



TO: CITY COUNCIL	DATE: March 18, 2008
REFERENCE:	COUNCIL FILE: 07-0840
SUBJECT: GREEN FUNDS AND THE CITY'S DEFERRED COMPENSATION PLAN	

RECOMMENDATION

That the City Council receive and file this response from the City of Los Angeles Board of Deferred Compensation Administration concerning making "Green" funds available through the City's Deferred Compensation Plan.

FINDINGS

The City Council requested that the City's Board of Deferred Compensation Administration provide a response regarding making "Green" funds available through the City's Deferred Compensation Plan. The Board strongly supports the concept of providing Plan participants with the ability to invest in Green and other types of Socially Responsible funds. The Board has been pursuing changes to the City's Plan which will provide participants with broader access to these and other types of specialized investments to ensure Plan participants have the widest range of investment choices available.

 MARGARET WHELAN, Chairperson

 BILL STEIN, Vice-Chairperson
 Board of Deferred Compensation Administration

BACKGROUND ON “GREEN” FUNDS

The term “Green” fund has been used to connote different meanings. In its narrowest use, it refers to mutual funds investing in environmentally friendly companies and industries. In a broader interpretation, it is sometimes used to mean investing in companies that meet certain ethical and moral standards which may include, but not be limited to, environmental friendliness.

There are a handful of funds generally considered to meet the narrow meaning, and dozens of funds that fall within the wider one. Following are several funds known to focus specifically on environmentally friendly investing:

- Portfolio 21
- Winslow Green Growth Fund
- New Alternatives Fund
- Sierra Club Stock Fund
- Green Century Equity Fund
- Spectra Green Fund

Some of the major fund companies which offer Socially Responsible Funds include all of the above providers as well as the following:

- Calvert Funds
- Domini Funds
- Citizens Funds
- Neuberger Berman Funds
- Parnassus Fund
- Pax World Fund

Most of the second group of providers offer “families” of funds with social screens. The screens vary by each firm and sometimes from fund to fund. For example, one fund or provider might avoid shares of manufacturing companies operating factories that the fund managers consider sweatshops; another might avoid shares of food companies selling out-of-date products in emerging markets; and so forth.

EXPANDING CHOICES FOR PLAN PARTICIPANTS

The Board strongly supports the Council motion to offer Green and other Socially Responsible funds to Plan participants. The City’s Plan presently includes a standard set of core options intended to represent the following six major investment asset classes:

1. Large-company U.S. stocks
2. Small-company U.S. stocks
3. Midsize U.S. stocks
4. International stocks
5. Bonds
6. Cash

In addition, the Plan offers a “Self-Directed Brokerage Option,” or “SDBO.” The SDBO provides Plan participants with the ability to access hundreds of additional mutual funds beyond the major asset classes included in the core menu.

The City contracts with Great-West Retirement Services (“Great-West”) to provide administrative services for the City’s Plan. Included in that contract is an option to use one of the SDBO sub-contractors available through Great-West.

The current SDBO provider utilized by the City, First Trust, provides participants with access to approximately 1,500 mutual funds. Due to concerns about the management of First Trust, its service, and its limited fund availability, the Board voted on February 19, 2008 to replace First Trust. The new provider will be Charles Schwab.

Making the change to Charles Schwab will more than double the number of funds available to Plan participants through the SDBO. As one important example, none of the Green funds listed on the previous page are currently available from First Trust. By contrast, Charles Schwab will provide access to all of them. In addition, Charles Schwab will provide access to dozens of other Socially Responsible funds offered by major and minor providers of such funds, including Calvert, Domini and Neuberger Berman. Although some of the Socially Responsible funds managed by these companies are offered through First Trust, Charles Schwab will offer substantially more. Making a broad range of Green and Socially Responsible funds available is important because it allows investors who are interested in such funds to find one that matches their values.

The Board is currently engaged in a comprehensive review of Plan investment options to identify other ways where the investment menu can be improved and choice can be expanded. The expansion of the brokerage window is an important element of that and the Board will be considering additional potential improvements, including offering exchange-traded-funds, which may provide further opportunities for Green/Socially Responsible investing.

FISCAL IMPACT

There will be no fiscal impact to the City for expanding the number of Green and/or Socially Responsible funds offered through the City’s Plan.