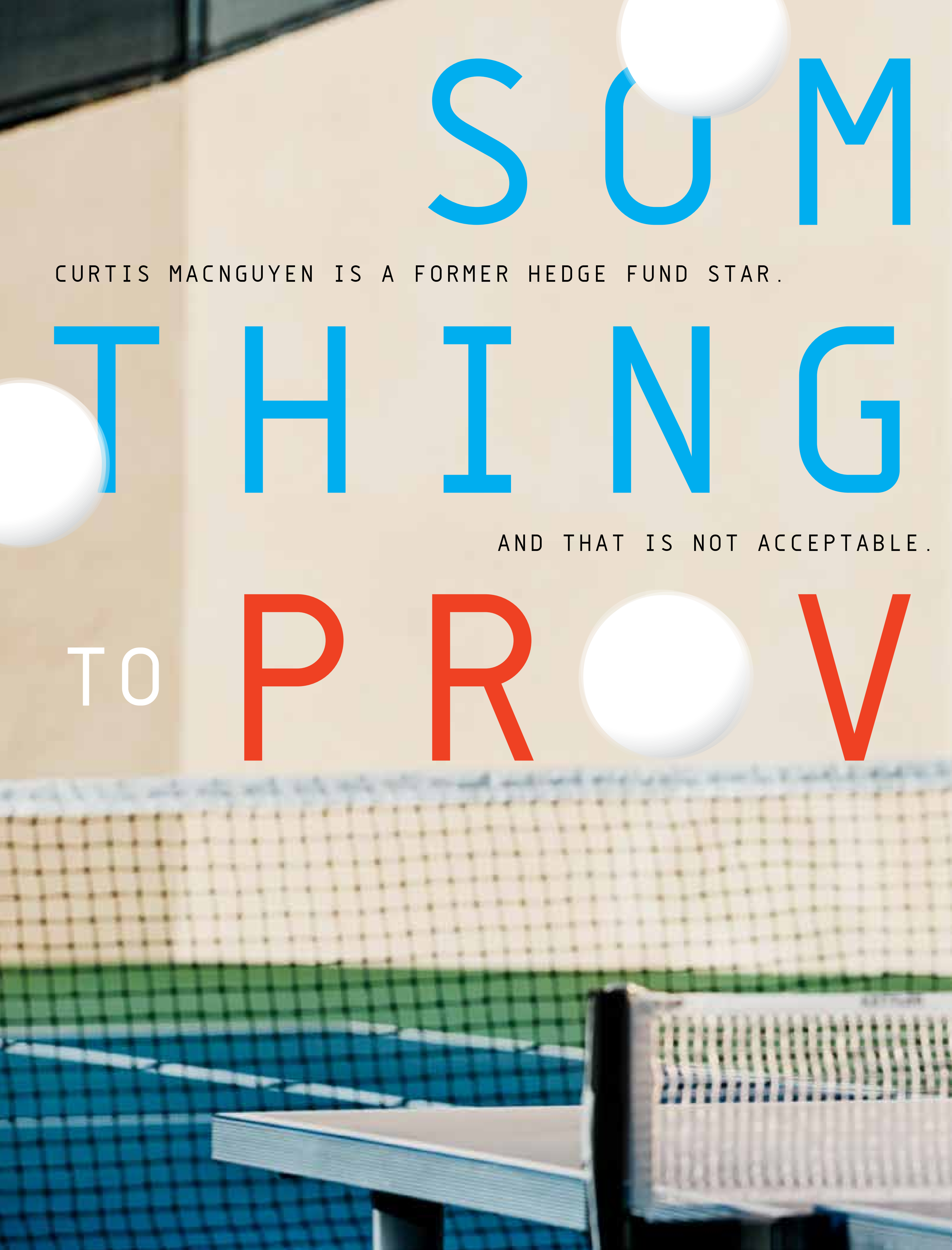


SOM

CURTIS MACNGUYEN IS A FORMER HEDGE FUND STAR.

THING

AND THAT IS NOT ACCEPTABLE.

TO PR V

E -

BY ANTHONY EFFINGER

PHOTOGRAPHS BY BENJAMIN RASMUSSEN

E

Curtis Macnguyen says table tennis, more than any other sport, gets him in a zone of pure concentration.

FOR FUN, CURTIS MACNGUYEN LIKES TO RUN ALONG THE SEA FLOOR IN 15 FEET OF WATER, CARRYING A BOULDER.

He does it offshore from his house on the blue-watered Kona Coast of Hawaii's Big Island, not far from similar spreads owned by Michael Dell and buyout kingpin George Roberts.

Macnguyen, 46, is a hedge fund manager. An old-school hedge fund manager. His methods are what you'd expect from a guy who carries rocks underwater: lots of hard work, almost no big sprints, and steady progress, all under pressure.

Macnguyen brings his A game to everything, and has since childhood, when he bet on Trivial Pursuit and Pictionary with his six brothers. He has a tennis court in his backyard in the Brentwood neighborhood of Los Angeles, where he hits against local pros. Mats Wilander, winner of eight Grand Slam titles, came for a few sets in March. Macnguyen's golf handicap is 6, and he never plays without a little money on the line. A wager, even a small one, makes him step up his game. He recently lost $100 to Matt Kuchar, ranked No. 14 in the Official World Golf Ranking. He just built a gym—Tuscan style, like his house—so he could do a workout recommended by Marcus Elliott, a doctor and biomechanist who trains the best players in the National Basketball Association.

"Every guy who's really successful at anything wakes up and says, 'How can I do this better?'" Macnguyen says. (He's Vietnamese, but his name sounds Irish. It's pronounced like *McWin*.) He's sitting on a covered patio at his house on a bright November day sipping iced tea made by a private company he's backing. For an hour before, he hammered table tennis shots at a former national champion from South Korea (and *Playboy* model) named Soo Yeon Lee. He loves pingpong because it gets him in the zone—that rarefied state of total concentration where time vanishes and maximum ability emerges. "You're out of your body, watching yourself," he says, "and you can get any ball that comes in."

Macnguyen is every bit as intense at Ivory Investment Management, the $3.5 billion hedge fund firm he founded in November 1998. Through the end of 2014, his Ivory Flagship Fund returned 346 percent, or 9.7 percent a year. That's twice the 139 percent delivered by the Standard & Poor's 500 Index.

Even more impressive: Because Macnguyen hedges his bets by balancing long and short positions, he had, on average, about one-fifth of investors' money exposed to potential losses. The S&P 500 is 100 percent exposed, by definition. When the market fell during those years, he either made money or lost very little. And when it rose, his portfolio often rose much more.

Macnguyen's methods have made him rich. He likes Hawaii so much that he and a group of investors bought 873 acres (353 hectares) of oceanfront land that they're developing. He gets there from Los Angeles on his very own Gulfstream G450.

But that's not enough for Macnguyen. He could own every white-sand beach in the Pacific and not be content. Lately, he's been pretty ticked off—with himself. A person could look at his track record and conclude that his best years are behind him. And that is just not acceptable.

In 1999, its first full year of operation, Ivory Flagship returned 28 percent, compared with 21 percent for the S&P 500. Even better, when the index fell 9 percent the next year, Macnguyen made 17 percent.

Investors who didn't love him already should have swooned in 2008. The market plunged 37 percent that year, and Ivory Flagship fell just 7.6 percent. When the rebound came in 2009, Macnguyen was ready. Investors had been pestering him for a new fund that would take more risk, and he obliged with the Ivory Optimal Fund, now his largest. It jumped 28 percent that first year, compared with 26 percent for the S&P 500.

Then something changed. In 2010, Ivory Flagship lagged the index by 13 percentage points. In 2011, he lost 3.6 percent in Flagship while the market rose 2.1 percent. Ivory Optimal did worse. His mojo was missing in action.

"I never kicked a dog or smashed a computer or even yelled at anyone," Macnguyen says. "I was just frustrated and pissed off at having to keep explaining to investors that the environment was tough for our strategy. I've always felt that we're in a no-excuse business. Just like high-level competitive sports, no matter how tough the conditions are, it shouldn't matter, because you just have to be better than your competitors."

Macnguyen, like most hedge fund managers, lives pretty high up in psychologist Abraham Maslow's hierarchy of needs. Food, water, sleep, sex? Check. Security, employment, health? Yep. Friendship, family, intimacy? Check, again. (He's married and has a stepson, 21, and a son, 7.)

What began to elude him, it seems, is the next level: self-esteem, confidence, and perceived respect from others. He grumbles about rivals getting more attention—and money to manage—despite inferior performance. He singles out a doppelgänger (at least on paper): a former investment banker from an Ivy League school who's also 46: David Einhorn, who runs Greenlight Capital. They worked together at a small hedge fund firm called Siegler, Collery & Co. in 1993. Since it started in 2009, Ivory Optimal has returned 113.5 percent, edging Greenlight's 112 percent for the same period. Yet Greenlight manages $12 billion, almost four times what Ivory does, and that bothers Macnguyen. "The only difference between me and Einhorn is that he's higher profile and I'm purposely very low profile," Macnguyen says. "Plus, I'm supercompetitive and will only get better over time."

In conversation, Macnguyen toggles between bravado, like that, and self-flagellation. He frets about recent years when he failed to do the single thing hedge fund managers get paid for: generating alpha. Alpha is profit that doesn't come from the whole market going up or down. Anyone can get lucky and make big money by taking a big risk. Alpha is different. It's return you get beyond the risk you take. And hedge fund managers have to produce enough to cover their fees. Ivory's are an industry-standard 2 percent of assets per month plus 20 percent of annual gains.

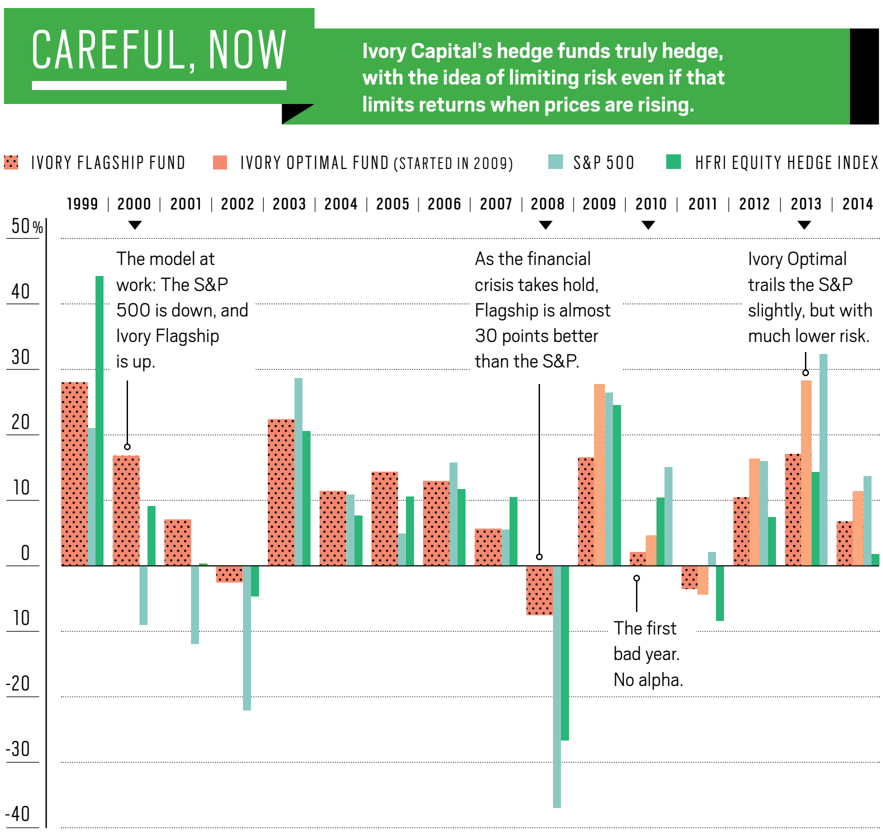
In 2010 and 2011, few of Macnguyen's picks worked. He shorted Amazon.com, betting that earnings would tumble as the company invested heavily to keep revenue rising. Sure enough, earnings fell, but investors didn't care, and the stock rose. He bought shares of Hospira, a maker of injectable drugs, when they slumped into the $40s from close to $60 in 2011. Then the company warned that regulatory issues had slowed production at a plant in Rocky Mount, North Carolina, and the stock dropped into the $20s. Macnguyen tried to hang on for the rebound he expected, but the losses mounted. "For every winner we had, we had a loser," he says. "We didn't add a lot of alpha for two years, and that is painful for a guy like me."

It's a familiar story. Managers of equity funds, once accustomed to beating the S&P 500, have, as a group, been thrashed in each of the past six years, according to an index of equity funds tracked by Hedge Fund Research in Chicago, and have bested the index in just three of the past 12.

Explanations—or excuses—abound: There's more competition now as some 10,000 hedge funds look for stuff to buy with $3 trillion they've collected from pensions, endowments, and rich people; the U.S. Federal Reserve's dovish interest rate policy won't let the market fall; hedge funds do better in down years, and the U.S. stock market hasn't had one in six years. Many of the great ones have given up. Jeff Vinik, who managed the famed mutual fund Fidelity Magellan from 1992 to 1996, shut his hedge fund, Vinik Asset Management, in 2013 and returned $6 billion to investors after ill-timed bets on stock indexes and gold-mining shares.

There may be more at work. Nobel laureate Daniel Kahneman wrote in his 2011 book, *Thinking, Fast and Slow*, that stock-picking managers exist because of an "illusion of skill" and add no value compared with passive—and cheaper—index investing.

"It's very difficult to do what these people are trying to do," says Matthew Litwin, head of manager research at Greycourt, a consultant to 100 wealthy families and institutions with a total of $9 billion to invest. (He puts his clients' money in a variety of vehicles, including, occasionally, hedge funds. He declined to



Source: Bloomberg

comment specifically on Ivory.) "Most people will fail."

Macnguyen isn't buying into any illusion of skill. He agrees that most managers will fail. He just doesn't intend to be among them.

MACNGUYEN'S ARC TOWARD an absurdly high net worth is as unlikely as any American's. He was born in Cam Ranh Bay in 1968, the same year the North Vietnamese army surprised the south with the Tet Offensive, taking the Vietnam War to a new, bloodier level. His family moved to Saigon, now Ho Chi Minh City, and his father served in the navy, then in the South Vietnamese congress. They planned to stay, even as the Viet Cong took over in April 1975.

Then his mother had a dream about falling off a cliff and being saved by the hand of the Buddha. Early that morning, his parents packed up eight of their 10 kids—two had gone to the U.S.—and rushed to Saigon's harbor, where his father commandeered a boat and chugged out to sea with 500 refugees. Pirates shot at them in the South China Sea. They ran out of fuel, and his father threatened to shoot at a Chinese tanker unless it towed his vessel to land.

The Macnguyens made it to the Philippines, then to a military camp in Arkansas, and finally to Hyde Park, New York. Curtis's father sold vacuum cleaners door-to-door. His mother worked in a factory making candy canes.

Macnguyen didn't speak a word of English when he arrived in the U.S. at the age of 6, the baby of the family. He learned it, worked at McDonald's, and spent one summer with a sister in Hawaii, picking heart-shaped anthurium flowers off the rain-soaked slopes of the Big Island for $2.17 an hour, illegally. He'd come home covered in leeches.

He worked equally hard in school, captained the tennis team, and went to the University of Pennsylvania to study engineering. A tedious summer job writing computer code in a cubicle prompted a transfer to the Wharton School, even though he knew nothing about finance. He graduated *summa cum laude* in 1990.

He worked in New York at Morgan Stanley for less than a year before landing a spot at Gleacher & Co., the investment bank founded by Eric Gleacher, who had advised Kohlberg Kravis Roberts on its record-setting, $30 billion buyout of RJR Nabisco in 1989. Gleacher paid more than other banks, and Macnguyen's salary doubled, to $100,000.

The place turned out to be a hedge fund incubator. At least five other analysts who worked there went on to start funds, including Larry Robbins, later the founder of Glenview Capital Management, which now has $10 billion under management. The place was perfect for a gambler like Macnguyen. "We'd play Nerf basketball for thousands of dollars," says former co-worker Raji Khabbaz, who also launched a fund. "Some of those games got pretty expensive."

The group learned about hedge funds after stock-picking legend Julian Robertson hired Gleacher to try to sell a stake in his Tiger Management. Khabbaz worked on the offering, and he and Macnguyen saw just how lucrative hedge funds could be. They pitched Gleacher on starting one in-house, but he passed, so Macnguyen bolted for Siegler Collery in 1993. "They had $80 million of assets, and that was big," he says. Einhorn, the soon-to-be founder of Greenlight, joined the firm right afterward.

Macnguyen started Ivory in 1998. He chose the name in part because, over time, he'd spent days spelling *Macnguyen* on calls, and also because, in Southeast Asia, the elephant and ivory are symbols of good fortune. In its first three years, Ivory Flagship beat the S&P 500 by 7 percentage points, 26 percentage points, and 19 percentage points, respectively.

New York began to wear on Macnguyen, and he decided to make a move he'd long contemplated, to Los Angeles, where he had often traveled for work. "Every time I got off the plane, I had the best feeling in the world," he says.

In his new suite in Brentwood, Macnguyen had healthy returns for years, in all sorts of markets. True to conservative form, he protected investors from disaster in 2008. He caught the rebound in 2009.

Then the Federal Reserve flooded the market with money, lifting almost all boats. But not Macnguyen's. Amazon rose in his face, and Hospira fell. Nothing seemed to work. He got beaten by index funds, which would be a little like Macnguyen beating Kuchar at golf. It just shouldn't happen.

The slump changed his core beliefs about his business. Before,

THEN THE FEDERAL RESERVE FLOODED THE MARKET WITH MONEY, LIFTING ALMOST ALL BOATS. BUT NOT MACNGUYEN'S. HE GOT BEATEN BY INDEX FUNDS. IT JUST SHOULDN'T HAPPEN.

BLOOMBERG TIPS

Using Information Ratios to Screen Funds

You can use the Fund Screening (FSRC) function to search for funds using risk-adjusted-return criteria such as information ratio, which measures the consistency with which a fund beats a benchmark. Type **FSRC <Go>** on the Bloomberg Professional service. To search for hedge funds with information ratios of 1.25 or more, for example, first click on Fund Type, then on Hedge Fund, and finally on Update. Tab in to the field, enter *INFORMATION RATIO* and click on Information Ratio 1Y Monthly in the list of matches. Select >= Greater Than or Equal To and enter *1.25* in the field that appears. Press <Go> and click on the Results button for a list of funds. JON ASMUNDSSON

'I've always felt that we're in a no-excuse business,' says Macnguyen.

he thought he could build a company that would outlast him. Now, that seemed impossible. If he was off his game, then the whole firm lost. No one seemed to step up.

So Macnguyen stepped back into the trenches. In Brentwood, he had allowed himself a private office. Now, he knocked out the wall that separated him from his six analysts. Everyone sits, stands, and mills around in one big room, and he hears everything the analysts say, not just what they choose to report to him in meetings. "A lot of times, it's the thing that they don't tell me that's important," Macnguyen says.

To the same end, he has software that lets everyone in the firm post ideas, no matter how harebrained, so he can see them. If the ideas pass tests for valuation, profitability, and some three dozen other factors, they get a very serious look.

'WE TRY TO FIND REALLY GOOD SETUPS,' MACNGUYEN SAYS, 'WHERE YOU HAVE TO BE A LITTLE BIT RIGHT TO MAKE A LOT OF MONEY AND A LOT WRONG TO LOSE A LITTLE BIT OF MONEY.'

Working for Macnguyen at Ivory sounds almost as tough as picking flowers in the leechy hills of Hawaii. He rides his staff hard, forcing them to defend their stock selections. "If you don't put your ass on the line and make a high-conviction call, then you will never learn," Macnguyen says. "You have to be so wrong, and it has to hurt so badly, and everybody has to see it, that you will never make that mistake again."

IF ONE THING riles Macnguyen most, it's probably the lack of respect he gets for making money with such low risk. Everyone harps on one number: return. Macnguyen believes sophisticated investors, at least, should be talking about risk-adjusted return, which can be measured by a manager's efficiency ratio. That's annual return divided by annual volatility. The higher the ratio, the better. Ivory Optimal's was 1.65 as of December. That beat another hard-driving hedge funder: Bill Ackman, the top manager in *Bloomberg Markets*' 2014 ranking of large funds. His Pershing Square International had a ratio of 1.31.

"People don't pay attention to guys who make money on a risk-adjusted basis when the market is up," Macnguyen says. "In the next five years, the market isn't going to be up as much as it has been."

With all the crowding in finance these days, one of the easiest mistakes to make is getting stuck in a "hedge fund hotel," a stock owned mostly by other funds. They're pricey and crowded, and guests tend to leave all at once. Just before the 2008 crash, Macnguyen saw the funds piling into energy companies and commodities producers, and he stayed clear. When the funds had to sell assets to return money to panicked investors, those stocks got whacked.

Since then, Macnguyen has honed a system for avoiding investors who aren't in for the long haul: He looks for stocks that are mired in a trench, of sorts: 50 percent below a two-year high and within 20 percent of recent lows. Within that band, the number of shares traded must exceed all of the outstanding shares. "By then, everyone who is nervous is already gone," he says. They'll have been churned out. After his systems find a stock that fits, Macnguyen and his team do deep research, calling the company, visiting, and scrutinizing earnings calls.

"The perfect idea for Curtis," says Jim Vincent, a managing director at AllianceBernstein who has been pitching ideas to Macnguyen for years, "would be a company that's profoundly oversold and hated and has a new CEO who has a chip on his shoulder and a heavy ownership of stock that's locked up for a long time, in a cyclical business that just troughed."

Boston Scientific met many of those criteria. It showed up on Macnguyen's churner screen in 2012, after it had fallen below $6 from $14 back in 2008. Ivory started looking at it and learned that the company had been struggling since 2006, when the U.S. Food and Drug Administration barred it from releasing some new products until it resolved manufacturing problems. The FDA lifted the ban in 2010, but the company kept losing money. It hired a new CEO in 2011. Ivory started buying in 2012. The swooning revenue stabilized in 2013, and that was enough to lift the stock to $12 from $6. As of March 16, it traded at $17. "We try to find really good setups, where you have to be a little bit right to make a lot of money and a lot wrong to lose a little bit of money," Macnguyen says.

Another churner find: memory chip maker Micron Technology. Macnguyen bought it at $6 in 2012. On March 16, it traded at $28, and Ivory owns 2 million shares. He points out that Einhorn backed up the truck and bought 23 million shares of Micron in 2013 and paid closer to $14.50.

The victories are adding up for Macnguyen, and he says he feels better about things than he did in the depths of his slump. Not content, by any means, but better. Ivory Optimal returned 28.3 percent in 2013, compared with 32.4 percent for the S&P 500. But the Optimal fund's net exposure to the market—its longs minus its shorts—was just 24.3 percent. In 2014, Optimal rose 11.4 percent, lagging the market by about 2 percentage points. Its net exposure was 33 percent.

Making big money like that with limited risk isn't easy. Nor is carrying a boulder underwater. These days, Macnguyen can go about 30 yards before he has to drop it and come up for air, probably longer if there's money on the line. Then he goes back down and lifts it off the sandy bottom for another run.

Anthony Effinger is a senior writer at *Bloomberg Markets* in Portland. aeffinger@bloomberg.net