

# HEDGE FUNDS' FRESH COMMODITY BET: PLASTICS

Investors are diversifying beyond gold as inflationary pressures seep into food and energy.



REUTERS/LUKE MACGREGOR

BY JENNIFER ABLAN AND AL YOON  
NEW YORK, MARCH 7

*"Just one word ... plastics."*

That well-known line from the classic 1967 movie "The Graduate" may sum up the recent investment strategy of some top hedge fund managers, including James Dinan and David Einhorn.

A wave of managers snapped up shares of LyondellBasell Industries, which makes chemicals like propylene and polyethylene, the stuff that goes into plastics.

The popularity of plastics and raw materials signals that hedge funds are diversifying commodity bets beyond gold, the darling of 2010 returning 30 percent, as inflationary pressures seep into food and energy.

Top hedge funds' bets on LyondellBasell and other raw materials producers like Penn West Petroleum and Repsol YPF SA suggest investors are seeking out commodity-related plays as the global economy wiggles out of a bruising recession.

LyondellBasell -- the third-largest chemical maker in the United States -- was certainly hurt by the downturn, declaring bankruptcy in early 2009.

But after LyondellBasell emerged back onto the public markets in October, Dinan's York Capital Management and Einhorn's Greenlight Capital, along with Andreas Halvorsen's Viking Global Investors and Thomas Steyer's Farallon Capital

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Management disclosed their stakes in the company.

“LyondellBasell produces a commodity that goes into a lot of things we use every day,” said Matthew Eagan, portfolio manager at \$150 billion Loomis Sayles in Boston.

Propylene is a molded plastic used in making rope, clothing, car parts and many other common products. Polyethylene is the most common plastic, used in products from shopping bags to bullet-proof vests.

Global growth is on the rebound, led by nearly 10 percent growth in China, whose urbanization and industrialization have turned it into the world’s top consumer of many commodities. This growth and the climbing price of oil could trigger half a trillion dollars of commodity investments by the end of this year, according to Barclays Capital.

“Inventory levels generally remain tight, supply disruptions continue to add further supply pressure for multiple commodities, and demand generally continues to grow in emerging markets and recover in developed markets,” said Nelson Louie, global head

*THERE ARE OBVIOUS RISKS THAT COULD PUT A DAMPER ON MANY COMMODITY PRICES.*

of commodities at Credit Suisse Asset Management.

Staples like wheat, rice and corn have reached record prices, and gold jumped above \$1,400 an ounce recently.

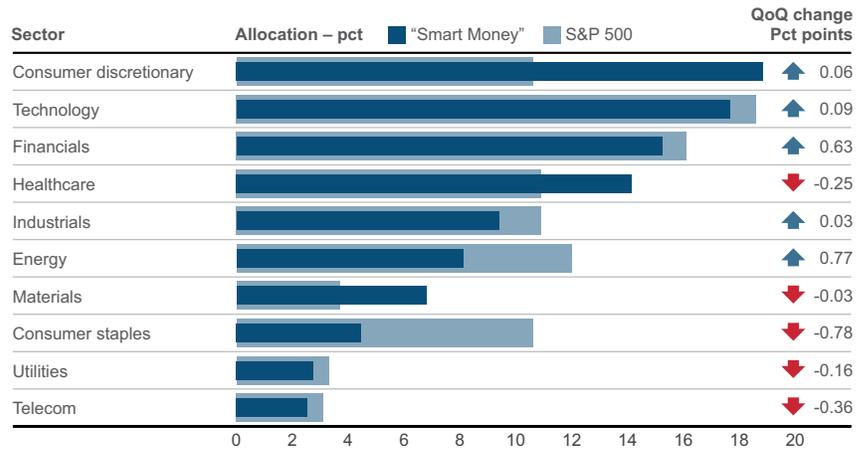
To be sure, there are obvious risks that could slow growth and put a damper on many commodity prices. Rising political tension in the Middle East and North Africa have sent oil surging 7 percent since December. Though still manageable, further increases could deal a significant blow to the economic rebound, another Barclays report said.

Still, the “Smart Money 30,” a group of some of the largest stock-picking equity hedge funds, is betting big on commodities. The group is comprised of funds reporting the highest dollar value of equities in quarterly filings. Funds with more than 200 positions are excluded to avoid quantitative and rapid trading strategies.

Collectively, the group had almost 7 percent of its reported assets tied up in the materials sector at the end of 2010, double the sector’s weight in the Standard & Poor’s 500 index, according to data compiled by

## “Smart money” sector allocation

Year-end portfolios of the 30 “Smart Money” hedge funds overweighted consumer discretionary stocks like Nike and Sears as well as health care stocks like Express Scripts and Pfizer.



Source: Thomson Reuters

Reuters graphic/Stephen Culp



25/02/11



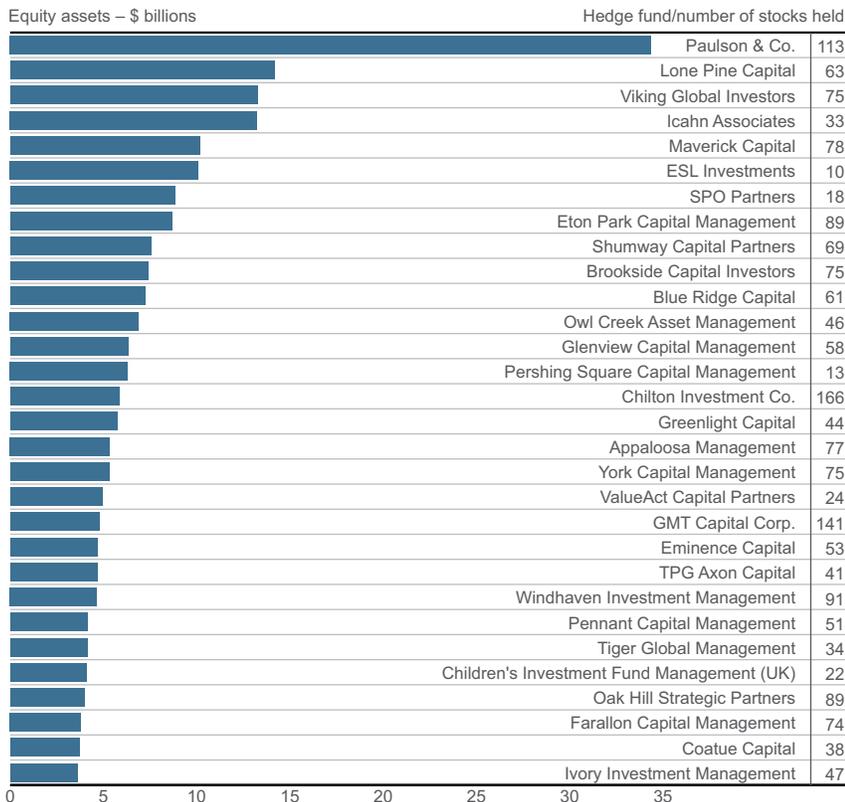
SEPARATE YOUR PLASTIC AND GLASS: Conveyor belts transport plastic through the Closed Loop recycling plant in Dagenham east London February 17, 2009. REUTERS/LUKE MACGREGOR



**GAS FIRE:** Exhaust gases from an oil rig burn near the village of Cojimar on the outskirts of Havana May 7, 2010. Spanish oil giant Repsol YPF has contracted with a unit of Italian oil company Eni SpA for a drilling rig. **REUTERS/DESMOND BOYLAN**

## Top 30 "smart money" firms, Q4 2010

Top 30 stock-picking hedge funds ranked by total asset value.



NOTE: Data as of Dec 31 2010. Funds with over 200 positions excluded. Equity assets include U.S.-traded equity securities listed on each firm's 13-F form filed with the SEC  
Source: Thomson Reuters



25/02/11

Reuters graphic/Stephen Culp

Thomson Reuters.

LyondellBasell was the No. 2 new holding by dollar value for the Smart Money group in the fourth quarter, behind only General Motors.

Several other commodity-oriented stocks also dominated the top 10 new positions during the quarter, reflecting ever-increasing global demand for food, energy and materials. The top 10 included Penn West, Repsol, Del Monte Foods and Massey Energy.

"All of these are somewhat good commodity hedges," said Loomis' Eagan, whose firm has also taken on commodity plays, including the debt securities of Del Monte.

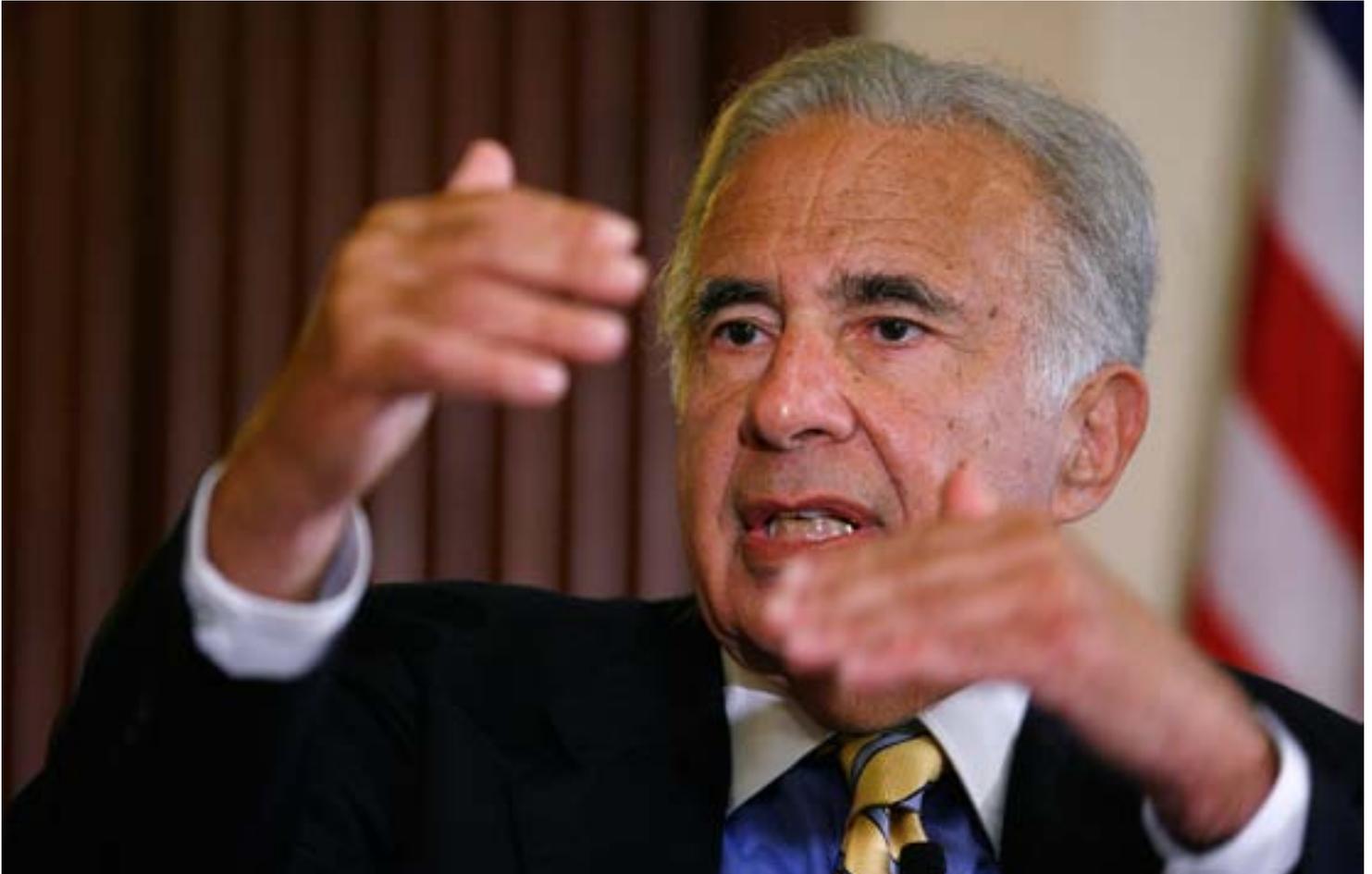
Hedge funds likely saw gains on merger and acquisition activity for Del Monte and Massey Energy, and it is unclear whether their bets run deeper.

Del Monte shares soared 31 percent in November as private equity firm Kohlberg Kravis & Roberts made a bid for the company.

Massey's stock jumped 17 percent in January after the coal miner agreed to a \$7 billion takeover offer from Alpha Natural Resources. The stock drifted lower after the company reported a third straight quarterly loss.

(Additional reporting by Ernest Scheyder in New York; editing by Aaron Pressman and John Wallace)

# FEISTY ICAHN ENTERS 2011 READY FOR BATTLE



ICAHN OF INDUSTRY: Investor Carl Icahn speaks at the Wall Street Journal Deals & Deal Makers conference, held at the New York Stock Exchange, June 27, 2007. REUTERS/CHIP EAST

BY EMILY CHASAN  
NEW YORK, MARCH 7

Carl Icahn turned 75 last month, but the activist investor is a long way from riding off into the sunset.

On the contrary, the billionaire is shaking up corporations and dominating headlines with the same prowess he has shown for three decades.

Whether battling for control of power company Dynegy Inc, pushing cell phone and computing company Motorola to break itself up, or bidding for chip design software maker Mentor Graphics Corp, Icahn is on track for one of his busiest years ever.

But he says his recent spurt of activity simply reflects the feast or famine nature of his quest for undervalued companies.

"Most companies can do something to make themselves more effective and enhance value," Icahn said in an interview with Reuters. "These opportunities sometimes come not in a very orderly sequence, but you can get three or four that work well right at the same time."

With disclosed U.S. equity positions worth \$13.2 billion, Icahn ranked fourth among the "Smart Money 30" group at the end of 2010, according to data compiled by Thomson Reuters. The group includes some of the largest stock-picking equity hedge funds, led

by John Paulson's Paulson & Co and its \$34.4 billion.

Hedge funds, which on average returned only 4.5 percent last year, have been betting that shareholder activism will be one of their winning strategies for 2011. Where strategies like classic long-short equity trading have stumbled in volatile markets, activists like Icahn and Pershing Square's Bill Ackman are seeing some of the strongest returns in the industry.

The Icahn Partners fund is up about 8 percent this year, according to a person with knowledge of the fund, beating the 5 percent rise in the Standard & Poor's 500 index. Icahn declined to comment on returns.

Strong bets on natural gas producer Chesapeake Energy and drugmaker Genzyme Corp have boosted the fund's performance recently.

**FORCE FOR CHANGE**

OVER THE PAST six months, Icahn's fund made more than \$400 million on his bet on Chesapeake. The natural gas giant was an object of scorn two years ago for buying Chief Executive Aubrey McClendon's antique map collection for \$12.1 million.

But since Icahn disclosed acquiring a 5.8 percent stake in December, the company has announced plans to cut spending, sell assets and reduce debt. That will slow expansion but improve profitability.

His activism at Genzyme eventually pushed the company to sell itself for \$19 billion to Sanofi Aventis SA, generating about a \$300 million gain for Icahn.

"Happily, our activism in these situations has worked very well," Icahn said. "We go in as activists, we change the landscape, and we're forces for change in every company we are involved with, one way or another."

When Icahn takes a new position in a firm, the announcement typically triggers a 10 percent rise in the company's stock price, according to a study published by professors at Oklahoma State University and Texas A&M in December.

The study also found that Icahn was able to achieve at least one of his objectives for change in over half of the companies that remained independent.

Icahn, who began buying controlling stakes in companies in 1978, is perhaps best known for buying struggling companies out of bankruptcy, but as big bankruptcy filings have tapered off since 2009, there are fewer opportunities there.

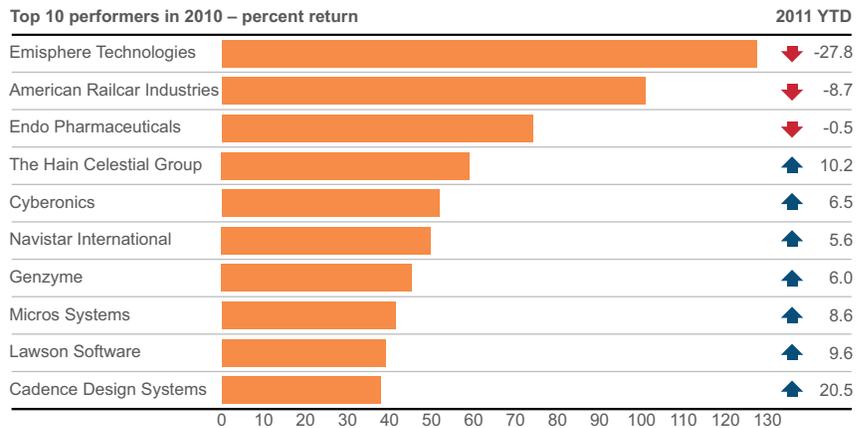
Instead, he has focused on undervalued equities, said Thomas Lauria, head of the global financial restructuring and insolvency group at law firm White & Case, who has worked with Icahn on restructurings like WCI Communities, MGM and Marvel Comics. "He just seems to have a sixth sense for understanding a hidden value," Lauria said.

Power plant owner Dynegy is a recent example. Last year, Icahn and hedge fund Seneca Capital defeated a bid for the power company from private equity firm Blackstone Group. Icahn launched his own offer for the company, but Seneca complained that even Icahn's bid was too low.

Dynegy's management and board resigned

## Carl Icahn's top performing holdings in 2010

With about \$13.2 billion in equity holdings as of Dec. 31, 2010, billionaire activist investor Carl Icahn is ranked fourth in the quarterly "Smart Money" survey of 30 of the largest stock-picking hedge funds conducted by Thomson Reuters. This is how some of his top holdings have performed.



Source: Thomson Reuters data, SEC filings

Reuters graphic/Stephen Culp



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### "THERE IS NOT ENOUGH ACCOUNTABILITY!"

last month after failing to sell the company. Icahn, who still owns a stake of about 10 percent, is seeking two seats on the board.

"The whole corporate governance system is dysfunctional, and as a result we in the United States are having trouble competing," Icahn told Reuters. "While there are some exceptions, there is not enough accountability. I think my making all these profits proves that."

Icahn declined to go into specifics about his strategy at Dynegy and other pending situations.

Not everyone is convinced that his bid to wrap himself in the mantle of good corporate governance bears scrutiny.

"When he actually owns a majority of the company, he does exactly the opposite of what he was just screaming about when he was a minority shareholder," said Scott McCarty, a portfolio manager at Q Investments who went to court against Icahn over telecommunications company XO Holdings Inc.

Q Investments has alleged in lawsuits that Icahn and his friends on the XO board have prevented several attempts to sell the company.

For his part, Icahn, who owns a majority of the company, says he has pumped millions of dollars into XO to keep it afloat, and offered other shareholders an opportunity to put in cash, but they declined.

"Without my injection of capital, I believe the company at this time would be insolvent,"

he said. "That has certainly helped other shareholders."

**A SON ALSO RISES**

ICAHN CAN BE quite persistent.

He was movie rental chain Blockbuster Inc's largest shareholder and served as a board member for years after winning a proxy battle in 2005.

As the company hurtled toward bankruptcy last year, he resigned from the board and sold his stock at a big loss. But he bought up a big position in the company's debt ahead of its bankruptcy, and he is considered a leading contender to bid on its assets at an auction next month.

Icahn is increasingly working with his son Brett, who has been a driving force behind recent positions in stocks like Hain Celestial and Clorox.

Brett, a Princeton graduate like his father, has been working with Icahn for a decade. The portfolio Brett manages with his partner, David Schechter, has seen a 50 percent return in the last eight months, Icahn said.

"There really is no nepotism. If anything, it's more difficult for him, but he's proven out really well," Icahn said.

Icahn shows few signs of surrendering the stage to the next generation entirely.

"I enjoy doing it," he said. "It's sort of like a chess game. I find it fascinating ... What else would I do?"

(Editing by Aaron Pressman and John Wallace)



GOLDEN DELICIOUS OR SOUR?: The Apple iPad 2 is shown during its launch event in San Francisco, California March 2, 2011. REUTERS/BECK DIEFENBACH

# TOP FUNDS SELL SOME APPLE, GOOGLE

BY BILL RIGBY  
SEATTLE, MARCH 7

**N**ERVOUS ANALYSTS HAVE worried for years that the stellar stock prices of technology giants Apple Inc and Google Inc could tumble back to earth.

Now some top hedge fund managers like Steve Mandel and Lee Ainslie appear to be acting on those concerns.

Mandel's Lone Pine Capital and Ainslie's Maverick Capital cut their stakes in both Apple and Google in the fourth quarter. And they were far from alone, as a bevy of other top managers also trimmed, according to a Thomson Reuters survey of filings of the "Smart Money 30," some of the largest stock-picking equity hedge funds.

Apple's stock price has doubled in the past 18 months as the iPhone and iPad have set the pace in the battleground for mobile computing. Google has doubled over 24 months as it has tightened its grip on the web search market.

But a host of hungry rivals are now chasing Apple's iPad hard, including Hewlett-

Packard, Motorola and Research in Motion, while a question mark hangs over the health of Apple Chief Executive Steve Jobs.

Meanwhile, Google faces its own challenges to web supremacy from social-oriented sites like Facebook, Twitter and Groupon.

"Apple is a company that has to come up with hit after hit after hit, every 12 to 18

## INTERACTIVE

For data on Apple, Google and their rivals, click here:

<http://r.reuters.com/jur38r>

months," said Patrick Becker Jr. at Becker Capital Management. "But once you do the iPhone on Verizon, what's the next thing past this? Apple's five-year growth rate has been 58 percent on earnings -- that's got to slow going forward."

Google is at an uncertain transition point, said Bryan Keane, equity analyst for the Alpine Mutual Funds. "The ad market is maturing and the mobile business is only a

small part of it at this time. From a hedge fund perspective, it may not look as interesting."

### APPLE'S LAST BITE?

**BOTH APPLE AND** Google's price-to-earnings valuations ticked up toward the end of last quarter and are higher than rivals such as Microsoft Corp and IBM.

But at around 15 times and 17 times estimated earnings for the next 12 months, respectively, Apple and Google are still well below historical averages. Taking into account the billions of dollars on their balance sheets, the stocks look even cheaper, several fund managers said.

Apple "is a very cheap stock at a very cheap multiple with an extremely high growth rate," said Mike Binger, fund manager at Thrivent Financial. "I see this company growing 20 percent-plus, top and bottom line, at least for the intermediate term."

Wall Street is estimating a 51 percent increase in Apple's profit per share this fiscal year, but only a 14 percent increase for the year after, ending in September 2012.

By that time, Apple may have exhausted

its penetration into the consumer market and will face price competition from a host of rivals to its iPhone and iPad, said Becker.

Hedge funds selling Apple in the fourth quarter may also have anticipated the announcement in mid-January that Jobs, the talismanic CEO, would take indefinite leave for health reasons.

Short sellers have targeted the stock in the wake of the news. Short interest positions on Apple are up 64 percent since mid-January, according to Nasdaq, though they represent a puny 1.2 percent of free float shares outstanding.

A lively Jobs allayed some concerns on Wednesday as he presented the company's new iPad. But uncertainty remains.

"There are some added concerns surrounding Steve Jobs from a health perspective," said Keane. "You might have seen some people taking some profits."

**BIG-NAME SELLERS**

ALONGSIDE LONE PINE and Maverick, sellers of Apple in the fourth quarter included Julian Robertson's Tiger Global Management, Domenic Ferrante's Brookside Capital, and John Griffin's Blue Ridge Capital, according to regulatory filings.

Eminence Capital was the biggest seller of Google shares, while Brookside and Lone Pine completely sold off their holdings in the Internet giant.



EVENT VERIZON: A customer holds iPhones she purchased shortly after the phone went on sale with the Verizon Wireless network in Boca Raton, Florida February 10, 2011. REUTERS/JOE SKIPPER

The law of large numbers means it will be hard for Google to post stunning growth in future, which makes faster-growing companies more attractive investments for hedge funds, said Keane at Alpine.

"Just getting to the size Google has gotten

to and becoming a more mature company means there are other names in technology that are growing more rapidly, such as VMware or Salesforce.com," he said.

The market is still waiting for incoming Google CEO Larry Page to put his leadership stamp on the company he co-founded 13 years ago.

Short positions in Google are up 16 percent this year, but account for just 1.4 percent of free float shares outstanding.

Both Apple and Google shares are likely to take a knock this year, said Channing Smith, co-manager of the Capital Advisors Growth Fund, if only as the broader market runs out of steam.

"We would not be surprised to see a near-term correction for the overall market," Smith said. "Bullish investor sentiment is in the nosebleed section at this point. Apple and Google have had enormous runs; it could just be a simple profit-taking exercise."

But the underlying businesses for both companies look strong, Smith maintained.

The end of last year was not a bad place for short-term investors like hedge funds to sell Apple, said Thrivent's Binger. "If they owned it for the whole year of 2010, they made a fantastic profit on it, so why not take some profits?"

(Editing by Aaron Pressman and John Wallace)



IS THIS THE DROID YOU'RE LOOKING FOR: A IDEOS S7, Huawei's Android tablet, is displayed during the GSMA Mobile World Congress in Barcelona February 17, 2011. REUTERS/GUSTAU NACARINO

# FUNDS MAKE A PLAY FOR RIM'S PLAYBOOK



**RIPE OFF THE BUSH:** A prototype of Research In Motion's BlackBerry PlayBook, a 7-inch tablet, is displayed at the 2011 International Consumer Electronics Show (CES) in Las Vegas, Nevada January 5, 2011. REUTERS/STEVE MARCUS

*"YOU'VE STILL GOT A LOT OF FOLKS THAT ARE SKEPTICS."*

**BY ALASTAIR SHARP**  
TORONTO, MARCH 7

RESEARCH IN MOTION'S shrinking North American market share has made it a punching bag for short-sellers, but some top hedge fund investors are making a contrarian bet that the BlackBerry maker is due for a strong rebound.

With its Playbook tablet computer due to ship soon and a broader BlackBerry smartphone refresh to follow, RIM saw its shares snapped up by funds of Richard Chilton, Christopher Shumway and Bain

Capital's Brookside Capital Investors in the fourth quarter, according to data compiled by Thomson Reuters.

That made the stock one of the top new positions for the quarter in the portfolios of the "Smart Money 30," some of the largest stock-picking equity hedge funds.

For years, the Canadian company has been a favorite of short-sellers who see its dominance of corporate communication waning as consumer-friendly devices such as Apple's iPhone intrude.

Many investors have ignored RIM's tremendous international growth amid

slipping market share in North America, where Apple and Google's Android grab most of the headlines.

"You've still got a lot of folks that are skeptics, and that in itself is reasonably compelling because it implies the potential for more demand for the stock," said analyst Matthew Robison of Wunderlich Securities, who has a price target of \$76 for RIM shares.

RIM's revenue outside the United States, Canada and Britain more than doubled to \$5.6 billion in the first nine months of the company's fiscal 2011. Revenue in its three major markets rose less than

6 percent to \$8.8 billion.

And the upcoming PlayBook offers impressive technical specifications amid talk that its QNX operating system could get a boost by being able to run tens of thousands of apps made for Android. BlackBerry sales could also benefit from stumbles at Nokia, which abandoned its Symbian software to team up with Microsoft.

All that made for an appealing value play, in the eyes of the smart money. RIM could be bought for as little as \$48 -- less than 9 times forward earnings expectations -- early in the fourth quarter, days after it unveiled the PlayBook. Even after a strong run so far this year, with the shares up about 17 percent to almost \$68, RIM's earnings multiple remains under 11.

### CATCHING ON

WALL STREET MAY be catching on as well. Morgan Stanley and Citigroup analysts are among those who have changed their tune on RIM lately, upgrading ratings and raising price targets. Morgan Stanley analyst Ehud Gelblum expects the company to earn \$7.23 per share in the fiscal year begun last month, including 40 cents to 60 cents from PlayBook sales.

"PlayBook is a very creative solution to

a challenging issue for the company, both in terms of buying QNX and implementing a tablet with it, and creating a target for application developers utilizing a new operating system that can later be deployed in handsets," said Wunderlich's Robinson.

RIM paid C\$200 million for QNX in a deal completed last April; PlayBook will be its first product to integrate the software, which is used in nuclear power stations, the largest Internet routers, and scores of vehicle infotainment systems.

RIM executives say future BlackBerry smartphones will also use QNX as well as other innovations such as swipe payments.

To be sure, the competition is only getting stronger. That was obvious on March 2 as Apple matched many PlayBook features with an updated version of the iPad. Apple's popular tablet single-handedly ignited the market for the devices perched between laptops and smartphones.

Worse, iPad 2 will ship on March 11 in the United States and to 26 more countries by March 25. RIM, which announced the PlayBook on Sept. 27, has not yet said when it will ship.

Some doubt RIM can rise much further, given expected pressure on its margins and a short-lived PlayBook bump.

"To me, RIM is very expensive because the sort of margins they are making today are not sustainable given their position in the market," said Pierre Ferragu from Sanford Bernstein.

By his pessimistic calculations for limited earnings growth in its new fiscal year, RIM can't be considered a value buy.

"They are not meaningfully cheaper than Apple on earnings metrics," he said. "At the slightest weakness I would expect a lot of this money to get away very quickly."

Many analysts and investors have grown impatient waiting for the PlayBook as more and more competitors announce similar devices that are making it to market first.

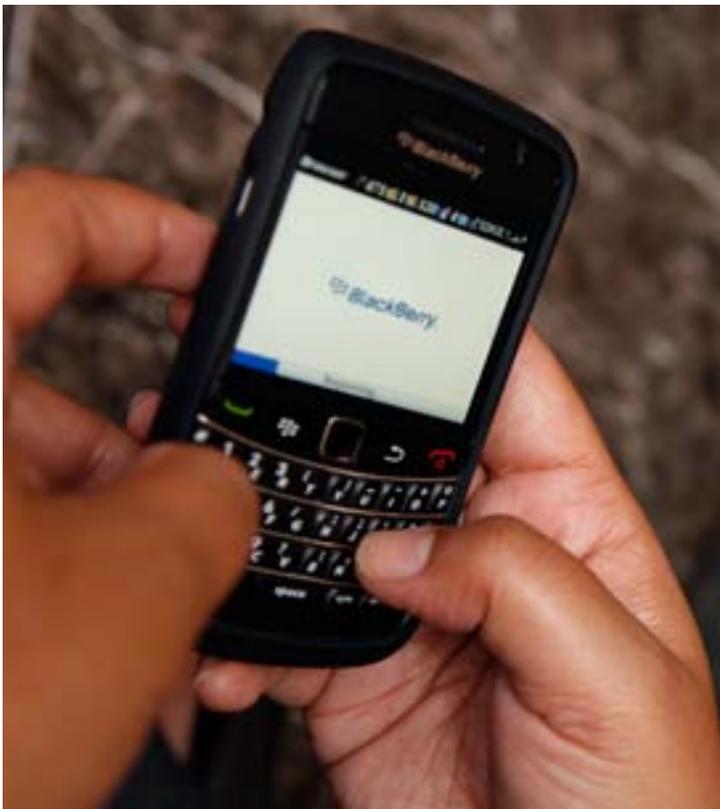
But after a decade at the top of the pile and with a plan for the future coming into focus, wily investors may choose to gloss over immediate competitive concerns to see RIM repositioning itself for its next decade of growth.

(Editing by Aaron Pressman and John Wallace)

## INTERACTIVE

For data on Research In Motion and its rivals, click here:

<http://r.reuters.com/quv38r>



**THUMBS OF THUNDER:** A person surfs the internet through a BlackBerry in Jakarta January 10, 2011. REUTERS/ENNY NURAHEN



**LEGEND IN ITS TIME:** An HTC Android-based smartphone Legend is displayed during a news conference in Taipei March 24, 2010. REUTERS/PICHI CHUANG



**AT THE CONTROLS:** Vikram Pandit, Chief Executive Officer of Citi, uses an interactive sales wall during the opening of Citi's new flagship branch at Union Square in New York, December 16, 2010. REUTERS/SHANNON STAPLETON

# CITI IN, GOLDMAN OUT AT TOP FUNDS

**BY MARIA ASPAN AND BEN BERKOWITZ**  
NEW YORK, MARCH 7

Top hedge funds turned conventional wisdom on its head in the fourth quarter by swapping out Wall Street powerhouse Goldman Sachs Group Inc for battered bailout survivor Citigroup Inc.

Viking Global Investors manager Andreas Halvorsen sold off all his shares in Goldman while adding to his stake in its commercial banking rival.

Halvorsen was part of a broad rush toward Citigroup, which ended 2010 as the most popular holding of the "Smart Money 30," a group of some of the largest stock-picking equity hedge funds.

Investors are betting on brightening prospects for the third-largest U.S. bank

-- and insulating themselves from the regulatory risk hanging over Goldman Sachs and other investment banks. Regulatory restrictions on proprietary trading have forced Goldman to close down some of its operations, and investors are uncertain about how the firm can grow long-term revenue when its core businesses are curtailed.

"To the extent that banks are going to be restricted from betting on market movements with their own capital, that creates headwinds to Goldman Sachs' business model," said Adrian Cronje, chief investment officer at Atlanta-based wealth manager Balentine, which indirectly owns bank stocks.

"People are more interested in boring old businesses in the financial sector that take deposits and create high-quality loans," he said.

Other hedge funds buying into Citigroup or increasing their stakes in the fourth quarter included Coatue Capital, Eminence Capital and Lone Pine Capital.

Chilton Investment Co and Lee Ainslie's Maverick Capital sold out of Goldman.

Not everyone followed the trend, though. Chilton also sold out of Citi, and Brookside Capital Investors sold out of Citi even as it raised its Goldman position nearly 10 percent.

## COMEBACK MOMENT

THE INVESTMENT BANKING sector has not been kind to either Goldman or Citigroup; both struggled with slumps in trading and underwriting volumes in later 2010. Citigroup especially surprised investors by posting a 58 percent decline in fixed-income trading for the fourth quarter.

But unlike Goldman, Citigroup has the steadier -- albeit more boring -- businesses of lending and deposit-taking to fall back on, especially in emerging markets, where it is stronger than Bank of America Corp and JPMorgan Chase & Co.

Citigroup is also enjoying something of a comeback moment, having shed the shadow of government support and reported its first full-year profit since 2007. The bank took \$45 billion in U.S. bailout funds during the financial crisis and counted the government as a shareholder as recently as December.

Its share price rose almost 43 percent in

2010, closing the year at \$4.73. Contrast that with Goldman, which was basically flat on the year.

"Going into year-end you had the government sell-down, you had positive news just coming out of Citi in general that things were improving," said Alan Villalon, an analyst at Nuveen Asset Management.

"Goldman had probably more regulatory stuff to deal with, and Citi is trying to expand internationally and in emerging markets," he said.

There are also downsides for Citigroup's involvement in traditional banking. U.S.

commercial banks struggled to grow amid weak demand for new loans last year. And turmoil in the Middle East and rising oil prices could hurt the economy in 2011.

Citigroup's share price has fallen recently on general concerns about unrest in emerging markets and its concentration in those markets.

Both Citigroup and Goldman trade at a discount to the overall banking sector, although Citigroup is cheaper than Goldman, according to Villalon, whose firm owns shares of both banks.

Citigroup shares trade at about their tangible book value, while Goldman trades

**"GOLDMAN HAD PROBABLY MORE REGULATORY STUFF TO DEAL WITH, AND CITI IS TRYING TO EXPAND INTERNATIONALLY."**

at a multiple of about 1.3, he said. Banks in general trade at multiples of 1.3 to 1.5.

**LESS TRADING**

CONCERNS ARE GROWING about Goldman's ability to profit in a world of declining bond trading and increasing regulation.

Systematic declines in fixed income trading are eating into a business that once gave Goldman more than a quarter of its revenue. Myriad new regulations will deprive it of once-lucrative opportunities to trade for its own account.

"There are challenges to their business model that may wind up being more pronounced than for a broader bank, or bank/broker," said Roger Freeman, investment banking analyst at Barclays in New York. "Citi and the other universal banks have the same issues, but as a percent of their total business, it's less."

Even among Wall Street analysts, sentiment is starting to shift against Goldman. Three months ago, only three analysts had a "hold" rating on the stock, with the rest at "buy" or "strong buy." Now, six have a "hold" rating.

"I don't think Goldman is no longer an excellently run firm, diversified, solid brand," Freeman said. "It's all those things still. I (just) think investors are able to make a more tangible case around other stocks in the financial space."

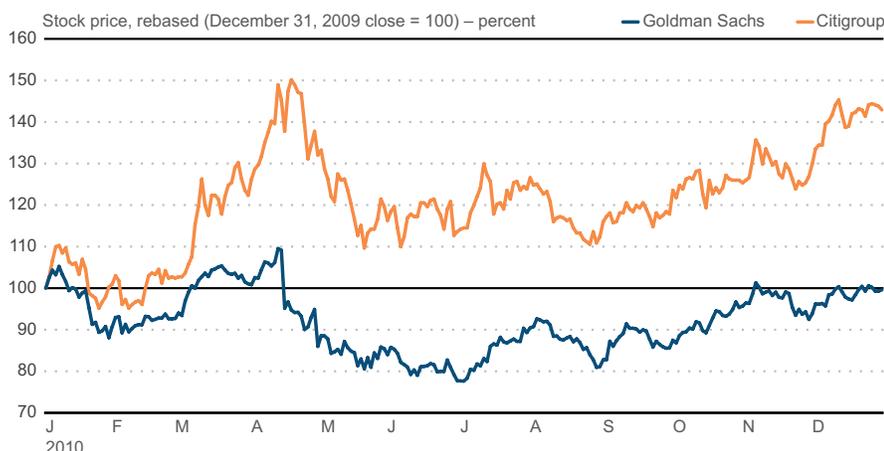
(Editing by Aaron Pressman and John Wallace)



**DINNER WITH THE PRESIDENTS:** Lloyd Blankfein of Goldman Sachs and his wife Laura arrive for the state dinner hosted by U.S. President Barack Obama and first lady Michelle Obama for President of China Hu Jintao at the White House in Washington, January 19, 2011. REUTERS/JONATHAN ERNST

**"Smart Money" bets on Citigroup**

\$100 invested in Citigroup at the start of 2010 would be worth \$142.90 by the end of the year, but the same \$100 put into Goldman at the same time would be worth \$99.60.



Source: Thomson Reuters



Reuters graphic/Stephen Culp

# SMART MONEY DIVES INTO GM IPO

BY DEEPA SEETHARAMAN  
DETROIT, MARCH 7

Hedge fund manager Bill Ackman, once a leading skeptic on General Motors, is now among the revived automaker's largest investors.

Two years ago he appeared on television to criticize the company's lack of competitiveness, but then came GM's bankruptcy-aided slim-down.

Along with a number of other well-known managers, including David Tepper and Larry Robbins, Ackman is now betting that GM can finally compete, with its more streamlined cost structure and growing presence in thriving auto markets, including China.

It is also a big bet on GM Chief Executive Dan Akerson, the former Carlyle Group director who took the helm at the automaker last September. Like the man he replaced, Edward Whitacre, Akerson had a long career in the tightly regulated telecommunications industry.

He has moved quickly to revamp GM's top ranks and pushed a strategy of clearing debt and pension obligations.

With the company's massive initial public offering in the rear view mirror, Akerson has already succeeded in attracting an all-star cast of hedge fund investors.

By year-end, GM was the most popular new position in the portfolios of the "Smart Money 30" group of some of the largest stock-picking equity hedge funds.

Ackman's Pershing Square Capital Management had the largest stake among

the "Smart Money" group, with more than 7 million shares, according to data compiled by Thomson Reuters. Ackman declined to comment for this story.

GM shares have slid about 10 percent so far this year, at one point dropping below their \$33 IPO price, mirroring a similar decline for rival Ford Motor Co.

Yet GM's long-term prospects appear strong as it readies a new line of vehicles to be launched in 2013, when U.S. auto sales are expected to return to precrisis levels,

meetings and a ruthless focus on the bottom line.

## STILL A TURNAROUND STORY?

DURING GM'S IPO roadshow last fall, Chief Financial Officer Chris Liddell wooed investors with the promise that the automaker would never again become "a \$100 billion pension plan with a small company attached."

GM ultimately pulled off the world's largest IPO. Top hedge fund investors who bought shares included Bain Capital's Brookside

Capital Investors, John Griffin's Blue Ridge Capital and James Dinan's York Capital Management.

Part of GM's allure comes from its strong balance sheet. Morgan Stanley analyst Adam Jonas, who has a \$50 price target on GM shares, forecasts the automaker will generate more cash in the next five years than its current stock market value.

GM is the largest foreign automaker in China, where it has auto manufacturing ventures with state auto groups SAIC Motor and FAW.

GM held 13 percent of the China market last year when accounting for its joint ventures. Auto sales in China reached just over 18 million vehicles last year, and some analysts project production there will reach 30 million vehicles by 2015.

GM and Ford shares have stumbled this year, hurt by Ford's disappointing fourth-quarter results and worries that a surge in oil prices may curb spending on new vehicles.

Rising commodity prices could also increase the cost of building vehicles and pose a challenge to GM as it readies a new lineup of cars in the next two years.

AKERSON HAS  
ATTRACTED AN ALL-  
STAR CAST OF HEDGE  
FUND INVESTORS.



WHERE DID I LEAVE MY KEYS?: GM Chief Executive Daniel Akerson pauses at a news conference in Beijing February 15, 2011. REUTERS/JASON LEE

analysts and money managers say.

"It's always going to be a high-beta name," said CRT Capital analyst Kirk Ludtke. "You have a situation where there's quite a bit of upside if it works."

Akerson, a former Naval officer who served on a destroyer from 1970 to 1975, visited China last month to emphasize GM's more global strategy.

A protege of cellular communications pioneer Craig McCaw, Akerson headed Nextel Communications, where he was known for taking charge of complicated engineering



DRIVE ON: The interior of a Baojun 630 car is seen in this updated handout picture released to Reuters by General Motors (GM) on November 22, 2010. REUTERS/GENERAL MOTORS

“Maybe the turnaround story is over and the reality is Ford, GM and Chrysler are now in an industry that has enormous competition and the stakes are very high,” said Bernie McGinn of McGinn Investment Management, which owns Ford shares.

GM stock faces additional pressure as the U.S. government gears up to sell its remaining one-third stake in the company, analysts said.

But Mirko Mikelic, senior portfolio manager at Fifth Third Asset Management, said the recent drop in the share price was “short-term” and a function of a technical pullback after a run-up in the U.S. stock market last year.

“We had a series of a month or two with just everything going up,” Mikelic said. “The recovery is slowly taking hold and you don’t want asset prices to get ahead of themselves.”

(Editing by Aaron Pressman and John Wallace)

## GM STOCK FACES ADDITIONAL PRESSURE.

### GM in high demand

After GM returned to the public markets last year, many “Smart Money” hedge funds pounced, making the stock the largest new position added to the 30 funds’ portfolios in the fourth quarter.



COVER PHOTO: An oil rig stands near the village of Cojimar on the outskirts of Havana May 7, 2010. Spanish oil giant Repsol YPF has contracted with a unit of Italian oil company Eni SpA for a drilling rig that some sources said was bound for operation in Cuba’s still untapped offshore fields. REUTERS/DESMOND BOYLAN

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