



Seattle Retirement

Seattle City Employees' Retirement System

Environmental, Social & Governance (ESG) Semi-Annual Update

March 13, 2025

Jason Malinowski, Chief Investment Officer

Leola Ross, Deputy Chief Investment Officer & Head of ESG

Environmental, Social & Governance (ESG) at SCERS

SCERS benefits from an **Environment that is sustainable**, a **Society that is well-functioning** and **Governance systems that are sound**.

SCERS integrates ESG risks and opportunities into its investment process to ensure that any **financially material** impact on risk and return is considered.

SCERS has pursued an ESG positive action strategy, prioritizing **climate change** since 2015 and **diversity, equity and inclusion (DEI)** since 2022.

ESG Process Integration

Climate Positive Action Strategy

Company
Voting and Engaging

Policy Advocacy

Sustainability Investments

Diversity, Equity & Inclusion (DEI) Positive Action Strategy

Company
Voting and Engaging

Manager Research

Investor Organizations and Initiatives

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

Climate-Focused



DEI-Focused



Governance-Focused



ESG Integration-Focused



Diversity, Equity & Inclusion (DEI)

Positive Action Strategy

Background

SCERS believes that diverse, equitable, and inclusive organizations make better decisions, contributing to improved company and investment manager performance

SCERS incorporates DEI considerations into our investment process for the sole purpose of improving upon our financial mission

Aspects of diversity may include gender, race, age, education, geographic location, sexual orientation, disability status, ethnicity, socioeconomic status, and others

Supporting Evidence

Company Performance

- McKinsey (2023) found that executive teams with top-quartile gender and ethnic diversity had a 39% increased likelihood of financial outperformance versus teams with bottom-quartile diversity¹
- Reidhead (2024) in a meta study of 24 articles found that diversity in gender and ethnicity of corporate boards was associated with strengthened financial performance²

Investment Manager Performance

- Lawrence (2022) in a Vanguard study found that mixed-gender investment teams managing US active equity funds outperformed single-gender teams by as much as 0.39% per year³
- Hammer et al (2020) found that private equity deal teams with greater socio-demographic diversity (gender, age, nationality) had higher deal returns⁴
- Lerner (2019) found that funds managed by diverse-owned firms typically perform as well as non-diverse-owned funds after controlling for relevant characteristics⁵

¹ www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-matters-even-more-the-case-for-holistic-impact

² <http://www.ijlrhss.com/paper/volume-7-issue-7/26-HSS-2844.pdf>

³ https://corporate.vanguard.com/content/dam/corp/research/pdf/gender_diversity_and_us_active_equity_fund_performance.pdf

⁴ <https://onlinelibrary.wiley.com/doi/full/10.1111/1467-8551.12456>





⁵ <https://knightfoundation.org/reports/diversifying-investments-a-study-of-ownership-diversity-and-performance-in-the-asset-management-industry/>

DEI Positive Action Strategy

SCERS established a DEI positive action strategy in 2022 that consists of company voting and engaging, and manager research

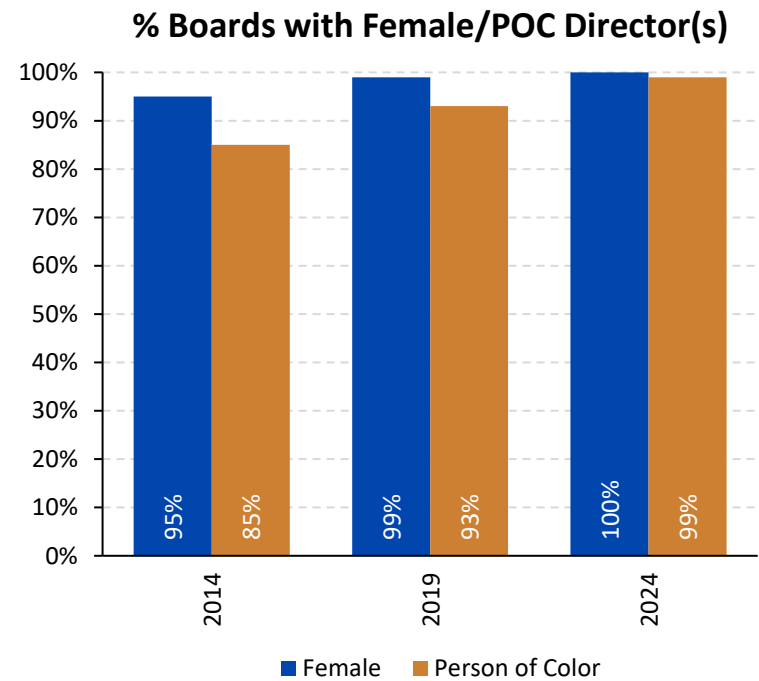
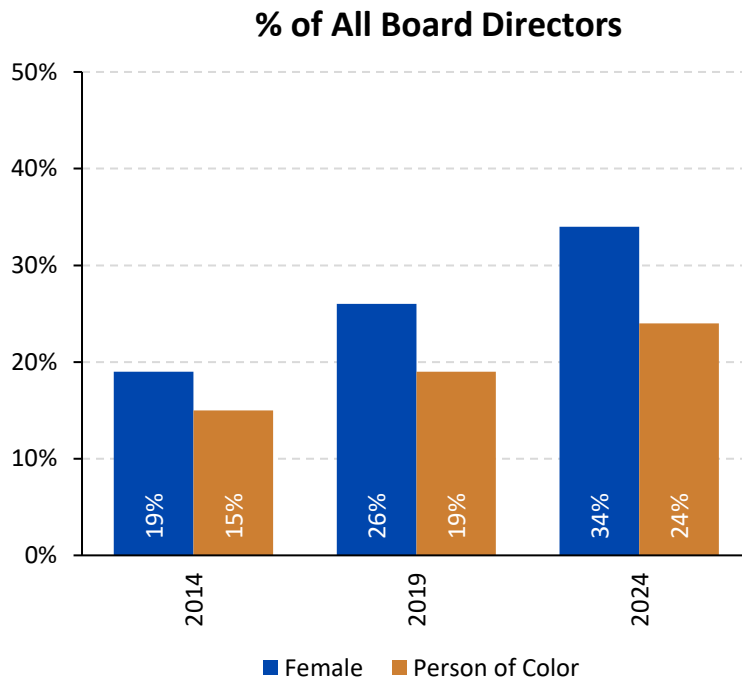
	Company Voting and Engaging	Manager Research
Why it matters?	Companies are both primary beneficiaries of a diverse workforce and gatekeepers for hiring, training, enriching, and promoting that workforce.	SCERS manages its portfolio through investment managers that are responsible for investing a portion of SCERS's assets on its behalf. Greater diversity within SCERS-invested managers is expected to improve decision-making and therefore investment performance.
What SCERS wants to achieve?	<ul style="list-style-type: none">• Board Directors with diverse backgrounds and skills to provide improved oversight• Companies hiring and promoting with gender and racial diversity in mind• Companies disclosing gender and racial diversity annually	<ul style="list-style-type: none">• Managers who are transparent and take action to improve the diversity of their workforce, particularly of their investment professionals• An investment consultant who identifies high-quality managers with diverse teams• An investment industry that is more representative of society

DEI Investor Organizations and Initiatives

	Primary Focus	Mission	Membership
	Company Voting and Engaging	Increase diversity in corporate boardrooms through investor engagement; formerly known as the Thirty Percent Coalition	Primarily institutional investors
	Manager Research	Unite the financial sector to unlock untapped potential and talent, creating superior outcomes for stakeholders, with financial inclusion as the core mission	Institutional investors, consultants, managers, others
	Manager Research	Drive diversity, equity, and inclusion (DEI) within institutional investment teams and portfolios and across the investment management industry; formerly known as Institutional Allocators for DEI	Institutional investors, primarily endowments & foundations
	Manager Research	Change the face of finance and have 33% of assets managed by gender-diverse and racially-diverse fund management teams by 2033 in order to drive outperformance and social change	Primarily institutional investors

Company Board Composition

Boards of S&P 500 Companies (500 Largest US Public Companies)



¹ Source: Spencer Stuart, <https://www.spencerstuart.com/research-and-insight/us-board-index>

Company Developments

5th U.S. Circuit Court of Appeals ruled that Nasdaq could not impose rules seeking to increase diversity of corporate boards listed on its exchange

- Nasdaq had required companies to have at least one female, person of color or LGBTQ person on their board or explain why they did not, and further required that companies disclose their board composition along these dimensions
- Court ruled that the Securities & Exchange Commission (SEC) lacked the authority to approve Nasdaq's board diversity rules; ruling is not being appealed

Many U.S. companies¹ have announced scaling back their DEI efforts due to the evolving U.S. regulatory and legal environment

- Examples include Walmart, Target, Bank of America, BlackRock, Meta, McDonald's, Pepsi
- Changes vary widely across companies, and may include removing references to DEI in their annual report, eliminating workforce targets, and disbanding DEI departments
- Unclear what the long-term impact will be of these changes

¹ <https://www.forbes.com/sites/conormurray/2025/02/27/paramount-rolls-back-diversity-hiring-targets-here-are-all-the-companies-cutting-dei-programs>

Company Voting & Engaging Activity

SCERS, as a public company shareholder, emphasizes DEI in electing board directors and voting on shareholder or management resolutions

- SCERS follows the Public Funds Proxy Voting Guidelines¹ offered by Institutional Shareholder Services (ISS), a proxy voting advisory firm, when voting its directly-owned shares and, where feasible, indirectly-owned shares held in commingled funds
- ISS's recommendations under these guidelines had supported improved board diversity, reduced workforce pay gaps and other DEI-related activities

ISS announced on February 11th that it would no longer consider DEI factors when making vote recommendations for US board directors²

- Announcement referenced Presidential Executive Orders on DEI

Staff is currently considering next steps in company voting & engaging

- SCERS is gathering information on the ISS guideline change
- SCERS does not currently engage directly with companies on DEI topics

¹ <https://www.issgovernance.com/file/policy/active/specialty/Public-Fund-US-Voting-Guidelines.pdf?v=2025.1>

² <https://insights.issgovernance.com/posts/statement-regarding-consideration-of-diversity-factors-in-u-s-director-election-assessments/>

Manager Research Background

SCERS supports improving the investment management industry's diversity given our reliance upon managers in achieving our mission

- Diverse workforces and investment teams drive the financial benefits of DEI
- Firm ownership is a lesser consideration

SCERS incorporates DEI considerations in each step of the manager research process, including sourcing, due diligence & monitoring

Manager Sourcing

- SCERS selects investment managers from a broad and qualified universe with NEPC (SCERS investment consultant) serving as the primary sourcing channel
- NEPC's Diverse Manager Committee engages with highly-qualified, diverse-owned and diverse-led investment managers to recommend to its clients
- Staff also participate in organizations such as the Allocator Collective and Investment Diversity Advisory Council which provide introductions to diverse-owned managers

Manager Research Background

Manager Due Diligence

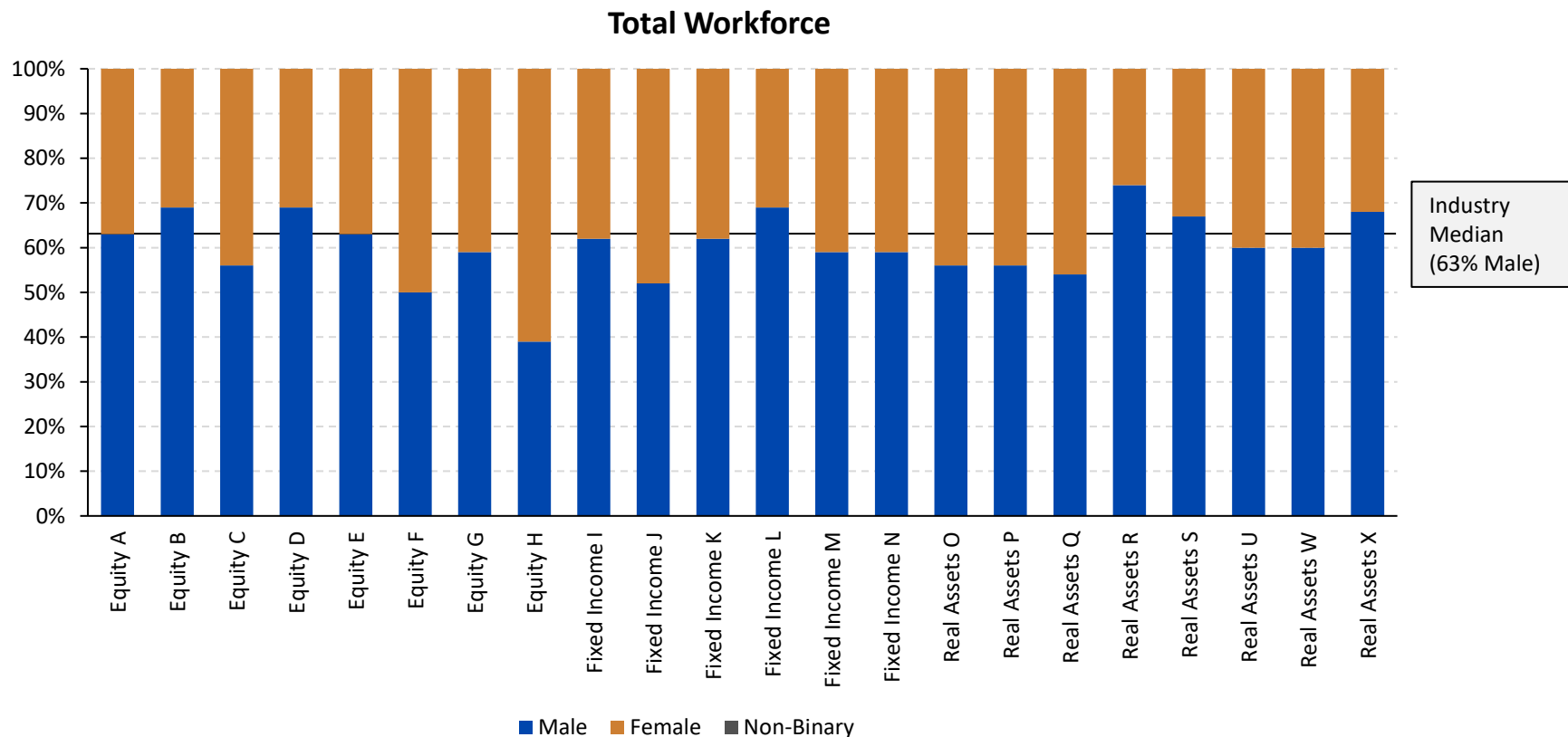
- Staff request quantitative and qualitative DEI-related information when evaluating a prospective investment manager
- Staff ask DEI-related questions during the due diligence process
- Staff reflect their DEI assessment in the Team factor of the investment rating matrix, which contributes to the holistic decision of which manager to recommend
- NEPC also rates managers with respect to DEI on a 1-to-5 scale based on firm policies, diversity statistics, industry engagement, human resource practices and other items (current process for public market managers, underway for private market managers)

Manager Monitoring

- SCERS is transitioning from a custom DEI questionnaire to industry standard reporting frameworks to improve efficiency and transparency
 - NASDAQ eVestment for public market managers
 - Institutional Limited Partnership Association (ILPA) for private market managers
- Staff conducted an inaugural DEI survey of SCERS-invested managers in 2024 that is planned to be conducted biannually going forward

Manager Survey

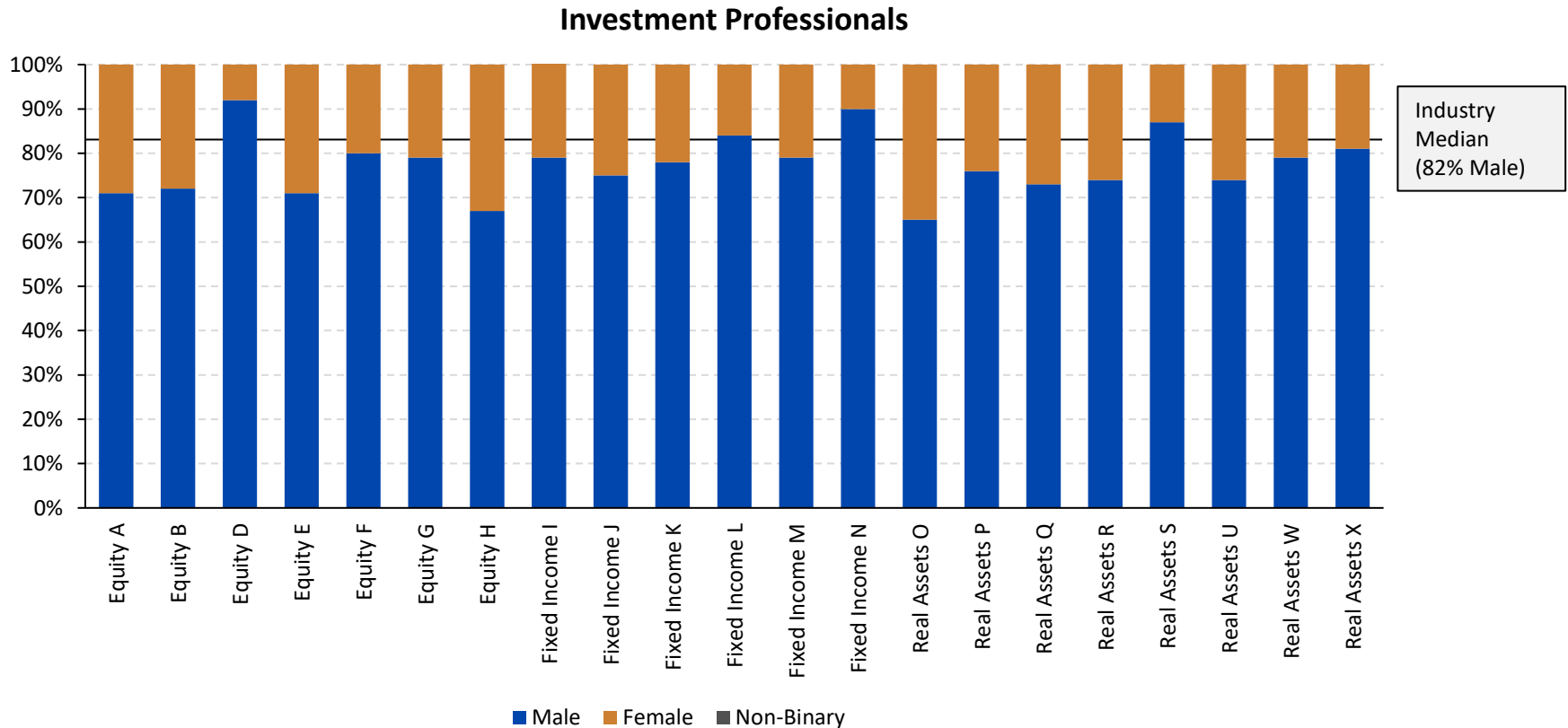
SCERS-Invested Managers – Gender Diversity



Sources: SCERS calculations based on investment manager provided data; legacy managers are not included; industry median from Pensions & Investments, <https://www.pionline.com/interactive/women-remain-underrepresented-money-managers>

Manager Survey

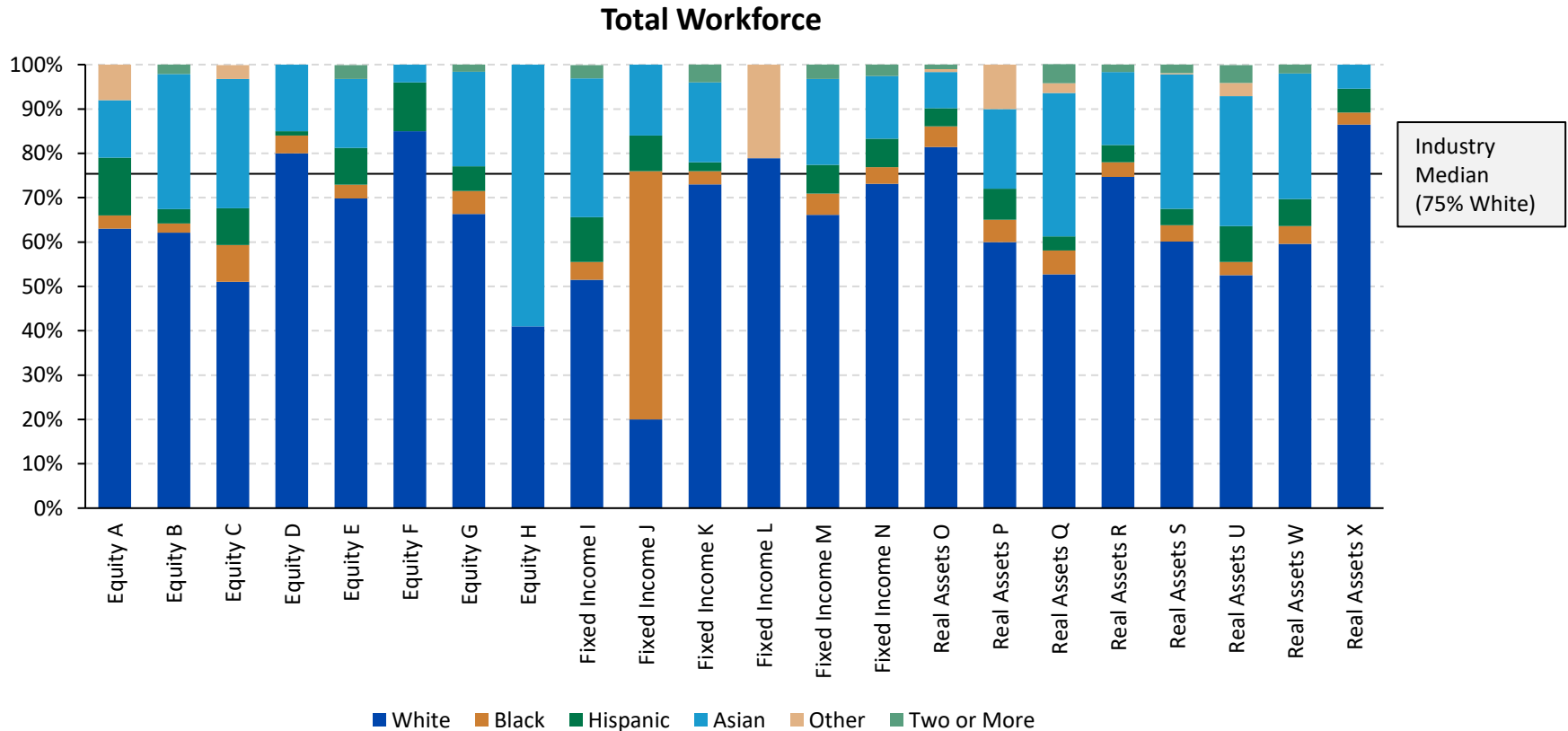
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Manager Survey

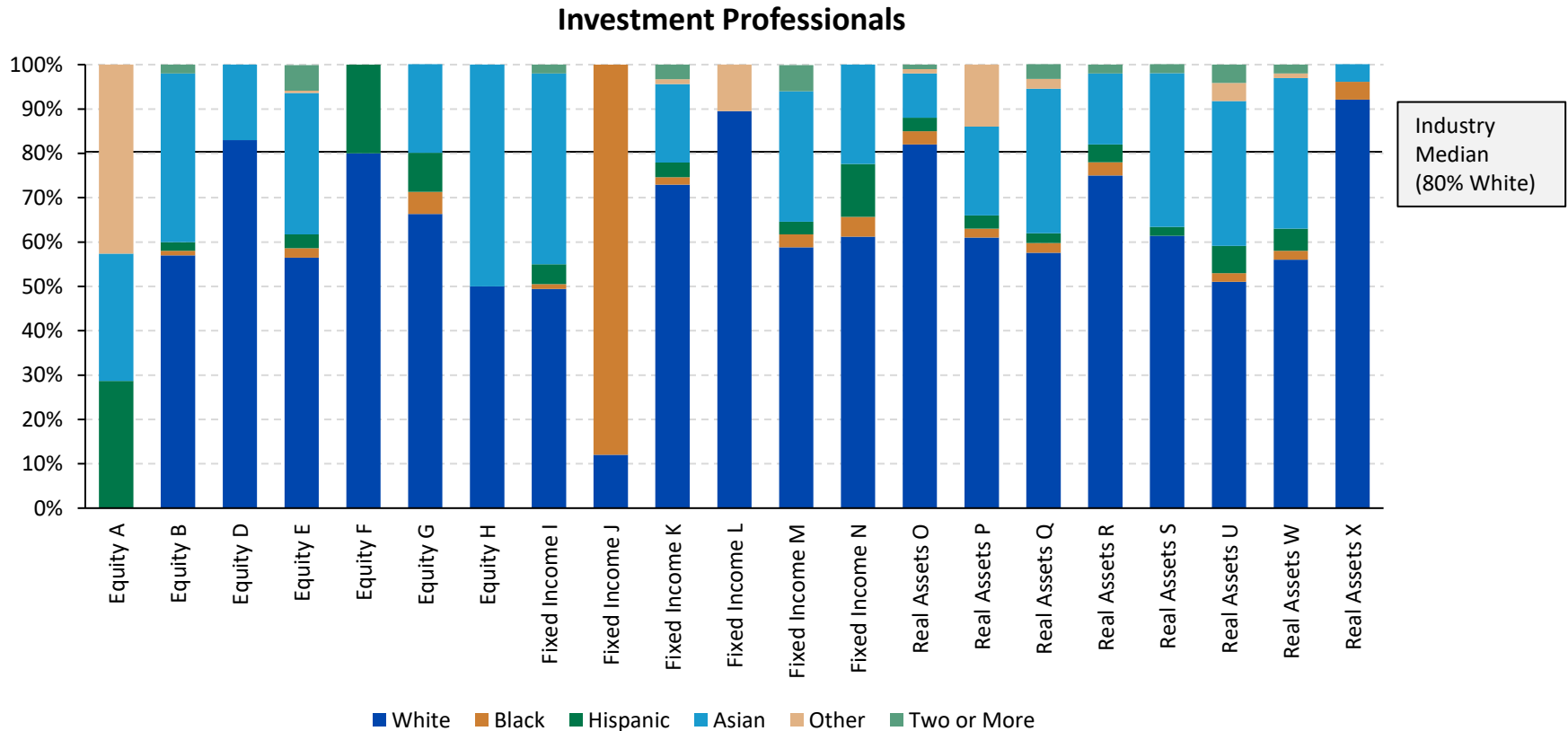
SCERS-Invested Managers – Racial Diversity



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Manager Survey

SCERS-Invested Managers – Racial Diversity



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Manager Survey Takeaways

Managers generally provided the requested information, although it was sometimes not in the industry standard reporting framework

- Inaugural survey serves as an important baseline to evaluate future trends
- Significant staff time was involved in collecting information

Investment management industry and SCERS-invested managers have less gender and racial diversity than the US labor force

- Potentially missed opportunity to improve financial performance
- Unclear what the future impact might be from changes in the broader environment to DEI

Most SCERS-invested managers have greater gender and racial diversity than the median investment manager

- Staff has been aware of the few managers with less diverse teams and will continue to engage with them

SCERS Activity & Industry Developments

SCERS Activity

Industry Conferences

- Jason Malinowski attended the Investment Diversity Advisory Council summit in September 2024
- Leola Ross attended the PRI in Person conference in October 2024
- Jason Malinowski virtually attended the Invest Ahead conference in November 2024
- Leola Ross attended the Council of Institutional Investors spring conference in March 2025

Investor Organizations & Initiatives

- Jason Malinowski joined the fellowship program of Allocator Collective and participated in monthly forum discussions with DEI leaders in the institutional investor community
- Leola Ross continues engaging on climate-related topics with multiple corporations, including Southern Company, Exxon, Boeing, and Paccar
- SCERS joined an amicus brief filed by the Council of Institutional Investors in the case of National Association of Manufacturers v. Institutional Shareholder Services (ISS); the brief supports ISS and the critical need for high quality and independent proxy advice¹

Internal Projects

- SCERS's manager questionnaire covering ESG/DEI topics was updated to reflect industry standard reporting frameworks (Nasdaq eVestment for public market managers and ILPA for private market managers)

¹ [https://www.cii.org/files/issues_and_advocacy/correspondence/CII%20\(ISS\)%20-%202025%2001%2028%20-%20DC%20Cir%20amicus%20brief%20\(Final\).pdf](https://www.cii.org/files/issues_and_advocacy/correspondence/CII%20(ISS)%20-%202025%2001%2028%20-%20DC%20Cir%20amicus%20brief%20(Final).pdf)

² https://www.unepfi.org/wordpress/wp-content/uploads/2024/09/FINAL-2024-Global-Investor-Statement_17-Sep-2024.pdf

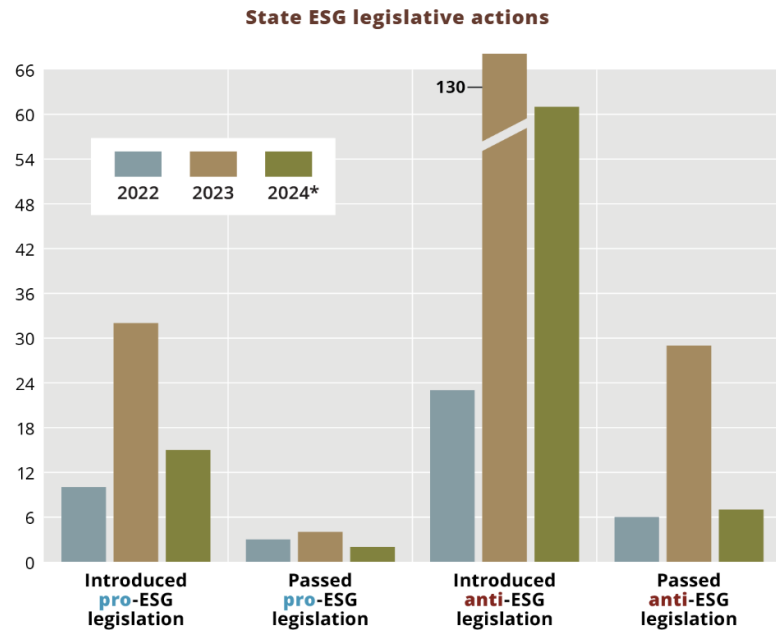
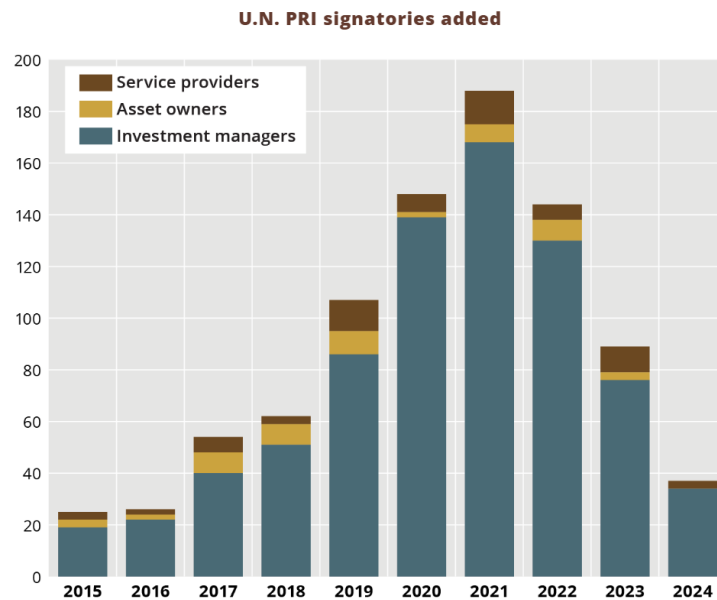
Industry Developments



American Airlines was found by a U.S. federal district judge to have breached its fiduciary duty of loyalty to its 401(k) participants by permitting investments in BlackRock-managed funds while maintaining a conflicted corporate relationship with BlackRock. The class action claim had solely alleged that BlackRock's proxy voting practices and shareholder advocacy on ESG issues caused losses to 401(k) participants, but the judge did not find that American Airlines violated its fiduciary duty of prudence. The case's long-term implications on fiduciary responsibility are difficult to assess given the complicated ruling.

Industry Developments

Investor adoption around integrating ESG factors continues to slow with material pushback occurring in some states within the United States



Source: Pensions & Investments

Appendix

Climate Positive Action Strategy

Climate change poses a systemic risk to the investment portfolio due to its profound and pervasive impact on the real economy. Climate change also introduces heightened uncertainty to the capital markets depending on how it is addressed by policymakers, companies, investors, individuals, and other stakeholders. SCERS supports decarbonizing the real economy to safeguard its investment portfolio from the impact of climate change.

	Company Voting and Engaging	Policy Advocacy	Sustainability Investments
Why it matters?	Companies can play a meaningful role in decarbonizing the real economy through their investment decisions, business operations, political advocacy, and other activities.	Governments are critical to decarbonizing the real economy through setting constructive regulations, developing incentives for companies and individuals to reduce emissions, and investing in promising technology and essential infrastructure.	Investments targeting energy-transition related technology, infrastructure and efficiency are needed to decarbonize the real economy. By allocating new capital to these opportunities, investors may achieve performance goals while advancing decarbonization.
What SCERS wants to achieve?	<ul style="list-style-type: none">• Board Directors with climate expertise to incent and align management with decarbonization• Companies making net zero commitments and taking actions to meet those commitments• Companies investing in the emerging technologies needed for decarbonization• Companies disclosing lobbying activities related to climate policies	<ul style="list-style-type: none">• Policies that incentivize decarbonization, such as carbon pricing• Policies that stop subsidizing carbon-intensive industries• Policies that support technology and infrastructure• Market regulations that promote climate-related disclosure and planning	<ul style="list-style-type: none">• Investment managers who have experience and capabilities in evaluating and implementing sustainability investments• Investment products that have a broad opportunity set and the potential for a material allocation to sustainability investments

Fossil Fuel Company Allocation

SCERS Public Equity Allocation to Fossil Fuel Companies

As of December 31, 2024

SCERS Ownership	Account Type	Exposure (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$25.5	0.6%
Indirect	Commingled Fund	\$25.8	0.6%
Total		\$51.2	1.2%

Source: MSCI Total Plan Manager; excludes overlay program

Note: Companies with sub-industry of Oil & Gas Exploration & Production, Integrated Oil & Gas, Coal & Consumable Fuels