

THE FALLACY OF HEDGE FUNDS



The Hedge Fund Mirage

**The Illusion of Big Money and Why It's Too
Good To Be True**

By Simon Lack



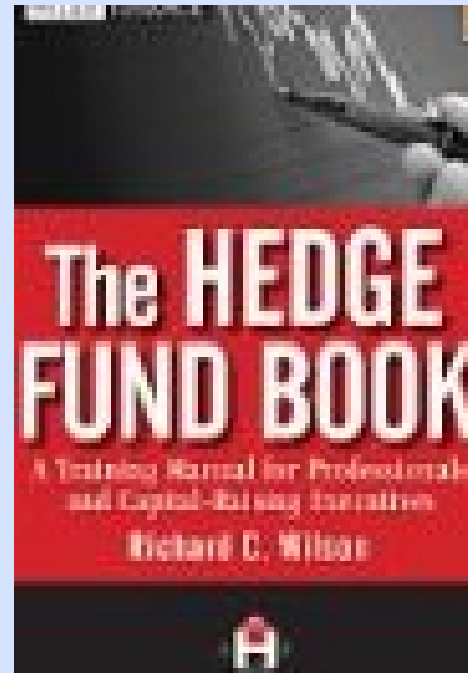
The
HEDGE FUND
MIRAGE

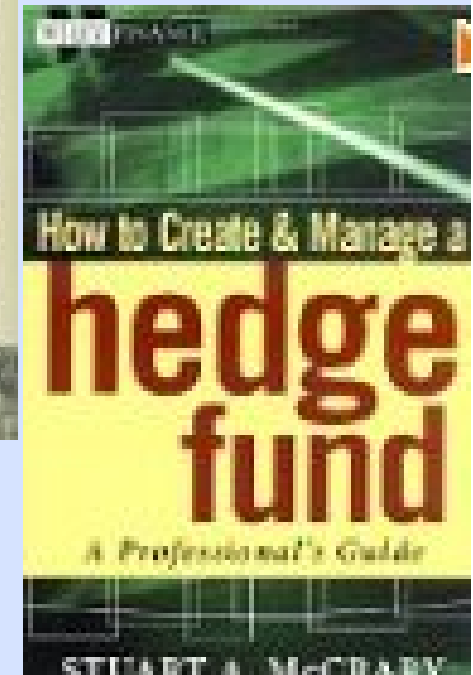
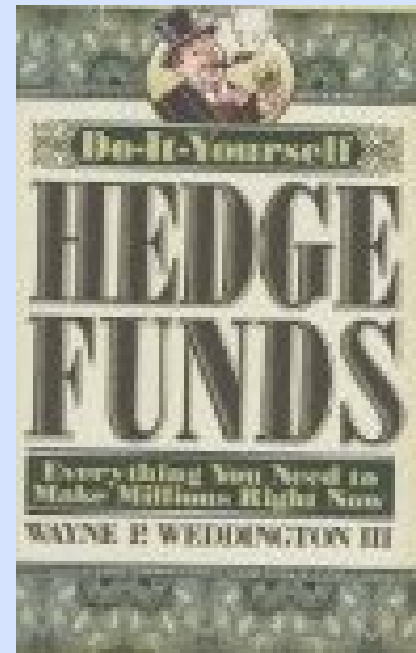
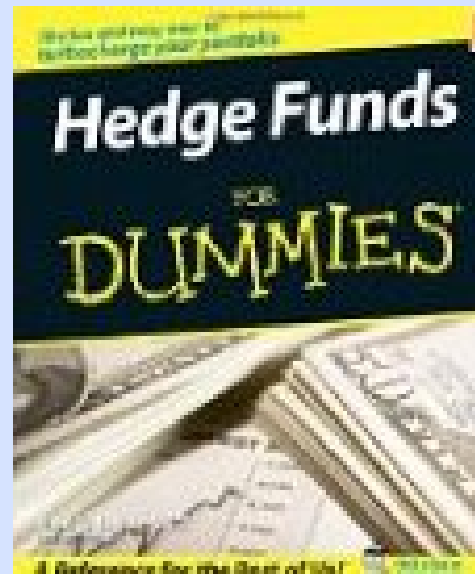
The ILLUSION of BIG MONEY and WHY
IT'S TOO GOOD to BE TRUE

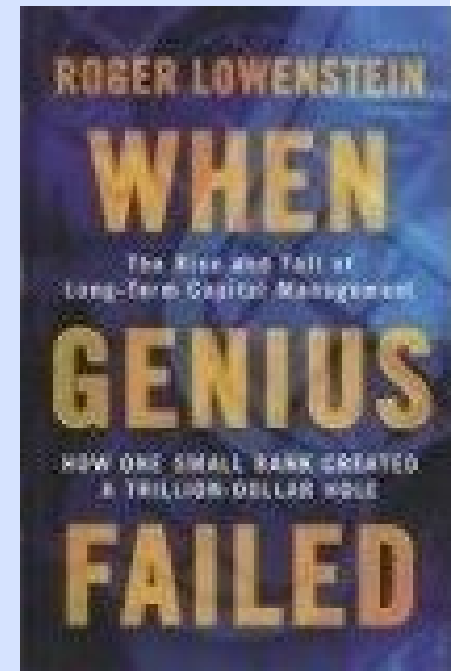
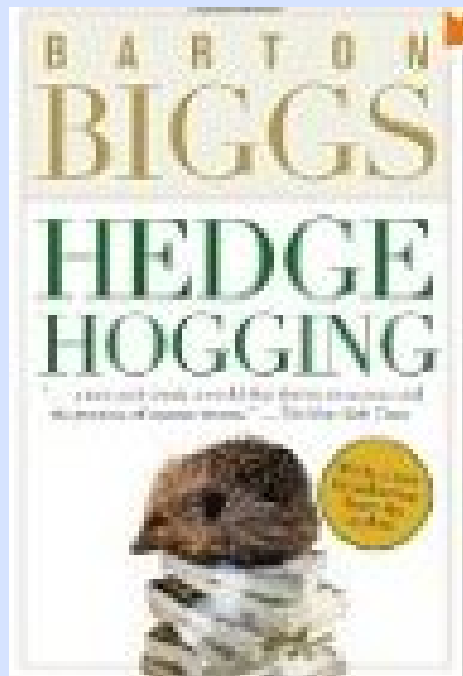
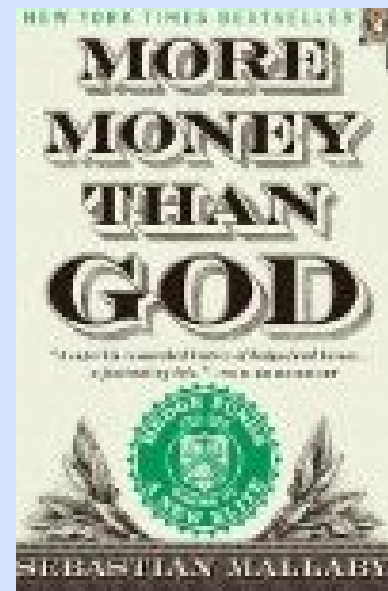
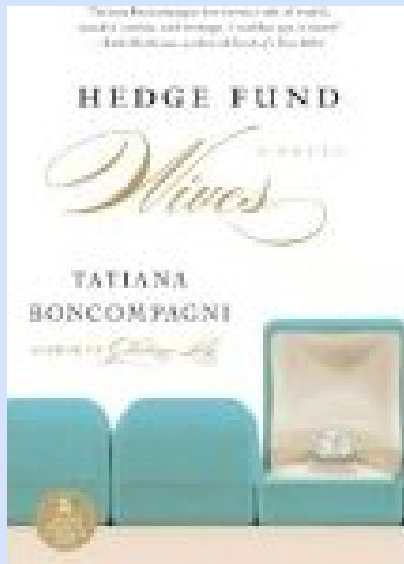
SIMON LACK



“If all the money that’s ever been invested in Hedge Funds had been put in treasury bills instead, the results would have been twice as good.”







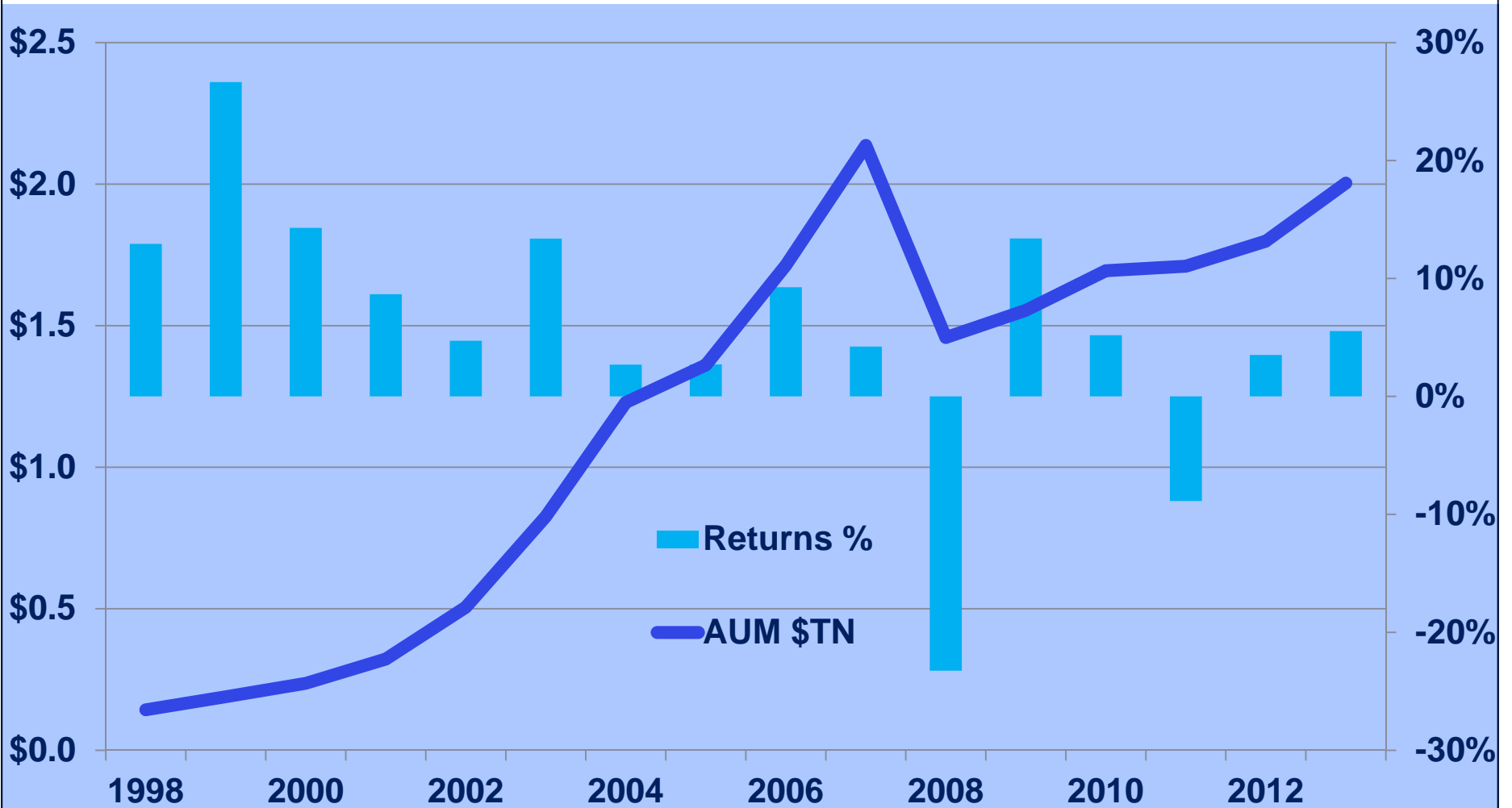


How Have Hedge Fund Investors Really Done?

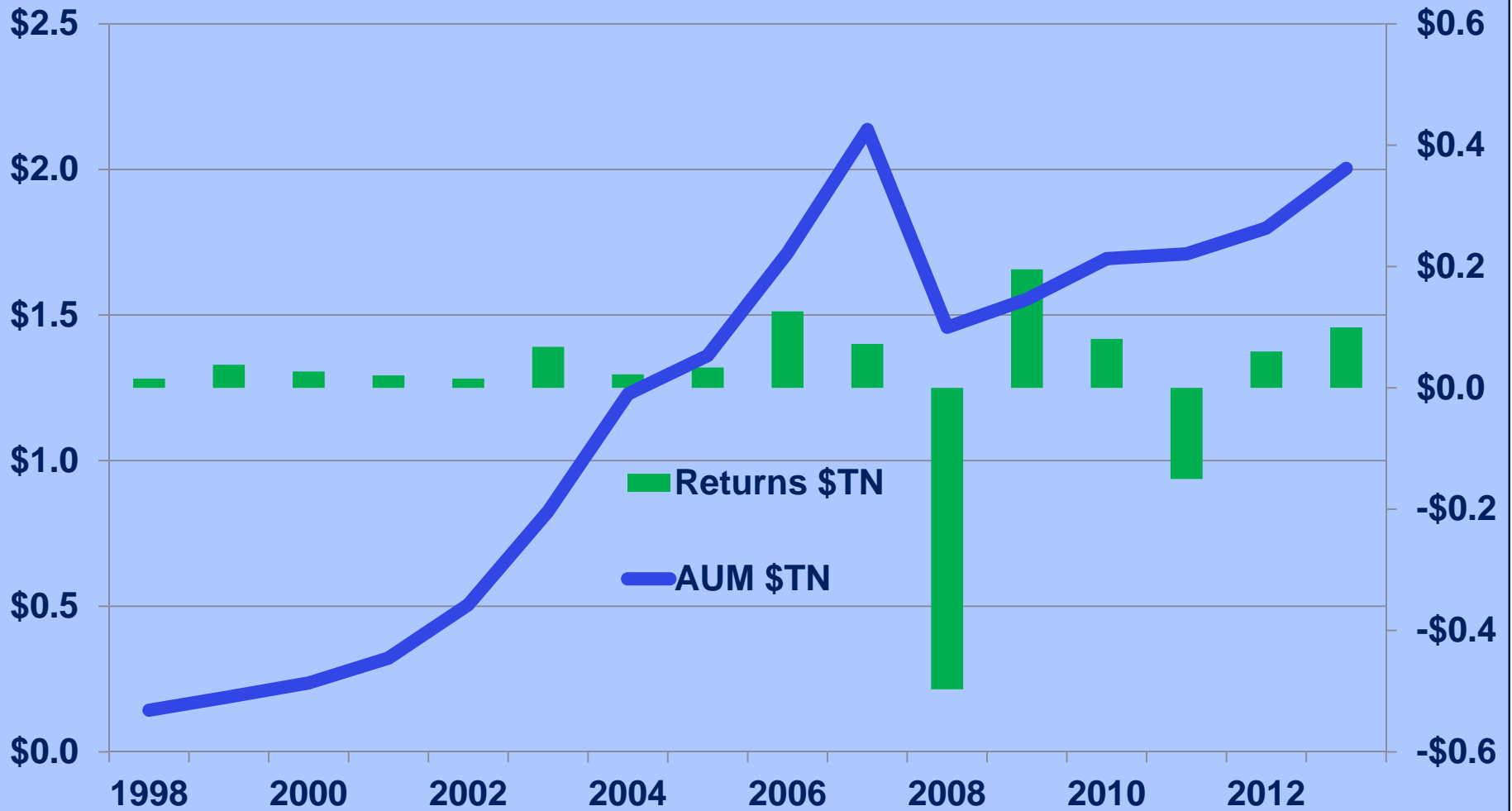
Annual Returns 1998-2013



Hedge Fund Investor Returns and AUM Growth



Hedge Fund Investor Profits and AUM Growth

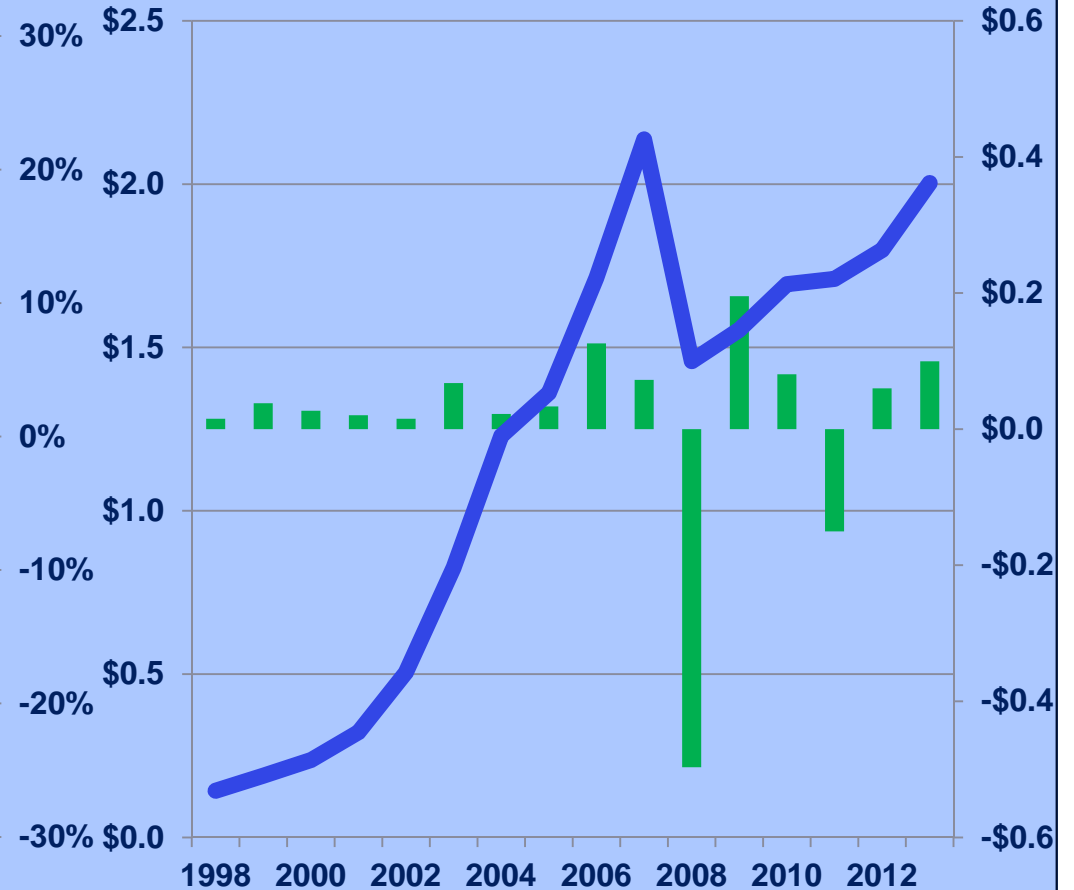


How Hedge Fund Investors Have Done

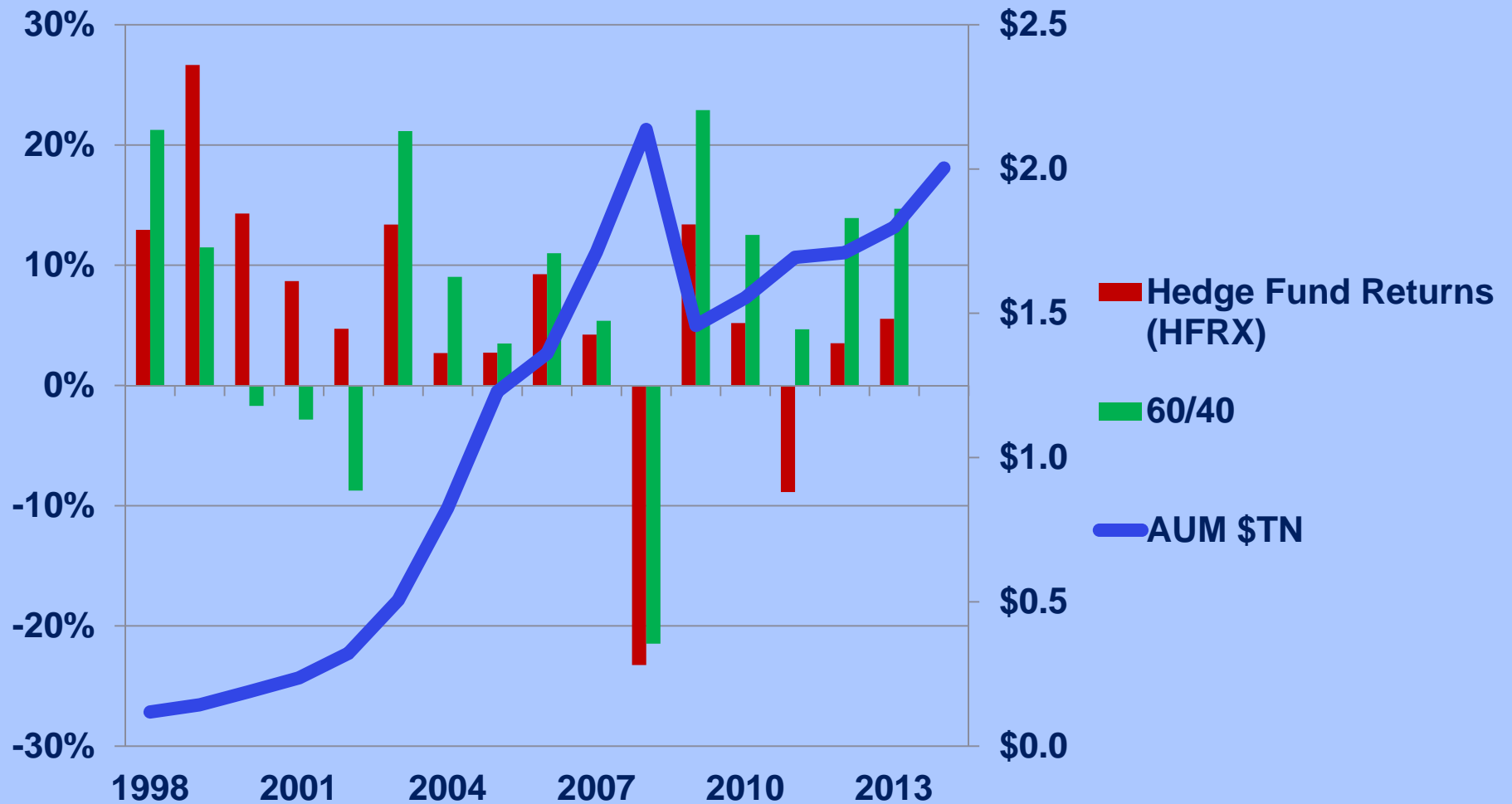
We were better...



...when we were smaller



Why Investors Fell in Love



“The Alternative to Alternatives”

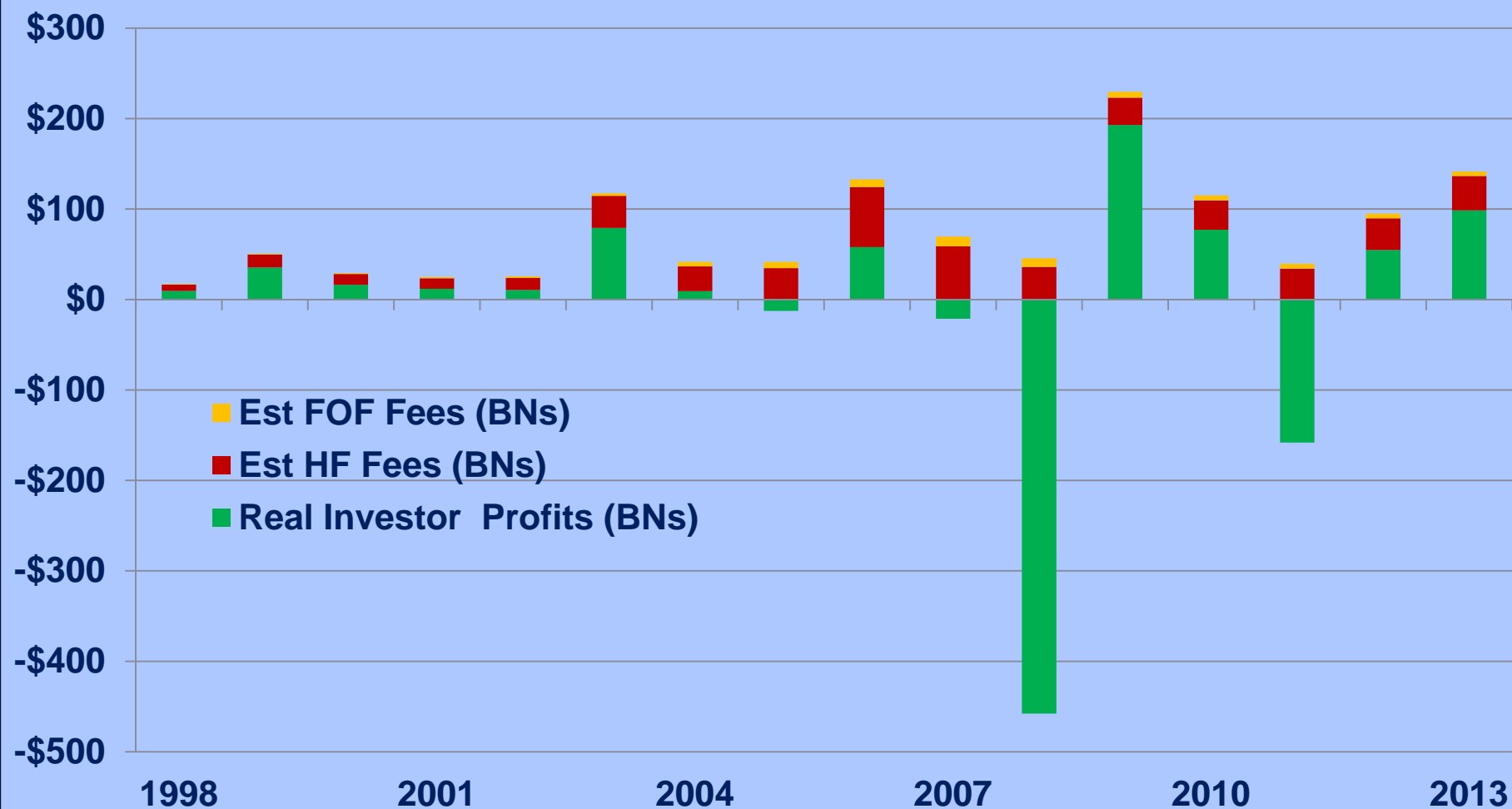
Why Investors Fell in Love



“The Alternative to Alternatives”

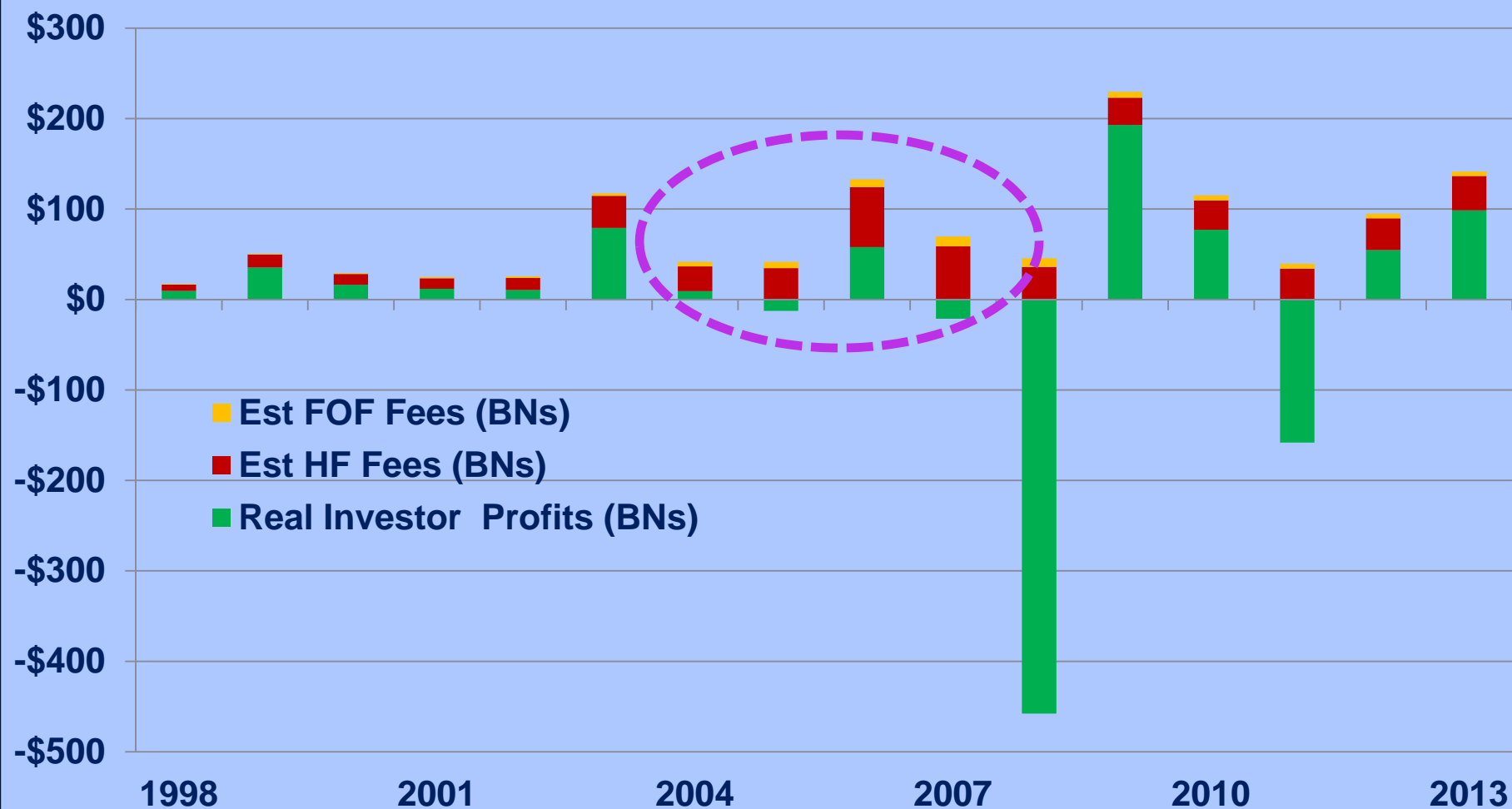


Investor Profits and Fees 1998-2013





Investor Profits and Fees 1998-2013



What Went Wrong?

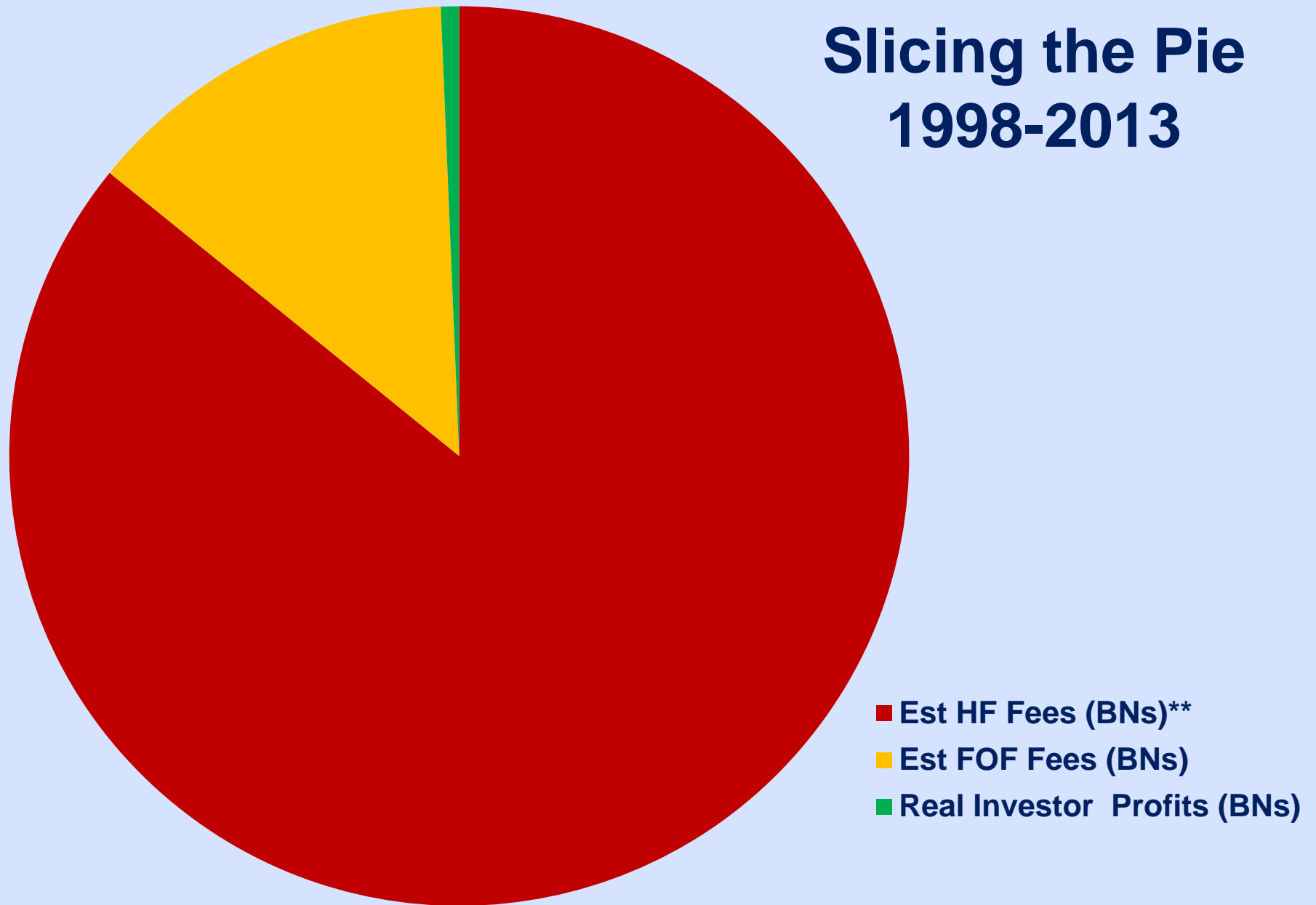


- **Fees**
- **Transparency**
- **Size**
- **Investor Protections**

Why You Run a Hedge Fund

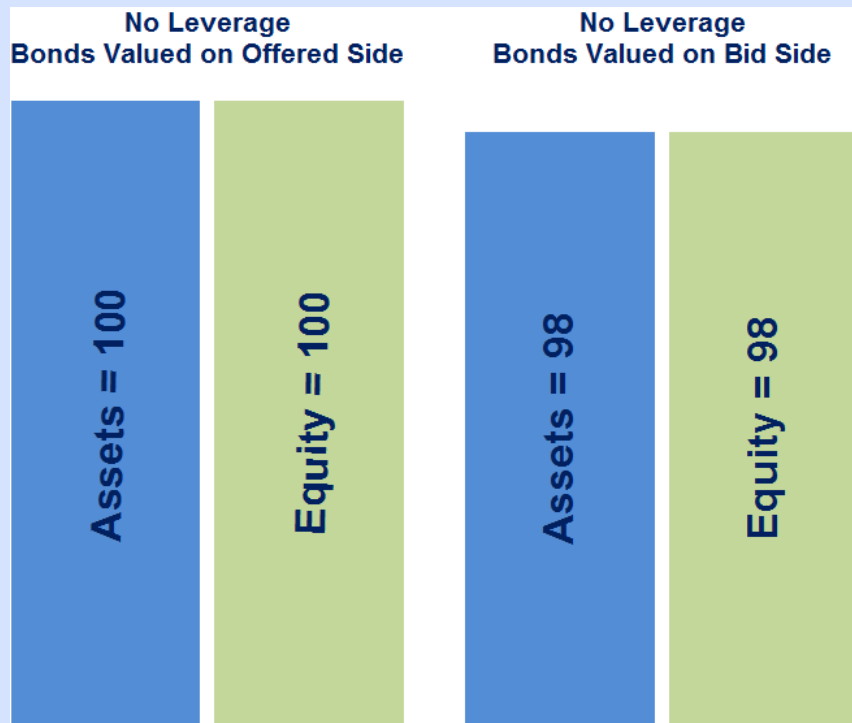
| Year | Avg AUM (BNs) | HFRX | Real Investor Profits (BNs) | Est Total Fees (BNs)** | Fees as % of AUM | Total Profits | Industry Share of Total Profits |
|-------|---------------|------|-----------------------------|------------------------|------------------|---------------|---------------------------------|
| 1998 | \$131 | 13% | \$10 | \$7 | 6% | \$17 | 44% |
| 1999 | \$166 | 27% | \$35 | \$15 | 9% | \$51 | 30% |
| 2000 | \$213 | 14% | \$16 | \$13 | 6% | \$29 | 44% |
| 2001 | \$279 | 9% | \$12 | \$13 | 5% | \$25 | 52% |
| 2002 | \$414 | 5% | \$11 | \$15 | 4% | \$26 | 58% |
| 2003 | \$666 | 13% | \$79 | \$38 | 6% | \$118 | 33% |
| 2004 | \$1,027 | 3% | \$9 | \$32 | 3% | \$42 | 78% |
| 2005 | \$1,295 | 3% | -13 | \$42 | 3% | \$29 | 143% |
| 2006 | \$1,537 | 9% | \$58 | \$75 | 5% | \$133 | 56% |
| 2007 | \$1,925 | 4% | -\$21 | \$70 | 4% | \$48 | 144% |
| 2008 | \$1,797 | -23% | -\$458 | \$46 | 3% | -\$412 | -11% |
| 2009 | \$1,506 | 13% | \$193 | \$37 | 2% | \$230 | 16% |
| 2010 | \$1,624 | 5% | \$77 | \$38 | 2% | \$115 | 33% |
| 2011 | \$1,702 | -9% | -\$158 | \$40 | 2% | -\$119 | -33% |
| 2012 | \$1,754 | 4% | \$54 | \$41 | 2% | \$95 | 43% |
| 2013 | \$1,978 | 7% | \$125 | \$45 | 2% | \$170 | 26% |
| Total | | | \$30 | \$566 | | \$596 | |

Slicing the Pie 1998-2013

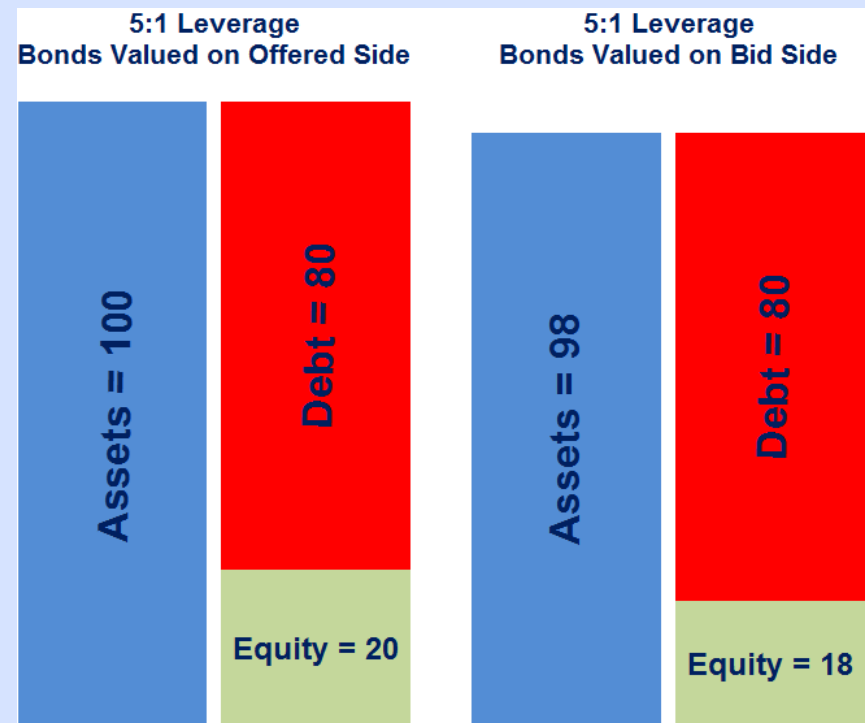


Why Transparency Matters

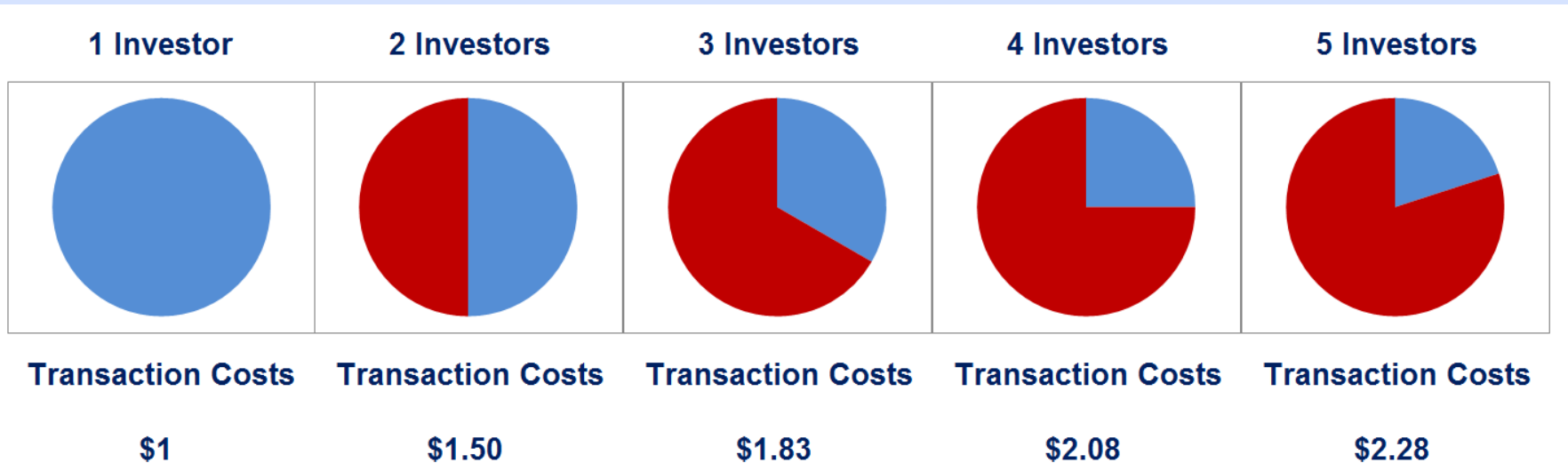
Bid/Ask Impact with no Leverage



Bid/Ask Impact with 5X Leverage

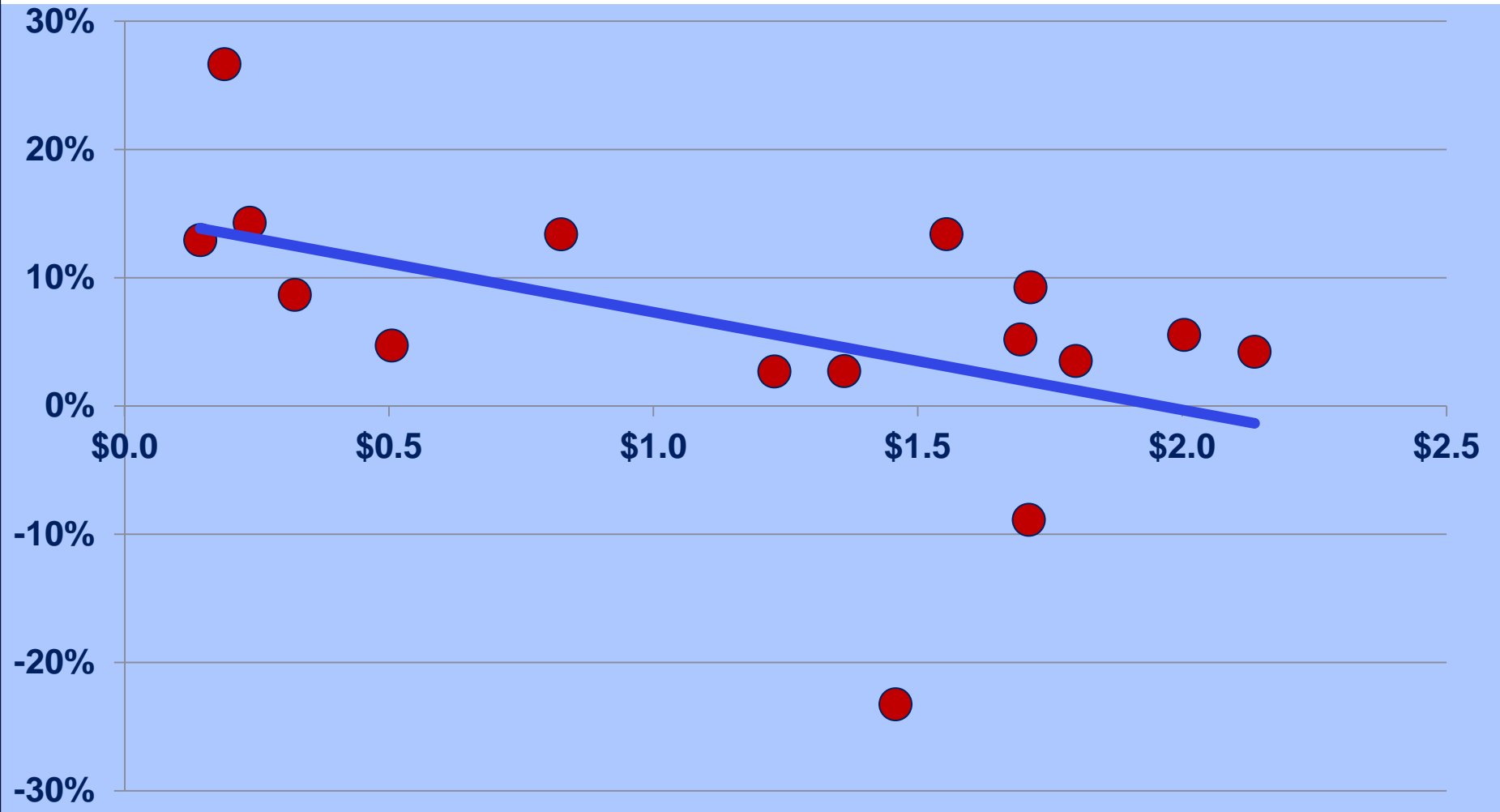


Costs Aren't Equally Shared



Early investors pay for later ones

Size vs. Returns 1998-2013

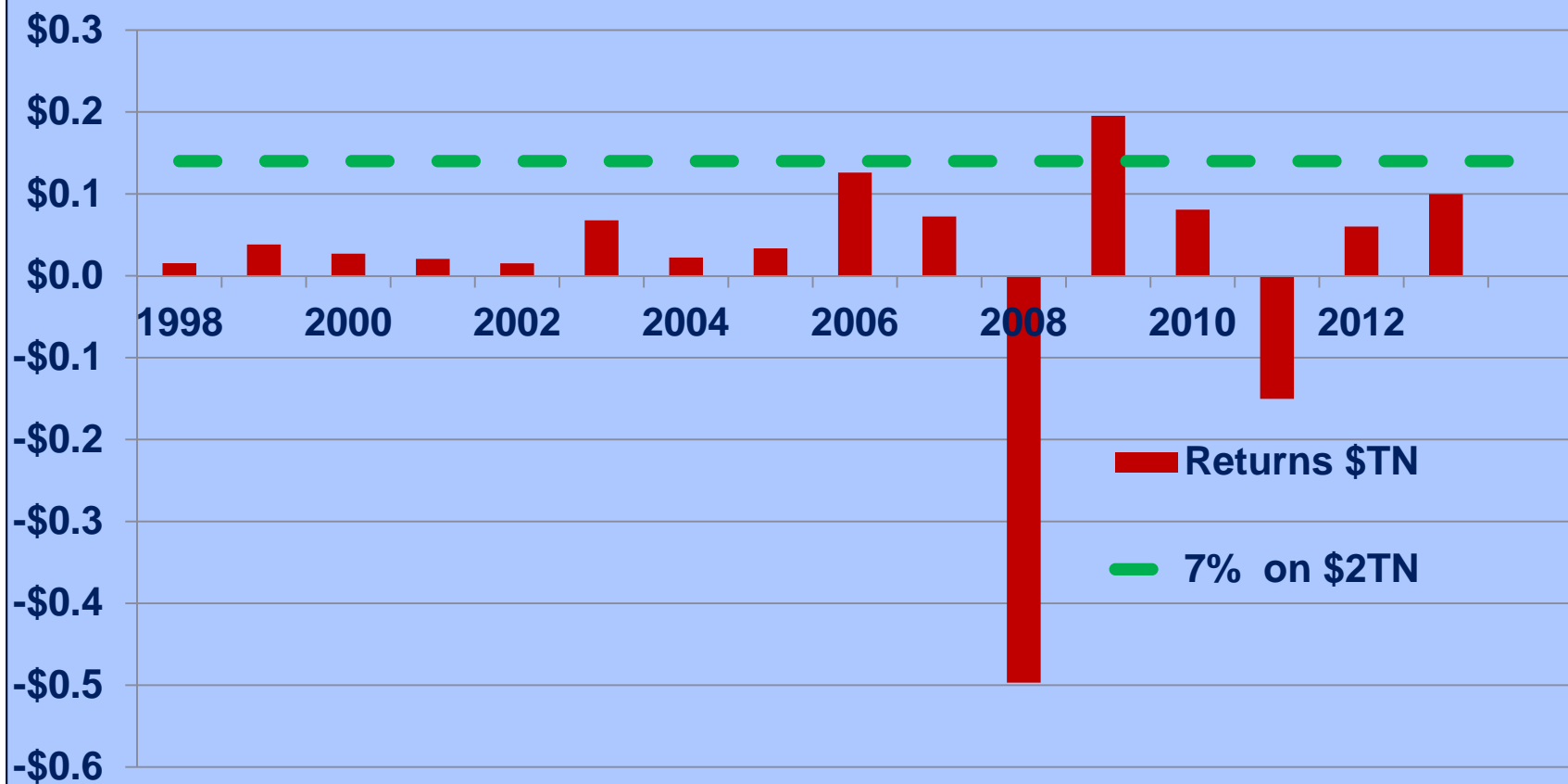


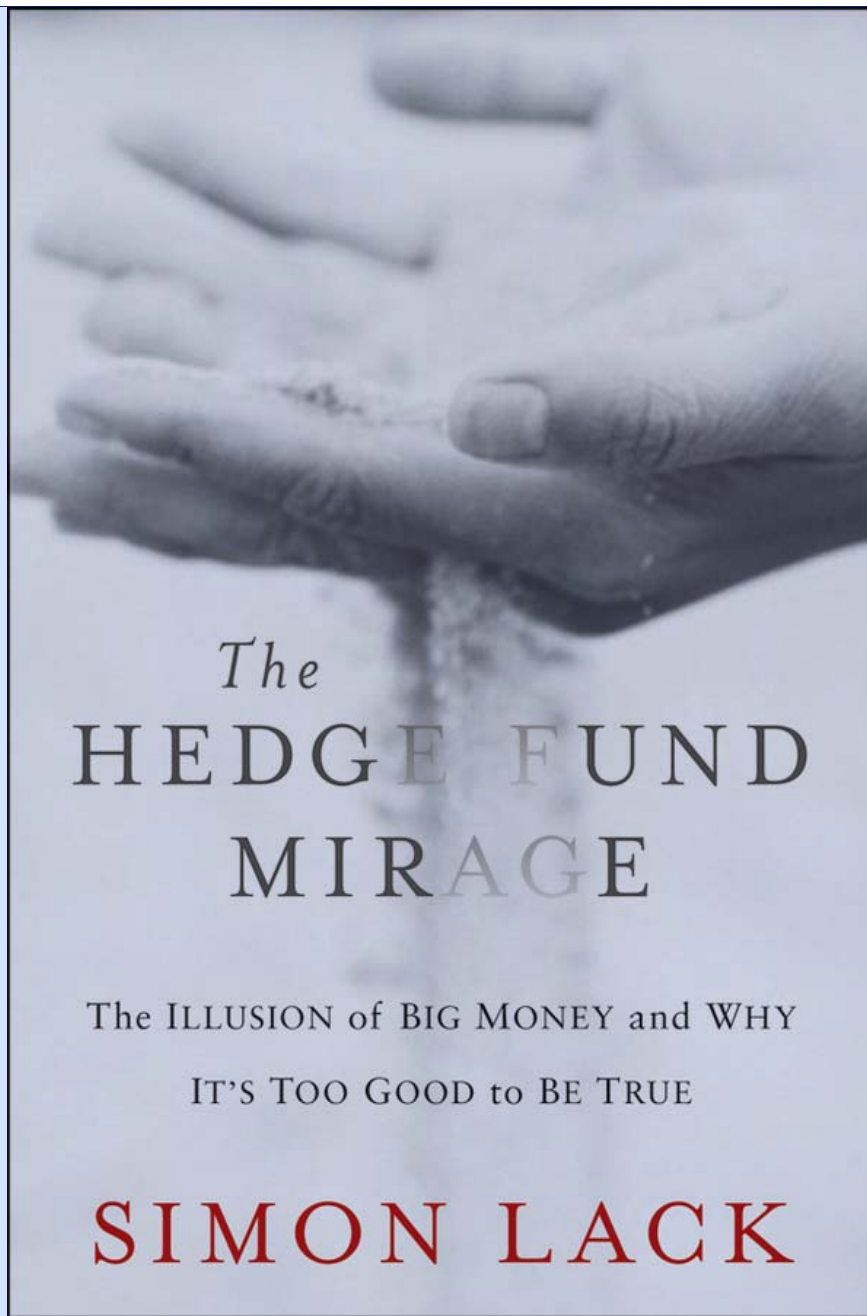
Less Transparency Than...



- **Public Equities and Debt**
- **Private Equity**
- **Real Estate**

Hedge Funds Are Over-Capitalized





The
HEDGE FUND
MIRAGE

The ILLUSION of BIG MONEY and WHY
IT'S TOO GOOD to BE TRUE

SIMON LACK