

# BARRON'S Hedge Funds

A Monthly Report

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## Talking With Jeff Osher

Manager,  
Harvest Small Cap Partners Strategy Fund

# Danger Is Ever Present

by Eric Uhlfelder

JEFF OSHER SMILES AT THE SUGGESTION THAT CAT STEVENS' early classic track "The First Cut Is the Deepest" might apply to him. Soon after Osher, now 38, started as an analyst following specialty-finance companies for Montgomery Securities, the Asian financial crisis struck in 1998, undercutting half his coverage universe. Then, in 2000, while he was working as a buy-side analyst at the financial advisory firm Dowd, the dot-com bubble burst. "These two events left an indelible impression about how quickly stocks can collapse," Osher says. "They taught me how to invest 'scared,'"

No stat better illustrates the benefits of investing like disaster is just around the corner than Osher's performance during tough times: Since inception in December 2005, his Harvest Small Cap Partners Strategy hedge fund rose 4.9% in total during the Russell 2000's 10 worst months, while the index collapsed 68%.

The San Francisco-based fund has displayed remarkable consistency during an excellent run—despite a few rough patches this year. Annualized returns of the \$374 million long-short equity fund over the past three- and five-year periods, as well as since inception, have ranged between 13% and 15%. Volatility has been mostly contained. And Harvest's worst drawdown, or the furthest it's fallen before recovering its losses, is less than 10%.

Osher keeps a pretty tight focus: technology, consumer, and financial and business-services stocks. His three analysts try to suss out changes in business models or operating environments that might offer opportunity. The conservatively weighted portfolio is market neutral, typically no more than 10% net long or net short. It tends to make chunkier bets on its 20 to 40 long positions with less concentrated wagers on its 40 to 70 shorts. The fund's investment horizon can extend several years. But—ever aware of danger—the manager can also quickly tack out of a mistake. *continued on page 34*

Jeff Osher's portfolio never tilts far from market neutral. Right now he's nervous about market liquidity.

## Harvest's Time

Through August, the Harvest Small Cap Partners fund had easily topped HFRI's Equity Hedge Total index over nearly a decade.

Fund	2015 YTD	2014	Annualized	
			5-Year	Inception (Dec. 2005)
<b>HSCP</b>	-1.42%	30.83%	13.12%	14.80%
<b>HFRI*</b>	0.07	1.81	5.06	3.96

\*HFRI Equity Hedge Total Index

Source: Harvest Small Cap Partners

Harvest benefits from having a parent company, JMP Group, a brokerage firm that oversees about \$2 billion in assets, to help with administrative tasks. JMP's CEO is Osher's uncle, Joe Jolson, who was a well-regarded financial-services researcher at Montgomery and eventually a senior managing director. "This relationship enables us to provide top-tier infrastructure and operations, while limiting assets to an optimal size," explains Osher. Convinced of the inverse relationship between asset size and performance, the manager closed his fund in June 2008, and over the years has returned more than \$200 million in profits to investors. According to filings, Harvest charges a 2% management fee along with 20% of investment gains.

**Short picks**, which aren't hedges but out-right bets, gained 46% in 2008 to help his fund climb 19.4%. And in 2011, when most hedge funds also lost money, Harvest's shorts helped the fund gain more than 13%.

Early last year Harvest started shorting **World Acceptance** (ticker: WRLD), a consumer-finance company that makes short-term installment loans to low-income borrowers. He had followed the firm for nearly a decade, often betting profitably against the shares. He took the short position soon after the Consumer Financial Protection Bureau said it was looking into the firm's lending practices in March 2014. Osher regarded World Acceptance's lending as too aggressive and thought it benefited from previously lax regulation. He also believed it was overly reliant on debt to buy back shares and was skeptical about some of its accounting practices.

By the end of 2014, KPMG left as World Acceptance's auditor. Then in May 2015, two banks dropped out of its lending syndicate. And by the following month, key personnel, including the CEO, departed. Osher covered his short position this past spring and summer in the mid-\$30s. He had shorted the stock at an average price of \$75.91. In August the CFPB said it was preparing legal actions against the lender, though there have been no further disclosures.

London-based **Monitise** (MONI.UK) was a market darling in 2013 when shares of the mobile-banking software vendor more than doubled, reaching 80 pence (\$1.32). A sky-

high valuation of eight times sales (and no earnings) caught Osher's attention. Seeing a software stock generating both triple-digit revenue growth and mounting losses, he sensed an opportunity. Multiples were rising in anticipation of the company emerging as a best-in-class provider of mobile-banking services. **Visa (V)** and **MasterCard (MA)** were leading shareholders. But the portfolio manager thought Monitise should be lower-valued as an IT outsourcer, rather than as a fast-growing software provider. "We felt investors were setting themselves up for disappointment," recalls Osher.

In April 2014, with the stock at 65 pence, Osher started shorting. Between January and May of this year, Osher covered his shorts at between 14 pence and 17 pence.

Among his successful long plays was **SunEdison (SUNE)**, formerly known as MEMC Electronic Materials. But it's been a rough ride. The stock slid from \$13, when Osher started buying shares in late 2010, then continued buying to the low \$3s in December 2012, as SunEdison underwent a prolonged restructuring that turned it into the world's largest developer of renewable energy projects, churning out solar and wind power. Ultimately, Harvest sold out above \$24 in July, prior to a subsequent drop.

As well as Harvest has done in tough markets, this year it's about flat as some of stellar 2014 bets have come back toward earth. It has had its worst drawdown, 9.77%, in 2015, and through August was off 1.42%. That trailed the HFRI Equity Hedge index gain of 0.07%, but it still beat the Russell 2000's 2.97% fall.

Contributing to the loss was the fund's brief foray into the tony accessory retailer **Coach (COH)**. "We believed the stock's sell-off of 50% over the last three years was overdone and that management would stabilize sales and operating margins," says Osher. He thought the market was dismissing Coach's \$900 million in free cash flow, the \$1.1 billion of net cash on the balance sheet, aggressive share buybacks, and a 3.2% dividend.

Unfortunately, Coach's revised strategy under a new CEO hasn't paid off yet, disappointing Wall Street. Having purchased shares in April 2015 at around \$42, Osher sold out a month later at just above \$35.

Market volatility doesn't bother Osher nearly as much as a sudden lack of liquidity. Right now he's seeing both, which he thinks foreshadows "a topping process and the end of the bull market." His portfolio, he says, "remains market neutral as we continue adding to both our high conviction longs and shorts." If there's trouble lurking, Osher and Harvest want to be ready for it. ■

## August's Brutal Heat

Most big hedge funds got pounded last month as natural resource and emerging-market shares fell sharply. Energy- and bank-heavy Canadian fund manager Portland Advantage had a tough month.

BEST			% Returns			Assets	
	August	YTD	1-Year	3-Yr Cum.	5-Yr Cum.	(mil)	Strategy
<b>Vol Edge B</b>	61.7%	35.0%	27.2%	97.9%	99.7%	0.1	Volatility
<b>Vol Edge A</b>	60.8	-25.7	-9.5	-97.4	-99.7	0.9	Volatility
<b>Forum Global Opportunities</b>	60.2	106.8	144.1	51.7	36.5	84.1	Global Macro
<b>STAIRS Client</b>	29.5	22.6	3.6	11.2	33.2	1.0	Global Macro
<b>Puissance K</b>	23.3	-10.9	-10.0	-3.7	3.6	2.5	Global Macro
<b>STAIRS Prop</b>	23.3	15.2	-3.4	-0.6	41.4	0.1	Global Macro
<b>SVM Highlander USD</b>	15.4	39.7	33.8	54.0	31.1	N/A	Europe Lg/Short Eq
<b>Macromoney Global Investmnts</b>	15.1	13.6	16.2	N/A	N/A	N/A	Global Macro
<b>Gerst Capital Partners LP</b>	15.0	25.4	11.0	53.3	72.9	7.3	US Sm-Cap Lg/Short Eq
<b>Kinkopf Capital Mgmt LLC</b>	14.7	11.8	-29.1	-49.5	-13.9	0.1	Systematic Futures
<b>WORST</b>							
<b>Aria Select Consumer Fd</b>	-36.1	-69.1	-70.3	-70.5	-62.7	N/A	US Lg/Short Eq
<b>Portland Adv Plus-Everest F \$</b>	-34.8	-68.2	-90.3	N/A	N/A	N/A	Lg-Only Eq
<b>Portland Adv Plus-Everest A \$</b>	-33.2	-68.2	-90.3	N/A	N/A	N/A	Lg-Only Eq
<b>Portland Adv Plus-Everest A CN\$</b>	-32.8	-60.4	-86.5	N/A	N/A	0.6	Lg-Only Eq
<b>Portland Adv Plus-Everest F CN\$</b>	-32.7	-60.0	-86.3	N/A	N/A	1.5	Lg-Only Eq
<b>Portland Adv Plus-McKinley F \$</b>	-27.9	-56.8	-82.2	N/A	N/A	N/A	Lg-Only Eq
<b>Portland Adv Plus-McKinley A \$</b>	-27.9	-56.8	-82.2	N/A	N/A	N/A	Lg-Only Eq
<b>Portland Adv Plus-McKinley A CN\$</b>	-26.1	-47.3	-76.0	N/A	N/A	0.9	Lg-Only Eq
<b>Portland Adv Plus-McKinley F CN\$</b>	-26.0	-46.9	-75.7	N/A	N/A	1.7	Lg-Only Eq
<b>Baker Street Capital Partners LP</b>	-24.2	N/A	N/A	N/A	N/A	N/A	US Sm-Cap Lg/Short Eq
<b>BIGGEST</b>							
<b>BridgewaterPure Alpha Strat 18% Vol</b>	-6.9	3.9	0.0	15.2	65.9	29145.0	Global Macro
<b>BridgewaterPure Alpha Strat 12% Vol</b>	-4.7	2.8	0.3	10.3	40.4	9195.0	Global Macro
<b>Millennium USA LP Fd</b>	0.0	9.8	16.9	43.9	75.3	8352.0	Multistrategy
<b>Winton Futures USD CIs B</b>	-4.3	-2.0	8.8	19.1	31.6	8200.0	Systematic Futures
<b>Bridgewater All Weathr 12% Strat</b>	-4.9	-4.9	-8.9	1.4	39.3	7136.0	Global Macro
<b>Renaissance Inst Diversifd Alpha</b>	-1.3	2.2	17.2	19.8	N/A	5210.1	Multistrategy
<b>Transtrend DTP - Enhancd Risk (USD)</b>	-6.3	-6.1	3.2	2.6	11.7	4746.0	Systematic Futures
<b>EnTrust Cap'l Diversifd Fd Ltd - C</b>	-2.5	-2.2	-4.0	15.4	22.4	4448.2	Fund of Fds - Event
<b>UBS (CH) IF Eqs CHE Pass All IX</b>	-6.0	1.5	5.0	52.3	64.7	2693.6	Lg-Only Eq
<b>Winton Futures GBP CIs D</b>	-4.3	-1.6	9.5	20.1	32.9	2460.8	Systematic Futures
<b>Bay Resource Ptnrs Offshore Ltd</b>	-1.0	-0.5	-1.1	41.4	57.7	2382.0	US Lg/Short Eq
<b>Baring Dyn Asset Alloc I GBP</b>	-3.0	0.4	2.5	14.4	28.9	2237.6	Multistrategy
<b>MKP Opportunity Offshore Ltd</b>	-1.1	4.1	8.5	11.1	29.4	2184.0	Global Macro
<b>Pinnacle Natural Resources LP</b>	0.7	-5.1	7.8	3.5	23.0	2140.0	Fund of Fds - Macro/Sys
<b>MKP Credit Offshore Ltd</b>	-1.8	0.6	0.5	30.3	44.1	2125.0	Lg/Short Debt
<b>BlackRock Obsidian Offshore</b>	-2.3	0.3	-2.0	25.6	51.6	1900.0	Debt Arbitrage
<b>BlackRock Obsidian Onshore</b>	-2.3	0.3	-2.0	25.7	47.6	1900.0	Debt Arbitrage
<b>Efficient Diversified Fd SPC CI S</b>	11.5	8.4	29.8	27.1	N/A	1751.0	Fund of Fds - Macro/Sys
<b>Babson Cap Euro Loan B EUR Acc</b>	-0.2	4.4	4.6	22.3	N/A	1633.5	Lg/Short Debt
<b>STS Partners Fd</b>	-0.1	9.3	15.5	91.7	205.3	1600.0	Distressed Securities

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