

RELEVANT INFORMATION FOR COUNCIL

FILE: X005604 **DATE:** 25 July 2016
TO: Lord Mayor and Councillors
FROM: Bill Carter, Chief Financial Officer
THROUGH: Monica Barone, Chief Executive Officer
SUBJECT: Information Relevant To Item 6.2 – Investments Held as at 30 June 2016 -
At Council - 25 July 2016

Purpose

To provide additional information on the City's Investment Policy and Strategy.

Background

At the meeting of the Corporate, Finance, Properties and Tenders Committee on 18 July 2016, Dr Jason Wu spoke on behalf of 350.org, to seek the City's support to amend our investment policy and strategy to communicate a clearer intention to move away from fossil fuel investing banks.

The Council first formally introduced social and responsible investment criteria into its investment policy and strategy back in 2008, although environmental investments were already being actively incorporated into the portfolio as appropriate instruments came onto the market. Since that time, the Council has progressively strengthened its position within a tightly restricted legislative framework.

The City remains committed to the ongoing development of socially and responsible investments (SRI), and its current investment policy and strategy express support where these investments meet the same investment risk and return criteria as any other investment opportunity, provided they comply with the legislative and our policy objectives and parameters. The policy defines environmentally and socially productive activities as well as activities that are considered harmful, in order to guide investment recommendations.

The current legislative framework, and the Ministerial Investment Order, provide restricted investment opportunities limited to investment in term deposits and bonds with an active secondary market with either the NSW Treasury Corporation or Approved Deposit Taking Institutions. The options range from the "Big 4" banks right down to the more local mortgage providing building societies, and do not on their own preclude greater diversification of the portfolio.

At present, we invest with a broad range of financial institutions, with around 56% invested in the "Big 4" (or related) banks, with the remaining 43.6% diversified through 15 other approved financial institutions. The most significant constraint to diversifying a greater proportion of our portfolio to the smaller financial institutions is the current magnitude of the City's portfolio.

The City has good relationships with its financial institutions, and regularly meets to advocate for new investment vehicles and products that will achieve our desire to increase our commitments to socially responsible investments. While there has been much ongoing discussion on the subject, there has been some positive movement with NAB issuing a Green Bond last year which met all of our desired criteria. Unfortunately, the City was unable to procure any of the Green Bonds as extremely strong market demand from larger investors for this product vastly outstripped supply. However, this should guarantee additional socially responsible investment products in the near future.

To further encourage this development, we are writing to all of the banks with which we invest, clearly stating council's preference for socially responsible investing practices, in line with our Sydney 2030 Strategic Vision and the expectations of our community. We will advocate our interest in investment products that meet our social and environmental responsible criteria, where they:

- comply with our investment policy and strategy criteria;
- satisfy our overarching objective to maintain a balanced and diversified portfolio, that safeguards council's funds; and
- achieve an appropriate return, that is comparable or better, than those offered where the funding is reinvested to fund coal, oil or gas production.

With respect to our investments in the smaller financial institutions, the reality is that, while we monitor and control the individual and collective exposures to these institutions, they also have constraints as to the value of funds they can utilise. For instance, mortgage broking institutions have a lower exposure to the fossil fuel industry because they finance homes and investment properties, a focus which also has natural limitations to how much may be reinvested. In placing investments, these institutions currently advise when they are unable to accept our funds on offer.

The City will continue to advocate for positive development in this investment field. While the investment policy and strategy were only recently adopted in February 2016, including debate at that time on the wording of our social and environmentally responsible criteria, the ongoing interest in this area warrants an early review after election of the new council.

In that review, we will recommend further strengthening our policy to state that preference will be given to financial institutions and products that meet our socially responsible criteria, provided that they comply with our investment policy, including all risk parameters, and return rates that are comparable or better to that offered in the range of permissible investments. We will also expand our current definitions of environmentally harmful activities to clarify that the current reference to production of greenhouse gases includes coal, gas and oil production, as this has been raised as an issue previously. The revised Investment Policy will be brought to Council for approval.

These changes would not adversely impact Council's overarching objective of maintaining a balanced and diversified investment portfolio that safeguards Council's funds and achieves an appropriate return for the risk exposure, with adequate liquidity to support council operations.

The monthly Council reports will continue to reflect the status of the investment portfolio, but will also report any additional socially responsible investment opportunities that Council has been able to acquire.

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approved

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