



City of Seattle

Seattle City Employees' Retirement System

ESG Quarterly Update: Fourth Quarter 2020



Introduction

SCERS believes that it can have a beneficial impact on certain Environmental, Social and Governance (ESG) matters consistent with its mission, investment beliefs and fiduciary duties

SCERS has pursued an ESG positive action strategy since 2015 with staff providing quarterly updates to the Board on its progress

The Board has identified *climate change* as an ESG priority for SCERS because of its criticality to the long-term risk and return of the capital markets

Positive Action Strategy

Shareholder Advocacy

Sustainability Investments

Integrating Climate Risk into the Investment Process



Investor Organizations and Initiatives

SCERS is an active member of three ESG investor organizations that provide shared resources and collaboration opportunities on ESG matters

	 Ceres Network on Climate Risk and Sustainability	 Council of Institutional Investors® 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

SCERS also participates in investor initiatives such as the Climate Action 100+ and Climate Majority Project related specifically to climate change



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 **Federal Reserve** characterized climate change as a risk to financial stability for the first time ever. In its 2020 Financial Stability report, the Federal Reserve committed to “monitor and assess the financial system for vulnerabilities related to climate change¹.” SCERS had previously signed on to letters to the Federal Reserve and other financial regulators from Ceres that urged them to incorporate climate change into their regulatory mandate².



The **Securities and Exchange Commission (SEC)** finalized a rule that makes it more difficult for investors to submit shareholder resolutions³. SCERS and other institutional investors had vigorously opposed it during the public comment period. The rule has the potential to increase the power of corporate management at the expense of shareholders.

¹ <https://www.federalreserve.gov/publications/files/financial-stability-report-20201109.pdf>

² <https://www.ceres.org/sites/default/files/Federal%20Regulators%20Letter.pdf>

³ <https://www.sec.gov/news/press-release/2020-220>



Shareholder Advocacy

Quarterly Activity



SCERS joined an investor initiative led by **Illinois Treasurer** Michael Frerichs and **Connecticut Treasurer** Shawn Wooden asking that all companies included in the Russell 3000 Index disclose the gender, racial and ethnic composition of their board of directors¹.



ISS, SCERS's proxy voting advisor, revised its policy guidelines to be more supportive of Board diversity through its voting recommendations. SCERS staff had suggested this change during their annual policy consultation.



SCERS participated alongside other institutional investors in direct company engagements with Southern Company, Boeing and Weyerhaeuser, as part of the **Climate Action 100+ initiative**.

¹ https://www.illinoistreasurer.gov/Financial_Institutions/Equity,_Diversity__Inclusion/Russell_3000_Board_Diversity_Disclosure_Initiative



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 an agreement to acquire a co-controlling position in Polenergia, a renewable power company in Poland. Polengeria maintains operating wind and solar assets and a 3,000-megawatt development pipeline of offshore wind assets in the Baltic Sea¹.



SCERS staff met with Adams Street Partners to discuss private equity trends and themes related to sustainability and review their latest PRI assessment report. Adams Street Partners has made meaningful progress in their ESG-related efforts over the last few years, which is reflected in their improved ratings.

¹<https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/expanding-brookfield-eyes-european-offshore-wind-entry-with-polish-developer-bid-61117603>



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 incorporated into the 2019 asset-liability study

Quarterly Activity – No New Updates



Staff Activity



Jill Johnson attended the Council of Institutional Investors Fall conference that was held virtually. A prominent topic was the correct protocol of virtual Annual General Meetings. Jill also participated in planning meetings as a member of the U.S. Asset Owners Advisory Council.



Jill was asked to co-chair the Western North American PRI Advisory Committee. The co-chair helps set the agenda for meetings in addition to helping facilitate them. For WNA events, the co-chairs typically provide opening and closing remarks.



Jill attended this virtual conference. Some prominent topics were the development of a US Stewardship Code like what exists in the UK and other countries, how to obtain better diversity on Boards and in the C-suite and whether the divestment movement has been successful.



Appendix



Divestment note

SCERS has occasionally been asked by stakeholders to divest from (or invest in) a targeted sector or other set of investments for ESG reasons

- Such requests had been extensively investigated by SCERS, including by legal counsel, staff, the investment consultant and the Investment Advisory Committee
- Each evaluation concluded that divestment conflicted with the Board's fiduciary duties because it was not in the best interests of SCERS members and should not be pursued

The Board has consistently stated that the positive action strategy is the most effective, permissible means for SCERS to beneficially impact its ESG priorities

SCERS's ESG Policy was updated in 2019 to address divestment directly

- “The Board will not divest or invest from a targeted company, sector or set of investment to further an ESG priority because doing so would be inconsistent with SCERS’s mission..., fiduciary duties... and investment beliefs.”



Fossil fuel company exposure

SCERS Public Equity Exposure to Fossil Fuel Companies

As of December 31, 2019

SCERS Ownership	Account Type	Exposure (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$33.2	1.1%
Indirect	Commingled Fund	\$42.0	1.3%
Total		\$75.3	2.4%

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