



## **Seattle City Employees' Retirement System**

### **SCERS Proactive Strategy related to Climate Change**

#### **Corporate Engagement**

- **2Q15:** SCERS joined the Investor Network on Climate Risk (INCR), a network organized by Ceres that includes 110 institutional investors representing more than \$13 trillion in assets. INCR's mission is to mobilize investor leaders to address climate and other key sustainability risks, while building low-carbon investment opportunities.
- **2Q15:** SCERS joined institutional investors representing \$1.9 trillion in assets in a letter to the SEC calling for the SEC to enforce its rules requiring the disclosure of material risks to investors as it relates to the carbon asset risks of oil and gas companies.
- **2Q15:** SCERS engaged Institutional Shareholder Services (ISS) to report on the proxy voting records of its managers of public equities (stocks).
- **3Q15:** SCERS joined institutional investors representing \$37 billion in assets in a letter to Institutional Shareholder Services (ISS) expressing concern for their conflicting recommendations regarding shareholder resolutions calling on companies to establish greenhouse gas reduction goals. SCERS and Vermont were the only two public pensions who signed on to the letter.
- **4Q15:** SCERS rejoined the Council of Institutional Investors (CII), an organization that includes 120 General Members with combined assets that exceed \$3 trillion. CII describes itself as: "the Voice of Corporate Governance. The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of corporate, public and union employee benefit funds and endowments with a focused policy mission: to be the leading voice for effective corporate governance practices for U.S. companies and strong shareowner rights and protections. CII has more than 120 General Members with combined assets that exceed \$3 trillion."
- **4Q15:** SCERS began instructing its public equity separate account managers to vote the proxies for SCERS's directly held shares per the Institutional Shareholder Services (ISS) Public Funds policy. SCERS concluded that the ISS Public Funds policy best achieves its ESG objectives while meeting its fiduciary duties. Previously, SCERS had delegated proxy voting to its separate account managers. SCERS continues to rely on managers to vote proxies for its commingled fund investments (e.g. mutual funds) where stocks are indirectly held by SCERS.
- **4Q15:** SCERS joined 400 other investors in signing the Global Investor Statement on Climate Change that calls on governments to reach a robust global agreement to combat climate change.
- **2Q16:** SCERS joined with other asset owners to support climate asset risk shareholder resolutions at the Annual General Meetings of nine fossil fuel companies, including

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**Seattle City Employees' Retirement System, Jeffrey S. Davis, Executive Director**

720 Third Avenue, Suite 900, Seattle, Washington 98104

Tel: 206.386.1293 Toll Free: 877.865.0079 Fax: 206.386.1506

Website: [www.seattle.gov/retirement](http://www.seattle.gov/retirement) Email: [retirecity@seattle.gov](mailto:retirecity@seattle.gov)

Chevron and Exxon. SCERS supported these resolutions by directing its investment managers to vote proxies consistent with SCERS's recently adopted ISS Public Funds policy. While the Chevron and Exxon resolutions narrowly lost with 41% and 38% support, respectively, shareholder support for these resolutions increased greatly from previous years. This proxy season witnessed continued momentum in the effort to require fossil fuel companies to perform climate change stress tests.

- 2Q16: SCERS joined Green Century Funds and other investment managers, institutional investors and businesses in a letter to the Department of Justice requesting an investigation of Exxon for its alleged efforts to intentionally misinform the public about climate change.
- 3Q16: SCERS joined with other members of Ceres' Investor Network on Climate Risk (INCR) in two letters to the Securities and Exchange Commission (SEC). The first letter expressed concern over the SEC's lack of action to improve climate risk disclosure in recent years. The second letter provided feedback on the specific types of disclosure that should be required and enforced.
- 4Q16: SCERS joined with other members of INCR in a letter to members of the House and Senate to express opposition to an amendment that would bar the SEC from enforcing its 2010 climate risk disclosure guidance.
- 4Q16: SCERS co-filed a resolution that is being led by Walden Asset Management requesting BlackRock and JP Morgan to "review and issue a report on our proxy voting policies and practices related to climate change." BlackRock and JP Morgan have historically opposed climate-related shareholder resolutions. With a collective \$6 trillion in assets under management, a change to their proxy voting would meaningfully improve the likelihood that climate-related shareholder resolutions (e.g. Chevron, Exxon that are described earlier) pass.

### **Integrating Climate Change into the Investment Process**

- 2Q15: SCERS (through NEPC) included an ESG section in its RFP for infrastructure managers.
- 3Q15: Staff began to evaluate Mercer's ESG ratings and research for potential incorporation into the infrastructure RFP process.
- 3Q15: Mercer presented to the Board on its paper, "Investing in a Time of Climate Change."
- 4Q15: SCERS hired Mercer to produce ESG-focused research reports on the infrastructure finalist candidates so that the Board and Staff could consider their approaches to ESG risks in making selections.
- 1Q16: SCERS engaged Mercer to produce an ESG-focused research report on Brookfield Infrastructure Fund III, which was approved by the Board in March 2016.
- 2Q16: SCERS engaged Mercer to produce an ESG-focused research report on Global Infrastructure Partners III, which was approved by the Board in May 2016.
- 3Q16: SCERS Staff developed a manager questionnaire that asks of their practices regarding various ESG items. The questionnaire will be completed by those managers being recommended to the Investment Committee to inform them of the City of Seattle's values and implicitly encourage the managers to adopt them.

- 3Q16: SCERS hired Mercer to conduct an analysis of BlackRock's proxy voting and other investment stewardship activities.
- 4Q16: SCERS placed BlackRock on watch status due to ESG concerns regarding its proxy voting and other investment stewardship activities in its role as manager of the BlackRock MSCI World ex-US Fund. SCERS had identified several concerns with BlackRock, including their reticence to oppose management, limited focus on environmental and social issues, inconsistency between their proxy voting record with their policies and public pronouncements (including those related to climate change), and limited transparency on investment stewardship activities.

### **Sustainability Investments**

- 2Q15: SCERS (through NEPC) issued an RFP for infrastructure managers. Staff believed that there are several managers with dedicated renewable energy strategies or diversified strategies with material allocations to renewable energy that would respond to the RFP.
- 3Q15: Several respondents to the infrastructure RFP put forth either dedicated renewable energy strategies or diversified strategies with material allocations to renewable energy. Staff and NEPC evaluated the investment merits of all respondents.
- 1Q16: Staff and NEPC recommended a commitment of \$12 million to Brookfield Infrastructure Fund III due to its expected investment return and risk properties. Additionally, the strategy is expected to have a 35% allocation to renewable power investments, primarily in hydroelectric facilities and wind farms.

**SCERS Public Equity Allocation to Fossil Fuel Companies***As of December 31, 2016*

SCERS Ownership	Account Type	Allocation (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$34.0	1.4%
Indirect	Commingled Fund	\$58.2	2.3%
Total		\$92.2	3.7%

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