

Submitted  
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# 000730

## Pension Review Committee Report: Social Investment Screens

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## Pension Portfolio Structure Has Delivered Superior Long-Term Returns

As of June 30, 2000 the GGEP was  
the #1 performing municipal pension  
plan for the preceding 10 years within  
the Merrill Lynch municipal universe.

## City of Gainesville Employees' Pension Fund Allocation

Equity 70%      Fixed Income 30%

## Our commitment to a 70% equity allocation has paid Off

However, we need to  
continue to effectively  
diversify the equity  
holdings to minimize risk.

## Consistency of Returns Matter

Investor	Yr. 1 Return	Yr. 2 Return	Ave. Comp Return
A	0	30%	15%
B	30%	0	15%
C	15%	15%	17.25%

## GROWTH OF ONE MILLION DOLLARS

\$1,610,510  
\$1,131,000

0 1 2 3 4 5 YEARS

CONSISTENT    +10%   +10%   +10%   +10%   +10%   10%  
VOLATILE    +30%   -10%   -10%   -10%   -10%   10%

\*ASSUMES AN ANNUAL INTEREST RATE OF 10% AND A 10% ANNUAL CONTRIBUTION OF \$100,000 PER YEAR TO THE INVESTMENT ACCOUNT. ALL RETURNS ARE BEFORE TAXES.

## Standard Social Investment Screens

- Hard screen – “Sin stocks”
- Revenue screen – “Percent of Revenue, usually 5% - 10%.”
- Soft Screen – “Politically defined”

## Social Screening is Complex Given Modern Corporate Operations

- Phillip Morris
- General Electric
- Hilton Hotels
- McDonald's

## Fiduciary Standards New Prudent Investor Standards vs. Old Prudent Man Rules

- *Efficient* diversification
- Invested with the care of prudent *expert*
- Take into account the relationship between return and risk *in light of the purposes* of the circumstances of the trust
- Duty of a prudent investor calls for reasonable efforts to *reduce diversifiable risk*

## Important Issues Reviewed: Potential Plan Impacts of Social Investment Screens

- Impact on current manager(s)
- Overall portfolio structure
- Underperformance risk
- Standard benchmark evaluation
- Fiduciary liability issues
- Investment goal of pension plan

## Pension Review Committee Recommendation

We recommend that the City of Gainesville Employees' Pension Fund does not adopt social investment screens