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CITY OF PORTLAND

OFFICE OF MANAGEMENT AND FINANCE

Socially Responsible Investing Committee Meeting Wednesday March 19, 2014

- Public Members Present:** Barry Bennett, Bernie Bottomly, Felisa Hagins, Ashley Henry, and Jenny Liu
- City Personnel Present:** Kelly Ball, Jennifer Cooperman, Timur Ender, Bryan Hockaday, Commissioner Steve Novick, Michael Montgomery, Katie Shriver, Janet Storm, and Andrea Valderrama
- Guests Present:** Barbara Ellis

Welcome: Steve Novick, Commissioner

Each attendee introduced him/herself. Commissioner Novick thanked the committee members for their service to the City and gave an overview of how the committee came to be formed.

- The Council is very interested in incorporating socially responsible investing practices into the City's investment policy.
- Due to restrictions imposed by Oregon laws ORS 294 and 295, the City has very limited investment choices.
 - The City may purchase only fixed income securities.
 - The list of approved corporate bonds from which the City may choose is very small.
- Due to the very specific financial criteria that exists, incorporating socially responsible investments into the City's portfolio will be a unique and difficult task.

Council decided that the best and most efficient approach would be to have a temporary citizen committee determine whether a dedicated citizen advisory committee, a specialized investing firm or some other mechanism would best determine which types of corporate bonds the City should not buy based on socially responsible practices. Council then identified specific ethical practices that should result in the exclusion of certain corporate bonds from the City's investment policy. These include corporations that:

- engage in practices that damage the environment;
- abuse labor practices;
- violate basic ethical standards, e.g., bribery;
- practice extreme tax avoidance; or
- exercise such a level of market dominance as to disrupt normal, competitive market forces.

Council approved a resolution in October 2013 creating a temporary committee that will determine the best approach for incorporating socially responsible investments into the investment policy going forward.

Committee Charge: Katie Shriver, Policy Director

Katie Shriver, Policy Director, Office of Commissioner Steve Novick, went over the committee charge. The purpose of the committee is to study the City's investment policy and processes and to make recommendations to Council on strategies for incorporating social and ethical concerns.

Council will be the ultimate decision-maker with regard to which investments are to be excluded. The committee's recommendation to Council must include an analysis of the effectiveness, cost, and practicality of two possible strategies, and any other strategies the committee may identify:

- Create a standing committee that will periodically advise Council on which companies and/or industries to avoid; or
- Hire an investment consultant to advise Council on managing its corporate investments.

Committee Operation Review: Kelly Ball, Principal Management Analyst

Kelly Ball, Principal Management Analyst, Office of Management and Finance, gave an overview of several organizational items and thanked Timur Ender for scheduling the committee. There will be four meetings, possible five if necessary, and she went over the meeting schedule. The City Treasurer will attend all of the meetings. The committee may also form ad-hoc sub-groups. The proposed work plan includes the committee purpose, timeline, process and an overview of all four meetings.

- The first meeting is informational and includes a detailed overview of the City's financial and investing process.
- The second meeting will include presentations by investment consultants who all have experience in social and environmental fixed income investing, and an overview of practices from other cities nationally.
- The third meeting will include follow-up information and staff will work with the committee to draft its recommendations. The recommendations will then be sent to the City's standing Investment Advisory Committee (IAC) for review and comment.
- The fourth meeting will include feedback received from the IAC. Staff will continue to work with committee members to finalize details and to send final recommendations to the City Council. The committee will decide at this point if a fifth meeting is necessary. The committee will terminate on July 31.

Ball discussed the decision making and public comment processes, and deliverables. Staff will forward any public comments to the committee between meetings. The committee then went over the bylaws and agreed that decision points should be clearly defined and documented and a simple majority would constitute a quorum.

The committee unanimously agreed that decisions will be made by consensus, and that as a very last resort, a vote will be held and a minority report submitted if consensus is not possible.

Approval of Bylaws and Work Plan

- The committee unanimously approved the bylaws and the work plan.

Investment Presentation: Jennifer Cooperman, City Treasurer

City Treasurer Jennifer Cooperman led the committee through a detailed PowerPoint presentation of the City's investment operations, the City's current investment policy and processes, and the corporate issuers that currently meet the City's criteria.

- According to City Code 3.08, the City Treasurer is the custodian of City funds and is the manager of the Public Finance and Treasury division of the Office of Management and Finance. The City Treasurer oversees debt management, banking services, merchant services, and investment activities.
- The City gets its operating cash from a variety of sources including debt proceeds, utility payments, parking fees, permits and taxes. The cash is either deposited or invested depending on the City's liquidity needs, level of interest rates, and eligible investments available and is then used for a variety of needs including payroll, vendor bills and debt payments.
- Operating cash averages approximately \$1.08 billion during the year. Operating funds do not include pension funds or deferred compensation funds. The City targets 2-5% of its assets for bank balances which is less than most cities.
- All of the city's cash management and investment activities are performed in-house by a tightly coordinated staff. The operation is centralized to ensure efficiency, economy of scale, control, accountability, and legal compliance.
- Investment earnings pay for Treasury operations. Treasury operates on a break-even basis, is self-supporting through an administrative fee and remits net investment earnings to all City funds. The administrative fee fluctuates but typically falls below 1 basis point.
- Oregon State Laws ORS 294 and ORS 295 limit the types of investments the City can make. The City may not invest in equities, mutual funds, or money market funds. The City must make direct investments in individual securities.
- The City's investment policy is reviewed by the Oregon Short Term Fund Board and the City's Investment Advisory Committee and is adopted by the City Council annually.
- The investment policy's highest priority is preservation of principal followed by liquidity and rate of return.
- 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.
- 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 based on socially responsible principles.

Cooperman explained that as the committee determines the mechanism for implementing the policy, it must also take into consideration a number of factors including which definitions for "socially responsible" will be used, how often the definitions might change as corporate structures change, how to measure and monitor compliance, how to implement the program and how to determine the outcomes and measure impact.

Timing is crucial, as the market is extremely dynamic. It will be important that companies be pre-vetted to enable Treasury to respond in time to bond offers. The committee is a starting point for creating the processes and practices to meet these needs and for determining the best entity to create the do-not-buy list.

Public Input: Kelly Ball/Community

There were no public comments.

Next Steps: Kelly Ball/Katie Shriver

Ball and Shriver asked the committee to review the materials again for the next meeting and to be sure to notify staff if they require any additional information. They also welcomed suggestions on other firms that the committee might like to hear from. The committee requested that the meeting materials as well as best practices information be emailed to each of the members.

The meeting adjourned at 5:30 p.m.