

## 130/30 now the big investment trend; Limited Shorting

David Pett

Acuity Funds Ltd.'s new pooled fund for high-net-worth clients -- those who meet the so-called accredited rules for sophisticated investors -- is looking to capitalize on a popular investment trend south of the border that allows investors to go long and short at the same time.

Named for the strategy it employs, the new Acuity Pooled 130/30 Fund -- one of the first of its kind in Canada -- was launched in May. It invests in equity markets by shorting a number of stocks and, using the proceeds from the shorts as well as the original investment in the portfolio, purchases stocks long.

For each \$1-million investment, for example, \$1.3-million, or 130%, is held in a long position and 300,000, or 30%, is held in a short position. Hence the name 130/30.

In the United States, demand for 130/30 strategies is red hot, with current estimates south of the border claiming more than US\$50-billion is invested in 130/30 investment strategies, mostly at the institutional level. By some forecasts, 130/30 business could reach US\$500-billion to US\$1-trillion in total assets by 2010.

It's based on that growing demand stateside that Warren Fenton, one of the fund's portfolio managers, believes there is massive opportunity for the 130/30 concept here in Canada. Toronto-based Acuity is "effectively a long position manager," Mr. Fenton says, but the fund company looked at the huge growth in 130/30 strategies in the States and decided to bring it to Canada. Says Mr. Fenton: "It's a different product and conceptually it makes a whole lot of sense."

The overall goal of the 130/30 fund is to add incremental value, or alpha, for investors without increasing their risk profile. The long position for the fund is structured like Acuity's Canadian Equity Fund, primarily a large-cap portfolio that includes some foreign investment.

Mr. Fenton says a small portion of the 130/30 fund's long position is augmented by select small-cap ideas that he calls "special situations."

For the short position, the strategy is simply to choose stocks in the weakest areas of the stock market. Currently, 90% of the fund's short position is centred on the U. S. financial and consumer-discretionary sectors.

Many potential investors might consider the 130/30 strategy a recipe for disaster, based on concerns that shorting could lead to unlimited or very large losses. While he admits that shorting a lot of wrong names in a bull market would definitely reduce the fund's return, Mr. Fenton stresses that the amount of shorting is modest compared with typical hedge funds, which have considerable discretion on how much stock they sell short.

"Say we have 60 names in our long position. That means we only need maybe 15 clunkers to short. We don't think that should be too difficult," he says, adding: "In the past we had companies that we thought, 'Wow, that's a stinker,' and a no-brainer to short. We couldn't offer that upside to our clients before. Now we can."

**For more information on the  
130/30 Acuity Fund, contact  
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