

From: "Mochrie, Paul" <Paul.Mochrie@vancouver.ca>
To: "Direct to Mayor and Council - DL"
Date: 1/25/2023 4:59:05 PM
Subject: Memo - Fossil Fuel Free Fund Investment
Attachments: FRS Memo to Mayor and Council - Fossil Fuel Free Fund Investment.pdf

Good afternoon Mayor and Council,

The attached memo is to provide information to Council regarding the City's plan to invest in a new investment vehicle available through the Municipal Finance Authority of British Columbia (MFA) in the 1st quarter of 2023. The City's investment strategy has been to enhance investment returns through more diversified investment vehicles, in line with other municipalities.

There is no action on the part of Council - this is for information only.

Key points regarding this investment:

1. The MFA currently offers a Diversified Multi-asset Class (DMAC) Fund, a pooled fund that is designed for local governments to invest into multi-asset classes over the long term. As of December 31, 2022, the size of the existing DMAC Fund was \$427 million with three municipal investors. The City of Burnaby is considered as the lead investor for the DMAC Fund that went live in January 2022.
2. City staff worked closely with the MFA and the City of Burnaby to create a fossil fuel free version of the DMAC Fund, the Fossil Fuel Free Diversified Multi-Asset Class (FFF DMAC).
3. The FFF DMAC Fund is structured to provide long-term capital appreciation over a 10-year or longer time horizon and is expected to generate an annualized return that exceeds inflation. The target return is 7%-8% per annum (Consumer Price Index + 3%-4%).
4. As the lead investor into the FFF DMAC Fund, the City of Vancouver will invest up to \$150 million which represents up to 5 percent of the City's total Cash & Investment portfolio. The City's investment into the FFF DMAC Fund will be made over a period of time, including an initial commitment of \$100 million in 2023.

Should you have any questions, please do not hesitate to connect with Patrice Impey.

Best,
Paul

Paul Mochrie (he/him)
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The City of Vancouver acknowledges that it is situated on the unceded traditional territories of the x̱məθḵj̱əm (Musqueam), Sḱw̱x̱w̱ú7mesh (Squamish), and səliwətaʔ (Tsleil-Waututh) Nations.

MEMORANDUM

January 16, 2023

TO: Mayor and Council

CC: Paul Mochrie, City Manager
Armin Amrolia, Deputy City Manager
Karen Levitt, Deputy City Manager
Rosemary Hagiwara, Acting City Clerk
Teresa Jong, Administration Services Manager, City Manager's Office
Maria Pontikis, Chief Communications Officer, CEC
Kareem Allam, Chief of Staff, Mayor's Office
Trevor Ford, Director of Operations, Mayor's Office
David Grewal, Senior Advisor, Mayor's Office

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

SUBJECT: **Investment in Fossil Fuel Free Diversified Multi-asset Class Fund (FFF DMAC) through the Municipal Finance Authority of British Columbia (MFA)**

The purpose of this memo is to provide information to Council regarding the City's plan to invest in a new investment vehicle available through the Municipal Finance Authority of British Columbia (MFA) in the 1st quarter of 2023.

BACKGROUND

In the Council motion "City of Vancouver Responsible Divestment From Fossil Fuels" on January 21, 2020, Council directed City staff to review and report back on opportunities to continue to engage the MFA to create a fossil fuel free fund that would enable B.C. municipalities to invest in such a fund. Since then, City staff have been working with the MFA and other municipalities to provide feedback, input, support, and risk mitigation measures for the creation of a fossil fuel free diversified asset class fund for all British Columbia local governments.

FOSSIL FUEL FREE DIVERSIFIED MULTI-ASSET CLASS (FFF DMAC) FUND

Through existing legislation, the MFA may offer any Pooled Investment Fund it believes best serves local governments. The MFA currently offers the Diversified Multi-asset Class (DMAC) Fund, a pooled fund that is designed for local governments to invest into multi-asset classes over the long term. As of December 31, 2022, the size of the existing DMAC Fund was \$427 million with three municipal investors. The City of Burnaby is considered as the lead investor for the DMAC Fund that went live in January 2022. The City of Vancouver is not an investor of the DMAC Fund as the fund may include investment in the fossil fuel sector.

In 2022, City staff worked closely with the MFA and the City of Burnaby to create a fossil fuel free version of the DMAC Fund. The Fossil Fuel Free Diversified Multi-Asset Class (FFF DMAC) Fund is a

new investment vehicle for BC municipalities to diversify their investment portfolio into multi-asset classes over the long term (10 years+). The FFF DMAC Fund must exclude the securities of issuers directly involved in the extraction, processing, or transportation of coal, oil or natural gas. With due consideration of the mandate, the FFF DMAC Fund is broadly diversified (by geography and asset class) and optimized to meet the Fund's Objectives. The FFF DMAC Fund is structured to provide long-term capital appreciation over a 10-year or longer time horizon and is expected to generate an annualized return that exceeds inflation. The target return is 7%-8% per annum (Consumer Price Index + 3%-4%).

The FFF DMAC Fund is not precluded from investing in any investment types or geographical exposures and can therefore invest in global equities, bonds, mortgages, infrastructure debt, private equity and other fixed income products and assets. It is typical for multi-asset class funds to exhibit volatile performance in the short to medium term, but with overall positive returns over the long term. The diversification is purposeful as it mitigates risk inherent in such a portfolio, and risk is further mitigated through an intended long-term holding period by an investor. The expected investment term is 10 years minimum.

The investment portfolios of municipalities are traditionally concentrated on fixed income. A well-diversified portfolio, which may comprise bonds, equities and real assets, helps municipalities manage risks and potentially improve long-term portfolio performance. Over the past years, many municipalities in Canada have increased investment flexibility by expanding asset classes through prudent investment standards as a means of managing portfolio risks while enhancing long term municipal financial sustainability. The City of Burnaby has invested less than 20% of their total investment portfolio into the DMAC Fund that includes asset classes of fixed income, equities and alternative investments. Under the new Ontario Regulation, the City of Toronto has developed a new investment policy in 2018, expanding their investments into a mix of fixed income (70%), equities (20%) and real assets (10%). The City of Calgary has also adopted a strategic multi-asset allocation to their \$6 billion investment portfolio with a target allocation of 25% into equities and real assets.

With a clear understanding of the key features, risks and benefits of the FFF DMAC Fund, investing the City's long-term monies in the FFF DMAC Fund could be incorporated within the City's overall investment strategy. City staff has identified monies set aside in reserves which are suitable for long-term investment (10 years+) in the FFF DMAC Fund while meeting the City's forecast cash and liquidity requirements. In order to manage the inherent risks associated with multi-asset funds, the MFA set a maximum investment limit of 25% of reported Cash & Investments total for municipalities with population greater than 10,000 residents. The FFF DMAC Fund will be diversified through its investment in multiple underlying pooled funds that have well established investment processes and years of track record in performance. These underlying funds are professionally managed by the MFA's external Fund Manager PH&N. As of September 30, 2022, the total assets under management of these underlying funds was \$5 billion.

FUND GOVERNANCE

Municipal Finance Authority

An agreement in principal was reached between the MFA and the Provincial Government for the creation of a new investment pooled fund called the Diversified Multi Asset Class (DMAC) Fund, and by extension the FFF DMAC. It has been agreed that existing legislation provides the MFA with the authority to create this diversified asset class fund based on prudent investment standards. The MFA sets out guidelines and controls for the monitoring, participation and parameters for which a municipality or local government can invest in such funds.

The MFA's Management and its Trustees oversee the performance of its Fund Manager Phillips, Hager & North ("PH&N"), which is a wholly owned subsidiary of RBC Global Asset Management Inc. A formal

annual review process is conducted by the MFA's Trustees. On a quarterly basis, the MFA's Management reviews management reports received from PH&N to ensure PH&N's adherence to Investment Policy, Objectives and Guidelines.

Phillips, Hager & North (“PH&N”)

PH&N is responsible for the day-to-day investment management of the Diversified Multi-asset Class Fund and has full discretionary investment authority on each strategy of the funds as well as asset class allocation decisions, within the policy bands. Amongst other tasks, it monitors the Fund and its exposures, ensures adherence to policies, forecasts and considers market developments, and executes trades. The same model will be in place for the FFF DMAC Fund.

LEGISLATIVE AUTHORITY UNDER THE VANCOUVER CHARTER

The City engaged with Borden Ladner Gervais LLP in 2021 to determine the legislative authority for investments. It was confirmed that section 201(1)(i) of the Vancouver Charter, section 16(3)(e) of the Municipal Finance Authority Act, and section 15.1 of the Trustee Act, together allow the City of Vancouver to invest in any securities as long as those investments are consistent with the prudent investment standards. In a recent consultation with the City's internal legal team and the MFA, City staff notes that the FFF DMAC Fund is a form of financial securities established within existing provincial legislation that provides MFA with the authority to create such diversified funds based on prudent investment standards.

SUMMARY

City staff, the MFA and other partners have worked diligently to create the new Fossil Fuel Free Diversified Multi-asset Class Fund. With a clear understanding of the key features, risks and benefits of the FFF DMAC Fund, investing the City's long-term monies in the FFF DMAC Fund will be incorporated within the City's overall investment strategy. As the lead investor into the FFF DMAC Fund, the City of Vancouver will invest up to \$150 million which represents 5 percent of the City's total Cash & Investment portfolio. MFA expects the fund to go live by early Q2 2023. The City's investment into the FFF DMAC Fund will be made over a period of time, including an initial commitment of \$100 million in 2023. Any additional investment will be subject to the maximum limit of 25% of the City's total Cash & Investments (as established by the MFA), or \$150 million (per the City's investment policy), whichever is lower.

Should you have any questions regarding this investment, please feel free to contact me.

Best Regards,



Patrice Impey
General Manager, Finance, Risk and Supply Chain Management, Director of Finance and City Treasurer

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