



**City of Seattle**

# **Seattle City Employees' Retirement System**

**ESG Semi-Annual Update: September 2023**

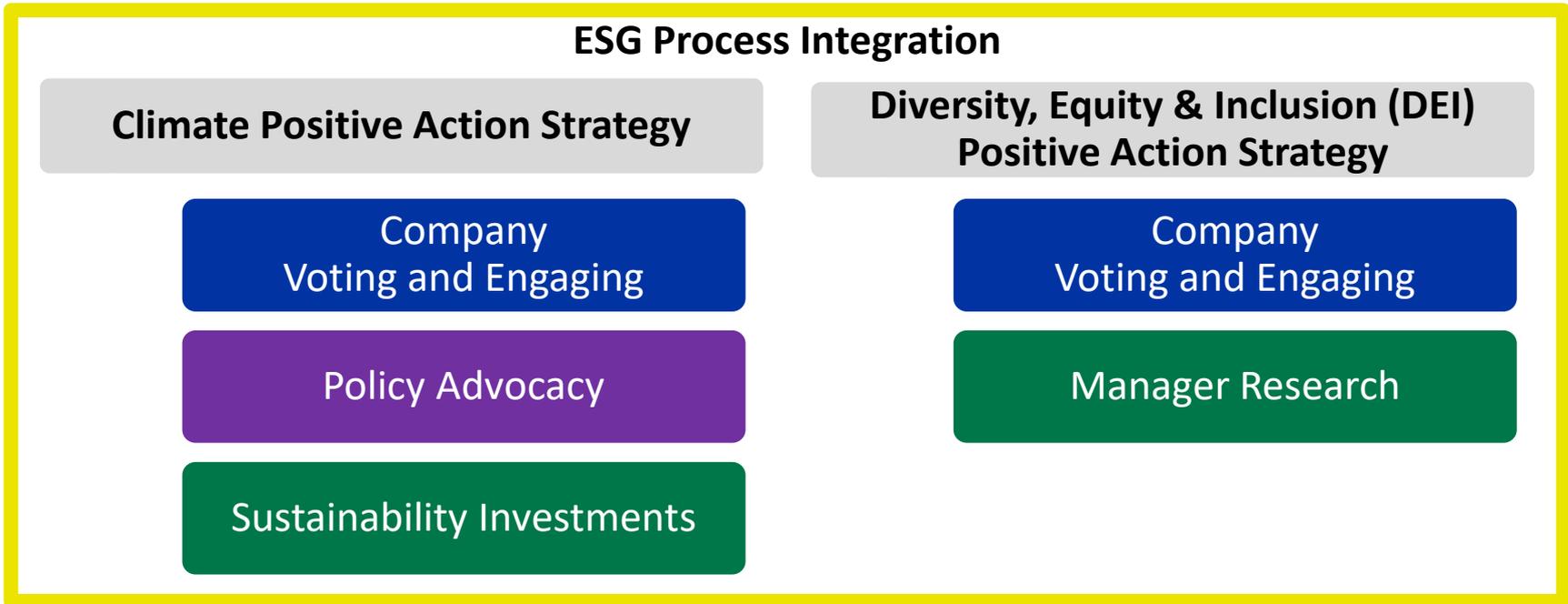


# ESG at SCERS

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"> <li>• Board Directors with climate expertise to incent and align management with decarbonization</li> <li>• Companies making net zero commitments and taking actions to meet those commitments</li> <li>• Companies investing in the emerging technologies needed for decarbonization</li> <li>• Companies disclosing lobbying activities related to climate policies</li> </ul>	<ul style="list-style-type: none"> <li>• Policies that incentivize decarbonization, such as carbon pricing</li> <li>• Policies that stop subsidizing carbon-intensive industries</li> <li>• Policies that support technology and infrastructure</li> <li>• Market regulations that promote climate-related disclosure and planning</li> </ul>	<ul style="list-style-type: none"> <li>• Investment managers who have experience and capabilities in evaluating and implementing sustainability investments</li> <li>• Investment products that have a broad opportunity set and the potential for a material allocation to sustainability investments</li> </ul>



# Climate—Voting and Engaging



In December 2022, 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.

In March, SCERS and Southern, reached a withdrawal agreement, where Southern agreed to enhance disclosures and engage with organizations producing 1.5 degree Celsius models, initiate a process to update GHG reduction goals, and continue to dialog in good faith to advance decarbonization efforts.

In September 2023, SCERS staff began working with **The Southern Company** to identify a timeline for achieving the terms of the withdrawal agreement.



# Climate—Voting and Engaging



In November 2022, a member of the Climate Action 100+ engagement team submitted a shareholder proposal with **Paccar** requesting annual disclosure of Trade Association and lobbying activities.

In April 2023, staff attended the **Paccar** annual general meeting in Renton, WA, to observe that the resolution garnered 47.4% of the vote, far exceeding any other votes for climate related resolutions in 2023 proxy season.



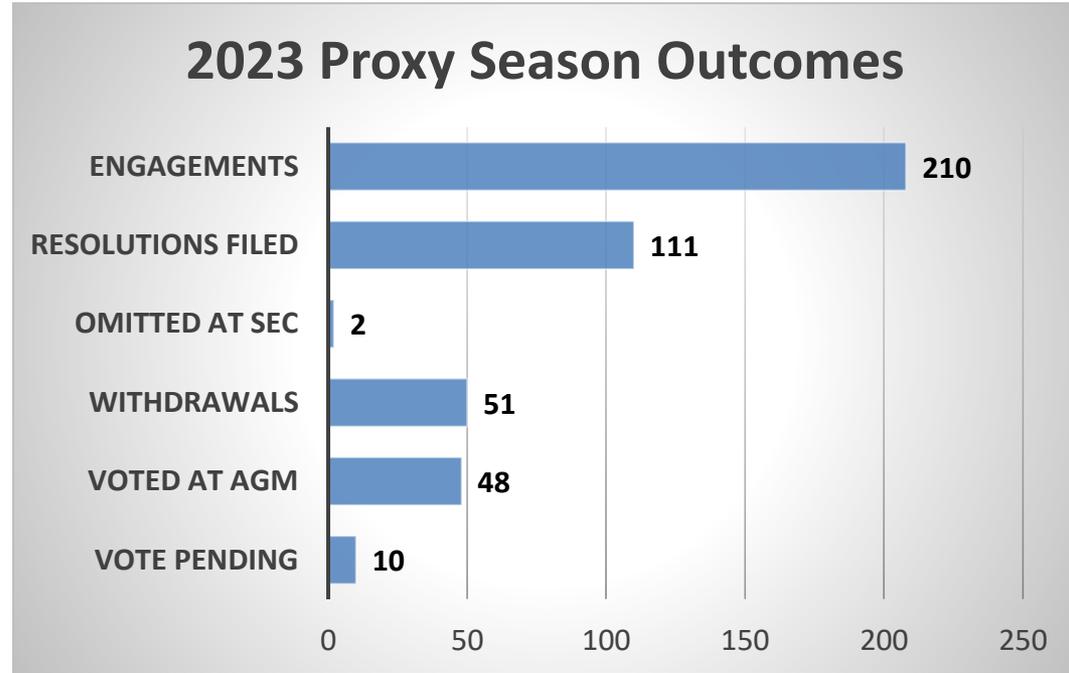
In June 2023, Climate Action 100+ updated their list of target companies. **Weyerhaeuser**, where SCERS has been an active participant, was removed from the list after material improvements in their CA100+ benchmark metrics.



# Climate—Voting and Engaging

## Proxy Season Review: Strategic and Commitment Withdrawals are the unsung heroes of 2023<sup>1</sup>

*71% of engagements led to  
corporate commitments  
96% of resolutions that went to a  
vote made resubmission threshold*



Other Resolution Highlights	
Average Vote in Support	23%
Total Share Value	\$1.94 Trillion
Agreements w/o Escalation	99
Agreements w/o Escalation and Withdrawals after Filing	150

With thanks to **As You Sow** for providing these summary statistics



1. <https://www.reuters.com/sustainability/boards-policy-regulation/comment-why-climate-agreements-are-untold-story-2023-proxy-season-2023-06-28/>



## Proxy Season Review:

**SCERS tracked ~75 shareholder resolutions across ~30 companies, and director votes across 17 companies**



*SCERS found the ISS Public Funds Policy to be supportive of most shareholder resolutions highlighted for climate-related actions including:*

- *GHG reduction goals*
- *Climate policy engagement*
- *Just transition*
- *Banking phase-outs*

*SCERS found the ISS Public Funds Policy to be supportive of most director votes flagged*

*SCERS reviewed ISS Benchmark Policy on key votes and found that the Benchmark Policy is less aligned with SCERS*



# Climate—Policy



In June 2023, SCERS, along with more than 60 leading companies, representing \$151B in annual revenue, and investors, representing \$325B in assets, signed-on to a Ceres letter to the **Environmental Protection Agency** supporting strong vehicle emissions standards to achieve national climate and economic goals.<sup>1</sup>

## Freedom to Invest

In March 2023, SCERS, along with more than 300 companies and investors signed-on to a letter to U.S. state policymakers to protect the freedom to invest responsibly.<sup>2</sup> Citing the importance of financially material considerations, including the impacts of climate change, into standard investment and risk management decisions, and its consistency with fiduciary duty.

1. <https://www.ceres.org/news-center/press-releases/major-companies-and-investors-push-epa-strong-emissions-standards>
2. <https://www.ceres.org/news-center/press-releases/investors-and-businesses-call-policymakers-protect-freedom-invest>



# Climate—Sustainability Investments

## Brookfield

**Brookfield's** BIF V invested in DER, a U.S. Renewable Power Portfolio, Fully integrated renewables platform with utility scale solar, wind and battery storage, spanning 17 States in the U.S.

BIF IV has expanded ownership of X-ELIO to 100%, providing full control of a scarce, leading global solar development platform.

BSREP III UK Retail Parks Portfolio appointed a consultant to explore EV “Superhubs.”

BSREP II Marriott Bethesda North has achieved The LEED Operations and Maintenance Gold certification, qualifying the hotel for the Montgomery County Maryland property tax credit for high performance buildings.



# Climate—Sustainability Investments



**Tiger Infrastructure Partners'** portfolio company, Summit Carbon Solutions (SCS), made the following progress on its large-scale carbon capture and storage project:

- Advanced permitting;
- Announced a multi-year agreement to sell Carbon Dioxide Removal credits in its first voluntary carbon market sale;
- Announced the release of its Gold Standard methodology;
- Announced two new ethanol plant partnerships; and
- Secured additional rights of way (“ROW”) for the gathering system and pipeline.



**GIP IV** holding, Sydney Airport, announced ambitious emissions strategy with Scope 1 & 2 net zero by 2030, ground operations Scope 3 at 50% reduction in 2025.

In October 2022, **GIP IV** acquired ATLAS, the second largest renewables platform in Latin America with a 6-gigawatt pipeline.



# Climate—Sustainability Investments



In April and August 2023, SCERS staff met with **Adams Street Partners** (ASP) on the topic of impact investments. ASP has four impact theses: Sustainability, Health and Wellness, Education and Enrichment, and Economic Development.

ASP will evaluate impact investments, particularly along the Sustainability thesis, and proactively consider allocations to SCERS's account if they meet the primary financial objectives.



**PIMCO** Private Income Fund made the following sustainability debt investments:

- Diversified loan pool of residential solar loans
- Asset-backed securities secured by a portfolio of sustainable home improvements
- Term loan to an electric vehicle manufacturer



# 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"><li>• Board Directors with diverse backgrounds and skills to provide improved oversight</li><li>• Companies hiring and promoting with gender and racial diversity in mind</li><li>• Companies disclosing gender and racial diversity annually</li></ul>	<ul style="list-style-type: none"><li>• Managers who are transparent and take action to improve the diversity of their workforce, particularly of their investment professionals</li><li>• An investment consultant who identifies high-quality managers with diverse teams</li><li>• An investment industry that is more representative of society</li></ul>



# DEI—Industry service and manager survey



**Investment Diversity Advisory Council (IDAC)** is a collaborative effort of investment market participants seeking to enhance investment outcomes by improving diversity across the investment industry.



In 2023, Staff joined the IDAC DEI disclosure advisory committee to identify methodologies for collecting DEI data from asset managers. The IDAC board approved the committee's recommendation in June 2023 to access manager information through the **eVestment** DEI data section or **ILPA** DEI DDQ depending on the asset class and strategy.



SCERS requested its investment managers to provide this DEI information. Staff is in the process of aggregating results, closing data gaps and identifying takeaways.



**NEPC** began providing DEI ratings, where available, for SCERS active managers



# Staff Activity



April

- Paccar AGM
- Pacific NW Institutional Forum on ESG (two panelists)



May

- Southern Company Stakeholder Forum (participant)
- PRI in Person Signatory Advisory Committee (member)



June

- IDAC Board approves IDAC disclosure recommendation

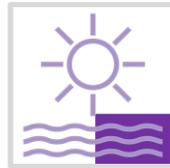


# Staff Activity



July

- Private Wealth Forum (panelist)
- ISS CIO Webinar (panelist)



August

- DEI survey review
- CA100+ lead investor strategy session (co-lead)

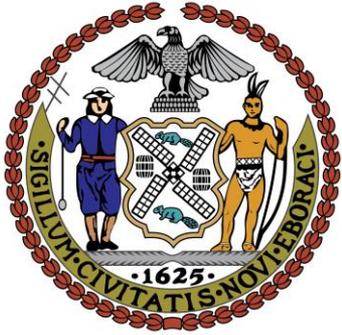


September

- CII Fall Conference 2023 (attendee)
- Investment Diversity Advisory Council (attendee)
- PRI Survey
- PEI (panelist) /PRI WNA (co-chair)



# Investor and Industry Developments



On May 11, 2023 three New York City pension funds were sued [by several members of the pension fund] for allegedly breaching their fiduciary duty by selling billions of dollars of fossil-fuel assets. The plaintiffs ... claim the retirement plans' decision to divest roughly \$4 billion in fossil fuel investments is “a misguided and ineffectual gesture to address climate change,” according to the complaint filed in New York state court. They said the plans have “a duty to act prudently in making investment decisions.”

The New York City Comptroller responded that “The vote by trustees to exclude fossil fuels from the three funds was made to protect beneficiaries from ‘the financial risks of investing in fossil-fuel reserves,’ according to the statement.”<sup>1</sup>

1. <https://www.bloomberg.com/news/articles/2023-05-12/nyc-pension-funds-are-sued-for-cutting-fossil-fuel-stake>



# Investor and Industry Developments



On June 29, 2023, the U.S. Supreme Court effectively ended race-conscious admission programs at colleges and universities across the country. In a decision divided along ideological lines, the six-justice conservative supermajority invalidated admissions programs at Harvard and the University of North Carolina.

The decision reverses decades of precedent upheld over the years ... It ends the ability of colleges and universities — public and private — to ... consider race as one of many factors in deciding which of the qualified applicants is to be admitted.<sup>1</sup>



On August 23, 2023, the SEC adopted a new rule on private fund advisers which ... collectively represents ... the biggest change since the 2012 rules which made registration mandatory, not optional, for hedge and private markets managers.

The new rules require private funds to issue quarterly fee and performance reports, and to disclose certain fee structures while barring giving some investors preferential treatment over redemptions and portfolio exposure ... to perform annual audits.<sup>2</sup>

1. [https://www.supremecourt.gov/opinions/22pdf/20-1199\\_l6gn.pdf](https://www.supremecourt.gov/opinions/22pdf/20-1199_l6gn.pdf), <https://www.npr.org/2023/06/29/1181138066/affirmative-action-supreme-court-decision>
2. <https://www.castlehalldiligence.com/blog/the-biggest-change-to-regulation-since-2012-the-secs-new-private-fund-rule>, <https://www.reuters.com/markets/us/us-sec-votes-overhaul-20-trillion-private-fund-industry-2023-08-23/>



# Activity directed towards SCERS



J.P.Morgan

In May 2023, Stop the Money Pipeline and Sierra Club contacted SCERS regarding shareholder resolutions at multiple banks, including **JP Morgan**, to promote the “phase out” of fossil fuel financing. SCERS staff met with JP Morgan Asset Management, as a SCERS-invested manager, to review their position on these resolutions.<sup>1</sup>

**BLACKROCK**

In July 2023, Stop the Money Pipeline contacted SCERS regarding **BlackRock’s** appointment of Amin H. Nasser, CEO of Saudi Aramco, to their Board of Directors. Mr. Nasser will replace Bader M. Alsaad, General Director and Chairman of Arab Fund for Economic and Social Development, when his term expires. The BlackRock news release states ‘Mr. Nasser's appointment to the board will provide "continuity of regional expertise (that) reflects the importance of the Middle East to the firm's long-term strategy.”<sup>2</sup>

SCERS staff met with BlackRock, as a SCERS-invested manager, to discuss Mr. Nasser’s appointment.

1. Note that JP Morgan asset management is a subsidiary of JP Morgan Chase Corporation and operates separately from the banking division.
2. <https://www.pionline.com/money-management/blackrock-names-saudi-aramco-ceo-board-directors>; note that SCERS directs BlackRock proxy voting to the ISS Public Funds Policy.



# 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



# eVestment DEI survey questionnaire (abbreviated)

## **FIRM-LEVEL QUESTIONS: PRACTICE RELATED**

- Does the firm have policies to increase the level of gender diversity of leadership and staff?
- If yes, does the firm track KPIs related to the three groups outlined above? Describe:
- Does the firm have policies to increase level of racial/ethnic diversity of leadership and staff?
- If yes, does the firm track (racial/ethnic) KPIs related to the three groups outlined above? Describe:
- Does the firm have a mentorship program available for racially and/or ethnically diverse staff?
- Does the firm provide unconscious bias training or other D&I related training for staff?
- Is this Mandatory? (Relating to D&I training)
- Firm has policies and procedures to ensure equal opportunities and promote diversity? Describe:
- Description of Other approaches to retain gender/racially -diverse talent
- Has the firm undertaken a gender diversity/racial/ethnic pay-gap study? Policy for deficiencies?
- Has the firm published a gender/racial/ethnic pay gap figure? Median? Mean?
- Does the firm have a pay-parity policy in place?
- What initiatives are in place (or are being put in place) to help close the pay gap?
- Has the firm signed up to any industry wide D&I initiatives or charters?
- Does the firm have an ethics code and/or code of conduct?
- Does the firm have an explicit sexual harassment policy?

## **STATISTICS FOR VARIOUS "SCOPES" RELATING TO DIVERSE STAFF**

Firm overall? Firm Owners? Board of Directos?

Product: Portfolio management team? PMs/Voting IC members?

Racial/Ethnic: Asian, Black, Hispanic, Indigenous, Mid East/N. African, White, Other, Decline to State

Genders: Female/Male/Non-Binary/Decline to State



# ILPA DEI survey questionnaire (abbreviated)

## **STATISTICS FOR VARIOUS "SCOPES" AND MOVEMENT RELATING TO GENERAL PARTNERSHIP**

**Firm Owners? Firm Leaders?**

**Senior Investment Professionals, Other Investment Professionals, Operations/Admin Leaders, Other Operations/Admin**

**Movement of Staff? Hires? Promotions? Departures?**

**Racial/Ethnic: Asian, Black, Hispanic, Indigenous, Mid East/N. African, White, Other, Two or More, Decline to State**

**Genders: Female/Male/Non-Binary/Decline to State**

## **STATISTICS FOR PORTFOLIO COMPANIES**

**Boards of Directors: GP/VC Employee, Company Employee, Independent, Other**

**Board Chairs, Senior Management (C-suite, C-suite minus one)**

**Racial/Ethnic: Asian, Black, Hispanic, Indigenous, Mid East/N. African, White, Other, Two or More, Decline to State**

**Genders: Female/Male/Non-Binary/Decline to State**