



Seattle Retirement

Seattle City Employees' Retirement System

Environmental, Social & Governance (ESG) Semi-Annual Update

April 9, 2026

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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.

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 several investor organizations that provide shared resources and collaboration opportunities on ESG matters

Climate-Focused



DEI-Focused



Governance-Focused



ESG Integration-Focused



Diversity, Equity & Inclusion (DEI) Positive Action Strategy

Background

SCERS believes that diverse, equitable, and inclusive organizations make better decisions, contributing to improved company and investment manager performance

SCERS incorporates DEI considerations into our investment process for the sole purpose of improving upon our financial mission

Aspects of diversity may include gender, race, age, education, geographic location, sexual orientation, disability status, ethnicity, socioeconomic status, and others

Supporting Evidence

Company Performance

- McKinsey (2023) found that executive teams with top-quartile gender and ethnic diversity had a 39% increased likelihood of financial outperformance versus teams with bottom-quartile diversity¹
- Reidhead (2024) in a meta study of 24 articles found that diversity in gender and ethnicity of corporate boards was associated with strengthened financial performance²

Investment Manager Performance

- Lawrence (2022) in a Vanguard study found that mixed-gender investment teams managing US active equity funds outperformed single-gender teams by as much as 0.39% per year³
- Hammer et al (2020) found that private equity deal teams with greater socio-demographic diversity (gender, age, nationality) had higher deal returns⁴
- Lerner (2019) found that funds managed by diverse-owned firms typically perform as well as non-diverse-owned funds after controlling for relevant characteristics⁵

¹ www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-matters-even-more-the-case-for-holistic-impact

² <http://www.ijlrhss.com/paper/volume-7-issue-7/26-HSS-2844.pdf>

³ https://corporate.vanguard.com/content/dam/corp/research/pdf/gender_diversity_and_us_active_equity_fund_performance.pdf

⁴ <https://onlinelibrary.wiley.com/doi/full/10.1111/1467-8551.12456>




⁵ <https://knightfoundation.org/reports/diversifying-investments-a-study-of-ownership-diversity-and-performance-in-the-asset-management-industry/>

DEI Positive Action Strategy

SCERS established a DEI positive action strategy in 2022 that consists of company voting and engaging, and manager research

	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

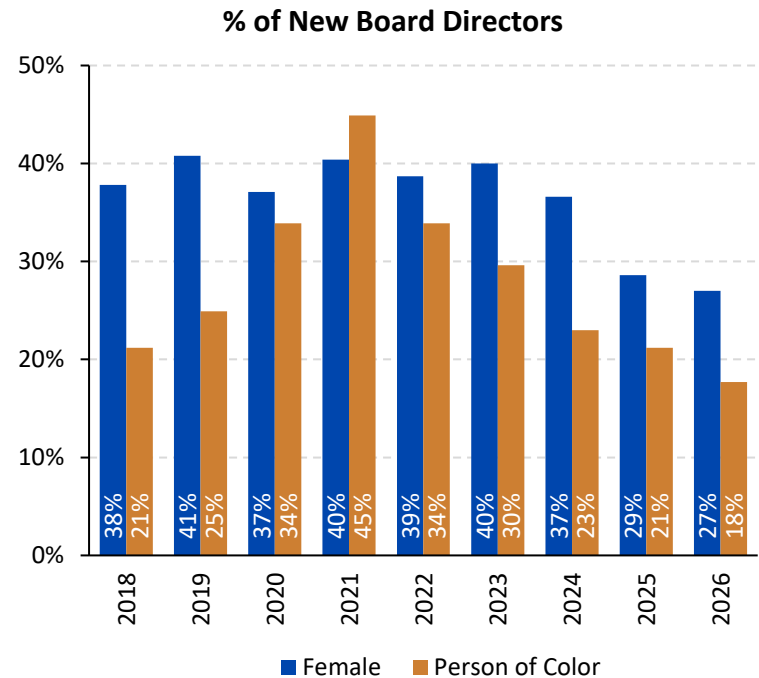
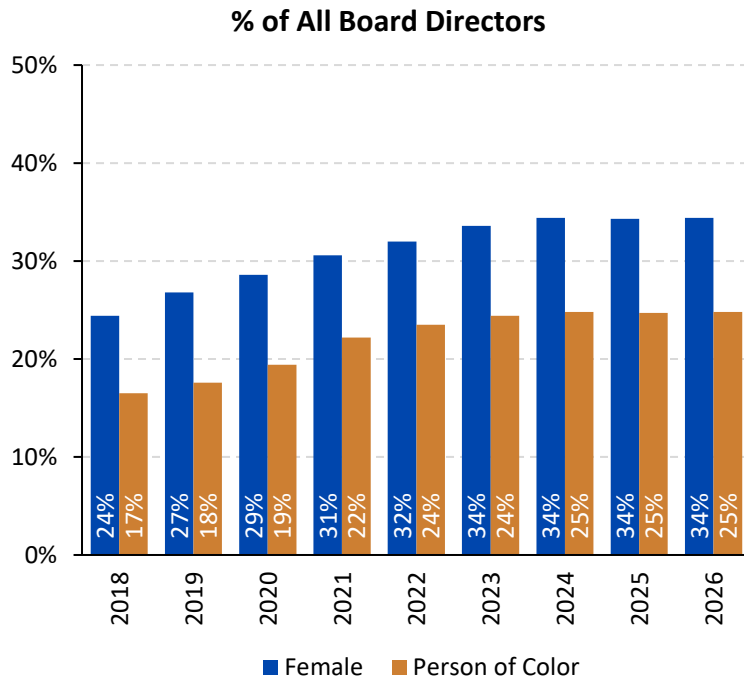
DEI Investor Organizations and Initiatives

	Primary Focus	Mission	Membership
	Company Voting and Engaging	Increase diversity in corporate boardrooms through investor engagement; formerly known as the Thirty Percent Coalition	Primarily institutional investors
	Manager Research	Unite the financial sector to unlock untapped potential and talent, creating superior outcomes for stakeholders, with financial inclusion as the core mission; formerly known as Investment Diversity Advisory Council	Institutional investors, consultants, managers, others
	Manager Research	Drive diversity, equity, and inclusion (DEI) within institutional investment teams and portfolios and across the investment management industry; formerly known as Institutional Allocators for DEI	Institutional investors, primarily endowments & foundations

Company Board Composition

Board diversity in the United States has plateaued in the last several years and may decline going forward since there is less diversity in new board directors

Boards of S&P 500 Companies (500 Largest US Public Companies)



¹Source: PeopleReturn; 2026 only includes those companies that have filed their proxy statement as of March 13, 2026

Company Developments

Companies have reduced reporting and policies related to Board diversity¹

- *Transparency:* 79% of US public companies* in 2024 provided aggregate Board diversity metrics related to gender and race/ethnicity, which has since fallen to 35% for companies in 2026 who have already filed their proxy statement
- *Recruitment:* 36% of US public companies* in 2024 had a diverse slate policy that sought to recruit female and people of color board directors, which has since fallen to 12%

Many reasons have been cited for these trends:

- Nasdaq's rule that companies listed on its stock exchange have a minimum level of female and person of color board members and disclose their board composition along these dimensions was ruled unconstitutional in December 2024
- California's laws that required companies based in the state to have a minimum level of female and person of color board members was ruled unconstitutional in 2022
- Several large asset managers are no longer considering board director demographics in their proxy voting policies
- Concerns that the Trump administration and anti-DEI activists will target companies through legal, regulatory or public relations actions

¹Source: PeopleReturn; 2026 only includes those companies that have filed their proxy statement as of March 13, 2026

*Russell 3000 index constituents

Company Voting & Engaging Activity

SCERS, as a public company shareholder, emphasizes DEI in electing board directors and voting on shareholder or management resolutions

- ISS, SCERS's proxy voting service provider, announced in 2025 that it would no longer consider diversity factors when making vote recommendations for US board directors in its standard policies
- SCERS sent a letter to ISS requesting that it reverse its decision, which ISS has not done
- ISS continues to reflect diversity factors for SCERS's proxy votes

Staff is still considering next steps in company voting & engaging

- SCERS does not currently engage directly with companies on DEI topics
- There may be better opportunities to do so on other human capital topics

¹ <https://insights.issgovernance.com/posts/statement-regarding-consideration-of-diversity-factors-in-u-s-director-election-assessments/>

Manager Research Background

SCERS supports improving the investment management industry's diversity given our reliance upon managers in achieving our mission

- Diverse workforces and investment teams drive the financial benefits of DEI
- Firm ownership is a lesser consideration

SCERS incorporates DEI considerations in each step of the manager research process, including sourcing, due diligence & monitoring

Manager Sourcing

- SCERS selects investment managers from a broad and qualified universe with NEPC (SCERS investment consultant) serving as the primary sourcing channel
- NEPC's Emerging and Diverse Manager Committee engages with highly-qualified, emerging, diverse-owned, and diverse-led investment managers to recommend to its clients
- Staff also participate in organizations such as the Allocator Collective and iDAC which provide introductions to diverse-owned managers

Manager Research Background

Manager Due Diligence

- Staff request quantitative and qualitative DEI-related information when evaluating a prospective investment manager using industry standard reporting frameworks
- Staff ask DEI-related questions during the due diligence process
- Staff reflect their DEI assessment in the Team factor of the investment rating matrix, which contributes to the holistic decision of which manager to recommend
- NEPC also rates managers with respect to DEI on a 1-to-5 scale based on firm policies, diversity statistics, industry engagement, human resource practices and other items (current process for public market managers, in process for private market managers)

Manager Monitoring

- Staff conducts a biannual DEI survey of SCERS-invested managers with the next update planned for later in 2026
- SCERS's investment intern performed a detailed analysis of Glassdoor employee ratings for SCERS-invested managers
 - Factors included overall rating, rating subfactor (e.g. D&I), percentage recommended and gaps in responses by demographic groups
 - Analysis generally aligned with staff's preexisting views on company culture

Shareholder Rights Background & Recent Developments

Proxy Voting Background

As an equity owner of a corporation (a “shareholder”), the owner has a right to vote on certain corporate matters, both financial and non-financial which include but are not limited to:

- Board and Director issues (terms, attendance, composition)
- Mergers and acquisitions
- Audit firm selection
- Executive compensation
- Shareholder proposals or protections (if allowed)
- Environmental, Social or Governance issues (if on the ballot)

“Proxy Voting” allows an owner of a corporation, who may not be able to attend a shareholder’s meeting in person, to vote on any issues on the ballot.

- Voting proxies is generally considered an important part of a pension’s fiduciary duty.

Due to the sheer volume of corporate proxies that need to be voted on every year, proxy voting services have been created and continue to expand their practices to address the evolving needs of their clients.

SCERS Proxy Voting Approach

Investment Policy, Section V. General Policies, Subsection H. Proxy Voting

The Board recognizes that proxy voting rights are assets of the Fund that allow SCERS to participate in the governance of corporations in which it is directly invested. In managing this asset, the Board instructs its Managers to vote the proxies of its directly invested shares consistent with the Institutional Shareholder Services' (ISS) Public Funds Proxy Voting Policy or based on Staff direction in specific situations to further SCERS's ESG positive action strategies.

Staff will monitor the voting activities of the Managers on at least an annual basis.

Practical Implementation

- The Board adopted the ISS Public Funds Proxy Voting Policy ("PF Policy"), per Staff recommendation
- Proxy service provider reviews thousands of proxy votes annually and applies the PF Policy
- Staff monitors the PF Policy and provides feedback to the proxy service provider (ISS) annually
- Investment managers execute votes for SCERS's shares:
 1. According to the PF policy for shares that SCERS owns directly, and shares SCERS holds indirectly through fund investments where pro rata voting is feasible; or
 2. According to their own proxy voting policy where SCERS pro rata voting is not feasible
- Staff tracks specific votes and may direct voting to further the ESG positive action strategies and conducts spot audits of votes to ensure that the PF policy is implemented correctly

Recent Developments

Recent U.S. executive, agency and state actions have aggressively sought to curtail shareholder rights

- **Trump Administration** issued an Executive Order entitled “Protecting American Investors from Foreign-Owned and Politically-Motivated Proxy Advisors” that increases federal scrutiny of proxy voting service providers (e.g. ISS, Glass Lewis) and directs agencies to consider tougher rules on transparency, conflicts of interest, and antitrust issues (12/2025)¹
- **Securities & Exchange Commission (SEC)** reinterpreted **Rule 14a-8** allowing companies to exclude shareholder resolutions from proxy reports without the SEC’s review and consent (11/2025)²
- **Texas SB 2337** regulates proxy voting advice related to Texas companies limiting consideration of “nonfinancial” factors, citing ESG and DEI as non-financial (7/2025, preliminary injunction)³
- **Florida** sued proxy voting service providers alleging that the firms misled investors, abused market dominance and pushed “nonfinancial” factors in their proxy voting advice (11/2025)⁴

These actions may impact SCERS by:

- Impeding SCERS’s ability to support engagement with shareholder proposals
- Complicating proxy voting because proxy service providers may be barred from creating and updating policies, execute on votes, and providing valuable research

¹ <https://www.whitehouse.gov/presidential-actions/2025/12/protecting-american-investors-from-foreign-owned-and-politically-motivated-proxy-advisors/>

² <https://www.sec.gov/newsroom/speeches-statements/statement-regarding-division-corporation-finances-role-exchange-act-rule-14a-8-process-current-proxy-season>

³ <https://www.reuters.com/legal/government/glass-lewis-iss-sue-texas-over-law-limiting-dei-esg-proxy-advice-2025-07-24/>

⁴ <https://news.bloomberglaw.com/esg/iss-glass-lewis-broke-florida-antitrust-law-state-ag-charges>

SCERS Activity & Industry Developments

SCERS Activity

Industry Conferences

- Kimberly Loving and Jason Malinowski attended the iDAC summit in October 2025
- Jason Malinowski virtually attended the Invest Ahead conference in December 2025
- Leola Ross attended the Council of Institutional Investors (CII) spring conference in March 2026
- Leola Ross participated in CII-organized meetings with Congressional staffers

Investor Organizations & Initiatives

- Kimberly Loving joined the Board of the iDAC Foundation
- Jason Malinowski joined the Board of Allocator Collective
- Leola Ross continues engaging on climate-related topics with multiple corporations, which included a site visit to the Paccar Technology Center in Mount Vernon, WA
- Staff continues to participate in ESG investor organization virtual meetings for planning and coordination
- Leola Ross responded to the annual ISS benchmark policy survey

Internal Projects

- SCERS received its 2025 assessment report from the Principles for Responsible Investment (PRI), receiving 4 stars (out of 5) in five categories, 3 stars in three categories and 2 stars in one category

Industry Developments

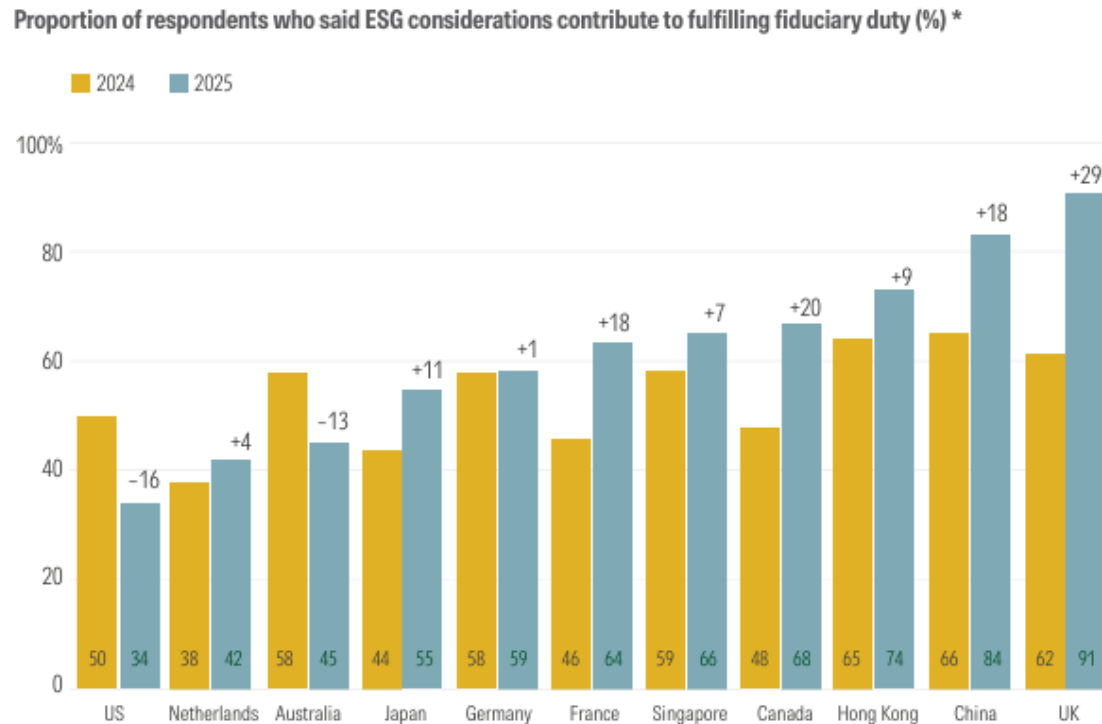


A federal judge ruled that a Texas state law prohibiting state entities from investing with managers that “boycott” fossil fuel companies was unconstitutional in February 2026. The judge found that the law was overbroad and vague. The anti-ESG law was one of the first to be enacted in 2021. Texas has appealed the ruling.

Industry Developments

ESG integration levels and trends by institutional investors vary significantly by country with United States investors showing less and declining interest

* Question was only applied to asset owners who invest at least 1% of their assets with ESG factors considered



Source: Morningstar, <https://indexes.morningstar.com/insights/analysis/blt698e1113cca0c28f/voice-of-the-asset-owner-survey-2025-quantitative-analysis>

Appendix

Climate Positive Action Strategy

SCERS established a Climate positive action strategy in 2016 that consists of company voting and engaging, policy advocacy and sustainability investments

	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

Fossil Fuel Company Allocation

SCERS Public Equity Allocation to Fossil Fuel Companies

As of December 31, 2025

SCERS Ownership	Account Type	Exposure (\$ million)	% of SCERS Total Portfolio
Direct	Separate Account	\$24.3	0.5%
Indirect	Commingled Fund	\$24.7	0.5%
Total		\$49.0	1.0%

Source: MSCI Total Plan Manager; excludes overlay program

Note: Companies with sub-industry of Oil & Gas Exploration & Production, Integrated Oil & Gas, Coal & Consumable Fuels