



TITLE: Consideration of Environmental, Social, and Governance Policy and Procedure

EFFECTIVE DATE: June 9, 2016

BOARD ADOPTION: June 9, 2016

POLICY

The Board of Administration (Board) adopts this policy regarding consideration of environmental, social and governance (ESG) issues for Seattle City Employees' Retirement System (SCERS) investments.

The Board's fiduciary obligations to the members of SCERS are paramount. Investment actions that promote an ESG goal such as rewarding workplace diversity, promoting local industry, or protecting the environment may be considered if the proposed action does not adversely affect investment risk and/or return for SCERS and if the resulting expected return on investment and related risk for the proposed action are economically equivalent to other available investments in the same category. While the Board may give serious consideration to environmental, social and governance issues, the Board must follow its fiduciary obligations and Investment Policy and an investment cannot be selected, rejected, or divested from based solely on those considerations. In addition, where an ESG consideration has a direct relationship to the economic value of an investment, that factor is a proper component of the Board's fiduciary analysis of the economic merit of the investment decision.

To further its ESG objectives, the Board will seek to select Investment Managers from a broad universe that, to the extent available, includes qualified Investment Managers that further ESG goals (for example, firms promoting workplace diversity, sustainability, and governance objectives). The Board will give preference to an Investment Manager that advances its ESG goals if the selection results in an expected return on investment and related risk that it is at least economically equivalent to other available Investment Managers in the same category. SCERS staff will report on efforts to include such Investment Managers in the search process.

The Board also wishes to stay abreast of developments related to ESG issues and to follow best practices to the extent that they are consistent with its fiduciary obligations. 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 issues of mutual concern; (2) SCERS staff provide quarterly updates on its activities and industry developments related to ESG issues; and, (3) the SCERS Investment Consultant provide an annual overview of ESG issues and industry responses to the Board or Investment Committee to guide future ESG policy and practices.

PROCEDURE FOR CONSIDERATION OF ESG INVESTMENT PROPOSALS

SCERS sometimes receives proposals for consideration of ESG investment actions from outside sources other than its investment staff or professional advisors – for example, proposals to make particular investments, to refrain from doing so, or to take other actions related to the handling of SCERS's assets or the rights associated with those assets. Any and all such proposals are to be considered in the manner outlined in this policy and procedure.

- A. To receive consideration, a proposed ESG investment action must meet the following requirements:
 - 1. It must be specific and presented in writing to the Executive Director of SCERS;
 - 2. It must include objective, reasoned analysis indicating how the proposal meets the fiduciary obligations of SCERS, and how it does not adversely affect SCERS's expected risk adjusted return as compared to other available investments in the same category;



3. It must be reasonably feasible for SCERS to accommodate within SCERS's portfolio of investments or in a reasonable modification of them; and
4. It must not, in the discretion of the Board, be considered duplicative of a recently considered proposal or similar proposal.

The Board will address whether proposals meet these requirements only at its March, June, September, and December regular meetings, except where it finds a postponement appropriate.

- B. If an ESG investment proposal meets all of the requirements of Section A as determined by the Board, it shall be forwarded to SCERS's Investment Consultant for review and written analysis of whether the proposal meets the requirements of this Policy and SCERS's Investment Policy. The written analysis shall provide:
 1. Identification of the potentially available ESG investment options, if any, that meet the requirements of SCERS's investment policies;
 2. A survey of comparable investment funds' approaches to this type of proposal, or similar proposals;
 3. An assessment of the projected impact of the proposal on SCERS's expected risk adjusted return as compared to other available investments in the same category; and
 4. Whether the Investment Consultant recommends that the proposal be adopted by the Board.
- C. If the Investment Consultant reports that the ESG proposal meets the requirements of SCERS's investment policies, the Board shall consider taking action on the proposal, after receiving such additional information as the Board may deem necessary or appropriate from the Investment Consultant, Investment Advisory Committee, SCERS staff, and any other investment professionals.

POLICY REVIEW

The Board shall review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.