



City of Seattle

Seattle City Employees' Retirement System

ESG Semi-Annual Update: September 2022



ESG Process Integration

Climate Positive Action Strategy

Company
Voting and Engaging

Policy Advocacy

Sustainability Investments

Diversity, Equity & Inclusion (DEI) Positive Action Strategy







Company
Voting and Engaging

Manager Research



Investor Organizations and Initiatives

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

	Primary Focus	Mission	Membership
 Ceres Network on Climate Risk and Sustainability	Environmental	Advance leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet	North American institutional investors
	Environmental	Ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change	Global institutional investors
 Council of Institutional Investors® The voice of corporate governance	Governance	Be the leading voice for effective corporate governance practices for US companies and strong shareholder rights and practices	US pensions and other benefit funds
 ilpa INSTITUTIONAL LIMITED PARTNERS ASSOCIATION	Governance	Advance the interests of private market investors through best-in-class education, research and advocacy	Global private market investors
 PRI Principles for Responsible Investment	Environmental, Social, Governance	Understand the investment implications of ESG factors and support its signatories in incorporating these factors into their decisions	Global institutional investors
	Social	Engage with our clients directly in conversations that help all stakeholders — including our firm — expand our definitions of diversity and continually improve the measurement benchmarks we use to track our collective progress	US institutional investors



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.

	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 in areas such as technology, infrastructure and energy 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—Voting and Engaging

Semi-annual Activity



In August, the **Southern Company** posted the 2022 CDP Climate Change survey response and third-party assurance/verification report on their website. Lots of in-depth information in the survey, including significant expansion of Scope 3 emissions reporting and disclosure of the revenue shares associated with zero and low-carbon generation.¹



In July, Leola Ross joined a meeting with the Climate Action 100+ engagement group and **Paccar** ESG lead Jameson Morrell. Mr. Morrell has been tasked with improving transparency, reporting and actions relating to transitioning Paccar to lower emissions products and practices.

1. <https://www.southerncompany.com/sustainability/data-downloads-reports.html>



Semi-annual Activity



In June, SCERS wrote a letter to the **Securities and Exchange Commission** supporting its proposal for improved climate disclosure from public companies.¹

Specific topics SCERS raised in the letter included:

1. The role of disclosure in promoting market efficiency, improving capital allocation, ensuring fair investor access, and guiding shareholder engagement
2. The importance of encouraging larger companies to lead the way and the difficulties of calculating “Scope 3” emissions
3. The mechanisms for disclosing climate-related information.

1. <https://www.sec.gov/rules/proposed/2022/33-11061.pdf>, <https://www.sec.gov/comments/s7-10-22/s71022-20132112-302597.pdf>



Climate—Policy

Semi-annual Activity



In August 2022, the **U.S. Congress and President Biden** passed into law the **Inflation Reduction Act of 2022**, H.R. 5376. In essence, the legislation is a scaled-down version of the Build Back Better Act proposed by the Biden administration in 2021.

Among other things, the legislation establishes policies designed to promote and support domestic energy and transmission projects. The goal is to lower costs for consumers and help the U.S. meet long-term emissions goals.¹



Earlier in 2022, SCERS had joined businesses and other investors in a letter to the **U.S. Congress** in support of the substantial investment in climate and clean energy included in the Build Back Better proposal.

¹ <https://www.congress.gov/bill/117th-congress/house-bill/5376/text>



Climate—Sustainability Investments

Semi-annual Activity

SCERS-invested managers are carefully evaluating the **Inflation Reduction Act**.



Stonepeak: “All-in-all, we expect the IRA to be a landmark pivot-point in U.S. policy action to combat climate change. We expect the myriad incentives in the bill to significantly increase ... the investment opportunity set...”

J.P.Morgan

JP Morgan: Our multi-year conviction in sustainability themes like renewable energy, battery storage, **green real estate**, and clean infrastructure is bolstered by these policy advancements.

Brookfield

Brookfield: “We increasingly are seeing opportunities in ... the power sector that really provide critical functions to clean energy ... and more opportunities in that space that could represent additional growth levers for our business,” said Connor Teskey, CEO of Brookfield’s renewable power and transition.¹

¹https://www.fundfire.com/c/3715874/477394/brookfield_inflation_reduction_positive_energy_investing?referrer_module=emailffalts&module_order=2&code=WVdSbGRtRnVaWGxBWTI5b1pXNWhibVJ6ZEdWbGNuTXVZMjlOTENBeE5qQXIPREkzTkN3Z01UUTRPRGd4TWpRME5nPT0&utm_source=website



Diversity, Equity and Inclusion Positive Action Strategy



DEI Positive Action Strategy

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

	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—Voting and Engaging

Semi-annual Activity



- In September, a large group of institutional investors will meet to:
- (1) share new data on board diversity disclosure among Russell 3000 companies, thanks to a new analysis conducting by our team with ISS, and
 - (2) outline upcoming plans for the Russell 3000 Board Diversity Disclosure Initiative.¹

1. https://www.illinoistreasurer.gov/Financial_Institutions/Equity_Diversity_Inclusion/Russell_3000_Board_Diversity_Disclosure_Initiative



Semi-annual Activity



The **Investment Diversity Advisory Council (IDAC)** is a collaborative effort of consultants, allocators (asset owners), diverse and emerging asset managers, majority non-diverse asset managers, and industry organizations seeking to improve investment outcomes by improving diversity across the investment industry. This organization was founded, largely, due to extensive efforts by NEPC.



In August, SCERS staff have been active participants the Charter of Principles, IDAC Governance, DEI Disclosure Standards Working Groups, and the Nomination Committee. Other working groups include Talent Pool Expansion, Digital Resource Library, Sponsorship Fundraising, Summit 2023 Planning.

In September, SCERS will attend the first National Summit of IDAC in Atlanta, GA



Staff Activity



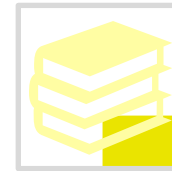
July

- PE Innovators in ESG (panel host)
- ExecuShe (panelist)



August

- DFA Sustainability Conference



September

- Western North America PRI re-boot (co-chair)
- CII Fall Conference 2022 (attendee)
- Investment Diversity Advisory Council (attendee)



Informational Items

Two tenants of apartment buildings in Brooklyn, NY provided public comment at a SCERS Board meeting about excessive rent increases by the building's owner, **Greenbrook Partners**. Their public comment referenced **The Carlyle Group**, a SCERS-invested manager, who utilizes Greenbrook Partners as a real estate operating partner. SCERS shared these concerns with The Carlyle Group who addressed staff questions.



Investor and Industry Developments



In August 2022, comments are due to the **Securities and Exchange Commission** for two proposed rules relating to how investment managers will disclose ESG information and include ESG in fund names.

Environmental, Social and Governance Disclosures for Investment Advisors and Investment Companies¹

Investment Company Names²



In July 2022, Representative Adam Smith, **U.S. House of Representatives**, introduced the Saving Homes from Acquisition by Private Equity (SHAPE) Act, which would create a significant federal real estate transfer tax on institutional investors and private equity firms who purchase single-family homes on the open market. The revenue from this tax would go directly towards grants that will help states build and preserve affordable housing and slow the consolidation of single-family home ownership among the investor class.³

1. <https://www.sec.gov/rules/proposed/2022/33-11068.pdf>

2. <https://www.sec.gov/rules/proposed/2022/33-11067.pdf>

3. https://adamsmith.house.gov/press-releases?ContentRecord_id=27D87415-A233-48CA-8794-B19652E7F183



Appendix



Fossil fuel company allocation

SCERS Public Equity Allocation to Fossil Fuel Companies

As of December 31, 2021

SCERS Ownership	Account Type	Exposure (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$29.8	0.7%
Indirect	Commingled Fund	\$30.5	0.7%
Total		\$60.3	1.5%

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 December 2021