



City of Seattle

Seattle City Employees' Retirement System

ESG Semi-Annual Update: September 2024

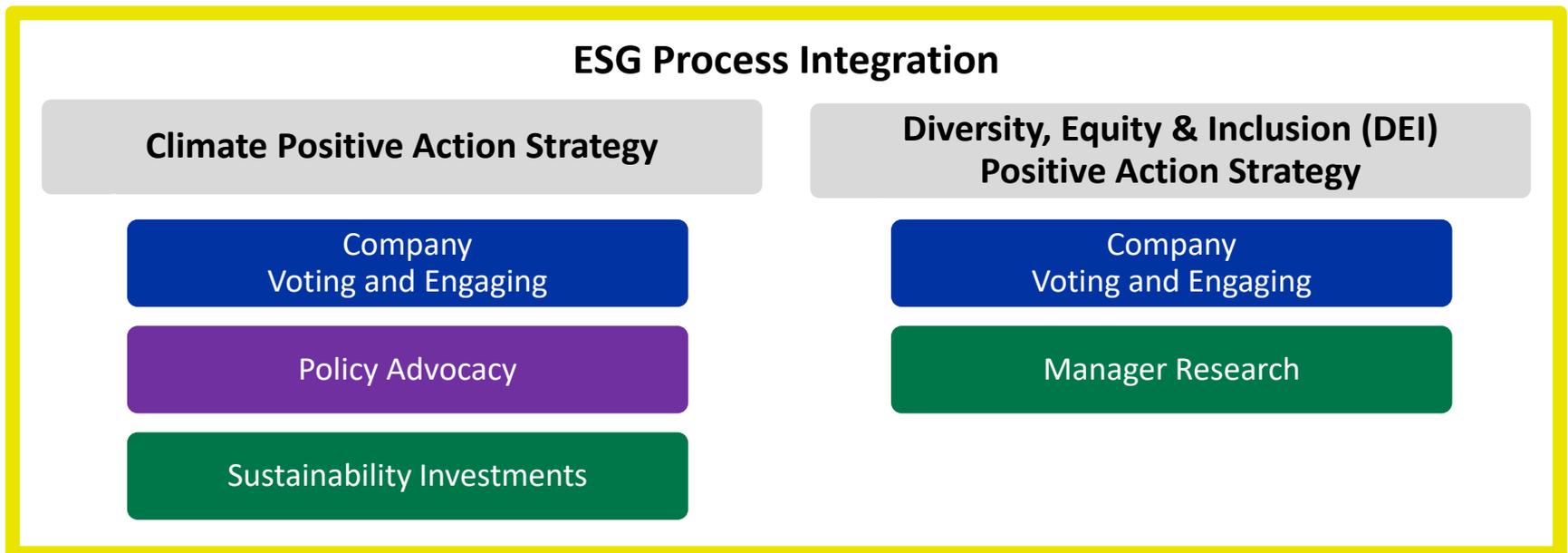


Environmental, Social & Governance (ESG) at SCERS

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.





Investor Organizations and Initiatives

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

Climate-Focused



DEI-Focused



Governance-Focused



ESG Integration-Focused





Climate Positive Action Strategy



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.

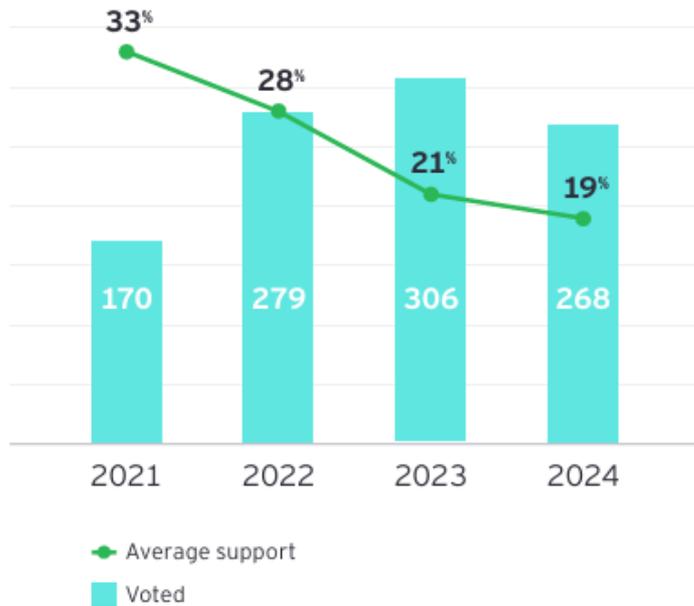
	Company Voting and Engaging	Policy Advocacy	Sustainability Investments
Why it matters?	Companies can play a meaningful role in decarbonizing the real economy through their investment decisions, business operations, political advocacy, and other activities.	Governments are critical to decarbonizing the 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



Climate—Company Voting and Engaging

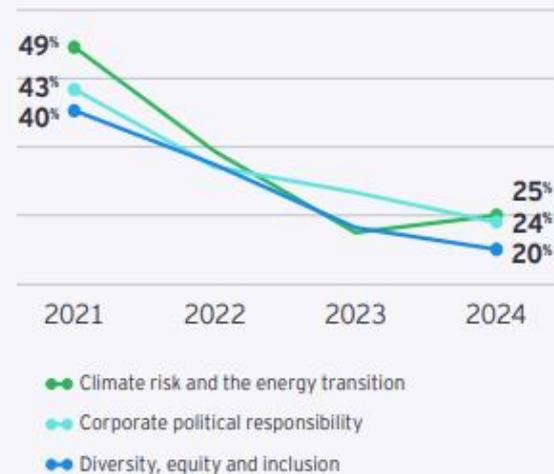
Shareholder support for climate and environmental proposals has fallen significantly over the past several years

Environmental and social proposals, S&P 1500*



*Excludes anti-ESG proposals on these topics.
Source: Analysis by EY Center for Board Matters

Average support declined across key environmental and social topics – except for climate-related proposals, S&P 1500*



*Excludes anti-ESG proposals on these topics.
Source: Analysis by EY Center for Board Matters

Source: <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-us/campaigns/board-matters/documents/ey-five-top-takeaways-from-the-2024-proxy-season.pdf>



Climate—Company Voting and Engaging



In response to the March 2023 agreement between SCERS and **Southern Company**, Southern updated multiple items relating to their Net Zero strategy and status. These items were reported in a supplement to their Net Zero report on the company website.¹

In December 2023, members of the Climate Action 100+ engagement team filed a resolution with **Southern Company** requesting they pursue alignment with accepted industry 1.5-degree Celsius models, increase the use of low-cost, low-carbon energy generation, and accelerate stated greenhouse gas (GHG) reduction goals. In May 2024, the resolution went to a vote at the Annual General Meeting and garnered less than 10% support.



In November 2023, a member of the Climate Action 100+ engagement team submitted a shareholder proposal with **Paccar** requesting annual disclosure of trade association and lobbying activities. The proposal received less than 30% support, whereas the same proposal received 47.4% support in 2023.

¹ <https://www.southerncompany.com/content/dam/southerncompany/pdfs/about/governance/reports/2023-esg-net-zero-supplement.pdf>



Climate—Policy



The **U.S. Environmental Protection Agency (EPA)** announced new automobile emissions standards.¹ The EPA rule applies to model years 2027 to 2032 and will significantly reduce emissions of planet-warming greenhouse gases, as well as other air pollution such as nitrogen oxides and particulate matter from new passenger cars, light trucks and pickups. In 2023, SCERS had joined a sign-on letter organized by Ceres that advocated for these standards.²



In *Ohio et al v. EPA*, the **U.S. Supreme Court** temporarily blocked a rule issued by the Environmental Protection Agency to reduce air pollution from power plants and other industrial facilities in 23 states.³

¹ <https://www.epa.gov/newsreleases/biden-harris-administration-finalizes-strongest-ever-pollution-standards-cars-position>

² <https://assets.ceres.org/sites/default/files/Letter%20to%20the%20EPA%20-%20Proposed%20Multi-Pollutant%20&%20GHG%20Emissions%20Standards.pdf>

³ <https://www.scotusblog.com/2024/06/supreme-court-blocks-epas-good-neighbor-air-pollution-rule/> <https://supreme.justia.com/cases/federal/us/603/23a349/>



Climate—Sustainability Investments



Global Infrastructure Partners announced that it was acquiring Allete, which operates primarily in Minnesota.¹ Allete's business includes regulated utilities and renewable energy companies and has goals to increase renewable generation to 70% by 2030 and reduce GHG emissions by 80% by 2035.

Brookfield

Brookfield announced the signing of a global renewable energy framework agreement with Microsoft. The agreement provides a pathway for Brookfield to deliver over 10.5 gigawatts of new renewable energy capacity between 2026 and 2030 to support the growing demand for Microsoft's cloud services.

¹ <https://www.global-infra.com/news/allete-enters-agreement-to-be-acquired-by-a-partnership-led-by-canada-pension-plan-investment-board-and-global-infrastructure-partners-to-advance-sustainability-in-action-strategy/>

² <https://bep.brookfield.com/press-releases/bep/brookfield-and-microsoft-collaborating-deliver-over-105-gw-new-renewable-power>



Diversity, Equity and Inclusion (DEI) Positive Action Strategy



DEI Positive Action Strategy

Diverse, equitable, and inclusive organizations make better decisions, leading to improved company and investment manager performance.

	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—Manager Research



SCERS joined a draft sign-on letter organized by the **Diverse Investing Collective** calling on the top 20 largest investment management firms to be more transparent about the gender and racial make-up of their investment teams. SCERS staff met with other public pensions to encourage them to sign-on to the letter. SCERS staff followed up with SCERS-invested managers who received the letter to specifically request them to complete the Nasdaq eVestment Diversity & Inclusion survey.



NEPC produced their annual DEI progress report that covers developments in the investment industry and NEPC's workplace.¹ NEPC is on track to meet its objective for 2024 that 15% of their recommended public market strategies are represented by diverse-owned managers. NEPC also completed DEI ratings for all recommended public market strategies.

¹ <https://www.nepc.com/newsroom/nepc-2023-dei-progress-report-redefining-diversity-in-investing/>



Staff Activity and Industry Developments



Staff Activity

Industry Conferences

- Leola Ross attended Paccar's 2024 annual general meeting.
- Leola Ross spoke at the Council of Institutional Investor's (CII) 2024 fall conference on the evolution of institutional investor portfolio allocations.

Investor Organizations & Initiatives

- Leola Ross participated in PRI's Climate Risk Working Group.
- Leola Ross was reappointed to the CII U.S. Asset Owners Advisory Council.
- Jason Malinowski participated in institutional investor cohort meetings of the Thirty Percent Coalition and Investment Diversity Advisory Council.
- Jason Malinowski participated in diverse-owned manager pitch sessions organized by Institutional Allocators for Diversity, Equity & Inclusion.

Internal Projects

- Staff tracked shareholder votes on key proposals during the 2024 proxy season and responded to ISS's annual proxy voting survey.
- Staff began the annual collection of DEI metrics for SCERS's investment managers related to ownership, workforce and investment team. SCERS is prioritizing disclosure in industry standard frameworks from eVestment and ILPA.



Industry Developments



In June 2024, the U.S. Court of Appeals for the Fifth Circuit vacated a rule adopted by the **Securities and Exchange Commission (SEC)** that required improved transparency from private fund managers.¹ The court found that the SEC exceeded its authority under the Administrative Procedures Act. The SEC announced that it is not appealing the verdict.

Later in June, the U.S. Supreme Court limited the power of administrative agencies, such as the SEC, by overturning *Chevron* deference which had relied on agency expertise in interpreting ambiguous statutes.

In June, a U.S. District Court judge dismissed a case brought by **Exxon** against a shareholder, Arjuna Capital, who had filed and later withdrew a shareholder resolution calling for GHG emissions reductions.² The judge ruled that Exxon's claim was no longer valid after the resolution was withdrawn. The case brought by Exxon is an example of the increasingly aggressive stance of some corporations against ESG-related resolutions.

¹ <https://www.reuters.com/legal/us-appeals-court-overturms-sec-oversight-rule-private-equity-hedge-funds-2024-06-05/>

² <https://www.reuters.com/legal/us-judge-dismisses-exxon-case-against-activist-investor-over-proxy-filing-2024-06-17/>



Industry Developments



In July 2024, Chairman Jim Jordan and Subcommittee Chairman Thomas Massie of the **U.S. House of Representatives Judiciary Committee** sent a letter to over 130 members of Climate Action 100+, including SCERS. The letter stated that “the Committee has uncovered evidence that financial institutions are colluding with climate activists through initiatives like Climate Action 100+ to adopt left-wing environmental, social, and governance (ESG)-related goals, potentially in violation of U.S. antitrust law.” The letter requested information on how members interact with Climate Action 100+ and its focus companies.

SCERS sent a response to Chairmen Jordan and Massie that provided background on the system and described how SCERS’s ESG activities further its financial mission.

¹ <https://judiciary.house.gov/media/press-releases/jordan-and-massie-demand-information-over-130-companies-surrounding-their>



Appendix



Fossil fuel company allocation

SCERS Public Equity Allocation to Fossil Fuel Companies

As of December 31, 2023

SCERS Ownership	Account Type	Exposure (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$26.1	0.7%
Indirect	Commingled Fund	\$33.5	0.8%
Total		\$59.6	1.5%

Source: 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 December 2021