

**City of Portland
Temporary Committee on Socially Responsible Investments**

Recommendations to City Council

**Implementing Socially Responsible Criteria for City's Direct
Investments in Corporate Securities**

July 8, 2014

Introduction

On October 9, 2013, Portland City Council passed a resolution (#37036) creating a temporary Socially Responsible Investments Advisory Committee of five public members. The Mayor appointed committee members representing the environmental, labor, and business communities and individuals with expertise in economics and corporate ethics. The Office of Management and Finance and the Office of Commissioner Novick provided staff support and technical advice to the committee.

Summary of Recommendations

Council should establish a standing permanent committee of public members with various areas of expertise to recommend eligible issuers for inclusion on, or removal from, a do-not-buy list. The City should contract with an outside data research vendor to provide reports about eligible issuers. These reports should evaluate each eligible issuer based on principles established by the Council. The committee should use these reports to develop its recommendations.

Committee Charge

Council charged this committee with studying the City's current investment policy and processes and making recommendations to Council for how the City could change its investment policy to incorporate social and ethical concerns, including:

- Environmental concerns
- Health concerns, including weapons production
- Abusive labor practices
- Corrupt corporate ethics and governance
- Extreme tax avoidance
- Exercise of such a level of market dominance so as to disrupt normal competitive market forces

In addition to other strategies it may identify, the committee must also consider the cost, effectiveness, and practicality of:

- A standing advisory committee of public members that periodically makes recommendations to Council about a list of companies and/or industries in which the City shall not invest its cash assets.
- Hiring a firm with expertise in social and environmental investing to advise the Council on managing its corporate investments.

Membership

Members appointed to the temporary Socially Responsible Investment Advisory Committee include:

Expertise	Name	Title & Organization
Corporate Ethics	Barry Bennett, JD	Faculty – Marylhurst University School of Business
Business	Bernie Bottomly*	Vice President – Government Affairs & Economic Development, Portland Business Alliance
Labor	Felisa Hagins	Political Director – SEIU 49
Environment	Ashley Henry	Program Officer – One PacificCoast Foundation
Economics	Jenny Liu, PhD	Assistant Director – Portland State University College of Urban and Public Affairs, Northwest Economic Research Center

* Bernie Bottomly resigned from the committee for personal reasons midway through the process. A replacement was not appointed because the Committee had already begun to craft its recommendations; however, Bernie recommended that Raihana Ansary, Government Relations Manager at the Portland Business Association, participate in the process. The Committee invited Ms. Ansary to attend the remaining meetings and comment. Ms. Ansary attended the final meeting on May 29 and offered verbal comments on the draft report.

Terms

For clarity, the following terms will be used as defined below.

Council: Portland City Council.

Standing committee: The ongoing advisory committee of public members that makes recommendations to Council concerning which companies to add to or remove from the do-not-buy list.

Principles: The social responsibility concepts adopted by Council in the resolution establishing the temporary Socially Responsible Advisory Committee; Council could change these principles in the future.

Data research vendor: A company that provides environmental, social, and corporate governance analytical reports; examples include MSCI and Sustainalytics. Reports may be off-the-shelf or customized.

Criteria: The environmental, social, and governance standards or measures by which a data research vendor analyzes a company. Criteria are used to evaluate eligible issuers relative to the principles.

Socially responsible investment consulting firm: A company knowledgeable about, and that can analyze and advise on, environmental, social and corporate governance-related business practices.

Eligible issuer: A corporate issuer of debt securities in which the City of Portland is allowed to invest according to current City policy and State statute.

Scoring threshold: The minimum grade and/or benchmark on criteria that an eligible issuer must meet in order to avoid a recommendation to Council for inclusion on the do-not-buy list.

Do-not-buy list: The list of companies ineligible for City investment, as recommended by the standing committee of public members and approved by City Council.

Analysis

As directed by Council, the cost, effectiveness, and practicality of the following two options were considered:

- A standing advisory committee of public members that periodically makes recommendations to Council about a list of companies and/or industries in which the City shall not invest its cash assets.
- Hiring a firm with expertise in social and environmental investing to advise the Council on managing its corporate investments.

Through analysis of these two options, it was determined that a permanent, standing public advisory committee is needed to bring a community perspective to the City's direct investment in corporate securities, and that the standing committee will require outside research and/or expertise. At the very least, the standing committee will require

off-the-shelf reports from a data research vendor specializing in socially responsible investing, such as MSCI or Sustainalytics.

Options of working with a data research vendor or with an expert advisor were discussed. A data research vendor produces off-the-shelf reports about individual companies, while an expert advisor may synthesize various sources of research and make recommendations itself as to which companies should be placed on the do-not-buy list. The cost of hiring an expert advisor would be significantly higher than the cost of subscribing to off-the-shelf reports from a data research vendor, although the actual cost of these services cannot be determined without conducting a formal procurement process. Therefore, the City should start by working with a data research vendor rather than seek out an expert advisor. The City should select an experienced, credible and objective data research vendor.

Measurable criteria will have to be established for each of the principles set by Council in resolution #37036. The standing committee should establish these criteria, with help from the data research vendor if necessary. Should the standing committee be unable to establish criteria for any principle, it shall so notify Council and request further guidance.

Funding was considered throughout the process; however, it is difficult to determine potential costs without going through an official procurement process. Staff asked individuals representing firms what the potential cost of their services would be, and their responses suggested a wide range depending on the specific scope of a project.

To ensure that costs are taken into consideration, Council should set a reasonable maximum funding amount (e.g. percent of overall portfolio) and identify a clear source of funds. If the City is unable to procure the necessary services within the budget established for the purpose, it may need to reconsider these recommendations.

Recommendations

Attached is a diagram depicting the recommended decision process.

Overview

(See attached diagram for decision process)

- Council should establish a standing permanent committee of public members with various areas of expertise to recommend eligible issuers for inclusion on, or removal from, a do-not-buy list.
- The City should contract with an outside data research vendor to provide reports on eligible issuers based on the principles and criteria.
- The standing committee should develop the criteria using the social and ethical concerns identified by Council in resolution #37036.
- Based on the data research vendor's reports, the standing committee should determine minimum scoring thresholds for each criterion for eligible firms to avoid being placed on the do-not-buy list.

- After each quarterly meeting, if the standing committee concludes that any eligible issuers should be added to or removed from the do-not-buy list, the committee will transmit its recommendations to Council. The recommendations should be based on corporate performance as measured by the criteria. At a minimum, the do-not-buy list should be reviewed by the standing committee and approved by Council annually.

The City's policies and procedures on socially responsible investing for its direct corporate investments should be considered adaptable to change. The City's investment process should also be flexible enough to adapt to changing leadership on Council and possible changes to the principles.

To avoid creating volatility in the City's portfolio, this committee does not recommend immediate divestment but instead recommends that the do-not-buy list apply only to future investments.

Standing Committee

- Committee members are appointed by Council.
- Council should determine how the standing committee will be staffed.
- The committee should include between seven and ten community members, with staggered three-year terms.
- Individual committee members should have areas of expertise that reflect the principles identified by Council. Given Council's current list of principles outlined in resolution #37036, as well as public comment, the areas of expertise at this time should be:
 - Environment and conservation
 - Labor practices
 - Corporate ethics and governance
 - Corporate taxation
 - Economics
 - Public health and safety
 - Business/commerce

Standing Committee Charge

- Work with a data research vendor and City staff to define the criteria based on Council-approved principles on which the committee will base specific scoring thresholds to recommend companies for inclusion on a do-not-buy list.
- Review data research reports about eligible issuers.
- Review and update the criteria used in data research reports as necessary.
- Recommend to Council any adjustments or clarification of the principles as needed to develop criteria.
- Determine scoring thresholds for each criterion.
- Consider public input on recommendations regarding the do-not-buy list and criteria.

- Recommend to Council eligible issuers to add or remove from the do-not-buy list based on meeting scoring thresholds.
- Make recommendations to Council about changes to the principles.

Standing Committee Meetings

- The committee should meet quarterly (four times a year), with the option to meet additional times as necessary.
- Meetings should include time for public input.

Standing Committee Staffing

- Staff committee with a facilitator from the Office of Management and Finance's Business Operations Division.
- Ensure that the City Treasurer participates as a subject matter expert and provides reports on what is in the portfolio and updates on eligible issuers.
- Provide outside expertise as needed.

Areas for Follow-Up/Additional Considerations

Cost will be an important determining factor for Council to consider before implementing any of this committee's recommendations. It is imperative that Council identifies a funding source and sets a budget for the procurement of data, or any other outside expertise that may be required.

This committee feel strongly that the Office of Management and Finance's Public Finance and Treasury Division should continue to directly manage the City's investments. There does not appear to be a benefit to moving that function to an outside firm.

Committee Process

The temporary Socially Responsible Investments Advisory Committee met five times to gather information and develop recommendations. Information presented included: the constraints on and laws concerning municipal investing, the City's investment practices and policies, and whether and how other local governments have implemented socially responsible investment policies. The second meeting included presentations by representatives of two firms that specialize in Environmental, Social, and Governance investing. An in depth discussion about the numerous legal constraints on municipal investing was held, where it was learned that commercial paper represents a substantial portion of the City's income. After thoughtful consideration of public comments and the comments of the City's Investment Advisory Committee (IAC), the benefits and drawbacks to various options were discussed, and, through a consensus process, recommendations were developed.

Based on research regarding the investment policies of other cities, it appears that Portland will lead the way for other municipalities considering actively incorporate social criteria into their investment criteria. Therefore, the City has an opportunity to create a replicable process for other jurisdictions. Below is an outline of the process and a summary of each of the committee's meetings.

Each meeting began and ended with an opportunity for public comment; written comments were also accepted.

Meeting 1 – March 19, 2014

Welcome and Committee Background

- Commissioner Novick explained that Council is very interested in incorporating socially responsible investing practices into the City's investment policy but that there are potential challenges due to restrictions and the very limited number of companies from which to invest based on the restrictions.
- The committee discussed the charge and approved the committee work plan and bylaws. They agreed that decision points should be clearly defined/documented and that a simple majority would constitute a quorum.

City of Portland Investment Operations

- City Treasurer gave a detailed presentation on the City's investment operations and current investment policy., as well as the role of the Treasurer and the Public Finance and Treasury Division:
- Oregon State Laws ORS 294 and ORS 295 state that the City may not invest in equities, mutual funds, or money market funds.
- Oregon law requires a credit rating of no lower than AA- for corporate bonds and A for Oregon issuers. ORS approved investments include US Treasury debt, US Agency debt, Oregon municipal bonds, California, Idaho and Washington municipal bonds, interest-bearing deposits, banker's acceptances, corporate debt up to 35% of the portfolio, repurchase agreements and Local Government Investment Pool. Within each category there are additional limitations.
- The City's investment policy has always allowed commercial paper. In 2013 the City's investment policy was amended to allow A-/A3-rated Oregon bonds out to three years in maturity.
- As a result of these limits and criteria, the list of acceptable individual securities in which the City can invest directly is very small (43).
- Fast-paced and dynamic market characteristics coupled with market limitations can make selecting the City's investments very challenging.
- Because there are so many laws and strict guidelines, it is impractical and unfeasible for the City Treasurer's office to try to monitor all of the nuances or make judgment calls on which corporate investments would qualify as socially responsible.
- The committee agreed that, given these tight legal constraints, a do-not-buy list would probably be the best and most effective strategy. They also formulated three questions to present to the ESG consultants who would speak at the next meeting.

Meeting 2 – April 3, 2014

Socially Responsible Investing in Other Cities

- Staff presented the results of research on how other cities approach socially responsible investing.
- Twenty-three jurisdictions of similar size to Portland were contacted. Of the 11 that responded, only four incorporate some socially responsible criteria into their investment policies: San Francisco, CA; Boulder, CO; Amherst, MA; and Madison, WI.
- There is no standard model that the cities follow. None has gone as far as implementing a do-not-buy list or a committee. Of the cities that do incorporate some socially responsible criteria into their policies, the trend is divestment from fossil fuel.
- Should Portland create an active and living policy, and a committee to oversee it, it will be setting the standard for other cities.

Environmental, Social and Governance (ESG) Concept Presentation

- Presentation by two independent subject matter experts who practice exclusively in the field of Environmental, Social, and Governance (ESG) investing. Their presentations were strictly informational and in no way constituted any type of hiring or contracting process.
- Both were asked to give their perspectives on the field of ESG, feedback on how the City might incorporate ESG concepts into its investment portfolio despite tight statutory constraints, and what kinds of external resources exist that might assist the City in implementing a process and policy.
- Based on their presentations, the committee learned that Socially Responsible Investing (SRI) and environmental, social and corporate governance (ESG) work together but are not the same thing. SRI is the overriding investment discipline that focuses on generating long-term competitive financial returns while making positive societal impact. ESG refers to the three main areas of concern that have developed as central factors in measuring the ethical impact and social responsibility of an investment.
- Europe is leading the way in the field of socially responsible investing. Data continues to become more available as the demand rises from individual investors and global finance and insurance companies.
- The City's ability to implement a socially responsible investment policy will be driven by available data. One of the ways to evaluate ESG criteria is to use a rankings company. Screening for certain factors can be tricky as some considerations tend to be more qualitative in nature. Some of the issues the City is concerned about, such as abusive labor practices, are very qualitative.

Discussion of Environmental, Social and Governance (ESG) Concepts

- The committee decided that each member would propose a course of action to begin to identify areas of agreement and to build a model to recommend to Council during meeting three.
- In addition to the charge outlined by Council, committee members identified a series of key questions for consideration:
 - Who will be involved in the creation of a do-not-buy list?
 - How often will they be involved?
 - What resources will be employed, such as screening reports?
 - Should the process involve both positive and negative scans or one or the other?
 - What will be the definitions that characterize the do-not-buy list as outlined by Council?
 - What legal tests in terms of statutes will initially be implemented?
 - How often will the do-not-buy list be updated?
 - What does replicable look like?
 - Could the City solve the entire issue by not purchasing corporates at all? Would the lower annual returns mitigate the cost of not hiring a consulting or ratings firm?
- The committee asked the City Treasurer to provide information on a model for not purchasing corporates at all.

Meeting 3 – April 23, 2014

Ideas for a Model

- The City Treasurer presented the committee with an excel spreadsheet that calculated how much corporate investments yield for the City under certain market conditions. Even in a low interest rate environment, the yields are quite significant – in the six to seven figures. The committee agreed that it would be in the City’s best interest to continue investing in corporates.
- Staff presented information on the cost of outside ESG investment consulting firms yielded a wide range of responses. On one end of the spectrum, some companies might offer to do some pro-bono work, while on the other end, some firms might decline to participate at all unless they were also additionally to be awarded management of City funds.
- Each committee member offered their ideas for a model and out of this discussion came a set of concepts or possible recommendations that all were comfortable with.
- Staff will take the ideas and draft a report based on the information provided and areas of group consensus. Committee members can discuss the draft at meeting four.

Meeting 4 – May 8, 2014

- A first draft report was presented to the committee created from the set of concepts agreed upon during meeting three.

- The committee reviewed the draft and clarified several items.
- There was group consensus that the standing committee should consist of members who have expertise in the areas of concern expressed in the principles set forth by Council. Those areas of expertise can change over time as Council changes the principles.
- Definitions were established.
- A recommended decision process outline was developed.
- A recommended meeting and reporting schedule was determined.
- City Treasurer informed the Committee that she would bring the draft report to the Investment Advisory Committee for feedback. The committee will hear the Investment Advisory Committee feedback at meeting five.

Meeting 5 – May 29, 2014

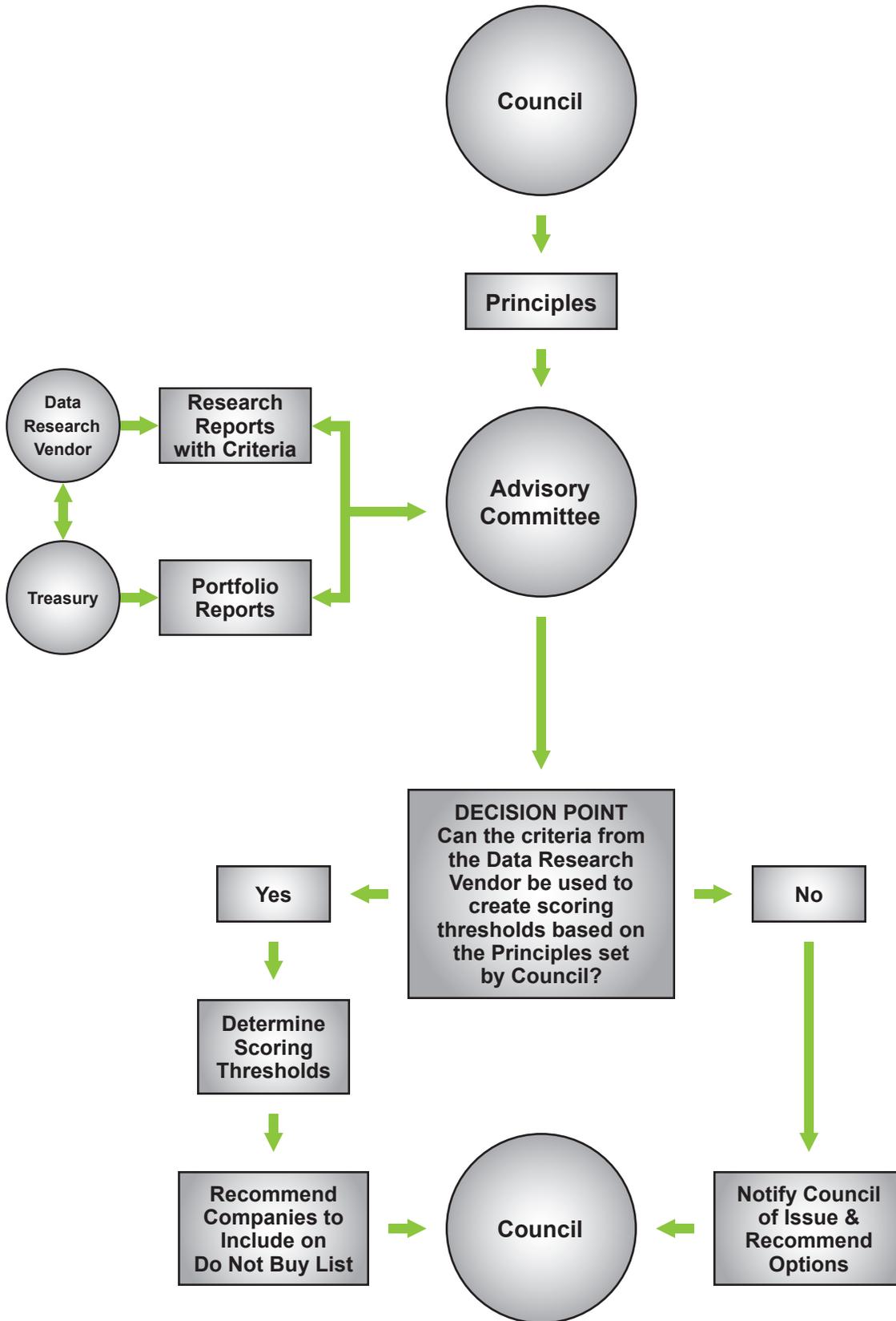
- Committee member's final edits to the draft report were distributed.
- Raihana Ansary, a colleague of former committee member, Bernie Bottomly, provided public input from a business perspective.
- Jennifer Cooperman shared feedback from the City's Investment Advisory Committee.
- The committee went through the draft report line-by-line, clarifying concepts and reaching consensus on the various edits.
- The committee suggested edits to the decision process outline and noted that the outline and the IAC's feedback would be attached to the final report.
- The committee adopted the final version of the report by consensus.
- The committee agreed to meet for a sixth time at noon on June 12 to formally approve its final report and to create a plan for presentation of the report to Council.

Conclusion

After completing the research and analysis required for these recommendations, we determined that, although the impact of the do-not-buy list on corporate behavior may appear to be minimal, the alignment of the City's values with its investments is a significant step. Yet it is only a first step; its impact will grow when others follow.

We would like to thank Portland City Council for the opportunity to recommend changes to the City's investment practices to more clearly reflect the values of the City. The committee would also like to specifically thank Mayor Charlie Hales and Commissioner Steve Novick for initiating the resolution that created the committee and made these recommendations possible. Finally, we would like to thank Katie Shriver and Timur Ender from Commissioner Novick's office, and Kelly Ball, Jennifer Cooperman, and Janet Storm from the Office of Management and Finance, for their excellent staffing support throughout this process.

CITY OF PORTLAND
Socially Responsible Investing
Standing Advisory Committee
Decision Process



City of Portland Investment Advisory Committee (IAC)

Feedback for the Socially Responsible Investing Committee

May 23, 2014

In Attendance: Chris Abbruzzese, Jonas Biery, Mark Campbell, Jennifer Cooperman, Michael Montgomery, Deanne Woodring

Jennifer Cooperman went over the Socially Responsible Investing Committee's draft recommendations with the IAC and answered several questions. Once the committee gained understanding of what was being recommended, they offered the following feedback:

- The IAC is concerned that a “do-not-buy” list will have a negative impact on the City's portfolio returns. Such negative impact could have a ripple effect on the financial health and operations of the City.
- Portfolio earnings support everything from salaries, to public works, and other important City initiatives. The IAC strongly recommends that the standing committee keep in mind the financial impact to the City's bottom line and approach its duties with great care.
- At each quarterly meeting of the standing committee, Public Finance and Treasury (PF&T) should provide an analysis of the financial impact to the portfolio so the standing committee may make informed recommendations.
- The IAC would appreciate the opportunity to give Council and the standing committee feedback on its investment recommendations so that Council may make informed decisions, especially in cases where the standing committee's recommendations may present a challenge to the IAC's charge of protecting the City's funds.
- The IAC is concerned about constraints being placed upon the City's Investment Officer as the list of approved corporate issuers is already very small.
- As the list of Council's principles grow, and opportunities for public input increase, the list of approved corporate issuers will be further reduced.
- Council needs to consider the cost for research, data research vendor, and/or investment consultant, especially in regards to principles that are not easily tracked by existing research. It will be challenging for PF&T to bear this cost, since the endeavor will negatively impact PF&T earnings which cover PF&T costs.
- The IAC recommends that Council choose principles with care. Scoring may prove to be difficult as companies may align well with certain principles but not with others. For example, Walmart has an excellent environmental record but a poor record with respect to labor and business practices. As such, the “do-not-buy” list might possibly include the City's entire list of eligible issuers.
- Council and the City should not hold the IAC responsible for any Council actions based on the recommendations of the new committee. Council needs to be clear that it is not delegating its fiduciary responsibility to the standing committee; the standing committee is making recommendations only and final decisions rest with Council.
- The IAC doesn't want *its* process and advice to the City to become politicized.
- How can this “do-not-buy” policy give companies credit for the good work they do?
- If this effort is meant to be more than symbolic, what metrics will be put in place to measure the impact of this policy on corporate behavior?
- Is it possible that other cities are not doing this because it is simply not feasible?
- If the City's bottom line is reduced due to reduced portfolio earnings, then services to the public may need to be reduced. The public might feel that this is a good thing in the beginning but when their services start to be affected, it may cause great discontent and anger with the City.
- Political and business recruitment considerations should be seriously examined. Companies that might end up on the “do-not-buy” list employ a lot of people in the Portland area. If the City calls these companies out as “bad”, the City must be prepared for the political fallout and business recruitment impacts. Did the temporary committee consider this?