SPOTLIGHT

Tiburon Capital's Peter Lupoff on Profiting From Merger Arbitrage

Former **Millennium Management LLC** Portfolio Manager **Peter Lupoff**, who runs the $50 million event-driven hedge fund **Tiburon Capital Management LLC**, spoke to Bloomberg's Kelly Bit about his outlook for corporate events in 2012 and why he expects to see opportunities in high-grade, dividend-paying equities and short-dated bonds.

Q: What's the best environment for your event-driven strategy?

A: We tend to say it's irrelevant. We can go long/short anywhere in the capital structure of companies with three sub-strategies, including special situations, stressed and distressed, and indenture arbitrage. We don't have to be wed to a very narrow view. When capital markets implode, we modify the events we seek such as pending maturities that might not be met by access to capital markets. On the long side maybe we're more focused on liquidations and lawsuits rather than M&A. In more buoyant markets we can take the other side of these trades.

Q; What's your outlook for 2012?

A: We say that we aim to be right, not consistent, so we offer this perspective with the notion that we could change 180 degrees tomorrow. To prefer the U.S. to Europe is not a hard one to say. There has been great correlation between the two markets. There could be bifurcation in markets where the U.S. markets disconnect a bit from Europe based on the most recent favorable economic data. We look at the significant cash balances being held by corporate America and we think that could portend some increased return of capital to shareholders through augmented dividends or share buybacks, some of which might be compelled by activism. There has been so much negative sentiment. The VIX has halved from where it was over the summer. It seems like there's a general sense of muddling through. Volatility could be lower in 2012. In the second half of the year we'll start to see some deterioration in the U.S. economy and so we're more bullish about the first quarter and less so with each successive quarter to yearend.

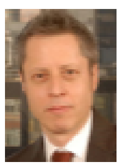
Q: Where are the opportunities?

A: We like the defensive posture of buying higher-grade, dividend-paying equities that also have the prospect of events. We're likely to see less volatility in high-quality defensive stocks with reasonable dividends but we'll require plausible events as well. Our angst about the risk in these markets have us much more interested in liquidations, lawsuits and other event-driven trades that do not require access to capital markets. To the extent that we see hiccups in the capital markets, we might be given the opportunity to buy short-dated bonds yielding better than 10 percent where the maturities are near term and they have the cash wherewithal and buying availability to retire that debt. We did this in August 2011 and in May 2010.

Q: What's an example of a trade that worked for you in 2011?

A: The Temple-Inland-International Paper deal is a good example. International Paper made a hostile bid at $30.65 a share back in June. We thought there were at least $300 million to 400 million of synergies from the combination and that capacity needed to come out of this sector. We thought shares were fundamentally worth $35 a share. We read the press release from Temple-Inland management asking shareholders to reject the tender offer. The reason was that it did not give shareholders the benefit of what appeared to be $350 million of synergies. Given our actor's assessment, we read that to mean, 'You're not paying enough.' We bought some with the belief that International Paper would sweeten the bid and Temple-Inland would accept. The tender period ended on Aug. 8 and only 11 percent of shareholders tendered, which makes sense because the market was thinking a share was worth $35 not $30.65. Aug. 8 was one of the worst days in the market and on that day International Paper did not say 'The tender period is over, we no longer care.' They extended the tender period for another 30 days. A few days later, we learned Temple-Inland had spun off a bank a few years earlier and the trustee of that now failed bank had sued Temple-Inland for $500 million. That would seem like a material adverse change. If International Paper wanted out of the deal they could have reasonably walked. Shares traded down to a low of $21 and change. We looked at the paper work on the spinoff of the bank and paperwork in support of the lawsuit. In our view the $500 million lawsuit brought by the trustee was fallacious and wouldn't stand. We believed International Paper was likely getting this same advice. So we bought at $21, $22. Before we got to the end of the tender period, Temple-Inland and International Paper announced a consensual deal. And they bumped the price up to $32 a share.

AT A GLANCE



Age: 50

Hometown: New York, NY

College/University/Grad School(s): Hofstra University (B.A.), Fordham University (MBA)

Professional Background: Third Avenue Funds, Robeco WPG, Millennium Management

Charitable Work: Harlem Children's Zone

Family: Married, one kid

Mentor: Marty Whitman, Izzy Englander

Favorite NYC Restaurant: Nha Trang Centre