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19-785

REPORT TO THE GOVERNANCE AND FINANCE COMMITTEE MEETING OF WEDNESDAY OCTOBER 02, 2019

SUBJECT **Socially Responsible Investment Options**

ISSUE

To provide a summary of socially responsible investment (SRI) options available to the Capital Regional District (CRD).

BACKGROUND

At the May 8, 2019, Board meeting, staff were directed to report back on socially responsible investment options available to the CRD. During this meeting the Municipal Finance Authority (MFA) reported that, in the near term, it would not pursue a pooled SRI fund due to low subscribership commitments.

Per Section 183 of the *Community Charter*, beyond MFA as an option, the CRD can invest in securities where principal and interest are guaranteed by Canada or by a Province, securities of a municipality, regional district or greater board, investments guaranteed by a chartered bank and deposits in savings in a credit union. The CRD is not able to invest in securities issued by the private sector directly. This means the CRD is unable to hold shares or debt of for-profit organizations.

Investment decisions are guided through the CRD Investment Policy (IP) on the basis of key objectives. Listed in order of priority, the objectives are safety of principal, liquidity, responsible investing and return on investment.

Also guided by the CRD IP, cash reserve investments are diversified by security type and institution, taking into consideration the impact on return on investment. The diversification mechanism restricts the maximum investment in any one institution to 20% of the annual portfolio and 10% invested in any individual security issue.

In 2017 the Board approved amendments to the IP to include socially responsible investing (SRI). The revised policy prioritized SRI ahead of other investments if returns were within 5% of maximum available yields. To date, this has not resulted in any specific investment externally. This is due to limited offerings in the market that meet legislative restrictions and meet the CRD IP diversification criteria. Although this is changing as SRI options develop, there continue to be only a small range of investment options externally that achieve SRI investment objectives.

ALTERNATIVES

Alternative 1

That the Governance and Finance Committee recommend to the Capital Regional District Board:
That the Socially Responsible Investment Options report be received for information.

Alternative 2

That this report be referred back to staff for additional information.

DISCUSSION

According to RBC Global Asset Management, SRI is an investment strategy that “incorporates screening based on environmental, social, and governance (ESG) criteria into overall investment processes.”¹ Investments into green initiatives fall under the environmental category of SRI, incorporating “the impact of a company’s activities on the climate and the environment, including greenhouse gas emissions and the risks and opportunities presented by climate change, energy efficiency, pollution, water and waste management, site rehabilitation, biodiversity and habitat protection.”¹

A survey of existing SRI investment options available for the CRD is summarized in Table 1. The survey considered available SRI investments as well as internal opportunities to impact social and environmental outcomes through investment. The survey of our investment advisor group included a canvass of the investment market within legislative constraints.

Table 1: SRI Investment Options

Option	Category	Description	Suitability
1	Funding internal CRD SRI projects (3+ Years)	Internal CRD projects can be tailored to meet specific climate action outcomes and social objectives. The return on investment can be controlled and does not incur additional transaction fees.	The CRD currently engages in a variety of internal projects with a proactive social and environmental lens. (Internally funded vs debt funded)
2	Impact GICs with Credit Unions (2–5 year terms)	Credit Unions offering socially responsible GICs (restricted use of GIC funds) This program is currently under development, and expected to launch in the coming years.	This investment horizon matches liquidity requirements and meets objectives. This option would require development of an administrative framework to assess and monitor outcomes.
3	Green Bonds (3+ Years)	Fixed income securities issued by a corporation, financial institution or government. Proceeds earmarked for use in environmentally sustainable projects.	Green bonds are fixed, long term investments, only funds from certain reserves where the future date the funds will be needed can be predicted could be invested (Per IP). Examples of these reserves are the Landfill Asset Retirement Obligation Reserve, some capital reserves. Additionally, the amount placed in green bonds will be limited to mitigate erosion of the overall portfolio returns. This product can yield up to 1% lower than comparable long term GIC’s in some cases.

¹ <https://www.rbcwealthmanagement.com/ca/en/research-insights/a-holistic-approach-to-responsible-investment/detail/>

Table 1 continued

Option	Category	Description	Suitability
4	Indigenous Financial Institutions (1-5 Years)	Deposit products with indigenous-led banks and trusts.	Currently there are two Indigenous-led financial institutions available to place deposits with. Neither institution carries the required credit rating under section 6.1 of the IP. In addition, neither institution is covered by CDIC. Section 6.7 of the IP does allow for an exception to these policy constraints with a recommendation from the CFO to the Committee. (note: still subject to diversification principle of 20%)
5	Principal Protected Notes (3-5 Years)	A product issued by a bank that guarantees the return of principal, at a minimum assuming held to maturity, and provides exposure to an underlying ESG equity index.	The return from PPNs is split into a guaranteed return component and a performance-based return component. The guaranteed component is often minimal (up to 1% per annum) interest and principal only. The variable component is a variable return which depends on the return of the underlying index being tracked. If the index performance is not positive, the 0–1% guaranteed annual return can be lower than inflation, resulting in an erosion of capital over time.

Staff will continue to pursue options 1 to 3 as current placements mature and based on alignment with the IP.

CONCLUSION

The current investment product development trend in the market is to deliver more SRI options for consideration. The current IP aligns with those SRI options currently available. Staff will continue to pursue and incorporate SRI's into the portfolio wherever suitable.

RECOMMENDATION

That the Governance and Finance Committee recommend to the Capital Regional District Board:
That the Socially Responsible Investment Options report be received for information.

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Appendix A: Capital Regional District Investment Policy, May 10, 2017