

Warren Buffett GIVES IT AWAY

BY CAROL J. LOOMIS • We were sitting in a Manhattan living room on a spring afternoon, and Warren Buffett had a Cherry Coke in his hand as usual. But this unremarkable scene was about to take a surprising turn. "Brace yourself," Buffett warned with a grin. He then described a momentous change in his thinking. **Within months, he said, he would begin to give away his Berkshire Hathaway fortune, then and now worth well over \$40 billion.** This news was indeed stunning. Buffett, 75, has for decades said his wealth would go to philanthropy but has just as steadily indicated the handoff would be made at his death. Now he was revising the timetable. "I know what I want to do,"

he said, "and it makes sense to get going." On that spring day his plan was uncertain in some of its details; today it is essentially complete. And it is typical Buffett: rational, original, breaking the mold of how extremely rich people donate money.

Buffett has pledged to gradually give 85% of his Berkshire stock to five foundations. A dominant five-sixths of the shares will go to the world's largest philanthropic organization, the \$30 billion Bill & Melinda Gates Foundation, whose principals

are close friends of Buffett's (a connection that began in 1991, when a mutual friend introduced Buffett and Bill Gates). The Gateses credit Buffett, says Bill, with having "inspired" their thinking about giving money back to society. Their foundation's activities, internationally famous, are focused on world health—fighting such diseases as malaria, HIV/AIDS, and tuberculosis—and on improving U.S. libraries and high schools. Up to now, the two Gateses have been the only trustees of their foundation. But as his plan gets underway, Buffett will be joining them. Bill Gates says he and his wife are "thrilled" by that and by knowing that Buffett's money will allow the foundation to "both deepen and accelerate" its work. "The generosity and trust Warren has shown," Gates adds, "is incredible." (See "Bill Gates Reboots" on page 72.)

Beginning in July and continuing every year, Buffett will give a set, annually declining number of Berkshire B shares—starting with 602,500 in 2006 and then decreasing by 5% per year—to the five foundations. The gifts to the Gates foundation will be made either by Buffett or through his estate as long as at least one of the pair—Bill, now 50, or Melinda, 41—is active in it. Berkshire's price on the date of each gift will determine its dollar value. Were B shares, for example, to be \$3,071 in July—that was their close on June 23—Buffett's 2006 gift to the foundation, 500,000 shares, would be worth about \$1.5 billion.

With so much new money to handle, the foundation will be given two years to resize its operations. But it will

then be required by the terms of Buffett's gift to annually spend the dollar amount of his contributions as well as those it is already making from its existing assets. At the moment, \$1.5 billion would roughly double the foundation's yearly benefactions.

But the \$1.5 billion has little relevance to the value of Buffett's future gifts, since their amount will depend on the price of Berkshire's stock when they are made. If the stock rises yearly, on average, by even a modest amount—say, 6%—the gain will more than offset the annual 5% decline in the number of shares given. Under those circumstances, the value of Buffett's contributions will rise. Buffett himself thinks that will happen. Or to state that proposition more directly: He believes the price of Berkshire, and with it the dollar size of the contributions, will trend upward—perhaps over time increasing substantially.

The other foundation gifts that Buffett is making will also occur annually and start in July. At Berkshire's current price, the combined 2006 total of these gifts will be \$315 million. The contributions will go to foundations headed by Buffett's three children, Susan, Howard, and Peter, and to the Susan Thompson Buffett Foundation. This last foundation was for 40 years known simply as the Buffett Foundation and was recently renamed in honor of Buffett's late wife, Susie, who died in 2004, at 72, after a stroke. Her will bestows about \$2.5 billion on the foundation, to which her husband's gifts will be added. The foundation has mainly focused on reproductive health, family planning, and pro-choice causes, and on preventing the spread of nuclear weapons.

Counting the gifts to all five foundations, Buffett will gradually but sharply reduce his holdings of Berkshire stock. He now owns close to 31% of the company—worth nearly \$44 billion in late June—and that proportion will ultimately be cut to around 5%. Sticking to his long-term intentions, Buffett says the residual 5%, worth about \$6.8 billion today, will in time go for philanthropy also, perhaps in his lifetime and, if not, at his death.

Because the value of Buffett's gifts are tied to a future, unknowable price of Berkshire, there is no way to put a total dollar value on them. But the number of shares earmarked to be given have a huge value today: \$37 billion. That alone would be the largest philanthropic gift in history. And if Buffett is right in thinking that Berkshire's price will trend

upward, the eventual amount given could far exceed that figure.

So that's the plan. What follows is a conversation in which Buffett explains how he moved away from his original thinking and decided to begin giving now. The questioner is yours truly, FORTUNE editor-at-large Carol Loomis. I am a longtime friend of Buffett's, a Berkshire Hathaway shareholder, and a director of the Susan Thompson Buffett Foundation.

Coming from you, this plan is pretty startling. Up to now you haven't been famous for giving away money. In fact, you've been roundly criticized now and then for not giving it away. So let's cut to the obvious question: Are you ill?

No, absolutely not. I feel terrific, and when I had my last physical, in October, my doctor gave me a clean bill of health.

WHAT THE LEGENDS GAVE

Their philanthropies were immense, given the small economic worlds of their time. But Buffett's contribution is miles bigger.

PHILANTHROPIST	SPAN OF GIVING	AMOUNT	IN CURRENT DOLLARS
Andrew Carnegie	1902–1919	\$350 million	\$7.2 billion
John D. Rockefeller	1889–1937	\$530 million	\$7.1 billion
John D. Rockefeller Jr.	1927–1960	\$475 million	\$5.5 billion

FORTUNE TABLE / SOURCES: AMERICAN PHILANTHROPY BY ROBERT H. BREMNER; FORTUNE RESEARCH

Then what's going on here? Does your change in plans have something to do with Susie's death?

Yes, it does. Susie was two years younger than I, and women usually live longer than men. She and I always assumed that she would inherit my Berkshire stock and be the one who oversaw the distribution of our wealth to society, where both of us had always said it would go. And Susie would have enjoyed overseeing the process. She was a little afraid of it, in terms of scaling up. But she would have liked doing it, and would have been very good at it. And she would really have stepped on the gas.

By that you mean that she always wanted to give away more money, faster, than you did?

Yes, she said that many times. As for me, I always had the idea that philanthropy was important today, but would be equally important in one year, ten years, 20 years, and the future generally. And someone who was compounding money at a high rate, I thought, was the better party to be taking care of the philanthropy that was to be done 20 years out, while the people compounding at a lower rate should logically take care of the current philanthropy.

But that theory also happened to fit what you wanted to do, right?

(He laughs, hard.) And how! No question about that. I was having fun—and still am having fun—doing what I do. And for a while I also thought in terms of control of Berkshire. I had bought effective control of Berkshire in the early 1970s, using \$15 million I got when I disbanded Buffett Partnership. And I had very little money—considerably less than \$1 million—out-

side of Berkshire. My salary was \$50,000 a year. So if I had engaged in significant philanthropy back then, I would have had to give away shares of Berkshire. I hadn't bought those to immediately give them away.

Even so, you and Susie set up the Buffett Foundation way back in the 1960s, which means you obviously expected to be giving away money sometime. What was your thinking back then?

Well, when we got married in 1952, I told Susie I was going to be rich. That wasn't going to be because of any special virtues of mine or even because of hard work, but simply because I was born with the right skills in the right place at the right time. I was wired at birth to allocate capital and was lucky enough to have people around me early on—my parents and teachers and Susie—who helped me to make the most of that.

In any case, Susie didn't get very excited when I told her we were going to get rich. She either didn't care or didn't believe me—probably both, in fact. But to the extent we did

amass wealth, we were totally in sync about what to do with it—and that was to give it back to society. In that, we agreed with Andrew Carnegie, who said that huge fortunes that flow in large part from society should in large part be returned to society. In my case, the ability to allocate capital would have had little utility unless I lived in a rich, populous country in which enormous quantities of marketable securities were traded and were sometimes ridiculously mispriced. And fortunately for me, that describes the U.S. in the second half of the last century.

Certainly neither Susie nor I ever thought we should pass huge amounts of money along to our children. Our kids are great. But I would argue that when your kids have all the advantages anyway, in terms of how they grow up and the opportunities they have for education, including what they learn at home—I would say it's neither right nor rational to be flooding them with money. In effect, they've had a gigantic headstart in a society that aspires to be a meritocracy. Dynastic mega-wealth would further tilt the playing field that we ought to be trying instead of level.

From the fact that you've given your kids money before to set up foundations and are planning to give them more now, I gather you don't think that kind of flooding them with money is wrong.

No, I don't. What they're doing with their foundations is giving money back to society—just where Susie and I thought it should go. And they aren't just writing checks: They've put enormous thought and effort into the process. I'm very proud of them for the way they've handled it all, and I have no doubt they're going to keep on the right track.



THE BUFFETTS AT SUN VALLEY in 1996: At Susie's left, in front row, is son Howard. From left in the second row are son Peter with wife Jennifer; Howard's wife, Devon; and daughter Susie.

So what about the Susan Thompson Buffett Foundation and what all this means for it?

As you know, because as a director you've seen it close up, Allen Greenberg, the foundation's president, has done an excellent and thoughtful job of running it. His results-to-cost ratio is as good as I've ever seen. And he'll keep on that same path now, not just with Susie's money, but with mine too. Actually, if I had died before Susie and she had begun to distribute our wealth, this is the foundation that would have scaled up to a much bigger size—right now it has only five employees—and become her main vehicle for giving. And the foundation anchored my plans too. Until I changed my thoughts about when to give, this was to be where my fortune would go also.

And what changed your mind?

The short answer is that I came to realize that there was a terrific foundation that was already scaled-up—that wouldn't have to go through the real grind of getting to a megasize like

HOW BUFFETT'S GIVEAWAY WILL WORK

The mind that built the fortune also came up with a complex plan to hand it off.

WARREN BUFFETT holds only Berkshire Hathaway A stock (474,998 shares), but his gifts are to be made in Berkshire B stock, into which each A share is convertible at a ratio of 30 to 1. He will convert A shares to obtain the B shares he needs for his gifts.

Buffett is earmarking a set number of B shares for each of the five foundations he has chosen to receive his gifts. In 2006 he will give 5% of the designated shares to each recipient. Next year the gifts will be 5% of the residual shares, and so on for every year until either Buffett's death or until certain conditions are no longer met at the foundations. At Buffett's death, his estate will distribute, in a way not yet definite, the remaining earmarked shares.

Here are the recipients and the number of B shares to be allocated to them.

Bill & Melinda Gates Foundation
TEN MILLION SHARES

This foundation, the largest in the world, has around \$30 billion of assets right now and has given away \$8 billion in its 12 years of existence. Most of its money (typically funneled through partners) has gone to world health programs and to U.S. education. Buffett's gifts to this foundation will continue only as long as either Bill or Melinda Gates is alive and active in its work.

Susan Thompson Buffett Foundation
ONE MILLION SHARES

Once called simply the Buffett Foundation and renamed in 2004 for Buffett's wife, who died that year, this foundation has \$270 million in assets. Most of its funds came from the estate of Susan T. Buffett, and \$2.1 billion more is expected

to continue that work and expand into public-education and foster-care grants.

Howard G. Buffett Foundation
350,000 SHARES

Now holding \$129 million in assets, this foundation was set up by Buffett's older son, 51, who farms 840 acres outside Decatur, Ill., and is on several corporate boards, including Berkshire's. (His middle name, by the way, is Graham—for famed investor Ben Graham.) This foundation's giving has been very international, taking in 42 countries and often aimed at conservation goals such as the protection of African wildlife habitats.

But with its new money, the foundation plans to move much more heavily into clean-water projects, food relief, the plight of children entangled in illegal immigration, and other humanitarian areas.



SUSIE BUFFETT would have approved of Warren's revised timetable.

from that source. This foundation has focused on reproductive health, family planning, and pro-choice causes, and on preventing the spread of nuclear weapons.

Susan A. Buffett Foundation
350,000 SHARES

This philanthropy is named for and chaired by Buffett's daughter, 52, who lives in Omaha (and who has also chaired the Susan Thompson Buffett Foundation since her mother's death). The daughter's foundation, which today has \$118 million in assets, has funded early education for children of low-income families. With her father's new gifts, Susan Buffett expects

NoVo Foundation
350,000 SHARES

Named for the Latin word *novo* (meaning "I alter"), this foundation is run by Peter Buffett, 48, a musician and composer, and his wife, Jennifer, who live in New York City. Currently holding \$120 million in assets, it has focused on funding individuals and organizations working to open up education opportunities, reverse environmental degradation, uphold human rights, and improve understanding and respect among various cultures and ethnicities. —C.J.L.



TIME'S 2005 PERSONS OF THE YEAR were the Gateses and musician/humanitarian Bono. A photo caught Buffett too, because it was shot in Omaha, where Bono was appearing.

the Buffett Foundation would—and that could productively use my money now. The longer answer is that over the years I had gotten to know Bill and Melinda Gates well, spent a lot of time with them having fun and, way beyond that, had grown to admire what they were doing with their foundation. I've seen them give presentations about its programs, and I'm always amazed at the enthusiasm and passion and energy they're pouring into their work. They've gone at it, you might say, with both head and heart. Bill reads many thousands of pages annually keeping up with medical advances and means of delivering help. Melinda, often with Bill along, travels the world looking at how well good intentions are being converted into good results. Life has dealt a terrible hand to literally billions of people around the world, and Bill and Melinda are bent on reducing that inequity to the extent they possibly can.

If you think about it—if your goal is to return the money to society by attacking truly major problems that don't have a commensurate funding base—what could you find that's better than turning to a couple of people who are young, who are ungodly bright, whose ideas have been proven, who already have shown an ability to scale it up and do it right? You don't get an opportunity like that ordinarily. I'm getting two people enormously successful at something, where I've had a chance to see what they've done, where I know they will keep doing it—where they've done it with their own money, so they're not living in some fantasy world—and where in general I agree with their reasoning. If I've found the right vehicle

The Gateses have given \$26 billion to their foundation, with more to come.

for my goal, there's no reason to wait.

Compare what I'm doing with them to my situation at Berkshire, where I have talented and proven people in charge of our businesses. They do a much better job than I could in running their operations. What can be more logical, in whatever you want done, than finding someone better equipped than you are to do it? Who wouldn't select Tiger Woods to take his place in a high-stakes golf game? That's how I feel about this decision about my money.

People will be very curious, I think, as to how much your decision—and its announcement at this particular time—is connected to Bill Gates' announcement in mid-June that he would phase out of his operating responsibilities at Microsoft and begin to devote most of his time to the foundation. What's the story here?

I realize that the close timing of the two announcements will suggest they're related. But they aren't in the least. The timing is just happenstance. I would be disclosing my plans right now whether or not he had announced his move—and even, in fact, if he were indefinitely keeping on with all of his work at Microsoft. On the other hand, I'm pleased that he's going to be devoting more time to the foundation. And I think he and Melinda are pleased to know they're going to be working with more resources.

Does it occur to you that it's somewhat ironic for the second-richest man in the world to be giving untold billions to the first-richest man?

When you put it that way, it sounds pretty funny. But in truth, I'm giving it through him—and, importantly, Melinda as well—not to him.

Some people say the Gates foundation is bureaucratic, and bureaucracy is just about your No. 1 dislike. So how do you react to that charge? I would say that most large organizations—though Berkshire is a shining exception—are bureaucratic to some degree. Anyway, what some people really mean when they claim that the Gates foundation is bureaucratic is that big decisions don't get made by anybody except Bill and Melinda. That suits me fine. I want the two of them to make the big calls.

What is the significance of your going on the board of the Gates foundation?

Not much. The biggest reason for my doing that is if they were ever to go down on an airplane together. Beyond that, I hope to have a constructive thought now and then. But I don't think I'm as well cut out to be a philanthropist as Bill and Melinda are. The feedback on philanthropy is very slow, and that would bother me. I'd have to be too involved with a lot of people I wouldn't

want to be involved with and have to listen to more opinions than I would enjoy. In philanthropy also, you have to make some big mistakes. I know that. But it would bother me more to make the mistakes myself, rather than having someone else make them whom I trust overall to do a good job. In general, Bill and Melinda will have a better batting average than I would.

Did you talk this huge decision over with other people before deciding to go ahead with the plan?

Yes, I talked to my children and Allen Greenberg, and to four Berkshire directors, including my son Howard and Charlie Munger. I got lots of questions, and some people had qualms about the plan initially because it was such an abrupt change from what they had been anticipating. But I'd say everybody, and that certainly includes Allen—who knows what a bear it would have been to scale up the Buffett Foundation—came around to seeing the logic of what I was proposing to do. Now all concerned can't wait to get started—particularly me.

And frankly, I have some small hopes that what I'm doing might encourage other very rich people thinking about philanthropy to decide they didn't necessarily have to set up their own foundations but could look around for the best of those that were up and run-

ning and available to handle their money. People do that all the time with their investments. They put their money with people they think are going to do a better job than they could. There's some real merit to extending that thought to your wealth, rather than setting up something to be run after your death by a bunch of old business cronies or a staff that eventually comes to dictate the agenda. Some version of this plan I've got is not a crazy thing for some of the next 20 people who are going to die with \$1 billion or more to adopt themselves. One problem most rich people have is that they're old, with contemporaries who are not at their peak years and who don't have much time ahead of them. I'm lucky in that respect in that I can turn to younger people.

Okay, now what does that mean for Berkshire?

I'd say virtually nothing. Anybody who knows me also knows how I feel about making Berkshire as good as it can be, and that goal is still going to be there. I won't do anything differently, because I'm not capable of doing things differently. The name on the stock certificates will change, but nothing else will.

I've always made it clear to Berkshire's shareholders that my wealth from the company would go to philanthropy, so the fact that I'm starting the process is basically a nonevent for them.

THE GLOBAL FORCE CALLED THE GATES FOUNDATION

The philanthropy's impact, already immense, will be magnified by Buffett's billions.

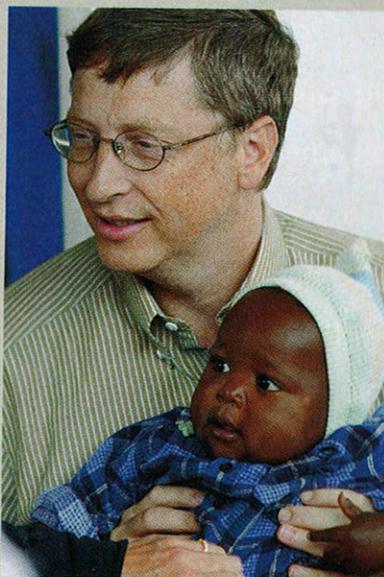
IT IS BY FAR THE LARGEST foundation in the world—even now, before Warren Buffett's historic gifts. And its creed is appropriately broad: “Guided by the belief that every life has equal value, the Bill & Melinda Gates Foundation works to reduce inequities and improve lives around the world.”

To further its work, the foundation currently has just over \$30 billion in assets, a purse built up from Bill and Melinda Gates' gifts of \$26 billion and appreciation in its broadly diversified investments (which at the moment contain no Microsoft). The \$30 billion, of course, does not include the \$8 billion in gifts that the foundation has made since 1994. Last year it gave \$1.36 billion, and this year it expects to spend around \$1.5 billion.

Now it will be Buffett and the Gateses building up the foundation together. Bill and Melinda have said that almost all their fortune will go to charity, and right now they still have an estimated net worth of \$50 billion.

The foundation works heavily through partners (nongovernmental organizations, usually) and has focused on

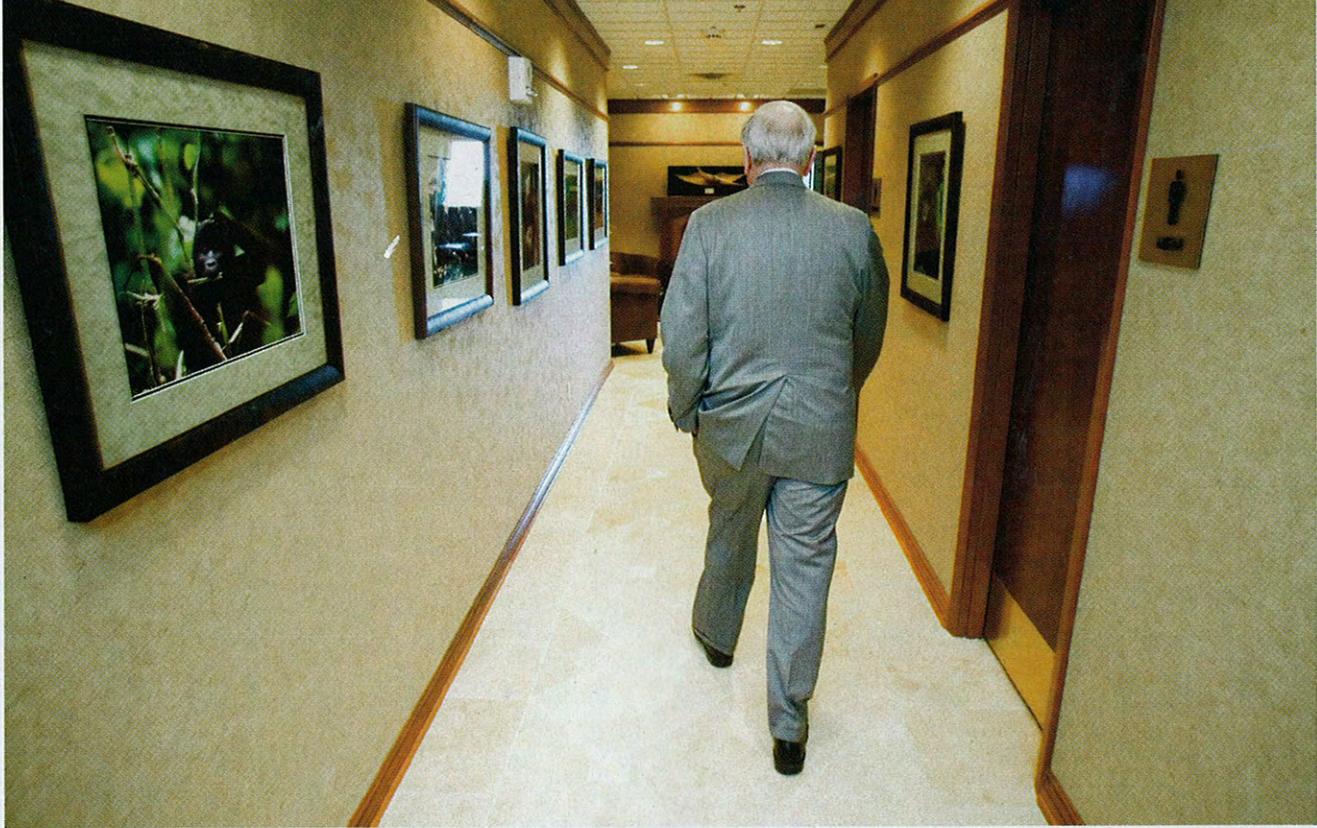
big causes. Its original giving was directed at providing U.S. libraries free online access—and today more than 99% are hooked up. The foundation then broadened its efforts to global health, on which it now spends around



IN MOZAMBIQUE Bill meets a small client.

60% of its funds. Much of that is beamed at what Bill Gates calls “the Big Three diseases”: malaria, HIV/AIDS, and tuberculosis. The foundation is both pushing to discover a preventive AIDS vaccine and to deliver antiretrovirals to people already afflicted with the disease. In other areas, spending is focused on making medical “leaps”—the discovery, say, of a chemical that would block malaria-transmitting mosquitoes from smelling humans.

The Pacific Northwest receives sizable Gates grants. The national drive, meanwhile, is riveted on improving high schools, which Bill Gates has called “obsolete.” The foundation and its partners have started 900 new schools and “redesigned” 700 others. The schools effort has stuttered some as the foundation has struggled to find out what works. But CEO Patty Stoner says roadblocks only stiffen the foundation’s resolve. “We’ll be stepping up our investment here,” she says, “because providing every student a quality education is key to ensuring equality of opportunity.” —C.J.L.



THE FATE OF HIS FORTUNE SEALED, Buffett (at Omaha headquarters) will, as usual, be focusing on the job he loves: running Berkshire Hathaway.

And, you know, though this may surprise some people, it's a non-event for me too in some ways. Ted Turner, whose philanthropic activities I admire enormously, once told me that his hands shook when he signed a \$1 billion pledge. Well, I have zero of that. To me, there's just no emotional downside to this at all.

Won't the foundations that are getting your stock need to sell it?
Yes, in some cases. The Buffett Foundation and the kids' foundations will have to sell their stock relatively soon after they get it, because it will be their only asset—and they'll need to raise cash to give away. The Gates foundation will have more options because it has lots of other assets, so it will have some flexibility to choose which it should turn into cash. Bill and Melinda will make the decisions about that. I'm going to totally insulate myself from any investment decisions their foundation makes, which leaves them free to do whatever they think makes sense. Perhaps they will decide to sell bigger portions of other assets and hang on to some Berkshire. It's a great mix of businesses and wouldn't be an inappropriate asset for a foundation to own. But I won't tie the foundation up in any shape or form.

So it could be that all the shares you give annually will be sold in the market?

Yes, that may well happen. And naturally people are going to be interested in whether that selling could weigh down Berkshire's price. I don't think so in the least—and that's true even though the annual turnover ratio for Berkshire has been running only about 15% a year, which is extremely low for large-cap stocks. Let's say the five foundations sell all the stock they get

this year. If trading volume continues as it has, their selling will raise turnover to less than 17%. It would be ridiculous to think that much new selling could affect the price of the stock. In fact, the added supply could even be beneficial in increasing the stock's liquidity and should make it more likely that Berkshire would eventually be included in the S&P 500.

I'd say this: I would not be making the gifts if they would in any way harm Berkshire's shareholders. And they won't.

This plan seems to settle the fate, over the long term, of all your Berkshire shares. Does that mean you're giving nothing to your family in straight-out gifts?

No, what I've always said is that my family won't receive *huge* amounts of my net worth. That doesn't mean they'll get nothing. My children have already received some money from me and Susie and will receive more. I still believe in the philosophy—FORTUNE quoted me saying this 20 years ago—that a very rich person should leave his kids enough to do anything but not enough to do nothing. [The FORTUNE article was "Should You Leave It All to the Children?" Sept. 29, 1986.]

Remember I said that way back when I was buying Berkshire, I had less than \$1 million in outside cash? Well, I've made a few decent investments with that money in the years since—taking positions that were too small for Berkshire, doing some fixed-income arbitrage, and selling my interest in a bank that was split off from Berkshire. So I'm glad to say I've got quite a bit of cash now. Overall I can—and will—use all my Berkshire shares for philanthropic purposes and will have plenty left over to provide well for all those close to me. ■

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Buffett says his Berkshire goal won't ever budge—"to make it as good as it can be."