



## **Governance and Priorities Committee Report**

### **For the Meeting of September 3, 2015**

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**To:** Governance and Priorities Committee **Date:** August 28, 2015

**From:** Susanne Thompson, Director of Finance

**Subject:** Socially Responsible Investments and Pension Funds

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#### **RECOMMENDATION**

That Council receive this report for information.

#### **EXECUTIVE SUMMARY**

This report responds to Council's request for information regarding options to align City of Victoria investment portfolio with the socially responsible investing objective of the City's investment policy, particularly with regard to fossil fuel divestment.

The City is legislated by the Community Charter regarding types of allowable investments, which is incorporated into the City's Investment Policy along with other financial criteria such as preservation of capital (diversification and credit rating), liquidity, rate of return, and social responsibility. The City does not directly invest in fossil fuels. The majority of City of Victoria investments are held in BC Credit Unions and MFA Money Market investments. In both of these situations the City's funds are pooled and it is therefore not possible to determine where City funds are used. MFA investment policy is governed by their Board of Directors which consists of Regional District Directors selected from local government elected officials.

Through discussions with BC credit unions and brokers, staff have determined that currently in Canada options for fossil fuel free investments are limited to mutual funds and other equities, which the City is prohibited from investing in under the Community Charter.

City employees participate in the Municipal Pension Plan (MPP), however the City has no oversight over the investments of this organization. These investments are managed by BC Investment Management Corporation (BCIMC), which is legislated to use a strategy which results in the best financial interests of the plan members.

Due to restrictions imposed by legislated guidelines for investments, opportunities to divest from fossil fuels are currently limited. Options for Council's consideration include requesting that the MFA Board amend its investment policy; seeking amendments to the Community Charter to increase the options for municipal investments; seeking legislative change for pension plan investing; amending the City's policy to reduce diversification requirements; and directing staff to continue working with financial institutions

and brokers to identify investment opportunities that align with the City's policy objective of socially responsible investment.

## **PURPOSE**

The purpose of this report is to respond to Council's request to provide information regarding the option to align City of Victoria investment portfolio with objective number 5 of the City's investment policy (Socially Responsible Investing) particularly with regard to fossil fuel divestment.

## **BACKGROUND**

### **Council Direction**

At the July 16, 2015 Governance and Priorities Committee meeting, the following motion was passed:  
Refer this item to the next Strategic Plan Quarterly Update on August 20, 2015 and at that time request a report from staff on the implications of adding this Action Item to the strategic Plan:

Report on the current distribution of the City of Victoria's investment portfolio and pension funds, and consistency with objective 5 of the Investment Policy (Socially Responsible Investing), and in particular, to report on the percentage and dollar amount of investments currently held in fossil fuel-related companies, and provide advice on options for increasing Socially Responsible Investing.

### **Legislation**

Municipalities are bound by the Community Charter regulations for investing municipal funds:

#### **Section 183 Investment of Municipal Funds**

183 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.

### **Policy**

The City's investment policy (Appendix A) follows the Community Charter regulations and also addresses the following additional financial criteria: ○ Preservation of Capital (diversification and credit rating) ○ Liquidity ○ Rate of Return  
○ Socially Responsible Investing

A competitive process is used for each investment purchase which requires obtaining rates from a minimum of three sources. The City does not restrict who is able to submit rates in this process.

The City's policy restricts the amount of investments held with each issuer to meet the diversification criteria intended to safeguard the City assets by limiting the City's exposure to risk should any one issuer be exposed to increased risk.



Item 5 of the policy describes Socially Responsible Investing as selecting investments in a portfolio based on social and/or environmental criteria with the objective of excluding companies that have a negative social and/or environmental impact, and selecting companies that make positive contributions to society and/or the environment.

### Summary of Investments

In recent years the greatest yields have been found in BC Credit Unions, which by their nature being owned by their members, have social and community values incorporated in their business model.

Of the City's total investment portfolio at August 28, 2015 (Appendix B) 46% of investments were held in Credit Unions; 40% of funds were invested in MFA Money Market Fund; with the remaining 14% of investments held by Canadian Schedule I or II banks. Investments held in Credit Unions are near the maximum limit of total investment portfolio share as identified in the policy.

With the short-term investments (GIC and bond) at various financial institutions and MFA Money Market Fund, the City's funds are pooled and it is not possible to determine where the City's funds are used. From staff discussions with BC Credit Unions, there is not yet a short term investment instrument available that meets the allowable investment criteria as legislated by the Community Charter that would allow the City to direct where the investment funds are to be used.

## ISSUES & ANALYSIS

### 1. Limited Availability of Fossil Fuel Free Investments

The issue of Socially Responsible Investments has been developing for some time now resulting in a number of financial institutions and investment organizations that have developed mission statements and mandates in this area. Fossil Fuel divestment is however an emerging issue and the investment market has not yet developed instruments in this area that are compliant with legislation governing municipal investments.

### 2. MFA Investments

The investment policy and strategy for MFA is governed by the Board of Trustees who are Directors of Regional Districts of BC.

Table 1 displays the fossil fuel investments included in the MFA Money Market, as per the MFA Investment Funds Report at December 31, 2014 (Appendix C), which represents 13% of the total MFA Money Market Investment Portfolio.

Table 1. MFA Money Market Fossil Fuel Investments

MFA Money Market Fossil Fuel Investments		Market Value at December 31, 2014
From Schedule 1 of 2014 Pooled Investments Report (Appendix C)		
Oil and Gas:	Husky	36,490,655
Pipelines:	Enbridge Group	36,179,751
	GAZ Metro	6,993,903
	Interpipeline	32,085,922
	TransCanada Pipeline	8,922,122
Power Generation:	Nova Scotia Power	35,901,711
		156,574,064
Total Money Market Investment Portfolio		1,236,105,448
% of Money Market invested in Fossil Fuel		13%

Staff at MFA have advised that there will be a meeting in September 2015 of the Advisory Committee for pooled funds to discuss the pros and cons of fossil fuel divestment.

### **3. Municipal Pension Plan**

Municipal employee pension is held by the Municipal Pension Plan (MPP), whose investments are managed by the BC Investment Management Corp (BCIMC). The Board of Trustees for the MPP set the investment policy (Appendix D) and framework within which BCIMC operates. The Pension Benefits Standards Act sets out the responsibility of the MPP and BCIMC to use an investment strategy which results in the best financial interests of plan members.

## **OPTIONS & IMPACTS**

### **1. Work with Investment Service Providers Under Existing Legislation**

Continue to work with brokers and financial institutions to identify opportunities for socially responsible investment. The interest in this area is growing and although no current opportunities exist, providers are looking at ways for developing options.

### **2. Legislative Change**

- a. Seek Community Charter legislation change to allow for investments in equities and mutual funds as there are currently SRI options available in these financial instruments. These instruments have a greater risk exposure, therefore this option has the potential to negatively impact the municipalities' ability to safeguard assets.
- b. Request that the MFA Board amend its investment policy. This may impact the rate of return on the pooled investment funds.
- c. Request that the Province amend BCIMC legislation for pension plan investing. This may impact the rate of return on the pooled investment funds.

### **3. City Policy Change**

Change the policy to focus on investments in credit unions as they generally have social and community values incorporated in their business models.

- a. Invest only in credit unions. The policy would require the removal of both the per-issuer restriction and the limit of total portfolio share held in credit unions. The impact would be an increase in risk resulting from the reduction of diversification controls in place to safeguard the City's assets.
- b. Increase the portfolio proportion for credit unions, but leave the per issuer limit. This puts more of the portfolio in one sector of investment service provider, reducing the diversification controls and resulting in increased risk, however it would retain the diversification among individual issuers in that sector and therefore is less risky than option



### *2015 – 2018 Strategic Plan*

The request for information by Council is aligned with the City's Strategic Plan (Objective #12) to Plan for Emergencies Including Climate Change Short and Long-Term.

### *Impacts to 2015 – 2018 Financial Plan*

A policy change may impact the City's investment income earned, and if diversification is reduced, the risk exposure to the City is increased.

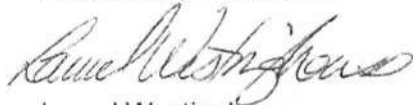
### *Official Community Plan Consistency Statement*

No impact to Official Community Plan.

## **CONCLUSIONS**

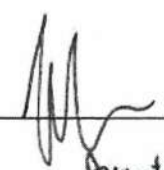
Under current legislation there are limited options for the City to divest from fossil fuels since the City does not directly control the pooled investment opportunities available. The brokers and financial institutions that the City deals with are aware of the City's policy and continue to look for opportunities that fit within current legislation and policy.

Respectfully submitted,

  
Laurel Westinghouse  
Manager – Accounting

  
Susanne Thompson  
Director of Finance

Report accepted and recommended by the City Manager: \_\_\_\_\_

Date:  \_\_\_\_\_  
August 27, 2015

### **List of Attachments (if relevant)**

- Appendix A - City of Victoria Investment Policy
- Appendix B - City of Victoria Investment Summary at August 28, 2015
- Appendix C - MFA Investment Funds Report 2014
- Appendix D - MPP Statement of Investment Policies and Procedures