



City of Seattle

Seattle City Employees' Retirement System

ESG Quarterly Update: Second Quarter 2018



Background



Introduction

The Board of Administration directed SCERS on February 12, 2015 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

The Board of Administration reaffirmed its support of the *positive action strategy* on August 10, 2017

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*

SCERS's investment consultant also provides an annual update on ESG



Positive Action Strategy Overview

Shareholder Advocacy

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

Sustainability Investments

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




Integrating Climate Risk into the Investment Process

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



ESG Investor Organizations

SCERS is a member of three ESG investor organizations that provide shared resources and collaboration opportunities

	 Ceres Investor Network on Climate Risk and Sustainability	 Council of Institutional Investors® 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	More than 130 institutional investors primarily located in North America that collectively manage more than \$17 trillion	120 US pension and other benefits funds with a collective \$3 trillion in assets under management	More than 1,700 signatories globally with a collective \$60 trillion in assets under management



Quarterly Update



Positive Action Strategy Update

Shareholder Advocacy



Southern Company

Southern Company produced a report titled, “Planning for a Low Carbon Future”¹, in response to prior engagements from an investor group that includes SCERS and a shareholder resolution at the company’s 2017 Annual General Meeting that narrowly failed. The investor group continues discussions with the Southern Company on the impact of climate change on its business.



SCERS continues to engage with ExxonMobil through the Climate Action 100+ group. On May 23, 2018, **ExxonMobil** announced new greenhouse gas reduction measures². Initial investor reactions suggest that while this is a welcome step by Exxon, it ignores product emissions that are of primary concern. The Climate Action 100+ group will be seeking to make further progress.

¹<https://www.southerncompany.com/content/dam/southern-company/pdf/corpresponsibility/Planning-for-a-low-carbon-future.pdf>

²<http://news.exxonmobil.com/press-release/exxonmobil-announces-greenhouse-gas-reduction-measures>



Positive Action Strategy Update

Shareholder Advocacy



SCERS joined 288 investors representing more than \$26 trillion in assets in signing the **Global Investor Statement to Governments on Climate Change**¹ that conveyed strong support for the Paris Agreement.

¹<https://theinvestoragenda.org/wp-content/uploads/2018/05/GISGCC-FINAL-for-G7-with-signatories-1.pdf>



Positive Action Strategy Update

Sustainability Investments

No updates this quarter.



Positive Action Strategy Update

Integrating Climate Risk into the Investment Process



SCERS and **NEPC's Impact Investing team** began a recurring quarterly ESG call to expand NEPC's contribution to the positive action strategy. NEPC shared their ESG manager ratings framework, which they soon plan to apply to SCERS's real estate managers.



Staff Activity



Jill Johnson attended the **CII Spring 2018 Conference** in Boston in March. The conference covered many topics including lessons learned from governance scandals occurring internationally, coordinating engagements with carbon intensive companies with the recently formed Climate Action 100+ group and provided productive networking opportunities with the 50/50 Climate Project, BlackRock and other public pension plans.

Jill also met with Boston-based groups and managers who SCERS has learn from and collaborated with on ESG, including Ceres, Walden Asset Management and Boston Common.



Jason Malinowski gave the keynote address to the **PRI Western North America Network** meeting in Vancouver, BC on May 9, 2018. He detailed SCERS's ESG journey and positive action strategy. He specifically focused on how small- and mid-sized institutions can achieve greater ESG impact by proactively working with their investment managers.



Investor and Industry Developments



The **U.S. Department of Labor** released a field assistance bulletin aimed at clarifying earlier interpretations from the Obama administration related to ESG. The bulletin seeks to narrow the instances where ESG issues may be considered by a plan fiduciary in making an investment decision. It also seeks to limit shareholder engagement activities when there is significant expense incurred by a plan fiduciary. Note that SCERS is not directly impacted by the bulletin, since it is not covered by ERISA.



George David Banks, a former energy advisor in the Trump Administration, launched the **Main Street Investors Coalition** that aims to curtail the ability of institutional investors to engage with corporations or sponsor shareholder resolutions on ESG issues like climate change. The campaign contends that institutional investors wield too much power at the expense of individual investors.

¹<https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2018-01>



Appendix



Fossil Fuel Company Exposure

SCERS Public Equity Allocation to Fossil Fuel Companies

Quarterly as of December 31, 2017

SCERS Ownership	Account Type	Allocation (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$33.9	1.2%
Indirect	Commingled Fund	\$52.1	1.9%
Total		\$86.1	3.1%

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