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NEWS & ANALYSIS

'Green' Cleans Up

INVESTMENT: City National's eco-friendly portfolio proves profitable.

By **RICHARD CLOUGH** Staff Reporter

IN summer 2004, wealth manager Barbara Bruser got what she considered at the time to be an unusual request.

As director of equities for City National Asset Management, Bruser is used to customizing investment portfolios for her diverse clientele. But one Prius-driving client wanted to invest in companies that not only offered attractive financial returns, but also had environmentally friendly policies and products.

"She had very specific sustainability criteria that she wanted to pursue in her portfolio and we constructed that for her," Bruser said. "It turned out to be a very successful strategy."

No one at City National knew it at the time, but that customized portfolio would lead to an entirely new division within the bank's wealth management business. In the early days of green investing, City National, one of L.A.'s largest homegrown banks, launched a so-called Green Portfolio, featuring shares in about 50 environmentally friendly companies.

The bank's portfolio has its share of traditional green companies, including solar module manufacturer **First Solar Inc.** and geothermal energy company **Ormat Technologies Inc.** But there are also more than a few unlikely representatives.

Coca-Cola Co. makes the cut, for instance, because it has demonstrated a commitment to sustainable practices.

With the portfolio, **City National Corp.**'s wealth management division is riding a trend that is gaining momentum in financial circles as investors increasingly demand green investments. Since June 2008, the Green Portfolio's assets



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Stocking Up: City National's Kathy Cook and Sean Morgan at Beverly Hills office.

under management have grown fourfold to \$40 million.

Meanwhile, large institutions, such as **Wells Fargo & Co.** and **Northern Trust Corp.**, as well as small investment firms, including **Bel Air Investment Advisors LLC** in Century City, have begun offering green

investment options, spurred by public interest in environmental concerns such as climate change.

Another attraction: environmentally friendly technology, once considered prohibitively expensive, has gone mainstream, including hybrid cars and energy-saving light bulbs.

That has given fund managers a greater selection of manufacturers and other green companies in which to invest.

"It has become a good business strategy," said Darell Krasnoff, managing director of Bel Air, which last year added a company's green credentials as one factor in making investment decisions. "It was less philosophical and more pragmatic."

Strong returns

One of the main draws for City National is that its Green Portfolio has actually performed well. In its brief existence, the portfolio has outpaced the Russell 1000 Index of large-cap stocks by an average of 1.5 points each year.

"In any given year, 1.5 percent is not a huge amount, but when you compound it over time, it becomes very, very significant," Bruser said.

Lydia Plotkin, a director at Beverly Hills family office firm **Tag Partners LLC**, has several high-net-worth clients who are invested in the Green Portfolio. She said she was surprised that the performance was strong, at times outperforming even City National's overall portfolio.

"You would think you wouldn't be getting those kinds of returns," she said.

However, it can be difficult to characterize the performance of green investments overall, said Michael Herbst, an analyst with Chicago-based mutual fund research firm **Morningstar Inc.**

Among the better performing sectors under the green umbrella are wind and solar energy. "Those two forms of energy have emerged as the most feasible," he said.

On the other hand, he noted, ethanol pro-

ducers have not performed well.

Still, the sector has matured to the point where investors do not need to sacrifice returns when investing in sustainable industries, said Herbst, who tracks about 30 established open-end green investment funds, including mutual funds and exchange-traded funds.

That number, he said, is not representative of the entire universe of dedicated green funds, but likely represents more than half. "We've definitely seen more launches over the past three to five years," he said.

City National's portfolio, while similar in strategy to many of the funds, is not on Herbst's list, because it is not offered as a single open-ended fund in which investors can buy and sell shares at will. Rather, City National constructs individual portfolios for each of its clients based upon a "model" portfolio of the 50 selected green companies, said Kathy Cook, the manager of the portfolio.

Making the cut

One reason it is difficult to determine the precise number is that "everybody seems to have a different definition of what is green," said Ethan Berkwits, director of marketing for Winslow Management Co., a Boston-based environmentally focused investment firm.

Complicating matters is the tendency for many companies to market themselves as green even when they may not be. This so-called "green-washing" can sometimes fool investors and consumers.

"It is hard to find well-established pure-play green investments," said Krasnoff of Bel Air.

For City National, determining which stocks belong in the Green Portfolio begins with a financial analysis, Cook said.

City National uses metrics by research firm KLD Research & Analytics Inc. to analyze company performance. After it makes the financial cut, its green credentials are checked out.

In the Green Portfolio, City National looks at more than just environmental matters; portfolio managers also take into account social and corporate governance issues, including workplace diversity and community involvement.

Many companies today issue regular "environmental, social and governance" reports that lay out corporate sustainability practices, and list greenhouse gas emissions and other relevant information. This data, which Bloomberg News recently began collecting and distributing, is instrumental in City National's analysis, Cook said, but determining which companies fit the green bill is an inexact science.

"It requires a bit of judgment," she said. "We're looking at different things depending on the sector or industry. Within each sector we would be comparing them to each other."

Some environmentally conscious investors might bristle at City National's decision to include Coca-Cola in its portfolio, since its core operations involve the distribution of millions of cans and plastic bottles each day.

However, Cook said the company has committed to making its practices sustainable, including the use of a new refrigerant in its vending machines that reduces greenhouse gas emissions. "They're doing major projects to help improve their operations," she said.



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