

Communication from Public

Name: Kathy Schaeffer
Date Submitted: 11/20/2020 12:38 PM
Council File No: 19-1577

Comments for Public Posting: I am in support of the LACERS investments/climate transition risk framework and climate change watch list. We know that climate change is real and that heat waves, droughts and wildfires will continue to worsen if we don't take action now. It is imperative that the LACERS board adopt a forward thinking, strategic and measured approach to recognize the emergence of renewable energy sources and the decline of fossil fuels. This motion has the potential of identifying and mitigating the effects of climate change, as well as providing growth for the LA City employees pension fund.

Communication from Public

Name: Ronni Solman

Date Submitted: 11/20/2020 12:46 PM

Council File No: 19-1577

Comments for Public Posting: This is a hugely important issue. Fossil fuel investments are bound to become stranded assets as the world moves more quickly from burning fossil fuels to renewable energy, IT IS IRRESPONSIBLE FISCAL POLICY for financial institutions to continue to invest in fossil fuel infrastructure, extraction and continued development. It is time to WITHDRAW MONEY from fossil fuel investments!! The time is now!! Love, Ronni Solman

Communication from Public

Name: Thomas Moutes, Retired General Manager LACERS
Date Submitted: 11/20/2020 09:01 PM
Council File No: 19-1577
Comments for Public Posting: This motion is a terrible idea. Currently, LACERS has less than 70 cents on the dollar to pay the promised retirement benefits to the dedicated civil servants who have served the City of Los Angeles. In the early 2000s, LACERS was over 100 percent funded. Instead of wasting time trying to tell the LACERS Board how to fulfill its fiduciary duty in how it invests funds, the Council should figure out how increase LACERS funding to ensure the benefit promises can be kept. Please see attached pdf file for further details.

The Truth About LACERS – The Politics of Investing

By Tom Moutes

Immediately after my appointment as General Manager was confirmed by the City Council, several of the Councilmembers kindly congratulated me. After congratulating me, one prominent Councilmember suggested that LACERS look into purchasing the parking lots that the City was selling – yes, the very same parking lots that had not attracted any interest from private sector investors.

That was not the only attempt to politicize LACERS investments. Former Mayor Villaraigosa was so frustrated that he couldn't get what he wanted from the City pension funds that he stated at a meeting of City general managers that he would do whatever it takes to get control of the pension money – whether that required a vote of the State legislature or of the people. Fortunately, the State Constitution has protections against such efforts.

Many of the recent attempts to politicize LACERS investments have to do with divestment – that is, selling specific holdings – usually based on a request of a politically-connected board member or a politician. Divestment requests of public pensions have included things such as fossil fuels, guns, tobacco, and gambling; countries such as Sudan, Israel, and countries threatening Israel; and companies such as those that sell guns or provide goods or services to the Dakota Access Pipeline, or the Border Wall.

While it's easy to say we should take action regarding some of these causes, as they may be sympathetic, there are a few issues to point out regarding these and all of the other past divestment attempts: First, it is not easy for a pension fund to divest from these things, countries, or companies. The majority of LACERS investments are in index funds, as these funds are cost-effective. Trying to carve out the perceived undesirable investments from these funds would defeat the purpose of being in index funds. You would have to create and track a custom index. Investment expenses (which are important and some politicians already complain about) would go up.

Second, the LACERS Board does not get to call all of the shots on how its private equity funds are invested. The Board gives its private equity managers latitude to find the best investments within broad parameters. If a fund is invested in an asset that a board wants to divest from, the options basically are limited to selling the whole fund on the secondary market (usually for a discount and perhaps even a steep discount) or waiting for the term of the fund to run out (often many years).

Third, the California Public Employees' Retirement System (CalPERS) missed out on approximately \$3.6 billion due to its divestment from tobacco. The point here is that divesting can cost pension systems investment returns.

Regarding fossil fuel divestment, Ben Meng the Chief Investment Officer of CalPERS was quoted as saying "60 cents of every dollar to pay the retiree benefits comes from

investment returns... We need those investment returns now and in the future,” he said. “If the market fails us, or we miss our targets, the hard-working people of California and the employers take on the financial burden.” (Chief Investment Officer publication). In other words, the taxpayers have to pay for the divestment decisions, whether they agree with the decisions or not.

Chris Ailman, the Chief Investment Officer of the California State Teachers’ Retirement System (CalSTRS) was quoted regarding potential coal divestment in the Orange County Register as follows, “I’ve been involved in five divestments for our fund. [On] all five of them we’ve lost money, and all five of them have not brought about social change.”

This brings up the strongest point against asking LACERS to divest from any investment where it thinks it can make good risk-adjusted returns – the City has made benefit promises to over 46,000 of active and retired City employees and LACERS currently only has 73% of the funds it will need to pay those benefits. This somewhat paltry funding ratio is after more than ten years of a bull market and, perhaps only a recession away from a death spiral for LACERS.

So, any discussion of allowing politics into LACERS investment process, whether in the form of investment “recommendations” or divestment “requests” should start – and probably end – with conversation regarding how the City is going to make good on the benefits promised to the hard-working City employees. The politicians, who already complain about the amount of the contributions the City pays to LACERS, should not meddle in how LACERS invests its funds.

The investment decisions for LACERS should be exclusively for the LACERS staff and consultants to recommend and for LACERS Board to make. The California Constitution and the City Charter give the LACERS Board “sole and exclusive fiduciary responsibility over the assets of its system”. If the LACERS Board determines that an investment’s risk outweighs the potential returns, it should not make that investment. However, the Board should not simply be swayed by politicians, who do not have a fiduciary duty to the LACERS members.

Even if LACERS was fully funded, it would be dangerous to go down the slippery slope of divestment. There likely are reasons someone could devise to divest from almost any thing, country, or company. If these decisions are made in the political arena, who decides where it stops?

How about if the City Council takes the time it may have wanted to spend on its recent divestment idea to listen to experts on how to ensure LACERS ongoing viability, because as of now – at just 73% funded – that is not assured.

Tom served at LACERS for approximately sixteen years, the last seven of those years as the General Manager of the pension system. He retired in 2018. Tom can be reached at necessarypensionconversations@gmail.com.

Communication from Public

Name: Taryn McPherson

Date Submitted: 11/20/2020 01:33 PM

Council File No: 19-1577

Comments for Public Posting: I am writing to support the passage of 19-1577. I believe it is time to start examining the feasibility of adjusting LACERS investments to not include fossil fuels. Blackrock, the largest fund manager in the world, is encouraging moving away from investment in fossil fuels because they know it will decrease investment returns. Why would we then continue to put tax payer money and hard working people's retirement possibilities at risk by investing in funds that are going to continue to degrade. It's a complete misuse of funds and does a disservice to all of the employees who have worked hard throughout their careers to be able to retire comfortably. This measured approach is a level headed way to begin the process of making sure LACERS fulfills the promise the city made to these employees.

Communication from Public

Name: Kristy Pace

Date Submitted: 11/20/2020 01:39 PM

Council File No: 19-1577

Comments for Public Posting: I am writing asking you to support Council File 19-1577 City employees need to know their pension funds are safe, fossil fuels are not a sustainable investment. They are on the decline across the market. Thank goodness. Employees want you to reduce their direct contribution to climate change from pension plan investments. People want you to protect their retirement funds in ways that aren't making climate change worse and their families sick. They want to retire healthy with their children and grandchildren. We want clean air, water and food in abundance and not to have our health destroyed by fossil fuel pollution. Finally, people depend on you, they trust you. They put their future in your hands. Residents shouldn't have to worry about having to rescue a pension fund because of failing investments in a declining industry.