

Mountjoy Hedge Fund Report

Absolute_Return_Strategy

May 2009

Description

Style: Equity Long Short

AUM: 500M

Somewhere Nice

Backgrounds

Absol Generator, PM: Head of proprietary trading desk at Broker (98-02), Trader at Trading Firm (93-98), and Trader/Analyst at Investment Management (90-93)

Supported by 2 analysts and a trader, 6 employees overall.

Strategy

This fundamentally-based equity long-short strategy combines independent research and thinking along with proven active trading skills. Some of the idea generation stems from the monitoring of price action. All positions are supported by the portfolio manager's macro views and overall market sentiment. The book has two layers: (1) core and (2) active trading in current and trading-specific positions.

The core long book will represent about half of the portfolio and much of the core portion is on the long side. The core long positions are overlaid with a 10%-20% trading layer. The short book is for the most part (40%-70%) actively traded as well, in mid or large caps and ETFs. The ETF's may represent up to 50% of the short side. The short side may also be used to mitigate specific or market exposures already expressed on the long side.

The portfolio manager continually keeps a pulse of the market price action, psychology and news flow in each name he trades. Each name will have its specific stop, based on its own volatility characteristics.

Not more than 5% of the capital will be at risk in any single name. In benign markets, the small cap component may represent up to 50% of the long book but this is greatly reduced in volatile markets and when liquidity is tight.

The macro view is developed through an evaluation of the consumer and market sentiments, trends, underlying fundamentals, as well as through stock-specific research in both value and growth names.

They will not buy a stock until the growth driver is confirmed by the market. They like contrarian bets although they do not dwell on adopting a contrarian style. They look for overlooked or undervalued situations, given their evaluation of market themes and economic trends. The PM is claimed as an "independent thinker" rather than a contrarian. The analysis includes a review of the financials and its trends, corporate investor communications, insider actions, and monitoring external research. The technical and market sentiment assessment helps support the timing of entry and exits on both core and trading positions.

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The portfolio will typically hold 45-70 longs and 25-35 shorts, max 1%-2% at entry. A favorable market movement will allow the manager to increase a position to 10%. The portfolio overall net exposure is also very dynamic and can change 5%-6% in a single day through trading in single stocks and ETF's. Annual turnover is over 20 times.

The PM thinks that we have already seen the market bottom but he is not optimistic on his short-term macroeconomic view. During the second half of 2008, the long book decreased to 26% from 75% and the short book decreased to 41% from 70%. This resulted in a relatively aggressive net short portfolio posture. Much of the small and mid capitalization was taken out in the process.

The PM is now optimistic on selective retail and consumer discretionary names, in part due to diminished competition. As well, he is looking into the energy generation sector (utilities) and the natural gas business.

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Rating

Backgrounds	2/3
Alignment	3/3 (x2)
Process (Deliberate & Repeatable)	3/3 (x2)
Idea Generation	3/3 (x2)
Core + Opportunistic Trading	3/3
Dynamic Exposure Calibration	3/3
Strategy Skew	3/3 (x2)
Underlying Liquidity	1/3 (x2)
Pulse of Risk and Return drivers	3/3
Discipline (PM & Process)	2/3 (x2)
Unique Features/Advantages	1/3
Catalyst Push	0/3
Market Sentiment	3/3
Infrastructure	2/3 (x2)
Overall:	78/100

Bottom Line

This portfolio manager generates alpha in all market environments. This is large part due to the dynamic sizing of individual positions and calibration of the net and gross portfolio exposures. This is a real hedge fund strategy. A follow-up is strongly recommended.

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