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# CITY OF PORTLAND

OFFICE OF MANAGEMENT AND FINANCE

## Socially Responsible Investing Committee Meeting Thursday, April 3, 2014

**Members Present:** Bernie Bottomly, Felisa Hagins, Ashley Henry, and Jenny Liu

**Members Absent:** Barry Bennett

**City Personnel Present:** Kelly Ball, Jennifer Cooperman, Timur Ender, Katie Shriver, and Janet Storm

**Panelists:** Jonas Kron, Trillium Asset Management  
John Streur, Portfolio 21

**Guests Present:** Barbara Ellis and Sandy Polishuck

### Public Input

There were no public comments at the beginning of the meeting.

### How Other Cities Address This Issue: Timur Ender

Timur Ender summarized research he and Katie Shriver conducted on socially responsible investing approaches in other US cities. Out of 23 jurisdictions contacted, 11 responded to the outreach including nine cities, one county and the District of Columbia.

- Of the 11 respondents, four incorporate some socially responsible criteria into their investments, but have no formal policy: Madison, WI; San Francisco, CA; Boulder, CO; and Amherst, MA.
- Berkley, CA, which did not respond to the study but had information available on their website, incorporates socially responsible criteria in its investment policy by way of avoiding investments in securities known for their association with fossil fuels, gun manufacturing, tobacco, and nuclear weapons.
- San Francisco implemented a combination of qualitative criteria, as well as categorical criteria. The Treasurer's Office uses third party services such as the Investors Responsibility Research Center or contacts the company in question directly to evaluate securities.
- Due to statutory constraints, Eugene, OR; Ann Arbor, MI; Chapel Hill, NC; Richmond, VA; and Thurston County, WA do not invest in any kind of corporate securities. The District of Columbia does not invest in corporate securities except for commercial paper, and Durham, NC invests only an immaterial portion of its portfolio in corporate debt.
- Eugene, OR makes all of its investments through the state LGIP. The city is in the process of lobbying the state treasurer to cease investing in fossil fuels through the LGIP and the state pension fund.
- Of the jurisdictions that did implement some socially responsible criteria, the trend is divestment in fossil fuels.
- There is no standard model that the cities follow. None of the cities have gone as far as to create a "do not buy" list or to create a committee to examine the issue.
- More information on San Francisco's model will be sent to committee members.

### **Environmental, Social and Governance (ESG) Concept Presentation: Katie Shriver**

Katie Shriver introduced two guest panelists, John Streur of Portfolio 21 and Jonas Kron of Trillium Asset Management LLC. Both panelists are experienced in the field of Environmental, Social, and Governance (ESG) investing. 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. Shriver and Ball explained that the presentations were strictly informational and did not constitute any type of hiring or contracting process.

John Streur explained that Portfolio 21 practices exclusively in the ESG field. There is no ESG reporting requirement so the firm must research and understand the risks a company poses to society and the risks to the company as a result of its behavior. For example, Oil companies must maintain a “social license” to do business in a certain region. If the company’s socially responsible record is damaged, the company may lose its social license to operate in that region.

Socially Responsible Investing (SRI) and ESG concepts are not completely the same. ESG investing is an evolution of SRI. Mainstream investors have begun to use more ESG criteria when analyzing companies to determine risks. One way to do this is to use reports from MSCI, Inc., which is a global provider of ESG data. Streur said that the City’s ability to implement a process and policy would be driven by the available data. Data continues to become more readily available to meet the demands of individual investors and global insurance and financial companies. Europe is leading the way in ESG investing and many U.S. investment firms have European mandates that govern criteria.

Streur said that the City could set its own ESG standards against which to score companies and that these standards could be factored into the investment policy periodically. He suggested that the policy could be revisited quarterly and that an in-house rating system could be implemented, although it was not necessary. He said that the key would be constant back and forth communication between the companies and the Treasury office. Streur said that an investment firm could probably do this work for the City but that the fees on the types of short-term investments the City makes could be cost prohibitive. If the City were to employ such a firm, it would need to find one that would bill benevolently. He did not feel that contracting with an outside firm would be the best solution.

Jonas Kron agreed that there is a vast amount of information available. In addition to MSCI, there are other companies that screen companies and generate ESG ranking reports such as EIRIS and Sustainalytics in Europe. He said that though the reports can come at a considerable cost, there is really no need for staff to try to perform this research on its own.

Kron said that there is also a very good report called the Fresh Fields Fiduciary report generated by the Asset Management Working Group of the United Nations Environment Programme Finance Initiative, which analyzes the legal and practical aspects of integrating ESG issues into institutional investments. In his opinion, the best way to go about setting a policy would be to employ a negative screen and there are a lot of firms that do this type of work.

Kron cautioned that some screens were harder to run than others. For example, screening for weapons is easy. Screening for environmental issues can be tricky as considerations tend to be more qualitative than quantitative. Some of the issues about which the City is concerned, such as abusive labor practices, are very qualitative, and could prove challenging to evaluate unless the City were to define some very distinct criteria. MCSI does run scans that can take qualitative criteria into consideration and generate reports that rank companies based on the greatest risk. Rankings can also change based on market sector. Typically, the reporting agencies update reports each year but controversial issues are usually updated on an as needed basis.

Steur advised the committee that ideally, the City should incorporate some outside engagement into the final process, but he felt that hiring a rating agency would be too expensive. In his opinion, the best course would be to “marry aspiration with reality” by identifying concrete criteria and then working with a small group of local citizen investment experts who would be willing to share their advice. One way to define criteria would be to set up “traps” to identify companies that have been charged, fined or have incurred regulatory actions. He said that there are many ways to hold companies accountable.

The committee agreed that the objective was for the City to achieve its goals without creating a framework that would impair the Treasury Office. Kron and Steur said that, while the Council has taken on a very large initiative, it was possible to identify two or three very large considerations that can be implemented without setting the bar too high for Treasury. Kron and Steur said that the bottom line was that no matter who the City consults, they should be expert and trusted.

### **Discussion of Environmental, Social and Governance (ESG) Concepts**

The committee’s charge was clarified as to not only identify who would make investment recommendations to Council, but also to create a basic framework for the process. Ultimately Council would be the owner of the process as criteria, principles and Council members will change over time.

The committee decided that at the next meeting, each member will propose a course of action to begin to identify areas of agreement and build the model to recommend to Council. The committee agreed that although the charge did not come with financial limitations, the committee will take cost and staffing bandwidth issues into consideration. The committee asked staff to research ballpark costs for outside investors.

The committee will also take into account timelines, data availability, definitions, pros and cons of each process, and the idea that Portland would be setting the standard for other cities. Therefore, the final process should be carefully documented and replicable. This will provide the groundwork for the committee to make a final recommendation to Council.

Questions to address are as follows:

- 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?

Another option for consideration: the City could solve the entire issue by not purchasing corporates at all. This strategy would mean lower returns, but the lower returns might be mitigated by the cost savings of not hiring consulting or ratings firms. Cooperman will create a cost comparison and a basic outline of this option to present at the next meeting.

**Additional Information**

In order to adhere to public meetings laws and requirements, if the group has ideas they want to share with other prior to a meeting, the information should be sent to Ball, who will then forward to the group and maintain a copy of the record.

**Public Input**

Barbara Ellis of the organization 350PDX.org said that because of the budget shortfall, she did not feel that the City should hire an outside firm and that Treasury should assume the responsibility for creating and implementing the “do not buy” list.

Sandy Polishuck of 350PDX.org said that the Socially Responsible Investing Committee was created by Commissioner Novick in direct response to a 350PDX.org request that the City divest from fossil fuels. She said that she hopes that the committee will make this one of their recommendations and that implementing this is as simple as consulting an online list. She said that it is important that Portland be the leader in this initiative.