



City of Seattle

# Seattle City Employees' Retirement System

ESG Quarterly Update: Third 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 sent a letter to Dimensional, a SCERS-invested manager, as part of an ongoing dialogue encouraging them to vote in favor of climate-related shareholder resolutions, specifically those seeking increased disclosure. The letter emphasized the importance of climate change as a long-term investor and the positive financial impact of past climate-related shareholders resolutions.



Staff participated in planning calls with the investor groups involved in the ongoing collaborative engagements with The Southern Company, ExxonMobil, Boeing and Weyerhaeuser.

### Multi-Company

SCERS signed on to “The Investor Expectations on Climate Lobbying” letter to 47 US companies along with over 100 investor supporters including lead signatories Walden Asset Management, CalPERS, CalSTRS, New York City Comptroller, New York State Comptroller, Mercy Investment Services, Wespath Investments, and BNP Paribas Asset Management.



# 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

**Quarterly Activity – No Updates this Quarter**



# 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, presented preliminary results of the asset-liability study at the July Investment Committee. The presentation included climate change scenario analysis that NEPC had developed based on a request from SCERS and anticipates rolling out to their other clients. NEPC developed four scenarios that correspond to varying global temperature increases and their associated physical and transition costs. NEPC suggested that SCERS's long-term return would be meaningfully lower in a dystopian scenario where nations reverse existing policies to mitigate greenhouse gas emissions leading to a temperature increase of 5°C or more.



SCERS received its 2019 PRI assessment based on staff-provided information and a comparison to other institutions. The assessment highlighted Strategy & Governance and Public Equity as areas of strength, but also showed that progress can be made in other asset classes.





# Staff Activity

## Pensions & Investments

Jason Malinowski gave the keynote interview at the Pensions & Investments' ESG Investing event in Chicago, IL. The interview was conducted by Alex Bernhardt, US Head of Responsible Investing at Mercer, and focused on the history, challenges and impact of the SCERS positive action strategy.



# Investor and Industry Developments



The Business Roundtable, whose members are CEOs of major U.S. companies, released a new statement of purpose<sup>1</sup>. It replaced their existing statement that corporations exist principally to serve shareholders with a broader focus on all stakeholders that also includes employees, customers, suppliers and communities. The new statement received substantial media coverage and a mixed reception. The Council of Institutional Investors expressed concern, stating that “the statement undercuts notions of managerial accountability to shareholders”<sup>2</sup>.



The Securities and Exchange Commission approved guidance stipulating that proxy advisory firms must make substantive disclosures in how they reached their voting recommendations<sup>3</sup>. The main proxy advisory firms (ISS, Glass Lewis) are concerned that the guidance will hamper their ability to deliver independent, timely and accurate research, data and insights and therefore hurt their investor clients who rely upon their advice.

<sup>1</sup> <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>

<sup>2</sup> [https://www.cii.org/aug19\\_brt\\_response](https://www.cii.org/aug19_brt_response)

<sup>3</sup> <https://www.sec.gov/news/press-release/2019-158>



# Informational Items



The King County Labor Council passed a resolution encouraging SCERS, the Washington State Investment Board and other institutions to pursue investments that help to create local affordable housing<sup>1</sup>. The request is based on the New York City Retirement System's economically-targeted investment program focused on affordable housing.

<sup>1</sup><http://mlklabor.org/resolutions/resolution-to-support-pension-funds-that-invest-in-union-built-affordable-housing/>



# 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