



City of Seattle

Seattle City Employees' Retirement System

ESG Quarterly Update: Fourth 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



The Securities and Exchange Commission (SEC) issued two proposed rules that would increase the power of corporate management at the expense of shareholder rights. The first proposal places excessive burdens on proxy advisory firms who provide research and recommendations to SCERS and other investors when voting proxies¹. This proposal would reduce the independence and timeliness of their research, causing it to be more supportive of corporate management. The second proposal increases the thresholds required for submitting shareholder proposals that would unnecessarily limit an important shareholder check on the power of corporate management².

The investor community responded *en masse* in opposition to the proposed rule changes, which was covered extensively in the press.

¹ <https://www.sec.gov/news/press-release/2019-231>

² <https://www.sec.gov/news/press-release/2019-232>



Shareholder Advocacy

Quarterly Activity



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SCERS took several actions related to the SEC's proposed rule change:

- SCERS signed on to a letter to the SEC from the Council of Institutional Investors to extend the comment period for both rules from 60 to 120 days¹.
- SCERS sent letters to the Seattle congressional delegation, urging them to express the investor community's concerns to the SEC. Staff also had a follow-up conversation with Rep. Adam Smith's office.
- Prior to the rules being proposed, SCERS signed on to letters to the SEC from the Council of Institutional Investors and US SIF: The Forum for Sustainable and Responsible Investment arguing that the SEC should not take actions to erode shareholder rights^{2,3}.

¹ <https://www.sec.gov/comments/s7-22-19/s72219-6468304-199331.pdf>

² <https://www.sec.gov/comments/4-725/4725-6308155-193468.pdf>

³ https://www.ussif.org/Files/SEC_investor_letter_14a8_final.pdf



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 (4%) by investing in diversified managers who preferably have experience and capabilities in the renewable energy sector

Monitor investments in green bonds by SCERS-invested managers and continue evaluating other sustainability investments, such as clean tech



Sustainability Investments

Quarterly Activity

Brookfield

Brookfield, a SCERS-invested manager, announced that it acquired a 50% stake in X-Elio Energy SL¹. X-Elio is a global solar photovoltaic development company that owns a high-quality portfolio of operating and under-construction assets globally, including in Spain, Mexico, US, Japan, Italy and Australia.



SCERS revised the investment guidelines for its Core Fixed Income accounts to encourage managers to invest in green bonds if it is consistent with the account's risk and return objectives. The green bond market has grown substantially over the last several years to \$600 billion outstanding, although it still represents a relatively small portion (< 1%) of the overall bond market.

¹<https://www.reuters.com/article/us-brookfield-m-a-xelio/brookfield-closes-in-on-50-of-spains-x-elio-in-585-million-solar-deal-sources-idUSKCN1S2ZJ5>



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

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

Continue working with NEPC to enhance the climate change scenario analysis methodology that was incorporate into 2019 asset-liability study

Quarterly Activity – No Updates this Quarter



Staff Activity



Jill Johnson was asked to be a member of the PRI Western North American Advisory Committee. She helped plan a regional PRI symposium in Los Angeles where she participated on a panel discussion with Don Stracke of NEPC on incorporating climate change scenario analysis into an asset-liability study.

Jill also attended the annual PRI In Person conference.



Jill spoke on a panel at the 2019 Worker's Capital Conference on the topic of "Reclaiming the Balance of Power: Tools for Holding Asset Managers Accountable."



Jill spoke on a panel at a Church Pension Group ESG investing event in Seatac on the topic of "Insight & Ideas: A Conversation on Shareholder Engagement."



Staff Activity



Jill spoke on a panel at the Responsible Investor New York 2019 Conference on the Task Force on Climate-Related Financial Disclosure (TCFD) reporting and climate change scenario analysis.



Jill attended the Council of Institutional Investors Fall conference in Minneapolis where she participated in the General Member's Advisory Committee. During the conference, Jill furthered the engagement with the Southern Company in collaboration with the Climate Majority Project and Climate Action 100+.

Bloomberg

Jason Malinowski joined an environmental panel at an ESG investing event in San Francisco hosted by Bloomberg and RBC Global Asset Management. The event was focused on practical applications of ESG strategies and included separate presentations and panels on social and governance topics.



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