



City of Seattle

Seattle City Employees' Retirement System

ESG Quarterly Update: Second Quarter 2019



Introduction

The Board of Administration directed SCERS on February 12, 2015 (and reaffirmed on August 10, 2017) to undertake a *positive action strategy* that beneficially impacts climate change in a manner that is fully consistent with SCERS's mission and fiduciary responsibilities

SCERS staff provides a quarterly update to the Board on Environmental, Social and Governance ("ESG") issues, specifically related to climate change, and the positive action strategy

Positive Action Strategy

Shareholder
Advocacy

Sustainability
Investments

Integrating Climate
Risk into the
Investment Process



Investor Organizations and Initiatives

SCERS is an active member in investor organizations and initiatives, providing an opportunity to learn from and collaborate with others on ESG matters

Investor Organizations	 Network on Climate Risk and Sustainability	 The voice of corporate governance	 Principles for Responsible Investment
Primary Focus	Environmental	Governance	Environmental, Social, Governance
Mission	Advance leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet	Be the leading voice for effective corporate governance practices for US companies and strong shareholder rights and practices	Understand the investment implications of ESG factors and support its signatories in incorporating these factors into their decisions
Membership	North American institutional investors	US pensions and other benefit funds	Global institutional investors

Investor Initiatives	 Global Investors Driving Business Transition	 a project of majorityaction
Primary Focus	Environmental (Climate Change)	Environmental (Climate Change)
Mission	Ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change	Harness the power of investors to promote climate responsibility on corporate boards and accelerate economy-wide decarbonization
Membership	Global institutional investors	US institutional investors



Shareholder Advocacy

Description

SCERS is an active shareholder employing its available rights to encourage companies to take actions that help mitigate climate change, which include increased disclosure, conducting climate risk assessments and ensuring robust government regulation

Current Focus

Interact with SCERS-invested managers so that they fully understand the financial impact of climate change and support actions that help mitigate climate change through their proxy voting and corporate engagement efforts

Engage, alongside other institutional investors, with a limited set of the highest fossil fuel-emitting companies so that they take necessary action on climate change

Advocate, alongside other institutional investors, for preserving and strengthening shareholder rights with regulators, policymakers and other relevant bodies



Shareholder Advocacy

Quarterly Activity



Staff participated in group calls with other investors to strategize on next steps in engagements with The Southern Company, ExxonMobil, Boeing and Weyerhaeuser.



The Securities and Exchange Commission (SEC) granted ExxonMobil's request to dismiss a shareholder resolution that would have required the company to disclose greenhouse gas emission targets aligned with the Paris Climate Agreement. SCERS and other shareholders had signed a supplemental SEC letter in support of this resolution.



SCERS signed on to a letter sent by Ceres to House Committee on Financial Services Chairwoman Maxine Waters expressing support for the existing rules governing the shareholder proposal process under SEC Rule 14a-8, and opposing any potential rulemaking efforts to restrict shareholder rights by the SEC.



Sustainability Investments

Description

Proactively evaluate investments that are expected to help address climate change, such as renewable energy infrastructure, and selectively make such investments if economically equivalent or superior to other available investments in the same category

Current Focus

Commit additional capital to the Infrastructure asset class to achieve its target weight (3%) by investing in diversified managers who preferably have experience and capabilities in the renewable energy sector

Evaluate other sustainability investments, such as green bonds and clean tech, through discussions with SCERS-invested managers



Sustainability Investments

Quarterly Activity

Brookfield

Brookfield, a SCERS-invested manager in the Infrastructure asset class, announced that it had made several renewable energy investments in Canadian hydro power, Indian wind power and Chinese solar power.



Integrating Climate Risk into the Investment Process

Description

Consider climate change as a risk alongside macroeconomic, geopolitical and other risks when making investment decisions, while also acknowledging that SCERS must take risk in order to generate the high return that it seeks

Current Focus

Work with NEPC to develop climate change scenario analysis that will be incorporated into the asset-liability study that is being conducted in 2019

Expand the integration of ESG considerations to all asset classes (from Public Equity and Infrastructure currently) where it is material



Integrating Climate Risk into the Investment Process

Quarterly Activity



Phil Nelson, Head of Asset Allocation at NEPC, gave a presentation at the April Investment Committee to preview the climate change scenario analysis that will be included in the forthcoming asset-liability study. SCERS was the first client to request that NEPC develop this analysis. NEPC plans to introduce this analysis to their other clients and will be presenting on this topic at their annual conference.



Staff Activity



Jill Johnson was appointed by the Board of the Council of Institutional Investors (CII) to the General Member's Advisory Committee (GMAC). The GMAC provides robust input to the CII Board and staff on policy, programming, other CII activities and member benefits. The GMAC has a maximum of 16 members, with up to four individuals from each of the public, labor, corporate and other constituencies.



Staff shared SCERS's ESG manager monitoring process with the Global Unions Committee on Workers Capital/SHARE. They wish to implement a similar process and had reached out after reading about SCERS in the press.



SCERS participated in a survey for the Thirty Percent Coalition, which seeks to increase gender diversity in the corporate boardroom.



Investor and Industry Developments



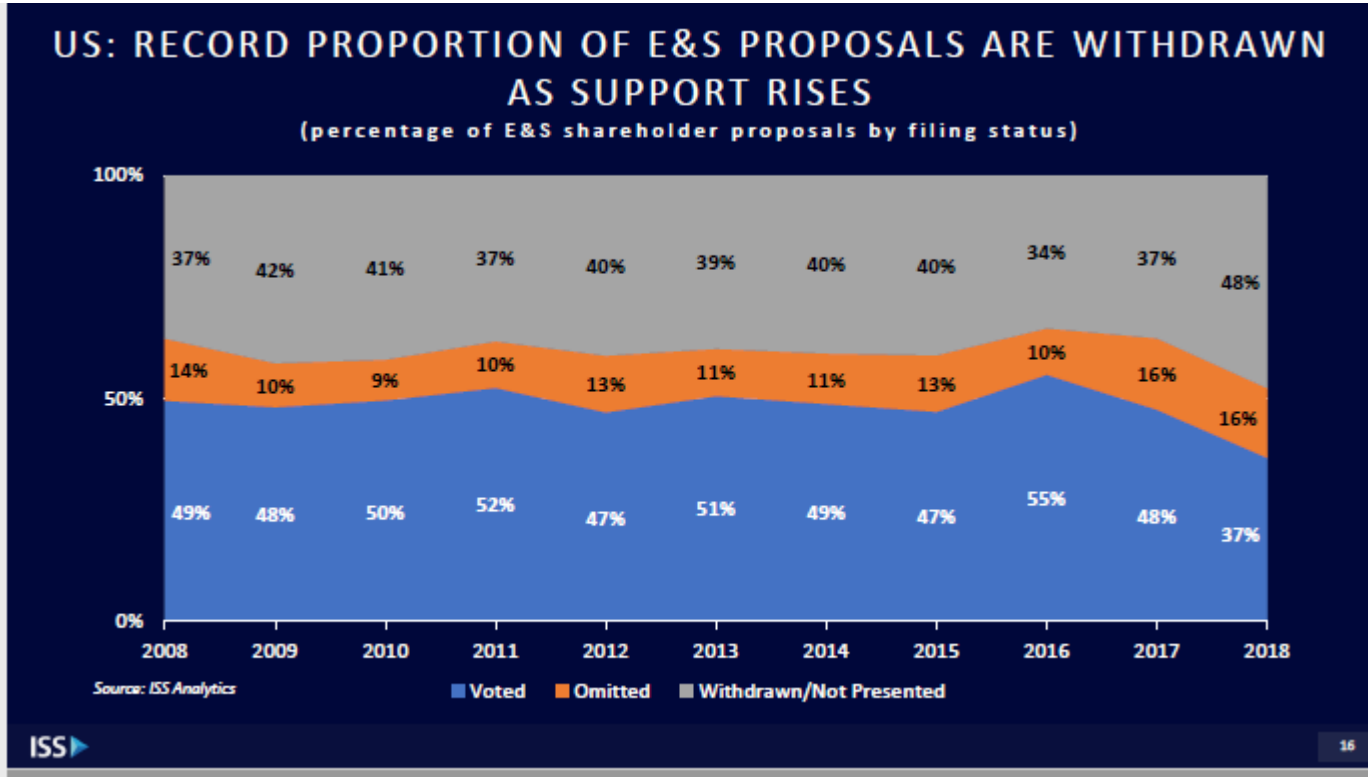
President Trump issued an executive order in April requiring the Department of Labor to evaluate the energy investments of ERISA-regulated retirement plans and the Department's guidance on proxy voting to determine if changes should be made. The executive order was purportedly to promote energy infrastructure development, but was interpreted as an effort to limit investors from engaging companies on ESG issues.



New York State Comptroller Thomas DiNapoli released a report from the Decarbonization Advisory Panel, which had been established to advise the New York State Common Retirement Fund on the financial impact of climate change. The panel did not recommend that the Fund pursue divestment. Rather, the panel recommended to increase funding of climate solutions and measure the readiness of its investments to climate change.

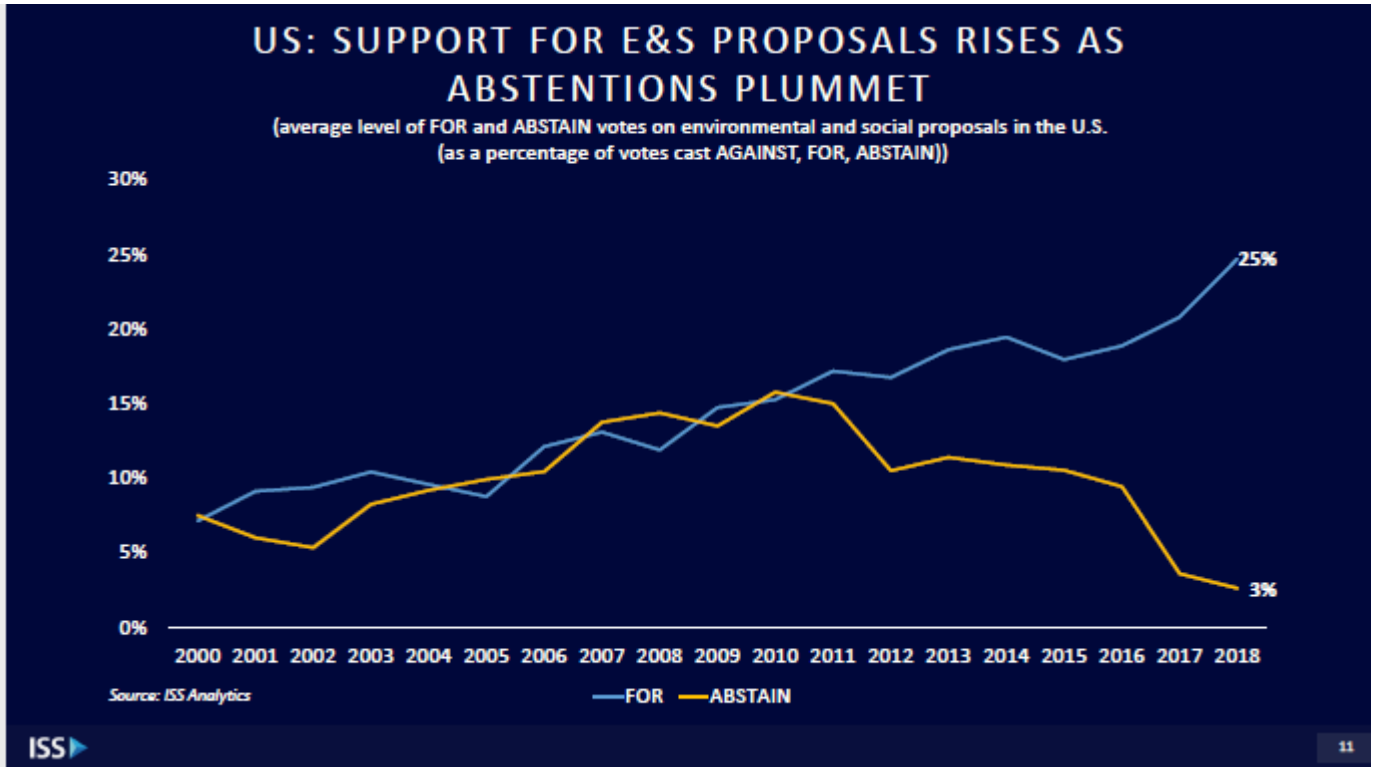


Investor and Industry Developments





Investor and Industry Developments





Appendix

SCERS Public Equity Allocation to Fossil Fuel Companies

As of December 31, 2018

SCERS Ownership	Account Type	Allocation (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$26.5	1.0%
Indirect	Commingled Fund	\$45.1	1.7%
Total		\$71.5	2.6%

Source: Bloomberg, Fossil Free Indexes, SCERS calculation; excludes overlay program, transition holdings

Note: Fossil Fuel companies as defined by the Carbon Underground 200, a list generated by Fossil Free Indices of the top 100 public coal companies globally and the top 100 public oil and gas companies globally ranked by the potential carbon emissions content of their proven reserves; Carbon Underground 200 constituents as of July 2016