Municipal Finance Authority of BC

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MEMORANDUM

DATE: September 7, 2016

TO: Municipal Finance Authority Members

RE: The MFA's position on divestiture from fossil-fuel related assets

The MFA Investment Advisory Committee and Trustees received several reports from both our fund managers, Phillips, Hager, and North, and management in late 2015 and early 2016 on the topic of fossil fuel divestment. In addition, we monitored the review processes and outcomes of other institutional investors, namely large Canadian Universities, to the divestiture question. It is worth noting that every Canadian University that we are aware of that has formally considered this option has elected not to pursue divestiture.
As a result of these reviews and third party analysis, the committee instructed MFA management to maintain the status quo with respect to Pooled Fund investment offerings at this time. MFA Members were informed of this decision at our recent Annual General Meeting.

The issues we considered included:

- The difficulty of defining what corporations would be considered fossil fuel or related companies as there are a wide variety that could be contemplated, including extraction, pipeline, transportation, and other companies that are large scale users of fossil fuel. There is no industry standard around this terminology.
- The impact that divestment would have in concentrating existing portfolios into remaining sectors, resulting in reduced diversification
- The primary goals of MFA Pooled Funds which are to provide the lowest possible cost and risk, for the highest possible return for our customers.
- Unlike other investment portfolios, our Pooled Funds are limited to fixed income investments by our Act and may not invest in equities or outside of Canada. To our knowledge, there are currently no fossil-fuel-free fixed income funds in Canada.

- Bond holders have less influence than shareholders. As BC Local Governments are precluded from investing in equities, the amount of influence that could be exerted is questionable.

- Oil and gas related businesses represent a meaningful portion of the Canadian economy and capital markets, and some BC communities are well-supported by these industries. Any changes made to the structure of the MFABC investment funds affect ***all*** clients invested in the funds, not just those that wish to divest from fossil fuels.

- Many of the large fuel intensive companies are also some of the largest investors in renewable energy production and research, therefore excluding them also excludes opportunities to invest in fossil-fuel alternatives.

- Many standalone renewable energy companies are non-investment grade, carrying a credit rating of below BBB, making them ineligible for MFABC's investment funds. Those that are investment grade are few in number and small in issuance and have low secondary market liquidity, making them difficult or expensive to buy and sell.

- The difficulty to create new fund(s) with enough consistent investment to offset related costs (economies of scale and consistency of amounts invested to sustain a viable fund).

- We have had very little demonstrated demand from our clients to make changes to existing Pooled Fund offerings.

- The fact that the Pooled Fund Portfolios are voluntary and our clients have other options to those products available to them.

If you have questions or comments to share with our team and our Trustees, please email us at: mfa@mfa.bc.ca