



Seattle City Employees' Retirement System

Environmental, Social and Governance (ESG) Update Fourth Quarter 2016

Purpose

This update is required by the following motion adopted by the Board on February 12, 2015:

*The Retirement Board of Administration directed that the Seattle City Employees' Retirement System (SCERS) pursue corporate engagement on climate change and other environmental issues, as presented by staff in their January 26, 2015 memorandum; and pursue, as appropriate, investments that are expected to produce investment results consistent with SCERS's fiduciary duty to its members and, if possible, also positively address climate change and other environmental issues. The Board recognizes that these types of investments (e.g. renewable energy, cleantech, and green bonds) are relatively new and limited in availability and will need to be considered prudently as SCERS pursues investments in its asset class (e.g. real assets, private equity, fixed income). **SCERS's staff and advisers will provide quarterly updates regarding Environmental, Social and Governance (ESG) investment issues** and incorporate ESG into SCERS's work plan. The Board directs SCERS's staff to engage with trade associations such as Coalition for Environmentally Responsible Economics (Ceres) and other pensions to examine an approach to ESG investments, and also to consider engaging with an independent consultant to assist in this review.*

Staff has focused on the environmental issue of climate change. At the Board's direction, other ESG matters may be considered in future updates.

Activity Directed to SCERS

- None

Industry Developments

- **CalSTRS** launched a search for up to 10 firms to provide ESG-focused and corporate governance services for public equities. Six of the ten will be awarded contracts for ESG focused public equity investment management services, while four will be awarded contracts for corporate governance public equity investment management services. CalSTRS is using the process to establish a 'pool' of qualified managers – which will be used to replace firms that "might be terminated in the future."
- **North Carolina Department of the State Treasurer** released a report based on a survey of institutional investors, including 61 US public pensions. They found that only 15% of US public pensions were active regarding ESG issues. Of those that were active, engagement was viewed as being more impactful than divestment.¹

Membership Organization Activity

- Jill Johnson participated in **Ceres**' monthly conference calls and frequent list serve activity for their *INCR Carbon Asset Risk Working Group*, the *INCR Policy Working Group* and the *Shareholder Initiative on Climate and Sustainability*.
- SCERS joined an additional INCR Working Group called, *Low Carbon, Clean Energy*.
- Jason Malinowski was invited by the San Bernardino County Employees Retirement Association to present on ESG at its Investment Forum in September 2016.
- Jill Johnson spoke on a panel titled "Practical Steps towards ESG Integration" at the Pacific Northwest Institutional Investors Forum in October 2016. Panelists included representatives from UNPRI, Mercer, Alberta Investment Management Corporation and ClearBridge Investments.
- Jill Johnson attended the Council of Institutional Investors Fall Conference. Some of the main topics included: (1) encouraging reporting consistency of climate related financial disclosures; (2) integrating dissident directors on Boards; (3) reigning in excessive executive pay; (4) problems resulting from beneficial ownership in the existing proxy voting process; (5) integrating climate change risk into investment decisions; and, (6) ways to increase diversity and inclusion in capital markets.

SCERS Positive Action Strategy

Since February 2015, SCERS's staff has participated in 54 events, meetings and calls devoted to ESG with institutional investors, investment managers, consultants and/or membership organizations. The purpose of these interactions is to learn best practices and industry developments that may apply to the three areas of the positive action strategy that the Board has embraced:

Corporate Engagement

- SCERS joined with other members of the Council of Institutional Investors in a letter to the Senate Committee on Banking, Housing and Urban Affairs to express concern regarding proposed legislation that would increase regulation on proxy advisory firms.²
- SCERS co-filed a resolution that is being led by Walden Asset Management, an affiliate of the Boston Trust, requesting BlackRock and JP Morgan to "review and issue a report on our proxy voting policies and practices related to climate change."

Integrating Climate Change into the Investment Process

- SCERS hired Mercer to conduct an analysis of BlackRock's proxy voting and other investment stewardship activities.

Sustainability Investments

Motion: "... *The Board recognizes that these types of investments (e.g. renewable energy, cleantech, and green bonds) are relatively new and limited in availability and will need to be considered prudently as SCERS pursues investments in its asset class (e.g. real assets, private equity, fixed income)...*"

- Jason Malinowski attended Stonepeak and Brookfield's Annual General Meeting where both managers expressed interest in making additional investments in solar and other forms of renewable power given material declines in input costs.

¹ <https://www.nctreasurer.com/inv/IAC%20Resources/IACESGIntegration-092116.pdf>

² www.ussif.org/Files/Public_Policy/Comment_Letters/CII_letter_to_Senate_Banking_on_Proxy_Advisory_Firms.pdf

Appendix A

SCERS Public Equity Exposure to the Carbon Underground 200

As of November 30, 2016

Ownership	Account Type	Market Value	Total CU200 Exposure		Coal CU200 Exposure	
		\$ million	\$ million	%	\$ million	%
Direct	Separate Account	621.3	33.5	5.4%	1.7	0.3%
Indirect	Commingled Fund	680.5	57.7	8.5%	15.5	2.3%
Total		1,301.8	91.2	7.0%	17.2	1.3%

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

Note: Coal CU 200 exposure excludes a limited number of companies that are on both the coal and oil & gas lists; CU200 constituents as of July 2016