

June 11, 2021

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Chair and Director  
Regional District Board

**Re: Investment Management Policy**

I am writing to request your support for staff to review and report back on establishing guidelines and principles to help ensure the Comox Valley Regional District (CVRD) investments deliver both in terms of financial value and its impact on society.

Local governments' investment of cash resources are guided by legislative requirements which limit risk and promote secure investments to ensure the preservation of publicly raised capital. Despite such statutory parameters, local governments still have options concerning their investments which can help align them with their specific financial objectives and corporate values. This latter consideration is generally known as socially responsible investing, which can incorporate environmental, social and governance (ESG) factors.

Such approaches have shown success in generating competitive investment returns while at the same time supporting the values for which a local government espouses. As our investments are through the Municipal Finance Authority, enclosed with this letter are two memos concerning ESG investment funds and their fossil fuel free investment options.

Incorporating such considerations is consistent with the CVRD's recognition of the climate crisis and our related strategic driver which guides our services and actions in support of environmental stewardship and protection. The CVRD current investment management policy has four objectives which center on the preservation of capital, diversification, return on investment and liquidity. While these are prudent and responsible objectives, I believe our board should consider whether ESG factors should also form part of our investment objectives through a report from staff.

I respectfully request the board's consideration of the following:

WHEREAS the Comox Valley Regional District voted to recognize the climate crisis and addressing the climate crisis is one of our four strategic drivers;

AND WHEREAS the use of fossil fuels are understood to be the world's greatest contributor to climate altering, greenhouse gas emissions;

AND WHEREAS the Municipal Finance Authority Fossil Fuel Free Short-Term Bond Fund has, since its inception, outperformed the FTSE Canada Short Term Overall Bond Index;

AND WHEREAS the "Municipal Finance Authority of British Columbia (MFA) believes that investment processes that incorporate ESG (Environmental, Social, Governance) factors and other broad systemic issues can lead to better investment outcomes";

AND WHEREAS the MFA now requires that all but one of its pooled funds incorporate ESG through adherence to the United Nations Principles of Responsible Investment, and other Canadian Financial institutions offer securities and pooled investment funds that select for ESG factors;

THEREFORE BE IT RESOLVED that the board direct staff to review and report back on a potential update to CVRD Policy No. P14 Investment Management that can achieve the following considerations:

1. Align investment with the section 183 of the Community Charter, and best practices for investing public funds;
2. Select investments that make positive contributions to ESG factors; and
3. Divest from fossil fuels companies, where practical, 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 BC municipalities such as Vancouver and Victoria.

Respectfully,

***M. McCollum***

Melanie McCollum  
Director

Enclosures: Appendix A – MFA ESG and MFA Pooled Investment Funds  
Appendix B – MFA Announcing Fossil Fuel Free Investment Options

## ESG and MFA Pooled Investment Funds

### About the Municipal Finance Authority of BC

The Municipal Finance Authority of British Columbia (MFA) believes that investment processes that incorporate ESG factors and other broad systemic issues can lead to better investment outcomes. We are committed to creating and offering best-in-class investment products to local governments and have been actively engaged in the Sustainable Investing landscape with the view of offering workable investment solutions for local governments. As such, MFA will only partner with UN PRI signatories in our pooled fund product line. Away from our Pooled High Interest Savings Accounts (PHISAs) which are managed internally by MFA, all the MFA Pooled Investment Funds are currently managed by Philips, Hager and North Investment Management Ltd. (PH & N). PH & N is a signatory to the United Nations Principles for Responsible Investment (UN PRI). As indicated in their most recent 2020 Assessment Report's Summary Scorecard, the UN PRI rated PH&N an A+ across all categories:



### What is ESG?

ESG investing focuses on using three non-financial factors as a part of a framework in the evaluation of companies for investment decision-making. **Environmental criteria** focus on stewardship of the natural environment and its resources. **Social criteria** look at the company's treatment of people and impact on societal issues. **Governance criteria** focuses on how an organization is presided over and its corporate policies.

Although not an exhaustive list, potential issues are listed below:



#### Environmental Issues

- Waste and Pollution
- Green house gas emissions
- Water management
- Land use
- Climate change risks and opportunities
- Natural Capital



#### Social Issues

- Health and Safety
- Customer engagement
- Employee relations
- Workforce and diversity
- Community relations
- Data protection and privacy



#### Governance Issues

- Bribery and Corruption
- Compliance and reporting
- Board composition
- Executive compensation structure
- Donation and lobbying
- Corporate risk management

## What is Socially Responsible Investing?

Socially Responsible Investing 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.

## United Nations Principles for Responsible Investment

The United Nations-supported Principles for Responsible Investment (UN PRI) is an international network of investors working together to put six principles into practice. Its goal is to understand the implications of sustainability for investors and support signatories incorporating these issues into their investment decision-making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system.

The Principles offer a menu of possible actions for incorporating environmental, social, and corporate governance issues into investment practices across asset classes. The Principles are designed to be compatible with the investment styles of large, diversified, institutional investors that operate within a traditional fiduciary framework.

### The 6 principles that guide the UN PRI are as follows:

1. We will **incorporate ESG issues** into investment analysis and decision-making processes.
2. We will be **active owners** and incorporate ESG issues into our ownership policies and practices.
3. We will **seek appropriate disclosure** on ESG issues by the entities in which we invest.
4. We will **promote acceptance and implementation** of the Principles within the investment industry.
5. We will **work together** to enhance our effectiveness in implementing the Principles.
6. We will each **report on our activities and progress** towards implementing the Principles.

## PH&N and Responsible Investing

PH & N believes that being an active, engaged, and responsible owner is empowering in enhancing the long-term, risk-adjusted performance of portfolios and is part of their fiduciary duty. Their approach to Responsible Investing is comprised of three pillars and specific actions are taken under each of these pillars to deliver on its duty of maximizing clients' investment returns without undue risk of loss.

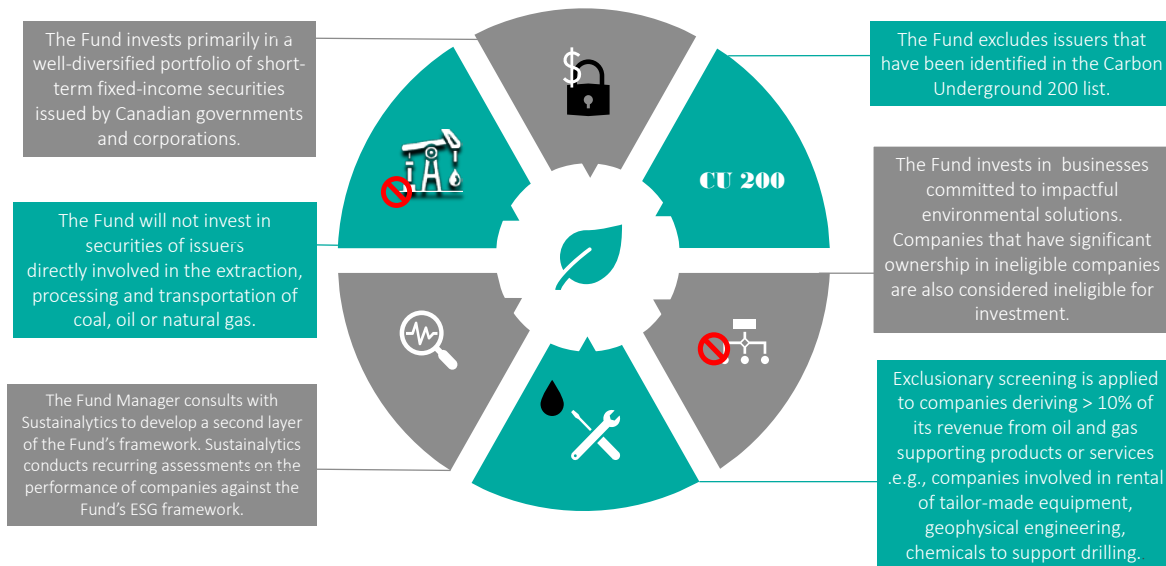
**Integrating relevant ESG factors.** First, by tailoring ESG integration tools and processes to their investment strategies. Second, by focusing on materiality, the attention is put towards those ESG factors that have the potential to impact the value of the investment. Third, transparency and accountability are key, by properly disclosing ESG risks and opportunities by the companies and countries in which we are invested in, it shows that these issuers are accountable in managing their material ESG risks and opportunities, leading to long-term sustainable performance. Fourth, through improvement and innovation, PH & N is always exploring new and better ways to integrate material ESG factors into the investment process.

**Active Stewardship.** PH & N conveys its views through thoughtful proxy voting, engagement with issuers and regulatory bodies, and collaboration with other like-minded investors. As stewards of their clients’ assets, they are committed to ensuring that the issuers in which they invest act in alignment with the long-term interests of their clients. This means conveying to issuers and regulatory bodies their views on topics such as board structure, executive compensation, gender diversity, and climate change. This is done by employing the following three methods. First, voting responsibly at the general meetings of their public equity holdings is an important way to act in the best interest of their clients. Second, their investment teams meet with the issuers in which they invest on an ongoing basis. Third, they participate in initiatives that will increase transparency, protect investors, and foster fair and efficient capital markets.

**Client Driven Solutions and Reporting.** Transparency and accountability are key to maintaining meaningful relationships with their clients and delivering on their fiduciary duty. Examples of such reporting: responsible investment reports, climate-related disclosures, proxy voting disclosures, reporting on their Responsible Investment commitments, RBC GAM responsible investment survey, and ESG insights.

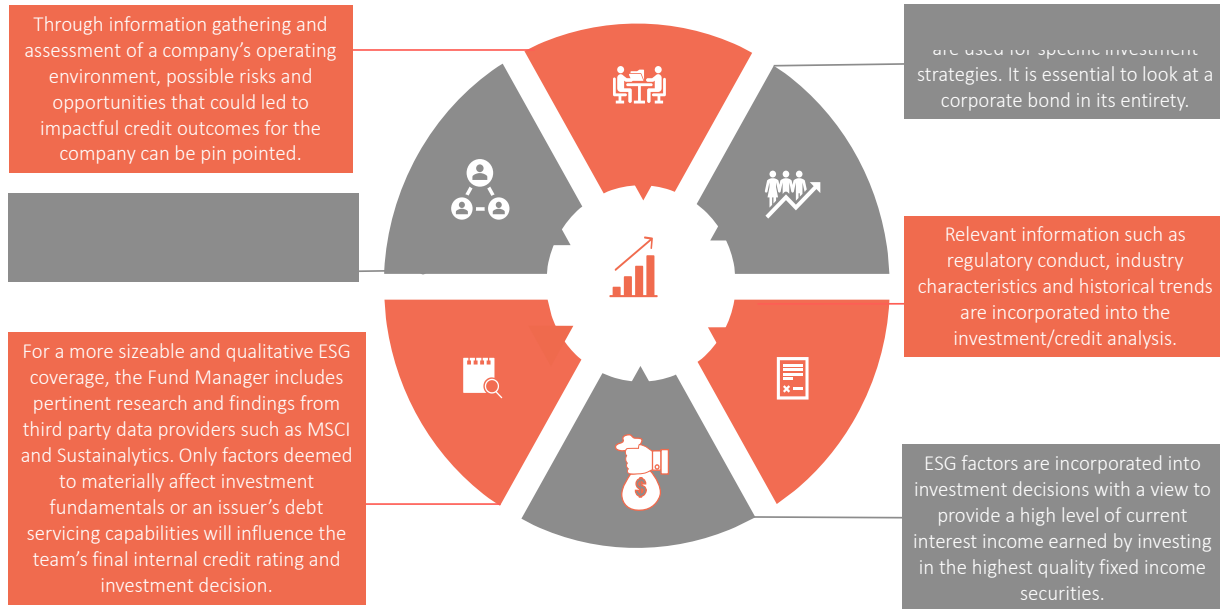
### Fossil Fuel Free Short-term Bond Fund and ESG Integration

In addition to employing ESG integration, the Fossil Fuel Free Short-term Bond Fund does not invest in any corporate securities of entities directly involved in the “extraction, processing and transportation of coal, oil or natural gas”. The Fund employs a commonly used screen that excludes fossil fuel-related companies. Sustainalytics, an independent market leading ESG ratings firm, manages and provides the definition and screening methodology.



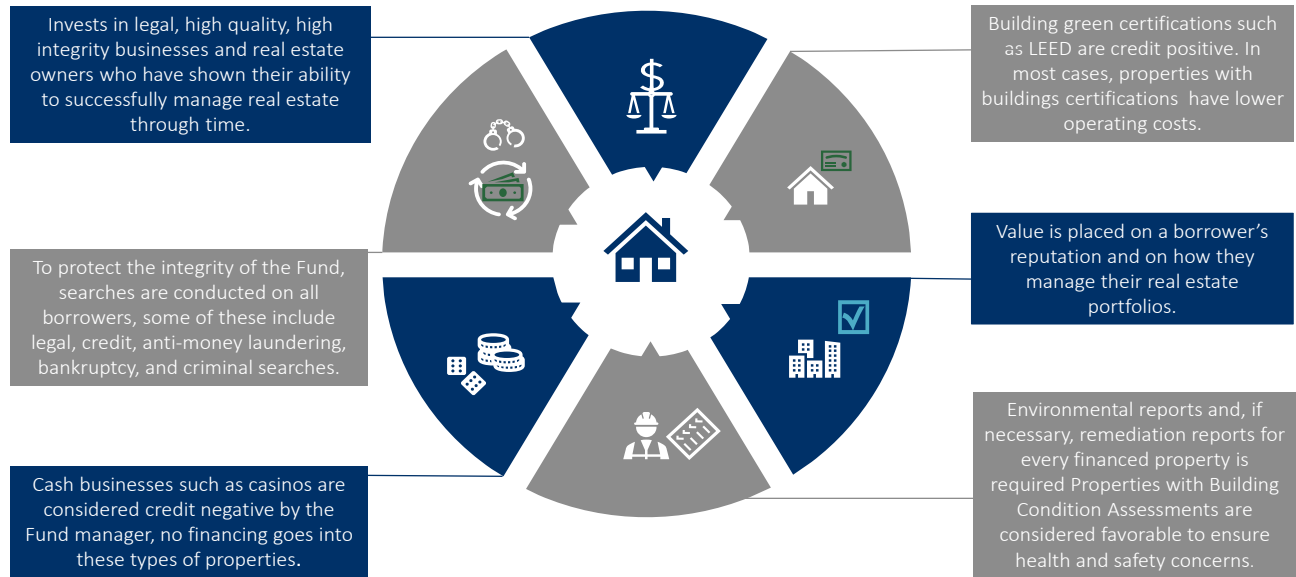
## Money Market Fund, Government Focused Ultra-short Bond Fund, Short-term Bond Fund and ESG Integration.

All of MFA's pooled funds managed by PH&N employ ESG integration. In addition, like the Fossil Fuel Free Bond Fund, the Government Focused Ultra-short Bond Fund (GFUS BF) does not invest in fossil fuel related companies. The composition of allowable investments in the GFUS BF are primarily government and government related securities and have a maximum 25% exposure to Big 6 Canadian Banks.





## Mortgage Fund and ESG Integration



## Pooled High Interest Savings Accounts

MFA provides access to three Pooled High Interest Savings Accounts at extremely favorable rates for our Members. The current offerings are three of Canada's leading Big 6 banks, National Bank, CIBC, and Scotiabank. Most Members consider these funds to be fossil fuel free given that they are direct deposits into entities not "directly involved in the extraction, processing and transportation of coal, oil or natural gas". In addition, the Canadian Big 6 banks have significant commitments to helping create sustainable futures for all Canadians.

Please find the ESG disclosures provided by each of these institutions below:

National Bank of Canada

<https://www.nbinvestments.ca/content/dam/bni/publication/publication-report-esg-advances-2019.pdf>

Scotiabank:

<https://www.scotiabank.com/ca/en/about/responsibility-impact/esg-publications-policies.html>

CIBC:

<https://www.cibc.com/en/about-cibc/corporate-responsibility.html>



**Municipal Finance  
Authority of BC**

### Announcing MFA's Fossil Fuel Free Investment Options

With many local governments who have declared a state of climate emergency in their communities, we are pleased to announce fossil fuel free investment options now available to our Clients.

In addition to our **2 Pooled High Interest Savings Accounts with CIBC and National Bank**, which can be considered fossil fuel free, we announced the launch of our new **Fossil Fuel Free Short-term Bond Fund (FFF ST BF)** on May 4<sup>th</sup>. We have been actively working with Phillips, Hager, and North (PH&N) to bring you the first of its kind in Canada – a fixed income fossil fuel free investment fund.

In addition to the launch of the new FFF ST BF, we announced effective May 25<sup>th</sup> the repositioning of our previously named Intermediate Fund. The “tilt” focuses on highly liquid government securities and includes only the 6 Domestically Systematically Important Banks (D-SIB). This Fund is now called the **Government Focused Ultra-short Bond Fund (GF US BF)** and is also considered to be Fossil Fuel Free.

Both the FFF ST BF and the GF US BF provide a credible and well-diversified active investment solution to MFA Clients who choose to divest from fossil fuel investments.

### Fossil Fuel Free Short-term Bond Fund - Highlights

- Fund Manager, PH&N, will use a third-party screening service provided by Sustainalytics and the Carbon Underground 200 list to "screen out" fossil fuel related companies
- The FFF ST BF fund will be among the lowest cost actively managed Bond Fund of its type in Canada
- Minimum contribution - \$10,000
- Most appropriate for reserve moneys not needed for 3 years or longer, due to the interest rate sensitivity of the fixed rate investments in the pool
- The Fund invests in high quality Canadian-dollar denominated fixed income investments and is appropriate from a risk perspective for Local Governments
- Offers a very cost-effective opportunity for professional management and diversification into a broad category of bonds otherwise not featured in many local government investment portfolios





## Municipal Finance Authority of BC

### Government Focused Ultra-short Bond Fund - Highlights

- Composition of the fund has the highest quality and most liquid securities, 10% Federal Bonds, 65-90% Provincials/Municipals, and 0-25% D-SIB Financials
- Appropriate for clients with a time horizon of 0 to 15 months
- Provides clients with an ultra-conservative and ultra-liquid investment option
- Minimum contribution - \$10,000
- Reduced fees from 0.20% to 0.15%.
- Allows efficient access to government securities that are not available in any other form to the majority of our clients

If you would like to discuss these new fossil fuel free options please reach out to one of our Client Services Team at [invest@mfa.bc.ca](mailto:invest@mfa.bc.ca). We are available to discuss in-depth details of the Funds and provide assistance if you are preparing a report to your council or board.

More information about these and any of our Funds can be found on the [MFA website](#). The direct link to the Mandate Profiles for these new Funds can be found here: [FFF ST BF](#) - [GF US BF](#)

Once you are ready to subscribe to the FFF ST BF or the GF US BF, please complete the **Subscription Request Form** located [here](#).