

Star hedge fund manager is bearish on U.S. market



SHIRLEY WON
NUMBER CRUNCHER
swon@globeandmail.com

What are we looking for?

Biggest money makers among Canadian hedge funds in 2012.

The screen

We ranked the 15 best-performing funds by returns in the alternative strategies category. U.S. dollar and duplicate versions of funds, as well as exchange-traded funds, were excluded. We also left out mutual funds that do limited shorting.

What did we find?

A multistrategy hedge fund at the top of the return heap.

SMI Opportunities LP (formerly Silvercreek Capital LP) gained a stellar 61.4 per cent last year, but

what is notable is the fund, run by Louise Morwick, also gained 28.1 per cent in 2008 during the financial crisis.

Now, she is betting on a U.S. market downturn. "I am short-term bearish, and do believe that the U.S. equity market is overdue for a pullback," says the president of Silvercreek Management Inc. "I think it is getting expensive. ... We have more shorts than longs in our long-short portfolio."

Her shorts are focused on technology names such as Salesforce.com, and consumer discretionary names like Amazon.com and Lululemon Athletica. The highly indebted U.S. consumer "can't continue to spend," said Ms. Morwick, a value-oriented hedge fund manager.

Her fund is about 40 per cent invested in a long-short strategy and 40 per cent in merger-arbitrage, while 20 per cent is in a bond portfolio. While many hedge funds don't bet against a lot of stocks, "we are willing to go short," she said. "If you go back to 2008, [the fund] had a short-equity bias. And it now [again] has a short-equity bias." One

TOP-PERFORMING CANADIAN HEDGE FUNDS IN 2012

FUND	ASSETS (\$-MIL)	% RETURN (DEC. 31)				% RETURN			
		1-YR	3-YR	5-YR	10-YR	2011	2010	2009	2008
SMI Opportunities LP	40	61.4%	25.1%	34.1%		19.2%	1.6%	73.0%	28.1%
Agilith North American Diversified*		44.2%	15.1%	15.5%		-11.2%	19.1%	101.8%	-33.2%
Lycos Value Class O	3	33.7%	17.9%			27.5%	-3.9%	14.8%	
Venator Investment Trust-Cl A	6	25.2%	7.9%	5.7%		-14.0%	16.8%	39.9%	-24.8%
Venator Founders-Cl A	36	25.2%	8.0%	7.2%		-14.0%	17.0%	40.3%	-19.9%
CC&L Market Neutral A	51	22.7%				-10.4%			
Formula Growth Alpha II Cl B	37	21.5%							
Picton Mahoney Long/Short Emerging Mkts- A	4	21.3%							
JC Clark Focused Opportunities A	20	16.7%	2.8%	1.6%		-10.0%	3.4%	12.9%	-11.8%
Formula Growth Global Opportunities Cl 5	21	16.6%	-0.1%			-21.5%	9.0%	16.8%	
Calrossie Partners Fund	11	16.6%	11.9%			-0.1%	20.1%	36.8%	
Vertex Fund-A	1,044	14.8%	6.6%	5.9%	14.4%	-11.7%	19.5%	84.2%	-40.3%
Formula Growth Hedge Fund Class A	180	13.8%	4.7%	6.8%	16.6%	-6.5%	7.9%	16.8%	3.8%
JC Clark Preservation Trust B	80	12.7%	-3.2%	2.4%	3.9%	-13.2%	-7.3%	2.3%	21.6%
JM Catalyst Fund	10	12.6%	14.0%	11.7%		11.2%	18.2%	12.5%	4.6%
S&P/TSX Total Return		7.2%	4.8%	0.8%	9.2%	-8.7%	17.6%	35.1%	-33.0%
S&P 500 Composite Total Return Ibx(\$Cdn)		13.5%	9.0%	1.8%	2.3%	4.4%	9.4%	8.1%	-21.9%

Source: Lipper ; * Will not disclose assets

quarter of her long-short portfolio is invested in a strategy where she has bought convertible bonds of companies such as Alliance Data Systems Corp. and Equinix Inc., but is shorting their underlying stocks.

Last year, the fund made mon-

ey by buying beaten-up gold, energy and materials stocks in the late spring (names like Sunco, Canadian Natural Resources, Agrium and Potash Corp.) and selling them in the fall after they rallied. It also benefited from shorting stocks such as Chipotle

Mexican Grill and Buffalo Wild Wings. "The strategy is fairly active," she said. Last week, she made a tiny profit from owning the volatile shares of Apple Inc. briefly on both Thursday and Friday after its latest results disappointed investors.