

**REPORT TO FINANCE COMMITTEE
MEETING OF WEDNESDAY, MARCH 02, 2022**

SUBJECT **Socially and Environmentally Responsible Investing**

ISSUE SUMMARY

To amend Capital Regional District (CRD) Investment Policy (IP) and report on alignment of investments to socially and environmentally responsible investment objectives.

BACKGROUND

At the January 5, 2022, Finance Committee meeting, the Committee directed staff to “report back with options to move investments further into alignment with the CRD’s stated social and environmental values, including the declaration of a climate emergency, and that staff be directed to develop a draft policy regarding socially and environmentally responsible investing that could be considered by member local governments”.

The current CRD IP includes socially responsible investing (SRI) as one of the four principles guiding investment decisions which were driven by amendments in 2017 and 2021. The introduction of SRI as a priority added to the existing pillars of principle protection, liquidity and rate of return. The 2017 policy permitted SRI and green branded investment products as alternatives only where returns were within 5% of maximum available yields. This amendment recognized the balance between competitive market yields and social responsibility. Although designed to encourage these types of placements, no investments met the criteria.

In May 2019, staff were directed to report back on SRI options available to the CRD. Subsequently, impact guaranteed investment certificates (GICs), green bonds, principle protected notes, etc. were evaluated and reported to the Finance and Governance Committee in October 2019 (Appendix A). Additionally, the Municipal Finance Authority (MFA) was actively pursuing an SRI pooled fund, which was deemed the most viable option. However, due to low demand from local governments, the product was cancelled.

In early 2021, the CRD Board approved an update to the IP to replace existing constraints on SRI products (maximum yield) with a limit of SRI investments to 10% of the total portfolio (Appendix B). Following approval, staff placed \$20 million and later an additional \$10 million in the MFA Fossil Fuel Free (FFF) bond fund.

In late 2021, the MFA released an Environmental, Social and Governance (ESG) framework (Appendix C), and made a presentation to the Finance Committee on January 5, 2022 (Appendix D). The MFA reported on alignment of products with the ESG framework developed for local governments. Based on the MFA framework, all pooled funds qualify as SRI & ESG integrated funds managed by signatories to the United Nations Principles of Responsible Investment (Appendix E).

As a result, an amendment should be made to the IP to remove total portfolio limits in favor of the MFA ESG framework definitions (Appendix F). A copy of the amended CRD IP could then be forwarded to all member municipalities to complete the January 5 Finance Committee direction.

ALTERNATIVES

Alternative 1

The Finance Committee recommends to the Capital Regional District Board:

1. That the amended CRD Investment Policy be adopted; and
2. That this staff report and the adopted CRD Investment Policy be forwarded to member municipalities for consideration.

Alternative 2

That this report and draft revised CRD Investment Policy be referred back to staff for additional information.

IMPLICATIONS

The MFA ESG framework defines SRI as investments in institutions not directly involved in oil & gas production, extraction or transportation. As such, the framework classifies investments in bank-sponsored GICs and investment deposit products, such as high interest savings accounts, be qualified as SRI options.

Additionally, the MFA continues to add product options including a pooled mortgage fund (January 2020) and the aforementioned Fossil Fuel Free (FFF) Bond Fund (May 2020). The CRD placed \$20 million in the FFF pooled fund in March 2021 and an additional \$10 million in August 2021.

Current CRD holdings that are non-ESG compliant include the MFA Bond fund which has been in the portfolio since 1999. This long-term fund has provided compounded annual returns of approximately 3% since inception and is in line with expectations for this asset class. Divestiture of the MFA Bond Fund will be considered at future re-balancing opportunities.

A review of the CRD alignment with the MFA ESG framework is summarized in Table 1 below:

Table 1: CRD alignment with SRI (MFA Framework)

	2018	2019	2020	2021
ESG Aligned	70%	83%	86%	89%
Non ESG	30%	17%	14%	11%
Total	100%	100%	100%	100%

The proposed CRD Investment Policy amendment includes reference to the MFA ESG framework to provide clarity on definition and qualified SRI products in the portfolio. Current CRD investment holdings are nearly 90% aligned with the MFA ESG framework. As a result, there is limited opportunity to further align the CRD investment activities with ESG objectives beyond divesting further from the MFA Bond Fund.

CONCLUSION

Staff were requested to provide options to move investments further into alignment with the CRD's stated social and environmental values and to develop a draft policy regarding socially and environmentally responsible investing (SRI) that could be considered by member local governments. The CRD has actively pursued options to align investments in treasury activities

since 2017. Since the last policy update in 2021, the MFA has introduced an Environmental, Social and Governance (ESG) framework for responsible investing and reported on alignment of MFA products. Based on the MFA framework, all pooled funds qualify as SRI & ESG integrated funds managed by signatories to the United Nations Principles of Responsible Investment resulting in nearly 90% of the CRD portfolio aligned with the MFA ESG framework. The CRD Investment Policy should be amended to remove total portfolio limits in favor of the MFA ESG framework definitions. The Investment Policy could then be forwarded to member municipalities for consideration.

RECOMMENDATION

The Finance Committee recommends to the Capital Regional District Board:

1. That the amended CRD Investment Policy be adopted; and
2. That this staff report and the adopted CRD Investment Policy be forwarded to member municipalities for consideration.

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ATTACHMENT(S)

- Appendix A: Staff Report 19-785, October 2, 2019 – Socially Responsible Investment Options
Appendix B: CRD Investment Policy (2021)
Appendix C: MFA ESG Framework
Appendix D: Excerpt MFA Presentation January 5, 2022 – Debt Management & Other Topics
Appendix E: MFA ESG and MFA Pooled Investment Funds
Appendix F: Amended CRD Investment Policy (2022)