	8,405,200
37	Spirit Airlines, Inc.	SAVE		0.89%	New	\$221,388	3,500,760
38	Lumber Liquidators Inc	LL		0.80%	Unchanged	\$198,977	2,619,839
39	VIXShortTermFutures ETN	VXX	PUT	0.73%	Cut -37%	\$180,180	6,300,000
40	Transdigm Group Inc	TDG		0.66%	Cut -5%	\$163,814	979,395
41	Baidu Inc	BIDU	CALL	0.59%	New	\$145,712	780,000
42	TripAdvisor Inc	TRIP		0.48%	New	\$118,883	1,094,087
43	American Airlines Group	AAL		0.47%	New	\$115,334	2,684,674
44	Williams-Sonoma Inc.	WSM		0.43%	New	\$106,463	1,483,179
45	Sears Holdings Corp	SHLD	PUT	0.40%	Cut -3%	\$100,076	2,504,400

Continued on next page...

Lone Pine Capital

Second Quarter 2014 Portfolio:
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	Comcast Corp	CMCSA	CALL	0.40%	New	\$98,234	1,830,000
47	Ctrip.com	CTRP		0.30%	Unchanged	\$74,217	1,158,913
48	Intel Corp.	INTC	PUT	0.29%	New	\$71,688	2,320,000
49	Gap	GPS	CALL	0.29%	New	\$72,382	1,741,200
50	Microsoft Corp.	MSFT	CALL	0.24%	Cut -31%	\$58,380	1,400,000
51	Cheniere Energy Inc	LNG		0.16%	New	\$40,697	567,600
52	ICICI Bank Ltd	IBN		0.13%	Cut -88%	\$32,920	659,729
53	ARISTA NETWORK	ANET		0.13%	New	\$33,012	529,120
	QUALCOMM Inc.	QCOM	CALL		Sold		
	DSW Inc. Class A	DSW			Sold		
	ASML Holding	ASML			Sold		
	Coach, Inc.	COH			Sold		
	Yandex NV	YNDX			Sold		
	Monsanto Co	MON			Sold		
	QUALCOMM Inc.	QCOM			Sold		
	B/E Aerospace, Inc .	BEAV			Sold		
	Wyndham Worldwide	WYN			Sold		
	IntercontinentalExchange	ICE	CALL		Sold		
	DaVita HealthCare	DVA			Sold		
	Endo Internation	ENDP			Sold		
	Facebook Inc	FB			Sold		
	Seaworld Entertainment	SEAS			Sold		

Next Page: Appaloosa Management

Appaloosa Management

David Pepper

Has compounded 30% for investors over 17 years

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



Key Takeaways

New Positions:

Google (GOOG) ~ see below
Mohawk Industries (MHK)
Weatherford (WFT)
Ryland (RYL)

Sold Out:

QQQ (QQQ) Calls
SPY (SPY) Calls
JP Morgan Chase (JPM)
Delphi (DLPH)
MetLife (MET)
Qualcomm (QCOM)

airlines play in past issues and that theme continues here. Pepper's second largest position is now General Motors (GM) as he added to his stake by 64% during the second quarter. Additionally, he really ramped up exposure to social media via shares of Facebook (FB). This was previously a small holding and they boosted their FB position size by 632%. Also, the hedge fund was active in shares of Priceline.com (PCLN) as they increased their stake by 71% and now own a \$378 million position.

While Appaloosa also shows a 'new' position in Google (GOOG), please note that this is due to a stock split where the company paid shareholders in a new shareclass. The old shareclass changed ticker symbols to GOOGL and the new shareclass inherited the old GOOG ticker symbol. Appaloosa held onto both shareclasses, but they have a larger stake in GOOG.

Turning to actual new open market buying, Appaloosa did start a stake in Mohawk Industries (MHK). In fact, numerous other hedge funds were thinking along the same lines. Viking Global, Senator Investment Group, Theleme Partners, and Hoplite Capital were all out acquiring MHK shares during the second quarter as well.

Last issue flagged that David Pepper was perhaps becoming a bit more cautious on the markets than he has been in the past. The reason for mentioning this again is the fact that such a stance is reflected in his portfolio. Quarter over quarter, Appaloosa Management's US equity exposure dropped from \$9 billion down to \$7 billion. Pepper previously had large market exposure via sizable positions in index exchange traded funds (ETFs) such as SPY and QQQ. These were previously his top two largest positions, but during the second quarter Pepper cut those position sizes by 72% and 65%, respectively. He also completely exited his call options on both ETFs as well.

While Appaloosa was reducing exposure overall, that's not to say they weren't out buying anything. They reshuffled more capital toward individual equity plays during the second quarter. In particular, they added 35% to their American Airlines (AAL) position and this is now their largest holding. The newsletter has flagged Pepper's big

View Appaloosa Management's
Updated Portfolio on the Next Page



Appaloosa Management

Second Quarter 2014 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	American Airlines Group, Inc.	AAL		7.00%	Added 35%	\$500,678	11,654,522
2	General Motors Co	GM		6.59%	Added 65%	\$471,259	12,982,349
3	Citigroup, Inc.	C		5.68%	Cut -14%	\$405,867	8,617,139
4	Priceline Group Inc	PCLN		5.30%	Added 72%	\$378,854	314,924
5	Google Inc. Class C	GOOG		5.13%	New	\$366,492	637,067
6	Halliburton Co.	HAL		4.99%	Unchanged	\$356,798	5,024,621
7	Goodyear Tire and Rubber	GT		4.38%	Unchanged	\$313,389	11,281,096
8	PowerShares QQQ Trust	QQQ		4.20%	Cut -66%	\$300,512	3,200,000
9	HCA Holdings, Inc.	HCA		4.20%	Unchanged	\$300,330	5,326,882
10	SPDR S&P 500 ETF Index	SPY		3.65%	Cut -72%	\$260,888	1,332,966
11	Google Inc. Class A	GOOGL		3.62%	Unchanged	\$258,576	442,259
12	Delta Air Lines Inc	DAL		3.47%	Added 7%	\$248,253	6,411,483
13	Facebook Inc	FB		3.37%	Added 649%	\$241,257	3,585,329
14	United Continental	UAL		2.97%	Added 11%	\$212,050	5,163,130
15	Huntsman Corp	HUN		2.88%	Unchanged	\$205,562	7,315,375
16	Apple Inc	AAPL		2.19%	Cut -4%	\$156,694	1,686,146
17	Whirlpool Corp	WHR		1.97%	Cut -1%	\$140,856	1,011,750
18	Masco Corp.	MAS		1.92%	Added 95%	\$137,232	6,181,624
19	CBS Corp	CBS		1.88%	Added 72%	\$134,451	2,163,678
20	Owens Corning	OC		1.78%	Added 8%	\$127,069	3,285,130
21	Ford Motor Co.	F		1.76%	Unchanged	\$125,625	7,286,816
22	Walt Disney Co	DIS		1.65%	Unchanged	\$118,021	1,376,500
23	Chicago Bridge & Iron	CBI		1.43%	Added 22%	\$101,882	1,493,864
24	MGM Resorts International	MGM		1.33%	Unchanged	\$95,007	3,598,758
25	Mohawk Industries Inc.	MHK		1.10%	New	\$78,595	568,129
26	Schlumberger Ltd.	SLB		0.99%	Unchanged	\$70,581	598,400
27	Expedia Inc	EXPE		0.99%	Added 29%	\$70,659	897,137
28	Axiall Corporation	AXLL		0.94%	Unchanged	\$67,043	1,418,309
29	Prudential Financial Inc.	PRU		0.92%	Cut -2%	\$65,518	738,060
30	American International Group	AIG		0.92%	Cut -1%	\$66,000	1,209,231
31	Triumph Group	TGI		0.91%	Unchanged	\$64,994	930,876
32	Broadcom Corporation	BRCM		0.88%	Unchanged	\$62,857	1,693,336
33	Wthrfd Intl Plc	WFT		0.86%	New	\$61,345	2,667,195
34	KBR Inc	KBR		0.85%	Cut 0%	\$60,567	2,539,500
35	Eastman Chemical Co.	EMN		0.75%	Cut -46%	\$53,842	616,398
36	Terex Corp	TEX		0.73%	Unchanged	\$52,039	1,266,163
37	Celanese Corp	CE		0.70%	Cut -42%	\$50,316	782,768
38	ASML Holding NV	ASML		0.69%	Unchanged	\$48,992	525,275
39	Comcast Corp	CMCSA		0.68%	Unchanged	\$48,467	902,888
40	Ryland Group Inc.	RYL		0.60%	New	\$42,732	1,083,471
41	Baidu Inc	BIDU		0.54%	Unchanged	\$38,425	205,692
42	duPont	DD		0.53%	Cut -45%	\$37,994	580,600
43	Ingredion Inc.	INGR		0.53%	Cut -30%	\$37,623	501,379
44	HD Supply Holdings, Inc.	HDS		0.51%	Added 27%	\$36,533	1,286,830
45	Hartford Financial Warrants	HIG-W		0.40%	Cut -18%	\$28,699	1,050,475

Continued on next page...

Appaloosa Management

Second Quarter 2014 Portfolio:
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	Mueller Water Products Inc.	MWA		0.26%	Cut -30%	\$18,287	2,116,510
47	Berry Plastics Group, Inc.	BERY		0.24%	Cut -47%	\$17,130	663,937
48	General Motors Warrants	GM/WS/A		0.07%	Unchanged	\$4,920	184,879
49	PLY GEM HOLDINGS INC	PGEM		0.06%	Unchanged	\$4,272	422,988
50	General Motors Warrants	GM/WS/B		0.05%	Unchanged	\$3,431	184,879
	JPMorgan Chase & Co.	JPM			Sold		
	QUALCOMM Inc.	QCOM			Sold		
	MetLife Inc.	MET			Sold		
	SPDR S&P 500 ETF Index	SPY	CALL		Sold		
	Hess Corp	HES			Sold		
	Omnicom Group Inc.	OMC			Sold		
	Ingersoll-Rand Co. Ltd.	IR			Sold		
	Trinity Industries	TRN			Sold		
	PowerShares QQQ Trust	QQQ	CALL		Sold		
	Valmont Industries, Inc.	VMI			Sold		
	Beazer Homes USA Inc.	BZH			Sold		
	Delphi Automotive Plc	DLPH			Sold		

This is an old issue. To see the most recent portfolios of these top 25 hedge funds, head to www.hedgefundwisdom.com

Next Page: Pershing Square

Pershing Square Capital

Bill Ackman

Check out Ackman's [recommended reading list](#)

Has generated a compound annual gross return of 27.7% for the past 10.5 years



Key Takeaways

New Positions:

None

Sold Out:

Beam ~ bought out

Apartment Investment Mgmt (AIV)

Home Properties (HME)

The only major takeaway from Bill Ackman's portfolio this time around is that Allergan (AGN) is now his largest position, as he owns over \$4.8 billion worth of the company. Last quarter's issue detailed how Ackman is working with Valeant Pharmaceuticals (VRX) in an attempt to buyout Allergan. Things have not been going well, however, as the company has been very resistant and Allergan management has repeatedly rejected Valeant's increased offers.

In his second quarter letter, Ackman blasted AGN management, saying they've "breached its fiduciary duty in not properly examining the Valeant offer." He points out that the company has had bloated expenses for quite some time and that management has often sandbagged guidance. Allergan has continued to fight by suing Ackman, accusing him and Valeant of securities fraud. Not losing focus on his pursuit, Ackman is looking to call a special meeting of shareholders (and he needs 25% of the vote to do so). He's recently received strong support from proxy advisory firms ISS and Glass Lewis.

This is important because as of Q2, quite the "who's who" of hedge funds now own AGN shares. Managers that were out acquiring AGN include

Paulson & Co, York Capital, Steadfast Capital, Perry Capital, Senator Investment Group, Eton Park Capital, Partner Fund, Viking Global, and the list goes on. Needless to say, if all these funds band together with Ackman, they will collectively represent a decent ownership percentage of the company.

The only other portfolio activity really worth highlighting is the fact that Ackman also continued to trim his stake in Canadian Pacific (CP). This was mainly for portfolio construction reasons, as he needed more capital to put to work in AGN.

Turning to another one of Pershing's investments, Ackman seems enthusiastic over his Air Products and Chemicals (APD) stake. Though it took some time to get a new CEO in place, his recommended candidate, Seifi Ghasemi, got the job. While there's still a long road of improvement ahead, Ackman likes that Ghasemi is focused on creating shareholder value as evidenced by his 318% return for shareholders when he was CEO of Rockwood Holdings. Ackman writes that, "He emphasized that improvements in performance would be driven by decentralizing and simplifying the organization and processes to drive productivity, increasing return hurdles for growth capex investment, requiring greater accountability, and building a culture that is focused on delivering results."

In his letter, Ackman celebrates Pershing Square's 10-year anniversary and points out that his investors have seen net returns of 626.7% since day one. He's generated compound annual gross returns of 27.7% for the past 10.5 years. His hedge fund was up 25% net of fees for 2014 as of the end of the second quarter.

View Pershing Square's Updated Portfolio on the Next Page



Pershing Square

Second Quarter 2014 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Allergan, Inc.	AGN		38.79%	Added 4734%	\$4,886,826	28,878,538
2	Air Products & Chemicals	APD		20.98%	Unchanged	\$2,643,022	20,549,076
3	Canadian Pacific	CP		20.04%	Cut -19%	\$2,524,784	13,938,302
4	Burger King Worldwide	BKW		8.29%	Unchanged	\$1,044,918	38,387,865
5	PLATFORM SPECI	PAH		7.42%	Unchanged	\$934,333	33,333,330
6	Howard Hughes Corp	HHC		4.47%	Unchanged	\$563,140	3,568,017
	Beam Inc	BEAM			Sold		
	Home Properties, Inc.	HME			Sold		
	Apartment Investment	AIV			Sold		

Next Page: Maverick Capital

Maverick Capital

Lee Ainslie

14.0% annualized returns since inception in 1995

Compares a company's enterprise value to sustainable free cash flow



Key Takeaways

New Positions:

QQQ (QQQ) Puts
Dollar General (DG)
McKesson (MCK)
Allison Transmission (ALSN)
AbbVie (ABBV)
Sabre (SABR)
Waste Connection (WCN)
Qihoo 360 (QIHU)
Humana (HUM)
Walgreen (WAG)

Sold Out:

Monsanto (MON)
Citrix Systems (CTXS)
Catamaran (CTRX)
Capital One (COF)
National Oilwell Varco (NOV)
Yandex (YNDX)
Cubist Pharmaceuticals (CBST)
Fomento Economico (FMX)

Maverick Capital's new largest position is a hedge to their technology exposure via a put option position on the technology exchange traded fund QQQ. Keep in mind that this position is only listed as their top holding because they're required to report the notional value of the options, not the amount of capital they utilized to put on the hedge. Regardless, the fact that they put on such a hedge in the first place is notable.

Turning to individual equity position updates, Lee Ainslie's firm initiated sizable new stakes in Dollar General (DG) and McKesson (MCK). They also started core holdings in Allison Transmission (ALSN) and AbbVie (ABBV). ALSN is analyzed later in this issue in the equity analysis section. This

stock drew the attention of multiple hedge funds as Gates Capital and Kingdon Capital were out buying shares. Not to mention, Jeff Ubben's ValueAct Capital also owns a bunch of shares.

At the Delivering Alpha conference a few months ago, Ainslie gave an interview to *Institutional Investor* and said he thinks there could be even more mergers and acquisitions than in 2007 thanks to large corporate cash balances and the fear that interest rates will increase or that the tax inversion loophole will close. Ainslie likes to look for secular trends from the top down and then identify specific companies that will benefit from those trends. One of the biggest trends he's seeing now is network security / cybersecurity. Lastly, the Maverick man pointed out that the volatility index (VIX) has seen spikes on a more frequent basis as the years go by. He argues that there's a contrast between the threats in the world and the low levels the VIX has been sitting at, which he thinks is not being priced appropriately. This could explain Ainslie's purchase of put options on the technology index mentioned earlier, as well as his new put option position on the Russell 2000 index (IWM).

In international portfolio activity, Maverick also recently disclosed a new position in London-listed residential real estate agent, Countrywide Plc (LON:CWD). The hedge fund now holds 3.04% of the company's voting rights, all via total return swap. Countrywide is the UK's largest estate agency group. In 2007, Apollo Management took the company private and in 2013 it was re-listed on the London Stock Exchange. Howard Marks' Oaktree Capital is currently the largest shareholder.

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	QQQ Trust	QQQ	PUT	7.55%	New	\$525,999	5,601,100
2	HCA Holdings, Inc.	HCA		4.85%	Added 23%	\$337,723	5,990,122
3	Transdigm Group Inc	TDG		4.81%	Added 19%	\$335,248	2,004,352
4	Crown Castle International	CCI		4.81%	Added 20%	\$335,286	4,515,034
5	Dollar General Corp	DG		4.79%	New	\$334,077	5,824,217
6	Valeant Pharmaceuticals	VRX		4.75%	Added 8%	\$331,067	2,625,014
7	Adobe Systems, Inc.	ADBE		4.73%	Added 27%	\$329,916	4,559,368
8	McKesson Corp	MCK		4.60%	New	\$320,267	1,719,923
9	Liberty Global Inc, Series C	LBTYK		3.99%	Cut -13%	\$278,021	6,571,049
10	Calpine Corp	CPN		3.45%	Cut -10%	\$240,611	10,105,447
11	SolarWinds, Inc.	SWI		3.22%	Cut -10%	\$224,157	5,798,158
12	SANTNDR CNSMR	SC		3.13%	Added 144%	\$218,357	11,232,360
13	Baidu Inc	BIDU		3.10%	Cut -27%	\$215,754	1,154,938
14	Allison Transmission	ALSN		2.85%	New	\$198,258	6,374,868
15	Radian Group Inc.	RDN		2.73%	Added 14%	\$189,892	12,821,886
16	AbbVie Inc	ABBV		2.62%	New	\$182,591	3,235,133
17	Palo Alto Networks Inc	PANW		2.48%	Cut -52%	\$172,799	2,060,816
18	MGIC Investment	MTG		2.02%	Cut -8%	\$140,606	15,217,047
19	Ashland Inc.	ASH		1.95%	Cut -44%	\$136,078	1,251,409
20	CommunityHealth Systems	CYH		1.91%	Added 17%	\$132,965	2,930,675
21	Sabre Corp	SABR		1.85%	New	\$128,680	6,417,943
22	Waste Connections Inc	WCN		1.79%	New	\$124,632	2,567,077
23	Ralph Lauren Corp. Class A	RL		1.67%	Cut -64%	\$116,482	724,885
24	Fortinet Inc	FTNT		1.59%	Cut -50%	\$111,101	4,421,052
25	Columbia Properties, Inc.	CXP		1.51%	Added 7%	\$105,523	4,057,010
26	Qihoo 360 Technology	QIHU		1.43%	New	\$99,969	1,086,146
27	Humana, Inc.	HUM		1.41%	New	\$98,494	771,168
28	Walgreen Co.	WAG		1.40%	New	\$97,775	1,318,963
29	Anheuser-Busch Inbev	BUD		1.24%	Added 103%	\$86,696	754,272
30	Aercap Holdings N V	AER		1.18%	Cut -28%	\$82,358	1,798,208
31	Qlik Technologies Inc	QLIK		1.13%	Cut -36%	\$78,589	3,474,320
32	Ctrip.com	CTRP		1.05%	Cut -53%	\$73,085	1,141,244
33	IntercontinentalExchange	ICE		0.97%	New	\$67,591	357,813
34	Liberty Global Inc, Class A	LBTYA		0.95%	Added 66%	\$66,202	1,497,100
35	Acadia Healthcare	ACHC		0.72%	New	\$50,329	1,106,136
36	Russell 2000 Index Fund	IWM	PUT	0.72%	New	\$49,900	420,000
37	Fidelity National Info	FIS		0.59%	New	\$40,976	748,561
38	Pacific Biosciences	PACB		0.57%	Unchanged	\$39,921	6,459,784
39	FleetCor Technologies	FLT		0.50%	Added 321%	\$34,917	264,926
40	NEW YRK REIT	NYRT		0.48%	New	\$33,649	3,042,432
41	Martin Marietta Materials	MLM		0.47%	New	\$32,755	248,049
42	Nokia Corp	NOK		0.46%	New	\$31,868	4,215,343
43	Avago Technologies	AVGO		0.36%	Cut -88%	\$24,853	344,840
44	Home Depot	HD		0.36%	Cut -91%	\$24,962	308,330
45	QUALCOMM Inc.	QCOM		0.35%	Cut -84%	\$24,641	311,120
46	Radian Group Notes	RDN		0.31%	Unchanged	\$21,784	15,000,000
47	Soufun Holdings	SFUN		0.31%	Added 7%	\$21,743	2,220,920
48	Ambev	ABEV		0.17%	Cut -89%	\$12,165	1,727,960
49	Castlight Health	CSLT		0.09%	Unchanged	\$6,566	450,000

Continued on next page...

Maverick Capital

Second Quarter 2014 Portfolio:
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
	Cubist Pharmaceuticals	CBST			Sold		
	Burger King Worldwide	BKW			Sold		
	Catamaran Corp	CTRX			Sold		
	21st Century Fox, Class A	FOXA			Sold		
	National Oilwell Varco, Inc.	NOV			Sold		
	Capital One Financial	COF			Sold		
	Novartis AG ADS	NVS			Sold		
	CarMax Inc.	KMX			Sold		
	RBS Preferred P	RBS+P			Sold		
	Capital One Warrants	COF/WS			Sold		
	Yandex NV	YNDX			Sold		
	Monsanto	MON			Sold		
	Textron Inc.	TXT			Sold		
	Citrix Systems Inc.	CTXS			Sold		
	Allscripts-Misys Healthcare	MDRX			Sold		
	Fomento Economico	FMX			Sold		
	RBS Preferred Q	RBS+Q			Sold		
	RBS Preferred	RBSPRS			Sold		

Next Page: Third Point

Third Point

Dan Loeb

Offshore fund has returned 18.4% annualized since inception

Focuses on event-driven and distressed plays

View his [recommended reading list](#)



Key Takeaways

New Positions:

Ally Financial (ALLY) ~ see below
 Rackspace (RAX)
 IAC Interactive (IACI)
 FMC (FMC)
 AstraZeneca (AZN) Calls
 Finisar (FNSR)
 Amgen (AMGN)
 Walgreen (WAG)
 Memorial Resource (MRD)

Sold Out:

Verizon (VZ)
 International Paper (IP)
 International Paper (IP) Calls
 NCR (NCR)
 Nokia (NOK)
 Valeant Pharmaceutical (VRX)
 Mondelez (MDLZ)
 AIG (AIG) Calls

Dow Chemical (DOW) is now the hedge fund's largest position after they added to their stake by 204% during the second quarter. Loeb has now made a \$1.1 billion bet on the company. Management has become more shareholder friendly, but Loeb wants the company to correct the under-earning of its Petrochemical businesses.

Loeb's firm utilized a dip in Royal DSM shares to build a position after the company issued a profit warning in its nutrition segment. Third Point's second quarter letter outlines their thesis on the name: "DSM has transformed itself into a leading global life sciences company focused on health and nutrition with ~\$12 billion of sales and ~\$1.7 billion of EBITDA. DSM's portfolio of businesses also includes legacy activities in materials sciences. While the Materials segments account for ~55% of sales, their profit contribution to the DSM group (~30% of EBITDA) has been greatly surpassed by that of the Nutrition segment (~70% of EBITDA)." The hedge fund feels that the weakness in nutrition has been due to cyclical and weather factors and they see stronger near-term trends ahead. They believe the company will begin to narrow the ~40% discount to peers that the group trades at compared to their sum of the parts valuation.

Lastly, it's also worth noting that Third Point has seen losses from their exposure to Japan, but after recent trips there, they still believe the country has desire for reform. The hedge fund acknowledges that changing the country will take time but hope to see increased corporate governance and shareholder return focus. However, a failure of Abenomics would change their stance on the nation.

Third Point initiated a large new position in a somewhat controversial stock during the quarter: Rackspace (RAX). Many funds have been short this name, arguing that they're in a 'race to zero margins' competing against the likes of Amazon.com (AMZN) and Microsoft (MSFT). Apparently Third Point feels otherwise and they're not alone in that stance; activist fund Blue Harbour recently revealed a 6.4% stake in RAX too.

Dan Loeb's hedge fund also shows a 'new' position in Ally Financial (ALLY) due to the company's recent initial public offering. However, keep in mind that Third Point has held a position in Ally for quite some time via other capital structure plays before the company went public.

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	Dow Chemical Co.	DOW		13.92%	Added 204%	\$1,132,120	22,000,000
2	Ally Financial	ALLY		13.39%	New	\$1,088,966	45,595,000
3	Actavis Plc	ACT		6.86%	Unchanged	\$557,625	2,500,000
4	American International Group	AIG		4.03%	Unchanged	\$327,480	6,000,000
5	Sothebys Holdings Inc.	BID		3.43%	Unchanged	\$279,234	6,650,000
6	T-Mobile USA Inc	TMUS		3.31%	Cut -16%	\$268,960	8,000,000
7	Rackspace Hosting Inc	RAX		3.00%	New	\$244,035	7,250,000
8	Dollar General Corp	DG		2.82%	Added 33%	\$229,440	4,000,000
9	Liberty Global Inc., Series C	LBTYK		2.76%	Cut -2%	\$224,243	5,300,000
10	CF Industries Holdings Inc	CF		2.68%	Cut -6%	\$217,680	905,000
11	Williams	WMB		2.68%	Cut -25%	\$218,288	3,750,000
12	Anadarko Petroleum Corp.	APC		2.56%	Added 12%	\$207,993	1,900,000
13	YPF S.A. ADR	YPF		2.51%	Added 136%	\$204,250	6,250,000
14	Anheuser-Busch Inbev	BUD		2.47%	Added 30%	\$201,145	1,750,000
15	Constellation Brands, Inc.	STZ		2.38%	Added 13%	\$193,886	2,200,000
16	Roper Industries	ROP		2.33%	Added 13%	\$189,813	1,300,000
17	Masco Corp.	MAS		2.32%	Added 79%	\$188,700	8,500,000
18	Hertz Global Holdings Inc	HTZ		1.98%	Cut -4%	\$161,172	5,750,000
19	Cheniere Energy Inc	LNG		1.98%	Cut -25%	\$161,325	2,250,000
20	Coca Cola Enterprises Inc.	CCE		1.97%	Added 16%	\$160,063	3,350,000
21	FedEx Corporation	FDX		1.86%	Cut -50%	\$151,380	1,000,000
22	Avago Technologies	AVGO		1.77%	Unchanged	\$144,140	2,000,000
23	Block (H&R) Inc.	HRB		1.77%	Added 23%	\$144,136	4,300,000
24	Sensata Technologies	ST		1.73%	Added 62%	\$140,340	3,000,000
25	IAC/InterActiveCorp	IACI		1.70%	New	\$138,460	2,000,000
26	Citrix Systems Inc.	CTXS		1.54%	Cut -22%	\$125,100	2,000,000
27	FMC Corp.	FMC		1.36%	New	\$110,344	1,550,000
28	Ashland Inc.	ASH		1.34%	Added 33%	\$108,740	1,000,000
29	American Airlines Group	AAL		1.12%	Cut -21%	\$91,290	2,125,000
30	AstraZeneca	AZN	CALL	0.91%	New	\$74,310	1,000,000
31	Intrexon Corp	XON		0.90%	Cut -3%	\$72,877	2,900,000
32	Finisar Corp.	FNSR		0.85%	New	\$69,125	3,500,000
33	Enphase Energy Inc	ENPH		0.78%	Unchanged	\$63,689	7,448,987
34	Amgen, Inc.	AMGN		0.65%	New	\$53,266	450,000
35	Walgreen Co.	WAG		0.64%	New	\$51,891	700,000
36	EQT Corporation	EQT		0.43%	Cut -63%	\$35,277	330,000
37	Memorial Resource	MRD		0.43%	New	\$34,932	1,434,000
38	JDS Uniphase Corp.	JDSU		0.38%	New	\$31,175	2,500,000
39	Owens Corning	OC		0.22%	New	\$18,296	473,000
40	Moelis & Co	MC		0.13%	New	\$10,840	341,044
41	BioFuel Energy	BIOF		0.09%	Unchanged	\$7,166	1,043,123

Continued on next page...

Third Point

Second Quarter 2014 Portfolio:
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
	Cabot Oil & Gas Corp.	COG			Sold		
	NCR Corp	NCR			Sold		
	Google Inc. Class A	GOOGL			Sold		
	Baidu Inc	BIDU			Sold		
	Valeant Pharmaceuticals	VRX			Sold		
	TIM Participacoes	TSU			Sold		
	Signet Jewelers, Inc.	SIG			Sold		
	AmericanInternationalGroup	AIG	CALL		Sold		
	Citigroup, Inc.	C			Sold		
	Verizon Communications	VZ			Sold		
	International Paper Co	IP	CALL		Sold		
	International Paper Co	IP			Sold		
	Time Warner Cable Inc.	TWC			Sold		
	Crown Holdings Inc.	CCK			Sold		
	Mondelez International Inc.	MDLZ			Sold		
	SPDR Fund - IndustrialSector	XLI	PUT		Sold		
	Nokia Corp	NOK			Sold		
	Ocwen Financial Corp	OCN			Sold		

Next Page: Blue Ridge Capital

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:

Google (GOOG) ~ stock split
Yandex (YNDX)
Visa (V)
Mastercard (MA)
Kate Spade (KATE)
IMS Health (IMS)

Sold Out:

Coach (COH)
Google (GOOGL)
Liberty Global (LBTYA)
Apple (AAPL)
Twitter (TWTR)
Myriad Genetics (MYGN)

John Griffin and his team made a few notable moves during the quarter. But first, it's worth pointing out that the 'new' position in Google (GOOG) shares is not necessarily due to open market buying. Google underwent a stock split during Q2 and elected to pay shareholders with a new shareclass. So now there are two ticker symbols: GOOG and GOOGL. Blue Ridge chose to keep the GOOG shares and liquidate its GOOGL position.

The most noticeable change in Blue Ridge's portfolio for the second quarter is that they almost doubled their exposure to Walgreen (WAG). The thesis here is a bit of a transformation play as the company seeks to purchase the rest of European pharmacy chain Alliance Boots that they don't already own. Many investors were also pushing for the company to do a tax inversion, but were disappointed recently when the company announced

it would not be doing so. Shares dropped from \$72 to \$57 on the news, though they have started to slowly rebound. WAG now trades at prices below where Blue Ridge would have been buying in Q2, so it will be interesting to see what they do with their position given the recent news.

Next, Blue Ridge has swapped picks in its handbag trade. After buying Coach (COH) two quarters in a row as shares continually drifted lower, they finally threw in the towel on the position. Instead, they shifted into shares of Kate Spade (KATE), one of the companies that's been taking market share from Coach in the 'affordable luxury' category. There are three major players in this niche segment: COH, KATE, and Michael Kors (KORS). KATE lands at the higher-end of the segment in pricepoint as they've been less inclined to discount. Some retail analysts have argued that while KORS is responsible for taking a lot of market share from COH, KATE is slowly taking share from both.

Lastly, it's worth noting that the hedge fund utilized the dip in Mastercard (MA) and Visa (V) shares to establish positions in both. They now have almost \$250 million worth of exposure to this pure play payment processing duopoly. These stocks have been long-term favorites of various 'Tiger Cub' hedge funds, or managers that previously worked at Julian Robertson's Tiger Management. Chase Coleman's Tiger Global has owned MA & V for years as the secular transition from paying with cash to paying with plastic (credit and debit cards) continues. Considering that most of the world still uses cash for the majority of its transactions, the potential market for long-term growth here is huge. Not to mention, MA & V are purely payment processors and don't bear any consumer credit risk.

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



Blue Ridge Capital

Second Quarter 2014 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Endo International	ENDP		4.71%	Cut -15%	\$477,186	6,815,000
2	Walgreen Co.	WAG		4.57%	Added 82%	\$462,942	6,245,000
3	Charter Communications	CHTR		4.27%	Cut -4%	\$432,377	2,730,000
4	Avis Budget Group Inc	CAR		3.95%	Added 1%	\$399,923	6,700,000
5	Colfax Corp	CFX		3.95%	Unchanged	\$400,280	5,370,000
6	Actavis Plc	ACT		3.82%	Unchanged	\$386,992	1,735,000
7	Monsanto Co	MON		3.75%	Unchanged	\$380,457	3,050,000
8	Priceline Group Inc	PCLN		3.57%	Unchanged	\$362,103	301,000
9	AmericanInternationalGroup	AIG		3.43%	Cut -11%	\$347,675	6,370,000
10	Thermo Fisher Scientific	TMO		3.16%	Cut -7%	\$320,370	2,715,000
11	Sensata Technologies	ST		3.04%	Unchanged	\$308,046	6,585,000
12	Cheniere Energy Inc	LNG		2.84%	Unchanged	\$287,517	4,010,000
13	W.R. Grace & Co	GRA		2.80%	Unchanged	\$283,590	3,000,000
14	SanDisk Corp.	SNDK		2.61%	Unchanged	\$264,208	2,530,000
15	Google Inc. Class C	GOOG		2.60%	New	\$263,478	458,000
16	Amazon.com Inc.	AMZN		2.60%	Unchanged	\$263,072	810,000
17	PLATFORM SPECI	PAH		2.49%	Added 13%	\$252,270	9,000,000
18	Allegion plc	ALLE		2.47%	Unchanged	\$250,526	4,420,000
19	Gap (The)	GPS		2.44%	Unchanged	\$246,926	5,940,000
20	Liberty Global Inc., Series C	LBTYK		2.37%	Added 120%	\$239,898	5,670,000
21	IHS Inc. Class A	IHS		2.25%	Unchanged	\$227,926	1,680,000
22	Marathon Petroleum Corp.	MPC		2.23%	Added 4%	\$226,403	2,900,000
23	Yandex NV	YNDX		2.09%	New	\$211,702	5,940,000
24	ETrade Financial Corp.	ETFC		1.96%	Unchanged	\$198,628	9,342,802
25	Ulta Salon Cosmetics	ULTA		1.67%	Added 26%	\$169,227	1,851,293
26	American Homes 4 Rent	AMH		1.52%	Unchanged	\$154,512	8,700,000
27	MGIC Investment Corp	MTG		1.36%	Unchanged	\$137,682	14,900,600
28	Endo Internation	ENDP	CALL	1.34%	Cut -99%	\$135,320	6,766
29	HollyFrontier Corp	HFC		1.33%	Unchanged	\$134,347	3,075,000
30	Sally Beauty Holdings Inc	SBH		1.33%	Cut -13%	\$135,181	5,390,000
31	Biomarin Pharmaceutical	BMRN		1.29%	Added 2%	\$130,641	2,100,000
32	Sirius XM Radio	SIRI		1.29%	Unchanged	\$130,702	37,775,000
33	VISA Inc	V		1.25%	New	\$126,426	600,000
34	MasterCard Inc. Class A	MA		1.21%	New	\$123,062	1,675,000
35	Workday Inc	WDAY		1.14%	Unchanged	\$115,290	1,283,000
36	Kate Spade & Co.	KATE		0.93%	New	\$94,206	2,470,000
37	Post Holdings Inc	POST		0.86%	Added 41%	\$86,802	1,705,000
38	Citigroup, Inc.	C		0.84%	Cut -72%	\$85,251	1,810,000
39	PBF Energy Inc	PBF		0.83%	Unchanged	\$84,214	3,160,000
40	Grupo Financiero Santander	BSMX		0.82%	Unchanged	\$83,332	6,275,000
41	Linkedin Corporation	LNKD		0.80%	Added 90%	\$81,448	475,000
42	AIG Warrants	AIG.W		0.30%	Unchanged	\$30,590	1,150,000
43	NU Skin Enterprises	NUS		0.20%	Unchanged	\$20,339	275,000
44	MacroGenics Inc	MGNX		0.19%	Unchanged	\$19,557	900,000
45	JPMorgan Chase Warrants	JPM/WS		0.18%	Unchanged	\$18,035	933,000
46	Blackberry Ltd.	BBRY		0.12%	Unchanged	\$12,006	1,172,500
47	JD.COM INC ADR	JD		0.11%	New	\$11,404	400,000
48	Zulily Inc	ZU		0.05%	Unchanged	\$5,528	135,000
49	Molycorp Inc	MCP		0.02%	Cut -68%	\$2,364	920,000
50	IMS HEALTH HLD	IMS		0.01%	New	\$513	20,000

Continued on next page...

Blue Ridge Capital

Second Quarter 2014 Portfolio:
... Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
	Barrick Gold Corp	ABX			Sold		-
	Twitter Inc	TWTR			Sold		-
	Coupons.com Inc	COUP			Sold		-
	Castlight Health	CSLT			Sold		-
	Apple Inc	AAPL			Sold		-
	Liberty Global Inc, Class A	LBTYA			Sold		-
	Google Inc. Class A	GOOGL			Sold		-
	Myriad Genetics Inc	MYGN			Sold		-
	Coach, Inc.	COH			Sold		-

Next Page: Paulson & Co



Key Takeaways

New Positions:

Allergan (AGN)
DirecTV (DTV)
Covidien (COV)
Hillshire Brands (HSH)
Questcor (QCOR)
TIM Participacoes (TSU)

Sold Out:

American Airlines (AAL)
Pioneer Resources (PXD)
Hess (HES)
General Motors (GM)

It's always worth a quick reminder that Paulson & Co runs numerous hedge fund strategies and their holdings are lumped together collectively and presented on the next page. The bulk of their activity in the second quarter relates to their risk arbitrage fund as merger and acquisition activity has intensified. Paulson's biggest move in Q2 was establishing a stake in Allergan (AGN). As detailed earlier this issue, Bill Ackman's Pershing Square owns a large AGN position and is pushing for management to sell to Valeant Pharmaceuticals (VRX). Ackman owns over \$4 billion worth of AGN and now Paulson owns almost \$1 billion. Couple this with the fact that AGN was a consensus buy among hedge funds profiled in this issue and you get the sense that Allergan management has their hands full here. Right now, AGN has fended off VRX by rejecting their bids. Ackman is pushing for a special meeting of shareholders and that's the first step if AGN's new hedge-fund-heavy shareholder base hopes to be successful in their quest to shake up the board of directors.

Second, Paulson also initiated a large new

stake in DirecTV (DTV). They own over \$850 million worth of shares as the company received a takeover offer from AT&T (T). The telecom and cable industries have seen a flurry of major merger announcements and regulatory agencies will have their hands full in determining the outcomes of these potentially industry re-shaping decisions. Paulson & Co also owns Time Warner Cable (TWC) in size. Comcast (CMCSA) announced a takeover of TWC earlier in the year and this deal will also receive thorough analysis from regulators.

The rest of John Paulson's other major new buys in the quarter were also arbitrage related. They started a new stake in Covidien (COV), which received a takeover offer from Medtronic (MDT). Also, they bought shares of Hillshire Brands (HSH), which recently entered into a merger agreement with Tyson Foods (who won a bidding war against Pilgrim's Pride). Lastly, Paulson acquired shares of Questcor (QCOR), which received a takeover offer from Mallinckrodt (MNK). Paulson actually owns over \$500 million worth of MNK already and has been adding to their position recently.

As always, since Paulson & Co's legacy strategy is risk arbitrage, it's always good to keep in mind that they've likely hedged these positions out somehow. If an acquirer is paying for its new asset in stock (which is the case in many of Paulson's largest plays), the typical risk arbitrage playbook is to short the shares of the acquirer in appropriate size.

In activity since the end of Q2, Paulson & Co has filed two 13G's with the SEC indicating that they now own 18.3% of NovaCopper (NCQ) with 11.5 million shares and 10.1% of Cobalt International Energy (CIE) with over 41.8 million shares.

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 Trust ETF	GLD		5.68%	Unchanged	\$1,310,470	10,234,852
2	Extended Stay America	STAY		5.59%	Unchanged	\$1,290,280	55,711,591
3	Allergan, Inc.	AGN		4.11%	New	\$947,970	5,602,000
4	Vodafone Group	VOD		3.86%	Cut -6%	\$891,760	26,707,408
5	Grifols SA	GRFS		3.74%	Cut -1%	\$863,608	19,605,181
6	DIRECTV Corp.	DTV		3.68%	New	\$850,100	10,000,000
7	Shire Plc ADS	SHPG		3.44%	Add 33%	\$792,786	3,366,539
8	Whiting Petroleum	WLL		3.29%	Unchanged	\$758,138	9,447,200
9	Time Warner Cable Inc.	TWC		3.29%	Cut -14%	\$758,350	5,148,340
10	CobaltInternationalEnergy	CIE		3.26%	Add 50%	\$751,728	40,966,100
11	Aetna Inc	AET		2.81%	Unchanged	\$647,789	7,989,506
12	Covidien plc	COV		2.74%	New	\$631,260	7,000,000
13	Mylan Inc	MYL		2.71%	Unchanged	\$625,459	12,130,700
14	HoughtonMifflin Harcourt	HMHC		2.57%	Unchanged	\$592,285	30,912,558
15	MGM Resorts	MGM		2.57%	Cut -5%	\$593,644	22,486,500
16	Oasis Petroleum Inc	OAS		2.40%	Unchanged	\$552,892	9,892,500
17	Sprint Corp	S		2.37%	Unchanged	\$546,886	64,113,200
18	Mallinckrodt PLC	MNK		2.33%	Add 19%	\$538,118	6,724,800
19	Family Dollar Stores, Inc.	FDO		2.30%	Add 24%	\$530,443	8,020,000
20	Anglogold Ashanti	AU		1.98%	Cut -5%	\$457,530	26,585,100
21	Realogy Holdings Corp	RLGY		1.96%	Unchanged	\$452,520	12,000,000
22	T-Mobile USA Inc	TMUS		1.92%	Cut -19%	\$442,365	13,157,800
23	Equinix Inc	EQIX		1.90%	Unchanged	\$438,458	2,087,000
24	Verizon Communications	VZ		1.85%	Unchanged	\$427,782	8,742,725
25	Thermo Fisher Scientific	TMO		1.65%	Cut -29%	\$380,550	3,225,000
26	Kodiak Oil & Gas Corp.	KOG		1.64%	Unchanged	\$378,104	25,986,500
27	Cablevision Systems	CVC		1.47%	Unchanged	\$339,215	19,219,000
28	Popular Inc	BPOP		1.31%	Unchanged	\$302,337	8,845,448
29	Cobalt International Notes	CIE		1.24%	Add 446%	\$285,989	273,000,000
30	Caesars Entertainment	CZR		1.07%	Cut 0%	\$247,582	13,693,700
31	Dollar General Corp	DG		1.02%	Add 105%	\$234,602	4,090,000
32	MGIC Investment Corp	MTG		0.97%	Unchanged	\$223,313	150,000,000
33	Hillshire Brands	HSB		0.92%	New	\$213,378	3,425,000
34	Questcor Pharmaceuticals	QCOR		0.90%	New	\$208,002	2,248,913
35	Freeport-McMoRan	FCX		0.84%	Cut -48%	\$193,450	5,300,000
36	HCA Holdings, Inc.	HCA		0.83%	Unchanged	\$191,840	3,402,619
37	Bank of America Warrants	BAC/WS/A		0.81%	Cut 0%	\$186,618	27,046,152
38	CBS Corp. Class B	CBS		0.77%	Cut -36%	\$176,695	2,843,500
39	Radian Group Inc.	RDN		0.73%	Unchanged	\$168,634	11,386,500
40	HartfordFinancial Services	HIG		0.69%	Cut -25%	\$160,023	4,468,670
41	Genworth Financial	GNW		0.68%	Unchanged	\$156,600	9,000,000
42	TIM Participacoes	TSU		0.67%	New	\$153,723	5,295,300
43	MGIC Investment Corp	MTG		0.66%	Unchanged	\$153,033	16,562,000
44	Caesars Acq	CACQ		0.66%	Unchanged	\$152,278	12,310,240
45	Novagold Resources Inc.	NG		0.65%	Unchanged	\$151,082	35,809,914

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	CompuWare Corp.	CPWR		0.62%	Unchanged	\$142,358	14,250,000
47	Radian Group Inc. NOTE	RDN		0.55%	Unchanged	\$126,644	84,500,000
48	Delphi Automotive Plc	DLPH		0.48%	Unchanged	\$109,984	1,600,000
49	William Lyon Homes	WLH		0.44%	Unchanged	\$101,142	3,322,666
50	CNO Financial Group, Inc.	CNO		0.43%	Cut -55%	\$98,960	5,559,577
51	Post Holdings Inc	POST		0.41%	Add 126%	\$94,184	1,850,000
52	Rock-Tenn Company	RKT		0.37%	Unchanged	\$84,472	800,000
53	Auxilium Pharmaceuticals	AUXL		0.35%	Unchanged	\$80,240	4,000,000
54	Actavis Plc	ACT		0.29%	Unchanged	\$66,915	300,000
55	Valeant Pharmaceuticals	VRX		0.27%	Cut -50%	\$63,098	500,300
56	Enzymotec Ltd	ENZY		0.25%	Unchanged	\$57,961	4,271,230
57	Randgold Resources	GOLD		0.25%	Add 1%	\$57,058	674,446
58	FelCor Lodging Trust, Inc.	FCH		0.23%	Unchanged	\$52,550	5,000,000
59	Howard Hughes Corp	HHC		0.22%	Unchanged	\$49,716	315,000
60	WhiteWave Foods	WWAV		0.22%	Unchanged	\$51,873	1,602,500
61	Vanda Pharmaceuticals	VNDA		0.22%	Add 130%	\$51,776	3,200,000
62	Agnico-Eagle Mines	AEM		0.22%	Add 31%	\$50,579	1,320,600
63	Brixmor Property Group	BRX		0.22%	Cut -26%	\$51,174	2,229,800
64	ALLY FINANCIAL I	ALLY		0.21%	New	\$47,969	2,006,213
65	GULF COAST U UNT	GULTU		0.17%	New	\$40,205	13,721,856
66	Colony Financial NOTE	CLNY		0.12%	Unchanged	\$26,891	25,000,000
67	Starwood Property Notes	STWD		0.12%	Unchanged	\$28,141	25,000,000
68	Gold Fields Ltd ADR	GFI		0.11%	Unchanged	\$24,291	6,529,748
69	Dex Media	DXM		0.11%	Unchanged	\$24,855	2,231,132
70	Redwood Trust Notes	RWT		0.11%	Unchanged	\$25,703	25,000,000
71	Strategic Hotels & Resorts	BEE		0.08%	Unchanged	\$19,204	1,640,000
72	Measurement Specialties	MEAS		0.08%	New	\$18,406	213,853
73	Sibanye Gold Ltd ADR	SBGL		0.08%	Unchanged	\$18,006	1,632,435
74	IAMGold Corp. ADR	IAG		0.07%	Unchanged	\$15,919	3,863,912
75	Penn Virginia Corp.	PVA		0.04%	New	\$9,323	550,000
76	Bank of America Warrants	BAC/WS/B		0.04%	Cut -6%	\$8,303	11,070,853
77	International Tower Hill	THM		0.03%	Unchanged	\$6,414	8,908,000
78	Novacopper Inc	NCQ		0.03%	Unchanged	\$6,445	5,912,709
79	Kamada Ltd	KMDA		0.02%	Unchanged	\$5,347	750,000
80	Sunstone Hotel Investors	SHO		0.02%	Unchanged	\$3,680	246,458
81	Allied Nevada Gold Corp	ANV		0.02%	Unchanged	\$5,648	1,502,184
	Hess Corp	HES			Sold		
	Digital Realty Trust, Inc.	DLR			Sold		
	Pioneer Natural Resources	PXD			Sold		
	Capital One Warrants	COF/WS			Sold		
	General Motors Co	GM			Sold		
	American Airlines Group	AAL			Sold		
	Cooper Tire & Rubber	CTB			Sold		
	ArthroCare Corp.	ARTC			Sold		
	Hartford Warrants	HIG-W			Sold		

Next Page: Tiger Management

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](#)



Key Takeaways

New Positions:

Netflix (NFLX)
Citigroup (C)
Google (GOOG) ~ stock split
Micron (MU)
USA Truck (USAK)
Pandora (P)
CommVault (CVLT)
Baidu (BIDU)
Nielsen (NLSN)

Sold Out:

Ulta Salon (ULTA)
MetLife (MET)
Navistar (NAV)
eBay (EBAY)
EQT (EQT)
Himax (HIMX)

Portfolio turnover at Tiger Management continues to be higher than in the past, but is down from 77% in the first quarter to 52% in the second quarter. This is worth keeping an eye on, as it's always easier to track funds with lower turnover.

Founder Julian Robertson gave a rare interview recently and noted that, "Bonds are so unattractive that people have no alternative to put their money, so they're jamming them into stocks. I wonder what will happen when the bond market turns?" Robertson pointed out that he continues to own and like Google. As you see above, Google enacted a stock split during the quarter and paid out shareholders in a new shareclass of GOOG shares (the ticker for the old shareclass switched to GOOGL). He thinks that Google has a great moat and that "no one can breach it." Robertson also cited

his fondness for shares of Gilead Sciences (GILD), now his largest position. He fancies management's ability to buy companies at good prices and anticipates cashflow ramping up from their Hepatitis C drug.

Tiger Management made a few major portfolio adjustments in the second quarter. They ratcheted up their exposure to Tableau Software (DATA) in a big way, boosting their position size by 2,900% and making it their second largest holding. Additionally, they ramped up their Facebook (FB) position by 1,776% to make it their third largest holding. Tiger also started brand new positions in a few other historical hedge fund favorite stocks: Citigroup (C) and Netflix (NFLX). Depending on where they acquired their NFLX shares, they could have been buying as low as \$300 during the quarter. This is important to point out because the window for buying NFLX at low prices was quite brief during Q2 as NFLX shares rocketed up to \$460 in no time.

On the selling side of the portfolio, Tiger has dumped its Ulta Salon (ULTA) position. Just a year ago Julian Robertson was publicly extolling his love for the company but he has clearly since had a change of heart.

View Tiger Management's Updated
Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Gilead Sciences Inc.	GILD		13.42%	Added 29%	\$36,805	443,911
2	Tableau Software	DATA		9.05%	Added 2900%	\$24,823	348,000
3	Facebook Inc	FB		8.38%	Added 1776%	\$22,980	341,500
4	Delta Air Lines Inc	DAL		7.93%	Cut -25%	\$21,741	561,485
5	Google Inc. Class A	GOOGL		7.01%	Added 61%	\$19,233	32,896
6	Monsanto Co	MON		4.93%	Unchanged	\$13,509	108,300
7	Post Holdings Inc	POST		4.71%	Cut -18%	\$12,926	253,900
8	Netflix Inc	NFLX		4.66%	New	\$12,777	29,000
9	Citigroup, Inc.	C		4.60%	New	\$12,613	267,800
10	Google Inc. Class C	GOOG		4.28%	New	\$11,733	20,396
11	Valero Energy Corp.	VLO		4.25%	Cut -39%	\$11,663	232,800
12	American Airlines Group	AAL		2.83%	Cut -22%	\$7,774	180,969
13	Biodelivery Sciences	BDSI		2.25%	Unchanged	\$6,166	510,874
14	Ryanair Holdings ADR	RYAAY		2.03%	Unchanged	\$5,568	99,792
15	NorthStar Realty Finance	NRF		1.80%	Unchanged	\$4,936	284,000
16	ETrade Financial Corp.	ETFC		1.61%	Cut -13%	\$4,428	208,300
17	MasterCard Inc. Class A	MA		1.33%	Unchanged	\$3,644	49,600
18	Fidelity National Financial	FNF		1.11%	Cut -21%	\$3,050	93,100
19	Service Corp	SCI		0.97%	Unchanged	\$2,669	128,800
20	Ensign Group	ENSG		0.96%	Added 97%	\$2,640	84,950
21	SunCoke Energy Inc	SXC		0.88%	Added 38%	\$2,423	112,700
22	Suncor Energy, Inc.	SU		0.88%	Unchanged	\$2,419	56,750
23	Gaming&LeisureProperties	GLPIV		0.83%	Cut -43%	\$2,287	67,310
24	Ctrip.com	CTRP		0.63%	Added 12%	\$1,716	26,800
25	Apple Inc	AAPL		0.59%	Added 9%	\$1,626	17,500
26	Micron Technology	MU		0.59%	New	\$1,624	49,300
27	Endo Internation	ENDP		0.58%	Unchanged	\$1,596	22,800
28	1-3 YrTreasuryBondFund	SHY		0.50%	Unchanged	\$1,369	16,187
29	USA Truck Inc.	USAK		0.49%	New	\$1,337	71,933
30	Autodesk, Inc.	ADSK		0.46%	Added 51%	\$1,257	22,300
31	Escalade Inc	ESCA		0.45%	Added 249%	\$1,224	75,858
32	Nokia Corp. ADR Class A	NOK		0.45%	Added 12%	\$1,226	162,200
33	NXP Semiconductors NV	NXPI		0.44%	Added 86%	\$1,204	18,200
34	Baidu Inc	BIDU		0.42%	New	\$1,140	6,100
35	Informatica Corp.	INFA		0.42%	Added 6%	\$1,151	32,300
36	Pandora Media Inc.	P		0.42%	New	\$1,165	39,500
37	CommVault Systems Inc	CVLT		0.42%	New	\$1,155	23,500
38	Gigamon, Inc.	GIMO		0.33%	Added 65%	\$901	47,100
39	Nielsen Holdings	NLSN		0.32%	New	\$871	18,000
40	Demandware Inc	DWRE		0.31%	Cut -23%	\$846	12,200
41	Microsemi Corp.	MSCC		0.26%	Unchanged	\$706	26,400
42	Advanced Micro Devices	AMD		0.25%	Cut -48%	\$683	163,000
43	Citrix Systems Inc.	CTXS		0.21%	Cut -49%	\$563	9,000
44	Applied Micro Circuits	AMCC		0.16%	Cut -8%	\$448	41,400
45	Sealed Air Corp	SEE		0.15%	Unchanged	\$409	11,963
46	Royal Caribbean	RCL		0.13%	New	\$356	6,400
47	Calix Networks Inc	CALX		0.13%	Cut -45%	\$360	44,000
48	Carnival Corp.	CCL		0.10%	Unchanged	\$277	7,350
49	Hemisphere Media Group	HMTV		0.09%	New	\$242	19,287

Continued on Next Page...

Tiger Management

Second Quarter 2014 Portfolio:
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
	Take-Two Interactive	TTWO			Sold		
	Marvell Technology	MRVL			Sold		
	Adtran Inc	ADTN			Sold		
	Navistar International	NAV			Sold		
	American Realty Capital	ARCP			Sold		
	Infoblox Inc	BLOX			Sold		
	Cvent, Inc.	CVT			Sold		
	MetLife Inc.	MET			Sold		
	EQT Corporation	EQT			Sold		
	Brocade Communications	BRCD			Sold		
	Himax Technologies Inc	HIMX			Sold		
	Ulta Salon Cosmetics	ULTA			Sold		
	Sothebys Holdings Inc.	BID			Sold		
	ARM Holdings	ARMH			Sold		
	Splunk Inc	SPLK			Sold		
	Ruckus Wireless, Inc.	RKUS			Sold		
	TEXTURA CORP	TXTR			Sold		
	eBay Inc.	EBAY			Sold		

Next Page: Soros Fund Management

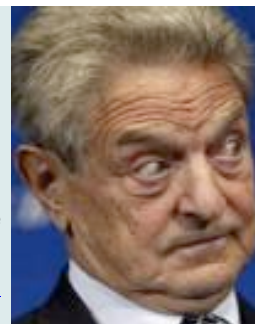
Soros Fund

George Soros

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

Now a hedge fund turned family office

Author of [The Alchemy of Finance](#)



Key Takeaways

New Positions:

Consol Energy (CNX)
Google (GOOG) ~ stock split
Level 3 (LVT)
Time Warner Cable (TWC)
New Oriental Education (EDU)
Celgene (CELG)
Hertz (HTZ)
Dow Chemical (DOW)

Sold Out:

FedEx (FDX)
Monster Beverage (MNST)
Marathon Petroleum (MPC)

email (info@hedgefundwisdom.com) and let your voice be heard. Before the next issue, we will have an anonymous vote among subscribers to determine which funds readers would most like to see covered in the newsletter. The most popular requests for new funds to be added are Jeff Ubben's ValueAct Capital (an activist with a very long-term focus), Nelson Peltz's Trian Partners (another prominent activist investor), Jonathan Auerbach's Hound Partners (a concentrated long/short equity hedge fund initially seeded by Julian Robertson), and Glenn Greenberg's Brave Warrior Capital (a value-oriented manager with a very concentrated portfolio).

Turning to Soros Fund's latest activity, it's clear that the media has made a huge deal out of their \$2.2 billion put option position on the S&P 500 (SPY). However, one critical error they've made is that this is the notional value of the put options. Soros didn't spend \$2 billion dollars to buy their hedge. In reality, they spent much less capital to protect themselves. Not to mention, the media conveniently omitted the fact that just a few holdings lower, Soros also bought a ton of call options on the S&P 500 (SPY) as well. Given the lack of clarity surrounding their true intentions and positioning, this is why it makes sense to purely focus on their large equity stakes. During Q2, they started a new position in Consol Energy (CNX) and added heavily to their pre-existing YPF (YPF) stake, which is now their largest true holding.

Soros Fund has also been an activist investor in shares of Penn Virginia (PVA). They've filed a 13D with the SEC and sent a letter to the board of directors pushing for a sale of the company.

In reality, Soros Fund's portfolio is over 20 pages long. The newsletter focuses on Soros' top 90 holdings because eventually the position sizes get too small. With numerous positions as tiny as 0.01% of reported assets, it becomes too cumbersome to sort through them all to try to glean anything insightful. Not to mention, 13F filings are best used for tracking long-only equity or long/short equity funds with long-term investment timeframes and lower turnover. Given that Soros Fund often trades around their portfolio (they had 107% turnover in Q2) and the fact that they often report non-equity positions that are harder to track (option positions and convertible notes), it's not necessarily the best fund to track via 13Fs. This fund was originally included in Hedge Fund Wisdom due to reader demand. However, over time there have been more requests for other funds to be added and we are considering replacing Soros Fund with another fund where more beneficial information can be gleaned via 13F. If you are adamant about still having Soros Fund's portfolio included in HFW, please send us an

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



Soros Fund

Second Quarter 2014 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	SPDR S&P 500 ETF Index	SPY	PUT	16.65%	Added 606%	\$2,209,777	11,290,500
2	YPF S.A. ADR	YPF		3.39%	Added 159%	\$450,449	13,783,638
3	SPDR S&P 500 ETF Index	SPY	CALL	3.10%	Added 492%	\$411,012	2,100,000
4	Teva Pharmaceutical	TEVA		2.87%	Cut -29%	\$381,263	7,273,240
5	TIBCO Software Notes	TIBX		2.36%	Unchanged	\$313,050	308,614,000
6	Herbalife Ltd	HLF		2.30%	Cut -3%	\$305,683	4,736,337
7	SPDR Fund - Energy Sector	XLE	PUT	2.04%	Added 900%	\$270,270	2,700,000
8	Adecoagro SA	AGRO		1.84%	Unchanged	\$244,638	25,915,076
9	CONSOL Energy Inc	CNX		1.77%	New	\$234,417	5,088,283
10	Rovi Corp NOTE	ROVI		1.66%	Unchanged	\$220,563	217,437,000
11	Charter Communications Inc	CHTR		1.54%	Cut -19%	\$203,821	1,286,908
12	Energen Corp.	EGN		1.47%	Added 9%	\$195,148	2,195,635
13	EQT Corporation	EQT		1.36%	Cut -35%	\$179,897	1,682,857
14	Apple Inc	AAPL		1.28%	Added 195%	\$170,412	1,833,764
15	Halliburton Co.	HAL		1.21%	Cut -37%	\$160,910	2,266,008
16	Hologic Notes	HOLX		1.17%	Cut -29%	\$155,062	141,367,000
17	Essent Group	ESNT		1.14%	Unchanged	\$151,652	7,548,618
18	Zoetis, Inc.	ZTS		1.07%	Added 4%	\$141,557	4,386,635
19	Stryker Corp.	SYK		1.07%	Added 53%	\$141,498	1,678,108
20	General Motors	GM		1.06%	Added 29%	\$140,359	3,866,654
21	Polycom Inc.	PLCM		1.04%	Added 16%	\$137,919	11,007,120
22	Citrix Systems Inc.	CTXS		1.03%	Cut -23%	\$136,122	2,176,220
23	Quantum Corp Notes	QTM		0.99%	Unchanged	\$130,980	130,980,000
24	Facebook Inc	FB		0.93%	Added 3583%	\$123,899	1,841,260
25	Digital River Notes	DRIV		0.93%	Added 2%	\$123,780	123,625,000
26	WebMD Health Notes	WBMD		0.92%	Unchanged	\$122,151	118,030,000
27	Motorola Solutions Inc	MSI		0.92%	Cut -20%	\$122,278	1,836,840
28	Intel Corp.	INTC		0.91%	Added 160%	\$120,697	3,906,048
29	Caesars Entertainment Corp	CZR		0.90%	Added 1%	\$119,408	6,604,383
30	TIBCO Software Inc.	TIBX		0.88%	Added 108%	\$116,595	5,780,618
31	Leucadia National Corp.	LUK		0.85%	Unchanged	\$112,283	4,282,343
32	Google Inc. Class C	GOOG		0.84%	New	\$111,886	194,489
33	Dish Network Corp, Class A	DISH		0.83%	Cut -32%	\$110,028	1,690,664
34	American Airlines Group	AAL		0.82%	Added 275%	\$108,869	2,534,188
35	Penn Virginia Corp.	PVA		0.77%	Unchanged	\$101,760	6,003,509
36	Phillips 66	PSX		0.75%	Added 163%	\$99,316	1,234,822
37	SemGroup Corp	SEMG		0.75%	Cut -1%	\$100,140	1,270,011
38	AmericanInternationalGroup	AIG		0.74%	Added 3906%	\$98,392	1,802,717
39	Walgreen Co.	WAG		0.73%	Added 53%	\$96,369	1,300,000
40	Microsoft Corp.	MSFT		0.70%	Added 439%	\$92,756	2,224,366
41	Vipshop Holdings, Ltd	VIPS		0.67%	Unchanged	\$89,177	475,000
42	Mack-Cali Realty Corp.	CLI		0.65%	Added 134%	\$86,039	4,005,539
43	Level 3 Communications	LVLTL		0.59%	New	\$78,481	1,787,306
44	Caesars Acq	CACQ		0.58%	Unchanged	\$76,378	6,174,465
45	Loral Space and Comm	LORL		0.58%	Added 13%	\$76,720	1,055,440

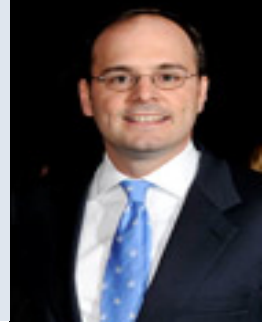
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Soros Fund

Second Quarter 2014 Portfolio:
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	Liberty Global Inc., Series C	LBTYK		0.55%	Cut -65%	\$72,439	1,712,129
47	Western Refining, Inc.	WNR		0.55%	Added 7%	\$73,237	1,950,394
48	Nice-Systems Ltd	NICE		0.51%	Added 37%	\$67,275	1,648,502
49	Monsanto	MON		0.51%	Cut -15%	\$67,160	538,404
50	Time Warner Cable Inc.	TWC		0.49%	New	\$65,164	442,393
51	Churchill Downs Inc	CHDN		0.48%	Unchanged	\$63,513	704,839
52	New Oriental Education	EDU		0.48%	New	\$64,007	2,409,000
53	CenterPoint Energy	CNP		0.46%	Added 38%	\$61,143	2,394,013
54	Celgene Corp.	CELG		0.45%	New	\$59,086	688,000
55	Valeant Pharmaceuticals	VRX		0.45%	Added 185%	\$59,552	472,187
56	Russell 2000 Index Fund	IWM	PUT	0.45%	Cut -26%	\$59,405	500,000
57	Spansion Inc	CODE		0.42%	Cut -7%	\$56,187	2,666,666
58	Gold Miners ETF	GDX		0.41%	Added 77%	\$54,240	2,050,664
59	Exar Corp.	EXAR		0.40%	Cut -5%	\$53,329	4,719,395
60	SolarWinds, Inc.	SWI		0.40%	Cut -8%	\$53,158	1,375,000
61	Delphi Automotive Plc	DLPH		0.38%	Unchanged	\$50,961	741,358
62	Ctrip.com	CTRP		0.38%	Unchanged	\$50,233	784,400
63	American Capital Agency	AGNC		0.36%	Added 35%	\$47,784	2,041,169
64	Melco Crown Entertainment	MPEL		0.35%	Unchanged	\$46,244	1,295,000
65	Ciena Corp NOTE	CIEN		0.35%	Added 59%	\$45,828	46,000,000
66	Host Hotels & Resorts	HST		0.34%	Added 52%	\$45,418	2,063,515
67	Cameco Corp.	CCJ		0.34%	Cut -34%	\$44,702	2,279,563
68	Mondelez International	MDLZ		0.34%	Cut -2%	\$44,633	1,186,731
69	Dow Chemical Co.	DOW		0.32%	New	\$42,495	825,792
70	Hertz Global Holdings Inc	HTZ		0.32%	New	\$42,669	1,522,272
71	Invesco Ltd.	IVZ		0.29%	Added 9%	\$38,959	1,032,014
72	Abbott Laboratories	ABT		0.29%	Cut -24%	\$38,126	932,181
73	Hubbell Inc Class B	HUB-B		0.28%	New	\$37,730	306,371
74	Ally Financial	ALLY		0.27%	New	\$35,732	1,494,450
75	Petroleo Brasileiro SA	PBR	CALL	0.27%	Added 22%	\$35,697	2,440,000
76	Baidu Inc	BIDU		0.27%	Added 9%	\$35,494	190,000
77	Kraft Foods Group, Inc.	KRFT		0.26%	Unchanged	\$34,539	576,133
78	Gold Miners ETF	GDX	CALL	0.26%	New	\$35,099	1,327,000
79	RetailMeNot Inc	SALE		0.26%	Added 27%	\$34,280	1,288,236
80	Illumina Inc	ILMN		0.26%	Added 289%	\$34,834	195,102
81	PDC Energy Corp.	PDCE		0.26%	New	\$34,575	547,501
82	SanDisk Corp.	SNDK		0.26%	Added 983%	\$33,940	325,000
83	CONSTELLUM NV	CSTM		0.25%	Added 118%	\$32,729	1,020,875
84	Workday Inc	WDAY		0.24%	New	\$32,350	360,000
85	Liberty Global Inc, Class A	LBTYA		0.24%	Added 1789%	\$31,750	718,000
86	Golar LNG Ltd	GLNG		0.24%	New	\$32,214	536,000
87	SBA Communications Corp.	SBAC		0.24%	Cut -61%	\$32,467	317,368
88	Junior Gold Miners ETF	GDXJ		0.24%	Added 26%	\$32,139	760,497
89	Cypress Semiconductor	CY		0.23%	Added 22%	\$30,184	2,766,666
90	Cadence Design Systems	CDNS		0.22%	Cut -38%	\$29,150	1,666,666

Next Page: Bridger Capital



Key Takeaways

New Positions:

Medicines Co (MDCO)
Trulia (TRLA)
Acorda Therapeutics (ACOR)
ChannelAdvisor (ECOM)
Vipshop (VIPS)
Zillow (Z)

Sold Out:

Unitedhealth (UNH)
Zoetis (ZTS)
Vodafone (VOD)
Eli Lilly (LLY)
Merck (MRK)
Spirit Airlines (SAVE)
Regeneron Pharma (REGN)
Liberty Global (LBTYA/K)
Santander Consumer (SC)

Trulia and TRLA shares in particular are up big since the announcement. These two companies are the largest and most well known online real estate portals popular for their smartphone and tablet apps. With this combination, Zillow CEO Spencer Rascoff seems to think that if he makes his platform big enough, realtors will pretty much have to use it to stay relevant in an increasingly technologically driven society.

Sticking with the apps theme, Bridger has even more exposure to another popular app: TripAdvisor (TRIP). They boosted their exposure to this company by 40% during Q2 and it's now their fifth largest holding. This has been a longstanding position for the hedge fund and they've owned it for many years.

Bridger's main expertise has historically been the healthcare sector. In that regard, the hedge fund was out adding to its for-profit hospital plays during the second quarter as well. They increased their position in Tenet Healthcare (THC) by 33% and HCA (HCA) by 11%. Combined, Bridger's hospital stocks are worth about \$96 million, or around 6.76% of reported assets.

In activity since the end of the second quarter, Bridger has continued to buy shares of ChannelAdvisor (ECOM). Per a 13G filed with the SEC, they now own 8.8% of the company with over 2.17 million shares. ECOM shares recently fell from \$23 down to \$15 and Bridger utilized the dip to add to their position.

Bridger Capital's new top holding is Tesla Motors (TSLA) after they increased their position size by 26%. It appears as though they took advantage of the decline as TSLA shares dropped from \$235 down to \$177 during the second quarter (TSLA has since rallied back up to \$262). Roberto Mignone's third largest holding is now Laboratory Corp (LH) as he almost doubled his exposure to the name during Q2. The company is involved in lab testing and patient diagnosis and has been a favorite play among value-oriented investors as it competes in somewhat of a duopoly with the other major player Quest Diagnostics (DGX).

This hedge fund had some great timing in starting their stakes in Zillow (Z) and Trulia (TRLA) especially. Zillow recently announced a takeover for

View Bridger Capital's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Tesla Motors Inc	TSLA		6.42%	Added 27%	\$91,223	380,000
2	KAR Auction Services Inc	KAR		5.38%	Unchanged	\$76,488	2,400,000
3	Laboratory Corp	LH		4.74%	Add 88%	\$67,328	657,500
4	Morgan Stanley	MS		4.55%	Cut -13%	\$64,660	2,000,000
5	Charter Communications	CHTR		4.46%	Unchanged	\$63,352	400,000
6	TripAdvisor Inc	TRIP		4.40%	Add 39%	\$62,480	575,000
7	General Motors Co	GM		4.33%	Unchanged	\$61,529	1,695,000
8	Assured Guaranty Ltd	AGO		4.05%	Add 18%	\$57,575	2,350,000
9	Medicines Company	MDCO		3.80%	New	\$54,015	1,858,738
10	Pinnacle Entertainment	PNK		3.71%	Unchanged	\$52,789	2,096,481
11	Tenet Healthcare Corp.	THC		3.47%	Add 34%	\$49,300	1,050,284
12	Envisioin Healthcare	EVHC		3.39%	Add 26%	\$48,186	1,341,850
13	HCA Holdings, Inc.	HCA		3.29%	Add 11%	\$46,795	830,000
14	Tornier N.V. ADR	TRNX		3.28%	Unchanged	\$46,552	1,991,092
15	Priceline Group Inc	PCLN		3.22%	Cut -20%	\$45,714	38,000
16	Trulia Inc	TRLA		3.00%	New	\$42,642	900,000
17	Mallinckrodt PLC	MNK		2.82%	Cut -5%	\$40,010	500,000
18	Teva Pharmaceutical	TEVA		2.78%	Cut -26%	\$39,446	752,500
19	Facebook Inc	FB		2.72%	Cut -12%	\$38,692	575,000
20	VeriSign Inc.	VRSN		2.72%	Cut -35%	\$38,609	791,000
21	Acorda Therapeutics Inc	ACOR		2.66%	New	\$37,755	1,120,000
22	Wright Medical Group Inc	WMGI		2.53%	Cut -9%	\$35,953	1,145,000
23	Allergan, Inc.	AGN		2.44%	Cut -41%	\$34,690	205,000
24	ChannelAdvisor	ECOM		2.23%	New	\$31,632	1,200,000
25	Alnylam Pharmaceuticals	ALNY		2.22%	Add 14%	\$31,585	500,000
26	Pennymac Financial	PFSI		2.06%	Unchanged	\$29,241	1,925,000
27	Accuray, Inc.	ARAY		1.86%	Unchanged	\$26,400	3,000,000
28	TG Therapeutics, Inc.	TGTX		1.68%	Unchanged	\$23,916	2,547,000
29	Vipshop Holdings, Ltd	VIPS		1.16%	New	\$16,427	87,500
30	Zillow Inc	Z		0.85%	New	\$12,149	85,000
31	Idenix Pharmaceuticals	IDIX		0.81%	Cut -68%	\$11,443	474,800
32	Churchill Downs Inc	CHDN		0.63%	Unchanged	\$9,011	100,000
33	Agios Pharmaceuticals Inc	AGIO		0.59%	New	\$8,417	183,700
34	TrovaGene Inc	TROV		0.53%	Unchanged	\$7,500	2,142,857
35	Response Genetics Inc	RGDX		0.39%	Unchanged	\$5,520	6,000,000
36	Centerstate Banks Inc	CSFL		0.34%	New	\$4,889	436,536
37	SodaStream International	SODA		0.31%	Add 13%	\$4,368	130,000
38	Casella Waste Systems	CWST		0.20%	Cut -54%	\$2,785	555,933
	Verastem, Inc.	VSTM			Sold		
	Zoetis, Inc.	ZTS			Sold		
	SANTNDR CNSMR	SC			Sold		
	Lilly (Eli) & Co.	LLY			Sold		
	Liberty Global Inc, Class A	LBTYA			Sold		
	Vodafone Group	VOD			Sold		
	Liberty Global Inc, Series C	LBTYK			Sold		
	Regeneron Pharmaceuticals	REGN			Sold		
	Spirit Airlines, Inc.	SAVE			Sold		
	UnitedHealth Group Inc.	UNH			Sold		
	Merck & Co	MRK			Sold		
	Polaris Industries Inc.	PII			Sold		
	Bruker Corp	BRKR			Sold		

Next Page: Omega Advisors

Omega Advisors

Leon Cooperman

Has returned 16% annualized over 18 years

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



Key Takeaways

New Positions:

Navient (NAVI)
KKR (KKR)
Apple (AAPL)
Gulf Coast (GULTU)
QEP Resources (QEP)
Seaworld (SEAS)

Sold Out:

KKR Financial (KFN)
Dollar General (DG)
ADT (ADT)
SunPower (SPWR)
Express Scripts (ESRX)

Omega Advisors' largest position at the end of the second quarter was Sprint (S) and this has been their top holding for the past three quarters. They bought this position very cheap and it's done well for them, but recently shares have been volatile. Sprint ended the quarter trading around \$8.42 but since then, shares have plummeted down to current levels of \$5.39. This is mainly because Masayoshi Son's Softbank (which owns Sprint) was attempting to buyout rival T-Mobile (TMUS). However, after receiving negative signals from regulators that a deal would likely be blocked, Son walked away from a potential combination.

Sprint shares had largely priced in a potential merger for some time as the battle for third place in the ruthless U.S. wireless market heats up. T-Mobile has been a 'maverick' competitor and has been taking market share. Since Sprint is now unlikely to combine with T-Mobile, they have to fend for themselves. While Masayoshi Son has a great track record, this is an uphill fight against the dominant

incumbents of AT&T (T) and Verizon (VZ). It will be interesting to see if Cooperman utilizes this big dip to increase his position size even further, or if this development has altered his thinking.

Omega's thesis on Sprint has largely been three-pronged: 1) potential margin expansion, 2) strong belief in Masayoshi Son as a manager/operator, and 3) unique spectrum assets via their ownership of Clearwire. Omega's thinking has been that if their thesis is wrong, it's more so due to the fact that the US wireless industry can't support four major carriers. In such a case where T-Mobile and Sprint can't each produce solid returns on their own, then Omega felt the likelihood of a merger between the third and fourth largest players wouldn't be frowned upon as much. But as the recent news indicates, that isn't currently the case with regulators.

At the Delivering Alpha Conference recently, Cooperman shared which stock picks he really likes currently. He singled out Actavis (ACT), a tax inversion play, Citigroup (C), a good buy he says because the economy is healing and the fact that there's potential for the discount to book value to narrow over time, as well as Gaming and Leisure Properties (GLPI) and Nordic American Offshore (NAO). He also listed a few international holdings. He continues to fancy shares of Monitise (MONILN), which the newsletter has mentioned previously. Additionally, he likes Louis XIII (577 HK). The Omega founder also raised a good point that the last time the Federal Reserve raised rates was in 2006 and around 25% of fund managers weren't really around to experience that. Cooperman ended by saying that, "if you buy something that's out of favor, things seem to happen to make you right."

View Omega Advisors' Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Sprint Corp	S		4.48%	Cut -8%	\$339,349	39,782,957
2	SandRidge Energy Inc	SD		4.42%	Cut -2%	\$334,532	46,787,740
3	AmericanInternationalGroup	AIG		3.92%	Cut -5%	\$297,084	5,443,100
4	Sirius XM Radio	SIRI		3.75%	Cut -5%	\$283,772	82,015,028
5	Citigroup, Inc.	C		3.31%	Cut -1%	\$250,777	5,324,350
6	Chimera Investment Corp	CIM		2.76%	Cut -1%	\$209,351	65,627,288
7	Dish Network Corp, Class A	DISH		2.73%	Added 2%	\$207,161	3,183,179
8	Motorola Solutions Inc	MSI		2.58%	Cut -6%	\$195,648	2,938,976
9	Atlas Energy Inc	ATLS		2.43%	Added 6%	\$183,983	4,099,440
10	Navient Corp	NAVI		2.37%	New	\$179,504	10,135,751
11	SunEdison Inc	SUNE		2.19%	Cut -2%	\$166,109	7,349,948
12	eBay Inc.	EBAY		2.11%	Added 10%	\$159,641	3,189,000
13	Gaming & Leisure Properties	GLPIV		2.09%	Added 45%	\$158,485	4,665,450
14	Halliburton Co.	HAL		2.08%	Cut -38%	\$157,237	2,214,300
15	Harbinger Group Inc.	HRG		2.03%	Cut -2%	\$153,953	12,122,247
16	ETrade Financial Corp.	ETFC		1.94%	Added 18%	\$147,202	6,923,894
17	HCA Holdings, Inc.	HCA		1.89%	Cut -2%	\$143,470	2,544,700
18	Eastman Chemical Co.	EMN		1.86%	Cut -11%	\$140,739	1,611,208
19	Altisource Portfolio Solutions	ASPS		1.86%	Added 15%	\$141,224	1,232,539
20	Actavis Plc	ACT		1.83%	Added 135%	\$138,273	619,919
21	Caesars Entertainment Corp	CZR		1.67%	Cut -2%	\$126,398	6,991,033
22	McKesson Corp	MCK		1.65%	Cut -6%	\$124,719	669,775
23	Kohlberg Kravis Roberts	KKR		1.63%	New	\$123,601	5,080,173
24	Kinder Morgan Inc	KMI		1.58%	Cut -2%	\$119,457	3,294,459
25	Apple Inc	AAPL		1.55%	New	\$117,528	1,264,690
26	Comcast Corp	CMCSK		1.54%	Added 334%	\$116,327	2,181,272
27	Atlas Pipeline Partners LP	APL		1.53%	Added 1%	\$116,249	3,379,330
28	Denbury Resources Inc.	DNR		1.47%	Cut -5%	\$111,406	6,035,007
29	Atlas Resource Partners LP	ARP		1.45%	Added 4%	\$109,972	5,422,694
30	JPMorgan Chase & Co.	JPM		1.42%	Added 12%	\$107,870	1,872,100
31	Thermo Fisher Scientific, Inc.	TMO		1.40%	Added 6%	\$106,058	898,800
32	QUALCOMM Inc.	QCOM		1.33%	Cut -37%	\$100,674	1,271,135
33	IntercontinentalExchange	ICE		1.33%	Added 24%	\$100,602	532,570
34	LyondellBasell Industries	LYB		1.32%	Cut -40%	\$99,675	1,020,733
35	Ocwen Financial Corp	OCN		1.27%	Added 1062%	\$95,867	2,584,007
36	Transocean Ltd	RIG		1.22%	Cut -14%	\$92,296	2,049,645
37	WPX Energy Inc	WPX		1.18%	Cut -2%	\$89,191	3,730,263
38	Freeport-McMoRan	FCX		1.17%	Cut -19%	\$88,352	2,420,600
39	PVH Corp	PVH		1.17%	Added 41%	\$88,896	762,401
40	SLM Corp	SLM		1.13%	Cut -3%	\$85,312	10,266,196
41	Boston Scientific Inc.	BSX		1.10%	Cut -23%	\$83,637	6,549,479
42	Time Warner Cable Inc.	TWC		1.05%	Added 1%	\$79,601	540,400
43	XL Group Plc	XL		1.04%	Cut -23%	\$78,552	2,399,992
44	New Residential	NRZ		0.94%	Cut -1%	\$70,845	11,245,171
45	United Continental	UAL		0.94%	Added 47%	\$71,576	1,742,774
46	Supervalu Inc.	SVU		0.85%	Added 200%	\$64,138	7,802,645
47	Pennymac Mortgage	PMT		0.83%	Added 14%	\$62,709	2,858,201
48	Loral Space and Comm	LORL		0.81%	Added 11%	\$61,611	847,580
49	Anadarko Petroleum Corp.	APC		0.80%	Added 140%	\$60,641	553,949
50	KAR Auction Services Inc	KAR		0.78%	Cut -2%	\$59,204	1,857,676

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
51	Realogy Holdings Corp	RLGY		0.77%	Cut -42%	\$58,155	1,542,151
52	Linn Energy LLC, Units	LINE		0.76%	Cut -29%	\$57,928	1,790,667
53	Newcastle Investment Corp.	NCT		0.73%	Cut -4%	\$55,533	11,593,579
54	NEW MDA INVT G	NEWM		0.71%	Cut -2%	\$53,883	3,818,754
55	UnitedHealth Group Inc.	UNH		0.70%	Cut -52%	\$53,358	652,699
56	Weyerhaeuser Corp.	WY		0.69%	Cut -18%	\$52,036	1,572,545
57	Pennymac Financial	PFSI		0.66%	Unchanged	\$49,999	3,291,600
58	GULF COAST U UNT	GULTU		0.65%	New	\$49,474	16,885,215
59	QEP Resources Inc.	QEP		0.65%	New	\$49,353	1,430,528
60	Assured Guaranty Ltd	AGO		0.63%	Cut -14%	\$47,354	1,932,813
61	Capital One Financial Corp.	COF		0.54%	Cut -69%	\$41,111	497,714
62	Cameron International Corp.	CAM		0.47%	Cut -65%	\$35,754	528,047
63	Seaworld Entertainment	SEAS		0.41%	New	\$30,806	1,087,400
64	National Oilwell Varco, Inc.	NOV		0.25%	Added 25%	\$18,858	229,000
65	Cabot Oil & Gas Corp.	COG		0.24%	New	\$18,021	527,866
66	ABENGOA YILD PLC	ABY		0.20%	New	\$15,128	400,000
67	THL Credit Inc.	TCRD		0.19%	Added 8%	\$14,069	1,004,953
68	Ellington Financial	EFC		0.14%	Added 20%	\$10,728	447,000
69	ConnectOne Bancorp, Inc.	CNOB		0.14%	New	\$10,480	545,000
70	LIN Media LLC	LIN		0.14%	Cut -65%	\$10,284	377,408
71	Resource Capital Corp.	RSO		0.07%	Unchanged	\$5,630	1,000,000
72	Range Resources Corp.	RRC		0.06%	New	\$4,741	54,522
73	AG Mortgage Investment	MITT		0.05%	Unchanged	\$3,786	200,000
74	Resource America	REXI		0.05%	Cut -3%	\$3,630	388,240
75	Caesars Acq	CACQ		0.05%	Unchanged	\$3,745	302,780
76	SunEdison Semiconductor	SEMI		0.05%	New	\$3,413	201,600
77	Qiw	QIWI		0.04%	New	\$2,823	70,000
78	ARISTA NETWORK	ANET		0.04%	New	\$3,120	50,000
79	Prothena Corp PLC	PRTA		0.03%	New	\$2,255	100,000
80	PBF LOGISTICS	PBFX		0.02%	New	\$1,376	50,000
81	MetLife Inc.	MET		0.02%	New	\$1,633	29,400
82	Apollo Investment Corp	AINV		0.02%	Unchanged	\$1,292	150,000
83	ENLK MDSTRM PT	ENLK		0.01%	Unchanged	\$726	23,100
84	Cheniere Energy Partners LP	CQP		0.01%	New	\$991	30,000
85	Teekay LNG Partners L.P.	TGP		0.01%	Unchanged	\$923	20,000
86	Two Harbors Investment	TWO		0.01%	Unchanged	\$1,048	100,000
87	MobilePro Corp.	MOBL		0.01%	New	\$952	100,000
88	ASPEN AEROGELS	ASPN		0.01%	New	\$1,105	100,000
	ADT Corporation	ADT			Sold		
	Silver Bay Realty Trust Corp.	SBY			Sold		
	PLATFORM SPECI	PAH			Sold		
	Energy XXI	EXXI			Sold		
	KKR Financial Holding Co.	KFN			Sold		
	Express Scripts Inc.	ESRX			Sold		
	Center Bancorp, Inc.	CNBC			Sold		
	SunPower Corp	SPWR			Sold		
	Dollar General Corp	DG			Sold		
	Cobalt International Energy	CIE			Sold		

Next Page: Coatue Management

Coatue Management

Philippe Laffont

Net annualized return of 14.1% since inception in 1999

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



Key Takeaways

New Positions:

Salesforce.com (CRM)
Akamai (AKAM)
Applied Materials (AMAT)
SolarCity (SCTY)
Microsoft (MSFT)
Finisar (FNSR)
Google (GOOG) ~ stock split
eBay (EBAY)

Sold Out:

Youku (YOKU)
Whole Foods (WFM)
TripAdvisor (TRIP)
Ctrip (CTRP)
Pandora (P)

Philippe Laffont outlined his firm's approach in a quarterly letter to investors, writing: "The role of a portfolio manager is twofold: 1) focus on the long term, accept some volatility, and find good longs and shorts. 2) Never forget risk management, and in our case, it's a balance between returns, volatility and drawdowns. As you can see, these two goals can be mutually exclusive at times ... Our basic strategy at Coatue is to look for winners and losers. This approach has delivered solid returns for 14 years because technology stocks exhibit high dispersion of returns as new companies innovate and disrupt or displace older ones. This investment approach leaves us exposed when the market pivots from growth to value, high beta to low beta and secular to cyclical. We are aware of this risk, and we carefully calculate and analyze the beta of the portfolio for this reason. We strive to reduce beta mismatches and maintain beta-adjusted net

exposure within a reasonable range."

The biggest takeaway from Coatue's second quarter portfolio is the fact that they drastically increased their exposure to Apple (AAPL). They boosted their position size by 534% and it is now their top holding, worth almost \$1 billion. This is notable because Coatue had been a longstanding AAPL shareholder for some time and had owned it in size. However, over the past 1.5 years they gradually reduced exposure. That changed in Q2 as they brought the name back up to the top of their portfolio sheet yet again. The company is executing a massive stock buyback and trades at a reasonable multiple ex-cash, but the main question is can they keep innovating?

Another position that Coatue was allocating a lot of capital to in the second quarter was Adobe (ADBE). Increasing their position size by 296%, ADBE is now their seventh largest holding. This company is undergoing change as it switches to a more subscription-oriented model and many investors feel this change is not yet fully appreciated by the market.

It's also worth drawing attention to Laffont's activity in shares of Liberty Global (both the voting LBTYA shares and the non-voting LBTYK shares). He was out buying both in Q2 and last quarter's HFW issue highlighted his bullish thesis on this company. When you combine his stakes in both shareclasses, Laffont owns over \$541 million worth of the company, which realistically makes it his third largest position.

Last quarter's issue also noted that Coatue was considering returning some capital to investors. The firm reversed course on that decision, at least temporarily, as they'll now wait until year-end to reconsider doing so.

View Coatue Management's
Portfolio on the Next Page



Coatue Management

Second Quarter 2014 Portfolio:

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Apple Inc	AAPL		11.68%	Added 535%	\$938,258	10,096,394
2	Netflix Inc	NFLX		11.43%	Added 35%	\$918,171	2,083,910
3	Micron Technology, Inc.	MU		6.64%	Added 36%	\$532,965	16,174,968
4	Avago Technologies Limited	AVGO		6.52%	Added 137%	\$523,397	7,262,351
5	Charter Communications	CHTR		5.38%	Added 97%	\$431,780	2,726,229
6	Facebook Inc	FB		4.92%	Cut -7%	\$395,288	5,874,387
7	Adobe Systems, Inc.	ADBE		4.76%	Added 296%	\$381,923	5,278,098
8	Time Warner, Inc	TWX		4.60%	Added 12%	\$369,446	5,259,018
9	CBS Corp	CBS		4.55%	Cut -13%	\$365,150	5,876,245
10	Liberty Global Inc, Class A	LBTYA		3.51%	Added 149%	\$282,002	6,377,257
11	21st Century Fox, Class A	FOXA		3.39%	Added 54%	\$272,290	7,746,513
12	Baidu Inc	BIDU		3.29%	Cut -50%	\$264,225	1,414,404
13	Liberty Global Inc., Series C	LBTYK		3.24%	Added 49%	\$259,824	6,140,956
14	Salesforce.com Inc.	CRM		2.64%	New	\$211,865	3,647,826
15	Akamai Technologies Inc.	AKAM		2.57%	New	\$206,290	3,378,479
16	Hain Celestial Group	HAIN		2.49%	Added 3%	\$200,186	2,255,870
17	Applied Materials Inc.	AMAT		2.43%	New	\$195,463	8,667,985
18	American Tower Corp	AMT		2.16%	Cut -29%	\$173,157	1,924,388
19	Priceline Group Inc	PCLN		1.99%	Cut -12%	\$159,630	132,693
20	YY Inc ADR	YY		1.41%	Added 0%	\$113,329	1,501,048
21	SolarCity Corp	SCTY		1.24%	New	\$99,613	1,410,960
22	LinkedIn Corporation	LNKD		1.14%	Cut -64%	\$91,814	535,456
23	Amazon.com Inc.	AMZN		1.04%	Cut -11%	\$83,802	258,027
24	Microsoft Corp.	MSFT		1.01%	New	\$81,217	1,947,663
25	Finisar Corp.	FNSR		0.90%	New	\$72,177	3,654,526
26	Google Inc. Class A	GOOGL		0.77%	Cut -5%	\$61,559	105,287
27	Google Inc. Class C	GOOG		0.74%	New	\$59,066	102,674
28	3D Systems Corp.	DDD		0.67%	New	\$54,057	903,964
29	Sirius XM Radio	SIRI		0.48%	Unchanged	\$38,901	11,243,022
30	eBay Inc.	EBAY		0.42%	New	\$33,395	667,115
31	Mellanox Technologies	MLNX		0.41%	New	\$32,694	937,883
32	Joy Global Inc	JOY		0.31%	Unchanged	\$24,632	400,000
33	21Vianet Group, Inc.	VNET		0.25%	New	\$19,820	661,338
34	lululemon athletica, Inc	LULU		0.20%	New	\$15,663	386,923
35	NutriSystem Inc.	NTRI		0.14%	Unchanged	\$10,863	634,885
36	SunEdison Inc	SUNE		0.12%	New	\$9,763	432,008
37	Keurig Green Mountain	GMCR		0.11%	Cut -96%	\$8,893	71,363
38	Nuance Communications	NUAN		0.11%	Unchanged	\$8,728	465,000
39	Supervalu Inc.	SVU		0.11%	Unchanged	\$8,642	1,051,300
40	58.COM INC	WUBA		0.10%	New	\$7,700	142,440
41	Atmel Corp.	ATML		0.08%	Unchanged	\$6,222	664,000
42	Truecar	TRUE		0.05%	New	\$3,800	257,110
43	Molycorp Inc	MCP		0.04%	Unchanged	\$2,865	1,114,900
44	NII Holdings Inc	NIHD		0.00%	Unchanged	\$395	718,233

Continued on next page...

Coatue Management

Second Quarter 2014 Portfolio:
...Continued

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
	Ctrip.com	CTRP			Sold		
	TripAdvisor Inc	TRIP			Sold		
	QuinStreet Corp	QNST			Sold		
	Youku Tudou Inc	YOKU			Sold		
	Pandora Media Inc.	P			Sold		
	Fusion-Io, Inc.	FIO			Sold		
	Yelp Inc.	YELP			Sold		
	Workday Inc	WDAY			Sold		
	Kate Spade & Co.	KATE			Sold		
	Whole Foods Market	WFM			Sold		

Next Page: Fairholme Capital

Fairholme Capital

Bruce Berkowitz

Named Morningstar's Fund Manager
of the Decade

A long-term investor who runs a highly
concentrated portfolio

View his [checklist for investing](#)



Key Takeaways

New Positions:

Land's End (LE) ~ spin off
Freddie Mac Preferred (FMCCCL)
Reynolds American (RAI)
Altria (MO)
Transocean (RIG)
KKR (KKR)
Diamond Offshore (DO)
Mercury General (MCY)
Oaktree Capital (OAK)

Sold Out:

Freddie Mac Preferred (FMCCCT)
Chesapeake Energy (CHK)

(FNMA) and Freddie Mac (FMCC). Berkowitz continues to own a myriad of preferred securities of Fannie and Freddie (full list on the next page) as he works behind the scenes to earn dividends on those securities for investors.

American International Group (AIG) continues to be Fairholme's largest position. While Berkowitz slightly trimmed the position during the quarter, he still owns over \$3.8 billion worth of common stock and \$651 million worth of AIG TARP Warrants. Over time, AIG's discount to book value has started to narrow, though it still persists. Numerous other hedge funds in this issue also own hefty AIG positions alongside Berkowitz. However, none of them have bet as big as him.

Apart from this, there really aren't any other changes to Fairholme's portfolio. Bruce Berkowitz is a value investor with a true long-term focus, making him ideal to track via 13F filing given his lower level of turnover.

While a bevy of new positions are listed above, please note that these stakes are miniscule relative to Fairholme Capital's overall portfolio. Given that Bruce Berkowitz only infrequently adds new stocks to his portfolio, it's worth highlighting. That said, it should be taken with a grain of salt considering he has much more money at stake in other names.

The only 'new' position that Berkowitz has allocated a decent amount of capital to is Land's End (LE). And even this stock wasn't an open market purchase. Land's End was spun off from Sears Holdings (SHLD), which Berkowitz holds a massive stake in. At the end of the second quarter, Berkowitz's SHLD position was worth \$985 million and his new LE stake was worth just under \$113 million.

Of the positions Berkowitz already owns, he was out adding to his position in Bank of America Warrants (BAC/WS/A), as well as Fannie Mae

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	American International Group	AIG		38.33%	Cut -8%	\$3,810,247	69,810,314
2	Bank of America Corp.	BAC		15.22%	Cut -1%	\$1,512,903	98,432,215
3	Sears Holdings Corporation	SHLD		9.92%	Added 1%	\$985,926	24,672,823
4	AIG Warrants	AIG.W		6.55%	Cut 0%	\$651,406	24,488,935
5	St. Joe Corp	JOE		6.35%	Cut 0%	\$631,602	24,836,898
6	Fannie Mae Preferred	FNMAS		6.14%	Cut 0%	\$610,891	59,023,319
7	Freddie Mac Preferred	FMCKJ		4.38%	Added 0%	\$435,496	39,911,100
8	Leucadia National Corp.	LUK		4.14%	Cut -2%	\$412,057	15,715,357
9	Fannie Mae Preferred	FNMFN		1.18%	Unchanged	\$117,287	6,339,843
10	Lands End Inc	LE		1.14%	New	\$112,921	3,362,757
11	Bank of America Warrants	BAC/WS/A		0.84%	Added 16%	\$83,890	12,158,028
12	Fannie Mae	FNMA		0.81%	Added 8%	\$80,723	20,645,300
13	Freddie Mac	FMCC		0.74%	Added 8%	\$73,768	19,110,900
14	Freddie Mac Preferred	FMCKM		0.55%	Unchanged	\$54,338	5,799,175
15	Freddie Mac Preferred	FMCKI		0.39%	Unchanged	\$39,024	4,196,108
16	Berkshire Hathaway Class B	BRK-B		0.37%	Cut 0%	\$36,528	288,625
17	Fannie Mae Preferred	FNMAH		0.32%	Unchanged	\$31,948	3,672,127
18	Freddie Mac Preferred	FMCCM		0.29%	Unchanged	\$28,462	1,699,250
19	Wells Fargo & Co Warrants	WFC-W		0.29%	Unchanged	\$28,872	1,346,665
20	Freddie Mac Preferred	FMCCCH		0.24%	Unchanged	\$23,844	1,339,572
21	Freddie Mac Preferred	FMCCI		0.23%	Unchanged	\$23,148	1,377,829
22	Genworth Financial	GNW		0.19%	Unchanged	\$18,644	1,071,500
23	JPMorgan Chase	JPM/WS		0.15%	Unchanged	\$14,561	753,300
24	Hartford Financial Warrants	HIG-W		0.15%	Unchanged	\$15,133	553,900
25	Fannie Mae Preferred	FNMAJ		0.14%	Unchanged	\$14,025	1,500,000
26	Fannie Mae Preferred	FNMAI		0.14%	Unchanged	\$14,410	1,580,000
27	Freddie Mac Preferred	FMCCCL		0.09%	New	\$9,209	546,542
28	Lincoln National Warrants	LNC/WS		0.09%	Unchanged	\$8,747	205,810
29	Wells Fargo & Co	WFC		0.08%	Unchanged	\$7,863	149,600
30	Freddie Mac Preferred	FREPRU		0.05%	Unchanged	\$4,920	517,900
31	Fannie Mae Preferred	FNMAO		0.05%	Unchanged	\$4,681	269,500
32	Freddie Mac Preferred	FMCKK		0.04%	Unchanged	\$3,553	203,000
33	Freddie Mac Preferred	FMCKN		0.04%	Unchanged	\$4,166	447,940
34	Transocean Ltd	RIG		0.03%	New	\$2,544	56,500
35	Altria Group, Inc.	MO		0.03%	New	\$2,600	62,000
36	Citigroup, Inc.	C		0.03%	Unchanged	\$2,570	54,560
37	Reynolds American Inc.	RAI		0.03%	New	\$2,674	44,300
38	Mercury General Corp.	MCY		0.03%	New	\$2,521	53,600
39	Freddie Mac Preferred	FMCCO		0.03%	Unchanged	\$2,761	157,500
40	Hartford Financial Services	HIG		0.02%	Unchanged	\$1,862	52,000
41	Lincoln National Corp.	LNC		0.02%	Unchanged	\$2,284	44,400
42	Diamond Offshore Drilling	DO		0.02%	New	\$2,432	49,000
43	Oaktree Capital Group	OAK		0.02%	New	\$2,400	48,000
44	AT&T Inc	T		0.02%	Unchanged	\$2,422	68,500
45	Vodafone Group	VOD		0.02%	Added 8%	\$2,371	71,000

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	Kohlberg Kravis Roberts	KKR		0.02%	New	\$2,469	101,500
47	Bank of America Warrants	BAC/WS/B		0.01%	New	\$1,092	1,455,701
48	Freddie Mac Preferred	FMCCP		0.01%	Unchanged	\$831	45,000
49	Berkshire Hathaway Class A	BRK-A		0.01%	Unchanged	\$570	3
50	Freddie Mac Preferred	FMCCS		0.01%	Unchanged	\$1,072	60,900
51	Fannie Mae Preferred	FNMAG		0.00%	Unchanged	\$78	4,400
52	Freddie Mac Preferred	FMCKK		0.00%	Unchanged	\$166	9,400
53	Freddie Mac Preferred	FMCKL		0.00%	Unchanged	\$425	45,500
54	Freddie Mac Preferred	FMCKP		0.00%	Unchanged	\$151	8,400
	Freddie Mac Preferred	FMCTT			Sold		
	Chesapeake Energy Corp.	CHK			Sold		

See what top hedge funds have been buying recently by subscribing at www.hedgefundwisdom.com



Key Takeaways

New Positions:

SPDR Homebuilders ETF (XHB) Puts
Netflix (NFLX)
Qihoo 360 (QIHU)
Mallinckrodt (MNK)
Abiomed (ABMD)
Exact Sciences (EXAS)
King Digital (KING)

Sold Out:

Carter's (CRI)
Coca Cola Enterprises (CCE)
Motorola Solutions (MSI)
Gap (GPS)
IAC Interactive (IACI)
Kate Spade (KATE)

space.

The largest new positions this hedge fund established during the second quarter were Netflix (NFLX) and Qihoo 360 (QIHU). NFLX shares dipped at the beginning of the quarter and then rallied swiftly. Tiger Global also initiated a copious amount of smaller positions listed in full on the next page. While it's interesting to see what stocks they were dabbling in, they aren't listed in the 'Key Takeaways' to the left due to their much smaller position sizes.

When looking at Tiger Global's portfolio on the next page, you'll notice one big theme: cable. They own Liberty Global (LBTYK ~ John Malone's European cable empire), Charter Communications (CHTR ~ John Malone's U.S. bet on cable), as well as Liberty Media (LMCA ~ John Malone's holding company which owns stakes in CHTR and other cable assets). Additionally, Tiger Global also owns a stake in Comcast (CMCSA), the U.S. cable giant that will get even larger if regulators approve its purchase of the number two player: Time Warner Cable (TWC). Chase Coleman's firm also continues to like the cable content assets of 21st Century Fox (FOXA) as it continues to be their largest equity position.

Finally, please note that while Tuniu (TOUR) is listed as a new position on the next page, Tiger Global has recently filed a 13G with the SEC indicating that they already no longer own a position in the company.

Chase Coleman and Feroz Dewan's hedge fund shows a large new put position on the SPDR Homebuilders exchange traded fund (XHB). While it's listed as their top holding on the next page, please note that in reality it isn't because that's the notional value of the options rather than the amount of capital they utilized to put the position on. Regardless, it's always interesting to get a glimpse into a fund's hedging or shorting activity via put options since they're not required to disclose short sales.

Turning to individual equity activity, Tiger Global almost doubled its stake in Zillow (Z) during the quarter. Some investors might think Coleman paid too much for this position since it trades at a high multiple, but Z shares have only continued to trade higher. Additionally, the company recently announced it was buying Trulia (TRLA), its second largest competitor in the online real estate portal

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	S&P Homebuilders ETF	XHB	PUT	9.75%	New	\$769,625	23,500,000
2	21st Century Fox, Class A	FOXA		8.25%	Cut -4%	\$650,894	18,517,616
3	Vipshop Holdings, Ltd	VIPS		5.78%	Added 9%	\$456,076	2,429,296
4	Dollar General Corp	DG		5.74%	Unchanged	\$452,781	7,893,663
5	Zillow Inc	Z		5.68%	Added 92%	\$448,240	3,136,081
6	Transdigm Group Inc	TDG		5.40%	Cut -3%	\$426,294	2,548,688
7	Liberty Global Inc, Series C	LBTYK		4.79%	Unchanged	\$378,124	8,936,990
8	Charter Communications	CHTR		4.65%	Added 43%	\$367,164	2,318,248
9	FleetCor Technologies, Inc.	FLT		4.36%	Added 36%	\$344,180	2,611,383
10	Restoration Hardware	RH		3.77%	Added 65%	\$297,147	3,193,410
11	Colfax Corp	CFX		3.72%	Added 7%	\$293,832	3,941,937
12	MakeMyTrip Ltd	MMYT		3.20%	Unchanged	\$252,404	7,184,866
13	MasterCard Inc. Class A	MA		3.20%	Unchanged	\$252,737	3,440,000
14	Avis Budget Group Inc	CAR		3.15%	Added 7%	\$248,895	4,169,800
15	Liberty Media Co.	LMCA		3.03%	Added 93%	\$239,190	1,750,000
16	Fidelity National Info	FIS		2.64%	Cut -39%	\$208,128	3,802,114
17	Burger King Worldwide	BKW		2.48%	Unchanged	\$195,984	7,200,000
18	Comcast Corp	CMCSA		2.48%	Unchanged	\$195,601	3,643,831
19	Netflix Inc	NFLX		2.24%	New	\$176,372	400,300
20	Priceline Group Inc	PCLN		1.71%	Cut -84%	\$134,554	111,849
21	3D Systems Corp.	DDD		1.67%	Added 71%	\$131,560	2,200,000
22	Qihoo 360 Technology	QIHU		1.12%	New	\$88,358	960,000
23	Hertz Global Holdings Inc	HTZ		1.08%	Added 320%	\$85,290	3,042,800
24	Myriad Genetics Inc	MYGN		0.94%	Cut -19%	\$73,948	1,900,000
25	58.COM INC	WUBA		0.86%	Unchanged	\$68,240	1,262,300
26	Trulia Inc	TRLA		0.86%	Cut -16%	\$67,934	1,433,808
27	VISA Inc	V		0.76%	Unchanged	\$59,943	284,479
28	Mallinckrodt PLC	MNK		0.74%	New	\$58,364	729,373
29	UTi Worldwide Inc	UTIW		0.67%	Added 5%	\$53,034	5,129,000
30	ResMed Inc.	RMD		0.64%	Unchanged	\$50,630	1,000,000
31	Abiomed Inc	ABMD		0.54%	New	\$42,487	1,690,000
32	Qiji	QIWI		0.43%	Unchanged	\$34,281	850,000
33	EXACT Sciences Corp	EXAS		0.43%	New	\$34,060	2,000,000
34	KING DIGITL EN	KING		0.35%	New	\$27,229	1,325,000
35	iRobot Corp.	IRBT		0.31%	New	\$24,680	602,681
36	CBS Corp	CBS		0.29%	New	\$22,838	367,526
37	Bio Reference Laboratories	BRLI		0.28%	Unchanged	\$21,758	720,000
38	Twitter Inc	TWTR		0.26%	Unchanged	\$20,485	500,000
39	ZHAOPIN LTD	ZPIN		0.24%	New	\$19,162	1,248,370
40	Zynga, Inc.	ZNGA		0.23%	Unchanged	\$18,104	5,640,000
41	Masonite International	DOOR		0.21%	New	\$16,315	290,000
42	TUNIUI CORP ADR	TOUR		0.15%	New	\$11,769	667,550
43	Endurance International	EIGI		0.14%	New	\$10,703	700,000
44	Autohome	ATHM		0.13%	Unchanged	\$10,015	290,873
45	Soufun Holdings Limited	SFUN		0.11%	New	\$8,455	863,648

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	FireEye Inc	FEYE		0.10%	Unchanged	\$8,110	200,000
47	NIMBLE STORAGE	NMBL		0.10%	Unchanged	\$7,680	250,000
48	Ambarella Inc	AMBA		0.10%	New	\$7,795	250,000
49	Qunar Cayman Islands	QUNR		0.05%	Unchanged	\$4,283	150,000
50	Burlington Stores, Inc.	BURL		0.04%	Unchanged	\$3,186	100,000
51	dELiAs Inc	DLIA		0.03%	Unchanged	\$2,619	3,400,000
52	Veeva Systems	VEEV		0.02%	Unchanged	\$1,909	75,000
53	CRITEO SA	CRT0		0.02%	Unchanged	\$1,351	40,000
54	Castlight Health	CSLT		0.02%	Unchanged	\$1,748	115,000
55	GRUBHUB INC	GRUB		0.02%	New	\$1,948	55,000
56	Vince Holding Corp	VNCE		0.01%	Unchanged	\$916	25,000
57	Potbelly Corp	PBPB		0.01%	Unchanged	\$798	50,000
58	Zulily Inc	ZU		0.01%	Unchanged	\$410	10,000
	ExOne Company	XONE			Sold		
	Kate Spade & Co.	KATE			Sold		
	Cadence Design Systems	CDNS			Sold		
	Coca Cola Enterprises Inc.	CCE			Sold		
	IAC/InterActiveCorp	IACI			Sold		
	Motorola Solutions Inc	MSI			Sold		
	Gap	GPS			Sold		
	Markwest Energy Partners	MWE			Sold		
	Carters, Inc.	CRI			Sold		
	Himax Technologies Inc	HIMX			Sold		
	SodaStream International	SODA			Sold		
	Vera Bradley Inc	VRA			Sold		
	SolarCity Corp	SCTY			Sold		

Passport Capital

John Burbank

Has returned 19.1% annualized

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



Key Takeaways

New Positions:

SPDR S&P 500 (SPY) Puts
Memorial Resource (MRD)
Stanley Black & Decker (SWK)
Realogy (RLGY)
Encana (ECA)
SPDR Consumer Discretionary
(XLY) Puts

Sold Out:

NRG Energy (NRG)
Amazon.com (AMZN)
SPDR Industrials (XLI) Puts
SPDR Gold Trust (GLD) Puts
US Oil Fund (USO) Puts
Tableau Software (DATA)

John Burbank recently did an interview where he talked about the source of the biggest mispricings. He says that, “My overarching theme is that things that have never happened before are the most mispriced things by markets.” He gave an example of China specifically. He was involved in emerging markets in the late 1990’s but China wasn’t even on his or any other investor’s radar. Burbank continues that, “Governments are bad allocators of capital, but markets are overrated in figuring out change, but they’re the best thing we’ve got. So when you get a big macro change, it can take many years for the markets to catch up.” He likes to include a macro focus in his thinking because he argues that while a macro change could take years for the markets to digest, it will have an impact for good or bad, so you need to understand what’s happening.

Burbank continues to like Chinese internet

companies and mentioned in the interview that there’s a bit of a ‘leapfrogging’ effect going on because China hasn’t had decades upon decades of retail build out. Passport Capital’s portfolio continues to show Burbank has put money where his mouth is, as his largest position is still Vipshop (VIPS). He also owns a sizable position in Qihoo 360 (QIHU) and was buying more in the second quarter.

During Q2, Passport ramped up its hedging activities. They doubled their put option exposure on the Russell 2000 index (IWM) and boosted their emerging markets put exposure by 172% (via exchange traded fund EEM). Lastly, they also disclosed a new put position on the S&P 500 (SPY). The Russell 2000 hedge is by far their largest at over \$1.2 billion of notional exposure. And again, it’s always prudent to remember that these options positions are realistically not Passport’s top holdings as the next page shows. This is because due to the leveraged nature of options, Passport only had to outlay a small amount of capital to buy protection on a much larger notional value. So realistically, they’ve allocated much more capital to other positions.

Turning back to Passport’s individual equity activity, they drastically ramped up their exposure to 21st Century Fox (FOX) in Q2. They boosted their position size by 1,348% as it was previously only a small holding for them but they now own over \$143 million worth of shares. It’s also worth flagging that it was just revealed that Jeff Ubben’s ValueAct Capital bought \$1 billion worth of FOX over the past few weeks. And then as you saw a few pages ago, Tiger Global is also betting big on 21st Century Fox, making it quite a prominent hedge fund wager.

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	iShares Russell 2000 Index	IWM	PUT	21.33%	Added 128%	\$1,258,769	10,594,800
2	iShares MSCI Emerging Markets	EEM	PUT	9.69%	Added 173%	\$571,933	13,230,000
3	Vipshop Holdings, Ltd	VIPS		5.06%	Cut -11%	\$298,842	1,591,789
4	CF Industries Holdings Inc	CF		4.29%	Added 38%	\$253,426	1,053,615
5	CF Industries Holdings Inc	CF	CALL	4.08%	Added 150%	\$240,530	1,000,000
6	McGraw-Hill Financial, Inc.	MHFI		3.25%	Added 28%	\$192,009	2,312,527
7	Cytec Industries Inc.	CYT		2.83%	Cut -4%	\$167,207	1,586,102
8	Netflix Inc	NFLX		2.68%	Added 85%	\$158,298	359,278
9	Qihoo 360 Technology Co. Ltd	QIHU		2.65%	Added 31%	\$156,179	1,696,863
10	21st Century Fox, Inc. Class B	FOX		2.43%	Added 1348%	\$143,517	4,192,739
11	Gaming And Leisure Properties	GLPIV		2.34%	Added 13%	\$137,891	4,059,213
12	Anadarko Petroleum Corp.	APC		2.33%	Added 5722%	\$137,716	1,258,029
13	Domtar Corp	UFS		2.14%	Added 296%	\$126,062	2,941,936
14	Marathon Petroleum Corp.	MPC		2.03%	Added 9%	\$119,541	1,531,201
15	Halliburton Co.	HAL		1.98%	Added 699%	\$117,138	1,649,605
16	Charter Communications Inc	CHTR		1.89%	Added 49%	\$111,682	705,153
17	SPDR S&P 500 ETF Index	SPY	PUT	1.86%	New	\$109,603	560,000
18	Time Warner Cable Inc.	TWC		1.78%	Added 22%	\$104,892	712,099
19	Soufun Holdings Limited	SFUN		1.43%	Cut -28%	\$84,194	8,600,000
20	Google Inc. Class A	GOOGL		1.42%	Added 118%	\$83,902	143,504
21	Solazyme Inc	SZYM		1.28%	Added 16%	\$75,770	6,432,127
22	Lowe's Companies, Inc.	LOW		1.22%	Added 34%	\$72,063	1,501,626
23	MEMORIAL RESOURCE	MRD		1.15%	New	\$68,110	2,795,991
24	Schlumberger Ltd.	SLB		1.14%	Added 611%	\$67,412	571,528
25	SolarCity Corp	SCTY		1.07%	Added 39%	\$63,114	893,964
26	Stanley Black & Decker Inc.	SWK		0.97%	New	\$56,978	648,805
27	Tyco International Ltd	TYC		0.91%	Added 110%	\$53,934	1,182,754
28	Danaher Corp.	DHR		0.90%	Added 115%	\$53,076	674,148
29	Cheniere Energy Inc	LNG		0.75%	Added 349%	\$44,307	617,953
30	Realogy Holdings Corp	RLGY		0.74%	New	\$43,472	1,152,802
31	Cabot Oil & Gas Corp.	COG		0.73%	Added 2312%	\$42,816	1,254,128
32	Plains Group Holdings, Inc.	PAGP		0.70%	Added 35%	\$41,319	1,291,635
33	Liberty Media Interactive	LINTA		0.69%	Cut -55%	\$40,879	1,392,323
34	Rice Energy	RICE		0.47%	Added 26%	\$27,595	906,224
35	EnCana Corp.	ECA		0.45%	New	\$26,583	1,121,157
36	Starbucks Corp.	SBUX		0.44%	Cut -25%	\$25,726	332,459
37	Yum! Brands, Inc	YUM		0.42%	Added 654%	\$24,808	305,515
38	Calpine Corp.	CPN		0.42%	Added 11%	\$24,821	1,042,449
39	Yum! Brands, Inc	YUM	CALL	0.41%	Cut -40%	\$24,360	300,000
40	Yelp Inc.	YELP		0.39%	Cut -72%	\$23,004	300,000
41	58.COM INC	WUBA		0.37%	Cut -60%	\$21,624	400,000
42	S&P Consumer Discretionary	XLY	PUT	0.34%	New	\$20,022	300,000
43	Yahoo! Inc.	YHOO		0.33%	New	\$19,743	562,003
44	Vipshop Holdings, Ltd NOTE	VIPS		0.32%	Added 60%	\$18,865	16,000,000
45	Sibanye Gold Ltd ADR	SBGL		0.30%	Added 13%	\$17,412	1,578,573

Continued on next page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	Interactive Brokers Group Inc	IBKR		0.26%	New	\$15,348	659,000
47	Solazyme Inc NOTE	SZYM		0.25%	New	\$14,580	13,000,000
48	Facebook Inc	FB		0.25%	New	\$15,028	223,338
49	Trulia Inc	TRLA		0.20%	New	\$11,688	246,690
50	C&J Energy Services	CJES		0.20%	Added 78%	\$12,069	357,281
51	Sungy Mobile Ltd Class A	GOMO		0.20%	Cut -9%	\$11,816	856,828
52	Apple Inc	AAPL		0.20%	New	\$11,689	125,788
53	Vipshop Holdings, Ltd	VIPS	CALL	0.17%	New	\$10,325	55,000
54	Priceline Group Inc	PCLN		0.14%	Added 42%	\$8,414	6,994
55	Time Warner, Inc	TWX	CALL	0.14%	Added 71%	\$8,430	120,000
56	ITT Corp	ITT		0.13%	Added 6%	\$7,937	165,000
57	United Technologies Corp.	UTX		0.13%	Added 8%	\$7,504	65,000
58	Liberty Media Co. Class A	LMCA		0.13%	Added 1147%	\$7,654	56,000
59	Ingersoll-Rand Co. Ltd.	IR		0.13%	Added 23%	\$7,814	125,000
60	Salesforce.com Inc.	CRM		0.12%	Cut -72%	\$7,159	123,268
61	Blackhawk Networ	HAWKB		0.11%	New	\$6,210	231,300
62	Gulfport Energy Corp	GPOR		0.11%	Added 184%	\$6,285	100,077
63	Netflix Inc	NFLX	CALL	0.10%	Unchanged	\$5,728	13,000
64	Weight Watchers	WTW	PUT	0.10%	New	\$6,051	300,000
65	Linkedin Corporation	LNKD		0.10%	New	\$5,814	33,904
66	SPDR Gold Trust ETF	GLD		0.09%	Cut -38%	\$5,258	41,067
67	EOG Resources	EOG		0.08%	Cut -54%	\$4,434	37,941
68	Tyco International Ltd	TYC	CALL	0.08%	New	\$4,560	100,000
69	Stanley B&D Un	SWH		0.08%	New	\$4,561	40,000
70	Newmont Mining Notes	NEM		0.07%	Unchanged	\$4,220	4,000,000
71	SPDR S&P 500 ETF Index	SPY		0.07%	Cut -19%	\$4,306	22,000
72	DORIAN LPG LTD	LPG		0.07%	New	\$4,387	190,827
73	SPDR S&P Oil & Gas	XOP	PUT	0.07%	Unchanged	\$4,114	50,000
74	Sirius XM Radio	SIRI		0.07%	New	\$4,152	1,200,000
75	eBay Inc.	EBAY	CALL	0.06%	New	\$3,815	76,200
76	Mattress Firm Holding Corp	MFRM		0.06%	Added 61%	\$3,772	79,000
77	ZENDESK INC	ZEN		0.06%	New	\$3,502	201,500
78	General Dynamics Corp.	GD		0.06%	Added 54%	\$3,664	31,441
79	Iron Mountain, Inc	IRM	CALL	0.06%	Cut -50%	\$3,545	100,000
80	United Technologies Corp Units	UTX+A		0.06%	New	\$3,260	50,000
81	Whole Foods Market Inc.	WFM	CALL	0.06%	New	\$3,477	90,000
82	ARM Holdings Plc ADR	ARMH		0.06%	New	\$3,355	74,169
83	Iron Mountain, Inc	IRM		0.05%	New	\$2,659	75,000
84	3D Systems Corp.	DDD		0.05%	New	\$2,990	50,000
85	Graphic Packaging Holding	GPK		0.05%	Added 91%	\$2,664	227,732
86	Patterson-UTI Energy Inc	PTEN		0.04%	Cut -67%	\$2,139	61,223
87	Superior Energy Services Inc	SPN		0.04%	New	\$2,251	62,272
88	DIRECTV Corp.	DTV		0.04%	New	\$2,353	27,679
89	HSN Inc	HSNI		0.04%	New	\$2,621	44,249
90	Dow Chemical Co.	DOW	CALL	0.04%	Cut -50%	\$2,573	50,000

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Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
91	SPDR Fund - Industrial Sector	XLI		0.04%	Cut -14%	\$2,325	43,000
92	KEYW Holding Corp	KEYW		0.04%	New	\$2,119	168,586
93	EMC Corp.	EMC		0.04%	New	\$2,245	85,230
94	Wynn Resorts Ltd	WYNN		0.04%	New	\$2,597	12,512
95	Huntsman Corp	HUN	CALL	0.04%	Added 200%	\$2,529	90,000
96	Pioneer Natural Resources Co.	PXD		0.04%	Cut -69%	\$2,213	9,630
97	SPDR Fund - Energy Sector	XLE		0.04%	New	\$2,102	21,000
98	Qihoo 360 Technology Co. Ltd	QIHU	CALL	0.03%	New	\$1,841	20,000
99	Autohome	ATHM		0.03%	Unchanged	\$1,722	50,000
100	Navigator Holdings PLC	NVGS		0.03%	Cut -61%	\$1,854	63,097
101	Hess Corp	HES		0.02%	New	\$1,140	11,524
102	US Steel Notes	X		0.02%	Cut -71%	\$1,251	1,000,000
103	WisdomTree India Earnings	EPI		0.02%	New	\$1,011	45,000
104	Diamondback Energy Inc	FANG		0.02%	New	\$1,066	12,000
105	Wthrfrd Intl Plc	WFT		0.02%	New	\$1,150	50,000
106	HDFC Bank Ltd ADR	HDB		0.02%	New	\$1,030	22,000
107	SM Energy Co	SM		0.02%	New	\$1,146	13,628
108	Dow Chemical Co.	DOW		0.02%	Cut -60%	\$1,260	24,483
109	Principal Financial Group	PFG		0.01%	New	\$601	11,909
110	Caterpillar Inc.	CAT		0.01%	New	\$687	6,324
111	Fortune Brands&Home Security	FBHS		0.01%	New	\$612	15,323
112	Rockwell Collins, Inc.	COL		0.01%	New	\$587	7,513
113	CONSTELLIUM NV	CSTM		0.01%	New	\$595	18,547
114	Zulily Inc	ZU		0.01%	New	\$410	10,000
115	S&P Homebuilders ETF	XHB		0.01%	Cut -72%	\$819	25,000
116	International Game Technology	IGT		0.01%	New	\$376	23,662
117	Clorox Co.	CLX		0.01%	New	\$594	6,500
118	V.F. Corp.	VFC		0.01%	New	\$606	9,620
119	Groupon Inc	GRPN		0.01%	New	\$577	87,154
120	Myriad Genetics Inc	MYGN		0.01%	New	\$649	16,676
121	Valero Energy Corp.	VLO		0.01%	Cut -66%	\$367	7,321
122	Sina Corp	SINA		0.01%	Cut -98%	\$826	16,600
123	Live Nation Entertainment Inc.	LYV		0.01%	New	\$303	12,265
124	21st Century Fox, Class A	FOXA		0.01%	New	\$504	14,334
125	Tesoro Petroleum Co NOTE	TSO		0.01%	Unchanged	\$680	700,000
126	Apollo Group	APOL		0.01%	New	\$305	9,764
127	EQT Corporation	EQT		0.01%	Cut -51%	\$855	8,000
128	GT Advanced Tech Notes	GTAT		0.01%	Unchanged	\$876	500,000
129	Gilead Sciences Inc.	GILD		0.01%	Added 4%	\$313	3,774
130	Brocade Communications	BRCD		0.01%	New	\$730	79,324
131	Tower International, Inc.	TOWR		0.00%	New	\$286	7,768
132	Arch Coal Inc.	ACI		0.00%	New	\$51	14,006
133	Remy International Inc.	REMY		0.00%	New	\$231	9,884
134	Macys Inc	M		0.00%	New	\$219	3,767
135	Harte-Hanks, Inc.	HHS		0.00%	New	\$214	29,718

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Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
136	Scholastic Corp.	SCHL		0.00%	New	\$250	7,331
137	Symmetry Medical Inc	SMA		0.00%	New	\$92	10,417
138	Phillips 66	PSX		0.00%	New	\$290	3,607
139	Key Energy Services, Inc.	KEG		0.00%	New	\$103	11,264
140	Advanced Micro Devices	AMD		0.00%	New	\$57	13,682
141	Medifast Inc	MED		0.00%	New	\$228	7,506
142	Stoneridge Inc.	SRI		0.00%	New	\$243	22,629
143	Pantry Inc	PTRY		0.00%	New	\$227	14,012
144	Halozyne Therapeutics Inc	HALO		0.00%	Added 55%	\$242	24,523
145	Jack In The Box, Inc	JACK		0.00%	Added 16%	\$242	4,040
146	Huntsman Corp	HUN		0.00%	Cut -94%	\$97	3,451
147	United Microelectronics Corp.	UMC		0.00%	Added 34%	\$78	32,520
148	Brown Shoe Company Inc.	BWS		0.00%	New	\$214	7,484
149	Lear Corp	LEA		0.00%	New	\$278	3,113
150	Xenoport Inc	XNPT		0.00%	New	\$86	17,817
151	Burlington Stores, Inc.	BURL		0.00%	Cut -85%	\$267	8,371
152	Cooper Tire & Rubber	CTB		0.00%	New	\$248	8,259
153	Houghton Mifflin Harcourt	HMHC		0.00%	New	\$244	12,716
154	ShoreTel Inc	SHOR		0.00%	New	\$85	12,987
155	Xerox Corp.	XRX		0.00%	Cut -37%	\$128	10,313
156	HHGregg, Inc.	HGG		0.00%	New	\$129	12,731
157	Vaalco Energy Inc	EGY		0.00%	Added 27%	\$104	14,377
158	Dana Holding Corp.	DAN		0.00%	New	\$260	10,637
159	Christopher & Banks Corp.	CBK		0.00%	Added 24%	\$156	17,787
160	On Semiconductor Corp	ONNN		0.00%	New	\$140	15,309
161	Geron Corp.	GERN		0.00%	Unchanged	\$80	25,000
162	A. H. Belo Corp.	AHC		0.00%	New	\$235	19,807
163	UnitedHealth Group Inc.	UNH		0.00%	New	\$239	2,928
164	Las Vegas Sands Corp.	LVS		0.00%	New	\$207	2,722
165	Destination Maternity Corp	DEST		0.00%	New	\$231	10,135
166	Lattice Semiconductor Corp.	LSCC		0.00%	New	\$95	11,568
167	Time Warner, Inc	TWX		0.00%	New	\$116	1,654
168	Tesla Motors Inc	TSLA		0.00%	New	\$49	205
169	Helen Of Troy Ltd.	HELE		0.00%	New	\$216	3,570
170	McClatchy Newspapers Class A	MNI		0.00%	New	\$247	44,466
171	Tenneco Inc	TEN		0.00%	New	\$239	3,642
172	Micron Technology, Inc.	MU		0.00%	New	\$254	7,698
173	Roundys Parent Co	RNDY		0.00%	Cut -1%	\$156	28,317
174	Hercules Offshore Inc	HERO		0.00%	New	\$50	12,500
175	Journal Communications	JRN		0.00%	New	\$256	28,867
176	Dillards Inc.	DDS		0.00%	Cut -26%	\$206	1,764
177	Pilgrims Pride Corp.	PPC		0.00%	New	\$222	8,120
178	Herbalife Ltd	HLF		0.00%	Cut -14%	\$225	3,482
179	Rite Aid Corp.	RAD		0.00%	Cut -59%	\$78	10,922
180	Chimera Investment Corp	CIM		0.00%	New	\$40	12,578

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Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
181	CBIZ Inc	CBZ		0.00%	New	\$98	10,856
182	Chiquita Brands International	CQB		0.00%	New	\$124	11,426
183	Energy Transfer Equity LP	ETE		0.00%	New	\$220	3,739
184	Acco Brands Corp	ACCO		0.00%	New	\$98	15,219
185	Frontier Communications	FTR		0.00%	Cut -13%	\$134	22,935
186	Penn National Gaming Inc.	PENN		0.00%	Cut -66%	\$156	12,883
187	Federalmogul Hol	FDML		0.00%	New	\$281	13,896
188	Cowen Group, Inc.	COWND		0.00%	New	\$92	21,687
189	MGM Resorts International	MGM		0.00%	New	\$242	9,160
190	Harbinger Group Inc.	HRG		0.00%	New	\$127	10,017
	QuinStreet Corp	QNST			Sold		
	Verizon Communications	VZ	CALL		Sold		
	Pentair Plc	PNR			Sold		
	General Motors Co	GM			Sold		
	iShares Inc. MSCI Brazil	EWZ	PUT		Sold		
	Ascena Retail Group Inc.	ASNA			Sold		
	Dean Foods Inc	DF			Sold		
	Regions Financial Corp	RF			Sold		
	Watts Water Technologies	WTS			Sold		
	Zynga, Inc.	ZNGA			Sold		
	Andersons, Inc	ANDE			Sold		
	Sina Corp	SINA	CALL		Sold		
	Weyerhaeuser Corp.	WY			Sold		
	Gastar Exploration Ltd.	GST			Sold		
	Synovus Financial Corp.	SNV			Sold		
	SPDR Fund - Materials Sector	XLB			Sold		
	Mueller Water Products Inc.	MWA			Sold		
	SPDR Fund - Health Care Sector	XLV			Sold		
	Seadrill Partners LLC	SDLP			Sold		
	S&P Consumer Discretionary	XLY			Sold		
	Smith & Wesson Holding Corp	SWHC			Sold		
	E-House	EJ			Sold		
	L Brands Inc	LTD			Sold		
	Silver Spring Networks	SSNI			Sold		
	Gramercy Property Trust, Inc.	GPT			Sold		
	ABB Ltd. ADR	ABB			Sold		
	Marketo Inc.	MKTO			Sold		
	PTC Therapeutics, Inc.	PTCT			Sold		
	Consumer Staples Sector	XLP			Sold		
	TABLEAU SOFTWARE INC	DATA			Sold		
	Tempur Sealy International Inc.	TPX			Sold		
	Accelaron Pharma Inc	XLRN			Sold		
	Emergent BioSolutions Inc	EBS			Sold		
	Hertz Global Holdings Inc	HTZ			Sold		
	United States Oil Fund LP	USO	PUT		Sold		

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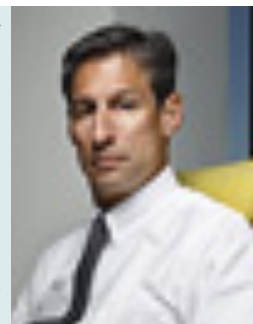
Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
	Vonage Holdings Corp.	VG			Sold		
	Medivation Inc.	MDVN			Sold		
	Green Plains Inc	GPPE			Sold		
	Infinity Pharmaceuticals, Inc.	INFI			Sold		
	Alexion Pharmaceuticals Inc.	ALXN			Sold		
	WisdomTree Japan Hedged	DXJ			Sold		
	Activision Blizzard Inc	ATVI			Sold		
	Steel Dynamics, Inc.	STLD			Sold		
	SunTrust Banks, Inc.	STI			Sold		
	Hexcel Corp	HXL			Sold		
	Windstream Holdings, Inc.	WIN			Sold		
	Grand Canyon Education Inc	LOPE			Sold		
	Education Management Corp	EDMC			Sold		
	NRG Energy Inc	NRG			Sold		
	McKesson Corp	MCK			Sold		
	Dollar General Corp	DG			Sold		
	Transocean Ltd	RIG	PUT		Sold		
	Ironwood Pharmaceuticals Inc	IRWD			Sold		
	Celgene Corp.	CELG			Sold		
	Bravo Brio Restaurant Group Inc	BBRG			Sold		
	Campbell Soup Co.	CPB	CALL		Sold		
	ProSharesUltraPro S&P500 ETF	UPRO			Sold		
	Biogen IDEC Inc.	BIIB			Sold		
	Tyson Foods, Inc.	TSN			Sold		
	Johnson Controls, Inc.	JCI			Sold		
	Infinera Corp	INFN			Sold		
	National Health Investors, Inc.	NHI			Sold		
	Cimarex Energy Co.	XEC			Sold		
	Raytheon Co.	RTN			Sold		
	Angies List, Inc.	ANGI	PUT		Sold		
	Voxx International Corp, Class A	VOXX			Sold		
	Supervalu Inc.	SVU			Sold		
	Smith (A.O.) Corp., Class B	AOS			Sold		
	NextEra Energy Units	NEE+O			Sold		
	Cumulus Media Inc. Class A	CMLS			Sold		
	YY Inc ADR	YY			Sold		
	Insmid Inc	INSM			Sold		
	Tetraphase Pharmaceuticals	TTPH			Sold		
	CST BRANDS, INC.	CST			Sold		
	Xoma Corporation	XOMA			Sold		
	RECEPTOS INC	RCPT			Sold		
	TEXTURA CORP	TXTR			Sold		
	Alkermes Plc.	ALKS			Sold		
	SunEdison Inc	SUNE			Sold		
	Perry Ellis International Corp	PERY			Sold		

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Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
	Petmed Express Inc	PETS			Sold		
	NRG Yield	NYLD			Sold		
	Advanced Energy Industries	AEIS			Sold		
	NextEra Energy Equity Units	NEE+P			Sold		
	Dennys Corp.	DENN			Sold		
	Momenta Pharmaceuticals Inc	MNTA			Sold		
	FTD Companies, Inc.	FTD			Sold		
	Synta Pharmaceuticals Inc	SNTA			Sold		
	Vivus Inc.	VVUS			Sold		
	Biomarin Pharmaceutical Inc.	BMRN			Sold		
	BIOLASE, Inc.	BIOL			Sold		
	SPDR Gold Trust ETF	GLD	PUT		Sold		
	Installed Building Products Inc	IBP			Sold		
	WisdomTree Japan Hedged	DXJ	CALL		Sold		
	Amazon.com Inc.	AMZN			Sold		
	Dish Network Corp, Class A	DISH			Sold		
	Career Education Corp.	CECO			Sold		
	Vertex Pharmaceuticals, Inc.	VRTX			Sold		
	Gamestop Corp., Class A	GME			Sold		
	Sempra Energy, Inc.	SRE	CALL		Sold		
	Orbitz Worldwide Inc	OWW			Sold		
	McDermott International	MDR			Sold		
	EnerSys Inc.	ENS			Sold		
	New York Mortgage Trust	NYMT			Sold		
	Bio-Rad Laboratories Class A	BIO			Sold		
	NPS Pharmaceuticals Inc.	NPSP			Sold		
	Magnum Hunter Resources Corp	MHR			Sold		
	SPDR Fund - Industrial Sector	XLI	PUT		Sold		

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:

Ally Financial (ALLY) ~ IPO
Allergan (AGN)
International Paper (IP)
Questcor (QCOR)
KapStone Paper (KS)
Theravance (THRX)
Cheniere Energy (LNG)
Theravance Biopharma (TBPH)
Mallinckrodt (MNK)

Sold Out:

iShares EAFE (EFA) Puts
Hertz (HTZ)
Vodafone (VOD)
NRG Energy (NRG) Calls
Commonwealth REIT (CWH)

PricewaterhouseCoopers (PwC) to see if these businesses would qualify for MLP status. In a report on the industry, Perry writes, “PwC concluded that domestic virgin containerboard mills using less than 25% recycled fiber, based on annual input weight, should be MLP-eligible and that such assets could be contributed to an MLP on a tax-efficient basis.” Based on Perry’s analysis, such a benefit would mean that IP could trade 50% higher, RKT could trade 76% higher and KS could almost double. It’s an interesting thesis, but obviously requires a lot of things to happen first.

Second, Perry’s arbitrage book was beefed up due to the flurry of merger activity during the quarter. Like so many other major hedge funds, Perry jumped into Allergan (AGN) with a big new stake and it’s now their third largest holding. As catalogued throughout this issue, Valeant Pharmaceutical (VRX) is pursuing a takeover of AGN with Bill Ackman’s help, but thus far things haven’t gone so well. Perry also discloses new positions in Questcor (QCOR) and Mallinckrodt (MNK). MNK has made an offer for QCOR and Perry has much larger exposure to the company being acquired in this scenario (QCOR).

Finally, there are two more positions worth highlighting that this hedge fund was buying in size during Q2: Lamar Advertising (LAMR), which has been a longstanding position for the firm, and YPF (YPF). These are now Perry’s fourth and sixth largest holdings respectively.

When viewing Perry Capital’s activity from the second quarter, there are two glaring themes: paper/packaging and merger arbitrage. First, the hedge fund firm made a large wager on shares of International Paper (IP) and KapStone Paper (KS). Not to mention, Perry also increased their position in Rock-Tenn (RKT ~ a packaging company) by 65% during the quarter. In total, Perry has now allocated almost \$355 million to this trifecta. Perry has a potential industry re-rating thesis attached to this play: Master Limited Partnerships (MLP). Perry feels that containerboard companies can utilize a MLP for their domestic virgin containerboard mills. Since MLPs don’t pay corporate taxes, the income is passed through to unit holders. Perry commissioned a study by

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	AmericanInternationalGroup	AIG		17.64%	Unchanged	\$638,586	11,700,000
2	Ally Financial	ALLY		9.43%	New	\$341,213	14,270,730
3	Allergan, Inc.	AGN		7.80%	New	\$282,196	1,667,625
4	Lamar Advertising	LAMR		7.77%	Added 89%	\$281,365	5,308,775
5	Herbalife Ltd	HLF		7.13%	Cut -17%	\$258,160	4,000,000
6	YPF S.A. ADR	YPF		6.60%	Added 306%	\$238,960	7,312,114
7	EmergingMarkets Index Fund	EEM	PUT	6.45%	Added 54%	\$233,442	5,400,000
8	Rock-Tenn Company	RKT		4.27%	Added 66%	\$154,538	1,463,562
9	Nokia Corp	NOK		4.22%	Added 53%	\$152,712	20,200,000
10	Russell 2000 Index Fund	IWM	PUT	3.94%	Cut -76%	\$142,572	1,200,000
11	eBay Inc.	EBAY		3.46%	Added 30%	\$125,150	2,500,000
12	International Paper Co	IP		3.00%	New	\$108,511	2,150,000
13	Questcor Pharmaceuticals	QCOR		2.98%	New	\$107,706	1,164,514
14	eBay Inc.	EBAY	CALL	2.69%	Unchanged	\$97,367	1,945,000
15	Citrix Systems Inc.	CTXS		2.59%	Cut -10%	\$93,825	1,500,000
16	KapStone Paper & Packaging	KS		2.54%	New	\$91,825	2,771,666
17	Universal American Corp	UAM		1.77%	Added 0%	\$64,231	7,710,788
18	NMI Holdings Inc	NMIH		1.30%	Cut -3%	\$47,038	4,479,833
19	Theravance Inc	THRX		1.25%	New	\$45,182	1,517,208
20	Johnson & Johnson Co.	JNJ		0.99%	Unchanged	\$35,809	342,277
21	Scorpio Tankers Inc	STNG		0.92%	Unchanged	\$33,199	3,264,400
22	Cheniere Energy Inc	LNG		0.52%	New	\$18,785	262,001
23	Theravance Bioph	TBPH		0.38%	New	\$13,820	433,488
24	Mallinckrodt PLC	MNK		0.30%	New	\$10,748	134,322
25	American Airlines Group	AAL		0.07%	New	\$2,453	57,090
	CommonWealth REIT	CWH			Sold		
	NRG Energy Inc	NRG	CALL		Sold		
	EAFE Index Fund	EFA	PUT		Sold		
	Vodafone Group	VOD			Sold		
	Hertz Global Holdings Inc	HTZ			Sold		

Glenview Capital

Larry Robbins

Known for taking concentrated positions in large caps

Previously a trader at Leon Cooperman's Omega Advisors



Key Takeaways

New Positions:

National Oilwell Varco (NOV)
Cadence Design Systems (CDNS)
Brookdale Senior Living (BKD)
SunEdison (SUNE)
CDW (CDW)
CareFusion (CFN)
Lithia Motors (LAD)

Sold Out:

Electronic Arts (EA)
Capital One (COF)
Microsoft (MSFT)
American Tower (AMT)
Laboratory Corp (LH)
Unitedhealth (UNH)
Quest Diagnostics (DGX)

In a recent interview with *Institutional Investor*, Larry Robbins said that his firm has been actively focusing on companies deploying capital and taking advantage of low interest rates. He likes companies that are, “flush with cash, that have significant debt capacity, that are defensive and growing and that are trading at cheap valuations, but maybe not as cheap as two years ago.”

Year-to-date through the second quarter, Glenview is up 18.07% net of fees. Their largest new position in the quarter was National Oilwell Varco (NOV) and Robbins laid out their thesis in Glenview's Q2 letter: “In recent weeks, the company completed the spin-off of its smaller oil equipment distribution business in a new company called Now Inc (DNOW), and concurrent with this transition, there was a change in leadership at core NOV, with the former Varco and NOV CFO ascending to the CEO and Chairman roles at the company. Taken

together, the combination of the spinoff and change in senior management and board composition ushers in a fresh start for the company, and creates a ‘convertible equity’ scenario with several upside levers to value creation. The stock is trading at a meaningful discount to fair value with high visibility into above average earnings growth and, having recently undergone a significant amount of corporate change, we think it likely that investors will revisit this story in the coming quarters.”

Glenview feels that NOV has a strong market position, above average visibility, and long-term secular growth. Robbins argues that their original equipment business has been under-earning and also notes that the company is overcapitalized and could repurchase shares or make acquisitions.

Glenview has also been adding to their Carter's (CRI) position. After ramping up their stake by 72% during Q2, their latest 13G filing notes that Glenview has continued to buy and now owns 6.84% of the company with over 3.67 million shares. They've owned shares since 2013 and like the company's strong market position in a category that can be considered defensive (baby clothes: as children grow quickly, they continually need new clothes). Glenview thinks the company will see strong demographic trends (more births) going forward and feel they can drive margin expansion and double digit sales growth as they push more into e-commerce and international sales.

Lastly, in activity since the end of the second quarter, Glenview has filed a 13G with the SEC and disclosed that they've increased their Group 1 Automotive (GPI) stake even further and they now own 6.24% of the company with over 1.5 million shares.

View Glenview Capital's Updated Portfolio on the Next Page



Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
1	Thermo Fisher Scientific	TMO		7.48%	Added 14%	\$1,291,179	10,942,193
2	Monsanto Co.	MON		6.07%	Added 14%	\$1,048,822	8,408,065
3	Flextronics International	FLEX		4.50%	Added 17%	\$776,350	70,130,959
4	HCA Holdings, Inc.	HCA		3.87%	Cut -8%	\$668,816	11,862,642
5	Tenet Healthcare Corp.	THC		3.76%	Unchanged	\$648,374	13,812,831
6	Humana, Inc.	HUM		3.71%	Cut -2%	\$640,666	5,016,176
7	Crown Castle International	CCI		3.54%	Cut -2%	\$611,813	8,238,790
8	Hertz Global Holdings Inc	HTZ		3.20%	Added 49%	\$553,198	19,735,934
9	Community Health Systems	CYH		3.18%	Unchanged	\$548,695	12,093,795
10	AmericanInternationalGroup	AIG		3.11%	Unchanged	\$537,788	9,853,198
11	McKesson Corp	MCK		3.06%	Added 18%	\$528,402	2,837,666
12	WellPoint Inc	WLP		2.81%	Added 7%	\$485,945	4,515,800
13	Dollar General Corp	DG		2.73%	Added 26%	\$471,288	8,216,315
14	National Oilwell Varco, Inc.	NOV		2.52%	New	\$435,848	5,292,631
15	PVH Corp	PVH		2.39%	Unchanged	\$413,138	3,543,208
16	Time Warner Cable Inc.	TWC		2.29%	Cut -4%	\$394,670	2,679,360
17	Applied Materials Inc.	AMAT		1.98%	Added 38%	\$342,681	15,196,480
18	CBS Corp	CBS		1.92%	Added 72%	\$330,947	5,325,826
19	Vca Inc	WOOF		1.79%	Added 472%	\$308,482	8,791,170
20	T-Mobile USA Inc	TMUS		1.65%	Unchanged	\$284,040	8,448,538
21	Aetna Inc.	AET		1.63%	Cut -35%	\$282,064	3,478,835
22	Fossil Inc.	FOSL		1.62%	Added 15%	\$279,449	2,673,638
23	Endo Internation	ENDP		1.59%	Added 100%	\$275,212	3,930,472
24	Walgreen Co.	WAG		1.54%	Cut -31%	\$265,232	3,577,926
25	eBay Inc.	EBAY		1.43%	Cut -9%	\$246,292	4,919,927
26	Avis Budget Group Inc	CAR		1.37%	Added 84%	\$236,590	3,963,647
27	Computer Sciences Corp.	CSC		1.32%	Cut -32%	\$227,261	3,595,901
28	Citigroup, Inc.	C		1.25%	Cut -12%	\$215,971	4,585,368
29	Cadence Design Systems	CDNS		1.21%	New	\$208,508	11,921,572
30	CIGNA Corp.	CI		1.19%	Added 8%	\$204,783	2,226,626
31	Fidelity National Financial	FNF		1.16%	Added 52%	\$201,004	6,135,663
32	Family Dollar Stores, Inc.	FDO		1.16%	Added 233%	\$199,818	3,021,143
33	General Motors Co	GM		1.15%	Added 10%	\$197,866	5,450,867
34	Phillips 66	PSX		1.13%	Unchanged	\$195,644	2,432,481
35	Carters, Inc.	CRI		1.07%	Added 72%	\$184,292	2,673,608
36	Global Payments Inc.	GPN		0.97%	Added 58%	\$166,965	2,291,905
37	Brookdale Senior Living Inc.	BKD		0.77%	New	\$133,351	3,999,730
38	Advance Auto Parts, Inc.	AAP		0.76%	Cut -9%	\$131,609	975,460
39	SunEdison Inc	SUNE		0.73%	New	\$125,335	5,545,800
40	Babcock & Wilcox Co	BWC		0.67%	Cut -36%	\$114,932	3,540,728
41	Meritor Inc	MTOR		0.64%	Cut -13%	\$111,059	8,516,803
42	Aon Plc	AON		0.61%	Cut -41%	\$104,536	1,160,347
43	Sprint Corp	S		0.60%	Cut 0%	\$104,097	12,203,617
44	Seaworld Entertainment	SEAS		0.55%	Added 128%	\$95,749	3,379,777
45	CDW Corp	CDW		0.55%	New	\$94,588	2,967,000

Continued on Next Page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	LifePoint Hospitals Inc.	LPNT		0.53%	Cut -66%	\$91,189	1,468,429
47	CareFusion Corp.	CFN		0.49%	New	\$84,695	1,909,705
48	Pentair Plc	PNR		0.48%	Cut -21%	\$82,367	1,142,082
49	Lithia Motors Inc, Class A	LAD		0.46%	New	\$79,872	849,073
50	CEMEX S.A. de C.V.	CX		0.43%	Added 29%	\$74,349	5,619,704
51	ADT Corporation	ADT		0.43%	Cut -61%	\$74,398	2,129,297
52	NXP Semiconductors NV	NXPI		0.41%	Cut -23%	\$71,391	1,078,743
53	Sinclair Broadcast Group	SBGI		0.39%	New	\$67,495	1,942,300
54	Liberty Global Inc, Class A	LBTYA		0.38%	New	\$65,416	1,479,329
55	PHH Corp	PHH		0.38%	Added 2%	\$65,708	2,859,351
56	Asbury Automotive Group	ABG		0.37%	New	\$63,304	920,923
57	Group 1 Automotive, Inc.	GPI		0.36%	New	\$62,890	745,938
58	Teradyne Inc.	TER		0.35%	New	\$61,287	3,126,880
59	J.C. Penney	JCP		0.29%	Cut -42%	\$49,214	5,438,051
60	Liberty Global Inc., Series C	LBTYK		0.29%	New	\$50,755	1,199,596
61	McKesson Corp	MCK	CALL	0.27%	New	\$46,553	250,000
62	Sonic Automotive Inc.	SAH		0.27%	New	\$46,342	1,736,952
63	Walgreen Co.	WAG	CALL	0.21%	Unchanged	\$37,065	500,000
64	AutoNation, Inc.	AN		0.21%	New	\$37,042	620,676
65	Syngenta AG ADS	SYT		0.20%	New	\$33,762	451,358
66	Fidelity National Info	FIS		0.19%	Cut -82%	\$33,517	612,288
67	Canadian Pacific	CP		0.14%	Cut -63%	\$23,614	130,363
68	Scorpio Tankers Inc	STNG		0.13%	Unchanged	\$22,911	2,252,800
69	Universal Health Services	UHS		0.07%	New	\$11,960	124,896
70	Citigroup Warrants	C/WS/A		0.03%	Unchanged	\$5,221	8,561,020
	EVERTEC INC	EVTC			Sold		
	Community Health	CYHHZ			Sold		
	UnitedHealth Group Inc.	UNH			Sold		
	Laboratory Corp	LH			Sold		
	Electronic Arts, Inc.	EA			Sold		
	Family Dollar Stores, Inc.	FDO	CALL		Sold		
	Quest Diagnostics, Inc.	DGX			Sold		
	Capital One Financial	COF			Sold		
	Charter Communications	CHTR			Sold		
	Allegion plc	ALLE			Sold		
	Monsanto Co	MON	CALL		Sold		
	Microsoft Corp.	MSFT			Sold		
	URS Corp.	URS			Sold		
	Dresser-Rand Group Inc	DRC			Sold		
	Comcast Corp	CMCSA			Sold		
	American Tower Corp	AMT			Sold		

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:

Netflix (NFLX)
Newfield Exploration (NFX)
Apple (AAPL)
Cognizant Technology (CTSH)
Hilton (HLT)
Ralph Lauren (RL)
Allergan (AGN)
Wellpoint (WLP)
Rite Aid (RAD)
Precision Castparts (PCP)
Ctrip (CTRP)

Sold Out:

American International Group (AIG)
Verizon (VZ)
Biogen Idec (BIIB)
St Jude (STJ)
US Bancorp (USB)
Bank of America (BAC)
Priceline.com (PCLN)
Northstar Realty Finance (NRF)

do they still see enough transformation potential from the Alliance Boots tie-up? Unfortunately, there won't be a concrete answer until the third quarter.

In portfolio activity since the end of the second quarter, Viking has filed two separate 13G's with the SEC revealing that they've continued to buy shares of two companies. Viking revealed that they've continued to acquire Salix Pharmaceuticals (SLXP) and now own 5% of the company with over 3.19 million shares. Secondly, they now own 5.7% of Newfield Exploration (NFX) with over 7.78 million shares.

A few weeks ago, Reuters reported that Dan Sundheim is now the sole Chief Investment Officer (CIO) at Viking as Tom Purcell (who formerly shared the role) has decided to take a sabbatical for six months. Viking has undergone a wave of C-level manager changes over the past few years, but one key fixture has always remained: founder Andreas Halvorsen. He's argued that his firm has a strong team environment and many members share key roles at the firm, alleviating pressure from any one individual. The report said that Viking has also revamped the portfolio manager team as Sundheim now works with Paul Enright, Scott Zinober, Ning Jin, Jeff Busconi, Ben Jacobs, and Hani Sabbagh.

In more operational news out of Viking, CNBC has reported that the firm will seek up to \$2 billion for a new illiquid investments fund. The firm already manages over \$20 billion in long/short equity strategies and over \$8 billion in long-only. Viking now joins many other hedge funds profiled in the newsletter that also invest in private companies via separate funds (such as Tiger Global and Coatue Management).

Viking Global was up 6.6% for the year at the end of Q2. Assuming they still own a sizable position in Walgreen (after all, it was their top holding at the end of Q2), they could be in a bit of pain due to recent trading. Walgreen recently announced they would be buying the rest of European pharmacy Alliance Boots that they don't already own. At the same time, they announced that they would not be seeking a tax inversion. Shares dropped on this news from \$70 to \$58. While they have rebounded slightly since, it's clear that investors were pricing in a tax inversion here. Now that this part of the thesis isn't coming to fruition, will Viking move on from the position entirely? Or

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	Walgreen Co.	WAG		6.52%	Cut -16%	\$1,492,767	20,137,154
2	Valeant Pharmaceuticals	VRX		6.51%	Added 27%	\$1,492,117	11,830,932
3	Illumina Inc	ILMN		6.23%	Cut -10%	\$1,427,042	7,992,844
4	Lowes Companies, Inc.	LOW		4.80%	Added 26%	\$1,099,353	22,907,968
5	LyondellBasell Industries	LYB		4.59%	Cut -16%	\$1,051,860	10,771,736
6	Thermo Fisher Scientific	TMO		4.26%	Cut -14%	\$976,011	8,271,280
7	Pioneer Natural Resources	PXD		4.09%	Added 149%	\$935,978	4,072,836
8	Baidu Inc	BIDU		3.82%	Added 10%	\$874,538	4,681,428
9	Capital One Financial	COF		3.67%	Cut -7%	\$839,694	10,165,787
10	Regeneron Pharmaceuticals	REGN		3.65%	Added 182%	\$837,087	2,963,456
11	Monsanto Co	MON		3.15%	Added 87%	\$721,076	5,780,631
12	MasterCard Inc. Class A	MA		3.15%	Added 27%	\$721,536	9,820,830
13	Mohawk Industries Inc.	MHK		2.74%	Added 81%	\$628,592	4,543,823
14	Mondelez International Inc.	MDLZ		2.61%	Added 4%	\$597,957	15,898,877
15	Micron Technology, Inc.	MU		2.55%	Cut -14%	\$583,184	17,699,068
16	Netflix Inc	NFLX		2.53%	New	\$580,498	1,317,517
17	VISA Inc	V		2.52%	Cut 0%	\$578,326	2,744,653
18	Time Warner, Inc	TWX		2.41%	Cut -64%	\$553,040	7,872,453
19	Canadian Pacific	CP		2.38%	Cut -25%	\$544,188	3,004,242
20	21st Century Fox, Class A	FOXA		2.03%	Cut -65%	\$465,032	13,229,932
21	Salix Pharmaceuticals Ltd	SLXP		1.56%	Added 86%	\$356,396	2,889,303
22	Cameron International	CAM		1.45%	Cut -37%	\$331,070	4,889,535
23	Kansas City Southern	KSU		1.42%	Added 65%	\$325,522	3,027,831
24	Alexion Pharmaceuticals	ALXN		1.37%	Added 9%	\$313,452	2,006,092
25	Constellation Brands, Inc.	STZ		1.27%	Cut -53%	\$291,607	3,308,832
26	Facebook Inc	FB		1.20%	Cut -54%	\$275,034	4,087,288
27	Actavis Plc	ACT		1.18%	Added 11%	\$269,405	1,207,824
28	DaVita	DVA		1.10%	Added 82%	\$252,331	3,489,084
29	Newfield Exploration	NFX		1.04%	New	\$237,133	5,364,990
30	Michael Kors	KORS		1.03%	Cut -60%	\$235,682	2,658,573
31	Apple Inc	AAPL		0.93%	New	\$212,455	2,286,178
32	Valero Energy Corp.	VLO		0.92%	Cut -65%	\$211,364	4,218,837
33	Workday Inc	WDAY		0.89%	Cut -27%	\$204,125	2,271,588
34	Block (H&R) Inc.	HRB		0.87%	Cut -64%	\$199,784	6,133,995
35	Cognizant Technology	CTSH		0.84%	New	\$191,504	3,915,440
36	HILTON WLDWD	HLT		0.78%	New	\$178,977	7,681,424
37	Ralph Lauren Corp. Class A	RL		0.74%	New	\$168,474	1,048,443
38	Allergan, Inc.	AGN		0.59%	New	\$135,946	803,369
39	Autodesk, Inc.	ADSK		0.55%	Cut -61%	\$126,223	2,238,794
40	Universal Health Services	UHS		0.53%	Cut -54%	\$122,328	1,277,443
41	Acadia Pharmaceuticals	ACAD		0.47%	Added 32%	\$107,480	4,757,878
42	WellPoint Inc	WLP		0.45%	New	\$102,691	954,285
43	Rite Aid Corp.	RAD		0.42%	New	\$96,501	13,458,963
44	Zynga, Inc.	ZNGA		0.36%	Cut -9%	\$83,225	25,926,695
45	Precision Castparts Corp.	PCP		0.36%	New	\$82,989	328,801

Continued on Next Page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	Ctrip.Com International	CTRP		0.33%	New	\$75,469	1,178,463
47	Cimarex Energy Co.	XEC		0.31%	New	\$71,544	498,700
48	Crown Castle International	CCI		0.30%	Cut -64%	\$68,218	918,640
49	Triumph Group	TGI		0.29%	Cut -74%	\$66,776	956,398
50	Zimmer Holdings Inc.	ZMH		0.27%	New	\$62,648	603,193
51	Principal Financial Group	PFG		0.25%	New	\$57,675	1,142,537
52	Melco Crown Entertainment	MPEL		0.24%	New	\$55,039	1,541,269
53	Myriad Genetics Inc	MYGN		0.23%	New	\$51,775	1,330,294
54	Centene Corp	CNC		0.23%	New	\$53,583	708,677
55	Adobe Systems, Inc.	ADBE		0.22%	Cut -72%	\$49,567	685,000
56	Intercept Pharmaceuticals	ICPT		0.21%	Cut -54%	\$49,237	208,077
57	State Street Corp.	STT		0.18%	Added 4%	\$40,147	596,894
58	Blackberry Ltd.	BBRY		0.17%	Unchanged	\$39,821	3,888,791
59	American Airlines Group	AAL		0.10%	New	\$21,892	509,600
60	SBA Communications	SBAC		0.07%	New	\$15,314	149,697
61	Allegion plc	ALLE		0.06%	New	\$13,277	234,242
62	Concho Resources Inc	CXO		0.01%	Cut -99%	\$2,510	17,370
	Verizon Communications	VZ			Sold		
	MetLife Inc.	MET			Sold		
	U.S. Bancorp	USB			Sold		
	St. Jude Medical	STJ			Sold		
	Citrix Systems Inc.	CTXS			Sold		
	Priceline Group Inc	PCLN			Sold		
	CME Group Inc	CME			Sold		
	NorthStar Realty Finance	NRF			Sold		
	NXP Semiconductors NV	NXPI			Sold		
	Voya Financial, Inc	VOYA			Sold		
	AmericanInternationalGroup	AIG			Sold		
	Bank of America Corp.	BAC			Sold		
	Mylan Inc	MYL			Sold		
	Yahoo! Inc.	YHOO			Sold		
	Biogen IDEC Inc.	BIIB			Sold		
	Shire Plc ADS	SHPG			Sold		
	Helmerich & Payne, Inc.	HP			Sold		
	Qihoo 360 Technology	QIHU			Sold		

Next: Farallon Capital

Farallon Capital

Andrew Spokes

Typically focuses on risk arbitrage strategies

Founder Tom Steyer stepped down and key-man Andrew Spokes has taken the helm



Key Takeaways

New Positions:

Covidien (COV)
Hillshire Farms (HSH)
Questcor Pharma (QCOR)
Allergan (AGN)
Charles Schwab (SCHW)
Google (GOOG) ~ stock split
Valeant Pharma (VRX)
Valeant Pharma (VRX) Calls
Weyerhaeuser (WY)
Weyerhaeuser (WY) Puts
DirecTV (DTV)
Signet Jewelers (SIG)

Sold Out:

Walt Disney (DIS)
Dollar General (DG)
Sirius XM Radio (SIRI)
Time Warner Cable (TWC)
Dean Foods (DF)
McKesson (MCK)

Questcor (QCOR) deal (pending with Mallinckrodt ~ MNK), as well as the Covidien (COV) deal (with Medtronic (MDT)). Also, Farallon's bet on Hillshire Farms (HSH) paid off, as the company was the subject of a bidding war with Tyson Foods winning.

One other new arbitrage play in Farallon's portfolio is DirecTV (DTV), as the satellite television provider is being bought by AT&T (T). What's interesting here though is that Farallon also exited its arbitrage play in Time Warner Cable (TWC). Comcast (CMCSA) is buying out TWC, pending regulatory approval. Did Farallon's research lead them to conclude that regulators will intensely scrutinize this deal? Or perhaps they simply found other deals with more attractive spreads or deals that are more likely to go through? Either way, it's interesting to take note of when you consider that both the DTV/T and TWC/CMCSA mergers will be facing some of the same regulatory agencies and if approved, would both be competing in a narrower playing field for consumers in the broadband/cable/TV arenas.

Farallon's top holding listed on the next page (Forest Labs ~ FRX) was an arbitrage play as well. However, it's already been bought out and shares no longer trade. So realistically, this makes American Tower (AMT) their largest position, followed by 21st Century Fox (FOXA) and Yahoo! (YHOO).

Lastly, Farallon has international positions in their portfolio that are not reflected on the next page. According to communications with investors, one of their trades has been going long Hyundai Motors preferred shares and short Hyundai ordinary shares.

Farallon was up 1.1% for the second quarter and was up 2.4% for the year as of the end of Q2. During the quarter, the hedge fund drastically ramped up its merger arbitrage exposure as the number of deals announced proliferated. The anticipated average deal spread for their plays is around 15% annualized and they've identified numerous attractive potential deals. Their increased activity is quite evident when you look at Farallon's new positions for the second quarter. Like many other funds, they bought Allergan (AGN). However, they also bought its suitor, Valeant Pharmaceuticals (VRX). Andrew Spokes' firm is also playing the

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	Forest Laboratories Inc	FRX		11.44%	Added 561%	\$792,404	7,935,000
2	American Tower Corp., Class A	AMT		4.03%	Cut -4%	\$278,938	3,100,000
3	21st Century Fox, Class A	FOXA		3.42%	Added 5%	\$237,087	6,745,000
4	Yahoo! Inc.	YHOO		3.39%	Added 16%	\$234,633	6,679,000
5	Hudson Pacific Properties Inc	HPP		3.19%	Unchanged	\$221,016	8,722,016
6	Safeway Inc.	SWY		3.13%	Added 66%	\$216,819	6,313,900
7	Charter Communications	CHTR		3.02%	Cut -35%	\$209,062	1,320,000
8	Ross Stores Inc	ROST		2.94%	Added 37%	\$203,680	3,080,000
9	Covidien plc	COV		2.86%	New	\$198,396	2,200,000
10	Hillshire Brands	HSH		2.74%	New	\$190,015	3,050,000
11	Microsoft Corp.	MSFT		2.68%	Cut -2%	\$185,357	4,445,000
12	Hudson City Bancorp, Inc.	HCBK		2.50%	Added 69%	\$173,500	17,650,000
13	State Street Corp.	STT		2.48%	Added 0%	\$171,513	2,550,000
14	Questcor Pharmaceuticals Inc.	QCOR		2.48%	New	\$171,569	1,855,000
15	Coca Cola Enterprises Inc.	CCE		2.42%	Added 103%	\$167,947	3,515,000
16	Owens-Illinois, Inc.	OI		2.32%	Added 17%	\$160,969	4,646,905
17	L Brands Inc	LTD		2.10%	Added 1%	\$145,711	2,484,000
18	Transdigm Group Inc	TDG		1.99%	Cut -5%	\$137,822	824,000
19	Foster Wheeler AG	FWLT		1.79%	Added 12%	\$124,268	3,647,436
20	Tesla Motors Inc	TSLA	PUT	1.73%	Unchanged	\$120,030	500,000
21	Priceline Group Inc	PCLN		1.63%	Added 39%	\$113,082	94,000
22	Express Scripts Inc.	ESRX		1.62%	Added 27%	\$112,412	1,621,400
23	Oracle Corp	ORCL		1.59%	Cut -14%	\$110,242	2,720,000
24	eBay Inc.	EBAY		1.56%	Cut -11%	\$108,380	2,165,000
25	Allergan, Inc.	AGN		1.50%	New	\$103,647	612,500
26	Rockwell Collins, Inc.	COL		1.47%	Added 36%	\$102,011	1,305,485
27	Charles Schwab Corp	SCHW		1.40%	New	\$96,948	3,600,000
28	Google Inc. Class A	GOOGL		1.30%	Added 86%	\$90,215	154,300
29	Google Inc. Class C	GOOG		1.26%	New	\$87,615	152,300
30	Valeant Pharmaceuticals	VRX	CALL	1.18%	New	\$81,978	650,000
31	Lamar Advertising Co, Class A	LAMR		1.17%	Added 43%	\$81,276	1,533,500
32	Weyerhaeuser Corp.	WY		1.16%	New	\$80,243	2,425,000
33	Giant Interactive Group Inc	GA		1.16%	Added 104%	\$80,275	6,780,000
34	DIRECTV Corp.	DTV		1.15%	New	\$79,909	940,000
35	Signet Jewelers, Inc.	SIG		1.11%	New	\$76,672	693,300
36	Ashland Inc.	ASH		1.03%	Cut -16%	\$71,007	653,000
37	Copa Holdings SA Class A	CPA		0.98%	Unchanged	\$67,716	474,970
38	New Oriental Education	EDU		0.91%	Added 6%	\$62,801	2,363,600
39	Copart Inc.	CPRT		0.89%	Cut -9%	\$61,771	1,717,774
40	Weyerhaeuser Corp.	WY	PUT	0.84%	New	\$58,503	1,768,000
41	American Airlines Group, Inc.	AAL		0.70%	Added 9%	\$48,330	1,125,000
42	Valeant Pharmaceuticals	VRX		0.64%	New	\$44,142	350,000
43	21Vianet Group, Inc.	VNET		0.63%	New	\$43,756	1,460,000
44	Oaktree Capital Group	OAK		0.61%	Unchanged	\$41,992	840,000
45	DORIAN LPG LTD	LPG		0.59%	New	\$40,578	1,765,049
46	Questcor Pharmaceuticals Inc.	QCOR	PUT	0.57%	New	\$39,308	425,000
47	GW PHARMACEUTICALS	GWPH		0.55%	Cut -47%	\$37,820	352,500
48	Knowles Corp.	KN		0.53%	Unchanged	\$36,888	1,200,000
49	Dryships Inc Notes	DRYS		0.47%	Unchanged	\$32,723	33,070,000

Continued on Next Page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
50	Pfizer, Inc.	PFE		0.43%	New	\$29,828	1,005,000
51	Axiall Corporation	AXLL		0.42%	Cut -29%	\$29,166	617,000
52	Mallinckrodt PLC	MNK	CALL	0.40%	New	\$27,895	348,600
53	Starwood Property Notes	STWD		0.40%	New	\$27,529	24,000,000
54	Methanex Corp	MEOH		0.39%	Cut -22%	\$27,183	440,000
55	Town Sports International	CLUB		0.39%	Unchanged	\$27,000	4,060,082
56	PINNACLE FOODS INC.	PF		0.38%	New	\$25,991	790,000
57	Shanda Games Ltd	GAME		0.34%	Added 13%	\$23,658	3,562,966
58	Idenix Pharmaceuticals	IDIX		0.29%	New	\$20,244	840,000
59	Radius Health	RDUS		0.24%	New	\$16,900	1,300,000
60	Orexigen Therapeutics Inc	OREX		0.24%	Unchanged	\$16,589	2,684,300
61	CHC GROUP LTD	HELI		0.22%	Unchanged	\$15,403	1,825,000
62	Applied Materials Inc.	AMAT		0.21%	New	\$14,415	639,225
63	Intermune Inc	ITMN		0.19%	Unchanged	\$13,245	300,000
64	RECEPTOS INC	RCPT		0.18%	Cut -6%	\$12,354	290,000
65	Repros Therapeutics Inc.	RPRX		0.17%	Unchanged	\$12,110	700,000
66	Tower Group Inc Notes	TWGP		0.17%	Cut -1%	\$12,100	13,907,000
67	MICROS Systems Inc.	MCRS		0.15%	New	\$10,185	150,000
68	CBL & Associates Properties	CBL		0.15%	New	\$10,640	560,000
69	PNM Resources, Inc.	PNM		0.15%	New	\$10,705	365,000
70	Perfect World Co Ltd	PWRD		0.14%	Added 21%	\$9,373	477,500
71	T-Mobile USA Inc	TMUS		0.14%	New	\$9,918	295,000
72	Pendrell Corp.	PCO		0.14%	Added 8%	\$10,044	5,706,968
73	Clovis Oncology Inc	CLVS		0.13%	New	\$9,317	225,000
74	Anacor Pharmaceuticals Inc	ANAC		0.11%	Cut -13%	\$7,692	433,814
75	GULF COAST U UNT	GULTU		0.10%	New	\$7,129	2,433,164
76	Shire Plc ADS	SHPG		0.08%	New	\$5,299	22,500
77	Gleacher & Co. Inc.	GLCH		0.07%	Added 135%	\$4,740	451,000
78	Merrimack Pharmaceuticals	MACK		0.06%	Added 92%	\$4,447	610,000
79	Freds Inc.	FRED		0.06%	Cut -24%	\$4,332	283,324
80	Sunesis Pharmaceuticals Inc	SNSS		0.06%	Cut -58%	\$4,368	670,000
81	OCI Partners	OCIP		0.06%	Cut -60%	\$4,220	198,592
82	KINDRED BIOSNCNS	KIN		0.05%	New	\$3,262	175,000
83	Oil States International Inc	OIS		0.05%	New	\$3,272	51,050
84	CELLADON CORP	CLDN		0.05%	Cut -26%	\$3,204	200,000
85	Tri-Pointe Homes, Inc.	TPH		0.04%	New	\$2,515	160,000
86	CLECO Corp	CNL		0.03%	New	\$2,293	38,894
87	ArQule, Inc.	ARQL		0.03%	Unchanged	\$1,951	1,258,732
88	Grifols SA	GRFS		0.03%	Cut -95%	\$2,263	51,382
89	ALDER BIOPHARM	ALDR		0.03%	New	\$2,007	100,000
90	Acadia Pharmaceuticals Inc	ACAD		0.02%	Unchanged	\$1,581	70,000
91	Fate Therapeutics, Inc.	FATE		0.02%	Cut -10%	\$1,566	248,102
92	Eagle Pharmaceuticals	EGRX		0.02%	Unchanged	\$1,433	100,000
93	Stemline Therapeutics, Inc.	STML		0.02%	Unchanged	\$1,394	95,000
94	Cobalt Energy Notes	CIE		0.01%	Unchanged	\$817	880,000
95	Installed Building Products	IBP		0.01%	Cut -73%	\$593	48,398
96	Corium International	CORI		0.01%	New	\$971	125,000
97	UNIQUE NV	QURE		0.01%	Unchanged	\$680	50,000
98	Aquinox Pharmaceuticals	AQXP		0.01%	Cut -4%	\$451	48,100

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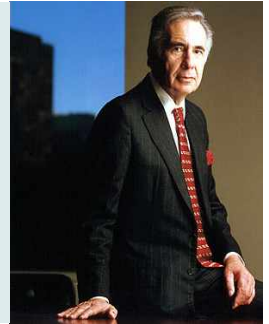
Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
	Sirius XM Radio	SIRI			Sold		
	Tata Motors Ltd ADS	TTM			Sold		
	Dean Foods Inc	DF			Sold		
	Central Pacific Financial	CPF			Sold		
	Nektar Therapeutics, Inc.	NKTR			Sold		
	Seadrill Ltd.	SDRL	PUT		Sold		
	AutoNavi Holdings Ltd	AMAP			Sold		
	Linn Co.	LNCO			Sold		
	Norwegian Cruise Line	NCLH			Sold		
	McKesson Corp	MCK			Sold		
	EP ENERGY CORP	EPE			Sold		
	Walt Disney Co	DIS			Sold		
	CONCERT PHARMA	CNCE			Sold		
	Williams Cos	WMB			Sold		
	Time Warner Cable Inc.	TWC			Sold		
	Starz, Series A NOTE	STRZA			Sold		
	Iron Mountain	IRM			Sold		
	Dollar General Corp	DG			Sold		
	Coronado Biosciences Inc	CNDO			Sold		
	Pactera	PACT			Sold		
	American Air	AALCP			Sold		
	ANI Pharmaceuticals	ANIP			Sold		
	Community Health	CYHHZ			Sold		
	Flexion Therapeutics	FLXN			Sold		
	Community Health Systems	CYH			Sold		

Icahn Capital

Carl Icahn

Activist investor known for taking stakes in companies and pushing for change

Recently launched a website about activism: [Shareholders' Square Table](#)



Key Takeaways

New Positions:

Gannett (GCI)

Sold Out:

Forest Labs ~ bought out

Lastly, Icahn no longer shows a stake in Forest Laboratories (former ticker FRX) as the company has been bought out.

In a recent blog post that Icahn wrote, the corporate raider outlined his strategy: “I believe that the main reason for our success is we adhere to the activism model which we have spent many years developing. What we essentially do is attempt to hold managements accountable through our rights as shareholders and seek to ensure the right people run the companies we invest in. We do not micromanage however. If a company is doing more poorly than its peers we take a hard look, and in a number of these cases the CEO is not the right person to be running the company.” Icahn also voiced his opinion about a potential market bubble when he concluded his piece with: “Again, I believe that the kind of shareholder activism (we) practice has been extremely successful because we seek to bring true corporate democracy to the companies we are involved with through exercising our rights as shareholders to hold CEOs accountable and change unproductive management that needs to be changed. I believe that America needs this to correct the economic course we are on and push back against the approaching storm clouds resulting from the many problems we face today, including a major asset bubble that continues to grow.”

Carl Icahn has disclosed a new position in Gannett (GCI). While the stake was quite small (compared to the rest of his portfolio) at the end of the second quarter, he has since ramped up his position recently much more. He just filed a 13D with the SEC indicating he now owns 6.6% of the company with 15 million shares (much more than the mere 2.7 million shares disclosed on the next page that he reported as of the end of Q2). His filing noted that he wanted the company to split up its TV, digital and newspaper divisions, though the company already did just that multiple days before his filing. Gannett's CEO said that the company's newspaper and broadcasting segments would be split up in 2015. It sounds as though Icahn wants to have discussions with Gannett's management and board about how the separation will occur and their capital allocation plans as well.

Apart from his new GCI position, Icahn had marginal portfolio activity during Q2. There were only three adjustments worth drawing attention to. First, he boosted his position in eBay (EBAY) by 10%. As noted earlier in this issue, Seth Klarman's Baupost Group has initiated a position in the e-commerce giant as well. Second, Icahn also continued to pare down his Netflix (NFLX) exposure, trimming another 21% of his position.

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 LP	IEP		27.39%	Added 3%	\$10,552,492	105,842,442
2	Hologic Inc.	HOLX		17.82%	Unchanged	\$6,865,826	34,154,879
3	Apple Inc	AAPL		12.72%	Unchanged	\$4,903,065	52,760,848
4	CVR Energy Inc	CVI		8.90%	Unchanged	\$3,431,066	71,198,718
5	Federalmogul	FDML		6.36%	Unchanged	\$2,450,095	121,111,976
6	Chesapeake Energy	CHK		5.36%	Unchanged	\$2,065,266	66,450,000
7	eBay Inc.	EBAY		4.00%	Added 11%	\$1,541,999	30,803,015
8	Nuance Communications	NUAN		2.96%	Unchanged	\$1,140,928	60,784,623
9	Herbalife Ltd	HLF		2.85%	Unchanged	\$1,097,180	17,000,000
10	Transocean Ltd	RIG		2.51%	Unchanged	\$967,150	21,477,900
11	Talisman Energy, Inc.	TLM		2.09%	Unchanged	\$806,236	76,060,078
12	American Railcar Industries	ARII		2.09%	Unchanged	\$804,516	11,871,268
13	Netflix Inc	NFLX		2.02%	Cut -21%	\$777,618	1,764,907
14	Navistar International	NAV		1.39%	Added 8%	\$537,390	14,337,524
15	Mentor Graphics Corp.	MENT		0.90%	Unchanged	\$347,715	16,120,289
16	CVR Refining L.P.	CVRR		0.39%	Unchanged	\$150,060	6,000,000
17	Gannett Co.	GCI		0.22%	New	\$85,629	2,734,888
18	Enzon Pharmaceuticals	ENZN		0.02%	Unchanged	\$6,141	5,904,863
19	Voltari Corp	VLTC		0.00%	Unchanged	\$1,343	678,203
	Forest Laboratories	FRX			Sold		-

Next: JANA Partners

JANA Partners

Barry Rosenstein

Has returned 13.9% 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:

SPDR Energy Sector (XLE) Puts
Apache (APA) Calls
Apache (APA)
FMC (FMC)
Civeo (CVEO) ~ spin off from OIS

Sold Out:

Sirius XM Radio (SIRI)
Juniper Networks (JNPR)
Outerwall (OUTR)
Teva Pharma (TEVA)
Newfield Exploration (NFX)
Lyondell (LYB) Puts
Constellation Brands (STZ) Puts

JANA Partners' Master Fund was up 5.3% for the year as of the end of the second quarter. The largest new position they entered in Q2 was that of Apache (APA) where they bought call options and common stock. JANA laid out their thesis on this name in their second quarter letter: "We have engaged with management on three key initiatives that we believe can unlock substantial value. First, we believe Apache should commit now to a complete exit from LNG. Second, we believe Apache should delineate its Permian resource potential in line with the disclosure practices typical of other large shale players. Third, we believe Apache should commit to a future as a pure play onshore domestic operator." Comparing a 'new' transformed Apache to peers with similar profiles and growth would yield a price target of \$130 per share based on JANA's estimates (APA currently trades around \$98).

Barry Rosenstein's activist fund also jumped

into shares of PetSmart (PETM) during the quarter. Subsequently, they recently filed a 13D with the SEC disclosing their activist stake in the company. They own 9.8% of PETM and are the largest shareholder. They also sent [a letter](#) to PetSmart's board, calling for the company to be sold. Rosenstein writes that he wants the company to begin "a full strategic review which includes engaging with potential buyers." If the company does not do so, JANA will seek to shake up the board of directors at the next annual meeting.

In other news, JANA's portfolio on the next page shows that they've increased their hedging activity. They show a put position on the S&P 500 (SPY) with a notional value of \$2.3 billion. Additionally, they disclosed a new put position on the SPDR Energy Sector exchange traded fund (XLE) with a notional value of \$1.9 billion. This particular position is undoubtedly a hedge to JANA's large energy and industrial exposure.

The hedge fund firm was also out adding markedly to three of its pre-existing positions. They boosted their exposure to American International Group (AIG) by 69% and ratcheted up their position in Actavis (ACT) by 194%. Lastly, they increased their holdings in Mallinckrodt (MNK) by 75%. The latter two positions are both tax inversion plays that have been popular among many hedge funds.

Going forward, JANA notes in its letter that their focus is on the heightened levels of corporate mergers and acquisitions as well as private equity activity.

View JANA Partners' 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 ETF Index	SPY	PUT	14.29%	Added 2260%	\$2,309,496	11,800,000
2	SPDR Fund - Energy Sector	XLE	PUT	11.77%	New	\$1,901,900	19,000,000
3	Walgreen Co.	WAG		5.10%	Cut -9%	\$823,305	11,106,226
4	Equinix Inc	EQIX		4.67%	Added 12%	\$754,411	3,590,893
5	Ashland Inc.	ASH		4.06%	Added 0%	\$655,238	6,025,730
6	AmericanInternationalGroup	AIG		3.70%	Added 70%	\$598,579	10,966,994
7	Actavis Plc	ACT		3.66%	Added 194%	\$592,048	2,654,328
8	Apache Corp.	APA	CALL	3.40%	New	\$549,858	5,464,700
9	Cameron International Corp	CAM		3.28%	Added 0%	\$529,738	7,823,625
10	QEP Resources Inc.	QEP		3.27%	Cut -4%	\$528,071	15,306,401
11	Aercap Holdings N V	AER		3.11%	Added 11%	\$502,107	10,963,029
12	Mallinckrodt PLC	MNK		2.84%	Added 75%	\$458,171	5,725,711
13	Apache	APA		2.82%	New	\$456,342	4,535,300
14	FMC Corp	FMC		2.20%	New	\$355,511	4,993,835
15	Groupon Inc	GRPN		1.93%	Added 15%	\$311,060	46,987,935
16	URS Corp	URS		1.91%	Unchanged	\$309,287	6,745,623
17	Motorola Solutions Inc	MSI	CALL	1.91%	New	\$307,873	4,624,800
18	Civeo Corp	CVEO		1.90%	New	\$306,411	12,241,760
19	PetSmart	PETM		1.83%	New	\$295,115	4,935,034
20	PetSmart	PETM	CALL	1.69%	New	\$273,507	4,573,700
21	Charter Communications	CHTR		1.64%	New	\$265,022	1,673,329
22	HD Supply Holdings	HDS		1.59%	Added 1202%	\$256,470	9,033,804
23	CBS Corp	CBS		1.59%	New	\$256,461	4,127,149
24	Supervalu Inc	SVU		1.54%	Added 22%	\$248,531	30,234,893
25	SunEdison Inc	SUNE		1.46%	Added 167%	\$235,428	10,417,150
26	Endo International	ENDP		1.39%	Added 25%	\$223,995	3,199,017
27	Leucadia National Corp	LUK		1.17%	Cut -7%	\$189,127	7,213,076
28	American Capital Ltd	ACAS		1.16%	Added 18119%	\$186,918	12,224,861
29	CONSTELLIUM NV	CSTM		1.08%	Added 2%	\$173,827	5,421,922
30	Oil States International Inc	OIS		1.03%	Cut -57%	\$167,184	2,608,589
31	Hertz Global Holdings Inc	HTZ		1.03%	Added 4638%	\$166,015	5,922,764
32	CommonWealth REIT	CWH		0.89%	New	\$144,033	5,472,374
33	Motorola Solutions Inc	MSI		0.78%	New	\$125,729	1,888,677
34	FMC Corp	FMC	CALL	0.63%	New	\$102,207	1,435,700
35	Teekay Corp	TK		0.51%	Cut -2%	\$82,757	1,329,435
36	Walgreen Co	WAG	CALL	0.44%	New	\$71,165	960,000
37	Liberty Media Interactive	LINTA		0.44%	Cut -36%	\$71,643	2,440,166
38	Gulfport Energy Corp	GPOR		0.39%	Cut 0%	\$62,718	998,700
39	Kinder Morgan Warrants	KMI-W		0.38%	Cut -17%	\$61,807	22,232,582
40	eBay Inc.	EBAY		0.31%	Cut -74%	\$50,060	1,000,000
41	Liberty Media	LMCA		0.27%	Cut -86%	\$44,421	325,000
42	Liberty Interactive	LVNTA		0.19%	Cut -87%	\$30,938	419,212
43	SPDR Gold Trust ETF	GLD	CALL	0.18%	Unchanged	\$29,411	229,700
44	Rockwood Holdings Inc	ROC	CALL	0.09%	New	\$15,198	200,000
45	CBS Corp	CBS-A	CALL	0.08%	New	\$12,428	200,000

Continued on Next Page...

Rank	Company Name	Ticker	Put/Call	% of Portfolio	Activity	Value x \$1000	# of Shares
46	Energy Transfer Equity LP	ETE		0.07%	Added 13%	\$11,033	187,190
47	Abengoa	ABY		0.07%	New	\$11,346	300,000
48	Pfizer, Inc.	PFE	CALL	0.05%	New	\$7,420	250,000
49	Nabors Industries Ltd	NBR	PUT	0.04%	New	\$5,874	200,000
50	Gannett Co.	GCI		0.04%	New	\$6,262	200,000
51	S&P Homebuilders ETF	XHB		0.03%	New	\$4,913	150,000
52	AbbVie Inc	ABBV		0.03%	New	\$4,233	75,000
53	Allison Transmission	ALSN		0.02%	New	\$3,172	102,000
54	Rockwood Holdings Inc	ROC		0.02%	New	\$3,800	50,000
55	Corecomm	COMM		0.02%	New	\$3,470	150,000
56	Seaworld Entertainment	SEAS		0.01%	New	\$2,125	75,000
57	SunEdison Semiconductor	SEMI		0.01%	New	\$1,292	76,297
58	Target Corp.	TGT		0.01%	New	\$939	16,200
59	SPDR Gold Trust ETF	GLD		0.00%	Cut -64%	\$461	3,600
	Constellation Brands, Inc.	STZ	PUT		Sold		
	Hong Kong Index Fund	EWI	CALL		Sold		
	Newfield Exploration Co	NFX			Sold		
	Outerwall Inc	OUTR			Sold		
	Visteon Corp	VC			Sold		
	General Motors Co	GM			Sold		
	General Motors Warrants	GM/WS/B			Sold		
	Santander Consumer	SC			Sold		
	Knowles Corp	KN			Sold		
	Applied Materials Inc.	AMAT	CALL		Sold		
	Juniper Networks Inc	JNPR			Sold		
	Sirius XM Radio	SIRI			Sold		
	Teva Pharmaceutical	TEVA			Sold		
	Valeant Pharmaceuticals	VRX	PUT		Sold		
	Golar LNG Ltd	GLNG			Sold		
	LyondellBasell Industries	LYB	PUT		Sold		
	General Motors Warrants	GM/WS/A			Sold		
	EP ENERGY CORP	EPE			Sold		
	NRT ATLNTC DRL	NADL			Sold		
	Applied Materials Inc.	AMAT			Sold		

Next: Pennant Capital



Key Takeaways

New Positions:

Monsanto (MON)
Gilead Sciences (GILD)
Perrigo (PRGO)

Sold Out:

Sally Beauty (SBH)
MRC Global (MRC)
TripAdvisor (TRIP)
Dollar General (DG)
Gaming & Leisure Properties (GLPI)
Forum Energy (FET)

Alan Fournier's hedge fund firm also established a new stake in Gilead Sciences (GILD). As covered earlier in this issue, Julian Robertson of Tiger Management also owns a stake in the company and thinks cashflow will be picking up.

The only other position that Pennant did any major buying in was Ocwen Financial (OCN). This is a pre-existing position for the hedge fund and they boosted exposure in the name by 24%. Shares of this mortgage servicer have been under pressure as regulators have poked around and claimed that non-bank servicers have expanded too fast and aren't equipped to take on the massive amount of servicing that they have. Benjamin Lawsky of the New York Department of Financial Services has been the primary inquisitor. Last quarter's issue of HFW examined Altisource Portfolio Solutions (ASPS) in the equity analysis section, which is a spin off from OCN. Numerous hedge funds have invested in either OCN, ASPS, or both as they've come under fire, arguing that there's a material misunderstanding of the facts here.

On the selling side of their portfolio sheet, Pennant trimmed some longstanding positions: American International Group (AIG) by 28% and Wabco (WBC) by 56%. Additionally, they completely liquidated their holdings in TripAdvisor (TRIP) and MRC Global (MRC), both of which had been in the portfolio for some time.

Pennant's Broadway Gate Fund returned 1% for the second quarter and was up 2.4% for the year as of the end of Q2. According to Broadway Gate's communications with investors, the fund is still constructive on the markets as a whole. However, they aren't keen on taking additional risk to achieve slightly higher returns given the uncertain macro environment and the fact that central banks around the world have distorted various asset prices. As such, they are focusing on high quality companies that can grow even in a slow growth environment.

For the first time in a while, Pennant initiated a sizable new position: Monsanto (MON). Larry Robbins' Glenview Capital is also a big holder of shares and last quarter's HFW issue outlined his thesis on the play. Basically though, the thinking here comes down to the fact that there are simply too many people in the world that need to eat and GMO seeds are the best option for being able to feed the entire world.

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	Transdigm Group Inc	TDG		6.41%	Cut -6%	\$357,644	2,138,251
2	Priceline Group Inc	PCLN		6.29%	Unchanged	\$351,082	291,839
3	Constellation Brands	STZ		5.04%	Unchanged	\$281,097	3,189,567
4	Monsanto Co	MON		4.76%	New	\$265,603	2,129,251
5	DaVita HealthCare	DVA		4.71%	Unchanged	\$263,092	3,637,892
6	NVR Inc	NVR		4.68%	Cut -8%	\$260,958	226,802
7	Team Health Holdings Inc	TMH		4.27%	Added 6%	\$238,210	4,769,920
8	Carters, Inc	CRI		4.18%	Added 6%	\$233,287	3,384,400
9	Workday Inc	WDAY		4.10%	Added 14%	\$229,043	2,548,885
10	Marathon Petroleum Corp	MPC		3.89%	Added 10%	\$217,035	2,780,000
11	Ocwen Financial Corp	OCN		3.57%	Added 24%	\$199,289	5,371,681
12	Cheniere Energy Inc	LNG		3.50%	Cut -23%	\$195,366	2,724,765
13	Bright Horizons Family	BFAM		3.15%	Cut -4%	\$175,869	4,095,700
14	Signet Jewelers	SIG		3.11%	Added 6%	\$173,713	1,570,785
15	Gilead Sciences	GILD		3.07%	New	\$171,624	2,070,000
16	Cognizant Technology	CTSH		2.91%	Added 4%	\$162,249	3,317,300
17	Terex Corp	TEX		2.75%	Cut -22%	\$153,688	3,739,373
18	WESCO International	WCC		2.49%	Unchanged	\$139,081	1,610,108
19	Ascena Retail Group	ASNA		2.38%	Unchanged	\$133,067	7,781,700
20	Owens Corning Inc	OC		2.35%	Unchanged	\$131,400	3,397,100
21	Range Resources	RRC		2.33%	Unchanged	\$129,818	1,493,016
22	Middleby Corp	MIDD		2.19%	Added 167%	\$122,118	1,476,284
23	Wabco Holdings	WBC		2.18%	Cut -56%	\$121,436	1,136,828
24	Sensata Technologies	ST		1.92%	Cut -40%	\$107,027	2,287,890
25	AmericanInternationalGroup	AIG		1.90%	Cut -28%	\$106,188	1,945,554
26	EPAM Systems, Inc.	EPAM		1.76%	Unchanged	\$98,093	2,242,119
27	Perrigo Cmpn Plc	PRGO		1.23%	New	\$68,842	472,300
28	Cheniere Energy Partners	CQH		1.20%	Added 246%	\$66,827	2,690,300
29	Mattress Firm Holding Corp	MFRM		1.17%	Cut -6%	\$65,155	1,364,512
30	Taylor Morrison Home	TMHC		1.01%	Unchanged	\$56,283	2,510,407
31	Huntington Ingals	HII		0.87%	Cut -78%	\$48,402	511,703
32	Universal Stainless	USAP		0.67%	Unchanged	\$37,125	1,143,021
33	Canadian Natural Resources	CNQ		0.64%	Cut -16%	\$35,810	780,000
34	GRUBHUB INC	GRUB		0.53%	New	\$29,567	835,000
35	Fluor Corp	FLR		0.52%	Cut -9%	\$29,145	379,000
36	Amgen, Inc.	AMGN		0.50%	Added 57%	\$27,935	236,000
37	Broadcom Corporation	BRCM		0.49%	Cut -8%	\$27,098	730,000
38	Petroleo Brasileiro SA	PBR-A		0.32%	Added 92%	\$17,986	1,150,000
39	Citrix Systems Inc.	CTXS		0.28%	Added 15%	\$15,450	247,000
40	Devon Energy	DVN		0.28%	Cut -43%	\$15,880	200,000
41	McDermott International	MDR		0.19%	Added 28%	\$10,679	1,320,000
42	KBR Inc	KBR		0.17%	New	\$9,540	400,000
43	Vivus Inc.	VVUS		0.06%	Unchanged	\$3,139	590,000
	Gaming&LeisureProperties	GLPIV			Sold		
	Teva Pharmaceutical	TEVA			Sold		
	Dollar General Corp	DG			Sold		
	TripAdvisor Inc	TRIP			Sold		
	Forum Energy	FET			Sold		
	Sally Beauty Holdings	SBH			Sold		
	MRC Global	MRC			Sold		

Next: Equity Analysis Section

Equity Analysis Section

New stocks are analyzed in each issue. [Click here to read the latest issue's equity analysis](#)

Overview

These summaries examine why a hedge fund was buying a specific stock and what their potential investment thesis could be. This section focuses on stocks that saw notable hedge fund buying during 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 bull case versus the bear case
- Market valuation
- Potential catalysts
- Hedge fund activity in the stock

Featured In This Issue

This quarter's write-ups take a look at two stocks hedge funds have been buying:

1. **Allison Transmission (ALSN):** A high quality business with leading market positions, reputation, and margins. The overhang from substantial private equity ownership is coming to an end and hedge funds are jumping in.
2. **Armstrong World Industries (AWI):** A leveraged play on construction recovery with strategic alternatives and activist involvement.

Next: Equity Analysis of Allison Transmission (ALSN)



Hedge Fund Activity

Jeff Ubben's ValueAct Capital is the largest holder of Allison Transmission (ALSN) stock with 18 million shares. ValueAct wasn't buying in the second quarter but originally established its position in the third quarter of 2013 and then really ramped up its position in November 2013 when Carlyle and Onex (private equity sponsors that bought the company from General Motors in 2007 and brought it public in 2012) sold a tranche of 15 million shares. This brought ValueAct's ownership up to 9.9%.

Maverick Capital started a new position in ALSN during Q2, purchasing 6.4 million shares and making it an almost 3% position for the firm. Gates Capital also increased its position by purchasing an additional 2 million shares on top of the 4 million it already owned. Lastly, PointState Capital increased its toehold position substantially with the purchase of 3.9 million shares, making it an almost 2% position.

Company Background

Indiana-based ALSN is the world's largest manufacturer of commercial-duty automatic transmissions with \$2 billion in annual sales and more than 60% global market share. Its transmissions are used by on-highway trucks (e.g., construction, fire, distribution, and refuse), buses, motorhomes, off-highway vehicles (e.g., mining), and military vehicles.

Throughout most of its history, Allison Transmission operated as part of General Motors, but in 2007 when GM started facing trouble it was sold to Carlyle and Onex (the "Sponsors"), and subsequently they took it public in early 2012.

In 2008, ALSN generated \$544 million in EBITDA on \$2.06 billion in sales (26.4% margin), which has grown to \$670 million LTM despite a drop in sales to \$2.0 billion (33.7% margin).

Leverage

ALSN currently has a \$2.5 billion net debt outstanding, which is still at a relatively high 3.8x of adjusted LTM EBITDA. Historically though it has covered high levels of debt since its private equity leveraged buyout (LBO) in 2007, starting with \$4.2 billion net debt. Even as it used cashflow to pay down debt, the Company had 7x net debt to EBITDA in 2008-2009, gradually coming down to more sustainable levels of ~4x.



Company Background (Continued)

“ALSN’s fully automatic transmissions have significant advantages over alternatives: they increase fuel efficiency and lower maintenance costs. And since they are easier to operate, this increases the pool of qualified drivers, there is less training and turnover, and safety is improved.”

Commercial Transmissions

In order to understand ALSN’s positioning and opportunity, it’s important to understand commercial transmissions and their end markets.

Commercial vehicles have 3 transmission options: manual, automated manual, and fully automatic. In the case of a manual transmission, power is interrupted every time there’s a gear change, resulting in fuel inefficiency and slower acceleration. Manual transmission can have better fuel efficiency in long-haul trucking, but when frequent “start and stop” is involved, then fully automatic transmissions have the upper hand. Manual transmissions also wear faster and need to be replaced, which results in maintenance costs and vehicle downtime. Also, they require skilled drivers, whereas fully automatic transmissions are much easier and safer.

The automated manual transmission (AMT) is an in-between solution, where the driver doesn’t have a clutch but there is a clutch disconnect that takes place automatically when the gears change. There are some benefits in long-haul trucking over fully automated transmissions because the “manual” aspect of the AMT allows it to transfer the engine’s power more efficiently. On the other hand, in start-and-stop situations the AMT is inferior to the fully automated transmission because of the more frequent power interruptions.

ALSN’s fully automatic transmissions have significant advantages over alternatives: they increase fuel efficiency and lower maintenance costs. And since they are easier to operate, this increases the pool of qualified drivers, there is less training and turnover, and safety is improved. Nevertheless, adoption can be slow because these benefits come at a price that’s incremental for fleet operators. The standard transmission comes included in the purchase price of a vehicle, whereas to upgrade to an ALSN transmission, the cost per vehicle is \$3,000 – 11,000 more depending on the size of the vehicle and application (different vocations require different types of transmissions that are optimized for their unique demands and characteristics).



End Markets

Roughly speaking, almost half of ALSN's sales come from North America on-highway vehicle transmissions, 20% from parts and support equipment, another 20% from international on-and off-highway, and 10% from the military. The international market can be further dissected as follows: 50% EMEA where fully automatic transmissions have only 4% penetration and ALSN has a 76% market share of it; and the rest is split 30% China, 12% Japan, 6% South America, and 1% India, where manual transmissions continue to dominate and cost is a larger barrier.

Truck Classifications

Trucks are classified Class 1 through 8 based on their maximum load weight that's reflected in their Gross Vehicle Weight Rating. This rating is quoted in pounds (lbs) in order to distinguish it from an older and less precise ton-based system, and reflects the maximum operating weight of a vehicle as specified by its manufacturer. The operating weight includes the truck's body, engine, fuel, driver, and cargo, i.e., how much the vehicle would weigh fully loaded if you put it on a scale.

Classes 1-3 are considered 'light duty' and have a weight rating of up to 14,000 lbs. For example, the Ford F-350 is Class 3. The 'medium duty' trucks correspond to Classes 4-6 and have a weight rating of up to 26,000 lbs. The Ford F-450 is a Class 4 truck, the F-550 is Class 5, and the F-650 is Class 6. Ambulances, commercial rental vehicles, and distribution vehicles fall into this category as well.

The largest truck manufacturers in this segment had Ford and GM controlling almost 90% of the market, but after emerging from bankruptcy, GM exited medium-duty trucks leaving Ford as the dominant player. GM's exit meant that ALSN lost

sales in that market because of the two companies' relationship, and because Ford manufactures its own medium-duty fully automatic transmissions (though ALSN supplies Ford's transmissions for heavy-duty trucks).

The heavy-duty trucks are Class 7-8 and require a 'Class B' license to operate. They have a weight rating of anything above 26,000 lbs. Examples of Class 7 trucks are small-medium dump trucks and Class 8 trucks are larger dump trucks and tractor-trailers.

ALSN focuses on medium and heavy-duty vehicles, and it has a dominant market share in Class 6-7, specialty vehicles like motorhomes and school buses, and a sub-segment of Class 8.

Core Market

Drilling deeper into North American on-highway transmission sales, which account for almost half of ALSN's revenue, its most important market is the Class 8 'straight trucks'.

Based on industry unit production numbers and ALSN's unit share found in management presentations, Class 8 accounts for approximately 25% of unit sales but more than 40% of revenue as transmissions in this market segment are by far the most expensive, costing an estimated \$10K+ compared to an average of ~\$6.5K for all market segments.

As expected, the smaller trucks take the cheapest transmissions: the Class 4-5 transmissions are wholesale-priced at <\$3K, Class 6-7 transmissions are close to \$5K, motorhomes and busses are in the \$6K range, and Class 8 – both 'straight' and 'metro' (explained further below) – are ~\$10K.



Growth Opportunity

The growth opportunity in North America is in the underserved low and high end of the weight spectrum, and longer-term in international markets through increasing penetration.

At the low end of medium-duty vehicles (Class 4-5) ALSN has only a 6% market share compared to >50% in its core markets. At the high end, Class 8 vehicles are segmented into 'straight trucks' that have a unified body (can't separate the trailer from the vehicle chassis), e.g., a dump truck, and 'tractors' where the trailer is separable from the chassis.

Traditionally, ALSN has dominated the 'straight' truck segment but has minimal penetration in the tractor market because cheaper manual transmissions with more efficient power transmission for long hauls make more sense. However, 1/3 of the tractor market, called the "Metro" market, serves urban areas and involves frequent start-and-stop and shorter hauls. ALSN has identified this market as a good candidate for its technology and has developed special transmissions to serve the Class 8 Metro / urban market where it currently only has an 8% market share.

Theoretically, achieving a 50% market share in these 2 ends of the spectrum could increase ALSN's North American unit volume by 50%.

ALSN has a presence in all geographic regions but the penetration of fully automatic transmissions outside North America is minimal – often less than 5%. This is a great potential growth opportunity but the starting base is very low to make a dramatic impact on the Company's results. It's a longer-term opportunity for investors planning to wait for 5+ years.



Company History

Allison Transmission's heritage dates back to 1915. Then General Motors acquired it in 1928, the Company invented the first fully-automatic transmission for heavy-duty vehicles in 1950, in 2007 Carlyle and Onex bought the Company from GM, and finally it went public in 2012.

Origins

In the early 1900s, Jim Allison helped found and build the Indianapolis speedway, and established his own racing team operated under the Speedway Team Company, which is the predecessor of Allison Transmission. Early on, the Company gained a reputation in high quality and automotive technology. During World War I, Allison switched from racing to manufacturing parts for the army. In 1920 it changed its name to Allison Engineering Company and in that period it started working on engines for the Liberty airplane.

In 1928, Jim Allison died suddenly and the Company was put up for sale. In 1929, General Motors purchased the Company for \$400,000, and continued manufacturing airplane engines and parts, but eventually diversified into manufacturing power transmissions for military vehicles towards the end of World War II. In 1946, the Company introduced the first fully automatic transmission for off-highway vehicles, which was incorporated in vehicles supporting road reconstruction and bridge building.

After the war ended, the Company shifted towards civilian applications, leveraging its transmission expertise and brand awareness for quality, reliability, and innovation. ALSN's history explains its dominant position in its core markets and its premium pricing.

Private Equity Ownership

In August 2007, as General Motors reported

the largest losses in automotive history and entered the path towards bankruptcy, Carlyle and Onex bought Allison Transmission from GM for \$5.575 billion (back then it was rumored that GM was stockpiling cash to make a deal with the UAW) consisting of approximately \$1.5 billion of equity (split equally between the Sponsors) and the remainder of corporate loans and junk bonds. The Sponsors paid an average price of \$8.44 per share.

The Sponsors bought what was considered an orphaned division within GM when the parent was going through turmoil. They gave Allison the resources and flexibility to invest heavily behind R&D and to go after developing international growth opportunities. Despite the recession and a significant drop in volume, Allison continued to improve margins and by the time of the IPO it had increased EBITDA by approximately 30%.

Step-up DTA

The purchase of Allison Transmission from GM in 2007 was structured as an "asset purchase" and the resulting step-up in basis for US tax purposes produced a substantial amortizable intangible asset.

Structuring a transaction as a taxable asset purchase gives the acquirer a significant advantage because when the purchased assets are transferred from the seller's books to the acquirer's books, they are marked to their fair market value. Effectively, this step-up in the owner's cost basis means that the acquirer will have to pay taxes in any future sale on the amount exceeding the fair market value of the assets purchased as of the date of the transaction, thus lowering the future tax bill.

Another important consideration is that goodwill and other intangibles purchased during a



Company History (Continued)

taxable asset-purchase transaction – marked at fair value – are amortizable over a period of 15 years, and the amount of amortization is tax deductible.

The remaining value of this amortizable and tax deductible asset was \$2.7 billion as of year-end 2013, which translates into annual amortization of \$315 million and cash tax savings of \$120 million until 2022 (in 2022 the final amortization amount is actually \$183 million and the cash tax savings is \$68 million). The aggregate cash tax savings amount to \$1 billion and are valued at \$0.8 billion in present-value terms when combined with ALSN's carry-forward NOL (at a 10% discount rate), or \$4.30 per share.

Going Public

Carlyle and Onex brought ALSN public through a secondary offering on March 14, 2012. The private equity companies sold 26.1 million shares at \$23 apiece. The investment returned a 27% annual compounded gain. They maintained an ~85% ownership, which immediately created an overhang on the stock since additional secondaries were bound to follow.

In addition, ALSN IPO'd during a period where market concerns around the European and Chinese markets intensified, which didn't bode well for a cyclical stock (based on its end markets such as construction, mining, and energy).

The Company debuted with a high degree of leverage of \$3.1 billion with adjusted EBITDA of \$0.7 billion (4.4x pro forma debt / adjusted EBITDA) and a full valuation of 10.3x EBITDA, or ~9x after adjusting for the tax deductible amortizable assets and NOLs.

The combination of these factors resulted in a "broken IPO" in the sense that it soon traded below

the issuance price and didn't recover for a while. The stock traded down to \$16 by mid-July of that year, off 30% from the IPO price.

Exiting the Investment

In the first half of 2014, ALSN completed 3 secondary offerings where the Sponsors sold a total of 90.25 million shares, bringing their ownership down from 54% at year-end to ~6%.

At this level, they cease to exercise any meaningful control and the remaining shares that they need to sell aren't a material overhang on the stock. As a result, hedge funds are increasingly more comfortable buying into the stock.

In late February, the Sponsors sold 25 million shares at \$29.17 and the Company repurchased 3.4 million shares. In late April, the Sponsors sold 25 million shares at \$29.78. And finally in mid-June, they sold a total of 40.25 million shares and ALSN repurchased 5 million shares at a price of \$29.95.



The Bull Case

In the US, the benefits of fully-automatic transmissions are better appreciated. According to industry research firm Frost & Sullivan, 38% of transmissions sold to medium and heavy-duty commercial vehicles are fully automatic transmissions, compared to only 6% in Europe.

The big growth opportunity in the short term is to increase penetration in the low and high end of the spectrum in terms of truck sizes, which could increase unit volume and sales by ~50% (the 2 ends of the size spectrum also have the 2 ends of the pricing spectrum but they have similar units sold and the average price is approximately the same as the average for the Company). Longer term, there's a large opportunity to increase penetration in international markets.

More importantly in the short term though, during the first half of the year, the Company took steps to eliminate the overhang from private equity ownership and control, and now investors should feel more comfortable stepping in. Some may be waiting for the final tranche to be sold, but the market has absorbed a large number of shares in a short period of time and the stock has performed well, so without the overhang it could continue to go up and waiting could be a missed opportunity.

The Bear Case

On the other hand, at the current valuation ALSN seems fully valued. It trades at 11.9x adjusted LTM EBITDA or 10.7x adjusting for the tax-deductible amortization. It's a high-quality business with technology, reputation, and history/relationships that build a moat around it, but the valuation multiple still appears full, leaving limited upside.

Also, the growth opportunities have been part of the investment thesis for a number of years, yet results have failed to impress. ALSN hasn't been gaining share in the US and the growth in international markets is off very small bases to amount to anything material for some time.

It's a good business, but investors could be paying up a bit for growth potential that has uncertain timing.

Next: Analysis of Armstrong World Industries (AWI)



Hedge Fund Activity

During the second quarter, Armstrong World Industries (AWI) got two new top-5 holders. Jeff Ubben's ValueAct Capital bought 2.7 million shares to build a 1% portfolio position, and Eric Mindich's Eton Park Capital bought 2.4 million shares for a 2% portfolio position. In fact, both funds have continued to buy stock aggressively.

ValueAct recently disclosed in a 13D filing with the SEC that it purchased an additional 6.5 million shares in the last 10 days of July at an average price of \$51.61, bringing the total position to 9.2 million shares and 16.8% ownership. ValueAct took advantage of a temporary ~10% drop in AWI's stock towards the end of July when the Company reported second quarter earnings, before the stock recovered almost fully in the first week of August.

Eton Park also disclosed in an early August 13G filing with the SEC that it further increased its position by 50%, bringing its ownership stake to 6.7%, probably taking advantage of the earnings-driven price drop at the end of July as well.

Canyon Partners also started a new position, while Samlyn Capital more than doubled its exposure to 1.5%, and Ivory Investment Management increased its position to 4% of its portfolio.

Not to mention, Sachem Head Capital over doubled its exposure and now owns over 1 million shares as well. Sachem Head is an activist fund founded by Scott Ferguson, who previously worked at Bill Ackman's Pershing Square.

Lastly, Misroor Siddiqui's Naya Management also disclosed a brand new stake in AWI during the second quarter. Prior to founding Naya, Siddiqui worked at Chris Hohn's prominent Children's Investment Fund in the UK.

On the other side of the trade, Och-Ziff, Balyasny Asset Management, Senator Investment Group, York Capital, and Frontier sold completely out of their positions (each had +/- 1 million shares before the end of Q2).

The largest owner of AWI stock remains the AWI Asbestos Personal Injury Settlement Trust (the "Trust"), which continues to own 9.5 million shares (or 17.4% of the Company's stock) but it has been selling down its stake to a level that hedge fund investors seem more comfortable with now.

Company Background

AWI is a Lancaster, PA-based leading global manufacturer of flooring products and ceiling systems for the residential and commercial markets, with \$2.7 billion in global sales (in 2013 with expected minimal variance in 2014) and 35 manufacturing facilities in 8 countries. It recently won the contract to provide specialty ceiling systems for Conde Nast in the Freedom Tower, which covers 25% of the floors.



Company Background & History

Its operating margin is ~8%, driven almost exclusively by the Ceilings division, which almost entirely targets the commercial market. The residential segment is much more competitive and the distribution channels afford tighter margins, whereas commercial applications are more demanding and there's room for innovation and differentiation, as well as fatter margins.

Over the past 3 years, EBITDA has increased by 20% on flat revenues, as the margin expanded by 220-370 bps in each of its 3 divisions. Net of interest expense and some small other items, the company is left with a 3% net margin.

AWI has a \$250 million revolving credit facility, a \$550 million term loan A, and a \$475 million term loan B, all priced at a 2.50% spread over LIBOR (the B-loan has a 1.00% LIBOR floor too). The debt was refinanced in early 2013 to shave 50 bps off the spread over LIBOR, and carries net leverage (net debt / EBITDA of 4x going down to 3.75x after Q1 in 2015) and interest expense coverage (EBITDA / net interest expense of 3x) covenants. Currently, AWI has \$965 million in net debt and \$375 million LTM EBITDA (2.6x net leverage). Given its relatively high leverage and low level of profitability, AWI is a highly levered play on global construction activity.

History

AWI's beginnings trace back to Thomas Armstrong starting a two-man operation to cut bottle corks by hand. The Company became the largest cork supplier in the world in the 1890s and was incorporated in 1891. After moving on to cork-board, the company evolved its offerings to fiber-board and eventually to ceiling-board, while cork tile naturally led to vinyl flooring and other flooring products.

The Company used to produce asbestos and in November 2000 faced 173,000 asbestos personal injury claims that would cost \$0.8 – 1.4 billion. In December 2000, the Company filed for bankruptcy protection under Chapter 11 in order to resolve its asbestos-related liabilities with the help of the courts.

It emerged from bankruptcy in October 2006 (reorganized on October 2nd and started trading on October 18th) and set up a trust to deal with the asbestos-related liabilities. The Trust ended up owning 37 million shares or 2/3rds of the Company's stock and was funded with \$750 million in cash through debt issued by AWI.

In August 2009, an arm of private equity group TPG purchased 7 million shares at \$22.31 per share. Together with the Trust's significant ownership, TPG's stake has been an overhang on the stock because of exercised control and potential selling pressure through secondary offerings.

Together, the Asbestos Trust and TPG sold 5.98 million shares in Q4 of 2012, 12.06 million shares in Q3 of 2013, 6 million shares in Q4 of 2013, and 3.9 million shares in Q1 of 2014, bringing TPG's holdings down to zero, and the Trust's to 17%.

In 2010, AWI brought in a new CEO and CFO, who implemented a \$150 million cost cutting program. This has helped AWI maintain its profitability despite adverse conditions, and proved the quality of its management as the program was concluded in 2012 with total cost savings achieved of more than \$200 million.



Business Segments

The Company reports its results in 3 business segments, and also has a material 50% joint venture (JV) investment:

Hardwood Flooring

This division had \$535 million in 2013 sales (20% of total), of which 1/3 is for new construction and 2/3 for renovations. Following the Great Recession, it's been essentially a break-even operation. On an EBITDA basis it has been improving from 1% in 2010 to 3% in 2013. The incremental margin on this business is in the 25-30% range so as volumes start picking back up it will be a more meaningful contributor to earnings.

It's primarily a residential portfolio of products, sold almost entirely in North America through wholesale flooring distributors to homebuilders and large home centers (Home Depot and Lowe's). This division has 9 plants primarily in the US and in China.

One of the key pressures faced by the wood flooring division is that hardwood lumber prices have been rising rapidly; while at the same time homebuilders push back on price increases. The homebuilder channel is extremely competitive and has very low margins due to the homebuilders' purchasing power. This division will turn around when the renovation market picks up because it has a much higher margin than the builder channel.

Resilient Flooring

This division sells primarily vinyl and laminate flooring products. It has \$920 million in sales (1/3 of the total), of which only 1/3 is residential (and only a small portion for new construction) and the rest is commercial (the majority being renovation). It has a 5-6% operating margin and EBITDA margin of 10% (up from 7% in 2010). Incremental margins are in the 25-35% range.

The European division has been performing poorly and management has been unable to turn it around so it's exploring strategic alternatives (potentially a sale, which could be a catalyst for the stock). This division has 12 plants in the US, Australia, China, and Germany covering all regions.



Business Segments (Continued)

Building Products

This is the Ceilings division, which sells suspended fiber and metal systems, tiles, planks, and panels. It has \$1.3 billion in sales (almost 50% of the total), of which 2/3 is commercial renovation, 30% is commercial new construction, and only 5% is residential.

It has an almost 20% operating margin that accounts for >100% of profits (offset partially by losses in the hardwood division), and a 26% EBITDA margin. The incremental margins here are even higher, in the 35-45% range.

On the commercial side, ceiling products are sold for resale to distributors and contractors, whereas on the residential side they are sold to wholesalers and retailers. This division accounts for the majority of the Company's assets and for 14 of its plants in North America, Europe, and China.

The Ceilings division has a dominant global market share in a duopolistic market, so it can pass on price increases to more than cover inflationary pressures and maintain its high incremental margin. Also, its distribution channel has exclusivities because of the specialized nature of the product and client relationships, so distributors make more margin when AWI increases prices and they are better aligned compared to the residential market.

WAVE JV and Fresh-Start Accounting

AWI also has a 50% interest in a Joint Venture (JV) with Worthington Industries called WAVE, which has 8 plants in 5 countries that manufacture products used in the Ceilings division. WAVE is a 22-year old JV that generates annual earnings of \$120-140 million, half of which is equity earnings for AWI. AWI uses the equity method of accounting, which means that the initial investment was recorded at cost and each year increases by its share in the net income of the JV, which flows through the income statement as a separate line item.

However, there's a discrepancy between WAVE's statements and AWI's carrying value of the JV because AWI applied fresh-start accounting upon emergence from Chapter 11. The value on AWI's books is higher by more than \$180 million, primarily related to the valuation of intangibles (customer relationships, trademarks, and technologies).

Under fresh-start accounting, a Company emerging from bankruptcy needs to allocate its reorganization value (often thought of as the value that a willing buyer would pay for the new entity) to its different assets. So instead of being carried at cost plus earned income, the WAVE investment is covered at the fair value upon bankruptcy emergence plus earned income from that point.



Market Drivers

Revenues are driven by regional macro conditions that affect commercial and residential construction. The rough split is 80% Americas, 20% Europe, and 10% Pacific Rim. Recently, the Company has noted construction weakness in the Americas and a fragile economy in Europe, while the Asian markets have been generally mixed, sometimes offset by stronger pricing and product mix.

North American Residential

The North American residential market is 1/3 new construction and 2/3 renovation. Therefore, the major driver in that market is 'existing home sales', which is a proxy for remodeling activity. 'Housing starts' is a forward-looking indicator for the new construction market while 'housing completions' is a backwards-looking metric but can give more of an insight into the current quarter's numbers. Home prices, interest rates, and consumer confidence can all factor into outer-year activity and projections.

The Company believes that there's a correlation between its sales and construction activity or existing home sales but there's a lag of several months (reflecting the time it takes from the start of construction to the purchase of flooring and ceiling systems, for example), while changes in pricing and product mix can obscure them further.

North American Commercial

Similar to residential, the commercial opportunity is 2/3 renovation. The primary driver for AWI's results is the performance of the office, education, retail, and healthcare sectors, where it sells primarily ceiling systems and resilient flooring. Investors monitor new construction activity but due to the long lead times they also look at employment levels, vacancy rates, and even GDP trends.

European Commercial

The majority of the Company's sales outside of North America come from the European commercial market. High dependence on public sector spending has hurt AWI's sales since 2008. One key difference between the North American and the European markets is that the opportunity is more evenly split between new construction and renovations in Europe.



Situation Overview

Operating Performance

AWI emerged from bankruptcy in 2006 with sales of \$3.26 billion and EBITDA of \$400 million (12.3% margin). 2007 was an even better year with high incremental margins driving EBITDA to a peak of \$433 million. 2008 was a period of medium disruption as sales dropped 5% and margin contracted slightly but EBITDA remained at the \$400 million level. In 2009 though, sales dropped 15% and EBITDA fell even more by 23% to \$310 million (down almost 1/3 from peak levels).

In 2010, the Company changed its CEO and CFO and went on cost-cutting and strategic initiatives that set the stage for margin recovery. In 2011, despite relatively flat revenue, EBITDA jumped 20% to \$375 million and by 2012 it was back at the \$400 million mark (same as in 2006), despite sales being down 17% from 2006. This was achieved through price and mix improvements that more than offset inflation, and a successful cost savings program.

2013 was a tough year because of high materials inflation, continued restructuring, and investments for growth, so despite slight revenue increases EBITDA returned to \$375 million. For 2014, AWI expects marginal improvements in sales and EBITDA.

2007 marked a volume and sales peak for the Company. 2010 marked the sales trough, but volume troughed in 2013. AWI successfully passed on price increases and improved its product mix to offset continued volume pressure and maintain its sales. Management discusses “mid-cycle” guidance – defined as market conditions that support recovery of 2/3 of the lost volume from 2007 peak levels – of almost double the EBITDA and sales in the \$3.5 billion range.

Stock Price Activity

Shortly after coming out of bankruptcy (in early 2007), AWI announced that it would be exploring strategic alternatives, and in the private equity-friendly environment of 2006-2007 the stock reached a high of almost \$57.

As a sale failed to materialize, the stock came under some pressure. Many investors stayed away because it was considered a crowded hedge fund merger arbitrage play, management wasn't seen as successful in promoting the Company, and the Trust with 2/3 ownership should be a steady seller to cash out and pay claims. Then the recession hit and as a cyclical stock with exposure to construction it was punished accordingly, reaching a low of almost \$10 in early 2009.

After hitting its low, the stock recovered by the end of 2009 to >\$40 and traded in the mid-\$40s for another couple of years. Full recovery took longer for AWI compared to competitors because of its heavy dependence on the commercial sector and its exposure to global markets (particularly Europe). Commercial construction didn't bounce back quite like the residential market did but started turning in mid-2013 and the stock has broken into the mid-\$50s trading range. Amid macro euphoria, the stock broke \$60 in early 2014 but is back in the mid-\$50s currently.

AWI reported Q2 2014 earnings on July 25th and the stock dropped more than 10%. Lower year-over-year volumes in the US and Europe were offset by pricing and product mix, with sales increasing marginally to \$710 million (at the low end of management guidance of \$710-750 million) but missing consensus of \$723 million. EBITDA came in at the midpoint of guidance but earnings of \$0.60 fell short of consensus expectations of \$0.65. More importantly though, the Company gave a disappointing outlook, lowering its full-year EBITDA guidance from \$400-430 million to \$370-400 million on soft demand and rising lumber costs.



The Bull Case

The majority of AWI's plants and operations are in North America, where the company is positioned to capitalize on a commercial renovation and construction recovery. It has more than 20 plants located in key markets that aid in efficient distribution and strong customer relationships (the plants are running at 70% capacity utilization). Therefore, a recovery in US commercial construction would require small additions to production workforce, resulting in ~40% incremental EBITDA margin (compared to the 26% overall division margin).

A 10% increase in North American commercial volume could result in an incremental \$110 million in sales and \$45 million in EBITDA, which would expand consolidated EBITDA margin by >100 bps.

The strategic and cost-cutting initiatives that AWI went through already mean that it could reach EBITDA of \$750 million as this cycle improves. With \$1 billion in net debt and a \$3 billion market cap, the upside could be substantial after almost doubling EBITDA. AWI currently trades at an EV/EBITDA of >10x but assuming a conservative market multiple of 7.5x and management's anticipated mid-cycle EBITDA of \$750 million would indicate upside to a market cap of \$4.6 billion or \$85 per share (45% upside). However, the timing of this upside is fairly uncertain, with some investors pegging it to 2017. In this scenario, the compounded annual gain would be 16%.

Management's capital allocation plans are likely to further enhance value, with a target net leverage of 2-3x LTM EBITDA, which would imply net leverage of \$1.50-2.25 billion, an incremental \$0.50-1.25 billion from current levels. At least part of this amount could be returned to investors in the form of dividends and share buybacks, as has happened in the past.

Bullish investors are counting on the increased liquidity in the stock and reduced overhang as TPG and the Trust no longer exercise control, potential strategic alternatives for underperforming divisions, and of course an earlier construction recovery. Above all though, ValueAct's activist involvement could lead to some interesting strategic changes at the Company. For example, it could split the Ceilings division from the flooring divisions so that its results aren't obscured and management can focus on execution with the right investor support and capital allocation program.

The Bear Case

On the other hand, the Company has been noting persistent demand softness and inflationary pressures, with results essentially flat since 2011. Continued price hikes may not be sustainable to offset rising lumber costs, so a more prolonged weakness in construction could pressure the stock going forward.

In addition, the bulls' 16% expected compounded return assumes a material recovery by 2017. Finally, some investors are likely to wait on the sidelines until the overhang from the Trust's ownership is further reduced or completely removed from the equation.

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This concludes the Q2 2014 issue

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