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Vinik Charity's Market-Beating Trades Recall Hedge-Fund Heyday

by
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Jeff Vinik's investing skills have faded from view since he unwound his hedge fund in 2013, but they are still getting lots of use.

The real estate developer and owner of the Tampa Bay Lightning hockey team revealed billions of dollars of trading in the stock market -- only now it's being done through a family philanthropy that is scoring the same kind of robust returns his hedge fund once did.

Vinik's active trading is unusual in the staid world of charitable foundations. Using just a sliver of its capital, the Vinik Family Foundation traded $1.9 billion of public securities during 2015, realizing $6.7 million in gains, according to the latest available federal tax documents requested from the IRS by Bloomberg and posted last month. The profits were enough to cover most of the foundation's donations that year and enabled it to beat the broad stock market.

"They are buying a whole bunch during the year and they are turning it over a bunch," Brian McAllister, an associate professor of accounting at the University of Colorado's graduate school of business administration, said after reviewing the tax documents. "It could be one indication of high-velocity trading."

After announcing in May 2013 that he would return outside capital, Vinik converted his fund company into a family office and began focusing on projects tied to his home base in Tampa, Florida, ranging from gifts to local charities to a $3 billion development project in partnership with Bill Gates's Cascade Investment. But Vinik told the Boston Globe two years ago that giving up his money-management career "was a very hard decision," adding, "I really do miss the markets."

Outside Managers

The Vinik Family Foundation doesn't comment on its investment activities and strategies, spokesman Bill Wickett said in an emailed statement. The foundation is "proud to publicly support several community initiatives inside and outside of Tampa Bay," Wickett said. "We look forward to maintaining our support of deserving charities and nonprofits."

Instead of trading directly, wealthy managers such as John Paulson, Seth Klarman and Steven Cohen tend to invest the assets of their family foundations in either their own funds or those run by third parties, the most recently available tax documents show.

Vinik has taken a similar approach for part of his foundation's portfolio: at the end of 2015, it had $189.5 million of assets, two-thirds of which was invested in roughly 25 funds run by outside managers including Bill Gross, Andy Hall and Jason Karp. More than half of the 25 investments were valued below cost, according to its filing.

Separately, the foundation had a portfolio of publicly traded securities that employed about $30 million to $50 million of capital, according to an estimate by from Arthur Brown, a hedge-fund accounting expert at Marcum LLP who reviewed the tax documents on behalf of Bloomberg News. This public portfolio did $1.2 billion of trading in 2014 and $1.9 billion the following year.

Macro Calls

Vinik, 57, may also still be making the macro calls that defined his earlier career, first at the Fidelity Magellan Fund and then his own hedge-fund firm.

The foundation's publicly traded portfolio consisted of only about $5.4 million of stocks at the end of 2015, compared with $30 million in a cash-like instrument and $15 million in a fund dedicated to long-term U.S. Treasuries. It also had $36 million of bets that benchmarks such as the S&P 500 Index would decline, leaving it well-positioned for the selloff that caught many hedge-fund managers off-guard in January 2016.

"The trading levels disclosed by the foundation could result from using exchange-traded funds to make macro bets on the economy," said Iggy Ioppe, a former analyst at Vinik Asset Management who now runs his own investment firm. "Vinik excelled at both bottom-up stock research and top-down macro analysis when he was running his hedge fund."

In general, family offices also oversee their founders' private foundations, which are used by wealthy individuals such as hedge-fund managers to make charitable gifts. A donor gets an immediate tax deduction for contributing to a foundation, which is free to invest the contributions as long as it uses at least 5 percent of net assets for nonprofit purposes, such as gifts to charities.

Safe Approach

Private foundations are subject to heightened IRS scrutiny if they engage in so-called jeopardizing transactions, such as short sales or investing on margin, that could present undue risk to their charitable goals. While the agency rarely deems such transactions excessively risky, its authority to impose hefty excise taxes on those who trip the rule encourages a conservative approach, said Marcus Owens, a partner at law firm Loeb & Loeb LLP and former director of the IRS's exempt-organizations division.

“The excise tax tends to push foundation managers towards relatively safe investments,” Owens said. “Not across the board, but generally speaking.”

When the Vinik foundation’s paper gains are added to its realized profits, its 2015 trades generated $7.7 million, according to Marcum’s Brown. That means an estimated return of 15 percent to 26 percent, depending on the amount of capital allocated to trading public securities. The S&P 500, including dividends, returned 1.4 percent that year.

The performance echoes Vinik’s record as a manager for more than two decades. He initially ran Fidelity Magellan, the world’s largest stock mutual fund at the time, only to step down in 1996 after a costly bet on Treasuries. He then founded Vinik Asset Management, once one of the biggest equity hedge funds, which averaged 17 percent returns over the next 17 years -- more than double the gains of the S&P 500.