

Icahn Enterprises L.P. (IEP) is a conglomerate and a primary investment vehicle of investor Carl Icahn, who owns approximately 90% of the depositary units. Mr. Icahn is an activist investor with a deep value opportunist's bent, a willingness to hold assets for a long time, and a superb long-term record. As but one example, in 2010, in the wake of the financial crisis, IEP acquired the Fontainebleau casino in Las Vegas for \$150 million perhaps less than its construction cost, and divested it in August 2017 for \$600 million. On March 11<sup>th</sup> of this year, amid the extreme decline in oil prices and energy company shares, he raised his stake in Occidental Petroleum, which had fallen 70% from the beginning of the year, from 2.5% to 10%.

The most noticeable aspect of the IEP units is the substantial annual dividend—\$8.00 per share, or a 21.6% yield as of this writing. The dividend may be taken in kind – that is, in the form of additional units – or in cash. Over the years, Mr. Icahn has taken his in kind, which increases his ownership of IEP. Another effect is that only about 10% or so of the dividend needs to be paid in cash, which conserves IEP's resources. In recent years, the dividend yield has, perhaps, attracted investors who are less concerned with the fact that the company has been trading at escalating premiums to its indicative net asset value (NAV). IEP announced on March 23<sup>rd</sup> that it intends to continue to pay a \$2.00 quarterly dividend for the foreseeable future.

As of December 31, 2019, the Indicative Net Asset Value was \$7.07 billion, or \$33 per share, and the premium reached 87%<sup>1</sup>. Using the current price of IEP, it is trading at just a 10% premium to its year-end NAV. Of course, most of its long positions have declined dramatically in value since the end of the year: IEP lost \$1.098 billion in 2019, but most of the losses were attributed to its Investment segment, which experienced a net loss of \$1.543 billion, or 15.4%, for the portfolio overall. However, it is less clear how Mr. Icahn's short positions have performed.

Mr. Icahn has been publicly bearish for a long time and has positioned his funds accordingly. The most interesting feature of the Investment Funds portfolio is the net short exposure via derivatives. Those short positions, or hedges, were increased by 55% in 2019, from \$8.8 billion to \$13.7 billion, even though its AUM fell by 15.4% during the year.

The year-end gross short exposure amounted to 170% of the Funds: 13% was the fair value of the short positions, while 157% was comprised of short credit default swap contracts and short broad market index swap derivative contracts. These are intended pay off in the event of deterioration in corporate credit spreads and in the event of a stock market decline. The scale of those hedges is quite large. In dollar terms, the short notional exposure of the derivatives in the Investment Funds was \$13.7 billion, partly offset by \$806 million in long notional exposure. This is in relation to a portfolio size of \$8.78 billion, \$4.3 billion of which is attributable to IEP. Subsequently, on January 2, 2020, IEP invested another \$1.0 billion in the investment funds, so its total investment at that time was approximately \$5.3 billion.

The investment portfolio's long side has clearly experienced a substantial decline since the beginning of the year, with the five largest holdings —Caesars Entertainment, Herbalife, Hewlett Packard, Cheniere Energy and Occidental Petroleum— which accounted for 87% of the long portfolio, collectively having lost just over half of their value year-to-date. In addition, IEP's largest investment, CVR Energy, which is held

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<sup>1</sup> Based on IEP's year-end valuation in the stock market as well as the year-end prices of its private and public holdings

in the Energy segment, is also down over 50% year-to-date. That said, it is unknown how the short portfolio has performed. Mr. Icahn is, “likely the largest short seller of mall debt”, according to a Wall Street Journal article from November 2019<sup>2</sup>. Since then, Simon Property Group’s shares are down 68% and Macerich’s are down 74%. More generally, the substantial deterioration in high-yield debt is exemplified by the High Yield Bond ETF (JNK), which is down 23% year-to-date, and now at levels only briefly experienced in the midst of the financial crisis. Consequently, Mr. Icahn’s credit default swap and other short derivatives are likely performing very well and could, at least in theory, offset most of, or all of, the losses experienced on the long side.

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<sup>2</sup> <https://www.cnbc.com/2019/11/20/why-icahn-is-making-a-400-million-bet-against-malls-record-store-closures-this-year.html>

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