

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>

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Date: 2/25/2020 4:05:05 PM

Subject: Memo: Motion – Divestment from Fossil Fuels

Attachments: FRS - Memo to Mayor and Council - Divestment from Fossil Fuel Feb 2020.pdf

Dear Mayor and Council,

The purpose of the attached memo is to provide Council with an update to the motion which was passed at the Council meeting on January 21, 2020 related to divesting from Fossil Fuels. Since there is progress made in the short term as well as the long term, we will be providing periodic updates. The memo provides and update on these 7 approved items:

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 there are a number of elements to this motion, Staff will report back on a regular basis with updates on the requested actions. This memo is the 1st of the updates to Council. All items are either in progress (A, B) or complete (C, D, E, F and

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

Best,
Sadhu

Sadhu Aufochs Johnston | City Manager
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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

February 21, 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

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As there are a number of elements to this motion, Staff will report back on a regular basis with updates on the requested actions. This memo is the 1st of the updates to Council.

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

As noted in the January 20, 2020 memorandum to Council, 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 (ie. does not invest in equity or debt instruments of companies who are *directly involved* in the fossil fuel industry). The definition of divestment is evolving – from divesting of companies directly involved in extraction of fossil fuels, to broader scope of companies involved in the fossil fuel industry to a more extended review of companies like banks which may be enabling the industry through their loan services. As well, some entities are involved both in traditional fossil fuel industry and investing significantly in clean energy. Defining investment criteria for these companies is also being considered. Over the next several months staff will continue to work with other organizations as the divestment definition evolves.

Regarding benchmarking with other cities, Treasury Services has been in contact with the City of New York, the City of London, and the City of Stockholm regarding investment portfolio divestment from fossil fuel exposure. Currently all three cities have focused on divestment from direct exposure to securities of companies directly involved fossil fuel sector. Key findings from our communications are summarized as follows.

City of New York, USA

Of the three global cities that Treasury Services has contacted, the City of New York ("NYC") manages its own pension plans and were already familiar with the process of divestment, having previously divested securities from certain sectors such as weapons companies and private prisons.

In January 2018, the Mayor, the City Comptroller, and other pension plan trustees announced that NYC pension plans will divest from direct holdings of **fossil fuel reserve owners** within a five year period. NYC defines fossil fuel reserve owners as private and publicly listed companies that own fossil fuel reserves. This definition excludes any level of government or sovereign entities. Three of the five pension plans, representing approximately US\$ 130 billion in assets, have committed to divest from investments in fossil fuel reserve owners. This divestment campaign will be implemented in a reasonable and practicable manner in order to avoid market disruptions. Subject to market conditions, NYC expects to complete this divestment goal by the end of 2022.

In September 2018, the Mayor, Comptroller and pension plan trustees announced a new goal to double the investments of NYC pension plans in climate change solutions to US\$ 4 billion, or 2% of the NYC's US\$ 195 billion pension portfolio, over the next three years. Investments will be made in renewable energy, energy efficiency and other climate solutions. NYC Comptroller is taking the lead in the development of this strategy and is currently commissioning independent advice on the options for implementation. The advisor will further evaluate risks and look at different strategies for divestment.

City of London, England

The City of London ("London") defines divestment as getting rid of assets that are invested in companies that are extracting fossil fuels as sources of energy and contributing directly to climate change. London's Responsible Investment Policy sets out principles to guide investment decisions for its cash investments and has resulted in an investment portfolio free of direct holdings of companies that are extracting fossil fuels as sources of energy and contributing directly to climate change.

The successful divestment of London's own cash investments became a catalyst for discussions with the London Pension Fund Authority ("LPFA"), which manages £5.6 billion (US\$ 7.3 billion) in assets. While the Mayor does not have control over the pension plan, the Mayor does provide guidance to the LPFA, initiating a discussion of the LPFA's measures to reduce climate-change risks to their investments. Additionally, the Mayor was able to influence the composition of LPFA's board by appointing new trustees with climate change knowledge in order to build climate expertise over time.

City of Stockholm, Sweden

The City of Stockholm ("Stockholm") Treasury group manages funds with total assets of approximately SEK 4.5 billion (US\$ 450 million), which includes a pension plan for certain Stockholm staff. Stockholm has a long history of integrating ethical and sustainability concerns in its investment decisions and fossil fuel divestment and investment in climate solutions is a logical progression.

In early 2016, Stockholm was one of the original investors in a new global index-tracking pooled investment fund that excluded fossil fuel intense companies. The performance characteristics of this pooled investment fund that exclude fossil fuel intense companies was consistent with the performance of pooled investment funds that did not exclude fossil fuel intense companies. Stockholm was also among the first to invest in an emerging-markets fossil-fuel free index-tracking pooled investment fund.

Stockholm adopts a methodical approach which applies a set of divestment / investment principles to evaluate companies that includes: no production or distribution of fossil fuels; carbon footprint to revenue threshold, and investment activity that provides solutions to climate change. Applying these principles excludes approximately 200 fossil fuel companies, such as Exxon Mobile, and excludes large carbon footprint companies, such as Rio Tinto and Tata Steel. Utility companies that use fossil fuels are also excluded except for water and renewable energy utility companies.

As result, Stockholm's fossil-fuel free investment portfolio is largely comprised of holdings in sectors such as banks, other financial institutions, consumer goods, real estate, water and renewable utilities, and government entities. Stockholm's Treasury group continues to stay informed of new sustainable investments to ensure their practices align with current developments.

As the strategies and definitions of divestment continue to evolve, Treasury Services will continue to share knowledge with global cities, review trending practices and report back to Council by the end of 2020 with a strategic plan for defining divestment, options available that aligns with best practices, and a timeline for implementation into the City's investment portfolio.

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 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 such a fund.

MFA will launch 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, subject to this MFA Short Term Fund being approved and established by the MFA Trustees. The list of securities of companies that will be 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.

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. Currently, 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 the City's responsible investing criteria.

Currently, Treasury Services is working with MFA and the City of Burnaby to support creation of additional MFA pooled investment funds that caters 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 participate.

Treasury Services will provide Council with further updates as we gain traction on new investment products that meets the City's responsible investing criteria.

C. Resolution to the Lower Mainland Local Government Association

The Lower Mainland Local Government Association ("LMLGA") encourages members to submit resolutions to LMLGA for debate by March 5, 2020. The LMLGA endorsed resolutions are submitted to the Union of B.C. Municipalities ("UBCM") for consideration at the UBCM Convention that will be held from May 6-8, 2020.

The resolution was submitted for the February 25 Council meeting for approval.

D. C40 Divest/Invest Forum

The annual convening of the C40 Divest/Invest Forum in New York City in March 2020 is another opportunity for the City to: work with global cities on further focus on divesting from fossil fuels; commit to sustainable investments in climate solutions; collaborate and discuss best practices, strategies, and challenges to encourage pension plans to divest from fossil fuels and redeploy assets to sustainable alternatives.

The majority of the cost of this trip (i.e. airfare, hotel, some meals) is funded by the C40 Divest/Invest Forum. Attending this March 2020 workshop is beneficial to the City, and representatives from the City's Treasury department and Vancouver Economic Commission will plan to attend.

E. Mayor's Letter to the B.C. Municipal Pension Plan

The Mayor's letter to the B.C. Municipal Pension Plan Board of Trustees requesting action items from the Council Motion and to take further action to divest from fossil fuels and redeploy funds into green and renewable assets is complete and has been sent by the Mayor's Office.

F. Mayor's Letter to the Province of British Columbia

The Mayor letter to the Province of B.C. to encourage the province, its crown corporations, and its agencies to include Task Force on Climate-related Financial Disclosure in its financial reports is complete and has been sent by the Mayor's Office.

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

The United Nations Department of Economic and Social Affairs published a Global Green New Deal for Climate, Energy, and Development in December 2009. This is a strategy that recognized the world can avoid dangerous climate change by pushing down the price of renewable energy as quickly as possible and reiterates that emissions reduction is a goal, it is not a strategy. This strategy also recognized that energy is the key to economic development and social wellbeing, and renewable energy is the key to a future without dangerous climate change. The overall strategy is focussed on accelerating investment in a renewable energy future via both public and private investments and via public policies that can help produce the necessary decline in the global price of renewable energy.

At the October 2019 C40 World Mayors Summit in Copenhagen, mayors of global cities announced their support for a Global Green New Deal and recognized a global climate emergency. Although not as narrowly focussed as the United Nations Global Green New Deal strategy, the C40 GGND expands and updates commitments to include protecting the environment, strengthening the economy, and building a more equitable future by cutting emissions from the sectors most responsible for the climate crisis, such as transportation, buildings, industry and waste, to keep global heating below the 1.5 degree Celsius goal of the Paris Agreement.

The C40 GGND principles align well with the City's recent Climate Emergency Declaration and will not create any new obligation for the City to support. Although C40 GGND currently does not have a pledge available for cities to sign, C40 does have a method to express support for a C40 GGND by registering on their online form for updates. Treasury Services has already 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.

Should you have any questions regarding the above, please feel free to contact me at 604-873-7610 or at patrice.impey@vancouver.ca. We will report back to Council again with updates on the remaining items, with a targeted final report back by the end of 2020.

Best Regards,



Patrice Impey
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