

BOARD OF DEFERRED
COMPENSATION
ADMINISTRATION

MARGARET WHELAN
CHAIRPERSON

BILL STEIN
VICE-CHAIRPERSON

EUGENE K. CANZANO
MICHAEL CARTER
JOYA C. DE FOOR
RICHARD KRAUS
RICK ROGERS

DEFERRED COMPENSATION PLAN BOARD REPORT 08-03



Date: February 1, 2008

To: Board of Deferred Compensation Administration

From: Staff

Subject: Socially Responsible Fund

Recommendation:

That the Board of Deferred Compensation Administration provide direction to staff regarding generating a response to a 2007 City Council motion concerning adding a Socially Responsible investment option to the City's core menu.

Discussion:

Staff recently became aware of a Council motion from 2007 concerning adding a "Green," or socially responsible, investment option to the City's Deferred Compensation Plan. Following is the text of the Council motion, which was offered by Councilmember Grieg Smith and seconded by Eric Garcetti:

File Number 07-0840

03/23/2007

Title: GREEN MUTUAL FUNDS / DEFERRED COMPENSATION

Motion - The City's Deferred Compensation Plan (Plan) is a voluntary supplementary retirement savings plan available to full-time civilian, sworn and Department of Water and Power (DWP) employees who are contributing members to their retirement systems. It provides eligible employees with an opportunity to invest pre-tax dollars to help build future wealth and retirement security.

The Plan offers a wide range of investment options (from fixed interest options, stocks, bonds, and mutual funds), each designed to pursue a different investment objective. City employees choose how to invest contributions from the investment options offered under the Plan. However, City employees currently do not have the option to invest solely in environment friendly beneficial businesses, or "green mutual funds."

A "Green Mutual Fund" would seek investment in corporations that design and sell ecologically-conscious products that lessen negative environmental impacts (such as renewable energy and water quality improving devices). To qualify as a green mutual fund, companies are evaluated based on their products and services, environmental sustainability leadership, and environmental management processes.

Planning for both a financially secure and environmentally healthy future makes smart business and investment sense. The City should include an option to the Deferred Compensation Plan that would allow City employees to invest in companies that are contributing to more sustainable and environmentally beneficial businesses.

THEREFORE MOVE that the City Council instruct the Personnel Department to report back on the feasibility of including a "Green Mutual Fund" investment option to the City's Deferred Compensation Plan.

History of Socially Responsible Funds in the Plan:

The Plan has featured socially responsible funds as part of its core menu in the past. From 1993 to 1999 the City's Plan included two such funds: Hartford Socially Responsive Fund and Pax World Fund. As a result of very little participant interest, the funds were eliminated from the Plan in July 1999 when the Plan's investment menu was substantially redesigned. At the time of elimination, total assets in these two funds represented 0.08% of total Plan assets, or less than 1/10th of one percent, and that percentage was consistent with low participation in prior years:

Year	Total Plan Assets	Pax World Fund	% of Total Assets	Hartford Socially Responsive Fund	% of Total Assets	Combined % of Total Plan Assets
1993	\$ 516,401,147	\$ 34,745	0.01%	\$ 5,355	0.00%	0.01%
1994	\$ 564,392,235	\$ 119,314	0.02%	\$ 93,646	0.02%	0.04%
1995	\$ 702,213,742	\$ 374,429	0.05%	\$ 185,411	0.03%	0.08%
1996	\$ 831,689,383	\$ 534,909	0.06%	\$ 290,609	0.03%	0.10%
1997	\$ 1,029,129,147	\$ 356,472	0.03%	\$ 434,073	0.04%	0.08%
1998	\$ 1,285,271,264	\$ 364,019	0.03%	\$ 552,423	0.04%	0.07%

In November 2000 a motion by then Councilmember Ruth Galanter was adopted requesting that the Board add a socially responsible fund to the City's core investment menu. In response, the Board included this investment category as part of a multi-option RFP for investment managers which it released in 2002.

Following that search, the Board selected Neuberger Berman to provide a socially responsible fund. However, as a result of failed contract negotiations with Neuberger Berman, the option was ultimately not added to the Plan. The Board elected not to pursue a new RFP process.

Impact on Investment Option Redesign:

The Board, with the support of its Investments Committee and staff, has been taking steps towards streamlining the Plan's core investment menu and re-branding fund options by asset class with the objective of encouraging participant diversification. Socially responsible funds do not constitute an "asset class" and thus adding this category as a core option runs counter to this objective.

Because socially responsible funds do not represent a major asset class, they would be considered a specialized investment choice of the type that the brokerage window is intended to provide access to. Indeed, any brokerage window offered by the City's Plan will provide access to the broad universe of socially responsible funds.

Options for Proceeding:

Given this information, the Board has several options:

- (A) Initiating a separate RFP process to add a Socially Responsible Fund to the core menu, potentially combining it (as was done previously) with another vendor search occurring over the near-term;
- (B) Responding to Council that although the Board recognizes the value of these funds, it believes the best place to make them available is through the brokerage window (an argument could be made that socially responsible funds differ substantially in their objectives and practice, and participants should not be limited in their choice of such funds); or
- (C) The Board could respond that it will consider adding a socially responsible fund as part of a process (currently underway) of substantially redesigning the Plan's core investment menu; the issue could then be studied further by the Investments Committee.

Given the nature of the request, staff is not prepared to make a recommendation to the Board until Board members have had an opportunity to first discuss the matter and then provide some direction to staff. The Plan has certainly offered socially responsible funds in the past and can do so again. On the other hand, offering one would certainly deviate with some of the core principles of the investment menu redesign process presently underway.

Submitted by: _____
Steven Montagna

Approved by: _____
Maryanne Keehn