



City of Seattle

# Seattle City Employees' Retirement System

ESG Quarterly Update: Fourth Quarter 2018



# Background



# Introduction

**The Board of Administration directed SCERS on February 12, 2015 to undertake a *positive action strategy* that beneficially impacts climate change in a manner that is fully consistent with SCERS's mission and fiduciary responsibilities**

**The Board of Administration reaffirmed its support of the positive action strategy on August 10, 2017**

**SCERS staff provides a quarterly update to the Board on Environmental, Social and Governance (“ESG”) issues, specifically related to climate change, and the positive action strategy**

**SCERS's investment consultant also provides an annual update on ESG**



# Positive Action Strategy Overview

## Shareholder Advocacy

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

## Sustainability Investments

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



## Integrating Climate Risk into the Investment Process

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



# ESG Investor Organizations

**SCERS is a member of three ESG investor organizations that provide shared resources and collaboration opportunities**

	 Ceres Ceres Investor 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	More than 160 institutional investors primarily located in North America that collectively manage more than \$25 trillion	135 US pension and other benefits funds with a collective \$4 trillion in assets under management	More than 2,000 signatories globally with a collective \$80 trillion in assets under management



# Quarterly Update



# Positive Action Strategy Update

## Shareholder Advocacy



SCERS joined other investors in a comment letter to the **Securities and Exchange Commission (SEC)** to underscore the importance and benefits of shareholder proposals and proxy voting<sup>1</sup>. The letter was sent in advance of a SEC roundtable on the proxy process that was held in November.

SCERS also joined in a rulemaking petition to the SEC calling on the development of a comprehensive framework requiring issuers to disclose identified ESG aspects of company operations<sup>2</sup>.

<sup>1</sup> <https://www.sec.gov/comments/4-725/4725-4642801-176458.pdf>

<sup>2</sup> <http://www.sec.gov/rules/petitions/2018/petn4-730.pdf>



# Positive Action Strategy Update

## Shareholder Advocacy



Southern Company

SCERS continued its engagement of **Southern Company** by sending a letter and meeting with company representatives alongside a select group of other investors. The discussions focused on the impact of climate change on the company and their participation in the National Association of Manufacturers, which is engaged in an attack against shareholder rights.

J.P.Morgan

SCERS reengaged with **JP Morgan** in an effort led by Walden Asset Management, raising an issue with their disclosure of lobbying oversight and expenditures. This is of particular concern given that JP Morgan's CEO is the Chair of the Business Roundtable, which is seeking to severely limit shareholder resolutions.





# Positive Action Strategy Update

## Sustainability Investments



GLOBAL  
INFRASTRUCTURE  
PARTNERS

Global Infrastructure Partners, a SCERS-invested manager, acquired a 50% stake in Hornsea 1, a 1,218 megawatt offshore wind farm off the English coast that will become the world's largest offshore windfarm when commissioned in 2020<sup>1</sup>.

<sup>1</sup><https://www.reuters.com/article/us-orsted-wind-farm/orsted-divests-50-percent-of-hornsea-1-offshore-wind-farm-idUSKCN1LY33K>



# Positive Action Strategy Update

## Integrating Climate Risk into the Investment Process



SCERS received an update from NEPC's Director of Asset Allocation on a project to develop climate change scenarios that will be incorporated in the strategic asset allocation process. SCERS had requested that NEPC undertake this work.



SCERS reevaluated BlackRock's watch status and recommends removing the manager from watch status since they have made acceptable changes to address the ESG concerns that had been identified in 2016.



# Staff Activity



Jill Johnson attended the **PRI In Person Conference** in San Francisco in September that coincided with the Global Climate Action Summit hosted by Governor Jerry Brown. The well-attended conference covered an expansive set of ESG issues that included climate risk, diversity, working conditions, economic inequality and indigenous peoples' rights. It also provided productive networking opportunities with institutional investors, investment managers and service providers.



Jill Johnson attended a portion of the **CII Fall 2018** Conference while in New York in October. The conference covered topics such as the role of market exchanges and index providers as well as cybersecurity and investor disclosure.



# Staff Activity



Jill Johnson participated in engagement efforts organized by the **Climate Action 100+** initiative including letter writing, meetings and conference calls with ExxonMobil, Boeing, The Southern Company. Climate Action 100+ is a combined effort from Ceres, PRI, CalPERS and sister international organizations to call on the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change



# Investor and Industry Developments



**Royal Dutch Shell**, in a joint statement with institutional investors, announced that it was making major commitments to reduce its carbon footprint including reducing greenhouse gas emissions by 20% by 2035 and 50% by 2050, linking executive compensation to carbon footprint reductions and aligning its lobbying efforts with the objectives of the Paris Agreement on climate change<sup>1</sup>.



The **San Francisco Employees' Retirement System (SFERS)** identified five companies with the highest risk fossil fuel assets and committed to divest of their direct holdings, representing 0.03% of plan assets. NEPC, SFERS's consultant, did not support the divestment action<sup>2</sup>.

<sup>1</sup> <https://www.shell.com/media/news-and-media-releases/2018/joint-statement-between-institutional-investors-on-behalf-of-climate-action-and-shell.html>

<sup>2</sup> <https://www.ai-cio.com/news/exclusive-san-francisco-pension-system-approves-divestment-five-fossil-fuel-companies/>



# Investor and Industry Developments



**Seattle University** announced that it would divest its endowment portfolio of companies owning fossil fuel reserves within the next five years. The University's President stated that making such a statement was important as a Jesuit and Catholic University. An analysis conducted by Cambridge Associates, Seattle University's Investment Consultant, found that divesting would reduce the annual expected return by 0.6 to 1.2%.

<sup>1</sup> <https://www.seattleu.edu/news/news-features/seattle-university-board-votes-to-divest-from-fossil-fuels.html>



# Informational Items

## SCERS Press Coverage

- Jason Malinowski was quoted in a Financial Times article, “Investors Clash with Big Business over Shareholder Rights.” The article covered the sign-on letter that SCERS joined to the Securities and Exchange Commission in support of the existing shareholder resolution process<sup>1</sup>.

<sup>1</sup><https://www.ft.com/content/60328a49-f961-39e7-bba4-ef6cf290b44d>



# Appendix





# Fossil Fuel Company Exposure

## SCERS Public Equity Allocation to Fossil Fuel Companies

As of June 30, 2018

SCERS Ownership	Account Type	Allocation (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$33.3	1.2%
Indirect	Commingled Fund	\$53.2	1.9%
Total		\$86.5	3.1%

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