

Embrace the Short Bet Is Canadian Hedge Fund Mantra for 2019

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Forge First was able to hold gains it had in the first nine months of the year through the carnage of the last quarter by shorting the stocks of a diverse portfolio of cash-burning companies, said Andrew McCreath, chief investment officer of the Toronto-based firm, which has C\$125 million (\$95 million) under management.

"We won't have one of those years when stocks don't do anything but go up, so alternative investments - such as long and short strategies - are the way to go," said McCreath, who has a weekly market show on BNN Bloomberg TV.

Hedge funds based in Canada posted an average 5.7 percent loss in 2018, the worst performance since 2011, according to [data](#) compiled by Alternative IQ based on the 127 Canadian hedge funds that report to Fundata. That's slightly [worse](#) than the 4.2 percent loss in the U.S.

Market Turmoil

Canadian equity hedge strategies dropped 8.7 percent while credit-focused funds lost 0.5 percent. Private debt funds were by far the top performers, gaining 8.8 percent.

The \$40 billion hedge fund sector was buffeted by the same concerns that roiled global markets last year: rising interest rates, a trade war with China, and mounting geopolitical risks. The S&P/TSX Composite index, the country's benchmark equity gauge, fell almost 12 percent, its worst year in 11 years.

Last October, Forge First went long gold companies, betting the U.S. dollar was starting to peak amid geopolitical risks and trade tensions. It bought a few Canadian oil stocks at the end of the year and is currently long Air Canada and CI Financial Corp., said McCreath. In the U.S. he's shorting U.S. credit card companies but remains constructive on Visa Inc., Microsoft Corp. and Alphabet Inc.

New Fund

Shorts also contributed about 80 percent of NewGen Asset Management Ltd.'s return last year, portfolio manager David Dattels said. Toronto-based NewGen's C\$330 million Equity Long-Short Fund returned 7.6 percent.

"We could liquidate 50 percent in a day and the balance over the course of a week," Dattels said. "Being nimble and reactive to the market has helped us really preserve capital."

About 90 percent of the fund is allocated to Canada, where the firm sees the "greatest inefficiencies." Its sweet spot is small and mid-cap companies. "We don't really find much competition when we're looking at specific event-driven type trades," Dattels said.

This fund is no longer accepting inflows so the company launched a new vehicle aimed at the wider public: hedge fund strategies wrapped in a mutual fund. The company is aiming for C\$500 million in assets within three to five years and is searching for dividend paying stocks, convertible notes and preferred shares, specially in Canada, for this second fund.

On the credit side, Brian D'Costa, whose Algonquin Capital debt strategies fund lost 0.1 percent last year, shifted the portfolio to hold shorter maturity debt and moved up the credit spectrum to BBB+ from

BBB-.

The Federal Reserve's shift to a less aggressive hiking path is a welcome relief though markets will struggle, if the U.S. raises tariffs on China on March 1, he said. So he remains defensive.

"Still, despite expectations for slower global growth this year and next, even if the world slips into recession things won't be as bad as they were in 2008," he said.

(Adds NewGen is looking at dividend paying stocks in the 12th paragraph. Earlier version corrected same paragraph to show company looking to invest specially in Canada.)

