TRILLIUM ASSET MANAGEMENT®

July 29, 2015

Jaime L. Lee, President
Los Angeles City Employees' Retirement System
202 W. First Street, Suite 500, Los Angeles, CA 90012-4401

Dear Ms. Lee:

I am writing to add Trillium Asset Management's voice in support of divestment from fossil fuels.

Our employee-owned investment firm has managed socially and environmentally screened investment portfolios for individuals and institutions since 1982. We have seen growing interest in our Fossil fuel free investment portfolios, which currently represents approximately 50% of our firm's $2.2 billion of assets under management.

Trillium also acts as sub-advisor for the Green Century Balanced Fund, an environmental mutual fund with a fossil fuel free mandate. This fund is rated highly on performance by Morningstar, earning a 4 star rating. Through April of this year, the fund has outperformed the Lipper Balanced Fund average for 1, 3, 5 and 10 years.

In our experience, fossil fuel free investing has been a credible investment approach. Since 2007, our Fossil Fuel Free Core strategy has outperformed the S&P1500 benchmark by 40bp annually net of fees.[1] I want to share my perspective as an investment manager who fully understands the demands of building portfolios that seek to maximize returns while managing risk.

Some have argued that divestment from fossil fuels could potentially increase risk and lower return because you are narrowing your investment universe.

Recent independent studies have shown that investors can go fossil fuel free without major negative impacts on portfolio performance.

Investment firm, Aperio Group, estimated that excluding all fossil fuel companies from 1988 through 2013, a 25-year period, would have an annual standard deviation from its benchmark of just over the quarters of a percent but which has virtually no riskier in terms of volatility.[2]

They also report that over a 10 year period, a carbon-free portfolio outperformed its benchmark 73% of the time.

MSCI, a leading provider of investment decision support tools, looked at the impact of excluding companies owning carbon reserves from one of its index funds, the MSCI All Country World Index (MSCI ACWI).

[1] Performance is net of trading costs and management fees, includes the reinvestment of all income, and is calculated on a trade date basis. Individual performance will vary from that of the strategy. Past performance is no guarantee of future results. Every investment carries the potential for both profit and loss. The S&P 1500 combines three widely recognized, unmanaged indices of common stock indices, the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600 to cover approximately 90% of the U.S. market capitalization. It is not possible to invest directly in an index.

[2] The MSCI ACWI ex-carbon vs. the MSCI ACWI for the time period February 2008- March 2013

It determined that over a five year period the active return differential was 1.2% better for the same index without fossil fuel investments.[3]

Investors can also seek to identify substitutes that most closely correlate with fossil fuel companies to minimize risk and tracking error or variation from benchmark. Many clean technology and industrial companies provide energy efficiency products such as LED lighting, power management, commercial building energy/efficiency controls.

Also within the industrial or technology sectors, investors can find energy storage investments such as hybrid car batteries, electric grid distribution and transmission companies – some that are plays on bringing renewable energy to the power grid. Water and geothermal utilities can be evaluated as potential substitutes.

Investors can mitigate risk and also improve the sustainability of portfolios by investing in green power generation – solar, wind, biofuels, geothermal – through finding bigger companies that have parts of their business in green/renewable sources of energy.

The cost of transitioning a portfolio out of fossil fuel stocks over a 3 or 5 year period should be relatively inconsequential, as there is normal portfolio trading which should occur over that time period. This allows investment managers the opportunity to swap fossil fuel investments into other arts of the investment universe, with minimal additional cost.

I believe that an investment portfolio can provide competitive returns over the market cycle — while managing a conscious choice to avoid fossil fuel investment exposure.

If you have questions or concerns, feel free to contact me by e-mail at mpatsky@trilliuminvest.com or by phone at (617) 532-6650.

Sincerely,

Matthew W. Patsky

Matthew W. Patsky, CFA
CEO

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Mr. Robert von Voigt, President
Los Angeles Fire and Police Pensions
360 East Second Street, Suite 400
Los Angeles, CA 90012

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