



City of Seattle

Seattle City Employees' Retirement System

ESG Quarterly Update: Second-Third 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 Investor Network on Climate Risk and Sustainability	 Council of Institutional Investors® The voice of corporate governance	 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 130 institutional investors primarily located in North America that collectively manage more than \$17 trillion	120 US pension and other benefits funds with a collective \$3 trillion in assets under management	More than 1,700 signatories globally with a collective \$60 trillion in assets under management



Quarterly Update



Positive Action Strategy Update

Shareholder Advocacy



Southern Company

Southern Company produced a report titled, “Planning for a Low Carbon Future”¹, in response to both prior engagements from an investor group that includes SCERS and to a shareholder resolution at the company’s 2017 Annual General Meeting that narrowly failed. The investor group continues discussions with the Southern Company on the impact of climate change on its business.



SCERS continues to engage with ExxonMobil through the Climate Action 100+ group. On May 23, 2018, **ExxonMobil** announced new greenhouse gas reduction measures². Initial investor reactions suggest that while this is a welcome step by Exxon, it ignores product emissions that are of primary concern. The Climate Action 100+ group will be seeking to make further progress.

¹<https://www.southerncompany.com/content/dam/southern-company/pdf/corpresponsibility/Planning-for-a-low-carbon-future.pdf>

²<http://news.exxonmobil.com/press-release/exxonmobil-announces-greenhouse-gas-reduction-measures>



Positive Action Strategy Update

Shareholder Advocacy



SCERS was included as a supporter in a letter to 45 companies that are Executive Committee and Board members of the **National Association of Manufacturers (NAM)**¹. The letter expresses concern that NAM, through its affiliation with the Main Street Investors Coalition, is seeking to curtail shareholders' ability to file proposals. The letter states that the company's membership in NAM is in conflict with their stated ESG goals and asks them to distance themselves from this effort.

The **Main Street Investors Coalition** was launched in 2018 by George David Banks, a former energy advisor in the Trump Administration. It aims to limit the impact that institutional investors can have on ESG issues like climate change. The campaign erroneously contends that institutional investors wield too much power at the expense of individual investors.

¹<https://waldenassetmgmt.com/wp-content/uploads/2018/08/Press-Release-on-NAM-Letters.pdf>



Positive Action Strategy Update

Shareholder Advocacy



SCERS joined 288 investors representing more than \$26 trillion in assets in signing the **Global Investor Statement to Governments on Climate Change**¹ that conveyed strong support for the Paris Agreement.

¹<https://theinvestoragenda.org/wp-content/uploads/2018/05/GISGCC-FINAL-for-G7-with-signatories-1.pdf>



Positive Action Strategy Update

Sustainability Investments



Brookfield, a SCERS-invested manager, acquired **Saeta Yield** through its TerraForm Power business. Saeta Yield is a European renewable power company with 1,000 megawatts of wind and solar capacity.



Positive Action Strategy Update

Integrating Climate Risk into the Investment Process



SCERS received its first assessment report from PRI (following becoming a PRI signatory in 2017), which is designed to provide feedback to support ongoing ESG learning and development. SCERS scored in-line with other signatories in the 2017 cohort and received higher scores in strategy/governance and listed equity. SCERS is the smallest US public pension fund to be a PRI signatory.



NEPC has developed an ESG manager rating framework that considers several firm and strategy-level factors. NEPC applied this framework to assess SCERS's core real estate managers, rating JP Morgan and AEW as a 1 and Heitman as a 2 on their 1-to-5 point scale (where 1 is a better score).



Positive Action Strategy Update

Integrating Climate Risk into the Investment Process

BLACKROCK[®]

SCERS staff met with Barbara Novick, Vice Chairman, who oversees public policy and investment stewardship for **BlackRock**. The meeting provided an opportunity for SCERS to continue due diligence of BlackRock's investment stewardship approach, specifically as it relates to climate risk and other ESG issues. BlackRock remains on watch status due to ESG concerns, which will be next evaluated in late 2018.

BlackRock also recently published a report on the investment stewardship ecosystem that describes the roles of asset owners, asset managers, index providers and proxy advisors¹.

¹<https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-investment-stewardship-ecosystem-july-2018.pdf>



Staff Activity



Jill Johnson attended the **CII Spring 2018 Conference** in Boston in March. The conference covered many topics including lessons learned from governance scandals occurring internationally, coordinating engagements with carbon intensive companies with the recently formed Climate Action 100+ group and provided productive networking opportunities with the 50/50 Climate Project, BlackRock and other public pension plans.

Jill also met with Boston-based groups and managers who SCERS has learned from and collaborated with on ESG, including Ceres, Walden Asset Management and Boston Common.



Jason Malinowski gave the keynote address to the **PRI Western North America Network** meeting in Vancouver, BC on May 9, 2018. He detailed SCERS's ESG journey and positive action strategy. He specifically focused on how small- and mid-sized institutions can achieve greater ESG impact by proactively working with their investment managers.



Staff Activity



Jason Malinowski attended the **Sustainable Investing Summit** that was convened by Oregon Treasurer Tobias Read in Portland on September 6, 2018. The summit involved presentations from sustainability-related organizations as well as investment managers that manage assets on behalf of the Oregon Public Employees' Retirement System. Topics included integrating ESG factors into the investment process, shareholder engagement, climate-connected investments and long-term investing.



Investor and Industry Developments



The **U.S. Department of Labor** released a field assistance bulletin aimed at clarifying earlier interpretations from the Obama administration related to ESG. The bulletin seeks to narrow the instances where ESG issues may be considered by a plan fiduciary in making an investment decision. It also seeks to limit shareholder engagement activities when there is significant expense incurred by a plan fiduciary. Note that SCERS is not directly impacted by the bulletin, since it is not covered by ERISA.

¹<https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2018-01>



Appendix



Fossil Fuel Company Exposure

SCERS Public Equity Allocation to Fossil Fuel Companies

As of March 31, 2018

SCERS Ownership	Account Type	Allocation (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$31.3	1.1%
Indirect	Commingled Fund	\$49.6	1.8%
Total		\$80.9	2.9%

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