

**From:** "Johnston, Sadhu" <Sadhu.Johnston@vancouver.ca>

**To:** "Direct to Mayor and Council - DL"

**CC:** "City Manager's Correspondence Group - DL"

"Kelley, Gil" <Gil.Kelley@vancouver.ca>

"Impey, Patrice" <Patrice.Impey@vancouver.ca>

**Date:** 7/31/2020 4:29:53 PM

**Subject:** Memo: Motion – Divestment from Fossil Fuels Update #2

**Attachments:** Memo to Mayor and Council - Divest from Fossil Fuel Jul 2020.pdf

Greetings Mayor and Council,

The attached memo provides an update on actions related to the Motion – Divestment from Fossil Fuels. An update was provided earlier this year, and this is the 2<sup>nd</sup> update – it refers to items A, B and G of the motion. The memo outlines:

- 1) Update on item A. Divestment from Fossil Fuel Definition, Options, and Timeline:
  - a. Report back on the city's participation in the C40 Divest/Invest forum on divestment of fossil fuels. The C40 cities will focus on divestment from direct exposure to securities of companies directly involved in the fossil fuel sector. Since the City of Vancouver does not invest in securities of companies that directly involved in the fossil fuel sector, there is no further action for us at this time, however Treasury Services will continue to work with other C40 cities as the definition continues to evolve and report back to Council.
  - b. C40 Cities have launched a new Declaration, "Divesting From Fossil Fuels, Investing in a Sustainable Future" and the City of Vancouver has been asked to join other cities to endorse the Declaration that will be launched at a press event and panel during NYC Climate Week in the week of September 21, 2020. The final Declaration has been provided to the Mayor's Office for review.
- 2) Update on Item B. Engaging the Municipal Finance Authority of British Columbia (MFA):
  - a. The memo outlines the various engagement actions with MFA including:
    - i. Treasury Services has been working with MFA since early 2018 to develop fossil fuel free investment opportunities that would enable other B.C. municipalities to participate. This resulted in a new MFA Short Term Bond Fund with a Fossil Fuel Free Screen (MFA Short Term Bond Fund) that incorporates a fossil fuel free exclusion screen.
    - ii. Based on suggestions from Treasury Services and from other B.C. municipalities, MFA has converted their existing MFA Intermediate Pooled Bond Fund into a fossil free fund by divesting away companies that are directly involved in the fossil fuel industry.
    - iii. Treasury Services is partnering with MFA and the City of Burnaby to support the creation of additional MFA pooled investment funds that cater to longer investment horizon needs of B.C. municipalities.
  - b. To date, the City has a total exposure of \$60 million invested into fossil fuel free pooled funds established by the MFA.
- 3) Update on item G. C40 Global Green New Deal (GGND) Pledge
  - a. As noted previously, C40 does not have a pledge available for cities to sign, however they have a method to express support for a C40 GGND by registering on their online form for updates. In February 2020, Treasury Services submitted online registration in support of a C40 GGND.
- 4) New sustainability Bond Framework
  - a. We have evolved the City's Green Bond Framework into a Sustainability Bond Framework to further progress the potential types of financing vehicles the City can deploy to support capital projects with ESG factors. The City's new Sustainability Bond Framework (July 2020) replaces the existing Green Bond Framework and provides flexibility to efficiently issue under one platform, when applicable, any of Green Bonds, Social Bonds, or Sustainability Bonds, when Green and Social projects are combined.
- 5) Other Activities

- a. Plans to update our Responsible Investing program including becoming a signatory of the internationally recognized United Nations Principles for Responsible Investment (UNPRI).

Should you have any questions regarding the above, please feel free to contact me or Patrice Impey at 604-873-7610 or [patrice.impey@vancouver.ca](mailto:patrice.impey@vancouver.ca).

Best,  
Sadhu

**Sadhu Aufochs Johnston** | City Manager  
Office of the City Manager | City of Vancouver  
604.873.7627 | [sadhu.johnston@vancouver.ca](mailto:sadhu.johnston@vancouver.ca)

Pronouns: he, him, his



*The City of Vancouver acknowledges that it is situated on the unceded traditional territories of the Musqueam, Squamish, and Tsleil-Waututh peoples.*

## MEMORANDUM

July 31, 2020

TO: Mayor and Council

CC: Sadhu Johnston, City Manager  
Paul Mochrie, Deputy City Manager  
Karen Levitt, Deputy City Manager  
Lynda Graves, Administrative Services Manager, City Manager's Office  
Rena Kendall-Craden, Communications Director  
Katrina Leckovic, City Clerk  
Anita Zaenker, Chief of Staff, Mayor's Office  
Neil Monckton, Chief of Staff, Mayor's Office  
Alvin Singh, Community Relations Director, Mayor's Office  
Tim Leung, City Treasurer  
Gil Kelly, General Manager Planning, Development and Sustainability

FROM: Patrice Impey  
General Manager, Finance, Risk and Supply Chain Management

SUBJECT: Motion – Divestment from Fossil Fuels Update #2

---

This purpose of this memo is to provide Council with a second update to the motion which was passed at the Council meeting on January 21, 2020. This memo will focus on updates for items A, B, and G. Items C through F are complete as of the first update to the motion on February 21, 2020:

THEREFORE BE IT RESOLVED THAT City Council direct staff to review and report back, if possible in 2020, on A to D below, and the Mayor take action on E to G below:

- A. A plan that includes defining divestment, options and timelines for how the City could fully divest from fossil fuels, building on divestment measures taken to date as well as leading practices related to fossil fuel free investment portfolios.
- B. Opportunities to continue to engage the Municipal Finance Authority to create a fossil fuel free fund that would enable other B.C. municipalities to invest in such a fund.
- C. Bringing a motion to Council for the 2020 meetings of the Lower Mainland Local Government Association and the Union of B.C. Municipalities (UBCM) to re-examine the 2016 UBCM Primer on Fossil Fuel Divestment and the Municipal Pension Plan report, in light of globally changing investment and divestment strategies.

- D. Evaluating the benefit and costs of the City and Vancouver Economic Commission participating on the C40 Invest/Divest forum, including attending its March 2020 workshop.
- E. The Mayor, on behalf of Council and the City of Vancouver write to the B.C. Municipal Pension Plan requesting a risk assessment of the plan's investments based on carbon exposure, asking the Plan to advise the City on what steps are being taken to measure and mitigate these risks, and urging the Plan to consider the long-term impact of global climate emergency and local climate crisis due to investments in fossil fuel assets and to redeploy funds into green and renewable assets that are necessary for a sustainable future.
- F. The Mayor, on behalf of Council and the City of Vancouver, send a letter to the Province of BC to encourage them to follow the examples of Canadian municipalities in developing a model for crown corporations and provincial agencies to include financial statement disclosures aligned with the TCFD (Task Force on Climate-related Financial Disclosures).
- G. The Mayor, on behalf of the City of Vancouver, a C40 City, sign the Global Green New Deal pledge which was signed by the other C40 mayors at their meeting in Copenhagen in October of 2019. That pledge includes an "urgent, fundamental and irreversible transfer of global resources away from fossil fuels and into action that averts the climate emergency."

As motion items A, B and G continue to evolve, staff will report back on a regular basis with updates on the requested actions. This memo is the second of the updates to Council, following from the first update memo dated February 21, 2020. This update also includes updates on the City's progress in developing a new Sustainability Bond Framework and other ESG activities.

#### **A. Divestment from Fossil Fuel Definition, Options, and Timeline**

As noted in the January 20, 2020 memorandum to Council regarding Responsible Investing and advocating MFABC to create a fossil fuel free pooled investment fund, subject to the Vancouver Charter and consistently applying a conservative investment approach of the past decades, the City's investment portfolio does not have direct investment exposure to fossil fuel sector (i.e. does not invest in equity or debt instruments of companies who are *directly involved* in the fossil fuel industry). As such, divestment is not applicable for the City's investment portfolio.

Treasury Services participated in the C40 Divest/Invest Forum (a virtual conference due to the City of New York shutdown during COVID-19) in March 2020 and connected directly with the City of New York, the City of London (UK), the City of Stockholm, and the City of Oslo regarding investment portfolio divestment from fossil fuel exposure and industry practices. Key considerations and leading practices in the Environmental, Social, and Governance ("ESG") landscape were discussed and are summarized below.

The divestment from fossil fuels definitions across these major international cities are varied and evolving, such as divesting from companies directly involved in the extraction of fossil fuels to a broader scope of companies involved in the fossil fuel industry. To a lesser extent, some may consider a review of ancillary companies that provide services to the fossil fuel sector as well as companies that are both involved in both traditional fossil fuel industry and have significant investments in clean energy sector as carbon offset.

For those cities where divestment is applicable, a responsible investing approach is followed with a focus on proper strategy and aligning to fiduciary duty responsibilities. This phased process over time includes reviewing and monitoring risk and return impact in order to better

align with the portfolio's investment objectives and risk tolerances. Divestment plans are executed in a reasonable and practical manner to avoid market disruptions and distressed "fire-sale" prices. For example, the City of New York planned to take five years to be fully divested of fossil fuel reserve owners.

These cities have focussed on divestment from direct exposure to securities of companies directly involved in the fossil fuel sector. As these cities continue to evaluate their risk and strategies for divestment, they highlighted that these evaluations do not require divestment of companies that have indirect exposure to the fossil fuel sector such as banks and real estate companies.

Since the City of Vancouver does not invest in securities of companies that directly involved in the fossil fuel sector, there is no further action for us in this case. Treasury Services will continue to work with other C40 cities as the definition continues to evolve and report back to Council. The City's current divestment definition is in Appendix A.

In addition, C40 Cities have launched a new Declaration, "**Divesting From Fossil Fuels, Investing in a Sustainable Future**" and has asked the City of Vancouver to join other cities to endorse the Declaration that will be launched at a press event and panel during NYC Climate Week in the week of September 21, 2020. Since early June 2020, Treasury Services had worked with C40 Cities to provide feedback and suggestions to refine this Declaration to align with the City's ESG goals and objectives. C40 Cities requests the City to by August 21, 2020 confirming endorsement of this Declaration. The final Declaration has been provided to the Mayor's Office for review.

## **B. Engaging the Municipal Finance Authority of British Columbia ("MFA")**

As noted in the January 20, 2020 memorandum to Council, Treasury Services has been working with MFA since early 2018 to develop fossil fuel free investment opportunities that would enable other B.C. municipalities to participate.

As a result of this continuing collaboration, MFA had engaged with asset managers with the view of creating a new short-term bond fund with a fossil fuel exclusion screen that would exclude securities of companies directly involved in the extraction, processing and transportation of coal, oil, or natural gas, and would enable the City and other B.C. municipalities to invest in such a fund.

As mentioned in the February 21, 2020 memorandum to Council, the City on May 7, 2020 had invested \$50 million into a new MFA Short Term Bond Fund with a Fossil Fuel Free Screen ("MFA Short Term Bond Fund") that incorporates a fossil fuel free exclusion screen. The list of securities of companies that are excluded from this fund will be provided by a company such as Sustainalytics, who provide socially responsible investment strategies and will be responsible for identifying and excluding companies that are directly involved in the extraction, processing, and transportation of coal, oil, or natural gas, and have a research database which includes most of the Canadian issuers. This exclusion is a market standard and is similar to the current exclusion applied to some fossil fuel free global funds.

In addition, based on suggestions from Treasury Services in early 2018 and recently from other B.C. municipalities, MFA has converted their existing MFA Intermediate Pooled Bond Fund into a fossil free fund by divesting away companies that are directly involved in the fossil fuel

industry. This fund is now re-purposed to be fossil fuel free and provide access to short term liquidity for B.C. municipalities. The City has invested \$10 million into this fund.

To date, the City has a total exposure of \$60 million invested into fossil fuel free pooled funds established by the MFA. Treasury Services intends to increase investments in these fossil fuel free funds over time.

Treasury Services is partnering with MFA and the City of Burnaby to support the creation of additional MFA pooled investment funds that cater to longer investment horizon needs of B.C. municipalities. The plan is to further engage local asset managers to develop multi-asset investments with a fossil fuel free focus for B.C. municipalities to invest in such a fund.

### **G. C40 Global Green New Deal (“GGND”) Pledge**

As updated in the February 21, 2020 memo update to Council, C40 GGND did not have a pledge available for cities to sign. This status has not changed. However, C40 does have a method to express support for a C40 GGND by registering on their online form for updates. In February 2020, Treasury Services had submitted online registration in support of a C40 GGND. If C40 creates an actual pledge for cities to sign, we will review and report back to Council.

### **New Sustainability Bond Framework**

In early 2020, Treasury Services partnered with Sustainalytics to upgrade the City’s Green Bond Framework established in 2018. The evolution of the City’s Green Bond Framework into a Sustainability Bond Framework represents a further progression of the potential types of financing vehicles the City can deploy to support capital projects with ESG factors. Unlike the City of Toronto’s two separate Social Bond Framework and Green Bond Framework, the City’s new Sustainability Bond Framework (July 2020) replaces the existing Green Bond Framework and provides flexibility to efficiently issue under one platform, when applicable, any of Green Bonds, Social Bonds, or Sustainability Bonds, when Green and Social projects are combined. The new Sustainability Bond Framework and Sustainalytics second-party opinion are on the City’s Investor Relations webpage (<https://vancouver.ca/your-government/investor-relations.aspx>).

This new framework allows the City flexibility to deploy optimal financing tools to fund relevant capital projects, when applicable. Given debt servicing charges (principal and interest) arising from any borrowings (i.e. any of Green Bonds, Social Bonds, or Sustainability Bonds) are provided in the annual operating budgets, the City determines its long-term borrowing capacity by limiting the ratio of annual debt servicing to operating revenue at a maximum of 10%, and that annual debt servicing does not put undue pressure on the annual budget.

### **Other ESG Activities**

Since late 2018, Treasury Services has explored and researched the City being a signatory of the internationally recognized United Nations Principles for Responsible Investment (“UN-PRI”), which allows the City to further demonstrate our commitment to ESG factors in responsible investment and place the City at the heart of a global community seeking to build a more sustainable financial system. UN-PRI signatories have access to a variety of investor tools, guidance documents, case studies, and collaborative engagement opportunities. There are also exclusive resources available to signatories only in the UN-PRI online portal, such as a

global collaborative platform. As there are specific declaration and reporting requirements that must be built and implemented, the timeline for the City to be a UN-PRI signatory is planned for Q4-2021.

Collectively, the City's accomplishments and its on-going commitments and plans to responsible investing and financing practices will ensure that its continued financial investment objectives as a fossil-fuel free portfolio and disciplined ESG financing practices are achieved to support a future for the City that is both socially responsible and climate-resilient. Appendix A summarizes the approaches towards the City's Responsible Investing program.

Treasury Services will provide Council with further updates as we gain traction on new capital markets trends and products that meets the City's responsible investing and disciplined financing criteria.

Should you have any questions regarding the above, please feel free to contact me at 604-873-7610 or at [patrice.impey@vancouver.ca](mailto:patrice.impey@vancouver.ca).

Best Regards,

A handwritten signature in black ink, appearing to read 'Patrice Impey', written in a cursive style.

Patrice Impey  
General Manager, Finance, Risk and Supply Chain Management/ CFO

Tel: 604-873-7610  
[patrice.impey@vancouver.ca](mailto:patrice.impey@vancouver.ca)

**Motion – Divestment from Fossil Fuels**  
**Appendix A – Approaches for Responsible Investing**

Definition of Divestment	<p>The City’s investment portfolio is governed by the Vancouver Charter and does not have direct investment exposure to the fossil fuel sector. Therefore, divestment of direct fossil fuel exposures is not applicable. The City will not invest in securities of companies directly involved in the extraction, processing and transportation of coal, oil, or natural gas.</p> <p>Treasury Services approach in defining divestment is to establish a formal Responsible Investing (“RI”) Policy for the City:</p> <ul style="list-style-type: none"> <li>• To ensure that the City’s investing approach is anchored through our investment objective and fiduciary duty while acting in the best interest of tax payers by protecting and enhancing the value of our investments over the long-term.</li> <li>• To maintain our fiduciary duty and adopt a pragmatic view to responsible investing while considering ESG conditions when such factors present a material risk to the portfolio.</li> <li>• To encourage our banking partners to pro-actively consider and integrate ESG issues through their submissions to the City’s annual Responsible Investing Screening Process which will also include carbon specific measures such as: SCOPE 1 &amp; 2 GHG emission: exposure to fossil fuel sector; and lending into renewable energy or adaptations to climate change.</li> <li>• To collaborate and engage with banking partners and pension funds to jointly support a path with the City towards achieving a net zero carbon emission future.</li> <li>• To commit to making on-going improvements to the City’s approach to responsible investing to ensure it remains relevant in the changing landscape with respect to ESG issues.</li> </ul> <p>Estimated Timeline:</p> <ul style="list-style-type: none"> <li>• Initial RI draft completed by end of 2020.</li> <li>• Final approval by the Director of Finance by Q1 2021</li> </ul>
Sustainability Bond Framework	<p>Treasury Services is developing a new Sustainability Bond Framework (the “Framework”) which represents a further progression in the City’s efforts and provides flexibility to issue any one of Green Bonds, Social Bonds or Sustainability Bonds to promote and support our environmental and socially responsible goals and objectives. This Framework aligns with our priorities to embed sustainability into the City’s financing and investment activities in order to help us contribute positively to society while enabling the transition to a low-carbon, socially responsible, and climate-resilient future. This Framework already includes the principles from the Green Bond Framework, established in 2018, and supersedes it. For efficiency and flexibility, we combined both Green Bond Principles and Social Bond Principles into one Framework.</p> <p><a href="https://vancouver.ca/files/cov/vancouver-sustainability-bond-framework.pdf">https://vancouver.ca/files/cov/vancouver-sustainability-bond-framework.pdf</a></p>
Other Investment Options	<p>As noted in response to Motion item B, the City has been successful in working with the Municipal Finance Authority of British Columbia to develop fossil fuel free investment opportunities that would enable other B.C. municipalities to</p>



	<p>participate.</p> <p>In addition, to the extent permitted under the Vancouver Charter and subject to prior Legal review, Treasury Services may expand its investment universe to include non-financial corporate issuers that contribute positively to society while enabling the City's transition to a low-carbon, socially responsible, and climate-resilient future, especially in a post COVID-economy such as:</p> <ul style="list-style-type: none"> <li>• Achieves wider social benefits (e.g. higher education centers, transport authorities, medical and health organizations and institutions)</li> <li>• Promote renewable energy (e.g. hydro based utilities)</li> <li>• Invests in green and/or sustainable real estate (e.g. green labelled REITs)</li> <li>• Invest in companies that solutions that adapt or mitigate climate change or promote green economies</li> <li>• Green, social or sustainability bonds</li> </ul> <p>Estimated Timeline (Subject to legal opinion):</p> <ul style="list-style-type: none"> <li>• Develop a new credit management approach by Q3-Q4 2021</li> </ul>
<p>PRI Signatory</p>	<p>After the City's Responsible Investment Policy is formally adopted, the City can be a signatory to the United Nations Principles for Responsible Investing ("UN-PRI").</p> <ul style="list-style-type: none"> <li>• The UN-PRI is the world's leading proponent of responsible investment.</li> <li>• Being a signatory to the UN-PRI allows the City to publicly demonstrate its commitment to responsible investment, and places it at the heart of a global community seeking to build a more sustainable financial system.</li> <li>• The UN-PRI works to understand the investment implications of environmental, social and governance factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.</li> <li>• The UN-PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.</li> </ul> <p>Dependency: Completion of Responsible Investing Policy.</p> <p>Timeline: As the reporting requirements for the UN-PRI requires build-out and implementation, the timeline for the City to be a UN-PRI signatory is planned for Q4 2021.</p>