May 6, 2014
75 El Verano Way
San Francisco, CA 94127

Mr. Warren Buffett
3555 Farnam Street, Suite 1440
Omaha, Nebraska, 68131

Herb - I would not go with hedge funds — would prefer index funds + not sell options against equity positions — Warren
P.S. Wife, kids + Charlie all went to Dundee

Dear Mr. Buffett:

Thank you very much for the candid answers to the many questions that you and Mr. Munger answered at the shareholders meeting last Saturday. I grew up in Omaha, and it's a treat coming back home, seeing old friends, and basking in the glow of the knowledge and experience that you and Mr. Munger graciously share with us. The ability that the two of you have in candidly answering important questions with humor and depth is a rare talent that is greatly appreciated by your partners and admirers.

I was disappointed that I was not able to ask my question. The last redundant question about dividend policy edged me out. I would be very appreciative if you would do the honor of answering my question.

After I left Omaha, I moved to San Francisco, earned an MBA from UC Berkeley and managed the bond portfolio for the San Francisco Employees Retirement System. I was subsequently elected to the Retirement Board, and share the fiduciary responsibility to oversee the $20 billion pension fund. The fund holds about 50 percent in stocks, 25 percent in bonds, 15 percent in private equity limited partnerships, and 10 percent in real estate. We are nearly fully funded, have a rate of return target of 7.50 percent, and pay approximately $1 billion annually in benefits and receive approximately $600 million in employee and employer contributions.

At the shareholders meeting, you stated your concerns on holding fixed income securities. When high grade bonds yield 2-4 percent, it will be a challenge to earn a return of 7.50 percent when one-fourth of the fund is invested in bonds. And if yields rise, as surely they must, the subsequent losses will be even more troublesome.

Our new CIO has suggested selling bonds in favor of hedge funds. After learning of the poor returns of hedge funds vs. the SP500 at the meeting, I have greater concerns for these investments. I believe selling options against our equity portfolio makes sense to gain time premium for a fund with an infinite time horizon, while mimicking the risk/return qualities of hedge funds.

How would you tweak the portfolio to earn its long-term required return of 7.50% and to avoid losses in the fixed income arena?

I realize you are quite busy looking after our interests as fellow shareowners. However, if you could share your thoughts, I have no doubt it would be extremely beneficial to the 50,000 beneficiaries of the fund.

Thank you for your consideration.

Your partner and admirer,

Herb.

Herb Meiberger

PS: I went to Dundee School, and I believe you did, too!

PPS: My mentor on the Retirement Board is Peter Ashe, who introduced you to the Council of Institutional Investors (CII) three decades ago!

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