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Contenders turning up heat for spot on S.F. fund board

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Herb Meiberger's wariness of hedge funds is a major issue in the San Francisco City & County election.

A hotly contested election for a seat on the San Francisco City & County Employees' Retirement System board is drawing attention to the role of pension trustees.

Herb Meiberger, whose term expires in February, is fighting to keep his spot on the seven-member board of the $20.9 billion retirement system, where he has opposed hedge funds and other alternative investments. His rival for the seat, Al Casciato, says Mr. Meiberger is "an obstructionist" who has delayed investments and cost the system millions of dollars in potential investment earnings.

Two board members who declined to be identified said frequent disputes between Mr. Meiberger, a self-styled watchdog and former pension staff analyst, and fellow board members and investment staff are a key reason why the pension fund hired Funston Advisory Services LLC to evaluate the board's governance procedures.
Rick Funston, managing partner, said Funston Advisory began work in December and will be monitoring board meetings over the next few months with the goal of improving fund governance.

The rare public debate about board governance and investments in a campaign for a five-year, unpaid seat on the board is being waged through personal appearances before city unions and a social media campaign using Facebook and YouTube.

Sixty thousand city employees and retirees have until Feb. 3 to return ballots, which will be counted Feb. 6.

One video ad in support of Mr. Casciato, a retired police captain, takes direct aim at Mr. Meiberger. “Herb Meiberger, the obstructionist, in just one month cost you $37 million,” says a narrator. The ad maintains that the retirement system missed $37 million in investment gains because Mr. Meiberger voted in May 2016 against investing $400 million of system assets with two China-based asset managers.

The 3-3 vote hamstrung action on the proposal until October, when it was unanimously approved. At the October meeting, Chief Investment Officer William Coaker Jr. said the five-month delay had cost the system $37 million in lost investment earnings, a figure Mr. Meiberger disputes.

Mr. Meiberger said he changed his mind and voted for the proposal in October because he conducted his own due diligence and determined it was a good investment.

Mr. Meiberger, who has served on the board for almost 25 years and was a securities analyst for the SFERS investment office until he retired in 2006, had made hedge fund investing a part of his campaign. He doesn't mention Mr. Casciato by name, but in Mr. Meiberger's own video campaign ad, he associates his opponent with hedge funds.

“I have seen San Francisco shift from a community where people help each other into being a playground for the rich,” Mr. Meiberger says. “Billionaire hedge fund managers are making money off your backs.”

The investment debate is taking place as the retirement system reported investment returns of 1.3% for the fiscal year ended June 30. That compares with a median return for public plans above $1 billion in assets of 0.97%, shows the Wilshire Trust Universe Comparison Service.

For the five-year period ended June 30, the San Francisco system earned an annualized return of 7.5% compared with Wilshire's 6.96%

median return for public plans larger than $1 billion.

'Highly unusual' debates

While many public pension boards in the U.S. have elected members, it's “highly unusual” for candidates to be debating investment matters, said Keith Ambachtsheer, director emeritus of the Rothman International Center for Pension Management at the University of Toronto.

Mr. Meiberger was not alone among board members in questioning Mr. Coaker about the hedge fund investment plan, which was formally unveiled in May 2014. Most board members were opposed to the proposed size, which would have represented 15% of the system's assets.

But when a scaled-down proposal of 5% of system's assets, was presented in February 2015, Mr. Meiberger was the sole dissenting vote.

Mr. Coaker has said he wants to expand the hedge fund program, maintaining it will cushion the pension system from a major loss in a stock market downturn. Mr. Meiberger disagrees. “They're too risky, the fees are too high, and they're not transparent,” he said.
He's particularly irked about the pension system's first $500 million investment in a Blackstone Alternative Asset Management hedge fund of funds in late 2016 and staff's refusal to publicly disclose which hedge funds are part of the fund of funds. The San Francisco system is also investing directly in hedge funds, and staff still has to choose which funds to invest the additional $500 million.

At meetings with city union members, Mr. Meiberger focuses on hedge funds, saying the election of his opponent would help create a pro-hedge fund majority that would increase the use of hedge funds beyond the 5%. “It's the wolves vs. the watchdog,” Mr. Meiberger says.

Mr. Ambachtsheer says Mr. Meiberger appears to be overstepping his role as a board member, micromanaging decisions by the investment staff.

He said a public pension board has the right to ask questions about how the investment program is being run. “If the board doesn't have confidence they aren't making good decisions, then the board has the right to fire management,” Mr. Ambachtsheer said. “But it's not the board's job to get into the microanalysis of individual investment decisions.”

A fiduciary duty

Mr. Meiberger said he is doing his fiduciary duty. “If the hedge fund program blows up, it's the board who's going to put the pieces back together,” he said.

Mr. Casciato said he is not for or against hedge funds and that each individual investment decision deserves to be vetted on its own merits. He said, however, he would not be opposed to expanding the program if it were determined the right thing to do.

Clare Murphy, who served as the executive director of the San Francisco retirement system between 1985 and 2010, said Mr. Meiberger in his board capacity would regularly attempt to block alternative investments and was “combative” in the questioning of potential investment partners. Ms. Murphy has endorsed Mr. Casciato.

Mr. Casciato once served on the retirement board. He was its president when he retired from the police department in 2012. But he had to step down from the board because only one retiree can serve — and that spot was filled by Mr. Meiberger.

Mr. Casciato said he was drafted by a coalition of city unions upset with dysfunction on the retirement system board and harassment of investment staff.

Fire Captain Joseph Driscoll, another board member, signed a letter last summer as a representative of Fire Fighters Local 798, as did representatives of 11 other unions, urging Mr. Meiberger not to run for re-election. “It is our belief that your behavior and treatment of other retirement board members and staff has created an environment of fear and distrust inside the pension system,” the letter read.

But Mr. Meiberger has the support of the largest city union, the Service Employees' International Union. He also has the support of fellow board member Victor Makras, the owner of a San Francisco real estate company, who defended his colleague. “He's a brilliant individual,” Mr. Makras said. “Mr. Meiberger asks tough and challenging questions of investment staff, and the answers are not always forthcoming.”

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