



**City of Seattle**

# **Seattle City Employees' Retirement System**

**ESG Quarterly Update: Fourth Quarter 2021**



# SCERS Positive Action Strategy—Established 2015

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 1.0

Shareholder  
Advocacy

Sustainability  
Investments

Integrating Climate  
Risk into the  
Investment Process



# Investor Organizations and Initiatives

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

	Primary Focus	Mission	Membership
 Network on Climate Risk and Sustainability	Environmental	Advance leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet	North American institutional investors
	Environmental	Ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change	Global institutional investors
	Governance	Be the leading voice for effective corporate governance practices for US companies and strong shareholder rights and practices	US pensions and other benefit funds
	Governance	Advance the interests of private market investors through best-in-class education, research and advocacy	Global private market investors
	Environmental, Social, Governance	Understand the investment implications of ESG factors and support its signatories in incorporating these factors into their decisions	Global 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 – Proxy Voting

## Quarterly Activity



SCERS provided specific recommendations to ISS (SCERS's proxy voting advisor) related to climate change to improve the United States Public Fund Proxy Voting Guidelines<sup>1</sup>. The recommendations covered three critical areas: Director Elections, Corporate Responsibility & Accountability, Environment & Climate Change.



BlackRock announced that the firm will provide investors in their institutional commingled funds with the option of selecting different proxy voting policies.<sup>2</sup> SCERS staff is evaluating whether to pursue this option.

<sup>1</sup> <https://www.issgovernance.com/file/policy/active/specialty/Public-Fund-US-Voting-Guidelines.pdf>

<sup>2</sup> <https://www.blackrock.com/corporate/about-us/investment-stewardship/proxy-voting-choice>



# Shareholder Advocacy – Company Engagements

## Quarterly Activity



Leola Ross joined a meeting with the Climate Action 100+ engagement group and **Boeing's** CEO and senior executive team. We focused on Paris-aligned disclosures relating to trade organizations and their corporate website<sup>1</sup>, short- and medium-term transition targets, and their specific plans relating to sustainable aviation fuel (SAF).



Leola Ross joined a meeting with the Climate Action 100+ and **Weyerhaeuser's** corporate responsibility team.<sup>2</sup> We focused on Weyerhaeuser improving their leadership with trade associations, their efforts to improve carbon sequestration metrics, and updating some of their public reporting related to water use.



Leola Ross joined the Climate Action 100+ engagement for **Paccar**.

<sup>1</sup> <https://www.boeing.com/principles/environment/index.page>

<sup>2</sup> <https://www.weyerhaeuser.com/sustainability/3by30/climate-change-solutions/>



# Shareholder Advocacy – Policy

## Quarterly Activity



In advance of COP26, SCERS joined 733 investors representing \$52 trillion in assets under management in supporting a 2021 Global Investor Letter to Governments on Climate Crisis<sup>1</sup> encouraging governments to act to mitigate climate change.

Key takeaways from COP26 :

- 90% of global emissions now covered by reduction targets
  - Specifics on meeting targets still needed
  - G20 countries have net zero pledges
  - Private sector will fund 70% of transition investment
- Where was the progress?
  - Methane! With much U.S. support
  - Coal and fossil fuel subsidy reductions
  - Global fossil fuel “phasedown” commitment

<sup>1</sup><https://theinvestoragenda.org/wp-content/uploads/2021/09/2021-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.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





# Sustainability Investments

## Quarterly Activity



Tiger Infrastructure Partners, a SCERS-invested manager, invested €50 million in Qwello, a full-service builder, owner, and operator of electric vehicle charging infrastructure.<sup>1</sup> The company is based in Munich, Germany and services major European cities.

<sup>1</sup>[https://www.tigerinfrastructure.com/documents/FG/tigerNew/news/611388\\_SCS\\_Press\\_Release\\_Tiger\\_2021\\_04\\_20.pdf](https://www.tigerinfrastructure.com/documents/FG/tigerNew/news/611388_SCS_Press_Release_Tiger_2021_04_20.pdf)



# 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

Understand and assess how SCERS's managers are integrating ESG considerations into their investment processes in comparison to best practices

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



# Integrating Climate Risk into the Investment Process

## Integrating Climate Risk into the Investment Process



Staff met with the PRI and the UN Environment Programme to discuss the Net-Zero Asset Owners Alliance. SCERS is aligned with several of the Alliance's tracks, including engagement, policy and financing the transition. However, the meeting reinforced that signing onto the Alliance would impose material restrictions on the investment portfolio that directly conflict with SCERS's mission and investment beliefs.



Staff reviewed several existing and prospective data vendors to evaluate climate-related reporting available for public equity and other asset classes.



# Other ESG Updates



SCERS joined ILPA and other investors in a letter to the Securities and Exchange Commission asking for improved fee disclosures for private equity funds.<sup>1</sup> In response SEC Chair, Gary Gensler, said “...I have asked the staff to consider what recommendations they could make to bring greater transparency to fee arrangements.”



SCERS joined the Illinois State Treasurer and other investors in a letter to Russell 3000 Index constituents requesting improved disclosure of Board of Directors diversity.<sup>2</sup>

<sup>1</sup> [https://ilpa.org/wp-content/uploads/2021/10/26.10.21\\_ILPA-Member-Letter-to-SEC-on-Fee-Transparency.pdf](https://ilpa.org/wp-content/uploads/2021/10/26.10.21_ILPA-Member-Letter-to-SEC-on-Fee-Transparency.pdf)

<sup>2</sup> [https://illinoistreasurergovprod.blob.core.usgovcloudapi.net/twocms/media/doc/october2021\\_russell3000release.pdf](https://illinoistreasurergovprod.blob.core.usgovcloudapi.net/twocms/media/doc/october2021_russell3000release.pdf)



# Staff Activity



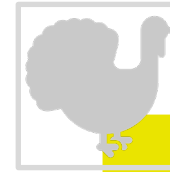
September

- Ceres Briefing on the Budget Reconciliation Package and Climate Change
- CII Annual Conference
- PRI Signatory General Meeting



October

- ISS Governance Conference
- PRI Digital Conference
- CII ESG Disclosure Standards
- PRI Roundtables CC and DEI
- Dimensional Governance Conference



November

- Climate Action Innovation Zone
- Investor Agenda: Accelerating global investor actions for a NZ economy
- CII Governance Bootcamp



# Positive Action Strategy 2.0

**Staff plans to engage the Board during 2022 in a process to enhance the Positive Action Strategy**

**Formalizing:** ESG goals and associated metrics to improve investment outcomes, reporting and awareness

**Adding:** Policy Advocacy in recognition of the crucial role of governments in addressing climate change

**Asserting:** Our ownership through voting and engaging, with an expanded emphasis on accountability, lobbying and business strategy

**Exploring:** Diversity, Equity and Inclusion (DEI) as a “Social” initiative with material investing implications

**Seeking:** Opportunities to extend thematic investments beyond renewable energy infrastructure and green bonds



# Appendix



# Fossil fuel company allocation

## SCERS Public Equity Allocation to Fossil Fuel Companies

As of December 31, 2020

SCERS Ownership	Account Type	Exposure (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$24.3	0.7%
Indirect	Commingled Fund	\$37.3	1.1%
Total		\$61.6	1.7%

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