



Committee of the Whole Report

For the Meeting of February 25, 2016

To: Committee of the Whole
From: Susanne Thompson, Director of Finance
Subject: Fossil Fuel Divestment

Date: February 18, 2016

RECOMMENDATION

That Council receive this report for information.

EXECUTIVE SUMMARY

The purpose of this report is to provide information about fossil fuel free investment opportunities available within legislated requirements as directed by Council.

Based on the information received, current fossil fuel free investments range from equity investments to fixed income securities from Canadian and foreign organizations; however, none meet municipal legislative requirements.

Within legislative requirements and emerging on the market are "Green Bonds", which, although not classified as fossil fuel free, are designed to fund projects that provide renewable and low carbon energy and related infrastructure (hydroelectric, wind, solar, geothermal), energy efficiency and management with a focus on green buildings, and green infrastructure and sustainable land use management.

In addition to reaching out to the City's investment providers, staff also attended a divestment workshop organized by Island Savings to learn more. The focus of the session was to outline divestment options that investment fund managers could implement. The presenters at this session indicated that the interest in socially responsible investing is growing and so are the investment opportunities.

As a result of the City's outreach, investment providers understand that Council has expressed interest in exploring divestment opportunities and staff will proactively continue to work with our brokers to monitor and take advantage of the emerging options. The City's investment policy already allows investment in green bonds and strikes a balance between preservation of capital (diversification and credit worthiness of issuer), liquidity, rate of return and socially responsible investing and no changes are recommended at this time.

PURPOSE

The purpose of this report is to provide information about fossil fuel free investment opportunities available within legislated requirements as requested by Council.

BACKGROUND

At the September 3, 2015 Governance and Priorities Committee meeting, the following motion was passed:

That Council direct staff to write the institutions where the City currently has short term investments to inquire about options for fossil fuel free investments that currently exist or may exist in the near future, and that staff report back with the information received and what action they intend to take, or any recommendations that Council might take to amend its investment policy, based on this information.

Municipalities are bound by section 183 of the Community Charter for investing municipal funds as follows:

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 investments 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 savings institutions, or non-equity or membership shares of a credit union;
- (h) other investments specifically authorized under this or another Act.

In addition to adhering to statutory requirements, the City's Investment Policy (Appendix A) further guides investments by outlining a number of objectives:

- a. Preservation of capital to ensure the safety of the principal investment
- b. Liquidity to meet cash flow requirements
- c. Rate of return to be maximized without compromising the other objectives
- d. Socially Responsible Investing where possible in adherence to statutory requirements

ISSUES & ANALYSIS

Summary of Responses

Staff requested information from the brokers and financial institutions where the City has investment activity to determine the current and future availability of fossil fuel free investments that meet the requirements of the Community Charter and the City's investment policy.

The fossil fuel free investments offered through these brokers and institutions range from equity investments to fixed income securities from Canadian and foreign organizations, which do not meet legislative requirements. Some brokers suggested that the City can indirectly limit fossil fuel exposure by investing in Canadian banks, credit unions, provinces, municipalities, and the Government of Canada. The challenge however, is since the funds are pooled, the City cannot control how the funds are used. For example, investments in banks and credit unions could be directed to fossil fuel or related companies such as local car dealerships through investments or loans. Staff also requested access to the individual investment and lending policies of credit

unions to provide insight into which industries these institutions conduct business. The response received was that these documents are not publically available.

While not classified as fossil fuel free, within the restrictions of current legislative requirements, green bonds were identified as an option to invest in projects with positive impact on the environment and also promote the Socially Responsible Investment objective of the City's Investment Policy.

To date, investment service providers identified only one green bond available to the City within statutory and policy requirements. TD Bank of Canada issued "TD Green Bonds" are designed to fund projects, that provide renewable and low carbon energy and related infrastructure (hydroelectric, wind, solar, geothermal), energy efficiency and management with a focus on green buildings, and green infrastructure and sustainable land use management (see Appendix B). Per TD's 2014 Corporate Responsibility Report (Appendix C), green bond proceeds were allocated to 5% hydroelectric, 17% solar power, 2% wind energy, 5% biomass, and 71% green buildings. This does not mean however, that the City can control which organizations receive green bond proceeds and it is difficult to determine whether fossil fuel companies, or those related to the fossil fuel industry, are recipients.

City Policy Limitations

One decision factor in determining which investments to make is the rate of return. The initial offering of the TD Green Bond was at a slightly lower rate than GICs at the time (1.7% for a 3-year term compared to 2% for a 1-year term) and the secondary market offers rates lower than what is currently offered for GICs (0.80% compared to 1.64%).

Another parameter is diversification. This is an internal control measure to address risk exposure in the investment portfolio in order to safeguard the City's assets. Until the market develops further to provide a variety of options, the diversification parameter may limit how much of the investment portfolio can be placed in green bonds. However, the current 10% limit equals approximately \$15 million per institution and in staff's opinion provides sufficient room for a variety of investment opportunities while safeguarding the investments through diversification.

OPTIONS & IMPACTS

Option 1: Do not amend the City's Investment Policy at this time (recommended)

The City's investment policy already allows investment in green bonds and strikes a balance between preservation of capital (diversification and credit worthiness of issuer), liquidity, rate of return and socially responsible investing.

Option 2: Amend the City's Investment Policy by Increasing the Per Institution Limit

The policy limit is 10% per issuing institution, which currently equals approximately \$15 million. Increasing this limit will also increase the exposure to risk since more funds could be invested with each institution.

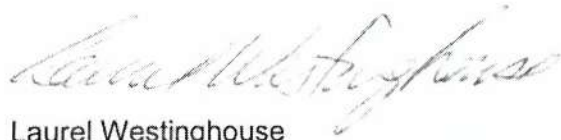
CONCLUSION

Fossil fuel free investments products that meet legislative requirements are currently not available. Green bonds are an emerging opportunity and staff will continue to work with brokers and financial institutions to identify future availability of suitable fossil fuel free investments as the market develops.

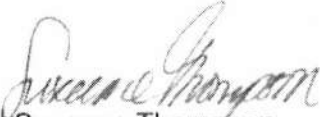
Respectfully submitted,



Layla Monk
Accountant – Financial Reporting



Laurel Westinghouse
Manager – Accounting



Susanne Thompson
Director of Finance

Report accepted and recommended by the City Manager: _____

Date: _____

List of Attachments:

APPENDIX A – City of Victoria Investment Policy

APPENDIX B – TD Green Bond FAQs

APPENDIX C – TD Corporate Responsibility Report 2014