

DATE OF MEETING    OCTOBER 20, 2021

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SUBJECT              **FOSSIL FUEL DIVESTMENT AND RESPONSIBLE INVESTING**

## **OVERVIEW**

### **Purpose of Report:**

To provide the Finance and Audit Committee with information on the City's existing Investment Policy and to provide fossil fuel free investment opportunities available within legislated requirements as directed by Council.

## **BACKGROUND**

At the 2021-AUG-30 Regular Council Meeting, the following motion was passed:

*That staff prepare a report on an investment policy and strategy that can achieve the following considerations:*

- 1) Divest from fossil fuel companies, by supporting fossil fuel free investment portfolios, such as the MFA Fossil Fuel Free Short-Term Bond Fund and build on the examples of fossil fuel free investment strategies from other municipalities such as Vancouver and Victoria;*
- 2) Select investments that make positive contributions to Environmental, Social and Governance (ESG) factors; and*
- 3) Align investment with the Sec.183 of the Community Charter, and best practices for investing public funds.*
- 4) Provide strategic options with associated budgetary considerations that include options for the immediate divestment of all funds that include holdings involved in the production and distribution of fossil fuels and options that take a more graduated approach.*

The existing City of Nanaimo Investment Policy #COU-197 (**Attachment B**) outlines the performance objectives of the City's investment portfolio while meeting the statutory requirements of the *Community Charter*. Section 183 of the *Community Charter* outlines the areas that a municipality can invest excess funds in, and are as follows:

- Securities of the Municipal Finance Authority (MFA)
- MFA pooled investment funds
- Securities of Canada or a province, or securities guaranteed for principal and interest by Canada or a province
- Securities of a municipality, regional district or greater board
- Investments guaranteed by a chartered bank
- Deposits in a savings institution, or non-equity or membership shares of a credit union

Investments in shares, warrants, convertible debt securities, derivatives, swaps, options or futures are prohibited.

The three main objectives of the City's investment portfolio, in order of priority are:

- **Quality (safety)**
  - All securities in the portfolio must have an average quality rating of at least AA
  - Each security purchased must have a quality rating of at least A
- **Liquidity**
  - The City must maintain adequate liquid assets to meet ongoing expenses
  - Each security in the portfolio must have a maturity of ten years or less
  - The total investment portfolio must have an average term to maturity of no greater than three years
- **Return**
  - Maximizing the return on the investment portfolio

Accounting Services typically goes out for investment quotes twice per year, and each quote received is evaluated based on the quality, liquidity and return objectives listed above. When selecting the successful candidates, effort is also made to diversify investment purchases across numerous financial institutions where possible. By diversifying the investment portfolio, this internal control measure addresses risk exposure in the portfolio in order to safeguard the City's assets.

Investment income earned is allocated monthly to both general revenue and statutory reserve funds. Investment income allocated to the general reserve fund contributes directly to reducing property taxes. The allocation of investment income to statutory reserves funds helps to build up the reserve balances over time, which is then used to fund future projects. Investment income for both operations and statutory reserves is budgeted annually. |

## **DISCUSSION**

Socially responsible investing (SRI) 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. The City's current investment policy does not include a responsible investment strategy. A summary of the City's current investment holdings can be found in **Attachment A**.

Historically, the City of Nanaimo has not directly targeted any fossil fuel free investments. However, it is important to note that the City does not have any direct investment exposure to the fossil fuel sector. The Community Charter prohibits equity investments through chartered banks as these investments are not guaranteed. The City's existing high interest savings account may be considered fossil fuel free as it does not have direct investment in entities "engaged primarily in extracting, processing or transporting coal, oil or natural gas."

In efforts to address global climate change, other short-term investment products have become available as a SRI option.

Staff have requested information from brokers and financial institutions where the City has investment activity to determine the current availability of fossil fuel free investments that meet the requirements of the *Community Charter* and the City's Investment Policy. There was very little response to this request, however the following fossil fuel free investment opportunities are available:

#### Fossil Fuel Free Short-Term Bond Fund

The Municipal Finance Authority of British Columbia (MFABC) offers a Fossil Fuel Free Short-Term Bond Fund as shown in **Attachment C**. This fund is screened to remove any investments in coal, oil, and natural gas processing, extraction, and transportation activities. This pooled investment fund does not have any set maturity dates, but the recommended duration is at least two and a half years. Currently, the yield to maturity on the bond is 0.82%, and 10 local governments are participating in this fund.

#### Pooled High Interest Savings Accounts (HISA)

The MFABC offers access to a Pooled High Interest Savings Account (PHISA) program, which includes three available high interest savings accounts that are considered fossil fuel free:

- CIBA PHISA – current yield is 0.80%
- National Bank PHISA – current yield is 0.72%
- Scotiabank HISA – current yield is 0.75%

#### Green/Sustainable Bank Bonds

Green/Sustainable bonds focus on investments in projects that contribute to a low carbon economy. This would include hydroelectricity, wind, solar and geothermal infrastructure, green buildings, sustainable agriculture and forestry. Green bonds are in low supply, and the yields are 0.15% - 0.20% lower than conventional bonds. Staff made multiple attempts to get rates for green bonds from brokers but as the rates are low they were not quoted. Another challenge with green bonds is that bond yields are only guaranteed if held until maturity. As many green bond offerings are held in pooled funds, there is no assurance that the bonds would be held to maturity.

Interest rates have declined significantly throughout the COVID-19 pandemic, which has put pressure on meeting budgeted investment income targets. As shown in **Attachment A**, the existing City of Nanaimo investment portfolio includes investments purchased in 2018 and 2019 with yields ranging between 2.55% and 3.36%. In 2020, the City was able to secure interest rate yields of 1.10% to 1.51%. In late August 2021, staff purchased investments with interest rate yields of 1.30% to 1.81%.

Interest rates on SRI investments that meet the requirements of both the *Community Charter* and the City's Investment Policy are much lower than rates on non-SRIs. As shown in section 3 of **Attachment A**, if staff had invested 25 million dollars in the MFA Fossil Fuel Free bond in August,

the estimated annual earnings would be \$205,000. The annual interest earned on investments purchased in August will be \$380,500, which is significantly higher.

## **OPTIONS**

### **Option 1: Update the current Investment Policy to include the following:**

#### **Responsible Investing**

Where possible, socially responsible investing (SRI) and green investing criteria will be applied to the selection of investments. The City's investment program will consider SRI products that adhere to statutory requirements and meet the objectives laid out in this policy. Organizations that adopt a socially responsible investment platform are preferred. Where SRI and green investments are within 5% of maximum available yields, SRI or green facilities will be exercised.

#### **Advantages:**

- This will enable the City to incorporate socially responsible criteria into its investment policy
- The City can take advantage of higher return investments which will in turn relieve pressure on general taxation
- This wording is used in the Capital Regional District's Investment Policy
- The Cities of Vancouver, Victoria, Campbell River and the Peace River Regional District have similar wording in their Investment Policies however there are no requirements around maximum yields (**Attachment D**)

#### **Disadvantages:**

- There is no guarantee that the City's investment portfolio will include SRIs.

### **Option 2: Update the current Investment Policy to include 10% of the City's portfolio be in socially responsible investments.**

The Investment Policy can be reviewed every 3 years to re-evaluate this percentage. As more SRI opportunities become available, the City may want to revise this percentage.

#### **Advantages:**

- A set portion of the investment portfolio will always be dedicated to SRIs.

#### **Disadvantages:**

- Non-SRI identified investments with a higher return will likely need to be given up to obtain a set percentage of SRI products in the portfolio.

**Option 3: Update the current Investment Policy to only allow investment in socially responsible investments.**

The Investment Policy can be updated to include allowing only investment in SRIs that will align with Council's values. Under this option, the sustainable aspect of investment purchases would be attained but maximizing the return on investment could be compromised.

**Advantages:**

- The entire investment portfolio will be entirely dedicated to SRI purchases.

**Disadvantages:**

- In the current investment climate, non-SRIs with a higher return will be given up and this will lead to reduced investment income.
- Investment income is used to reduce revenue needed from property taxation as well as project funding through reserves. With a decrease in investment income there will be increased pressure on property tax increases to make up the shortfall.
- A full socially responsible investment portfolio would not be attainable until August 2024. This is when the last of the current investments in the portfolio matures.

**CONCLUSION**

Socially responsible investment products that meet legislative requirements are currently not plentiful and their return on investment is lower than other available investment products.

Changing the City of Nanaimo investment policy to include socially responsible investment products in the portfolio has the potential to decrease portfolio earnings. Decreased investment earnings will put pressure on both taxation and future project funding.

**SUMMARY POINTS**

- The City's existing Investment Policy objectives in order of priority are quality, liquidity and return. Historically, the City has not directly targeted socially responsible investments
- Socially responsible investment products that meet legislative requirements have become available but tend to have lower rates of return
- Investment income contributes to reducing property taxes and also increases statutory reserve balances to fund future projects

## **ATTACHMENTS**

Attachment A: City of Nanaimo Investment Portfolio Analysis  
Attachment B: City of Nanaimo Investment Policy  
Attachment C: MFABC FFF Investments  
Attachment D: Comparable Investment Policy Excerpts |

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