



City of Seattle

Seattle City Employees' Retirement System

ESG Semi-Annual Update: March 2023

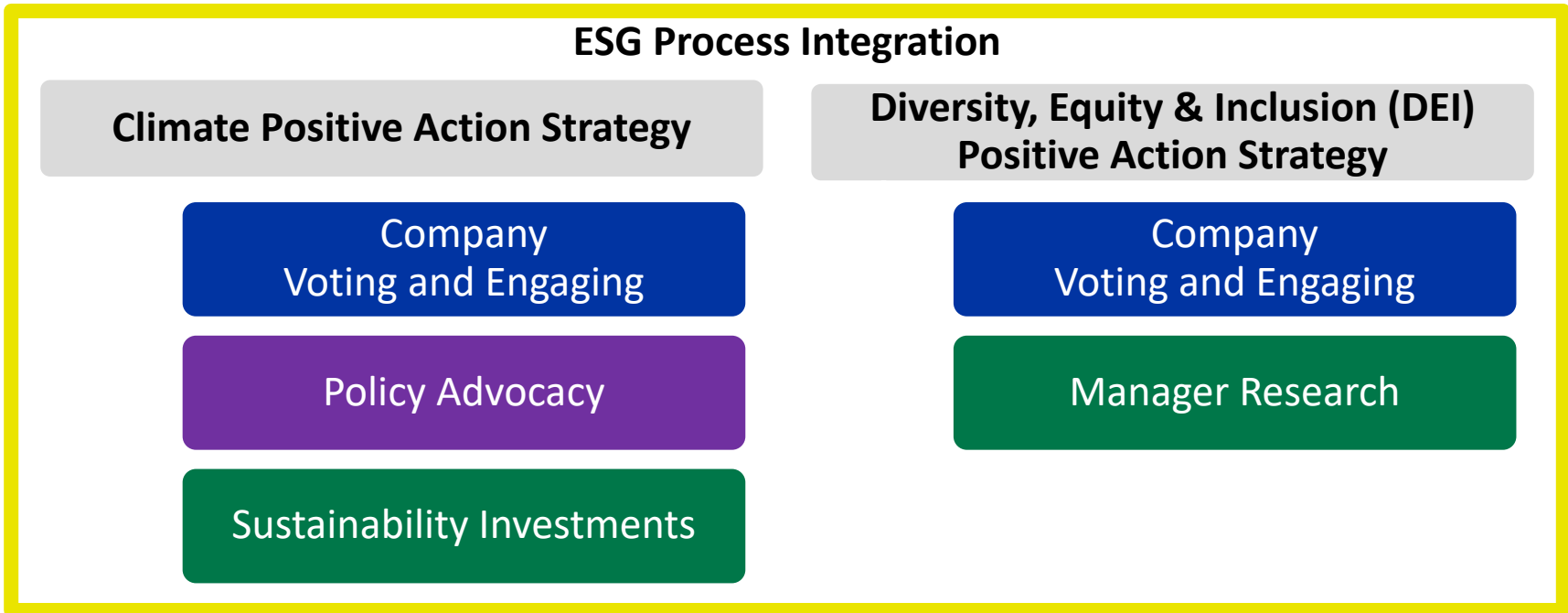


ESG at SCERS

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

	Primary Focus	Mission	Membership
	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
	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
	Governance	Advance the interests of private market investors through best-in-class education, research and advocacy	Global private market investors
	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	Enhance investment outcomes by improving diversity across the investment industry	US investors, consultants & managers



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 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—Voting and Engaging



In November 2022, **Southern Company** produced its inaugural Trade Association and Lobbying Report.¹ In December 2022, SCERS staff joined the Climate Action 100+ engagement team to discuss this report and provide input on potential improvements for 2023. In January 2023, SCERS staff joined the CA 100+ team to help Southern Company prepare for their 2023 Just Transition report.

In December, SCERS filed a resolution with **The 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.² Staff met with Southern multiple times to discuss steps they can take to achieve these goals.

1. <https://www.southerncompany.com/content/dam/southerncompany/sustainability/pdfs/Trade-Association-Climate-Engagement-Report.pdf>

2. <https://sciencebasedtargets.org>, <https://www.transitionpathwayinitiative.org/>



Climate—Voting and Engaging



In Q4 2022, the Climate Action 100+ engagement team for **Paccar** developed a detailed report to document the current status of the CA100+ benchmark and identify the gaps they face. The engagement group has met with Paccar in October 2022 and is currently preparing for a Q1 2023 meeting to discuss how Paccar can meet these goals.

In December 2022, a member of the engagement team submitted a shareholder proposal with **Paccar** requesting annual disclosure of Trade Association and lobbying activities.



In December 2022, **Exxon** published its first “Advancing Climate Solutions progress report report.”¹

1. <https://corporate.exxonmobil.com/climate-solutions/advancing-climate-solutions-progress-report>



Climate—Policy



In November 2022, the **U.S. Department of Labor** finalized its rule to support ESG considerations in ERISA-governed pension plans—Final Rule on Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights.¹ This updated rule was supported by multiple organizations where SCERS is an active member. Congress voted to block the rule, which President Biden is expected to veto so that it will go into effect.



In September 2022, the **Investor Agenda** published its Investor Statement to Governments on the Climate Crisis with signatures from SCERS as one of 532 institutional investors representing \$39T in assets.²

1. <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/final-rule-on-prudence-and-loyalty-in-selecting-plan-investments-and-exercising-shareholder-rights>
2. <https://theinvestoragenda.org/press-releases/13-september-2022/>.



Climate—Sustainability Investments



Stonepeak recently published its 2022 ESG report citing multiple assets with material improvements in sustainability along with statistics relating to GHG reductions and other ESG Metrics. Some highlights include:

- A U.S. digital asset developed with energy-efficient cooling that uses outside air during colder months, and on-site condensation technology to store cool water for use in warmer months, along with other highly advanced cooling systems.
- A U.S. renewable natural gas project involving >50 dairy farms and landfill methane capture.
- A North American recycling process that reduces methane release associate with tire production by recycling tires with 70% efficiency, and produced 2000 lbs. of metal recovered from marine chassis scrap.



Climate—Sustainability Investments



Tiger Infrastructure Partners' portfolio company, ZENOBĒ, has begun construction of a 200MW battery storage site in Scotland that is expected to go live in summer 2024¹. The project is the first in the world to deliver stability services using a transmission-connected battery.

Brookfield

Brookfield shared in their Q1 2023 update their renewable power footprint across multiple regions. Some highlights include:

- Global footprint of 125,500MW in renewable energy production distributed broadly across hydro, wind, solar, distributed generation and storage/other.¹

1. <https://www.zenobe.com/news-and-events/zenobe-breaks-ground-on-pioneering-300mw-battery-in-blackhillock/>

2. As of December 202



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.

	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



In October 2022, SCERS joined for a third time, the **Russell 3000 Board Diversity Disclosure Initiative** led by the Illinois State Treasurer and Connecticut State Treasurer. The initiative “urges companies to harness this national movement and the momentum on gender diversity to consider publicly reporting the racial/ethnic and gender composition of the Board of Directors in their annual proxy statement...”

Relating to disclosing race, ethnicity and gender of board directors in public filings, the 2022 letter:

- Commended 386 companies (13 percent)
- Recognized improvement in 1,847 companies (63 percent)
- Urged 702 firms (24 percent) to begin reporting ¹

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



DEI—Manager Research



The **Investment Diversity Advisory Council (IDAC)** was established in September 2022. Jason Malinowski served as the asset owner representative on the Nominating Committee, which was responsible for selecting the inaugural IDAC Board.

IDAC is a collaborative effort of consultants, asset owners, diverse and emerging asset managers, majority non-diverse asset managers, and industry organizations seeking to enhance investment outcomes by improving diversity across the investment industry.

P I M C O

In February 2023, SCERS staff met with **PIMCO** to review their 2022 DEI report. The report focused on recruiting, development and advancement, engagement and retention, and their role in the asset management industry. **PIMCO Future Leaders Scholarship** awarded \$1M in undergraduate scholarships for people of color in finance-related study programs.

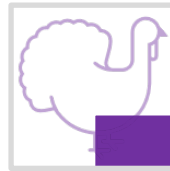


Staff Activity



October

- ALTSSEA Conference (panelist, attendee)
- Broadview Seminar (panelist)
- PRI Workshop in SF (participant)



November

- PensionBridge Women in Private Capital Summit (panelist)



December

- Certificate in ESG Investing for Mengfei Cao



Staff Activity



January

- Kayo 23 in 23 for Leola Ross
- Ceres ICAP course (attendee)



February

- Transition IQ (panelist)



March

- PensionBridge ESG Conference (panelist x2)
- CII Spring Conference 2023 (attendee)



Investor and Industry Developments



Several states passed or have introduced anti-ESG laws, including **Texas, Kentucky, West Virginia, Oklahoma and Florida**¹. For example, Texas passed a law prohibiting the state from doing business with financial institutions who it deems are boycotting energy companies, which notably includes BlackRock. The laws are intended to stop investment management firms from considering ESG factors in their investment decisions.

Pension funds have taken varied actions in response to these laws. For example, the **Kentucky County Employees' Retirement System** Board determined that it did not have to abide by the prohibition because it violates its fiduciary responsibilities.² Conversely, the **Florida State Board of Administration** chaired by Governor Ron DeSantis that is responsible for investing its public pension portfolios passed a resolution that “eliminates ESG considerations from state pension investments”³.

1. <https://www.reuters.com/legal/legalindustry/challenge-investing-face-state-anti-esg-legislation-2022-08-24/>

2. <https://www.kyret.ky.gov/About/Meeting-Calendar/Materials/February%208%202023%20CERS%20Board%20of%20Trustees%20Meeting%20Material.pdf>

3. <https://www.flgov.com/2022/08/23/governor-ron-desantis-eliminates-esg-considerations-from-state-pension-investments/>



Appendix



Fossil fuel company allocation

SCERS Public Equity Allocation to Fossil Fuel Companies

As of December 31, 2022

SCERS Ownership	Account Type	Exposure (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$31.2	0.9%
Indirect	Commingled Fund	\$36.1	1.0%
Total		\$67.3	1.9%

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 December 2021