



City of Seattle

Seattle City Employees' Retirement System

ESG Quarterly Update: First Half 2020



Introduction

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

Positive Action Strategy

Shareholder
Advocacy

Sustainability
Investments

Integrating Climate
Risk into the
Investment Process



Investor Organizations and Initiatives

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

	 Ceres 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	North American institutional investors	US pensions and other benefit funds	Global institutional investors

SCERS also participates in investor initiatives such as the Climate Action 100+ and Climate Majority Project related specifically to climate change



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

Quarterly Activity



The **Securities and Exchange Commission (SEC)** had issued two proposed rules in late 2019 that would increase the power of corporate management at the expense of shareholder rights.

SCERS sent a letter to the SEC during the comment period in opposition to the proposed changes. Jeff Davis and Jason Malinowski wrote that “these proposed rules fly in the face of the SEC’s mission by harming investors rather than protecting them”.¹ SCERS also joined sign-on letters organized by Ceres², the Council of Institutional Investors³ and PRI⁴ and engaged with select investment managers to provide SCERS’s perspective.

The SEC’s appears to have slowed its pace in finalizing the rules given the pandemic as well as *en masse* opposition from the investor community.

¹ <https://www.sec.gov/comments/s7-22-19/s72219-6730914-207440.pdf>

² <https://www.sec.gov/comments/s7-23-19/s72319-6771580-208107.pdf>

³ <https://www.sec.gov/comments/s7-22-19/s72219-6823583-208498.pdf>

⁴ <https://www.sec.gov/comments/s7-22-19/s72219-6740554-207696.pdf>



Shareholder Advocacy

Quarterly Activity



Southern Company

Southern Company announced a commitment to have net-zero carbon emissions by 2050. SCERS has directly engaged with the company over the last several years as part of a multi-investor collaboration. At the initiation of SCERS's engagement in early 2017, the company had strongly resisted making emission reduction commitments.¹

¹<https://www.southerncompany.com/newsroom/2020/may-2020/transition-to-net-zero-carbon-emissions-goal.html>



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, such as clean tech



Sustainability Investments

Quarterly Activity



Global Infrastructure Partners, a SCERS-invested manager, and Ørsted completed construction of Hornsea 1, a 1,218 megawatt offshore windfarm off the English coast. It is currently the world's largest offshore windfarm¹.

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



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

Expand the integration of ESG considerations to all asset classes (from Public Equity and Infrastructure currently) where it is material

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

Quarterly Activity

BLACKROCK®

Staff met with BlackRock to discuss their research into incorporating sustainability into a portfolio construction framework¹. BlackRock expressed their view that investor interest and capital flows into sustainable investments may lead to future outperformance. BlackRock had announced various sustainability-related business initiatives in the first quarter².



Staff met with the Inevitable Policy Response, a PRI collaborative project, to understand their climate risk forecasting tool³. The tool may enhance the climate change scenario analyses that NEPC has developed for use in asset-liability studies.

¹ <https://www.blackrock.com/corporate/literature/whitepaper/bii-portfolio-perspectives-february-2020.pdf>

² <https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter>

³ <https://www.unpri.org/inevitable-policy-response/what-is-the-inevitable-policy-response/4787.article>



Staff Activity



Jill Johnson spoke on a panel at the 2020 SHARE Summit entitled “#WeOwnIt: Tools for embedding accountability into capital markets.”



Jason Malinowski spoke on a virtual panel hosted by CleanTechIQ that included other investors in the Pacific Northwest. The panel discussed how institutional investors are tackling climate-related investment risks.



Investor and Industry Developments



The SEC's Investor Advisory Committee recommended that the SEC consider requiring certain ESG factors in public company disclosures¹. The independent committee is composed of large investors and academics. It is unclear if the SEC will act on the committee's recommendation.



Climate Action 100+, a multi-investor initiative with the world's largest fossil fuel emitters, announced that Total, Shell and BP had committed to have net-zero carbon emissions in their manufacturing processes by 2050. Each company also agreed to significantly reduce the carbon intensity of their energy products. These announcements highlight the gap between the meaningful climate action taken by European oil & gas companies and the inaction from US oil & gas companies (e.g. Exxon, Chevron).

¹ <https://www.sec.gov/spotlight/investor-advisory-committee-2012/recommendation-of-the-investor-as-owner-subcommittee-on-esg-disclosure.pdf>



Divestment note

SCERS has occasionally been asked by stakeholders to divest from (or invest in) a targeted sector or other set of investments for ESG reasons

- Such requests had been extensively investigated by SCERS, including by legal counsel, staff, the investment consultant and the Investment Advisory Committee
- Each evaluation concluded that divestment conflicted with the Board's fiduciary duties because it was not in the best interests of SCERS members and should not be pursued

The Board has consistently stated that the positive action strategy is the most effective, permissible means for SCERS to beneficially impact its ESG priorities

SCERS's ESG Policy was updated in 2019 to address divestment directly

- "The Board will not divest or invest from a targeted company, sector or set of investment to further an ESG priority because doing so would be inconsistent with SCERS's mission..., fiduciary duties... and investment beliefs."



Appendix

SCERS Public Equity Allocation to Fossil Fuel Companies

As of December 31, 2019

SCERS Ownership	Account Type	Allocation (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$33.2	1.1%
Indirect	Commingled Fund	\$42.0	1.3%
Total		\$75.3	2.4%

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