



City of Seattle

Seattle City Employees' Retirement System

ESG Quarterly Update: First Quarter 2019



Background



Introduction

The Board of Administration directed SCERS on February 12, 2015 to undertake a *positive action strategy* that beneficially impacts climate change in a manner that is fully consistent with SCERS's mission and fiduciary responsibilities

The Board of Administration reaffirmed its support of the positive action strategy on August 10, 2017

SCERS staff provides a quarterly update to the Board on Environmental, Social and Governance (“ESG”) issues, specifically related to climate change, and the positive action strategy

SCERS's investment consultant also provides an annual update on ESG



Positive Action Strategy Overview

Shareholder Advocacy

SCERS is an active shareholder employing its available rights to encourage companies to take actions that help mitigate climate change, which include increased disclosure, conducting climate risk assessments and ensuring robust government regulation

Sustainability Investments

Proactively evaluate investments that are expected to help address climate change, such as renewable energy infrastructure, and selectively make such investments if economically equivalent or superior to other available investments in the same category


Integrating Climate Risk into the Investment Process

Consider climate change as a risk alongside macroeconomic, geopolitical and other risks when making investment decisions, while also acknowledging that SCERS must take risk in order to generate the high return that it seeks



ESG Investor Organizations

SCERS is a member of three ESG investor organizations that provide shared resources and collaboration opportunities

	 Ceres Investor Network on Climate Risk and Sustainability	 Council of Institutional Investors® The voice of corporate governance	 Principles for Responsible Investment
Primary Focus	Environmental	Governance	Environmental, Social, Governance
Mission	Advance leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet	Be the leading voice for effective corporate governance practices for US companies and strong shareholder rights and practices	Understand the investment implications of ESG factors and support its signatories in incorporating these factors into their decisions
Membership	More than 160 institutional investors primarily located in North America that collectively manage more than \$25 trillion	135 US pension and other benefits funds with a collective \$4 trillion in assets under management	More than 2,000 signatories globally with a collective \$80 trillion in assets under management



Quarterly Update



Positive Action Strategy Update

Shareholder Advocacy



Southern Company

SCERS and other investors furthered their engagement with the **Southern Company**. The recent meetings focused on setting tangible emissions reduction targets by 2030. The group also discussed possible technological and regulatory changes that would need to occur for the Company to reach zero emissions by 2050.



Exxon has sought “no-action” relief from the SEC in order to ignore climate-related shareholder resolutions. SCERS and other **Exxon** shareholders signed a supplemental SEC letter to signal support of these resolutions. The resolutions request that Exxon disclose, in its annual reporting, short-, medium- and long-term greenhouse gas (GHG) targets aligned with the GHG emission reduction goals established by the Paris Climate Agreement.



Positive Action Strategy Update

Shareholder Advocacy

J.P.Morgan

SCERS, with Walden Asset Management and other investors withdrew their resolution prior to the annual general meeting due to a favorable response from **JP Morgan**. The resolution requested that JP Morgan disclose trade association memberships and lobbying costs to organizations that are opposed to shareholder rights such as the ability to file resolutions.



Positive Action Strategy Update

Sustainability Investments



Clearway Energy, a renewable power company owned by **Global Infrastructure Partners** (SCERS-invested manager), announced that it was reducing its dividend and delaying its investment plans due to the bankruptcy of Pacific Gas & Electric Company (PG&E). PG&E faced severe liabilities associated with the Camp Fire in Paradise, California. Clearway owned or invested in 1,200 MW of renewable power production that was contracted with PG&E.



Positive Action Strategy Update

Integrating Climate Risk into the Investment Process



Heitman (SCERS-invested manager) and the **Urban Land Institute** co-published a research paper entitled “Climate Risk and Real Estate Investment Decision-Making.” The paper covers the multi-faceted impacts of climate change from rising sea levels to the potential for increased property taxes and insurance costs. Heitman has begun incorporating a climate risk score in their underwriting of real estate acquisitions.



Staff Activity



Jill Johnson attended the **Council of Institutional Investors (CII)** Spring 2019 Conference in Washington DC in March. The conference covered topics such as Board diversity, climate competency and linking executive compensation to emissions reduction targets. The conference enabled staff to connect with institutional investors that SCERS is actively collaborating with in company engagements.

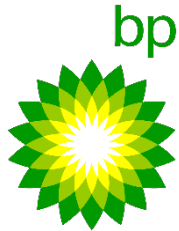
Jill Johnson presented SCERS's corporate governance priorities for 2019 as an invited panelist on the annual planning call hosted by CII. This is the most well-attended CII-hosted call with more than 100 institutional investor participants.



Investor and Industry Developments

GLENCORE

Glencore, a major natural resources mining company, announced that it will cap its coal production and take other steps to align itself with the Paris Agreement on climate change. Glencore took this action following engagement by institutional investors as part of the Climate Action 100+ initiative.¹



BP, a major oil & gas company, announced it will support a shareholder resolution calling for the company to report on how its business strategy aligns with the Paris agreement on climate change. Institutional investors of the Climate Action 100+ initiative had introduced the resolution.²

¹ <https://www.glencore.com/media-and-insights/news/Furthering-our-commitment-to-the-transition-to-a-low-carbon-economy>

² <https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bp-to-support-investor-groups-call-for-greater-reporting-around-paris-goals.html>



Investor and Industry Developments



The **Norwegian government** approved removing oil & gas exploration and production company investments from its \$1 trillion sovereign wealth fund. Norway is seeking to incrementally reduce its reliance upon the oil & gas industry, which accounts for 50% of total exports and 20% of GDP. Norway established the sovereign wealth fund in 1995 with funding from oil & gas revenue.¹

¹<https://www.regjeringen.no/en/aktuelt/excludes-exploration-and-production-companies-from-the-government-pension-fund-global/id2631707/>



Appendix



Fossil Fuel Company Exposure

SCERS Public Equity Allocation to Fossil Fuel Companies

As of December 31, 2018

SCERS Ownership	Account Type	Allocation (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$26.5	1.0%
Indirect	Commingled Fund	\$45.1	1.7%
Total		\$71.5	2.6%

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 July 2016