

# STRATEGIES

PROFILE

## Seeking Asymmetrical Opportunities

Ryan Melkonian's LTE Partners hedge fund returned 34 percent last year by identifying private equity, real estate, and stock investments with small risk and large upside potential.

BY JON ASMUNDSSON

**RYAN MELKONIAN SAYS** the strategy he developed for LTE Partners was shaped by a couple of experiences earlier in his career.

First, from his perch at a New York family office in the 1990s, he saw how different asset classes outperformed at different times. "We invested in everything from equities to fixed income, to real estate, to private equity," he says.

Then, as a portfolio manager at New York equities shop W.P. Stewart & Co. in the late '90s, he saw stock valuations go to extremes before the tech bubble burst. For stock fund managers, there was little place to go except down. "When you have a mandate that requires you to be fully invested or to be in a specific asset class, it is very difficult to outperform for long periods of time," Melkonian, 45, says.

So as a way to handle market cycles and avoid losses, Melkonian's \$100 million event-driven hedge fund rotates across liquid and illiquid assets—investing in stocks, private companies, and real estate. The fund is concentrated, typically holding 10 to 20 investments. The number of positions and allocations to different assets varies depending on where

the best opportunities are at a given time, says head of business development Marty Harmon.

The approach has paid off. LTE Partners rose 34 percent in 2014, according to an investor letter obtained by Bloomberg. What's more, the fund has not had a losing year since it was launched in 2001. When markets collapsed in 2008 and the Standard & Poor's 500 Index plunged 37 percent, LTE Partners eked out a 1.8 percent gain. From October 2001 to April 2015, the fund's total net return was 482 percent, or an average of about 14 percent a year. By comparison, the S&P 500 rose 7.3 percent annually over the 13-year period.

**LTE PARTNERS IS** managed by Melkonian. New York-based Melkonian Capital Management—whose investment committee is headed by Melkonian and includes his brother, Matt; John Layton; and Harmon—oversees a total of about \$175 million.

The committee members seek what Melkonian calls asymmetrical

**RYAN MELKONIAN,  
MATT MELKONIAN,  
JOHN LAYTON,  
MARTY HARMON**  
INVESTMENT COMMITTEE,  
MELKONIAN CAPITAL

- > Invest in **private equity, real estate, and stocks.**
- > Look for **adverse events** that make assets undervalued.
- > Target a concentrated portfolio of **10 to 20 investments.**

## THE FUND BOUGHT SHARES OF JPMORGAN IN THE \$30s AND SOLD IN THE \$50s.

opportunities. “We’re not looking for 5 percent down and 15 percent up,” he says. “We’re looking for modest downside and 100 percent upside.”

What creates such opportunities? Market dislocations, for one. Adverse events sometimes make investors overreact so that companies with good long-term prospects get beaten down more than is warranted, Melkonian says.

An example is JPMorgan Chase after the London Whale losses emerged in April 2012. “You had a massive correction in the stock,” Melkonian says. The share price plunge shaved almost \$60 billion off the value of the company.

“They lost one quarter’s worth of earnings—and the long-term view is this company is worth 35 percent less?” Melkonian says. “We didn’t think it would massively impact their long-term prospects.” The fund bought JPMorgan shares at an average price in the mid-\$30s in 2012 and sold in the mid-\$50s in 2014.

The committee members apply a similar value-oriented approach to investing in private companies and real estate.

LTE Partners is the largest investor in Browz, a Salt Lake City-based company that collects insurance information, accident rates, and other data from contractors; verifies it; and determines which suppliers meet the safety requirements of a hiring company. “What Browz does is take over supplier compliance,” Melkonian says.

Melkonian says he initially passed on Browz when it was raising money about 10 years ago. In 2010, though, the company was in a distressed situation. “Six years into it, they’d burned through the cash,” he says. The company had proved its concept, though, and landed some key customers, he says.

LTE Partners invested in the company at a valuation of less than \$20 million—lower than the valuation in its earlier round of fundraising. Browz has since increased revenue fourfold. “We sold a piece of this company earlier this year at a \$150 million valuation,” Melkonian says. “I think it’s easy to see how this could become a billion-plus-dollar company.”

**LTE PARTNERS SOLD** out of another private company last year: Vidara Therapeutics. Vidara was created to buy the rights to Actimmune, a drug used to treat chronic granulomatous disease, a genetic immune disorder. LTE Partners invested in Vidara in June 2012. In March 2014, Horizon Pharma, which was then based in Deerfield, Illinois, announced it would buy Dublin-based Vidara for \$660 million in a so-called tax inversion. “That was a 14-times return,” Melkonian says.

The fund’s largest real estate investment is a 63-acre (25-hectare) parcel it has assembled on Grand Cayman. “It’s a small island, there’s not a lot of beachfront property, and it’s almost all developed,” Melkonian says. In 2009, a developer who was having trouble raising financing sold LTE a 6-acre parcel of land with one of the few sandy beaches on the south side of the island. “We’ve made 30 acquisitions around the periphery,” Melkonian says. In December, the Cayman Islands government approved rezoning that would allow hotels of up to 10 stories to be built on the land.

Melkonian says the firm is doing a lot of research on energy companies these days. “With the fall in oil prices, there’s going to be some real winners and losers,” he says. “These extreme dislocations create opportunities.”

### TIP BOX

Type **PE <Go>** for the Private Equity Overview function.

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## TRACKING LARGE-CAP VOLATILITY

Ryan Melkonian says price swings in large-cap stocks offer opportunities these days. “They’re safer investments,” he says. “But what we’ve seen in recent times as there’s more electronic trading is there’s a lot more volatility in these names.” You can use the Historical Return Histogram (HRH) function to track the distribution of returns for a selected stock. Type **JPM US <Equity> HRH <Go>** to analyze JPMorgan’s share price moves. Slide the range indicator at the bottom of the screen to view different periods. **JON ASMUNDSSON**

