

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

To: "Direct to Mayor and Council - DL" <CCDTMACDL@vancouver.ca>

CC: "City Manager's Correspondence Group - DL" <CMCG@vancouver.ca>
"Impey, Patrice" <Patrice.Impey@vancouver.ca>

Date: 3/14/2018 2:20:46 PM

Subject: Memo - MFA Fossil Fee Investment - RTS 12438

Attachments: FRS - Memo to Mayor and Council - MFA Fossil Free Investment 14-03-2018..._.pdf

Greetings Mayor and Council,

Attached is a memo in response to the following motion which was passed at the Council meeting on February 20, 2018:

THEREFORE BE IT RESOLVED THAT City Council ask staff to report back on what the implications would be of the City of Vancouver moving its Municipal Finance Authority (MFA) Investments into a fossil-free Socially Responsible Investment (SRI) fund if such a fund is established by the MFA.

The memo outlines a summary of the City's investment program and the applicability of the MFA proposal. Following are some key points:

- The City is unique in BC in that, through the Vancouver Charter, the City is able to borrow and invest funds directly in the market, without going through the MFA.
- The City does not invest in any MFA pooled investment funds, and therefore would not have MFA funds to move into a fossil-free SRI fund if such a fund is established by the MFA.
- The City has implemented a Responsible Investing screening process for our investments and we have also begun to invest in Green bonds.
- The proposed SRI fund is not in alignment with the City's current investment policy and would increase the City's investment risk.
- As the City has been a leader in the responsible investment area, we would be pleased to work with the MFA to determine if there are alternative options that may allow more BC municipalities to participate in a responsible investment portfolio that may be more cost effective than creating a completely new fund, and that would not be dependent on the City of Vancouver to take on a disproportionate risk position relative to our existing policy.

Should Council have any questions on this topic, please feel free to contact Patrice Impey at (604) 873-7610 or Patrice.Impey@vancouver.ca.

Best,
Sadhu

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MEMORANDUM

March 13, 2018

TO: Mayor and Council

CC: Sadhu Johnston, City Manager
Paul Mochrie, Deputy City Manager
Janice MacKenzie, City Clerk
Lynda Graves, Administration Services Manager, City Manager's Office
Rena Kendall-Craden, Communications Director
Kevin Quinlan, Chief of Staff, Mayor's Office
Naveen Girn, Community Relations Director, Mayor's Office
Tim Leung, City Treasurer

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

SUBJECT: Motion - MFA Fossil Free Investment

Dear Mayor and Council,

This memorandum is in response to the following motion which was passed at the Council meeting on February 20, 2018:

THEREFORE BE IT RESOLVED THAT City Council ask staff to report back on what the implications would be of the City of Vancouver moving its Municipal Finance Authority (MFA) Investments into a fossil-free Socially Responsible Investment (SRI) fund if such a fund is established by the MFA.

The City is unique in BC in that, through the Vancouver Charter, the City is able to borrow and invest funds directly in the market, without going through the MFA. The City does not invest in any MFA pooled investment funds, and therefore would not have MFA funds to move into a fossil-free SRI fund if such a fund is established by the MFA.

Additional information: City of Vancouver investments

The City's investment policy allows for direct investments in fixed income securities such as Treasury Bills, Senior Bonds, Banker's Acceptances, Bank Deposit Notes, and Term Deposits. These issuers include the Government of Canada and its agencies (i.e. Canada Mortgage Housing Corporation), Provincial Governments, MFA, Translink, Canadian Municipalities, Canadian Chartered Banks, and Credit Unions ("CU") domiciled in British Columbia. The City's

investment policy does not include investment in corporate bonds, which is a key element of the MFA Funds, with some of those Corporations involved in fossil fuels.

The City took a leadership role in the area of responsible investing by adopting a screening process for the City's investment portfolio a few years ago. Adopting this process is consistent with the City's commitment to environmental goals, social responsibility, and economic development across our communities. In order to further demonstrate the City's commitment to the Greenest City goals and the Renewable Energy Strategy, when the opportunity arises, the City has invested directly into green bonds.

In addition to being outside the City's investment policy, there are a number of other implications to the City for participating in a SRI Fund established by the MFA including the following:

- The City would have to meet the conditions set-out by the MFA for the SRI Fund which include: (1) Funds must remain on deposit for a minimum period of 3-years to allow the fund to defray costs and ensure viability, which would limit the City's access to funds if needed; (2) The City must confirm its understanding that an SRI-type fund has reduced diversification and attracts higher fees relative to traditional pooled funds which would reduce the return to the City; (3) The City must confirm its commitment, prior to investing, through a change to its investment policy, that specifically allows for investment in an SRI-type fund; and (4) A representative from the investing organization must be willing to participate upon request in an "advisory group" to define the parameters of such a fund, which is an added administrative burden relative to direct investment by the City.
- The SRI fund is subject to market valuation volatility and capital gains/losses where the City would be exposed to receiving less than originally invested. As the City currently invests directly in an asset, it is held to maturity and the principal is returned, ensuring funds generated through taxes or from development for future amenities are maintained.
- The fund does not have critical mass to be viable. As such, the City would be required to be an "anchor investor". A significant single investor in the fund, known as an "anchor investor", creates concentration risk where any significant withdrawal will affect fund's liquidity, return, and operating cost ratio. This would put the City in a higher risk position than other municipalities, and higher risk than its current investment policy.
- The management costs of the SRI fund depends on maintaining the size of the fund, which is not in the City's control.
- As a significant participant, additional staff time is required to participate in the advisory group to define SRI fund parameters and ongoing responsibilities fiduciary duties to the other investors.

As such, staff do not at this time recommend participating in any MFA fund as it puts the City's investments in a more risky position than our current investment policy.

As the City has been a leader in the responsible investment area, we would be pleased to work with the MFA to determine if there are alternative options that may allow more BC municipalities to participate in a responsible investment portfolio that may be more cost effective than creating a completely new fund, and that would not be dependent on the City of Vancouver to take on a disproportionate risk position relative to our existing policy. As an example, it may be more effective for MFA to work with BC communities, public institutions and local municipalities that invest in the MFA funds to apply an SRI screening process to adjust their current investment mix to either exclude non-SRI or Oil and Gas sector corporate bonds, resulting in an acceptable investment for municipalities seeking non-fossil fuel investments. We would be happy to discuss with the MFA this or other possible options.

Please feel free to contact me at 604-873-7610 or at patrice.impey@vancouver.ca, should you have any questions regarding this topic.

Regards,

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

Patrice Impey
General Manager, Finance, Risk & Supply Chain Management
604.873.7610 | patrice.impey@vancouver.ca