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CITY OF PORTLAND

OFFICE OF MANAGEMENT AND FINANCE

City of Portland Socially Responsible Investments Committee

Recommendations to City Council
Corporate Issuers for Inclusion on the City's Corporate Securities Do-Not-Buy List

September 30, 2016

Introduction

In December 2014, Portland City Council passed a resolution (#37102) creating the seven member Socially Responsible Investments Committee. City Council members appointed community members with expertise in environmental and conservation issues, labor practices, corporate ethics and governance, corporate taxation, public health and safety, and business. The Committee has been meeting since September 2015. The Office of Management and Finance and the Office of Commissioner Steve Novick provide staff support and technical advice to the committee.

Summary of Recommendations

Portland City Council should add/keep the following corporate issuers to the City's Corporate Securities Do-Not-Buy List:

- Walmart
- Wells Fargo Bank
- Caterpillar
- Bank of New York Mellon
- HSBC Bank USA
- JP Morgan Chase Bank NA
- Amazon.com
- Nestle Holdings
- Credit Suisse
- Societe Generale (if eligibility is restored)

The committee believes that, because the Treasurer's Office seeks the highest return within ORS and investment policy limitations and existing market conditions when choosing securities, actual returns may be higher or lower than the Treasury rates to which securities are compared in the financial analysis.

Committee Charge

City Council charges the committee with recommending corporate issuers for inclusion on, or removal from, the City's Corporate Securities Do-Not-Buy list for the City's direct investment in corporate securities, in accordance with the following Council-established social and values concerns as principles for consideration:

- Environmental concerns
- Health concerns including weapons production
- Concerns about abusive labor practices
- Concerns about corrupt corporate ethics and governance

- Concerns about extreme tax avoidance
- Concerns about exercise of such a level of market dominance so as to disrupt normal competitive market forces
- Concerns about impacts on human rights.

In addition to recommending corporate issuers for inclusion on, or removal from, the City's Corporate Securities Do-Not-Buy List, the committee is required to:

1. Meet at least twice a year, and
2. Establish bylaws and govern accordingly, including protocols for holding public meetings and receiving public comment, and
3. Consult any reports and data procured by the City from a research firm specializing in providing company-specific information about business practices relevant to social- and values-based criteria, and
4. Prioritize its review, starting with the corporate issuers eligible for the City's direct investment as identified by the City Treasurer, after which the committee may review other companies or industries that they reasonably anticipate may become eligible for the City's direct investment, and
5. Consider and balance a company's practices as a whole, including the seriousness of concerns about any business practice and whether the company's practices involve more than one of the social and values principles established by City Council in this resolution or later amended by City Council, and
6. Receive and consider an analysis of financial impact to the City's investment portfolio prepared by the City Treasurer before recommending that City Council add a company or industry to the Corporate Securities Do-Not-Buy List, and
7. Forward a recommendation, which may include "no change," and explanatory report to City Council once per calendar year and no later than October 1.

Membership

Members appointed to the Socially Responsible Investments Committee include:

Appointed By	Name	Expertise
Novick	Claudia Arana Colen*	Public Health & Safety
Hales	Dave Cutler	Labor
Saltzman	Sayer Jones	Business & Corporate Ethics
Hales	Robert Landauer	Corporate Taxation
Hales	Hyung Nam	Corporate Ethics
Fish	Katrina Scotto di Carlo	Business & Corporate Ethics
Fritz	Kristen Sheeran	Environment & Conservation

*Claudia Arana Colen resigned from the committee in February 2016.

Terms

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

Council: Portland City Council.

Committee: The ongoing advisory committee of public members that makes recommendations to Council concerning companies to add to or remove from the City’s Do-Not-Buy List.

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

MSCI: A research company that provides environmental, social, and corporate governance analytical reports. The City has subscribed to MSCI's proprietary research for the Committee.

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.

Eligible issuer: A corporate issuer of debt securities in which the City Treasurer currently is allowed to directly invest according to the City's Council-approved Investment Policy.

Do-Not-Buy List: The list of corporate issuers that Council has determined are ineligible for the City's direct investment based on the principles. Also referred to as the DNB List.

Analysis

As directed by Council, the Committee reviewed 20 companies on the list of Eligible Issuers as identified by the City Treasurer. Based on the information contained in the MSCI reports, additional research gathered by individual committee members, and public comments submitted to the Committee, the Committee considered and balanced each company's practices as a whole, including the seriousness of concerns about any business practice and whether the company's practices involve any of the Principles established by Council in Resolution 37102.

Public comments were invited on each corporate issuer at meetings and by mail and email. The committee chose 20 companies for analysis during the initial seven month period. The Committee chose to first discuss those companies that they knew to employ controversial practices and, therefore, had the potential to be considered among the "worst of the worst."

Treasurer's Financial Analysis

The Committee also considered the Treasurer's analysis of financial impact to the City's investment portfolio of adding each company to the DNB List. Financial impact was defined as the investment earnings potentially lost (as of the date discussed) by having to invest City cash, instead, in U.S. Treasury securities with a comparable three-year maximum maturity allowed for corporate securities. U.S. Treasury securities are the standard market benchmark against which to measure prices and value of other interest rate sensitive fixed income securities, such as corporate bonds.

Financial analysis calculations assumed a $65 million-85 million investment per Eligible Issuer, based on the City's investment portfolio average balance of $1.3 to $1.7 billion and the City's Investment Policy limit of 5% of the portfolio per Eligible Issuer. Three-year yield spreads over U.S. Treasuries came from Bloomberg (a financial information system widely used by investors throughout the United States) as of the meeting date when that Eligible Issuer was discussed.

These companies and the Committee's recommendations are:

Banks	**Date Discussed**	**Financial Impact Over Three Year Term (investment earnings potentially lost as of the Date Discussed)**	**Financial Impact Over One Year Term (investment earnings potentially lost as of the Date Discussed)**	**Recommended /Not Recommended**
Bank of New York Mellon	April 18, 2016	$1.3 to $1.6 Million	$433,333 to $533,333	Recommended
Credit Suisse	July 18, 2016	$1.5 to $2 Million	$500,000 to $666,667	Recommended
HSBC Bank USA	April 18, 2016	$1.9 to $2.6 Million	$633,333 to $866,667	Recommended
ING Groep/ING Bank	July 18, 2016	$1.5 to $2 Million	$500,000 to $666,667	Not Recommended
JP Morgan Chase Bank NA	April 18, 2016	$975,000 to $1.275 Million	$325,000 to $425,000	Recommended
MUFG Union Bank, N.A.	July 18, 2016	$645,000 to $845,000	$215,000 to $281,667	Not Recommended
Bank of Tokyo-Mitsubishi UFJ	July 18, 2016	$1.5 to $2 Million	$500,000 to $666,667	Not Recommended
Societe Generale	July 18, 2016	N/A – Not Eligible	N/A – Not Eligible	Recommended
Sumitomo Corporation	July 18, 2016	N/A – Not Eligible	N/A – Not Eligible	Not Recommended
US Bancorp	April 18, 2016	$975,000 to $1.275 Million	$325,000 to $425,000	Not Recommended
Wells Fargo Bank	February 22, 2016	$1.8 to $2.3 Million	$600,000 to $766,667	Recommended

Holding Companies	**Date Discussed**	**Financial Impact Over Three Year Term (investment earnings potentially lost as of the Date Discussed)**	**Financial Impact Over One Year Term (investment earnings potentially lost as of the Date Discussed)**	**Recommended /Not Recommended**
Berkshire Hathaway	May 16, 2016	$585,000 to $765,000	$195,000 to $255,000	Not Recommended
BlackRock	May 16, 2016	$875,000 to $1.148 Million	$291,667 to $382,667	Not Recommended

Manufacturing	**Date Discussed**	**Financial Impact Over Three Year Term (investment earnings potentially lost as of the Date Discussed)**	**Financial Impact Over One Year Term (investment earnings potentially lost as of the Date Discussed)**	**Recommended /Not Recommended**
Caterpillar	March 17, 2016	$750,000 to $1 Million	$250,000 to $333,333	Recommended

Consumer Products	**Date Discussed**	**Financial Impact Over Three Year Term (investment earnings potentially lost as of the Date Discussed)**	**Financial Impact Over One Year Term (investment earnings potentially lost as of the Date Discussed)**	**Recommended /Not Recommended**
Amazon.com	June 20, 2016	$741,000 to $969,000	$247,000 to $323,000	Recommended
Coca Cola Co.	June 20, 2016	$507,000 to $663,000	$169,000 to $221,000	Not Recommended
Colgate Palmolive	April 18, 2016	$0	$0	Not Recommended
Johnson & Johnson	June 20, 2016	$290,000 to $380,000	$96,667 to $126,667	Discussion Tabled
Nestle Holdings	June 20, 2016	$585,000 to $765,000	$195,000 to $255,000	Recommended
Walmart	February 22, 2016	$585,000 to $765,000	$195,000 to $255,000	Recommended

Discussion Notes for Companies Recommended Be Added to the Do-Not-Buy List

The Committee recommends that Council put the following companies on the City's Do-Not-Buy List:

Walmart

Focused Public Comment:	December 2015/February 2016
Discussion:	February 2016
Financial Impact:	As of meeting date, loss of between $585,000 and $765,000 in income over the next three years ($195,000 to $225,000 annually) if no equivalently yielding investments are found.

The committee reached consensus that there were enough concerns to recommend Walmart for the DNB List. Concerns included:

- Concerns about abusive labor practices:
  - The company policy of cutting back hours of 44% of its employees to reduce the need to offer healthcare insurance.
  - A documented track record of safety, labor, and human rights abuses, especially within the supply chain overseas.
- Concerns about corrupt corporate ethics and governance:
  - Corrupt corporate ethics and governance in the form of policies that result in health, safety, and human rights abuses such as the refusal to sign the binding Accord on Fire and Building Safety in Bangladesh.
- Concerns about excessive market dominance causing disruptions to normal competitive market forces:
  - The creative destruction of local communities; for example, the company practice of moving into a small community, underselling local retailers and suppliers to the point that they are forced to close thereby causing residents to leave or settle for lower wage employment, and then closing the Walmart store thereby further devastating the local economy.
  - The company's manipulation of volume discounts which cause many manufacturers and jobs to move overseas.
  - The lack of any observable plan on Walmart's part that would remedy these concerns.

Wells Fargo Bank

Focused Public Comment:	December 2015/February 2016
Discussion:	February 2016
Financial Impact:	As of meeting date, loss of between $1.8 and $2.3 million in income over the next three years ($600,000 to $766,667 annually) if no equivalently yielding investments are found.

The committee reached consensus that there were enough concerns to recommend Wells Fargo for the DNB List. Concerns included:

- Concerns about impacts on human rights:
  - The company's continued contracted services for and financing of the private prison industry that has been the subject of multiple lawsuits over egregious basic human rights violations, especially within minority and immigrant communities.
  - Allegations by multiple human rights organizations including Enlace and Occupation-Free Portland that, as one of the largest creditors to for-profit prisons, the company has refused to respond to concerns for their role in an industry that seeks to expand and depends on financing.

- Corrupt corporate ethics and governance:
  - The company's involvement in predatory lending, systemic mortgage accounting abuses, sub-prime lending, illegal foreclosures and possible illegal student loan servicing practices, and former involvement in high-risk payday lending which targets the most financially vulnerable.
  - Wells Fargo Bank and Wells Fargo Asset Management are governed by the same board of directors and therefore, the corporate ethics of Wells Fargo Asset Management extend to Wells Fargo Bank.

Caterpillar

Focused Public Comment:	February 2016
Discussion:	March 2016
Financial Impact:	As of meeting date, loss of between $750,000 and $1 million in income over the next three years ($250,000 to $333,333 annually) if no equivalently yielding investments are found.

The committee was unable to reach consensus and voted 4-2 to recommend that Caterpillar be added to the Do-Not-Buy List. Robert Landauer and Sayer Jones voted in opposition.

Four of the committee members had serious concerns with enough of Caterpillar's practices to recommend that Caterpillar should be placed on the DNB List. Concerns included:

- Health concerns including weapons production:
  - The company's practice of selling custom weaponized military equipment and its involvement in human rights controversies, including direct maintenance and support of Israeli military bulldozers during attacks on Palestinian residences, orchards, and other property, and sold despite many years of criticism and attempts at engagement by human rights organizations.
- Corrupt corporate ethics and governance:
  - Caterpillar is under federal investigation for bribery and accounting fraud.
  - The company has been criticized by shareholders for executive salaries.
  - According to Occupation-Free Portland, Caterpillar refuses to acknowledge any wrongdoing or complicity in Israeli attacks on Palestinians despite documented pressure from numerous human rights organizations, church groups, peace organizations, and the United Nations.
- Extreme tax avoidance:
  - According to a Senate investigative committee report, Caterpillar engages in extreme tax avoidance by shifting profits to Swiss bank accounts, evading $2.4 billion in taxes while receiving over $199 million in tax subsidies from 17 different states.
- Environmental concerns:
  - Caterpillar is a key contractor in the construction of the Dakota Access Pipeline, a major element in the future of fracking-sourced oil in North Dakota's Bakken Formation and an important part of fossil-fuel production in the US. This construction, as it is under widespread attack by indigenous Sioux residents of the area, is also a violation of the Sioux's human rights as defined by the UN's statements on indigenous people.
  - Caterpillar is dependent on and a supporter of not only the fossil fuel industry but more broadly in the mining and extractive industries that will continue to be opposed for climate and other environmental reasons with financial risks of mounting losses.
- Abusive labor practices:
  - There are pending lawsuits over unfair labor practices and labor disputes.
- Impacts on Human Rights:
  - Findings by the United Nations Human Rights Council that Caterpillar's armored D-9 bulldozer is being used by the Israeli military to carry out violations of UN agreements involving attacks on civilians.

Two of the committee members felt that the company's behavior was not egregious enough to place it on the DNB List. Discussion included:

- The company's MSCI ratings are not among the "worst of the worst" and the company has not violated enough of the Council-approved criteria to warrant addition to the DNB list.
- The company should not be held responsible for how its products are used.
- Controversial use of Caterpillar's products results from the resale of its products by the US Government – placing Caterpillar on the list would be hypocritical unless the City is prepared to divest from US government bonds and other US Government suppliers.

Bank of New York Mellon

Focused Public Comment:	March 2016
Discussion:	April 2016
Financial Impact:	As of meeting date, loss of between $1.3 and $1.6 million in income over the next three years ($433,333 to $533,333 annually) if no equivalently yielding investments are found.

The committee reached consensus that there were enough concerns to recommend BNY Mellon for the DNB List. Concerns included:

- Corrupt corporate ethics and governance:
  - A $714 million settlement of lawsuits alleging deceptive rates on foreign exchange transactions.
  - A $180 million class-action lawsuit settlement with the State of Oregon over allegations of pension fraud.
  - An FDIC lawsuit over the fraudulent sale of mortgage-backed securities to Guaranty Bank and failure on the part of BNY Mellon to do its due diligence as bond trustees.
  - Concerns that BNY Mellon rates below average compared to its peers on governance.
- Impacts on human rights:
  - Although the committee also discussed that BNY Mellon is most likely the trustee for these shares rather than the direct share owner, BNY Mellon has been identified by Enlace as a major active investor in Corrections Corporation of America and GEO Group, which are for-profit prison companies.

HSBC Bank

Focused Public Comment:	March 2016
Discussion:	April 2016
Financial Impact:	As of meeting date, loss of between $1.9 and $2.6 million in income over the next three years ($633,333 to $866,667 annually) if no equivalently yielding investments are found.

The committee reached consensus that there were enough concerns to recommend HSBC for the DNB List. Concerns included:

- Corrupt corporate ethics and governance:
  - A $4.3 billion penalty over alleged collusion to manipulate the $5.3 trillion-a-day foreign exchange market.
  - Investigations and $2 billion in penalties paid over allegations of helping clients in tax evasion.
  - Lawsuits over alleged facilitation of money laundering activities for Mexican drug cartels and its involvement in multiple money laundering scandals including the money laundering corruption case against FIFA.
  - A $470 million settlement with the US Department of Justice, the US Department of Housing and Urban Development, the Consumer Financial Protection Bureau and 49 states including Oregon

over egregious mortgage loan origination, servicing and foreclosure abuses.
    - A class action lawsuit over alleged price manipulation of Treasury securities and pension fraud.
    - The committee's perception that HSBC has an extensive pattern of ongoing resistance to fines and seems to treat fines as a cost of doing business.
- Extreme tax avoidance:
    - Investigations into whether the company helped its clients to evade taxes and its involvement in the Panama Papers scandal.
- Exercise of such a level of market dominance so as to disrupt normal competitive market forces:
    - Investigations into price manipulations of Treasury securities and bribery.
    - Investigations and settlements over currency manipulation.
    - Concern that the bank is considered too big to fail.

JP Morgan Chase

Focused Public Comment:	March 2016
Discussion:	April 2016
Financial Impact:	As of meeting date, loss of between $975,000 and $1.275 million in income over the next three years ($325,000 to $425,000 annually) if no equivalently yielding investments are found.

The committee reached consensus that there were enough concerns to recommend JPMC for the DNB List. Concerns included:

- Abusive labor practices:
    - A $950 million settlement over alleged failure to pay overtime wages and provide proper breaks to loan modification underwriters.
- Corrupt corporate ethics and governance:
    - A $1.4 billion settlement over alleged involvement in the collapse of Lehman Brothers holdings.
    - Investigations into alleged price manipulation of the $12.5 trillion US Treasury market.
    - An investigation into its involvement in a money laundering corruption case against FIFA.
    - An $892 million penalty paid to regulators over foreign exchange market manipulation and other numerous price manipulation and fraud cases.
    - A $614 million settlement with HUD, the FHA, and the VA for intentional underwriting of non-compliant FHA and VA mortgage loans, causing substantial losses to both agencies when the unqualified loans failed.
    - A US bribery investigation into hiring practices in the Asia Pacific region which alleges that JPMC's China operation hired the children of powerful Chinese government officials to secure important contracts.
    - A $125 million settlement over improper credit card debt collection practices and other multi-million dollar settlements over excessive overdraft fees and improper charges on credit card insurance.
    - The feeling on the part of the committee that the company views misbehavior as a way of doing business.
- Extreme tax avoidance:
    - Independent and US Justice Department Investigations over alleged tax avoidance schemes.
    - The bank's involvement in the Panama Papers scandal.

Amazon.com

Focused Public Comment:	May 2016
Discussion:	June 2016
Financial Impact:	As of meeting date, loss of between $741,000 and $969,000 in income over the next three years ($247,000 to $323,000 annually) if no equivalently yielding investments are found.

The committee was unable to reach consensus and voted 3-1 to recommend that Amazon.com be placed on the DNB List. Kristen Sheeran voted in opposition.

Three of the committee members had serious concerns with enough of Amazon.com's practices to recommend that they should be placed on the DNB List. Concerns included:

- Environmental concerns:
  - Reported issues with supply chain trash and the company's unwillingness to disclose information about its carbon footprint.
- Concerns about abusive labor practices:
  - Documented and alleged poor working conditions in warehouses, employee lawsuits, OSHA penalties, and two worker deaths at fulfillment centers.
  - Strange policies such as workers not being allowed to call 911 and Amazon employing an in-house medical team.
  - Investigations into alleged violations of labor laws.
- Concerns about corrupt corporate ethics and governance:
  - Investigations into tax evasion in the UK and France.
  - Sales tax avoidance in the US in the form of lobbying to make consumers responsible for reporting tax.
- Concerns about exercise of such a level of market dominance so as to disrupt normal competitive market forces:
  - Class action lawsuits against the company over e-book pricing and the company's practice of sanctioning books from publishers that propose changes to business terms.
  - Underpricing of books and retaliation against publishers and authors that challenge the company's policies and practices.
  - Violations of the Robinson-Patman Act in the form of price discrimination and the use of computer cookies to charge differential pricing for the same product.

One committee member felt that the company's behavior was not egregious enough to place it on the DNB List. Discussion included:

- Though some of the company's practices are unsavory, they are not illegal.
- The success of Amazon.com has much to do with changes in the economy and harkens back to other advances that have occurred in technology and business over the years.
- Until the company's practices are regulated and considered illegal, they cannot be held accountable for conducting business as usual.

<u>Nestle</u>

Focused Public Comment:	May 2016
Discussion:	June 2016
Financial Impact:	As of meeting date, loss of between $585,000 and $765,000 in income over the next three years ($195,000 to $255,000 annually) if no equivalently yielding investments are found.

The committee reached consensus that there were enough concerns to recommend Nestle for the DNB List. Concerns included:

- Health concerns including weapons production:
  - A long-running scandal involving the improper marketing of infant formula which contributed to widespread infant deaths.
  - Violations of the World Health Organization International Code of Marketing of Breast-milk Substitutes.
- Concerns about abusive labor practices:

- Examples of serious child labor abuses including forced child labor in the cocoa supply chain.
- Examples of forced labor practices and extreme labor rights abuses in the supply chain in Thailand including extreme physical abuse, neglect, murder, and false imprisonment of workers.
- A feeling that, despite the company's assertions to the contrary, the company knows exactly what has been happening within its supply chain over the past 15 years and simply does not care.
- A feeling that the company has done little to address these concerns over the years and that they are only willing to make the smallest possible changes unless they are pushed.

- Concerns about corrupt corporate ethics and governance:
  - Allegations of anti-competitive price fixing all over the world.
  - The company's unresponsiveness to community concerns regarding water consumption in drought-affected areas, including Oregon.

Credit Suisse

Focused Public Comment:	June 2016
Discussion:	July 2016
Financial Impact:	As of meeting date, loss of between $1.5 and $2 million in income over the next three years ($500,000 to $666,667 annually) if no equivalently yielding investments are found.

The committee reached consensus that there were enough concerns to recommend Credit Suisse for the DNB List. Concerns included:

- Corrupt corporate ethics and governance:
  - A multitude of instances of severe ethics violations in the form of bribery, fraud, and market manipulation as reported by MSCI.
  - The company's alleged involvement in a conspiracy to manipulate the London Interbank Offered Rate (LIBOR), the global interbank benchmark interest rate, and the resulting investigations, lawsuits, penalties, and other sanctions.
  - In addition to the LIBOR conspiracy, persistent fraud before and during the financial crisis of 2008 which caused significant negative impacts on consumers, municipalities, and the global financial market affecting mortgages, pensions, student loans, and financial derivatives.
  - A $1.9 billion settlement over manipulation of the International Swaps and Derivatives Association benchmark interest rates.
  - A $29 million penalty for misrepresentation of mortgage securities sold to credit unions.
  - Regulatory and civil lawsuits over antitrust violations for alleged manipulation of treasury securities.
  - Regulatory probes over foreign exchange market manipulation.
  - A class action lawsuit filed by the US Public School Teacher's Pension and Retirement Fund of Chicago over alleged manipulation on the interest rate swap market.
  - Lawsuits over facilitating terrorism by allegedly funneling money through the US to Iran in violation of the Iran Sanctions Law.
  - A culture of corruption with little effort being made to self-correct.
  - The bank's list of transgressions is longer than most of the other banks the committee has discussed.
  - In the committee's opinion, Credit Suisse is among the "worst of the worst."
- Extreme tax avoidance:
  - The company pled guilty to criminal charges and paid $2.6 billion in fines for assisting American clients for decades with evading taxes via offshore shelters.
  - Investigations into alleged involvement in the FIFA money laundering scandal.
  - Investigations into the bank's complicity in offshore tax evasion by German citizens.

<u>Societe Generale</u> – No Longer Eligible for City Purchase of Corporate Securities

Focused Public Comment: June 2016
Discussion: July 2016
Financial Impact: Unknown as company is no longer an Eligible Issuer.

Societe Generale is no longer an Eligible Issuer. However, the committee reached consensus that, should the bank ever regain eligibility, there are enough serious concerns to recommend the bank for the DNB List. Concerns include:

- Corrupt corporate ethics and governance:
  - Allegations of bribery and fraud including investigations, lawsuits, penalties and other sanctions by regulators for involvement in the London Interbank Offered Rate (LIBOR) interbank lending rates manipulation conspiracy.
  - Regulatory probes over alleged collusion to manipulate the foreign exchange market.
  - A $26.75 million settlement over alleged manipulation of municipal bond derivative prices.
  - Lawsuits and regulatory investigations into precious metals price manipulation.
  - Investigations into alleged money laundering and violations of sanctions and embargos on Iran, Cuba, and Sudan.
  - The fact that most of the corruption allegations are recent and that the bank qualifies as being among the "worst of the worst."
- Extreme tax avoidance:
  - The company's role in the Panama Papers tax evasion scandal.
  - A $1.4 million penalty for allegedly assisting US clients to evade taxes.

Discussion Notes for Companies Recommended Not Be Added to the Do-Not-Buy List

The committee reviewed the following companies and determined they would not be recommended for the City's Do-Not-Buy List:

<u>Colgate Palmolive</u>

Focused Public Comment: March 2016
Discussion: April 2016
Financial Impact: As of meeting date, $0 loss in income over the next three years ($0 annually) if no equivalently yielding investments are found. The company is trading even with US Treasury securities.

The committee reached consensus that Colgate Palmolive should not be recommended for the DNB list because:

- The company does not appear to have any significant egregious practices.
- The board of directors appears diverse.
- There are no links to negative outcomes in Portland.
- There is nothing really troubling about the company.

<u>US Bancorp</u>

Focused Public Comment: March 2016
Discussion: April 2016
Financial Impact: As of meeting date, loss of between $975,000 and $1.275 million in income over the next three years ($325,000 to $425,000 annually) if no equivalently

yielding investments are found.

The committee reached consensus that US Bancorp should not be recommended for the DNB list because:

- Though the bank has some controversial issues, there are not enough severe issues related to Council principles to merit a recommendation for inclusion on the DNB List.
- The bank has far fewer controversial governance issues than its peers.
- The bank has taken steps to limit its exposure to subprime mortgages and it also discontinued its short-term deposit advance (payday lending) program.

Berkshire Hathaway

Focused Public Comment:	April 2016
Discussion:	May 2016
Financial Impact:	As of meeting date, loss of between $585,000 and $765,000 in income over the next three years ($195,000 to $255,000 annually) if no equivalently yielding investments are found.

The committee voted five-to-one that Berkshire Hathaway should not be recommended for the DNB list. Hyung Nam voted in opposition.

Five of the committee members felt that the company's behavior was not egregious enough to place it on the list. Concerns included:

- The company's MSCI ratings are not among the "worst of the worst" and that the company has not violated enough of the Council-approved criteria to warrant addition to the DNB list.
- For such a large company, the number of lawsuits is very small.
- The company does not appear to have any significant egregious practices.
- Holding such a large holding company accountable for the behavior of subsidiaries is challenging.
- Berkshire Hathaway has only recently purchased Precision Castparts and has not been given the opportunity to address concerns related to the company.
- Berkshire Hathaway has been responsive to concerns about coal trains and dam removal and is taking steps to make improvements in both areas.

One of the committee members had serious concerns with enough of Berkshire Hathaway practices to recommend that Berkshire Hathaway should be placed on the DNB List. Concerns included:

- Environmental concerns:
  - The company's ownership of Burlington Northern Santa Fe Railroad and its involvement with coal trains and the fossil fuel industry.
  - The company's ownership of Precision Castparts which has been accused of polluting Johnson Creek in Oregon.
- Health concerns including weapons production:
  - A Center for Public Integrity report that Clayton Homes, a Berkshire subsidiary, engaged in predatory lending and is involved in a class-action lawsuit for supplying FEMA with formaldehyde-laced trailers during Hurricane Katrina and other relief efforts.
- Concerns about corrupt corporate ethics and governance:
  - A feeling that Berkshire Hathaway has been resistant to criticism and is reluctant to respond to pressure, especially with respect to fossil fuels.
- Concerns about impacts on human rights:
  - That Berkshire's investments in Petro China help to support the government in Sudan which has been blamed for genocide in Darfur.

BlackRock

Focused Public Comment: April 2016
Discussion: May 2016
Financial Impact: As of meeting date, loss of between $875,000 and $1.148 million in income over the next three years ($291,667 to $382,667 annually) if no equivalently yielding investments are found.

The committee reached consensus that BlackRock should not be recommended for the DNB list because:

- The MSCI reports did not show enough severe issues related to Council principles to merit a recommendation for inclusion on the DNB list.
- Though BlackRock has some issues, they do not appear to be the subject of any targeted campaigns.
- According to the MSCI reports, there are no pressing reasons to add them to the DNB list.
- Most of the conglomerate's assets seem to be passively managed.
- BlackRock has been sensitive to ESG concerns and has done a good job of evolving.

Coca Cola

Focused Public Comment: May 2016
Discussion: June 2016
Financial Impact: As of meeting date, loss of between $507,000 and $663,000 in income over the next three years ($169,000 to $221,000 annually) if no equivalently yielding investments are found.

The committee reached consensus that Coca Cola should not be recommended for the DNB list because:

- The MSCI reports did not show enough severe issues related to Council principles to merit a recommendation for inclusion on the DNB List.
- Though Coca Cola has some issues, especially with groundwater depletion, there appear to be relatively few controversies or lawsuits.
- The company has been more responsive than its peers when controversy does arise.

ING Groep/ING Bank

Focused Public Comment: June 2016
Discussion: July 2016
Financial Impact: As of meeting date, loss of between $1.5 and $2 million in income over the next three years ($500,000 to $666,667 annually) if no equivalently yielding investments are found.

The committee reached consensus that ING Groep/ING Bank should not be recommended for the DNB list because:

- The MSCI reports did not show enough severe issues related to Council principles to merit a recommendation for inclusion on the DNB List.
- The company has many fewer issues and of less severity than most of the other banks discussed.

MUFG Union Bank, N.A.

Focused Public Comment: June 2016

Discussion: July 2016
Financial Impact: As of meeting date, loss of between $645,000 and $845,000 in income over the next three years ($215,000 to $281,667 annually) if no equivalently yielding investments are found.

The committee reached consensus that MUFG Union Bank, N.A. did not present enough issues to merit recommendation to the DNB List.

Sumitomo Corporation – No Longer Eligible for City Purchase of Corporate Securities
Focused Public Comment: June 2016
Discussion: July 2016
Financial Impact: Unknown as company is no longer an eligible issuer.

Sumitomo is no longer an Eligible Issuer, however, the committee agreed that it would not have been recommended for the DNB List.

Bank of Tokyo-Mitsubishi UFJ

Focused Public Comment: June 2016
Discussion: July and August 2016
Financial Impact: As of meeting date, loss of between $1.5 and $2 million in income over the next three years ($500,000 to $666,667 annually) if no equivalently yielding investments are found.

In July, The committee was unable to reach consensus on whether or not to recommend the Bank of Tokyo-Mitsubishi UFJ for the DNB List. Voting resulted in a tie. Hyung Nam, Katrina Scotto di Carlo voted in favor. Dave Cutler and Robert Landauer voted against. It was decided that the committee would continue the discussion at the August meeting.

More research was conducted on the Bank of Tokyo-Mitsubishi UFJ between meetings. At the August meeting, committee members concluded the bank is not great from a governance perspective. Despite the negative governance perspective, Bank of Tokyo-Mitsubishi UFJ does not seem to be among the worst of the worst. After further discussion it was determined by consensus that the Committee would not recommend Bank of Tokyo-Mitsubishi UFJ for the DNB List.

Members present at the August meeting were Sayer Jones, Hyung Nam, Katrina Scotto di Carlo, and Robert Landauer. Hyung Nam and Katrina Scotto di Carlo, who previously voted in favor of recommending the bank for the DNB List, voted against. Sayer Jones and Robert Landauer also voted against recommending the company for the DNB List.

Companies for Continued Discussion in the Future

Johnson & Johnson

Focused Public Comment: May 2016
Discussion: June 2016
Financial Impact: As of meeting date, loss of between $290,000 and $380,000 in income over the next three years ($96,667 to $126,667 annually) if no equivalently yielding investments are found.

The discussion on Johnson & Johnson was tabled and will be taken up at a later date. Discussion included:

- The lack of comparison information for other pharmaceutical companies.

- Though the company is involved in some serious controversies related to health concerns, the committee does not have enough information to make an informed decision on whether the company can be considered among the worst of the worst.
- Apart from health concerns, there are not any substantial pressing issues.
- The committee would like to discuss the company again in the context of other comparable companies.

Committee Process

The Committee agreed to meet monthly in its first year to gather information, develop the committee process and timeline, and to make determinations. The first meeting was held on September 9, 2015. Focused and general public comments were invited at all meetings.

At the September, October, and November meetings, committee members were provided with a history of how the committee came to be formed based on the work of the Temporary Socially Responsible Investing Committee, and reviewed the permanent committee's charge. A detailed overview of the City's investment process was presented. Information presented included: the laws and constraints concerning municipal investing, the City's investment practices and policies, a review of the City's portfolio, and the most recent list of Eligible Issuers. Governing documents for the Committee, including bylaws, were drafted and a meeting cycle and temperature gauge tool were developed. Committee members and staff agreed to report any between-meeting communications with the rest of the group.

It was decided at the November meeting that Walmart and Wells Fargo would be discussed in December and that Caterpillar would be discussed in January 2016. At the December meeting, the committee began establishing a discussion schedule for reviewing eligible issuers that they believed were among the "worst of the worst" and received MSCI reports for Walmart, Wells Fargo, and Caterpillar. Public comment was taken on Walmart and Wells Fargo. Due to scheduling conflicts there was no January meeting. The rest of the discussion schedule (through October 2016) was completed at the February and March meetings.

Focused public comments were taken over the month preceding the Committee's discussion of a company. At every meeting, the Committee was given an estimation of the financial impact to the City's investment portfolio should that company be added to the Do-Not-Buy List. After thoughtful consideration of in-person and written public comments and the information provided in the MSCI reports, the companies were discussed and through a consensus process when possible, recommendations were developed. Where consensus was not possible, the committee took a vote. Where voting occurred, both points of view and reasons have been included in this report. The committee's recommendations were then revisited in August and September with the development of the report, and the final recommendations report was submitted to Council in September.

Conclusion

In conclusion, the Socially Responsible Investments Committee was charged with making recommendations on eligible issuers that should be included on the City's Do-Not-Buy-List, based on a defined set of Council-adopted principles. We began our work by studying the list of issuers and identifying those that we knew to employ controversial practices. MSCI reports, individual committee member research, and public comment were all tools that we used to consider each company. As a result of our work, the committee is recommending that 10 of the 20 eligible issuers that we analyzed be placed on the DNB List. We were able to reach consensus on eight of the 10. The two eligible issuers recommended for the DNB List on which we were unable to reach consensus and for which voting occurred are Caterpillar and Amazon.com.

One of the more challenging aspects of our work was balancing each eligible issuer's overall business practices and weighing the seriousness of specific practices against the Council Principles as a whole. The issue of how to regard an eligible issuer that demonstrates particularly reprehensible behavior in one area of concern, but not in others, was often encountered. In addition, committee members had differing perspectives on how to characterize eligible issuers with certain business practices that could be considered morally deplorable, but are legal and commonly practiced. Examples of this include Amazon.com's business model's effect on local businesses, the controversial use of Caterpillar products, and whether Berkshire Hathaway should be held accountable for the behavior of its subsidiaries. At times, we found it challenging to know how to address instances of egregious behavior that do not fit neatly into any one of the Principles, as is the case with the private prison issue.

In addition to identifying eligible issuers with behavior that would place them among the "worst of the worst", we were also to consider the financial impact its recommendations would have on the City. We are aware that placing an eligible issuer or eligible issuers on the DNB List could result in a significant loss of available dollars if no equivalently yielding investments are found. The committee as a whole wrestled with determining at which point the moral implications of investing in an eligible issuer, and the potential to make a change-inducing statement, outweigh and justify the financial impact to the City. There were differing points of view on the subject. It has also been noted that the Treasurer has based financial loss estimates on the US Treasuries benchmark. However, it is possible that the City's portfolio returns may exceed or underperform these estimates. Despite the financial implications and unknowns, there is consensus that eight of the ten eligible issuers we have recommended merit inclusion on the City's DNB List.

We would appreciate any guidance Council can offer on the above considerations going forward.

In addition to our recommendations for the DNB List, the committee has several process and policy-related recommendations we would like Council to consider:

- In September 2015, Mayor Hales put forth a resolution that declared a moratorium on all future fossil fuel investments. This unilateral condemnation of a particular industry seems an important tool for the SRIC to consider since our work is directly impacted. The SRIC would be interested in the Council providing process as to how the SRIC might propose similar moratoriums in the future. While the SRIC has not formally discussed industries, an example might be the privatized prison industry. The benefit to declaring a unilateral moratorium would be to simplify our charter in regards to these industries, but also to strengthen our communication to players in those industries. At the very least, the Committee would like to suggest the addition of a Council Principle for companies that run, finance, or invest in for-profit prisons.
- The Committee felt that dividing corporate issuers along the Principles laid out in the resolution was not a black and white effort, but rather shades of gray. For this reason, the SRIC would like to introduce a "Watch List" for corporate issuers that are balanced dangerously close to being added to the DNB List. This would be an intermediary step for companies that exhibit troubling behavior, but do not rise to the level of being included on the List. We would appreciate having the charge to notify companies that they are on this Watch List and for what reason so that they have the opportunity to respond, correct their actions, and get off the Watch List. This Watch List will also give future SRIC members a prioritized list of companies to review. A process for monitoring and rewarding companies that improve their practices in the areas of Council Principles should also be developed.
- Formal consideration of how the DNB List can be used as a tool in procurement activities: While we recognize there is a bureaucratic distinction between Treasury and Procurement, the committee feels that the DNB List should extend to general procurement. Considering the copious amount of reading, research, and decision-making involved in the SRIC process, the recommendations – only addressing purchasing securities of corporate issuers – is not a

comprehensive approach. For example, the Committee feels that it is inconsistent and counterproductive for the City to add a particular bank to the Do-Not-Buy list and continue to maintain deposits at that bank.

Committee member may choose to submit additional individual comments or statements directly to Council.

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 Commissioner Steve Novick for initiating the resolution that created the committee and made these recommendations possible. Finally, we would like to thank Katie Shriver from Commissioner Novick's office, and Kelly Ball, Jennifer Cooperman, Julian Massenburg, and Janet Storm from the Office of Management and Finance, for their staffing support throughout this process.