Buffett's suggestion to pension fund trustee: Don't invest in hedge funds

SMART BYLINE BY **RANDY DIAMOND** | JUNE 9, 2014

City & County of San Francisco Employees' Retirement System board member Herb Meiberger has enlisted famed value investor Warren Buffett in his campaign to stop the $20 billion pension fund from approving a major new 15% allocation to hedge funds.

William J. Coaker Jr., chief investment officer, presented the hedge fund plan at the May investment committee meeting, contending the new allocation, along with cuts in the pension fund's public equity and fixed-income portfolios, would reduce volatility during market turndowns.

Mr. Meiberger said he thinks hedge funds are too risky and too expensive. For support, he pulled out a May 6 letter he had written to Mr. Buffett, CEO and chairman of Berkshire Hathaway Inc., asking for his opinion on the matter.

"I would not go with hedge funds — would prefer index funds," Mr. Buffett scribbled on the top of the letter Mr. Meiberger had written to him. Mr. Meiberger read the letter to the board, arguing that Mr. Buffett's words should be listened to carefully.

Mr. Meiberger said he got the idea of contacting Mr. Buffett after hearing him speak at Berkshire Hathaway's annual meeting May 3 about a bet he had made six years ago with a group of hedge fund managers on whether their combined funds would outperform the S&P 500 index over time.

Mr. Meiberger reported Mr. Buffett as saying that on a cumulative basis for the six years ended Dec. 31, 2013, the hedge funds had a 12.5% return; the S&P 500, 43.8%.

Mr. Meiberger said Mr. Buffett's reply has only added credence to his own thoughts that hedge funds would be a bad investment for the San Francisco pension fund.

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