



City of Seattle

Seattle City Employees' Retirement System

ESG Quarterly Update: Third Quarter 2021



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



Introduction



Leola Ross, Ph.D., CFA

Deputy CIO and Head of ESG
Seattle City Employee Retirement System (SCERS)

B.A., Economics, Drew University
Ph.D., Economics, Southern Methodist University
CFA Charterholder, CFA Institute

Leola Ross has recently joined SCERS as Deputy CIO and Head of ESG. Leola's responsibilities include managing the public equity asset class and assisting with the private equity and infrastructure asset classes and risk management of the overall portfolio. As well, Leola heads up SCERS's Environment, Social and Governance (ESG) program, including the positive action strategy that is currently focused on shareholder advocacy, sustainability investments and integrating climate risk into the investment process.

Prior to joining SCERS, Leola was with Russell Investments for 23 years directing and overseeing quantitative and qualitative research projects across multiple regions, developing their responsible investing program and expanding the knowledge and use of alternative investments. During this time, Leola authored more than 100 research commentaries, reports and notes for internal and external audiences on the topics she researched.

Before joining Russell Investments, Leola was an assistant professor at Seattle University and East Carolina University, where she taught and performed research in economics. During her academic years, Leola presented at academic conferences and published articles in several academic journals. Leola began her career overseeing operations at a commodities trading company.

In 2007 and 2011, Leola led groups of women to Kenya to support micro-enterprise and education projects in cooperation with Women's Enterprises International, where she was a Board member from 2008 through 2014. Since 2011, Leola has been a member of the Academic Advisory Board for the Economics Department at Seattle University.



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	 PRI 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 the Climate Action 100+ investor initiative



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 – Company Engagements

Quarterly Activity



Three dissident Board members opposed by corporate management were elected to the Exxon Board in a historic shareholder meeting¹. The new members were put forth by Engine No. 1, an activist investment manager, with early support from CalSTRS who cited Exxon's financial underperformance and their need to improve governance and capital allocation discipline. They join two members who were added to the board earlier in the year to help address similar concerns brought by another activist investment manager. Shareholders also opposed management to support the disclosure of political and climate lobbying activity.

The shareholder vote reflects deep dissatisfaction with Exxon's management that should prompt a change in business strategy to be more aligned with a low carbon economy.

¹ <https://www.bloomberg.com/news/articles/2021-06-02/exxon-activist-seen-winning-third-board-seat-in-preliminary-vote>



Shareholder Advocacy – Company Engagements

Quarterly Activity



Institutional investors have been working for years to create change at Exxon. SCERS has been involved on a direct basis as well as indirectly through its managers and membership associations:

- **2021:** SCERS joined the Coalition United for a Responsible Exxon (CURE), which escalated concerns to the Exxon Board and published a set of detailed business recommendations.
- **2020:** SCERS co-filed a shareholder resolution led by CalPERS, requiring Exxon to report scope 3 admissions.
- **2018:** SCERS joined the Climate Action 100+ investor engagement with Exxon.
- **2017:** SCERS joined other investors in a letter to Exxon requesting that shareholders have access to the Board.
- **2016:** SCERS placed BlackRock on watch because of its unwillingness to oppose management, including at Exxon. SCERS removed BlackRock from watch in 2018.



Shareholder Advocacy – Company Engagements

Quarterly Activity



Leola Ross joined a meeting with the Climate Action 100+ engagement group and **Southern Company's** CEO and senior executive team. We focused on Paris-aligned disclosures relating to trade organizations, medium-term transition targets and scenarios, and the importance of a just transition. It was a constructive meeting where we found common ground with the senior executives.



Shareholder Advocacy – Policy & Proxy Voting

Quarterly Activity



SCERS joined other investors in a letter to the Securities and Exchange Commission (SEC) in response to their request for information on climate risk disclosure¹. The letter detailed minimum criteria for future rulemaking, including requiring disclosure of company emissions and climate change risk exposure. Ceres, the Council of Institutional Investors and PRI also sent letters to the SEC.



SCERS provided feedback to ISS, SCERS's proxy voting advisor, during its annual policy consultation. SCERS also participated in the inaugural "Climate Survey" that will gather investor feedback that can be reflected in ongoing proxy voting policy development related to climate change¹.

¹ <https://www.sec.gov/comments/climate-disclosure/cli12-8911752-244393.pdf>

² <https://insights.issgovernance.com/posts/iss-opens-global-annual-benchmark-policy-survey-and-separate-climate-survey/>



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



SCERS committed up to \$20 million to Tiger Infrastructure Partners Fund III at the Board meeting in July. The fund is an investor in Summit Carbon Solutions, a carbon capture and storage business that is building capacity to store 10 million tons of carbon dioxide annually.

¹ 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

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NEPC has completed ESG ratings for all SCERS managers, which was presented at the Investment Committee meeting in August. Nearly 50% of SCERS managers (by count) were 1-rated on a scale of best-in-class (1) to no ESG integration (5).

Brookfield

Brookfield, a SCERS-invested manager, presented at the Investment Committee meeting in July on how they integrate climate change risk into their investment process. Brookfield provided several case studies of real estate and infrastructure assets to demonstrate their process and highlight opportunities for improved sustainability in their funds.



Investor and Industry Developments



Maine became the first state to enact a law requiring divestment from fossil fuel companies, including those held by the state's pension system. The law requires divestment by 2026. The Maine Public Employees Retirement System stated in testimony to the state legislature that “we oppose divestment because it is inconsistent with our fiduciary duty to our members, impedes our ability to earn optimal returns and interferes with our ability to respond to changing markets and technologies”¹.



The California State Teachers' Retirement System (CalSTRS) committed to achieving a net-zero investment portfolio by 2050 or sooner. CalSTRS is planning how to meet this commitment, which is expected to include influencing policymakers and companies, expanding investments in low-carbon solutions and assessing the transition risk of the investment portfolio².

¹ <https://www.maineperc.org/wp-content/uploads/pdfs/current-legislation/130th/LD-319-MainePERS-Testimony-2-24-2021.pdf>

² <https://resources.calstrs.com/publicdocs/Page/CommonPage.aspx?PageName=DocumentDownload&Id=37d347fd-02c7-4df0-bf32-4c353f9a2e6d>



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