



City of Seattle

Seattle City Employees' Retirement System

ESG Quarterly Update: First 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 Ceres Investor Network on Climate Risk and Sustainability	 Council of Institutional Investors® The voice of corporate governance	 PRI 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

ExxonMobil

SCERS sent a letter to **ExxonMobil** on December 5, 2017 that was joined by the Illinois State Treasurer and Local Authority Pension Fund Forum and coordinated by the 50/50 Climate Project. The letter requested that shareholders have the ability to interact directly with ExxonMobil's board, which has become the standard practice amongst its peers. This change would allow shareholders to more effectively express their climate risk concerns. The letter also raised issues with board succession and director compensation.

In late December, ExxonMobil announced that it would allow key shareholders to meet members of its board¹. This policy change was attributed to Shareholder pressure. ExxonMobil also announced that it would comply with the 2017 shareholder resolution that requested climate risk disclosure².

¹<https://www.ft.com/content/5fb43100-e438-11e7-97e2-916d4fbac0da>

²<http://fortune.com/2017/12/12/exxon-mobil-climate/>



Positive Action Strategy Update

Shareholder Advocacy



SCERS signed on as a partner to the **Climate Action 100+** initiative¹. The five-year initiative coordinated by five partner organizations, including Ceres, PRI, CalPERS and sister international organizations, calls on investors to engage with the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change.

¹<http://www.climateaction100.org/>



Positive Action Strategy Update

Sustainability Investments



Global Infrastructure Partners, a SCERS-invested manager, agreed to take a controlling stake in **NRG Yield**. NRG owns NRG Yield, a publicly-traded company that operates and acquires renewable energy assets (primarily wind and solar).

¹<http://global-infra.com/documents/20180207.pdf>



Positive Action Strategy Update

Integrating Climate Risk into the Investment Process

BLACKROCK[®]

SCERS staff and NEPC met with Michelle Edkins, Managing Director, Global Head of Investment Stewardship, and Eric Shostal, Vice President, Investment Stewardship of **BlackRock** to perform ongoing due diligence of their investment stewardship approach, specifically as it relates to climate risk and other ESG issues. BlackRock remains on watch status due to ESG concerns, which will be next evaluated following the 2018 proxy voting season.

 **Dimensional**

SCERS staff held a conference call with Joel Schneider, Vice President and Senior Portfolio Manager and Lynden Park, Head of Corporate Governance of **Dimensional Fund Advisors (DFA)** to discuss their proxy voting approach following an analysis conducted by Mercer on behalf of SCERS. DFA has not voted for shareholder resolutions requiring increased climate risk disclosure.



Staff Activity

2018 Investor Summit on Climate Risk January 31 • UNITED NATIONS • NYC

Jill Johnson attended the **Investor Summit on Climate Risk** in New York sponsored by Ceres and the United Nations, including an invitation-only CIO/CEO Roundtable. The roundtable participants compared their organizations' efforts to consider and incorporate ESG factors. SCERS was the smallest US public pension plan in attendance. Yet the summary of our efforts to positively impact climate change was well-received and noted as more proactive than some of the other larger plans.



Investor and Industry Developments



A special meeting of the **San Francisco Employees' Retirement System (SFERS)** was held on January 24, 2018 to discuss a pending motion to divest of all fossil fuel holdings in a 180-day period. Staff and SFERS's consultant (NEPC) opposed this motion and it did not pass.

Instead, the Board passed a separate motion recommended by staff that included investing a portion of the public markets portfolio in a carbon-constrained strategy, hiring a Director of Socially Responsible Investing and identifying the “riskiest dirtiest fossil fuel assets” in the SFERS portfolio to begin a prudent phased divestment of these targeted assets.¹

¹https://mysfers.org/wp-content/uploads/SFERS-Boards-Phased-Divestment_press-release_1.25.2018.pdf



Investor and Industry Developments



New York City Mayor Bill de Blasio and Comptroller Scott Stringer submitted a joint resolution to the trustees of New York City's five pension plans to analyze ways to divest from fossil fuel companies that is fully consistent with their fiduciary obligations. They also announced a goal to divest in five years.¹



New York Governor Andrew Cuomo called on the **New York Common Fund** to cease new investments in fossil fuel companies and develop a divestment plan². The sole trustee for the Common Fund, New York Comptroller Tom DiNapoli, responded that there were “no immediate plans to divest our energy holdings”². Comptroller DiNapoli did agree to create an advisory committee with the Governor to explore these issues further.

¹<http://www1.nyc.gov/office-of-the-mayor/news/022-18/climate-action-mayor-comptroller-trustees-first-in-the-nation-goal-divest-from#/0>

²<https://www.governor.ny.gov/news/governor-cuomo-unveils-9th-proposal-2018-state-state-calling-nys-common-fund-cease-all-new>

³<https://www.bloomberg.com/news/articles/2017-12-19/cuomo-urges-new-york-pension-fund-to-end-fossil-fuel-investments>



Investor and Industry Developments



Created by seven partner organizations, including Ceres and PRI, **The Investor Agenda** seeks to accelerate action for a low carbon world. These organizations intend to produce an annual report on the actions that investors have taken and on the outcomes that have been achieved.



Other ESG Items



SCERS participated in a shareholder claim against **21st Century Fox** that was led by the City of Monroe Employees' Retirement System and represented by Labaton Sucharow. The claim was against the Board of Directors for failing to provide adequate oversight concerning settlements paid out for sexual harassment accusations against Roger Ailes and Bill O'Reilly. The shareholders reached a settlement with the company for \$90 million. 21st Century Fox also agreed to governance changes to improve the workplace environment at Fox News.¹

¹ <https://www.reuters.com/article/us-fox-settlement/21st-century-fox-in-90-million-settlement-tied-to-sexual-harassment-scandal-idUSKBN1DK2NI>



Other ESG Items



SCERS co-signed a letter with the Council of Institutional Investors (CII) and 44 additional investors and investor organizations to the **House of Representatives Committee on Finance Services** to express opposition to H.R. 4015, the “Corporate Governance Reform and Transparency Act of 2017.” This bill would require that proxy advisory firms share their research reports and proxy voting recommendations with the companies about whom they are writing before they are shared with the institutional investors who are their clients. The proposed legislation would weaken corporate governance in the United States and appears to be based on several false premises.¹

¹https://www.cii.org/files/issues_and_advocacy/correspondence/2017/Attachment%20to%20December%2012,%202017%20Letter.pdf



Informational Items

Activity Directed to SCERS

- 350 Seattle emailed Board members, staff and elected officials of the request by the New York City Mayor and Comptroller to divest the New York City pension funds of fossil fuels.

SCERS Press Coverage

- Euromoney did an in-depth review of the 2017 proxy voting season that discussed SCERS's decision to place BlackRock on watch status due to ESG concerns¹.
- Reuters covered the letter sent to Exxon by SCERS and two other pension funds in an article about Exxon's announcement that it will publish new details on how climate change could affect its business².

¹<https://www.euromoney.com/article/b15ttq0lxv7w5h/esg-the-stewardship-revolution>

²<https://www.reuters.com/article/us-exxon-mobil-climate/exxon-to-provide-details-on-climate-change-impact-to-its-business-idUSKBN1E602L>



Appendix



Fossil Fuel Company Exposure

SCERS Public Equity Allocation to Fossil Fuel Companies

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