



ADMINISTRATIVE REPORT

Report Date: April 5, 2016
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Meeting Date: May 3, 2016

TO: Vancouver City Council
FROM: General Manager, Finance, Risk and Business Planning
SUBJECT: Responsible Investment Screening Process

RECOMMENDATION

THAT Council adopt the responsible investment screening process included in Appendices 1 and 2.

REPORT SUMMARY

The City of Vancouver has the opportunity to gain a leadership role in the area of responsible investing by adopting a screening process for the City's investment portfolio. Commitments to sustainable and ethical practices have been developed in the financial services and asset management sectors. The City has an ethical purchasing policy that ensures the City does business with companies who respect the environment, human and civil rights, and ensures that purchasing activities are aligned with the City's mission statement and values.

The recommended screening process for investing the City's available cash uses a typical structure of environmental, social, and governance ("ESG") factors within a responsible investing perspective. Adopting this process is consistent with the City's commitment to environmental goals, social responsibility, and economic development across our communities.

With the recent intensified focus on climate change through the Paris Agreement at the 21st Conference of the Parties ("COP21"), the adoption of the City's Renewable City Strategy which proposes 100% renewable energy by 2050, and the adoption of the City's Greenest City action plan which proposes to eliminate the dependence on fossil fuels, there is renewed emphasis on reducing greenhouse gas emissions. To align with the Renewable City Strategy and the Greenest City action plan, the screening process will reflect the emphasis on reduced greenhouse gas emissions.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Council on October 9, 2013 approved the following motion in regards to Responsible Investing by the City of Vancouver:

That the City develop and report back over the next twelve months, a positive screening process for investing in Canadian banks and credit unions.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager and General Manager of Finance, Risk and Business Planning support the recommendations in this document.

REPORT

Background/Context

In 2013 Council requested that staff report back on how the City's cash investments and pension plan align with the City's mission, values and the sustainable and ethical considerations outlined in the City's procurement policy. The procurement policy ensures the City does business with companies who respect the environment, human and civil rights, and ensures that purchasing activities are aligned with the City's mission statement and values. At the October 9, 2013 council meeting, staff provided Council with a report which addressed these questions including some background information on the concept of responsible investing. At that meeting, Council directed staff to develop a responsible investing screening process to be reviewed and approved by Council.

In 1996, the City of Vancouver adopted its mission "to create a great city of communities that cares about our people, our environment, and our opportunities to live, work, and prosper". The City has continued its commitment to environmental goals, social responsibility, and economic development across our communities and responsible investing aligns directly to this mission.

Financial services and asset management sectors have committed to sustainable and ethical practices including responsible investing. Responsible investing growth can be attributed to a number of programmes, including the United Nations Principles for Responsible Investment ("UNPRI"), the United Nations Environment Programme Finance Initiative ("UNEP FI"), and the United Nations Global Compact initiative.

The UNPRI recognizes that ESG factors can affect the performance of investment portfolios and seeks to better align investors with broader objectives of society.

The UNEP FI is a global partnership between the United Nations Programme and the financial services sector. This partnership arose from recognizing the links between finance and ESG challenges, and financial institutions' role for a more sustainable world.

The United Nations Global Compact initiative encourages the business sector to partner with the United Nations and act responsibly by aligning their business practices to human rights, labour, environment, and anti-corruption principles.

In December 2015 at COP21 in Paris, 195 countries, including Canada, adopted the Paris Agreement under the United Nations Framework Convention on Climate Change. This Paris Agreement, due to enter into force in 2020, sets out a global action plan to put the world on track to avoid dangerous climate change by limiting global warming to below 2-degrees Celsius.

The adoption of the Renewable City Strategy, which proposes 100% renewable energy by 2050, and the adoption of the Greenest City action plan, which proposes to eliminate the dependence on fossil fuels, includes an emphasis on reducing greenhouse gas emissions. To align with the Renewable City Strategy and the Greenest City action plan, the screening process will reflect this emphasis on reduced greenhouse gas emissions.

The City of Vancouver has the opportunity to gain a leadership role in the area of responsible investing by adopting a screening process for the City's investment portfolio.

Strategic Analysis

Investment Program

The City of Vancouver invests in debt securities issued by Governments (federal, provincial, regional, and municipal), by Canadian banks, and by British Columbia credit unions. The City does not invest in equity securities.

Section 201 of the Vancouver Charter outlines the investment options for the City. The City's Investment Policy is based on these authorities and includes a conservative approach with three main financial objectives.

1. Safety of investment
2. Liquidity
3. Rate of return

The City has three major classes of investments.

1. Canadian Government (federal, provincial, regional and municipal) bonds and treasury bills
2. Canadian bank debt products (senior deposit notes, bankers acceptances, bank deposit notes and term deposits)
3. Canadian credit union term deposits

City of Vancouver Investments at December 31, 2015		
Category	Share	Par Value (\$ Million)
Canadian government bonds	45%	\$800
Canadian Bank notes / deposits	40%	\$693
Canadian credit union deposits	15%	\$261
Total Investments		\$1,754

The general practice for responsible investing excludes sovereign government investments from the screening process. The recommended screening process for City investments focuses on investments in bank and credit union debt instruments which accounted for 55% of the City's investment portfolio as of the end of 2015.

Investment Screening Process

The screening process (Appendix 1 & 2) for investing in Canadian banks and credit unions uses typical ESG factors to provide a method for evaluating City investments in Canadian banks and credit unions within a responsible investing perspective.

The ESG criteria included in the screening process were chosen based on a review of the following sources and their applicability to the City's investment environment.

1. UN PRI: Understanding the Impact of your Investments
2. UN PRI: Principles for Responsible Investment
3. CDC Group: CDC Toolkit on ESG for fund managers
4. Responsible Investment Association of Canada: Canadian Socially Responsible Investment Review
5. Vancity Investment Management: Socially Responsible Investing

The screening process is intended to be used as a positive screen for including Canadian banks and credit unions on the City list of acceptable investments.

Implications/Related Issues/Risk (if applicable)

Financial

There are no financial implications.

Environmental

Although not directly measureable, the inclusion of a screening process for City investments which considers ESG issues supports the direction for positive long-term impact on the environment.

CONCLUSION

The City of Vancouver has the opportunity to gain leadership in the area of responsible investing by adopting a screening process which considers environmental, social and governance issues, for the City's investment portfolio.

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General

The City of Vancouver investment policy allows investments in the following categories:

1. Canadian government bonds and treasury bills
2. Canadian bank senior deposit notes, bankers acceptances, bank deposit notes and bonds
3. Canadian credit union term deposits

Applicable Investments

The general practice for responsible investing typically excludes sovereign government investments from the screening process likely due to the differences between public and private sector organizations and the difficulty of getting reliable data from government entities. The suggested screening process therefore only includes the investments with Canadian banks and credit unions.

Time Frame

Annual screening process for Canadian banks and credit unions that are on the City's list of approved investment choices.

Data Gathering

Participation by applicable banks and credit unions to respond to the City's screening questionnaire is on a volunteer basis. The completed questionnaires will be evaluated and scored by City staff.

Screening Results

The applicable organizations will be expected to score a minimum of 70% on the questionnaire.

Organizations that fail to pass the questionnaire will:

1. Be put on a one year notice if the organization is currently an approved investment choice; and
2. Be excluded from consideration for addition to the City's list of approved investment choice if currently not an approved investment choice.

Screening Questions

The investment screening questions are included in Appendix 2 and include questions related to environmental, social and governance issues.

**Appendix 2
City of Vancouver
Investment Screening Questionnaire**

Scored by City staff
Not visible to respondent

	Yes / No	Document Web Link	Comments / Explanations	Score	Weight	Weighted Score
				0.00	40%	0.000
Environment						
Is the company a signatory to either the UNPRI ⁽¹⁾ or UNEP FI ⁽²⁾ or an equivalent organization?				0		
Does the company have an environmental policy?				0		
Does the company have specific environmental goals?				0		
Does the company have goals for the reduction of greenhouse gas emissions?				0		
Does the company have goals for the reduction of paper usage?				0		
Does the company have a waste recycling program?				0		
Does the company monitor its use of energy?				0		
Does the company currently invest directly or indirectly in fossil fuels?				0		
Does the company report annually on environmental performance?				0		
Does the company offer investments that include socially responsible investing criteria incorporating environmental, social, and governance factors?				0		
Has the company issued green bonds?				0		
Does the company have plans to issue green bonds within the next 12 months?				0		
Social						
Does the company donate to charitable organizations or causes?				0		
Are employees encouraged to volunteer with non-profit organizations?				0		
Does the company have an ethical procurement policy?				0		
Does the company have a policy to protect employees from human rights abuses?				0		
Does the company have a policy on gender and ethnic diversity?				0		
How many and what percentage of the Board of Directors are women or visible minorities?				0		
Does the company have a health and safety policy?				0		
Does the company have policies in place for overtime, maternity leave, sick leave and disability?				0		
Does the company contribute to employee health plans?				0		
Does the company contribute to employee retirement plans?				0		
Does the company provide support for education initiatives in the community?				0		
Does the company provide support for employee education?				0		
Governance						
How many and what percentage of Directors of the Board of Directors are independent?				0		
Are the roles of the Chief Executive Officer and the Board Chair separate?				0		
Does the company have a code of conduct policy?				0		
Does the company have an ethics policy?				0		
Does the code of conduct / ethics policy apply to all employees and the Board of Directors?				0		
Has a regulatory body (FICOM or OSFI) taken any disciplinary action against the company in the last ten years?				0		
Does the company have an internal audit function?				0		
Does the company have a risk management system which includes environmental, social, and governance factors?				0		

Notes:

- (1) United Nations-supported Principles for Responsible Investment
- (2) United Nations Environment Programme Finance Initiative
- (3) Environmental, social, and corporate governance questions based on:
 - UNPRI: Understanding the impact of your investments
 - UNPRI: Principles for Responsible Investment
 - CDC Group: CDC Toolkit on ESG for fund managers
 - Responsible Investment Association of Canada: Canadian Socially Responsible Investment Review
 - VanCity Investment Management: Socially Responsible Investing

100%	0.000
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Required minimum: 0.700