



# Valley Water

Clean Water • Healthy Environment • Flood Protection

# FY 2020-21 Investment Policy, Executive Limitation, and ESG Policy

Presented by: Charlene Sun, Treasury and Debt Officer

# Recommendation

Approve the Revised Fiscal Year 2020-2021 Investment Policy and update Executive Limitation 4.7 Financial Management:

## 3.5.1 California Bank Investments

Keeping investments to local banks, within the Bay Area, to keep money at home and jobs local; invest only in banks with below \$10 billion in assets; and **keep a minimum of 4% of liquid cash in banks with up to \$10 billion in assets and 1% in banks with up to \$2 billion in assets** for a limit of 5 years (short term) at the discretion of the treasurer; such investments may be in the form of collateralized deposits, **FDIC/NCUA insured CDs, CDARS, or any other legally allowable deposits.**

## 7.13.3 Prohibited Banks

**No investments will be made in any banks who do not have an ESG ranking at or better than the “Average/Medium” category by at least one of the professional ESG research companies such as Sustainalytics, or other equivalent rankings published by other ESG research firms. Small and local banks/credit unions located within the nine Bay Area counties with total assets at or below \$10 billion are exempt from this provision.**

**E.L. 4.7.7: Valley Water shall not do business with banks who do not have an ESG ranking at or better than the “Average/Medium” category by at least one of the professional ESG research companies such as Sustainalytics, or other equivalent rankings published by other ESG research firms. Small and local banks/credit unions located within the nine Bay Area counties with total assets at or below \$10 billion are exempt from this provision.**

# Environmental, Social, Governance (ESG) Evaluation Criteria

- Professional ESG research firms use proprietary data collection and evaluation criteria to assign ESG ratings
- “Average or Medium” ESG rating signals that the company has implemented ESG policies and management practices that result in a medium level of ESG risk exposure.
- Sample ESG criteria:

ESG Criteria	Description
Corporate Governance	Factors evaluated include: Board and executive management quality and integrity, structure, ownership and shareholder rights, compensation, audit and financial reporting and stakeholder governance
Business Ethics	Factors evaluated include: money laundering policy, bribery & corruption policy, business ethics and compliance to law, whistleblower policy, lobbying and political expenses, accounting and taxation policies, anti-competitive practices, and sanctions against the company

# ESG) Evaluation Criteria - continued

ESG Criteria	Description
Product Governance	Factors evaluated include: socially responsible product design and marketing practices, cybersecurity policies, quality and safety practices, fair billing and post sale responsibility to customers and stakeholders
Data Privacy and Security	Factors evaluated include: data governance practices and policies regarding the collection, use and management of protected customer data
ESG Integration - Financials	Factors evaluated include: environmental/social/carbon/human rights impact of products, financial inclusion, credit and loan standards, responsible investment program, sustainable financial initiatives and responsible asset management
Human Capital	Factors evaluated include: management of human capital, labor relations, non-discriminatory policies, working conditions, employee training, minimum wage/compensation policies, collective bargaining, gender equality and diversity programs
Resilience	Factors evaluated include: financial management policies and practices that promotes compliance with regulatory capital requirements, solvency, operational resilience, leverage and financial flexibility



# Sample ESG Rating – Prohibit Investments in Deutsche Bank

6

SUSTAINALYTICS ESG RISK RATING REPORT

Date Apr 27, 2020

## Deutsche Bank AG

33.2 High Risk

Diversified Banks | Germany | ETR:DBK



### Attribution Analysis

#### Top Material Issues

- 1 Corporate Governance
- 4 2 Business Ethics
- 3 3 Product Governance
- 4 Data Privacy and Security
- 5 ESG Integration - Financials
- 6 Human Capital

#### ESG Risk Rating

Score	Negl 0-2	Low 2-4	Med 4-6	High 6-8	Severe 8+
4.3			▼		
9.8					▼
5.6			▼		
4.4			▼		
4.1			▼		
2.6		▼			

# QUESTIONS





# Valley Water

Clean Water • Healthy Environment • Flood Protection