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**TITLE:** Environmental, Social and Governance Policy      **EFFECTIVE DATE:** May 9, 2019

**BOARD ADOPTION:** May 9, 2019

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## **I. PURPOSE**

This Policy articulates the approach to Environmental, Social and Governance (ESG) matters taken by the Seattle City Employees' Retirement System (SCERS). It is also meant to ensure that ESG-related activities are fully consistent with SCERS's mission, investment beliefs, and fiduciary duties. These fiduciary duties and their relevance to ESG matters are detailed in a memo from legal counsel that the Board has made publicly available<sup>i</sup>.

## **II. ESG POSITIVE ACTION STRATEGY**

The Board believes that SCERS can have a beneficial impact on certain ESG matters consistent with its mission, investment beliefs, and fiduciary duties. Of these matters, the Board may identify one or more ESG priorities that are materially relevant to expected risk and return of the capital markets and where it believes that SCERS's actions may be impactful. For example, climate change has been identified as an ESG priority, and the Board may identify other ESG priorities in its discretion and as resources permit.

The Board has directed SCERS to undertake a positive action strategy related to its ESG priorities that consists of:

### **A. Shareholder Advocacy**

SCERS is a shareholder in a large number of public companies. Rights that come with being a shareholder include electing members of companies' boards of directors and voting on shareholder or management resolutions related to key issues. These rights provide an opportunity for SCERS to advance its ESG priorities and investment objectives by, for example, voting for resolutions that require a company to disclose and assess material ESG-related risks.

Shareholder advocacy extends beyond proxy voting. SCERS will also engage with companies, investment managers, government regulators and other relevant bodies to advance its ESG priorities and investment objectives, as resources permit.

### **B. ESG-Beneficial Investments**

SCERS will proactively evaluate investments within a permissible asset class that are expected to beneficially impact SCERS's ESG priorities. While such ESG-beneficial investments will be considered, they may only be undertaken if they are expected to improve or maintain the portfolio's risk-return profile as compared to other investments in the same asset class. Furthermore, SCERS will only consider investments that are feasible to implement as part of its overall investment strategy.

### **C. Integrating ESG into the Investment Process**

SCERS will integrate ESG priorities into its investment process to ensure that the associated impact on risk and return is considered, to the extent that it is material. However, it is not feasible to eliminate all ESG-related or other risks from the portfolio given SCERS's investment objectives.

### **III. ESG-TARGETED DIVESTMENT OR INVESTMENT**

The Board finds that the positive action strategy outlined above is the most effective, permissible means for SCERS to beneficially impact its ESG priorities. The Board will not divest from or invest in a targeted company, sector or other set of investments with the primary goal of advancing an ESG priority because doing so would be inconsistent with SCERS's: (1) *mission* to fulfill the promise made to our members by delivering the retirement benefits they have earned; (2) *fiduciary duties* of prudence and loyalty that are paramount; and, (3) *investment beliefs* that emphasize the benefits of diversification, cost control and passive management.

### **IV. INVESTMENT MANAGEMENT DIVERSITY**

SCERS manages its portfolio through investment managers that are selected by the Board to be contractually responsible for investing a portion of SCERS's assets on its behalf. Given this direct relationship with the investment management industry, the Board supports improving the industry's racial and gender diversity to the extent consistent with its fiduciary duties. SCERS seeks to select investment managers from a broad and qualified universe and requires prospective investment managers to detail their workforce composition and describe their policies and practices to further diversity and inclusion.

### **V. REPORTING AND COLLABORATION**

The Board seeks to stay abreast of ESG-related developments and to follow best practices to the extent that they are consistent with its mission, fiduciary duties and investment beliefs. To this end, the Board directs that: (1) SCERS participate in membership organizations and partner with other institutional investors to share information and pursue ESG priorities of mutual concern; (2) SCERS staff provide quarterly updates on its activities and industry developments related to ESG matters; and, (3) the Investment Consultant provide an annual overview of ESG matters and industry responses to the Board or Investment Committee to guide future ESG policy and activities.

### **VI. POLICY REVIEW**

The Board shall review this policy at least once every three (3) years or upon request by a majority of the SCERS Board of Administration members to ensure that it remains relevant and appropriate.

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<sup>i</sup> Monaco, M. (July 13, 2017). *Legal Permissibility of Environmental, Social and Governance ("ESG") Investment Proposals*. Retrieved from [http://www.seattle.gov/Documents/Departments/Retirement/Publications/performance/ESG%20Updates/ESG-Comprehensive-Follow-Up-Analysis\\_July-2017.pdf](http://www.seattle.gov/Documents/Departments/Retirement/Publications/performance/ESG%20Updates/ESG-Comprehensive-Follow-Up-Analysis_July-2017.pdf)