1

THE WATERSHED EVENTS OF 2000

Julian Robertson of Tiger Management and George Soros of Soros Fund Management had long been recognized as the great hedge fund managers. For many years, Soros had been the largest hedge fund manager as determined by assets under management; but in 1998, Robertson's assets overtook Soros's. At their peaks, both had assets of about $22 billion.

Both men had long and successful track records. Soros started his fund in 1969 and Robertson in 1980. Both evolved into global macro managers—those managers who take advantage of opportunities around the world and invest in a variety of instruments including stocks, bonds, commodities, currencies, and futures, and typically take large leveraged positions.

By midyear 2000, the situation had changed drastically. Robertson had retired and Soros had significantly changed his organization and fund objectives.

TIGER UNRAVELS

I met Julian H. Robertson Jr. for the first time in August 1998. We had breakfast in his office on the top floor of 101 Park Avenue. He fit the image of the Southern gentleman that I had heard about so often. During the breakfast, he mentioned the problems that he had with *Business*

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 14

Week. (*Business Week* wrote an April 1996 cover piece on him called "The Fall of the Wizard of Wall Street." It focused on his results in 1994 and 1995. The following March, Robertson initiated a libel lawsuit in New York State courts against *Business Week*; McGraw-Hill, the publisher of the magazine; Gary Weiss, the author of the story; and Stephen Shepherd, the editor of *Business Week*, seeking to recover $1 billion in damages. The suit was dropped in December 1997 after the magazine ran an editor's note saying its predictions about Tiger's future performance were not borne out by subsequent results. No payment was made.) It was still obviously a point of contention.

At our breakfast, Robertson had agreed to speak via satellite broadcast to a conference to be held in Bermuda on October 12, 1998. As it turned out, on October 7, a few days before the scheduled speaking engagement, Robertson suffered a $2 billion loss on the surge of the Japanese yen against the U.S. dollar. Despite this setback and the gloomy atmosphere that prevailed in the markets, Robertson held to his promise and spoke to the conference via satellite. This was a man of integrity. I knew this speaking engagement was not the most important thing to him at the moment. Nevertheless, he had promised and he kept his word. Many other managers would have canceled without a second thought.

Most of the satellite broadcast was questions and answers. The audience—mostly managers and other industry professionals—had been shaken by the recent events of the Russian government bond default in August and Long-Term Capital Management's bailout in late September. Robertson did not provide too many details in his answers, but his answers were telling in the events that eventually unfolded. He also provided a sense of security and comfort to the industry.

He talked honestly and openly. "I feel very much like a batter who hasn't had a hit at the last 15 to 20 times at bat. . . . You worry about a slump even if you have confidence in yourself." He discussed heavy industry redemptions in general due to the somber atmosphere caused by recent events.[1]

He alluded to his lack of knowledge in technology—this was not an area in which he was strong. In response to a question on the proliferation of hedge fund information on the Internet, he said he was totally computer illiterate and couldn't get into the Internet if he tried. While he didn't provide details at that time, it was later released in press reports that the next year, 1999, he had short positions in telecommunica-

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 15

tions equipment and technology—Lucent Technology and Micron Technology.[2] He was highly skeptical of most Internet valuations. He eventually hired Thomas Kurlak, a former Merrill Lynch semiconductor analyst, in February 1999. As a managing director of technology research, Kurlak had been at Merrill Lynch for about 20 years.

I was particularly struck by his answer to the question on what motivates him. "Unlike Wall Street this week, this is really a fun business. I think most of us in it would almost work for free. That's the big motivation in it. I like to compete in it. These are the things that make it fun for me. Reflecting on my colleagues and competitors, they are a fine group of people in the business, and it's fun to be associated with all of them."[3]

One of the last questions concerned his stock picks. He mentioned US Airways as well as a number of financial stocks which he found attractive, such as Bear Stearns, Wells Fargo, Morgan Stanley, and Bank of America.

North Carolina Beginnings

Robertson was born in Salisbury, North Carolina. His father was a role model who passed on his fascination with investments to his children. At 90, Julian Sr. was still active running a textile mill for the Erlanger family of New York City. One of his hobbies was stocks, and he was an active investor after the Crash of 1929. When the Erlangers were convinced that the markets would recover, they lent Julian Sr. money to invest.[5]

"I still remember the first time I ever heard of stocks. My parents went away on a trip and a great aunt stayed with me. She showed me in the paper a company called United Corp., which was trading on the Big Board and selling for about $1.25. And I realized that I could even save up enough to buy the shares. I watched it. Sort of gradually stimulated my interest." He was six at the time.[6]

After graduating from the University of North Carolina with a degree in business administration, Robertson had a stint in the Navy and afterward joined Kidder Peabody, where he stayed for 20 years. For most of those years he was a stockbroker and then he headed up Webster Management, the money management unit.

He started Tiger Management in May 1980 with $8 million—$2 million of his own money and $6 million from outside investors. By 1991, the firm approached $1 billion in assets under management. At its

peak in October 1998, Tiger assets reached $22.8 billion, making it the largest-ever hedge fund.

There were six funds in total—all named after cats: Tiger was a fund for U.S. investors, while Jaguar was for non-U.S. investors, plus tax-exempt U.S. foundations and institutions. Ocelot, a deal Tiger did with Donaldson, Lufkin & Jenrette (DLJ), had a 4 percent up-front fee, a five-year lock-up, and a $1 million minimum investment. About $2 billion in assets were raised with assets locked up through July 2002. Lion, a relatively new fund, was a clone of Tiger. Panther investors who were not qualified persons could gain access through Lion. Panther was dissolved in June 1997. Puma was for U.S. investors, as was Panther.

Investment Strategy

Robertson bought and sold stock on fundamentals. He used short selling and index put options to hedge. To manage risk and diversify, he had a large number of positions.

His investment credo was summed up well in a 1990 *Business Week* article.[7] First, stick to the fundamentals. Buy stock as if you were buying the company. Get to know its products and management. Second, put away the crystal ball. Don't try to time the market—but stay hedged through shorting stock and options to guard against a market downturn. Third, don't stop at the border. Keep a global perspective. Overseas stocks are areas of boundless opportunity on the long and short side. Fourth, if you're wrong, sell. Keep losses to a minimum. Sell before the losses become excessive. Fifth, short frogs if the public thinks they're princes. Sell a stock short if it is overpriced and public has a misconception of it.

Robertson was the one who made the investment decisions at Tiger. He has always been known for his stock-picking skill. His team of analysts gave him qualitative and quantitative information, but he was the main decision maker. At its peak, Tiger had about 30 analysts/portfolio managers providing recommendations. They were located in London, Tokyo, and Washington, DC, as well as the New York City office.

Succession Planning

In 1991, Robertson talked to bankers about selling a stake of Tiger.[8] Nothing developed. In 1997, he again was considering selling an equity

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 17

stake to a strategic partner. Other possibilities were issuing preferred stock or selling participation in Tiger's stream of revenue that might include a payment method.[9]

In 1998, Robertson hired Philip Duff, a former Morgan Stanley chief financial officer, as chief operating officer. One of Duff's objectives was to help map out a succession plan and give the firm more structure.

In August 1998, Tiger lost $600 million when Russia defaulted on its debt. Tiger also got hit with a $2 billion loss on the Japanese yen later in 1998. Robertson refocused from the global macro mode to the strategy he did best—stock picking. Robertson followed a value approach—buying stocks at low prices and with good earnings prospects. Undervalued stocks included airline, automobile, and paper stocks of the Old Economy.

While the firm owned stock in Microsoft and Samsung Electronics, it steered clear of high-flying Internet stocks without earnings. According to SEC filings, at the end of 1999 Tiger owned a 24.8 percent stake in US Airways, 14.8 percent of United Asset Management, 7.2 percent of Sealed Air, and 3.7 percent of Bear Stearns. As Robertson stuck by Old Economy stocks, his performance lagged soaring technology stocks that attracted younger managers.

Redemptions were hurting; he had to sell holdings from his portfolio to meet redemptions. A vicious circle was created. Selling holdings hurt performance, which led to more redemptions, and so on. Between August 1998 and April 2000, $7.65 billion had been withdrawn.[10] In October 1999, Tiger announced that it would no longer redeem assets on a quarterly basis, but starting in March 31, 2000, it would allow redemptions twice a year.

Tiger had approximately 180 employees. While Robertson lost about 25 analysts in 1999/2000, he hired 15. By that time, some structure existed. There was a core of 12 senior analysts who comprised 10 industry teams, a currency and bond team, and a commodity team.

At Tiger's annual meeting in October 1999, when these key changes were announced, Robertson also revealed that he had lowered the amount he borrowed in stocks from 2.8 times capital to 1.4 times.

But on March 31, 2000, Robertson announced he was retiring; he was 67 years old. By that time, assets in the six hedge funds had dwindled to $6 billion, of which $1.5 billion was his own. He wrote to investors: "There is no point in subjecting our investors to risk in a

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 18

market which I frankly do not understand. . . . After thorough consideration, I have decided to return all capital to our investors, effectively bringing down the curtain on the Tiger funds."[11] At the time of the announcement, the funds were down about 14 percent. For 1999 as a whole, Tiger funds fell 19 percent. Tiger's average annual performance since it began trading through 2000 was about 25 percent.

Investors received about 75 percent of their money in cash and 5 percent in shares still held by Tiger. The remaining 20 percent came in cash as Robertson gradually sold his five largest holdings—US Airways, United Asset Management, Xtra Corp., Normandy Mining Management, and Gtech Holdings.

Robertson is still managing his own money, approximately $1.5 billion to $2 billion.

Net Performance (%)
Tiger Management

Year	%
1980	56.30
1981	19.40
1982	42.40
1983	46.70
1984	20.20
1985	51.40
1986	16.20
1987	–1.40
1988	21.60
1989	49.90
1990	20.50
1991	45.60
1992	26.90
1993	64.40
1994	–9.30
1995	16.00
1996	38.00
1997	70.00
1998	–4.00
1999	–19.00
2000*	–14.00
Compound average annual return	**24.84**

*Through first quarter.

Robertson remains an avid skier, tennis player, and golfer. He recently set up a new golf course at Kauri Cliffs in New Zealand. He has devoted considerable time and resources to charity. Robertson launched the Tiger Foundation in 1989 with the goal to support nonprofit organizations serving disadvantaged youth and families in New York City. He also set up a charitable foundation named for his father in Salisbury, North Carolina, in which $3.5 million was donated to educational community development health programs. Both Duke University and the University of North Carolina received a $25 million gift. He also donated $25 million for Lincoln Center's fountain in honor of his wife, Josie.

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 19

THE SOROS SAGA

Soros's Quantum empire also started to unravel in 2000.* Soros Fund Management had massive losses in March/early April 2000. Quantum, the flagship fund, was down 32 percent. In contrast, Quantum had generated an annual average return of 36 percent since inception.

While it did not close as Robertson's did, it underwent tremendous change. A number of key people left. Stanley Druckenmiller, 47, who had been the chief investment officer for the Quantum Fund for 12 years, and Nicholas Roditi, 54, who had managed the Quota Fund, left. The retirement announcement for both came on April 28, 2000. When Soros announced the reorganization of his then $14 billion fund group, the flagship Quantum Fund was down 20 percent for 2000. Investors redeemed about $3 billion when Druckenmiller announced his departure.

Soon after the retirement announcement, other key employees decided to leave: Duncan Hennes, chief executive officer, and Peter Streinger, chief financial officer, announced their departures. Scott Bessent, a 10-year veteran who managed the $1.5 billion of non-U.S. stocks in London, left on June 30, 2000, to form Bessent Capital. Walter Burlock, who had been a managing director since 1990, left to start Origin Capital Management. Carson Levit joined Pequot Capital and Michael Karsh formed Karsh Capital, while David Kovitz and Sheldon Kasowitz set up Indus Capital Management.

Soros's reason for the reorganization was that the fund had become too large. Furthermore, the objectives of the Soros funds changed. Going forward, Quantum would use lower-risk strategies. Soros instituted a more conservative approach to trading. "In my old age, I have become more conservative. Using less leverage is what I want. . . . It's less risk. I'm looking for 15 percent returns, not 30 percent returns."[12]

On July 1, Soros merged Quantum Fund and Quantum Emerging Growth Fund into a new, $6.5 billion fund, Quantum Endowment Fund. The fund allocates about half to less volatile macro and arbitrage

*This profile has been written from information gleaned from Soros's several books and interviews reported in the press over the year.

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 20

strategies, and the other half of the assets are devoted to stock picking on the long and short side. The fund uses less leverage and aims for more stable returns of about 15 percent. Leverage is now only about 33 percent compared with as much as 100 percent of equity previously.

About 60 percent of the Quantum Endowment Fund is Soros's own money. Some assets are managed inside the firm and some managed outside. When Bessent started his firm with about $1 billion, it was reported that $150 million came from Soros.[13] Other managers receiving Soros allocations include Darren Davy, a Bermuda-based manager, who is overseeing the global macro strategy. Sources report he is managing about $2 billion, or one-third of Soros Fund Management assets. Davy's Nexus Fund operation became exclusively affiliated with Soros in October 1999 when it was allocated $500 million.[14]

Robert Soros, George's 36-year-old son, is acting as coordinator in the transition. In 1994, he had previously managed private equity and real estate at the firm. He also helped run the Quantum Industrial Holdings Fund in 1996.

Brief Sabbatical for Druckenmiller

Druckenmiller said he had been discussing his departure with Soros since the end of 1998. But the Quantum Fund fell 20 percent in early 1999 and he didn't want to leave with the fund down that much.

During the first part of 1999, the Quantum Fund was positioned against Internet stocks. Druckenmiller, who managed the $8.2 billion Quantum Fund, hired Carson Levit, a Silicon Valley money manager. By the middle of 1999, the Soros Funds were buying technology stocks and selling short some Old Economy stocks. Positions included DoubleClick Inc., JDS Uniphase Corporation, and Qualcomm Inc. The strategy worked; the Quantum Fund finished 1999 up 35 percent.[15]

When the technology sell-off began in mid-March 2000, Soros Fund Management was still loaded with high-technology and biotechnology stocks. The Nasdaq Composite Index plunged 124 points on March 15, 2000, while the Dow Jones Industrial Average soared 320 points. In the next five days, Quantum's 2 percent year-to-date gain plunged to an 11 percent loss.[16]

As detailed in the *Wall Street Journal*, dissension between Druckenmiller and Soros came to a head over VeriSign, an Internet-security

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 21

company. At Druckenmiller's behest, they doubled their position in March to $600 million. They had bought the stock at $50 a share in 1999 and rode it to $258 by late February. The stock had fallen to $135 by early April and further to $96 later in April.[17]

Druckenmiller resigned on April 18, and the announcement was made on April 28. He took the summer off and said he would decide what to do—but it was unlikely that he would run a large public fund. He continues to manage Duquesne Capital Management, which he started in 1981 with $1 million in assets. Duquesne investors include his alma mater Bowdoin College, Berea College, and Denison University. Returns have been comparable to Quantum since 1989 when Druckenmiller took over its management—about 30 percent per year. Duquesne assets under management are currently estimated at $2 to $3 billion.

Investing Background Edge

Soros was born in Budapest, Hungary, in 1930. He made his way to London in 1947 and graduated from the London School of Economics in 1952. In 1956, he came to the United States. From 1956 to 1959 he had a job as an arbitrageur at F. M. Mayer in New York. He developed a new form of arbitrage—internal arbitrage—where common stocks, warrants, and bonds were separately traded before they could be officially detached from each other.[18] Then he went to Wertheim & Co. (1959–1963) and on to Arnhold & S. Bleichroder (1963–1973).

Soros had a competitive edge over his colleagues. He had knowledge of European financial markets.[19] People on Wall Street had little experience in understanding European markets, and only a handful arbitraged London and New York. From the moment he arrived in the United States, Soros was tagged an expert in the field.

Soros persuaded management at Arnhold & S. Bleichroder to set up two offshore funds and let him oversee them. First Eagle, a long-only fund, was started in 1967. Double Eagle, a hedge fund, was started in 1969. He started the first fund with $250,000 of his own money, and another $6 million poured in from Europeans who knew him. The offshore funds were based in Curaçao but he operated them from New York.

In 1970, Soros and Jim Rogers teamed up. Generally, Rogers did the investigating and Soros did the investing.

When brokerage firm regulations were imposed that meant Rogers

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 22

and Soros would not be able to get a percentage of the profits from their company's stock trades, they left to start their own firm. In 1973, they set up Soros Fund Management.[20]

The Double Eagle Fund became the Soros Fund in 1973 and was renamed the Quantum Fund in 1979—in tribute to Werner Heisenberg's uncertainty principle in quantum mechanics. That principle asserts that it is impossible to predict the behavior of subatomic particles in quantum mechanics. The fund did so well that it charged a premium based on the supply and demand for its shares.[21] The premium/discount reflects shareholder sentiment.

When they parted in 1980, Rogers left the firm taking his 20 percent interest valued at $14 million. Soros's 80 percent was worth $56 million.[22] The fund went through what Soros described as a boom/bust cycle from 1979 to 1981. A brief interregnum followed during which he carved out portions of the fund to other managers. Then he conducted a real-time experiment where he used the financial markets to test his theories, which became the basis for his book *The Alchemy of Finance*. This was followed by the crash of 1987—another boom/bust sequence. The reign of Stanley Druckenmiller as chief investment strategist of the Quantum Fund began in 1989 and lasted until April 2000.[23]

In 1991–1992, Soros expanded his operation. Quasar Fund was started in 1991 with money allocated to 15 outside managers. Quantum Emerging Growth Fund, begun in 1992, focused on emerging-market stock markets. And Quota Fund, a fund of funds allocating assets to 10 outside managers, was started in 1992.

Survival Skills

To Soros, the key to his investment success has been his skill at surviving. In *Soros on Soros*, George recalls that 1944 was the happiest year of his life. "This is a strange, almost offensive thing to say because 1944 was the year of the Holocaust. . . . For a 14-year-old boy, it was the most exciting adventure that one could ever ask for. It had a formative effect because I learned the art of survival from a grand master. That has had a certain relevance to my investment career."[24]

"I was fortunate enough to have a father who was highly skilled in the art of survival, having lived through the Russian revolution as an escaped prisoner of war."[25] His father, Tivadar, was on the run in Siberia

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 23

during the civil war years, hoping to survive. He was an Austro-Hungarian prisoner in World War I. Whatever he had to do to survive, he did, no matter how unpleasant. Survival became a noble virtue in George Soros's life.[26]

Soros's father made arrangements for the family to get false identity papers, and he found places for them to live or to hide.[27] In his book *Soros*, Robert Slater details how George recalls his father paying for false identity papers so that he could pose as Janus Kis, the godson of an official of the Hungarian Agricultural Ministry responsible for confiscating Jewish properties. Soros described this as a commercial transaction. Tivadar taught George valuable lessons about the art of survival: It is all right to take risks; when taking risks, don't bet the ranch. The war taught Soros another lesson—a gap exists between perception and reality. And just as Tivadar had, George would learn that frequently it was best to search for unconventional methods to solve problems.[28]

Soros suggests that operating a hedge fund tested his training in survival to the maximum. "Using leverage can produce superior results when the going is good, but can wipe you out when events fail to conform to your expectations. One of the hardest things to judge is what level of risk is safe. There are no universally valid yardsticks. Each situation needs to be judged on its own merits. In the final analysis, you must rely on your instincts for survival."[29]

Changing Investment Character

In *Soros on Soros: Staying Ahead of the Curve*, a book that he wrote in 1995, Soros describes his lack of investment style. "I try to change my style to fit the conditions. If you look at the history of the [Quantum] funds, it has changed its character many times. For the first ten years, it used practically no macro instruments. Afterwards, macro investing became the dominant theme. But more recently we started investing in industrial assets. . . . I do not play according to a given set of rules. I look for changes in the rules of the game."[30]

Soros identified the big themes that drove the market. Druckenmiller and the analysts did the stock picking. Soros's philosophy, strategy, and tactics set the mood.[31] Specialist funds existed, but the chief investment officer could borrow the best ideas from each and use them in the Quantum Fund.

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 24

Soros also calls himself an insecurity analyst. "I recognize that I may be wrong. This makes me insecure. My sense of insecurity keeps me alert, always ready to correct my errors."[32] He explains, "I watch whether the actual course of events correspond to my expectations. If not, I realize I'm on the wrong track. When there is a discrepancy between my expectations and the actual course of events, it does not mean I dump my stock. I reexamine the thesis and try to establish what has gone wrong. . . . But I certainly don't stand still and I don't ignore the discrepancy. I start a critical examination."[33]

Reflexivity

In *The Alchemy of Finance*, Soros says the idea of reflexivity is crucial to his analysis of market behavior. The idea was to record the decision-making process—not a scientific experiment but an alchemic experiment—because he expected he was conducting an experiment to include the results.[34]

Two words sum up the concept: imperfect understanding. On one hand, reality is reflected in people's thinking—this is the cognitive function. On the other hand, people make decisions that affect reality, and these decisions are based not on reality but on people's interpretation of reality—the participating function.

Soros says those two functions work in opposite directions, and in certain circumstances they can interfere with each other. The interaction between them takes the form of a two-way reflexive feedback mechanism.[35]

Soros observes that financial markets are characterized by a discrepancy between the participants' perceptions and the actual state of affairs. At times, it is negligible.[36] In a normal situation, the discrepancy between thinking and reality is not very large and there are forces at play that tend to bring them closer together, partly because people can learn from experience and partly because people can actually change and shape social conditions. This is what Soros calls a near-equilibrium condition. Far-from-equilibrium conditions occur when people's thinking and the actual state of affairs are very far removed from each other and have no tendency to come closer together.

Dynamic disequilibrium occurs when the prevailing bias and prevailing trend reinforce each other until the gap between them becomes so

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 25

wide that it brings catastrophic collapse. Static disequilibrium is characterized by very rigid, dogmatic thinking and very rigid social conditions.

Soros puts dynamic and static disequilibrium at the two extremes, with near-equilibrium conditions in between. In a normal state, reflexivity is not important. When they approach or reach far-from-equilibrium conditions, reflexivity becomes important and you have what Soros calls a boom/bust sequence.[37]

Soros says he does not "play" (invest) with a given set of rules. "I look for changes in the rules of the game. I look for conditions of disequilibrium. They send out certain signals that activate me."[38]

Soros says he is ahead of the curve. "I watch out for telltale signs that a trend may be exhausted. Then I disengage from the herd and look for a different investment thesis. Most of the time we are punished if we go against the trend. Only at an inflection point are we rewarded."[39]

Some memorable moments in Soros's trading:

Black Wednesday

Armed with a theory that perceptions count for everything and that faulty perceptions can trigger reflexive behavior in the marketplace, Soros was able to identify a key misapprehension on the eve of the Exchange Rate Mechanism crisis: the false expectation that the Bundesbank would support the British pound under any circumstance.

In the summer of 1992, it became known that Soros funds were selling the British pound short. Other investors followed suit.

On Wednesday, September 16, 1992, Soros made close to $2 billion—$1 billion from the pound and another $1 billion out of the chaos of the Italian and Swedish currencies and in the Tokyo Stock Exchange. The *Financial Times* dubbed Soros "the man who broke the pound."[40]

Saint Valentine's Day Massacre

Soros suffered a $600 million loss on February 14, 1994, when he was short $8 billion of Japanese yen. Many managers thought that the Japanese yen would decrease in value. The thinking was that President Clinton and Prime Minister Morihiro Hosokawa would reach a settlement on their trade dispute, and this would lead the U.S. government to allow the Japanese yen to fall. Previously, the U.S. government had

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 26

been encouraging the Japanese yen to increase in value as a tactic to pressure Japan in trade negotiations because the rising yen makes Japanese exports more expensive and harder to sell around the world. The talks collapsed and the value of the Japanese yen rose.[41] The same thing happened again in November 1994 with a $400 to $600 million loss for Soros.

Malaysia

In August 1997, Malaysia's prime minister, Mahathir Mohamad, criticized the United States for not regarding Soros's currency speculation as a crime. "The United States does not consider Soros as a criminal because it is not a victim of his actions. We are the victims and if we keep quiet, the United States will continue to legalize his manipulations."[42]

Mahathir accused Soros of targeting the currencies of the Association of Southeast Asian Nations (ASEAN). He said Soros drove down the value of these currencies in retribution for ASEAN allowing Myanmar (formerly Burma)—which is ruled by a military dictatorship—to join. Soros runs a foundation that opposes the Myanmar military junta, but Soros said its activities have no influence over his financial dealings.

Philosopher, Not a Financier

In *Soros on Soros*, Soros acknowledges that he has made a mark as a money manager. "But can I make a mark with my ideas? Can I formulate them and communicate them properly? Are they valid? That is what matters to me most and that is where I feel most insecure. The same set of ideas has served me for making money and for giving it away. It has worked for me but that does not mean that it has universal validity."[43]

Soros viewed himself not just as a speculator but as a philosopher—and a failed one at that. "I have been less successful in communicating my ideas and getting them generally accepted. That is why I consider myself a failed philosopher."[44] He always wanted to get a hearing for his ideas, but it was only after the sterling crisis that he became a public figure; it changed his position in the world.[45]

In *Soros on Soros*, he explains, "I would say that it is the adventure of ideas that attracts me. Basically, thinking is the most important as-

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 27

pect of my existence . . . . I like to understand. . . . I wasted a large part of my youth regurgitating certain ideas. Then I discovered that one can learn a great deal more through action than through contemplation. So I became an active thinker where my thinking played an important role in deciding what actions to take and my actions play an important role in improving my thinking. This two-way interaction between thinking and action became the hallmark of my philosophy and the hallmark of my life."[46]

In addition to his books on his financial theories, Soros has written two about philanthropic endeavors—*Opening the Soviet System* and *Underwriting Democracy*. He also has received honorary doctoral degrees from the New School for Social Research, the University of Oxford, Budapest University of Economics, and Yale University.

Net Performance (%) Quantum Fund NV

Year	%
1969	29.40
1970	17.50
1971	20.30
1972	42.20
1973	8.40
1974	17.50
1975	27.60
1976	61.90
1977	31.20
1978	55.10
1979	59.10
1980	102.60
1981	22.90
1982	56.90
1983	24.90
1984	9.40
1985	122.20
1986	42.10
1987	14.10
1988	10.10
1989	31.60
1990	29.60
1991	53.40
1992	68.60
1993	63.20
1994	3.90
1995	39.00
1996	1.50
1997	17.10
1998	12.40
1999	35.00
2000*	–15.50
Compound average annual return	**32.12**

*The Quantum Fund was renamed the Quantum Endowment Fund on June 30, 2000.

Attempts to Institutionalize

Soros has made several attempts at institutionalizing his firm. In early 1998, analysts were assigned areas to cover for the first time. Prior to this, they followed

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 28

whatever stocks appealed to them. Analysts were given $50 million to invest in a mini account under the Quantum umbrella.[47]

On August 10, 1999, a reorganization occurred. Former Bankers Trust treasurer Duncan Hennes became the firm's first-ever chief executive officer. This was largely to free up Druckenmiller's time from administrative detail so he could focus on trading and Quantum performance. Hennes reported directly to Soros and oversaw hiring, firing, compensation, and other aspects of running a business that included 200 employees and affiliated offices in Tokyo, Hong Kong, and London.[48]

Philanthropy

Whereas many of the other superstar hedge fund managers eventually got into philanthropy after they had made millions, Soros established his first trust the year he started Soros Fund Management. George Soros Charitable Trust was founded in 1969.

When the fund reached $100 million in assets under management and his personal wealth was about $25 million in 1979, he determined that he had enough money. He came to the conclusion that what really mattered was an open society. With the aim to open up closed societies, Soros established the Open Society Fund.

In the 1980s, Soros began to build his philanthropic empire. Initially he focused on Central and Eastern Europe, spreading money to support democracy in countries struggling to break from the old Soviet orbit. Later, with Russia adrift, he spent $100 million to help Soviet science and scientists survive the transition. The network of foundations covers over 30 countries, employing about 1,300 people. The causes focus on free media, political pluralism, and defending human rights.

Soros expanded his philanthropic work in the United States in early 1996. In this country, he is concerned with the antithesis of state control—the abandonment of state responsibility. He feels the drug laws are ludicrous. He gave $15 million over five years to groups that oppose America's "war on drugs" or want to open the debate about drug policy. He says the "unintended consequences of the war, including the criminalization of a vast class of drug users, far outweigh the limited and costly success of interdiction." In 1996, he gave an ex-

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 29

tra $1 million aimed at persuading voters in California and Arizona to allow doctors to prescribe illegal drugs such as marijuana to ease suffering.[49]

Other foundations he created include the Center on Crime, Communities and Culture; and Project Death, where he committed $20 million in an attempt to improve the care of the dying.

Overall, he has doled out more than $2 billion, which entitles him to be identified as the second largest philanthropist in the United States by *Time* magazine.[50]

EARLIER RETIREMENTS: STEINHARDT AND ODYSSEY

Up until this point, there had been two other notable retirements of elite hedge fund managers. Michael Steinhardt of Steinhardt Partners retired at the end of 1995 and Odyssey Partners closed at the end of 1997.

Michael Steinhardt, Steinhardt Partners

Michael Steinhardt entered the hedge fund arena on July 10, 1967, when he was 26 years old. When it began, Steinhardt, Fine, Berkowitz & Co. had $7 million under management. In those days, the firm was primarily stock pickers. The firm became known as Steinhardt Partners after Steinhardt returned from his sabbatical in 1978.

Steinhardt was known as an aggressive, short-term trader. He made big returns in the early 1990s on interest-rate positions. He relied on variant perception—developing perceptions that he thought were at variance with the general market view.[51] An illustration of his contrarian thinking occurred in the spring of 1981. The fixed-income market was a disaster, and the prime interest rate was at 15 percent. He began buying five-year Treasury bonds. The bond market finally rallied in the fall, and he ended the year with a 97 percent gain.[52]

By the time he retired, Steinhardt had four funds—Steinhardt Partners LP, Institutional Partners LP, SP International SA, and Steinhardt Overseas Fund Ltd. He closed down his funds at the end of 1995; assets under management were at $2.6 billion. At the peak, assets were $4.4 billion. Press reports at that time indicated that Steinhardt's own holdings were $400 million. Today, at 60, he has the benefit of being retired five

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 30

years and having a broad overview of the industry for the past 33 years. His insights are quite interesting.

Steinhardt finds it peculiar to talk about a "hedge fund industry." He sees hedge funds not as an industry but as part of the broader world of money management. He does not find a common investment strategy that binds these managers. During Steinhardt's heyday, hedge funds comprised a private elite club whose members provided superior performance over a long period of time. "We were looked at dubiously yet admiringly. Performance was special. . . . It was an elitist yet controversial area."

Steinhardt says the distinguishing characteristics were the manager investing his assets solely in his own fund, having a long track record, and being successful in a variety of economic climates. The manager was intense, intellectually superior, and motivated by performance—not growth of assets under management. The managers were also entrepreneurial; they lacked skill to build an organization.

Steinhardt reminisces about how he tried to institutionalize his firm but always backed out. He was on the verge of marketing a closed-end fund with Merrill Lynch—but he didn't go through with the deal. He also had received an offer from Dreyfus Corporation to buy part of his business. Rather than do that, he focused on what he had achieved—his performance record.

Today, Steinhardt notices a shift: Managers' objectives are different. He sees the industry attracting new people since the incentive fee makes it a very desirable alternative. Growth of assets and of fees is paramount to today's managers. Yet performance has become mediocre; there are many managers who are not so good. Investors may become less inclined to pay the fees as performance deteriorates. He also observes that the short part of the hedge has become a burden in buoyant stock market times.

Steinhardt has spent considerable time trying to understand the reasons for superior performance. He says that, among other things, it is an innate ability. For him it was the repetition and the continued testing of the process that created this innate sense. This was his edge. Because he was so focused on the stock market since his teen years, he was already a very experienced trader. His father gave him 100 shares each of Penn Dixie Cement and Columbia Gas System for his bar mitzvah. That became the spark motivating his interest. He graduated from the Wharton School of Finance and Commerce at 19 years old.

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 31

The motivation for him was being able to pick the moving parts and recognize the direction of stocks. He didn't think about compensation.

Reflecting on the importance of the technology sector today, Steinhardt draws an analogy to the electronics field in the 1960s. Electronic companies added "onics" to their names and went public. "The euphoria today is broader based." Steinhardt feels that the distinction between the New Economy and the Old Economy won't last and they will eventually be melded back into one economy.

When Steinhardt retired, he stopped managing other investors' money. He trades a small amount of his own capital but primarily allocates it to about 30 other managers, mostly arbitrage and other conservative styles. His goal is to maintain the capital that he's made and to earn a good return.

Steinhardt also had a four-year struggle with the government about his role in the 1991 U.S. Treasury bond auction scandal at Salomon Brothers. He eventually paid $40 million to settle it.[53]

Why did he retire? Steinhardt had taken a sabbatical in 1978—which had initially been intended as retirement. He couldn't find anything compelling to do, though, so he returned and is glad he did. At that time, his net worth was $7 million. But by 1995, his goal was to do something else—something more virtuous and more noble than being a great money manager. He tells how one investor had sent him a letter and a photo of a new boat. The investor thanked Steinhardt—it was profits in the Steinhardt fund that had enabled him to buy the boat. Steinhardt found this demeaning. He didn't want to be remembered for being a great money manager—he needed to do something else.

Since his retirement, Steinhardt has consciously developed outside interests—politics, making movies, art collecting, Jewish philanthropy, horticulture. Steinhardt is also writing a book about his life. He says what gives him the most pleasure is his 52-acre estate in Bedford, New York, with its gardens and exotic animals—camels, zebras, llamas, kangaroos, and monkeys. He is no longer involved with politics, and none of his movies have been profitable, he says.

His office is packed full with his Judaica collection—a five-foot high menorah, charity boxes, Torah mantles. Steinhardt, who is an atheist, felt that having possession of these objects would make religion more important to him. This, however, has not happened. His interest is in the advancement of Jewish education outside religious institutions.

CCC-Peltz 1 (1-44) 3/12/01 6:47 PM Page 32

Steinhardt is devoted to perpetuating the Jewish population—keeping American Jews Jewish. One of his main preoccupations is Makor (the Hebrew word for source), a cultural center on the West Side of New York where single Jewish people meet. In early February 2001, Steinhardt donated it to the 92nd Street Y.

Steinhardt has been the chairman of the investment committee at New York University since 1996. He says that despite the endowment having a history of being anti-stocks, it has made some movement to equities and has even made some hedge fund investments.

Odyssey Partners

Odyssey Partners, with assets of $3 billion, returned money to clients in February 1997 and closed at the end of 1997. Partners Leon Levy and Jack Nash said they had difficulties managing and investing such a huge pool of assets.[54] They had generated an average annual return of about 28 percent since inception in 1982. When they retired, Leon Levy, who had been the macro visionary of the team, was 71, and Jack Nash, who had been the trader, was 67.

The two had met at Oppenheimer & Co. in the 1950s. Nash, who became chairman of Oppenheimer, was a pioneer in leveraged buyouts. Levy was a partner, director of research, and served as chairman of the board of the Oppenheimer group of mutual funds. In 1982, Oppenheimer was sold; that year, the duo formed Odyssey Partners with $160 million, which included $50 million they received from selling Oppenheimer. The private deal-making business became the core business for Odyssey.

Levy and Nash and their families had about $480 million invested in Odyssey Partners.