

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

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

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

**Date:** 1/21/2020 9:30:45 AM

**Subject:** Memo - MFA Fossil Free Fund

**Attachments:** Memo to Council - MFA Fossil Free Fund Jan 2020.pdf

Dear Mayor and Council,

The attached memorandum provides Council with an update on the City's continuing commitment to be leader in responsible investing and supporting external business partners on initiatives to allow other local municipalities to participate in responsible investing.

The memo provides highlights of some recent activities and engagements by the City's Treasury Services department.

- As a result of collaboration with MFABC (Municipal Financing Authority of BC) the MFA is proposing to create a new MFA Short Term Bond Fund with a fossil fuel free screen. The City will demonstrate a leadership role by directing investments into this new fossil fuel free fund with an investment of up to \$50 million which will enable other smaller municipalities to participate.
- Note that, subject to the Vancouver Charter and consistently applying a conservative investment approach over the past decades, the City's investment portfolio does not have direct investment exposure to the fossil fuel sector. As such, divestment is not applicable for the City's portfolio.
- The memo provides a summary of the City's responsible investing program and past and recent activities in this area, leading up to the creating of the new MFA Short Term Bond Fund with a fossil fuel free screen.

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

Best,  
Sadhu

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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

January 20, 2020

TO: Mayor and Council

CC: Sadhu Johnston, City Manager  
Paul Mochrie, Deputy City Manager  
Lynda Graves, Administration Services Manager, City Manager's Office  
Rena Kendall-Craden, Civic Engagement and Communications Director  
Katrina Leckovic, City Clerk  
Neil Monckton, Chief of Staff, Mayor's Office  
Alvin Singh, Communications Director, Mayor's Office  
Anita Zaenker, Chief of Staff, Mayor's Office  
Tim Leung, City Treasurer

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

SUBJECT: Responsible Investing: New Municipal Finance Authority of British Columbia ("MFA") Short Term Bond Fund with a Fossil Fuel Free Screen

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Dear Mayor and Council,

This memorandum is an update of the City's continuing commitment to be leader in responsible investing and supporting external business partners on initiatives to allow other local municipalities to participate in responsible investing. Below are highlights of some recent activities and engagements by Treasury Services.

The result of this collaboration is that MFA is proposing to create a new MFA Short Term Bond Fund with a fossil fuel free screen. The City will demonstrate a leadership role at directing investments into this new fossil fuel free fund with an investment of up to \$50 million which will enable other smaller municipalities to participate.

Subject to the Vancouver Charter and consistently applying a conservative investment approach over the past decades, the City's investment portfolio does not have direct investment exposure to the fossil fuel sector. As such, divestment is not applicable for the City's portfolio.

Following is background on the City's responsible investing program and past and recent activities in this area, leading up to the creating of the new MFA Short Term Bond Fund with a fossil fuel free screen.

## **Responsible Investing Screening Process**

The following motion was passed at the Council meeting on October 9, 2013:

THAT the City develop and report back, over the next 12 months, a positive screening process for investing in Canadian banks and credit unions.

In a report back at the Council meeting on May 3, 2016, the City took a leadership role in the area of responsible investing by adopting a screening process for the City's investment portfolio. 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 invests directly into green bonds.

This screening process for investing the City's available cash uses a typical structure of environmental, social, and governance ("ESG") factors within a responsible investing perspective.

## **MFA Socially Responsible Investment Fund**

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.

Following the approval of the motion, the City's Treasury Services engaged the MFA for further details on the proposed SRI Fund. A memorandum was submitted to Mayor and Council on March 13, 2018 that detailed the implications to the City of investing in an SRI Fund if such a fund was established by the MFA. In addition, staff had recommended at that time to not participate in any MFA fund as it puts the City's investments in a more risky position.

The City is unique in B.C. in that, through the Vancouver Charter, the City is able to borrow and invest funds directly in the capital markets, without going through the MFA. The City did 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. At that time, MFA's other existing funds have direct exposure to securities of companies directly involved in the extraction, processing and transportation of coal, oil, or natural gas, and did not meet the City's responsible investing criteria.

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 domiciled in B.C.

Some of the implications to the City for investing in a SRI Fund if it was established by the MFA, included:

- The City had to meet certain conditions set out by MFA, such as, funds must remain on deposit for a minimum period of 3-years, and confirm understanding that an SRI-type fund has reduced diversification and attracts higher fees relative to traditional pooled funds.

- The SRI fund would be 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 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 in this fund, 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.

Treasury Services, at that time, did not recommend participating in any MFA fund as it puts the City's investments in a more risky position. However, Treasury Services continued to work with the MFA to determine if there are alternative options that may allow more B.C municipalities to participate in a responsible investment portfolio.

The most common MFA conditions that seemed to cause concern with otherwise interested B.C. municipalities pertain to their perceived fiduciary duty to maximize returns and the 3-year minimum period funds must remain on deposit. Without a minimum threshold of \$100 million committed investment obtained, MFA was unable to move forward with establishing a SRI Fund.

### **MFA Mortgage Fund**

In April 2019, MFA proposed to Treasury Services and other B.C. municipalities a new MFA Mortgage Fund that is secured by commercial real estate assets with stable and predictable cash flows. Treasury Services discovered, upon further review of detail terms, that this proposed new MFA Mortgage Fund can have a small, albeit greatly reduced, exposure to fossil fuel companies. The City did not invest in this new MFA Mortgage Fund that was launched in early 2020 as it did not meet the City's responsible investing criteria.

### **MFA Short Term Bond Fund with a Fossil Fuel Screen**

Since early 2018, Treasury Services has engaged with MFA to support the creation of MFA pooled investment funds that align with a fossil fuel free approach. MFA has been engaging 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.

The City commits to support advancing the proposed 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, subject to this MFA Short Term Bond Fund being approved and established by the MFA Trustees.

On December 11, 2019, the Mayor of the City of New Westminster inquired for interest from local B.C. municipalities for the new MFA Short Term Bond Fund with a Standard Fossil Fuel Free Screen, and requested that each interested municipality respond directly to the MFA. The City plans to inform MFA of the City's commitment to invest in this new MFA Short Term Bond Fund.

This new MFA Short Term Bond Fund caters to short term liquidity needs, funds do not have to remain in deposit for any period of time, and there is no fund size minimum threshold prior to its

creation. The City plans to invest up to \$50 million by Q1-2020 and will form part of the City's financial investment portfolio.

This proposed new MFA Short Term Bond Fund will be the first investment in any MFA funds by the City. As mentioned earlier, all other existing MFA funds have direct exposure to securities of companies directly involved in the extraction, processing and transportation of coal, oil, or natural gas and do not meet our responsible investing criteria.

### **Standard Fossil Fuel Free Exclusion Screen**

This new MFA Short Term Bond Fund will be the first pooled investment fund that incorporates a fossil fuel free screen strategy to exclude securities of companies directly involved in the extraction, processing and transportation of coal, oil, or natural gas.

The list of securities of companies that will be excluded from the 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.

The composition of this new MFA Short Term Bond Fund will consist of approximately 50% government securities and 50% corporate securities, and meet the liquidity requirements of B.C. municipalities.

### **Ongoing Commitment to Responsible Investing**

As the City has been a leader in the responsible investment area, investing in this proposed new MFA Short Term Bond Fund offers the City diversification and access to a fossil fuel free fund investment.

Even though the size of this new MFA Short Term Bond Fund would be subject to investments from other B.C. municipalities, the City will demonstrate a leadership role at directing investments into fossil fuel free funds with an investment of up to \$50 million.

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

Regards,



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