



# CITY OF PORTLAND

OFFICE OF MANAGEMENT AND FINANCE

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**City of Portland  
Socially Responsible Investments Committee  
Monday, April 18, 2016**

**Committee Members Present:** Dave Cutler, Sayer Jones, Robert Landauer, Hyung Nam, Katrina Scotto di Carlo.

**Committee Members Absent:** Kristen Sheeran

**City Personnel Present:** Kelly Ball, OMF Business Operations; Jennifer Cooperman, BRFS Treasury; Katie Shriver, Commissioner Novick's Office; Janet Storm, OMF Business Operations.

### **Welcome and Introductions**

Ball went over the agenda and process.

### **Communications**

Nam wrote an editorial for the Portland Business Journal about the committee's meeting on Caterpillar and met with people from the Alliance for Democracy to discuss creating a municipal bank in Portland.

Scotto di Carlo spoke with a public employee from Edmonton, Canada who is interested in setting up a similar committee.

Ball spoke with several people regarding the committee process.

Ball provided information on public meetings laws and asked committee members not to email the group or each other between meetings regarding committee business. This will ensure all committee deliberation happens in an open forum (i.e. during the meetings). If committee members have information they wish to share, it can be sent to Ball, who will determine the most appropriate way to disseminate the information in compliance with public meetings laws.

### **Select Companies**

MSCI reports on the overseas banks Mitsubishi UFJ Financial Group Inc./The Bank of Tokyo-Mitsubishi UFJ/MUFG Union Bank, BNP Paribas, Credit Suisse, ING Groep/ING Bank, Societe Generale, and Sumitomo Corporation were not included in the City's current subscription. However, the City will upgrade its subscription and the reports will hopefully be available in time for the committee to discuss the banks at the July meeting.

A draft schedule, based on discussions from the March meeting, was proposed as a starting point to determine the Committee's schedule through September.

The draft schedule was modified to include Amazon.com instead of Proctor & Gamble (see attached).

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The committee requested a copy of the 3M MSCI report as a reference, not for review. Based on the MSCI reports, 3M was the highest scoring company of any on the current review list.

## **MSCI Reports**

MSCI banking industry and ESG reports were distributed for BlackRock and Berkshire Hathaway. Ball explained that it was not possible to get MSCI reports for the overseas banks in time for the meeting. Therefore, staff moved forward and requested reports on these two companies which the committee previously earmarked for discussion.

Nam expressed concern that the MSCI reports were incomplete and that it is important for committee members to do their own research.

Jones explained that the purpose of ESG investing for which the MSCI reports are created is to determine risks to stock value based on sustainability and ethical considerations. The committee's charge is much broader and includes an examination of social behavior and social impacts but it does not include risks to stock value. Therefore, the criteria and principles that the committee must consider may not be included in the reports.

## **Committee Discussion**

### **Colgate Palmolive**

Cooperman reported that Colgate Palmolive was trading even with US Treasury securities and that there would be no additional yield over three years. Putting Colgate Palmolive on the City's Corporate Securities Do-Not-Buy (DNB) List would have \$0 impact.

There was consensus that the company would not be recommended for the DNB List.

Discussion included:

- 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.

### **Bank of New York Mellon**

Cooperman provided the estimated financial impact of placing Bank of New York Mellon (BNY Mellon) on the DNB List. If BNY Mellon is put on the DNB List, the City could lose between \$1.3 and \$1.6 million in income over a fully invested three year period.

Jones noted that BNY Mellon is a banker of large, corporate funds and does not take consumer deposits. Therefore, it does not have the same exposure to retail customers.

The MSCI reports indicated that the bank had been the target of a class-action lawsuit involving the State of Oregon for pension fund fraud which was settled for \$180 million dollars. If this is true, the committee indicated they will be very concerned.

Cooperman will contact the State Treasurer and inquire about the class action lawsuit, and will report any information at the next meeting.

The committee reached consensus that there were concerns with enough of BNY Mellon's practices to recommend that they should be placed on the DNB List.

Discussion included:

- Concerns about corrupt corporate ethics and governance.
  - A \$714 million dollar 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.
  - A US 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.
- Concerns about impacts on human rights.
  - 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, although the committee also discussed that BNY Mellon is most likely the trustee for these shares rather than the direct share owner.

## **HSBC Bank**

Cooperman provided the estimated financial impact of placing HSBC Bank on the City's Corporate Securities DNB List. If HSBC is put on the DNB List, the City could lose between \$1.9 and \$2.6 million in income over a fully invested three year period.

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

Concerns included:

- Concerns about 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 DOJ, HUD, 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.
- Concerns about extreme tax avoidance
  - Investigations into whether the company helped its clients to evade taxes and its involvement in the Panama Papers scandal.
- Concerns about 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 Bank NA**

Cooperman provided the estimated financial impact of placing JP Morgan Chase Bank NA (JPMC) on the City's Corporate Securities DNB List. If JPMC is put on the DNB List, the City could lose between \$975,000 and \$1.275 million in income over a fully invested three year period.

There was consensus to recommend JPMC be placed on the DNB List based on serious concerns with JPMC's practices.

Discussion included:

- Concerns about abusive labor practices
  - A \$950 million settlement over alleged failure to pay overtime wages and provide proper breaks to loan modification underwriters.
- Concerns about 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 penalty paid to regulators over foreign exchange market manipulation and other numerous price manipulation and fraud cases.
  - A \$614 million dollar 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.
- Concerns about extreme tax avoidance
  - Independent and US Justice Department Investigations over alleged tax avoidance schemes.
  - The bank's involvement in the Panama Papers scandal.

## **US Bancorp**

Cooperman provided the estimated financial impact of placing US Bancorp on the City's Corporate Securities DNB List. If US Bancorp is put on the DNB List, the City could lose between \$975,000 and \$1.275 million in income over a fully invested three year period.

There was consensus that the US Bancorp would not be recommended for the DNB List.

Discussion included:

- 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.

### **Focused Public Input: BlackRock, Berkshire Hathaway**

There was no public comment.

### **General Public Comment**

The Committee took general public comment. Peter Miller, Occupy-Free PDX, said it would be interesting to see how many of the banks the committee is evaluating will be named as involved in the Panama Papers scandal.

### **Next Steps**

The May meeting will include:

- Public comment on Coca Cola, Johnson & Johnson, Nestle Holding, and Amazon.com at the next meeting.
- Committee discussion of Berkshire Hathaway and Blackrock.

More information and a full meeting schedule is available at <http://www.portlandoreogn.gov/omf/sric>.