

FINANCIAL POST

BY BARRY CRITCHLEY

Monday, March 3, 2008

130/30 is Popular New Option

Mention a 130/30 fund — as we did this week with the news JP Morgan had signed up its first pension fund, which agreed to ante up US\$100-million — and what follows is the news that at least five other providers are also offering the same product. The 130/30 strategies — in effect where the manager is 130% long a basket of stocks and 30% short a different basket — “is where the alternative manager can pitch the core [mandate] into the core because it uses the benchmark and it’s where managers bring all their portfolio construction skills,” said **Chris Guthrie**, co-founder of **Hillsdale Investment Management**, which has had a Canadian 130/30 fund for about five years.

“The 130/30 is a beta-one product that includes long-short skills.”

Barclays Global Advisers - The firm has a 130/30 fund that focuses on U.S. and international stocks. While it doesn’t have an official domestic version, it does offer long-short funds.

Connor, Clark & Lunn - as part of what it calls “equity extension strategies,” the firm offers three such funds: two 120/20 funds that invest in Canadian equities securities and a 130/30 that invests in North American equities. Two of the funds use a quantitative approach to picking stocks, while another (the 120/20 Canadian) uses fundamental research. The three have been around since April, 2007, and the 120/20 Canadian quantitative fund has about \$500-million in assets.

The other two are much smaller. At the end of 2007, its 120/20 Canadian fund was long to 219 stocks and short 136 stocks. The goal is to generate returns that exceed the benchmark by about 300 basis points. In essence, the strategy seeks to exploit the fundamental mis-pricing of securities, by adding value from long positions in stocks expected to perform the best and short

positions in stocks expected to perform the worst.

Hillsdale - The firm’s Canadian 130/30 strategy targets gross annual returns in the range of S&P/TSX composite plus 5% range with a 3% tracking error. (The fund is home to about 100 stocks.) Last June, it seeded a U.S. 130/30 strategy with target returns being the S&P 500 index plus 10% with a 5% tracking error. (That fund is home to 250 stocks.) Hillsdale has a so-called nursery program where it funds investment strategies to see how they perform. (The return target and tracking error of both mandates can be customized.) Guthrie said there are no limits to the numbers of names in Hillsdale’s 130/30 strategies.”

The number of names and the size of the active bets should scale with the strength of the manager’s conviction, the risk budget of the strategy, the volatility of the market and the inter-stock correlation in the index. All these factors are constantly changing, as should the number of names,” he said, adding for the U.S. fund the long and short bets are placed in the Russell 3000 “because a greater breadth of observations makes for a more efficient portfolio.”

Integra Capital - The firm has one such fund — a US 130/30, which has been around for two years and three more (EAFE, Global, and U.S. Large Cap) in the works. Its U.S. fund is managed by Analytical Investors and has assets of less than \$100-million.

TD Asset Management - Last June, the firm launched two such funds — one on Canadian stocks; the other on U.S. stocks — both of which use quantitative strategies. Last December, it launched a Canadian fund based on fundamental research.