



City of Seattle

Seattle City Employees' Retirement System

ESG Semi-Annual Update: March 2024

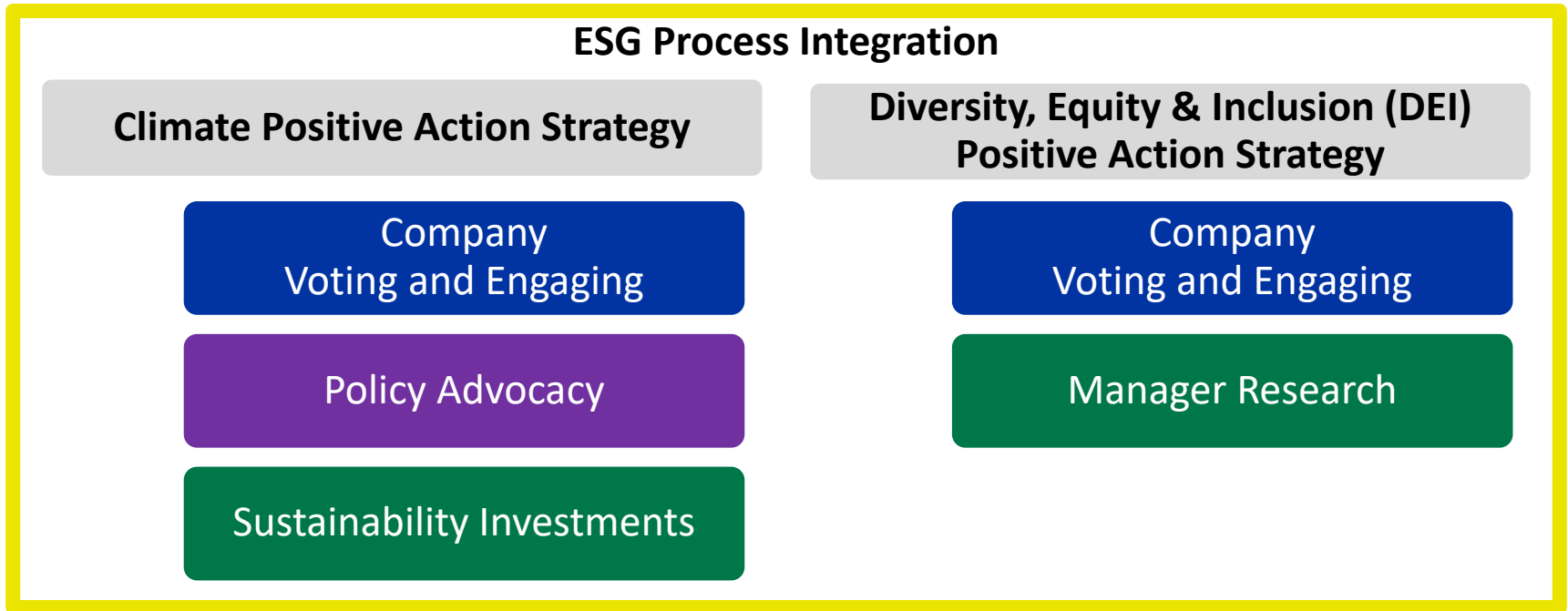


Environmental, Social & Governance (ESG) at SCERS

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

	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.

	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



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

In December 2023, members of the Climate Action 100+ engagement team 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.

SCERS staff continues to lead this engagement and, along with co-filers and has met with Southern multiple times to discuss steps they can take to achieve these goals.

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



Climate—Company Voting and Engaging

PACCAR

In November 2023, a members of the Climate Action 100+ engagement team submitted a shareholder proposal with **Paccar** requesting annual disclosure of Trade Association and lobbying activities.



In February 2024, several asset managers left or otherwise altered their involvement with the **Climate Action 100+** collective engagement.¹ Climate Action 100+ had recently unveiled its Phase 2 where it is shifting from advocating for company disclosure and net zero commitments to securing tangible company actions to reduce GHG emissions, align with 1.5-degree Celsius pathways and plan for the net zero transition.

Staff is meeting with SCERS's investment managers who left Climate Action 100+, including BlackRock, PIMCO and JP Morgan, to understand their motivation and how they will engage with companies separate from the collective. Staff will continue to monitor these developments.

1. <https://www.climateaction100.org/news/climate-action-100-reaction-to-recent-departures/>



Climate—Company Voting and Engaging

BLACKROCK

In October 2023, Staff wrote a letter to **BlackRock** expressing concern that their support for climate and other ESG-related matters in their investment stewardship activities had declined. Staff called on BlackRock to recommit to these matters to advance the financial interests of the many institutions and individuals who rely upon the firm to fulfill its fiduciary duties. Staff discussed these concerns with BlackRock in a subsequent meeting.

Note that SCERS participates in BlackRock's Voting Choice program. As a result, SCERS's proportionate shares in BlackRock funds are voted according to the ISS Public Funds Policy, rather than the BlackRock voting policy.



Climate—Policy



The **U.S. Securities and Exchange Commission (SEC)** adopted rules requiring companies to report climate-related risks. The rules aim to standardize climate-related company disclosures about GHG emissions, climate-related risks, such as floods and wildfires, as well as adaptation and mitigation activities.

SCERS had provided comments to the SEC in June 2022 in support of its proposal for improved climate disclosure.¹



Highlights of the 28th Conference of the Parties² (COP 28):

- Transition from fossil fuels in a just, orderly and equitable manner, accelerating action over 6 years
- Tripling renewables by 2030
- Doubling energy efficiency improvements by 2030
- \$729M committed to developing countries from developed countries

1. [s71022-20132112-302597.pdf \(sec.gov\)](https://www.sec.gov/files/71022-20132112-302597.pdf), <https://www.wsj.com/finance/regulation/sec-climate-disclosure-greenhouse-gases-d57de27c>

2. <https://www.cop28.com/en/>



Climate—Sustainability Investments



GLOBAL
INFRASTRUCTURE
PARTNERS

Global Infrastructure Partners (GIP) updates include:

- GIP IV announced, in February 2024, a joint venture with **Ørsted A/S** to build 850MW of contracted offshore wind in the U.S. Northeast. This deal is GIP's fourth strategic joint venture with Ørsted, a Danish onshore and offshore wind developer.
- **PeelPorts**, a GIP IV portfolio company, is currently developing an offshore wind hub off Scotland.
- **Naturgy**, a GIP III portfolio company, featured 730MW of renewables capacity added in 2023 as of October, with addition 1.5GW to be added in 2024.



Climate—Sustainability Investments



Tiger Infrastructure Partners has completed, as of December 2023, a \$1B+ investment in **Summit Carbon Solutions (SCS)** as part of a consortium of investors. SCS is installing carbon capture equipment at ethanol biorefineries across five states in the Midwestern U.S., will develop a pipeline system to gather and transport the captured CO₂ and permanently sequester in underground caverns.



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—Company Voting and Engaging



SCERS joined the **Thirty Percent Coalition**, which works to increase gender, racial and ethnic diversity on board and in senior leadership at corporations across the United States. The coalition coordinates investor engagement campaigns with companies who lag on board diversity and advocates for legislative and regulatory policies to encourage board diversity.



DEI—Manager Research



SCERS joined **Institutional Allocators for Diversity, Equity & Inclusion (IADEI)**, which seeks to drive DEI within institutional investment teams and portfolios and across the investment management industry. Staff began participating in IADEI's bimonthly pitch sessions where diverse-owned investment managers present their firm and strategy to IADEI's membership.



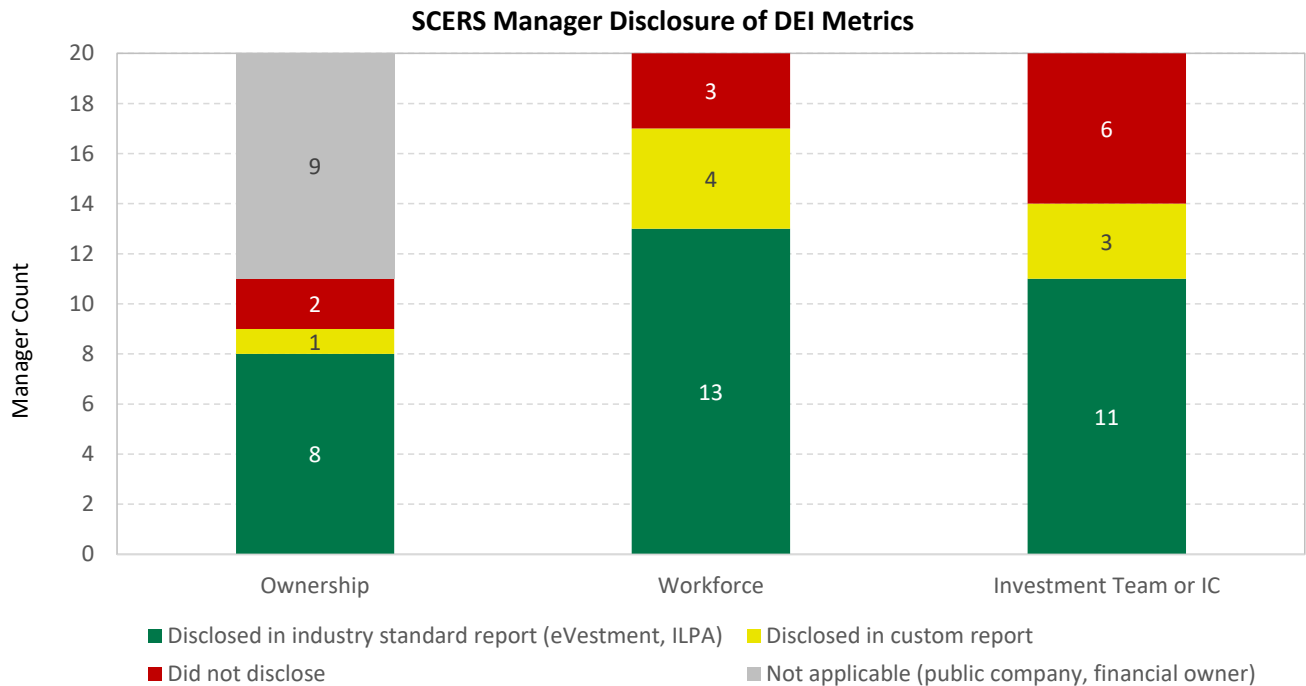
Jason Malinowski began participating in the **Investment Diversity Advisory Council's** mentorship program where senior investment professionals are paired with mid-career professionals from historically underrepresented groups.



DEI—Manager Research

Staff collected DEI metrics for SCERS’s investment managers related to their ownership, workforce and investment team

- Prioritized disclosure in industry standard reports adopted by investor organizations, specifically eVestment (public markets) and ILPA (private markets)
- More work required to improve and standardize disclosure





Staff Activity and Industry Developments

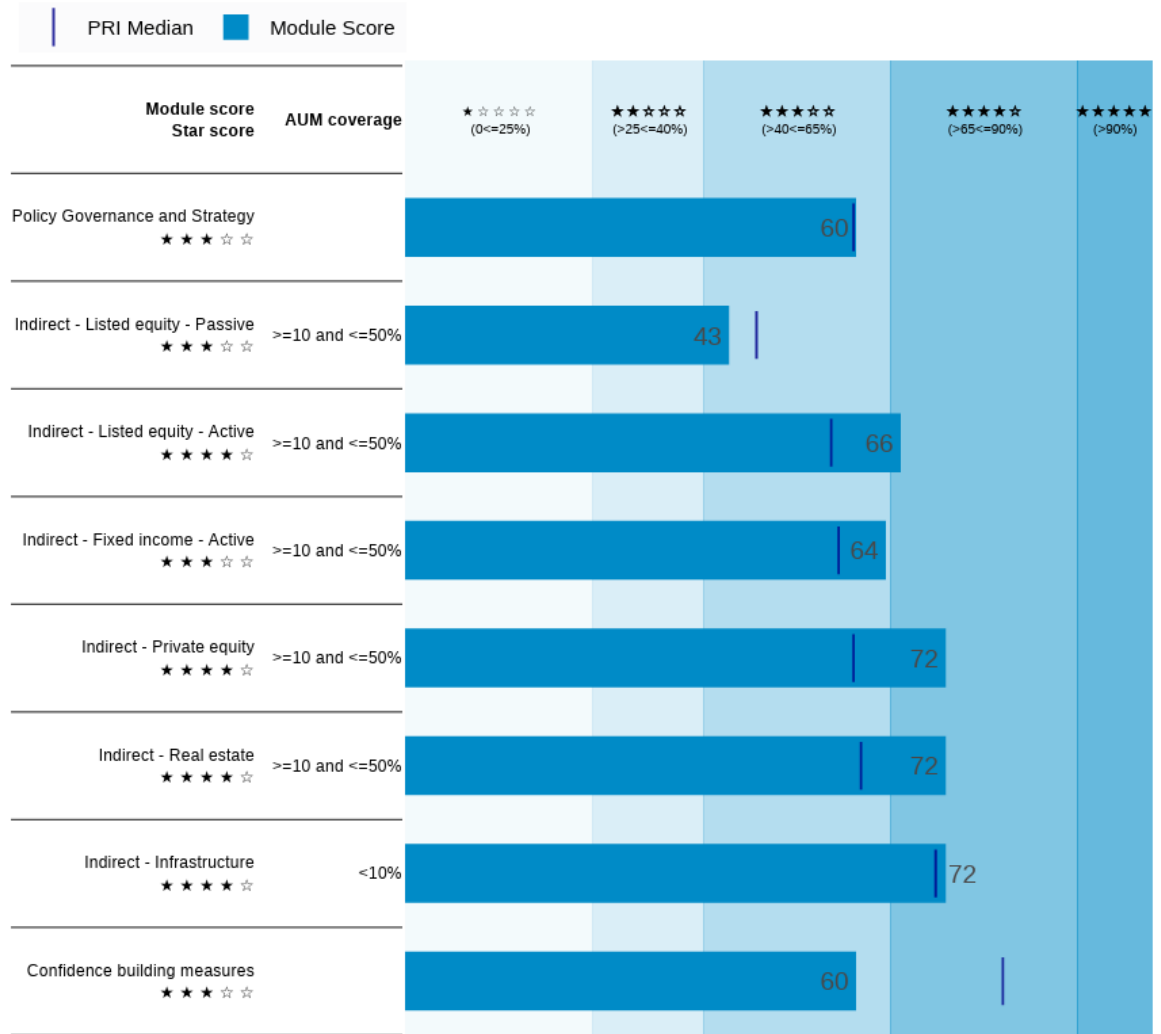


PRI Scorecard



Principles for Responsible Investing completed the 2023 Assessment after taking a one-year hiatus. SCERS made a positive showing of outperforming the median asset owner in 6 of 8 assessment modules

SUMMARY SCORECARD



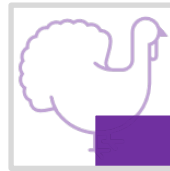


Staff Activity



October

- ALTSSEA Forum (panelist, attendee)
- Western Pension & Benefit Council (panelist)
- BlackRock letter on proxy votes



November

- Staff met with Mark Carney at Brookfield AGM to discuss sustainability initiatives



December

- Staff invited to contribute to PRI Progression Pathways



Staff Activity



January

- Staff joined PRI Infrastructure Advisory Committee (member)



February

- SCERS joined Institutional Allocators for Diversity, Equity & Inclusion (IADEI) (member)
- SCERS joined Thirty Percent Coalition (member)



March

- CII Spring Conference and LEAD¹ 2024 (attendee)
- Tumelo Roundtable on Pass-Through voting (participant)
- Beyond Talk DEI Resilience Event (attendee)
- PRI Physical Climate Risk Working Group (member)

1. Lawmaker Education and Advocacy Days



Investor and Industry Developments

The Anti-ESG movement continues



61 anti-ESG bills have been introduced in 2024 by a state legislature or carried over from the prior session with the most active states being Oklahoma (14 bills), South Carolina (9), Missouri (8), and West Virginia (7). Most of these bills are unlikely to pass or will face legal challenges.

Several states have also created restricted lists that name financial services companies for allegedly boycotting industries like fossil fuels or firearms. The companies are barred from doing business with the state while on the list. Also, certain state treasurers have called on financial services companies to withdraw from ESG-related groups like Climate Action 100+.²

1. <https://www.thomsonreuters.com/en-us/posts/esg/anti-esg-legislation/>



Investor and Industry Developments



Companies are fighting shareholder resolutions

So far this proxy season, 125 companies have sought no-action relief from the SEC to prevent 236 proposals from being voted upon. Last year, 116 companies tried to keep 188 proposals off their proxy ballots. Looking at those that SEC staff has decided upon thus far, it appears that the commission is adhering to its 2021 legal bulletin¹ and allowing many environmental and social to appear on the proxy ballot.

Of note is the decision by **ExxonMobil**² to pursue legal action against Follow This and Arjuna Capital who filed a shareholder resolution calling for GHG emissions reductions. Exxon plans to proceed with their lawsuit even after the resolution was withdrawn.

1. <https://www.sec.gov/corpfin/staff-legal-bulletin-14l-shareholder-proposals>

2. <https://www.reuters.com/legal/exxon-shareholder-proposal-withdrawal-may-end-lawsuit-judge-2024-02-05/>



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