Dan Loeb Simultaneously Solicits, Betrays Pension Funds

Taibblog

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There's confidence. There's chutzpah. And then there's **Dan Loeb**, hedge fund king extraordinaire and head of Third Point Capital, who's getting set to claim the World Heavyweight Championship of Balls.

On April 18, Loeb will speak before the **Council of Institutional Investors**, a nonprofit association of pension funds, endowments, employee benefit funds, and foundations with collective assets of over $3 trillion. The CII is an umbrella group that represents the institutions who manage the retirement and benefit funds of public and corporate employees all over America – from bricklayers to Teamsters to teachers to employees of Colgate, the Gap and Johnson and Johnson.

Loeb is going to be, in essence, pitching his services to these institutional investors. He already manages the money for several public funds, including the Ohio Public Employees' Retirement System, the New Jersey State Investment Council, the Sacramento County Employees' Retirement System, and the City of Danbury Retirement System. To give you an idea of the scale, New Jersey alone has $100 million invested with one of Loeb's funds.

When he comes to speak at CII, Lobe will almost certainly be seeking new clients. There will be some serious whales in these waters: For instance, CalSTRS, the California State Teachers' Retirement System, will definitely be represented (Anne Sheehan, the director of corporate governance for CalSTRS, will be moderating Loeb's panel).

But here's the catch. Dan Loeb, who isn't known as the biggest hedge-fund asshole still working on Wall Street (only because Stevie Cohen hasn't been arrested yet), is **on the board** and co-founder of a group called Students First New York. And the national Students First organization has been one of the leading advocates pushing for states to abandon defined benefit plans – packages which guarantee certain retirement benefits for public workers like teachers – in favor of defined contribution plans, where the benefits are not guaranteed.

In other words, Loeb has been soliciting the retirement money of public workers, then turning right around and lobbying for those same workers to lose their benefits. He's essentially asking workers to pay for their own disenfranchisement (with Loeb getting his two-and-twenty cut, or whatever obscene percentage of their retirement monies he will charge as a fee). If that isn't the very definition of balls, I don't know what is.

It's one thing for a group like Students First to have an opinion about defined benefit plans in general, to say, as they have, that "today's district pensions and other benefits are not sustainable and contribute to a looming fiscal crisis." But it's another thing for a CFO of Students First like Rebecca Sibilia to **tweet the following** just a few weeks before one of its state chapter board members asks for money from a fund like CalSTRS:

> Outdated & underfunded **#pension** systems like CALSTERS break promises to **#teachers#edreform #thinkED http://huff.to/15vdALJ** via **@HuffPostEdu**

That's a hell of a sales pitch for Loeb to be making: "I belong to an organization that thinks you're all dinosaurs. Now give me a hundred million dollars."

Not long ago, the American Federation of Teachers got wind of Loeb's association with Students First and their lobbying efforts, and confronted him about it, leading to a somewhat incredible correspondence, the details of which I'll get to in a moment. But first, a little background on Loeb.

Dan Loeb became famous in the early 2000s not just for being a jerk, but for being a **very particular *kind* of jerk**. His favorite activity was to invest heavily in a company and then write blisteringly insulting public letters to management, berating them for not making him enough money. When he spotted the CEO of one company courtside at the U.S. Open, he publicly attacked him for "hobnobbing and snacking on shrimp cocktail" when, presumably, he should have been out making Loeb money. Loeb *loves* the word "hobnob."

Loeb's schtick is a kind of living tribute to the legendary scene in *Wall Street* when Gordon Gekko **undresses the executives from "Teldar Paper"** at a shareholder meeting, urging investors to defy the fat-cat "bureaucrats with their steak lunches, their hunting and fishing trips" who paid themselves big salaries but lacked the stones to buy stock in their own firms. Like Gekko, Loeb pitches himself as the guy who *does* have the stones, who puts his money where his mouth is. Known as the "Angry Investor," he has made a career as a kind of investor's ombudsman – a man who wouldn't tolerate anyone taking his money and doing anything with it that he didn't absolutely approve of.

So if a CEO using Loeb's money to buy himself tickets to the U.S. Open is bad, just imagine how much Loeb would disapprove of someone taking, say, $100 million of his money, and then using that cash to lobby to end the carried-interest tax break that allows billionaires like himself to pay a maximum tax rate of 15 percent. One can only imagine the letters Dan Loeb would write in that circumstance. "Angry Investor" would be hugely understating the characterization, I would guess.

In any case, when the American Federation of Teachers got wind of Loeb's political activities, its president, Randi Weingarten, wrote him what was, in retrospect, quite a polite letter. She began by noting the apparent oddity of Loeb simultaneously campaigning against defined benefit plans while pitching his services to public funds:

> Given your strong support for StudentsFirst, an organization which is leading the attack on defined benefit (DB) pension funds around the country, I was surprised to learn of your interest in working with public pension plan investors.

After reminding Loeb that AFT's members participate in benefit plans worth a combined $800 billion, and that those members are "examining" their decision to invest in hedge funds, Wenigarten then politely asked Loeb if he would be willing to meet with her and some of AFT's trustees during the CII conference.

> Since these two interests of yours seem to us perhaps inconsistent, a meeting with you, me and some of our AFT trustees during the CII spring conference could be clarifying. We hope this discussion will allow us to find common ways we can work together to strengthen the retirement security of educators.

Loeb replied that he was "not aware" of Students First having taken a strong stance on the defined benefit/defined contribution issue, and that he was "not an expert" on the issue and was "uninformed." He said he was happy to meet, and that he would "do some research on my end" before the gathering. "I tend to be evidence based and don't bring any ideological baggage with me," he added, "as I simply like to understand how systems work (as a hedge fund manager)."

Then, having said that, he wrote this:

> Third Point has compounded at an annual rate of 21pct per annum for 18 years. Although the funds are closed for now to outside investors, I'd be honored if down the road we could help AFT members realize their financial goals and reduce the tax burdens for states and our citizens. Needless to say, I completely respect the political considerations you may have and understand if other factors dictate how funds are allocated.

Translation: I'll make you a lot of money, but if my politics are going to get in the way of that, that's your problem.

Weingarten quickly wrote back to shore up the meeting, letting Loeb know that there would be some other voices at the table. "A small group of pension fund trustees are interested in joining us," she wrote, "including two funds that are current clients of yours."

It seemed that representatives from New Jersey and Ohio, along with several groups from states like New York, Pennsylvania and California who had not yet invested with Loeb, wanted to meet with him personally to clarify his views on public pensions before making a decision about whether to invest (or, perhaps, disinvest).

After receiving this letter, Loeb suddenly changed his mind about wanting to meet. "Unfortunately, I am not free following my presentation as I have made a prior commitment and am then leaving for New York." He added:

> I have learned that SFNY advocated a choice between the two types of plans, a recommendation favored by a majority of younger teachers. Beyond that, I'd be pretty useless in a discussion on such an esoteric copy, so I suggest that Ms. Weingarten discuss her concerns with either Michelle Rhee, the national director of Students First and a member of our board, Joel Klein, our Chairman, or Micah Lasher, our executive director.

This one doesn't need much of a translation. Yeah, I know you represent $800 billion, and that some of your members have already given me tons of cash, but I'm busy, so blow me.

Loeb, incidentally, isn't the only hedge fund manager with a God complex who works with Students First while simultaneously taking money from public plans. Paul Tudor Jones of Tudor Investment Corp. is another – he's on the SFNY board with Loeb and manages $15.7 million from the School Employees' Retirement System of Ohio.

Anyway, one hopes that pension funds and unions don't end up inadvertently funding their own political demise by investing with the Loebs and Tudors of the world. For AFT president Weingarten, the whole episode has been unsettling.

"It is the height of hypocrisy to solicit the hard-earned retirement savings of teachers and turn around and use that money to advocate for the dismantlement of those very same plans," she says. "Teachers continue to face a barrage of attacks, and the last thing they expect is that their pensions will be used to fund attacks on their profession, their unions, and their retirement savings."

One thing that people need to realize about Wall Street and the financial system in general: many of the self-congratulating millionaires and billionaires you read about in the news aren't "self-made" in any real sense, but actually live either directly or indirectly off of your money. The quickest way to extreme wealth in this world is to attach oneself to giant piles of institutional money like public pension funds. The subprime mortgage crisis was fueled in large part by sociopathic hotshots from banks and hedge funds who convinced institutional investors – your corporate retirement fund, your public pension, your union – to buy crappy mortgage-backed securities.

Guys like Dan Loeb, they don't actually *do* anything, other than shave cuts off of other peoples' money. The psychological justification for taking such high fees is that they earn for their clients, but even that's debatable in some cases (AFT points out that some of Loeb's funds haven't even outperformed the S&P).

The point is, many of these guys owe their outrageous lifestyles to people who actually work for a living, who've been putting nickels and dimes away week after week for years, just so guys like Loeb can swoop in, make a pitch after a fancy lunch or two, and then take big chunks of that cash to buy private jets and Picassos. For them to suddenly become self-righteous and political, to tell the world that it can't afford real pensions and retirement funds for regular people anymore, is a rich irony.

Hey, Dan, you know what might make pensions more affordable? Excising the fees that hedge-fund managers get to tend to that money. Let's try that first – what do you think?

http://www.rollingstone.com/politics/blogs/taibblog/dan-loeb-simultaneously-solicits-betrays-pension-funds-20130411