

Appendix D – Investment Status Update

Over the last number of years, the City has been working with partners, including the Municipal Finance Authority (MFA), investment providers and other municipalities, to explore and expand options for socially responsible investments, which is one of the objectives of the City's Investment Policy.

This summary provides background information as well as a status update on the City's investment portfolio as of December 31, 2020.

Background

The *Community Charter* sets out the overarching legislation for investments that municipalities in BC must follow. Under Section 183, Investment of Municipal Funds, money held by a municipality that is not immediately required may only be invested or reinvested in one or more of the following:

- (a) securities of the Municipal Finance Authority;
- (b) pooled investment funds under section 16 of the Municipal Finance Authority Act;
- (c) securities of Canada or of a province;
- (d) securities guaranteed for principal and interest by Canada or by a province;
- (e) securities of a municipality, regional district or greater board;
- (f) investments guaranteed by a chartered bank;
- (g) deposits in a savings institution, or non-equity or membership shares of a credit union;
- (h) other investments specifically authorized under this or another Act.

The City's policy, aligned with the *Community Charter* and best practice for investing public funds, further guides the City's investments. The policy has the following objectives:

- Adherence to **statutory requirements**
- **Preservation of capital** – i.e. the City is a steward of public assets, and each option is assessed with a risk lens as each option has a different risk profile
- **Liquidity** – to meet the City's cash flow requirements
- **Rate of return**
- **Socially Responsible Investments (SRI)** – where possible, apply SRI criteria and select investments and companies that make positive contributions to society and the environment, i.e. Environmental, Social, Governance (ESG) factors

In addition, the following parameters are adhered to for approved investments with credit ratings that comply with the policy:

- **Diversification** requirements – i.e. maximum for each type of investment and each issuer to limit risk exposure
- **Competitive Selection** for all purchases
- **Maturities and limits** – match investment maturities with anticipated cash flow needs

Improved Reporting Standards for SRI/ESG

Currently, throughout the investment world, there is increased focus on improving and standardizing SRI "labels" to support transparency and consistent practices with regard to investments labelled SRI. The intent is to reduce confusion, level the playing field and avoid paying unnecessary premiums.

Canada's top pension funds are calling for better ESG disclosure by reporting data in a standardized fashion. They suggest that the best frameworks to use are Sustainability Accounting Standards Board and the Task Force on Climate-related Financial Disclosures.

Staff are also working with other municipalities, with Metro Vancouver and Vancouver area municipalities as the lead, to push for better reporting standards/requirements resulting in more clarity and consistency to support the investment evaluation process.

Until those standards are set, the current evaluation practice relies on reviewing the underlying investments and companies so that the City does not pay extra for something that is not 'real' and/or seeks opportunities to invest directly with the issuer to avoid premiums paid when investing through a broker.

Investment Portfolio as of December 31, 2020

The City's portfolio as of December 31, 2020 adheres to the Policy's preservation of capital requirements, is comprised of a combination of different issuers and funds to meet the diversification objective of reducing risk exposure, and holds a mix of maturities to align with cash flow requirements. The various investment options offer different maturities and the City considers the cash flow needs before making a determination of which investment to purchase; this includes "laddering" investments so that maturities are staggered over time. Also, due to the City's weekly cash flow needs, some of the investments are held in immediately accessible holdings such as the MFA money market fund and high interest savings accounts.

Based on feedback from its local government members, the MFA launched a number of new investment options starting in the latter part of 2019. The City has utilized these opportunities to increase its portfolio holdings in SRI. While adhering to the Policy objectives and parameters, the City also continued investing in credit unions, including increasing direct investments where that was advantageous rather than going through brokers.

The MFA's investment manager is a signatory to the UN Principles of Responsible Investing (PRI), which is the world's leading proponent of responsible investment. This means that the approach to managing funds as a UN PRI signatory applies to all the MFA funds. The UN PRI aims to understand the investment implication of ESG factors, and support its international network of investor signatories in incorporating these factor into their investment decisions. The MFA currently offers seven different investment options – four which are fossil fuel free and one additional which is socially responsible. The remaining two, although not labelled SRI, are managed using a UN PRI approach. Further information on the MFA funds and investment approach are detailed on pages 4 to 9 of this appendix.

The lending and investment philosophies of many financial institutions, particularly credit unions, align with the City's Investment Policy in regard to SRI and offer an investment option that has high impact as well as local impact in many cases. For example, VanCity Investment Management's core philosophy is founded on the premise that a company's long-term financial success depends on the ability to cultivate and maintain positive relationships with stakeholders. Before investing, VanCity assesses company-specific policies, performance and practices with respect to the environment, social responsibility and corporate governance. VanCity has also aligned their engagement focus with the UN Sustainable Development Goals.

The City's investment holdings at December 31, 2020 are summarized in Table 1. below, identifying the balance of SRI investments to total holdings, with 2019 totals for comparison. Figure 1. City of Victoria SRI Investments illustrates the largest portion of the City's SRI investments are held in BC Credit unions and highlights areas of high impact and local activities that these investments support.

Table 1. City of Victoria Investments

Investment balances at Dec 31, 2020		SRI	2020 Total	SRI % of Total	2019 Total	SRI % of Total
Schedule 1 Banks	31,000,000				69,000,000	
MFA Money Market Fund	82,191,149				110,680,225	
Credit Unions		103,000,000		34%	104,000,000	34%
MFA Pooled High Interest Savings Accounts		54,243,984	FFF	18%	17,977,900	6%
Short Term MFA Fossil Fuel Free Fund (2-5 yrs)		25,249,660	FFF	8%	-	-
MFA Pooled Mortgage Fund (3+ yrs)		11,595,337		4%	-	-
				63%		40%
Total Investments	\$ 113,191,149	\$194,088,980	\$307,280,129		\$301,658,125	

Figure 1. City of Victoria SRI Investments

The City of Victoria

Socially Responsible Investments

Socially responsible investing (SRI) is an investment strategy which seeks to deliver positive social impact.



Investment Options through the Municipal Finance Authority



**Municipal Finance
Authority of BC**

	FFF		FFF		FFF	
	(2) Pooled High Interest Savings Accounts	Money Market Fund	Government Focused Ultra-short Bond Fund	Short-term Bond Fund	Fossil Fuel Free Short-term Bond Fund	Pooled Mortgage Fund
<i>Key Features</i>	 Best for soon to be needed funds. Balances favourable interest rates and liquidity. Monies held with Domestic Systemically Important Banks ✓ Favourable deposit rates negotiated by MFA ✓ Monthly Interest	This Fund is suited for investors who must maintain adequate liquidity while benefitting from asset diversification. This Fund holds a portfolio of very short-term securities, focused on high-quality corporates. The Fund seeks a yield advantage through active market and credit analysis. ✓ Monthly distributions	The main objective of this Fund is to provide safety and liquidity. This Fund maintains a bias towards safe and favourable Federal and Provincial Securities, holdings may include up to 25% Big 6 Banks debt securities. Securities acquired for the Fund may have a maximum maturity of 2 years. This Fund does not invest in non-bank corporates. ✓ Monthly distributions	Designed for investors with a 2 to 5 year investment horizon as the Fund maintains a longer duration versus the MM and Ultra-short Funds. This Fund provides instant diversification through a broad asset mix of high-quality government and corporate securities. The Fund seeks a yield advantage through active market and credit analysis. ✓ Monthly distributions	This Fund is benchmarked against the same index as the ST Bond Fund, however screens-out companies involved in the extraction, processing and transportation of coal, oil, and natural gas. Designed for investors with a 2 to 5 year investment horizon. This Fund provides instant diversification through a broad asset mix of high-quality government and corporate securities. The Fund seeks a yield advantage through active market and credit analysis.	This Fund is designed to provide asset class diversification for Local Government Investment Portfolios. Best suited for cash not needed for 3+ years. The Fund invests in high-quality 1 st mortgages on Canadian income producing commercial properties – such as retail, multi-residential, office and industrial. ✓ Minimum 1.25x CF coverage ✓ Maximum 75% Loan-to-value
<i>Suggested Investment Time Horizon</i>	0 – 12 months	0 – 24 months	0 – 24 months	2 – 5 years	2 – 5 years	3 years +

ESG and MFA Pooled Investment Funds

About the Municipal Finance Authority of BC

The Municipal Finance Authority of British Columbia (MFA) believes that investment processes that incorporate ESG factors and other broad systemic issues can lead to better investment outcomes. We are committed to creating and offering best-in-class investment products to local governments and have been actively engaged in the Sustainable Investing landscape with the view of offering workable investment solutions for local governments. As such, MFA will only partner with UN PRI signatories in our pooled fund product line. Away from our Pooled High Interest Savings Accounts (PHISAs) which are managed internally by MFA, all the MFA Pooled Investment Funds are currently managed by Philips, Hager and North Investment Management Ltd. (PH & N). PH & N is a signatory to the United Nations Principles for Responsible Investment (UN PRI). As indicated in their most recent 2020 Assessment Report's Summary Scorecard, the UN PRI rated PH&N an A+ across all categories:



What is ESG?

ESG investing focuses on using three non-financial factors as a part of a framework in the evaluation of companies for investment decision-making. **Environmental criteria** focus on stewardship of the natural environment and its resources. **Social criteria** look at the company's treatment of people and impact on societal issues. **Governance criteria** focuses on how an organization is presided over and its corporate policies.

Although not an exhaustive list, potential issues are listed below:



Environmental Issues

- Waste and Pollution
- Green house gas emissions
- Water management
- Land use
- Climate change risks and opportunities
- Natural Capital



Social Issues

- Health and Safety
- Customer engagement
- Employee relations
- Workforce and diversity
- Community relations
- Data protection and privacy



Governance Issues

- Bribery and Corruption
- Compliance and reporting
- Board composition
- Executive compensation structure
- Donation and lobbying
- Corporate risk management

What is Socially Responsible Investing?

Socially Responsible Investing also known as sustainable, responsible, "green" or ethical investing, is any investment strategy which seeks to consider both financial return and social/environmental good to bring about social change.

United Nations Principles for Responsible Investment

The United Nations-supported Principles for Responsible Investment (UN PRI) is an international network of investors working together to put six principles into practice. Its goal is to understand the implications of sustainability for investors and support signatories incorporating these issues into their investment decision-making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system.

The Principles offer a menu of possible actions for incorporating environmental, social, and corporate governance issues into investment practices across asset classes. The Principles are designed to be compatible with the investment styles of large, diversified, institutional investors that operate within a traditional fiduciary framework.

The 6 principles that guide the UN PRI are as follows:

1. We will **incorporate ESG issues** into investment analysis and decision-making processes.
2. We will be **active owners** and incorporate ESG issues into our ownership policies and practices.
3. We will **seek appropriate disclosure** on ESG issues by the entities in which we invest.
4. We will **promote acceptance and implementation** of the Principles within the investment industry.
5. We will **work together** to enhance our effectiveness in implementing the Principles.
6. We will each **report on our activities and progress** towards implementing the Principles.

PH&N and Responsible Investing

PH & N believes that being an active, engaged, and responsible owner is empowering in enhancing the long-term, risk-adjusted performance of portfolios and is part of their fiduciary duty. Their approach to Responsible Investing is comprised of three pillars and specific actions are taken under each of these pillars to deliver on its duty of maximizing clients' investment returns without undue risk of loss.

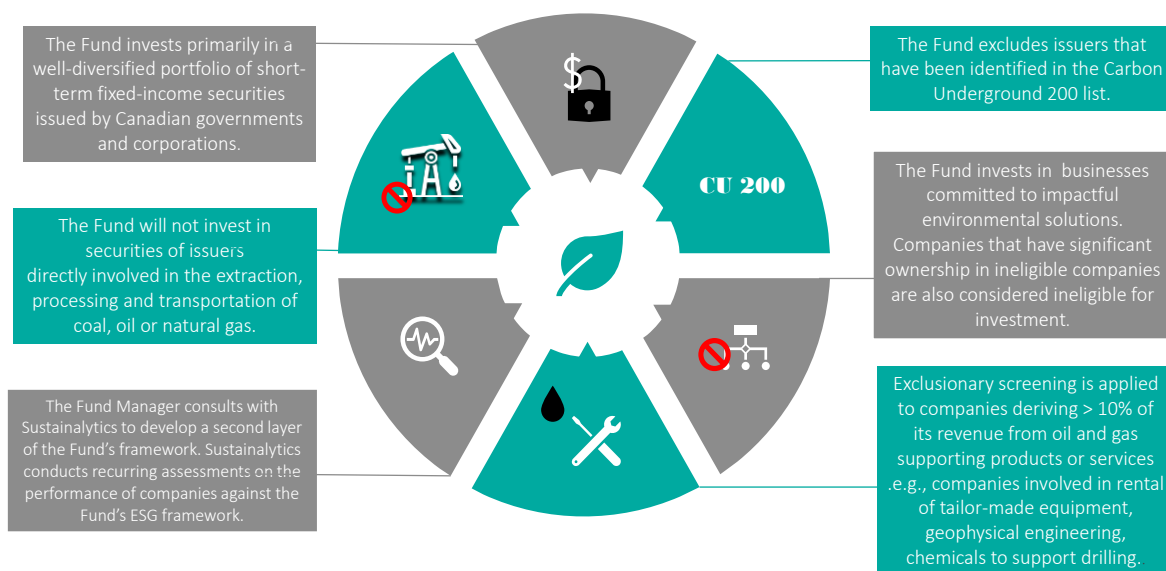
Integrating relevant ESG factors. First, by tailoring ESG integration tools and processes to their investment strategies. Second, by focusing on materiality, the attention is put towards those ESG factors that have the potential to impact the value of the investment. Third, transparency and accountability are key, by properly disclosing ESG risks and opportunities by the companies and countries in which we are invested in, it shows that these issuers are accountable in managing their material ESG risks and opportunities, leading to long-term sustainable performance. Fourth, through improvement and innovation, PH & N is always exploring new and better ways to integrate material ESG factors into the investment process.

Active Stewardship. PH & N conveys its views through thoughtful proxy voting, engagement with issuers and regulatory bodies, and collaboration with other like-minded investors. As stewards of their clients’ assets, they are committed to ensuring that the issuers in which they invest act in alignment with the long-term interests of their clients. This means conveying to issuers and regulatory bodies their views on topics such as board structure, executive compensation, gender diversity, and climate change. This is done by employing the following three methods. First, voting responsibly at the general meetings of their public equity holdings is an important way to act in the best interest of their clients. Second, their investment teams meet with the issuers in which they invest on an ongoing basis. Third, they participate in initiatives that will increase transparency, protect investors, and foster fair and efficient capital markets.

Client Driven Solutions and Reporting. Transparency and accountability are key to maintaining meaningful relationships with their clients and delivering on their fiduciary duty. Examples of such reporting: responsible investment reports, climate-related disclosures, proxy voting disclosures, reporting on their Responsible Investment commitments, RBC GAM responsible investment survey, and ESG insights.

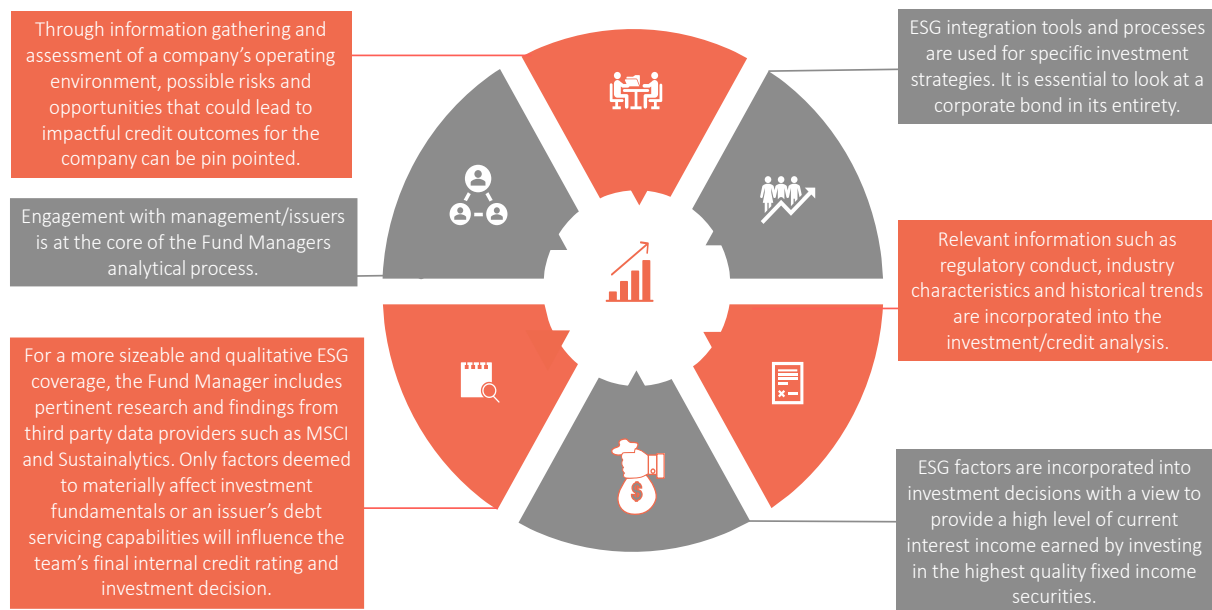
Fossil Fuel Free Short-term Bond Fund and ESG Integration

In addition to employing ESG integration, the Fossil Fuel Free Short-term Bond Fund does not invest in any corporate securities of entities directly involved in the “extraction, processing and transportation of coal, oil or natural gas”. The Fund employs a commonly used screen that excludes fossil fuel-related companies. Sustainalytics, an independent market leading ESG ratings firm, manages and provides the definition and screening methodology.

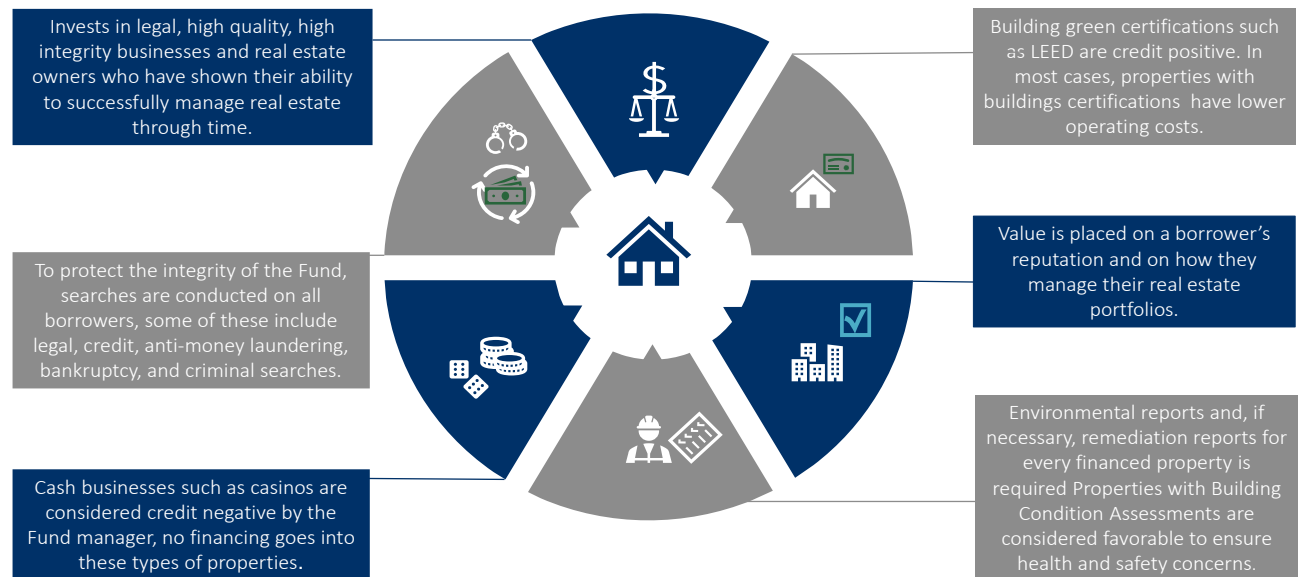


Money Market Fund, Government Focused Ultra-short Bond Fund, Short-term Bond Fund and ESG Integration.

All of MFA's pooled funds managed by PH&N employ ESG integration. In addition, like the Fossil Fuel Free Bond Fund, the Government Focused Ultra-short Bond Fund (GFUS BF) does not invest in fossil fuel related companies. The composition of allowable investments in the GFUS BF are primarily government and government related securities and have a maximum 25% exposure to Big 6 Canadian Banks.



Mortgage Fund and ESG Integration



Pooled High Interest Savings Accounts

MFA provides access to three Pooled High Interest Savings Accounts at extremely favorable rates for our Members. The current offerings are three of Canada's leading Big 6 banks, National Bank, CIBC, and Scotiabank. Most Members consider these funds to be fossil fuel free given that they are direct deposits into entities not "directly involved in the extraction, processing and transportation of coal, oil or natural gas". In addition, the Canadian Big 6 banks have significant commitments to helping create sustainable futures for all Canadians.

Please find the ESG disclosures provided by each of these institutions below:

National Bank of Canada

<https://www.nbinvestments.ca/content/dam/bni/publication/publication-report-esg-advances-2019.pdf>

Scotiabank:

<https://www.scotiabank.com/ca/en/about/responsibility-impact/esg-publications-policies.html>

CIBC:

<https://www.cibc.com/en/about-cibc/corporate-responsibility.html>