



**City of Seattle**

# **Seattle City Employees' Retirement System**

**ESG Quarterly Update: First and Second Quarter 2022**



# SCERS ESG Program 1.0—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

## ESG Program 1.0 (Climate Positive Action Strategy)

Shareholder  
Advocacy

Sustainability  
Investments

Integrating Climate  
Risk into the  
Investment Process



# SCERS ESG Program 2.0—pending approval

## Climate Positive Action Strategy

Company  
Voting and Engaging

Policy Advocacy

Sustainability Investments

## DEI Positive Action Strategy

Company  
Voting and Engaging

Manager research

ESG Process Integration

New or Expanded Area



# 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 – Company Engagements

## Quarterly Activity



In January, Leola Ross joined a meeting with the Climate Action 100+ engagement group and **Southern Company's** senior executives to discuss Just Transition. SC highlighted multiple regional/state plans for Just Transition as they navigate different jurisdictions for employees. CA100+ group suggested that SC articulate a principles-based corporate strategy.

In May, SCERS, in collaboration with Majority Action, took a leading role in pressing a shareholder proposal to **Southern Company**. The shareholder proposal, which was passed, is:

"RESOLVED, Shareholders request that our board take the necessary steps so that each voting requirement in our charter and bylaws (that is explicit or implicit due to default to state law) that calls for a greater than simple majority vote be replaced by a requirement for a majority of the votes cast for and against such proposals, or a simple majority in compliance with applicable laws."



# Shareholder Advocacy – Company Engagements

## Quarterly Activity

In March, Leola Ross joined a meeting with the Climate Action 100+ engagement group and **Exxon** investor relations and ESG staff to learn how the corporate strategy was changing with the new Board. Exxon highlighted Advancing Climate Solutions, a new report with an overview of this strategy.<sup>1</sup>

In May, SCERS joined CERES and other shareholders in signing a letter to **Exxon** encouraging a “Just Transition” while becoming net zero emitters.<sup>2</sup>

In March, Leola Ross joined a meeting with the Climate Action 100+ engagement group and **Paccar** senior management. Paccar focused on their sales of EVs, emerging technologies and their reasons for hesitating to commit to net zero.

In May, Leola Ross was asked (and agreed) to co-lead the Climate Action 100+ engagement group with **Paccar** senior management.

<sup>1</sup> <https://corporate.exxonmobil.com/Climate-solutions/Advancing-climate-solutions-progress-report>

<sup>2</sup> [https://ceres.my.salesforce.com/sfc/p/#A0000000ZqYY/a/5c0000005z9N/cHad0NdFgQy3ewS\\_2lNwmq\\_1y6HNx2mioSM78whJt4o](https://ceres.my.salesforce.com/sfc/p/#A0000000ZqYY/a/5c0000005z9N/cHad0NdFgQy3ewS_2lNwmq_1y6HNx2mioSM78whJt4o).

Just Transition defined in appendix.



# Shareholder Advocacy – Proxy Voting

## Quarterly Activity

**BlackRock**

SCERS instructed **BlackRock** to vote the pro rata shares of our commingled fund investment according to the **ISS US Public Plan Policy**. BlackRock announced in 2021 the option for institutional investors to select a preferred policy.<sup>1</sup>



For 2022 proxy season, Leola Ross monitored:

- Shareholder proposals for improved disclosure and climate change risk practices including the fossil fuel financing practices of very large U.S. investment banks
- Board elections where specific members were cited by Climate Action 100+ for poor voting records relating to climate change risk and net zero commitments



In all cases but one case the ISS U.S. Public Fund Policy was already voting **in alignment** with these requests.

<sup>1</sup><https://www.blackrock.com/corporate/about-us/investment-stewardship/proxy-voting-choice>





# Shareholder Advocacy – Proxy Voting

## Quarterly Activity



In May, Leola Ross joined shareholders from the Climate Action 100+ engagement group in voting AGAINST Mr. Thomas Fanning as Chairman of **Southern Company's** Board. Mr. Fanning is also CEO of Southern Company. The CA 100+ group has cited multiple actions what were inconsistent with real economy net zero alignment under Mr. Fanning's leadership. Moreover, separation of CEO and Chair are governance best practice.



# Shareholder Advocacy – Policy

## Quarterly Activity Q1



SCERS joined other investors in a letter to the **Environmental Protection Agency** encouraging the Agency to improve its practices on **methane capture**. Methane capture is well-established as critical to curbing climate change. In February 2022, the EPA published new performance initiatives on methane capture.<sup>1</sup>



SCERS joined businesses and other investors in a letter to the **U.S. Congress** in support of the infrastructure and Build Back Better budget reconciliation packages given their substantial investments in climate and clean energy.<sup>2</sup>

<sup>1</sup> [https://www.iccr.org/sites/default/files/page\\_attachments/call\\_for\\_ambitious\\_methane\\_regulation\\_for\\_the\\_oil\\_and\\_gas\\_industry.pdf](https://www.iccr.org/sites/default/files/page_attachments/call_for_ambitious_methane_regulation_for_the_oil_and_gas_industry.pdf)

<sup>2</sup> <https://ceres.org/sites/default/files/Letter%20to%20Congress.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

P I M C O

**PIMCO**, a SCERS-invested manager, allocates approximately 10% of the Core Fixed Income portfolio to green bonds. PIMCO has been an active member of industry groups to develop standards and taxonomy for green bonds that has allowed the market segment to grow.



**Stonepeak**, a SCERS-invested manager, purchased an undercapitalized family-owned energy company and improved operations to reduce GHG emissions across the value chain, including capturing methane from manure for energy production, the elimination of methane leaks in the utility's powerplants, and reducing residual gas flaring.



# Sustainability Investments

## Quarterly Activity



J.P.Morgan

In February, **GIP**, a SCERS-invested manager, acquired a 71,522-acre lease off the coast of New York/New Jersey, to develop an offshore wind power project. This farm is expected to contribute 1.7 GW towards U.S., New York/New Jersey's clean energy goals.<sup>1</sup>

In May, **GIP**, a SCERS-invested manager, announced the pending acquisition of 100% of wpd AG ("wpd"), for its offshore wind business, subject to regulatory approvals. The business produces ~7 GW and has a presence in fourteen European and APAC markets.<sup>2</sup>

**JP Morgan**, a SCERS-invested manager, has been working to reduce energy use, GHGs, water and waste, targeting specific annual reductions and local Green Building Certifications for multiple locations across Asia. The U.S. product has been recognized by GRESB as their highest ranked Core fund in the U.S. region.

1. <https://www.global-infra.com/news/2022/02/ocean-winds-east-awarded-lease-area-in-new-york-bight-offshore-wind-energy-auction/>
2. <https://www.global-infra.com/news/2022/05/wpd-to-sell-offshore-wind-business-to-global-infrastructure-partners/>



# 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 Q1 and Q2



Leola Ross joined **FFI Solutions'** (formerly Fossil Free Indexes) Net Zero Transition focus group at the invitation of the data provider. The focus group will provide feedback on their Transition DataSet and help shape the content and design of their Net Zero Transition dashboard.



SCERS worked closely with **NEPC** actively reviewing ESG integration and ownership practices as part of manager search initiatives.



# Staff Activity



January

- FFI Solutions Advisory Group
- NAIC Diverse Manager Roadshow<sup>1</sup>



February

- Women in VC Virtual Summit (attendee)
- PensionBridge ESG Summit (panel presenter)



March

- CII Spring Conference 2022 (attendee)
- SEC meetings on Say-on-Pay, Dual Share Classes, Climate Disclosure (attendee)
- NEPC Investment Diversity Advisory Council (attendee)

1. NAIC = National Association of Investment Companies





# Staff Activity



April

- P&I ESG Investing Conference (panel presenter)
- Pacific NW Institutional Forum on ESG (panel chair)
- LACERS Emerging Manager Symposium (attendee)



May

- Albers School of Business Ethics Week (lecturer)
- Joint NYC and Seattle CFA Society Seminar (panel presenter)



June

- MFA Forum 2022 - Actionable ESG (panel presenter)
- ILPS Members Conference (attendee)



# Other ESG Initiatives



In April, SCERS wrote a letter to the **Securities and Exchange Commission** supporting its proposal for improved fee disclosures for private equity funds.<sup>1</sup>



In April, **NEPC** published its 2021 DEI Progress Report.<sup>1</sup>



In April, Leola Ross joined the leadership of the Western North America chapter of PRI as co-chair.



In April, Leola Ross was selected to join the CII Asset Owners Advisory Council.

1. <https://www.sec.gov/rules/proposed/2022/33-11042.pdf>
2. <https://nepc.com/institutional/2021-dei-progress-report/>



# Investor and Industry Developments Q1 and Q2



In February 2022, the **U.S. Securities and Exchange Commission** issued a proposal to require publicly-traded companies disclose climate-related disclosure metrics and risks. The proposal considers existing climate-disclosure formats, regulations from Europe and other jurisdictions, company size, emissions and financial risks in its proposal.<sup>1</sup>

In May 2022, the **U.S. Securities and Exchange Commission** issued a proposal to update the “Fund Names Rule” to include language relating to Climate- and ESG-related fund features.



In February 2022, the **U.S. Department of Labor, Employee Benefits Security Administration** unit, issued a Request for Information on Possible Agency Action to Protect Life Savings and Pensions from Threats of Climate-Related Financial Risk.<sup>2</sup>

<sup>1</sup> <https://www.sec.gov/rules/proposed/2022/33-11042.pdf>

<sup>2</sup> <https://www.federalregister.gov/documents/2022/02/14/2022-02798/request-for-information-on-possible-agency-actions-to-protect-life-savings-and-pensions-from-threats>



# Investor and Industry Developments



Many US public pensions plans announced commitments to divest from **Russia** given their tragic invasion of **Ukraine**. Russia has closed their stock market to foreigners, so there is effectively no ability to sell most types of Russian securities. Additionally, the US government has imposed sanctions that prohibit new investments in Russia.

SCERS has no direct investments in Russian securities. SCERS is invested in four commingled funds that have very limited security holdings in Russia, which the fund managers are generally valuing at zero. SCERS's managers are actively monitoring this uncertain and illiquid market and complying with all sanctions.



# Appendix



# Fossil fuel company allocation

## SCERS Public Equity Allocation to Fossil Fuel Companies

As of December 31, 2021

SCERS Ownership	Account Type	Exposure (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$29.8	0.7%
Indirect	Commingled Fund	\$30.5	0.7%
Total		\$60.3	1.5%

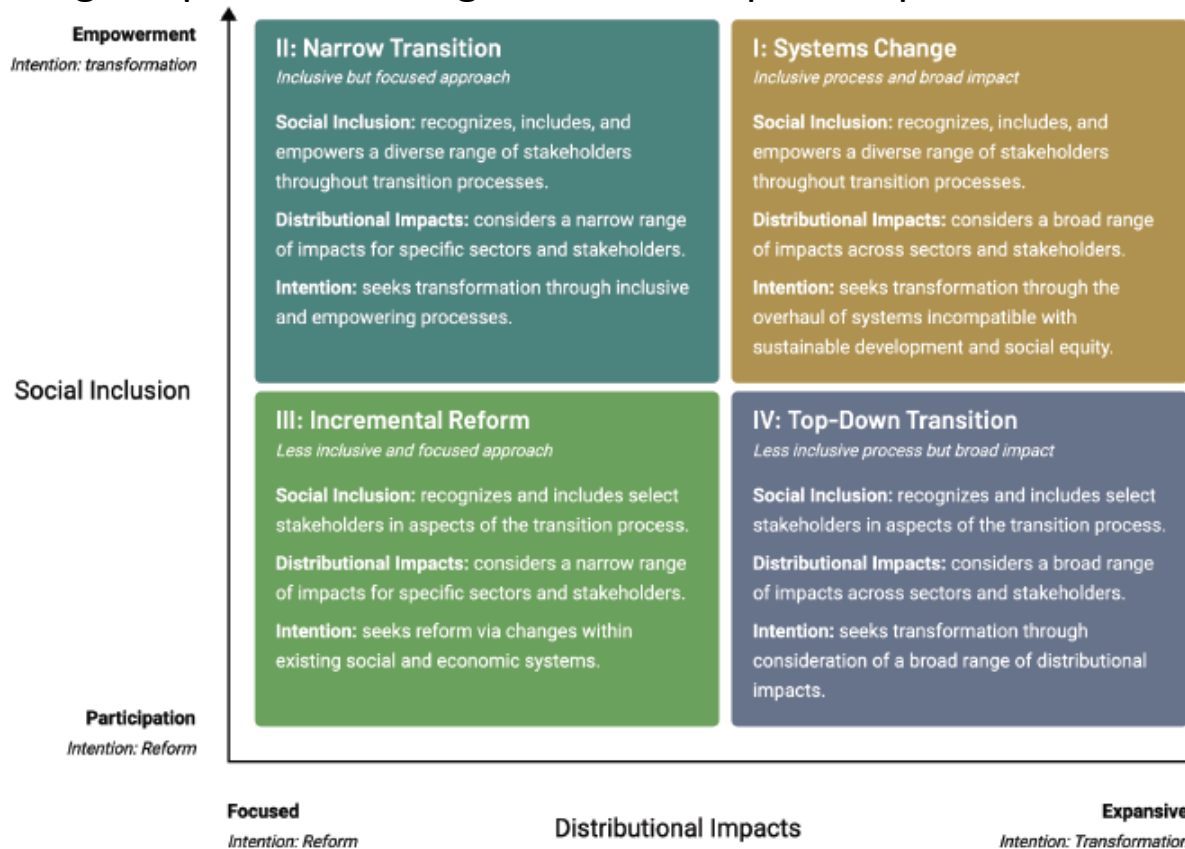
Source: Bloomberg, Fossil Free Indexes, SCERS calculation; excludes overlay program, transition holdings

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 December 2021



# Defining Just Transition

While labor issues remain essential to the **just transition** discourse, the use of the term has expanded to highlight a variety of risks and equity issues associated with climate change impacts and mitigation and adaptation policies.<sup>1</sup>



1. [https://justtransitioninitiative.org/wp-content/uploads/2021/01/Framework-for-Just-Transitions\\_Download.pdf](https://justtransitioninitiative.org/wp-content/uploads/2021/01/Framework-for-Just-Transitions_Download.pdf)