

BUSINESS INSIDER

Warren Buffett has won his \$1 million bet against the hedge fund industry



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- **In 2007, Warren Buffett entered a million-dollar bet with the fund manager Protégé Partners that the S&P 500 would beat a basket of hedge funds over the next decade.**
- **His S&P 500 index fund compounded a 7.1% annual gain over 10 years, beating an average increase of 2.2% by the basket of funds selected by Protégé Partners.**
- **Buffett's prize money will go to Girls Inc. of Omaha, Nebraska.**
- **Buffett has taken issue with hedge funds' high fees and their promise of outperforming the market.**



Warren Buffett.

Jo Yong-Hak/Reuters

With 2017 over, Warren Buffett has sealed his victory over hedge funds in a bet he made a decade ago.

The [Berkshire Hathaway](#) chairman in 2007 bet \$1 million that the S&P 500 would outperform a selection of hedge funds over 10 years.

As of Friday, his S&P 500 index fund had compounded a 7.1% annual gain over that period. The basket of funds selected by Protégé Partners, the managers with whom he made the bet, had gained 2.1%, [according to The Wall Street Journal](#).

Buffett agreed to give the prize money to [Girls Inc. of Omaha, Nebraska](#), a nonprofit he has previously supported.

Each side first put \$320,000 into a zero-coupon Treasury bond that they estimated would be [worth \\$1 million](#) by 2018. But it was moved into [Berkshire Hathaway's class B shares](#) when the bond's value rose faster than expected. The 11,200 shares they bought in 2012 were worth \$2.22 million on Friday, [The Journal](#) noted.

Buffett has long [taken issue with hedge funds'](#) promise of outperforming the market and their high fees that take away from the returns their clients earn.

He has turned out to be right on both fronts.

Actively managed funds have seen outflows while passive funds have gained since the financial crisis. Meanwhile, an abundance of exchange-traded funds has made it cheaper and easier for investors to buy into just about any group of stocks.

"My guess is that doubling down on a bet with Warren Buffett for the next 10 years would hold greater-than-even odds of victory," Ted Seides, a founder of Protégé Partners, wrote in [a concession piece on Bloomberg View](#) in May. "The S&P 500 looks overpriced and has a reasonable chance of disappointing passive investors."