



From Managing a Mutual Fund to Operating a Hedge Fund Lessons for Asset Allocators

Thank you for taking time to listen to this call. I will talk about differences between mutual funds and hedge funds.

I am fully aware that this is a knowledgeable audience, and you may already know about these differences. What I also think is that you may not quite appreciate the significance of these differences. After this call, I hope that you will be able to ask even better questions to fund managers than I am sure you already do.

Question: You talk about mutual funds, but people here also invest in ETFs. How does your analysis change for ETFs?

In my view there is little difference between ETFs and mutual funds as far as issues discussed ahead are concerned. Fund strategies, incentives, fees etc are similar in ETFs and mutual funds. For our discussion, mutual funds and ETFs are interchangeable.

What makes me different from other fund managers is that I have been a mutual fund manager as well as a hedge fund manager. I now understand the pros and cons of both types of funds, much better than what even I knew years ago.

Mutual funds are safe instruments; when you buy a high yield fund, you know exactly what you get. No one expects a Fidelity fund to behave very differently from markets.

OTOH, hedge funds have a Wild West feel to them. Every hedge fund has a different strategy. Your fund's returns can be volatile. And it could suddenly shut down.

Quite risky on paper, so why get into them? As asset allocators, you already know that if you pick the right hedge fund, your rewards are far better than what people assume, sometimes in unexpected ways.

I start by introducing myself. Next, I explain the key differences between setting up a mutual fund versus setting up a hedge fund. Finally, I discuss the realities of being a fund manager for mutual fund vs operating a hedge fund business.



I was a Fund Manager at Oppenheimer Funds for 8 years between 2003 and 2010. In those 8 years, my fund returned 24% annualized, which made it the top fund in international equities for those 8 years as you can see from the slide.

Country/Region of Domicile
Country/Region of Availability
Issuer
Custom Return
Fund Type
Share Class
Fund Objective
12/31/02 - 12/31/10
Selected Criteria
1) Modify Criteria
Domicile: United States
Fund Type: Open-End Fund
ETF
Availabilit... United States
Objectives: Foreign Value
Foreign Growth
Foreign Blend
Showing 691 out of 691 matched funds.

Name	Cust Ret↓	1M Ret	3M Ret	YTD Ret	1Y Ret	3Y Ret	5Y Ret▲
Mean		-2.77%	+4.53%	+1.34%	+8.89%	-.03%	+6.20%
101) Invesco International Small-Mid ...	+451.15%	-6.07%	+4.44%	-5.19%	-1.62%	-6.94%	+2.13%
102) Vanguard Global Capital Cycles Fu...	+383.34%	+2.01%	+9.13%	+3.26%	+5.14%	+8.61%	+13.02%
103) Invesco EQV International Small ...	+382.84%	-3.15%	+2.10%	-1.82%	+7.11%	+1.57%	+6.64%
104) Janus Henderson Overseas Fund	+299.78%	-2.23%	+8.16%	+4.29%	+5.80%	+2.55%	+8.68%
105) American Century International O...	+288.14%	-3.32%	+4.73%	-.23%	+.99%	-9.02%	+2.94%
106) Wanger International	+282.68%	-5.80%	-1.09%	-6.72%	-2.81%	-7.37%	+1.82%
107) Fidelity International Small Cap F...	+280.96%	-2.90%	+1.87%	-.86%	+8.52%	+.11%	+5.92%
108) Artisan International Small-Mid F...	+278.28%	-5.12%	+.78%	-2.60%	+.96%	-6.40%	+5.42%
109) Columbia Acorn International	+268.64%	-4.92%	+.49%	-5.03%	+.99%	-7.15%	+1.82%
110) T Rowe Price International Disco...	+265.56%	-1.76%	+5.40%	+.76%	+6.66%	-7.86%	+5.00%

Question: how did your fund perform relative to its index?

The index returned 16% annually, so my fund beat it by 8 percentage points on an annual basis.

After a stint at TCW, I left and started my own hedge fund in 2016. After the teething period, our Fund started generating solid returns. We have annualized 41% in this decade.

MAKAIEM KY	1M +3.91%	YTD +22.95%	On 29 Mar	Type Hedge Fund
Makalu International Equity Ma	Strategy Equity Hedge	Geo Focus Global		
MAKAIEM KY Equity	Settings			
Range	12/31/2019	-	03/29/2024	Period Monthly
	No. of Period	51 Month(s)	Chart	
MAKAIEM KY Equity	SPY US Equity	QQQ US Equity		
Date↓	Price	Divs	Return	Price
03/29/2024	2893.68	--	335.40%	523.07
				1.59
				73.72%
				444.01
				.57
				114.64%

Question: what are your returns so far in 2024?

As of March end, Makalu is +23% year to date.

When I started my hedge fund, people told me that the days when you could start a hedge fund with 2 guys and one Bloomberg were long gone. I started my business with me on my Bloomberg, and just \$1.5 million. Today, we are at \$19 million, and are confident that we will have one of the best performing funds out there.



In this process, I learnt everything there was about starting, operating, and now growing my hedge fund business. What I am going to tell you is based on my experiences at OppenheimerFunds and at my hedge fund.

There are 2 stages to any hedge fund: the first 3 years, and the following years. Therefore, I have broken up my discussion into 2 stages: first the setting up stage, and then the reality of operating a hedge fund.

Let's start with setting up a new fund.

It is very easy for a mutual fund company like OppenheimerFunds to start a new fund. It would seed a fund with \$50 million and then their marketing people would raise assets. Brand image is key: for example, it used to be easy for the international equity group to raise capital given the stable of good funds in that group. A big mutual fund has in-house legal teams to file documents, and a well-oiled machinery to deliver daily NAV calculations. All the fund manager has to do is decide their portfolio. It is almost like a plug and play business.

When you start a hedge fund, you need to hire a law firm, a fund administrator, an auditor, a prime broker and most importantly, someone to write you a good-sized check to start you off. You are not only running a portfolio, but you also operate a business. Hedge funds require not just portfolio management, it also requires management of your business.

Stuff you might know

Mutual Funds	Hedge Funds
Both file under Investment Act of 1940	
Geared towards all investors	Accredited investors and qualified purchasers
Shorting not possible	Shorting potential written into offering memorandum
In-house daily NAV calculations	Fund Administrator periodically calculates NAVs

Stuff you might not fully appreciate

Mutual Funds	Hedge Funds
1099 tax documents	K1 tax treatment
Typically, no financial leverage allowed	Buying on margin is very important
Performance fees not chargeable	Performance fees are managers' motivation
Little incentive for maximizing long term returns	High-water mark incentivizes low volatility



Question: how did you manage in the first 3 years of your hedge fund as far as operations are concerned?

There is one advantage of being a hedge fund #15,000. There is a whole supply chain that has been set up over the years. I outsourced my operations to Constellation Advisers, and they took care of almost all aspects of running the business.

There are key aspects that most do not appreciate about hedge funds, and that includes me when I set off on my hedge fund journey.

First, the question of what the fund can invest in.

In a mutual fund, it is very clear, if constrained, with little space for evolution. An international small cap fund has to define in its prospectus what such a company is: international AND what is small cap. Often the fund must be invested all the time, no matter what the financial environment is.

When you are setting up a hedge fund, the most important part of your pitch is exactly what you will invest in, and how you will generate whatever returns you promise. Think of it as the hedge fund starting on a fresh page and deciding how to best serve their investors.

In my case, I started a hedge fund focused on international small caps, since that was what I knew best and there were no such hedge funds.

A second aspect that people don't fully appreciate is buying on margin or leverage. As you know, leverage juices up returns. Famous hedge funds like Renn Tech, George Soros and Warren Buffett could not have delivered 20+% returns without leverage. This use of leverage is not available to mutual funds. But in the anything goes culture of hedge funds, buying on margin is a critical means to an end.

A third item people underestimate is the role of performance fees. In a mutual fund, you pay no performance fees; you only pay management fees. This means that the incentive for any mutual fund company is to raise as much assets as they can; performance is a secondary consideration. People buy a mutual fund expecting returns, but since they never pay for returns, it is no surprise that they don't get any returns. You get what you paid for, in one sense.

Such is not the case for hedge funds. You pay for performance, so you expect performance. Most fund managers are unable to deliver on this performance promise, and that is why most die within 3 years of launch.

Another aspect of hedge funds that is not fully appreciated is the role of high-water marks. If a fund loses money in any year, the high-water mark clause says that the fund cannot earn any performance fees until the investor is made whole again.

When a mutual fund loses money, you can't do much about it.



But in a hedge fund, you expect your fund manager to recoup your losses. And because your fund manager cannot earn any performance fees until they have made you whole again, this serves as a powerful brake on the greed that performance fees create. If performance fees are greed, then high water marks are the fear. High water marks are the reason why you will hear about long running hedge funds shutting down. Hedge funds live and die for performance fees.

One topic that is not at all understood is the tax treatment of hedge funds vs mutual funds.

When you buy a mutual fund, you own units of a company and get a 1099 statement reflecting your distribution of gains and losses. Year-end fund distributions apply to all shareholders equally, so if you buy shares in a fund just before the distribution occurs, you'll have to pay tax on any gains incurred from shares throughout the entire year, well before you owned the shares.

When you invest in a hedge fund, you own a piece of the company and get a K1 statement reflecting your share of the company's activities, starting from the moment you enter (not before). You are taxed directly on gains and losses on your account and get the benefit of portfolio deductions on your personal tax return.

Let's move to the day to day running of a mutual fund vs operating a hedge fund.

Stuff you might know

Mutual Funds	Hedge Funds
Brand recognition important	Manager's track record & credibility is key
Holdings can run into hundreds	Portfolios tend to be concentrated
<i>Bought</i> , by asset allocators	<i>Sold</i> , to investors who need to be persuaded
Can have long lives despite poor performance	Most new funds die within 3 years after launch

Stuff you might not fully appreciate

Mutual Funds	Hedge Funds
Investment rule book is circumscribed	Investment rules are flexible & evolve over time
Fund Manager's bonus depends primarily on AUM	AUM based fees are generally inconsequential
Bonus is often based on relative performance	Fees are based on absolute performance
Volatility management is constrained by guidelines	Leverage means draw down management is critical



In a mutual fund, the portfolio can run to hundreds of holdings. This is for practical reasons as well as being constrained by the offering document requirements. In hedge funds however, the need for returns requires concentration of holdings.

Question: how many stocks did you own in your Oppenheimer portfolio? And how many do you own today?

Makalu right now has 30 holdings. At OSMAX, I was running a portfolio of 120 stocks.

Mutual funds live as long as their fund companies want them to. Large funds never shut down, no matter how poor the performance is, as the fund cos are getting sizeable management fees from large AUMs. Hedge funds OTOH, have no such benefit. Most new hedge funds die within 3 years of launch. Once a hedge fund fails to deliver adequate returns, it is only a matter of time before they lose assets and fold. Beating the market is not the goal for investors: you need to beat the market AFTER performance fees have been paid off. A small hedge fund may need to beat all other investments an investor could be making instead of this one.

A hedge fund is a business. Like all businesses, it needs to evolve in a Darwinian manner. In Makalu's case, we have evolved over time. After I launched my fund, over time I realized that my investors did not invest in Makalu because of international small caps. It was only because they trusted me to deliver them the highest returns possible. That led me to reconsider my fund's investment universe, and over time, it has morphed into a global equity fund. Such a transition is simply not possible in ETFs or mutual funds.

A final point is about leverage. Because of leverage, the upside is considerable, but so are drawdowns. I differentiate between risk and volatility. Volatility is violent moves in prices. Risk is the possibility of losing capital permanently. Creating a portfolio such that it reduces downside is what makes a hedge fund stand out.

We have a 2-leg strategy.

First, we own best in class companies. With such stocks, we expect to reduce risk. Best in class cos are those with high returns on capital, grow fast, have net cash on their balance sheets, and are often disruptive businesses.

Second, we spread our investments across several industries as well as countries. This diversification is how we expect to reduce volatility.

Right now, our 30 stocks are invested primarily in the US, but also Canada, Emerging Markets, and other countries. We are diversified across semiconductors, software, consumer discretionary, financial services, shipping, energy and mining to name a few.

We expect our portfolio to outperform in bull markets. In bear markets, we expect to go down no more than what the market does. Cumulatively we expect to outperform overall markets. As has happened in this decade, our annual returns are 41% while the Nasdaq has delivered less than half of that.



Question: 2022 was a bear market in the stock market. How did Makalu perform?

We returned -12% which cost us performance fees but the S&P500 fell 18%, so we still beat the overall market.

Question: What has been your biggest learning curve in the hedge fund business?

What I learnt can be summarized into one sentence: conventional wisdom is almost always wrong re hedge funds. For example, when I started up my business, I asked for and got a lot of advice about how to run my business. Unfortunately, only one of them turned out to be correct.

The second learning was that a hedge fund is just as much about running a portfolio as it is about operating a business. This is particularly true at the early stages of a hedge fund; it becomes less so over time.



From Managing a Mutual Fund to Operating a Hedge Fund Lessons for Asset Allocators



Finding Opportunity In Global Equities

750 Lexington Avenue - 9th Floor, New York, NY 10022 info@makalufunds.com +1-212-596-7600

Introductions & Bios



Rohit Sah - *Fund Manager*

- △ **2016-present:** Independent Investment Advisor; Makalu Fund Management
- △ **2011-2015:** Fund Manager; International Equities, Trust Company of the West (TCW)
- △ **2003-2010:** Fund Manager; Oppenheimer International Small Companies Fund (OSMAX)
- △ **2001-2002:** International Equities Analyst, OppenheimerFunds
- △ **1996-2000:** Emerging Markets Bonds & Currency Analyst, OppenheimerFunds
- △ PhD (Economics) from Columbia University; B. Tech. (Mechanical Engg) from IIT Kanpur, India



Michelle Pepe - *Chief Operating Officer*

- △ **2018-present:** joined Makalu; Partner in 2020
- △ **2015-2018:** consultant and advisory CFO & COO to 20+ investment managers, including managing the launch of Makalu, Constellation Advisors
- △ **2011-2014:** from fund administrator to Director of Accounting and Operations at a proprietary broker dealer, where Michelle oversaw an Emerging Manager platform of independent managers
- △ **2008-2010:** fund analyst and accountant for CAI Funds, a \$2b private equity fund manager
- △ BA in Accounting from Iona University

Overview

OppenheimerFunds Mutual Fund Track Record

- Rohit managed the Oppenheimer International Small Company Fund* (OSMAX) from 2003-2010
- Returned **+24%** annualized over 8 years. Ranked first among all diversified international equity funds for those 8 years.

Country/Region of Domicile

Country/Region of Availability

Issuer

Custom Return

12/31/02

-

12/31/10

Fund Type

Share Class

Fund Objective

Selected Criteria

1) Modify Criteria

Domicile: United States

X

Fund Type: Open-End Fund

X

ETF

X

Availabilit... United States

X

Objectives: Foreign Value

X

Foreign Growth

X

Foreign Blend

X

Showing 691 out of 691 matched funds.

Name	Cust Ret↓	1M Ret	3M Ret	YTD Ret	1Y Ret	3Y Ret	5Y Ret ^
Mean		-2.77%	+4.53%	+1.34%	+8.89%	-0.03%	+6.20%
101) Invesco International Small-Mid ...	+451.15%	-6.07%	+4.44%	-5.19%	-1.62%	-6.94%	+2.13%
102) Vanguard Global Capital Cycles Fu...	+383.34%	+2.01%	+9.13%	+3.26%	+5.14%	+8.61%	+13.02%
103) Invesco EQV International Small ...	+382.84%	-3.15%	+2.10%	-1.82%	+7.11%	+1.57%	+6.64%
104) Janus Henderson Overseas Fund	+299.78%	-2.23%	+8.16%	+4.29%	+5.80%	+2.55%	+8.68%
105) American Century International O...	+288.14%	-3.32%	+4.73%	-.23%	+.99%	-9.02%	+2.94%
106) Wanger International	+282.68%	-5.80%	-1.09%	-6.72%	-2.81%	-7.37%	+1.82%
107) Fidelity International Small Cap F...	+280.96%	-2.90%	+1.87%	-.86%	+8.52%	+.11%	+5.92%
108) Artisan International Small-Mid F...	+278.28%	-5.12%	+.78%	-2.60%	+.96%	-6.40%	+5.42%
109) Columbia Acorn International	+268.64%	-4.92%	+.49%	-5.03%	+.99%	-7.15%	+1.82%
110) T Rowe Price International Disco...	+265.56%	-1.76%	+5.40%	+.76%	+6.66%	-7.86%	+5.00%

* Oppenheimer International Small Company Fund was renamed to Invesco International Small-Mid Company Fund in 2016

Overview cont'd



Hedge Fund: Makalu International Equity Fund

- Makalu International Equity Fund launched in February 2016
- In this decade, Makalu's annualized returns are **+41%** compared to +14% for the S&P500 and +20% for the Nasdaq 100

MAKAIEM KY 1M +3.91% YTD +22.95% On 29 Mar Type Hedge Fund										
Makalu International Equity Ma				Strategy Equity Hedge			Geo Focus Global			
MAKAIEM KY Equity			Settings							
Range 12/31/2019 - 03/29/2024 Period Monthly No. of Period 51 Month(s) Chart										
MAKAIEM KY Equity			SPY US Equity				QQQ US Equity			
Date↓	Price	Divs	Return	Price	Divs	Return	Price	Divs	Return	
03/29/2024	2893.68	--	335.40%	523.07	1.59	73.72%	444.01	.57	114.64%	

Mutual Funds/ETFs vs Hedge Funds – Setup



Stuff you probably know

Mutual Funds	Hedge Funds
Both file under Investment Act of 1940	
Geared towards all investors	Accredited investors and qualified purchasers
Shorting not possible	Shorting potential written into offering memorandum
In-house daily NAV calculations	Fund Administrator periodically calculates NAVs

Mutual Funds/ETFs vs Hedge Funds – Setup



Stuff you might not fully appreciate

Mutual Funds	Hedge Funds
1099 tax documents	K1 tax treatment
Typically, no financial leverage allowed	Buying on margin is very important
Performance fees not chargeable	Performance fees are managers' motivation
Little incentive for maximizing long term returns	High-water mark incentivizes low volatility

Mutual Funds/ETFs vs Hedge Funds – Realities



Stuff you might know

Mutual Funds	Hedge Funds
Brand recognition important	Manager's track record & credibility is key
Holdings can run into hundreds	Portfolios tend to be concentrated
<i>Bought</i> , by asset allocators	<i>Sold</i> , to investors who need to be persuaded
Can have long lives despite poor performance	Most new funds die within 3 years after launch

Mutual Funds/ETFs vs Hedge Funds – Realities



Stuff you might not fully appreciate

Mutual Funds	Hedge Funds
Investment rule book is circumscribed	Investment rules are flexible & evolve over time
Fund Manager's bonus depends primarily on AUM	AUM based fees are generally inconsequential
Bonus is often based on relative performance	Fees are based on absolute performance
Volatility management is constrained by guidelines	Leverage means draw down management is critical

DISCLAIMER



THE INFORMATION AND ANY DISCLOSURES PROVIDED IN THIS PRESENTATION ARE IN SUMMARY FORM AND HAVE BEEN PREPARED SOLELY FOR INFORMATIONAL PURPOSES ONLY. THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY INTERESTS IN MAKALU FUND (THE "FUND"). AN OFFERING OF INTERESTS WILL BE MADE ONLY BY MEANS OF A DEFINITIVE CONFIDENTIAL PRIVATE OFFERING MEMORANDUM ("OFFERING MEMORANDUM") AND ONLY IN THOSE JURISDICTIONS WHERE PERMITTED BY LAW. IN THE CASE OF ANY INCONSISTENCY BETWEEN THE INFORMATION AND DISCLOSURES CONTAINED HEREIN AND THE INFORMATION AND DISCLOSURES CONTAINED IN THE FUND'S OFFERING MEMORANDUM, THE FUND'S OFFERING MEMORANDUM WILL CONTROL. ANY PURCHASE MADE BY YOU ON THE BASIS OF INFORMATION AND ANY DISCLOSURES NOT CONTAINED IN OR CONSISTENT WITH THE FUND'S OFFERING MEMORANDUM WILL BE SOLELY AT YOUR OWN RISK.

AN INVESTMENT IN THE FUND IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. BOTH MAKALU FUND MANAGEMENT LLC ("MAKALU") AND THE FUND ARE NEWLY FORMED ENTITIES WITH NO OPERATING HISTORY. THE FUND MAY EMPLOY CERTAIN TECHNIQUES, SUCH AS SHORT SELLING AND THE USE OF LEVERAGE, THAT MAY INCREASE THE RISK OF INVESTMENT LOSS. FURTHER, INVESTORS WILL HAVE LIMITED WITHDRAWAL AND TRANSFER RIGHTS, AND NO SECONDARY MARKET FOR THE INTERESTS EXISTS OR IS EXPECTED TO DEVELOP. IN ADDITION, THE FUND'S FEES/ALLOCATIONS AND EXPENSES OFFSET TRADING PROFITS. ALL OF THESE RISKS, AS WELL AS OTHER IMPORTANT RISKS AND INFORMATION (INCLUDING, WITHOUT LIMITATION, INFORMATION REGARDING TRADING OBJECTIVES AND PROGRAMS, FEES/ ALLOCATIONS AND EXPENSES, TAX CONSIDERATIONS AND SUITABILITY REQUIREMENTS) ARE DESCRIBED IN DETAIL IN THE FUND'S OFFERING MEMORANDUM.

PROSPECTIVE INVESTORS ARE STRONGLY URGED TO REVIEW THE FUND'S OFFERING MEMORANDUM CAREFULLY AND CONSULT WITH THEIR OWN FINANCIAL, LEGAL AND TAX ADVISORS BEFORE INVESTING IN THE FUND.

THIS PRESENTATION CONTAINS CERTAIN FORWARD LOOKING STATEMENTS. ALTHOUGH MAKALU BELIEVES THAT THE EXPECTATIONS REFLECTED IN THESE FORWARD-LOOKING STATEMENTS ARE REASONABLE, SUCH STATEMENTS ARE SUBJECT TO A NUMBER OF ASSUMPTIONS, RISKS AND UNCERTAINTIES WHICH MAY CAUSE ACTUAL RESULTS TO BE MATERIALLY DIFFERENT FROM FUTURE RESULTS IMPLIED BY THESE FORWARD-LOOKING STATEMENTS AND PROJECTIONS. PROSPECTIVE INVESTORS ARE CAUTIONED NOT TO RELY ON THESE FORWARD-LOOKING STATEMENTS.

EXAMPLES OF OUR TRADING PROCESS AND ANY OTHER TRADING IDEAS PRESENTED HEREIN ARE FOR ILLUSTRATIVE PURPOSES ONLY. THERE IS NO GUARANTEE THAT THE FUND WILL ACQUIRE A POSITION IN ANY ISSUER OR INDUSTRY REFERENCED IN SUCH EXAMPLES OR IDEAS OR THAT ANY SUCH POSITION WOULD BE PROFITABLE. CERTAIN INFORMATION CONTAINED HEREIN HAS BEEN OBTAINED BY MAKALU FROM THIRD PARTIES. WHILE MAKALU BELIEVES SUCH SOURCES ARE RELIABLE, IT CANNOT GUARANTEE THE ACCURACY OF ANY SUCH INFORMATION AND DOES NOT REPRESENT THAT SUCH INFORMATION IS ACCURATE OR COMPLETE.

THE INFORMATION PRESENTED HEREIN IS CURRENT ONLY AS OF THE PARTICULAR DATES SPECIFIED FOR SUCH INFORMATION, AND IS SUBJECT TO CHANGE OR AMENDMENT. MAKALU DOES NOT REPRESENT TO PROVIDE UPDATES OF ANY SUCH CHANGES FOLLOWING ONE'S RECEIPT OF THIS DOCUMENT. THE DELIVERY OF THIS PRESENTATION AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AT ANY TIME SUBSEQUENT TO THE DATES SPECIFIED HEREIN. THE INFORMATION PRESENTED HEREIN IS CONFIDENTIAL AND PROPRIETARY, AND MAY NOT BE DISCLOSED BY, OR ON BEHALF OF, YOU TO ANY THIRD PARTY EXCEPT WITH THE PRIOR WRITTEN CONSENT OF MAKALU.

LIPPER, BARRONS AND MORNINGSTAR RATINGS AND RANKINGS INFORMATION IS NOT AT ENDORSEMENT OR STATEMENT OF CLIENT EXPERIENCE. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.