Asset Stewardship
Activity Report

Q3 2019

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Stewardship Activity Report

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Vote Breakdown

Number of Meetings Voted
2,002

Number of Countries
57

Management Proposals
16,159

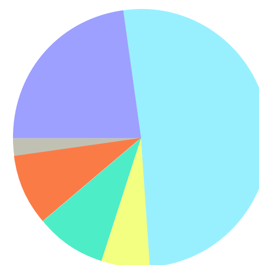
Shareholder Proposals
299

Votes For
83%

With Management
87%

Votes Against
17%[1]

Against Management
13%

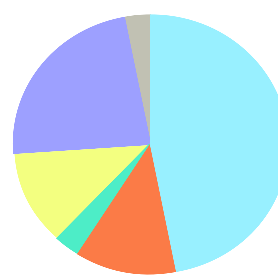


51% Rest of the World
23% North America
9% Europe
9% United Kingdom
6% Japan
2% Australia & New Zealand

Engagement Breakdown

Q3 Engagement Meetings
106

2019 Engagement Meetings
580



47% North America
23% Australia & New Zealand
12% Europe
12% United Kingdom
3% Japan
3% Rest of the World

Source: State Street Global Advisors. As of September 30, 2019.
Data are as of the date indicated, are subject to change and should not be relied upon as current thereafter.

1 Against votes are calculated as Against + Abstain votes. All Do Not Vote instructions were removed from total proposal numbers and all calculations.

STATE STREET GLOBAL ADVISORS

Preview of the Australian Proxy Season

The 2019 proxy season in Australia is under way, and based on our early engagements with companies in the market we will be focusing on the following themes.

Executive Remuneration Practices Improving

Shareholder dissent over executive remuneration in Australia spiked in 2018. The average support levels on remuneration reports dropped to 89 percent in 2018 from 92 percent in 2017, and 26 companies in the S&P/ASX300 received a "strike" in 2018, up from 11 companies in 2017.[1, 2] As we have previously highlighted, remuneration plans in the Australia market were deviating from investor preferences by eliminating the traditional long-term incentive schemes that utilize a three-year performance metric in favor of shorter-term performance goals. The growing trend of companies shifting their pay toward short-term priorities is exemplified by plans which combine both short- and long-term incentive schemes into a single plan based on annual performance. Back in 2017 we noted our concern regarding this trend, and since then State Street Global Advisors has not voted in favor of such structures of executive remuneration in Australia.

Thus far companies have been responsive to the high levels of shareholder dissent and are improving their remuneration schemes; many companies are reversing direction on combined plans by separating short- and long-term incentives. Furthermore, disclosure around short-term incentive plans is improving and holding periods on deferred shares in long-term plans are being extended. Transparency of performance against targets will be vital as scorecards are becoming a larger component of overall remuneration plans. Overall, improved remuneration scheme structure and disclosure demonstrate company responsiveness to shareholder feedback.

However, we are also mindful that overall quantum of CEO pay continues to increase. One of the drivers is a result of Australian companies benchmarking remuneration to US peer groups without sufficient justification, which can have a ratcheting effect on overall payouts. The ratcheting effect can by amplified by performance targets that are not sufficiently challenging, resulting in above median payouts without similar performance. We actively engage with companies to better understand the key drivers associated with a company's long-term strategy and how they are incorporated into the long-term remuneration program and target setting. Further, we will continue to engage with companies on the overall quantum of CEO pay and will consider the issue closely when determining our final vote decisions.

1 ISS, "2018 Australia & New Zealand Proxy Season Review"

2 Glass Lewis, "2018 Australia Season Review"

Australian Modern Slavery Act

As of January 2019, companies operating in Australia with more than AUD $100M in annual revenue are required to "prepare annual Modern Slavery Statements setting out their actions to assess and address modern slavery risks in their operations and supply chains."[3] Further, the company's principal governing body must sign off on these statements.[4]

Modern slavery can pose an economic and reputational risk to companies globally. It is also a regulatory risk in Australia, where there is legislation regarding the management and disclosure of modern slavery risk. To manage risks associated with modern slavery, we expect companies to address labor practices in their own operations (e.g., fair wages) and their supply chain, the most likely source of modern slavery risk.

While we recognize that the regulatory risk associated with modern slavery could be material to all companies, we are particularly focused on industries where labor practices and supply chain management are material issues.[5] Modern slavery is an emerging issue for our Asset Stewardship team, and we will continue to engage with companies to identify examples of best practices.

Addressing Environmental- and Social-Related Issues

We expect an increase in the number of companies receiving environmental- and social-related shareholder proposals. In addition to high-impact sectors, such as oil, gas, utilities and mining, we expect that companies in the insurance and financial sectors will also receive climate-related shareholder proposals. We believe that companies across all sectors are responsible for managing climate risk and disclosing climate-related financial information.

We have a long history of engaging and voting on material environmental and social issues globally. Over the years, these activities have resulted in an informal framework that is evident in our thought leadership and activity reports. For instance, we utilize our **Perspectives on Effective Climate Change Disclosure** as one reference point for proposals on climate risk. The publication of our **Global Proxy Voting and Engagement Guidelines for Environmental and Social Issues** provides additional transparency into the ways we address these important issues and we will apply this guidance when evaluating shareholder proposals through the rest of the 2019 Australian proxy season.

Bloomberg Launched Equity and Fixed-Income Indices Powered by R-Factor™

Earlier this year, State Street Global Advisors launched **R-Factor™**, a transparent ESG scoring system that measures the performance of a company's business operations and governance as it relates to financially material ESG issues facing that company's industry. R-Factor was designed to build more sustainable capital markets by addressing the opacity and variations in existing ESG scoring systems. The transparent frameworks that form the basis of the score — in

3 "Modern Slavery Act 2018." Deloitte Touche Tohmatsu Ltd. December 2018. https://deloitte.com/au/en/pages/risk/articles/modern-slavery-act-2018.html

4 Ibid

5 "SASB Materiality Map." Sustainability Accounting Standards Board. https://materiality.sasb.org/

particular, the materiality map of the Sustainability Accounting Standards Board (SASB) —offer companies a road map for how to improve their ESG performance, and in doing so, their scores.

At State Street Global Advisors, R-Factor scores are being integrated across our Stewardship program. Through engagements, we are sharing companies' R-Factor scores with them, along with materials to help companies understand their score and use it as a tool to improve ESG practices and disclosure. Since the framework launched this summer, more than 100 companies have requested and received their scores. **Request your R-Factor Score.**

In September 2019, Bloomberg launched a set of equity and fixed-income indices powered by R-Factor. The **Bloomberg SASB ESG Index Family** offers large-cap US equity exposure through a number of variants, as well as US corporate fixed-income exposure. R-Factor is the ESG score incorporated into the portfolio construction process for the indices. Consequently, investors now have a concrete way to show their support for SASB, a critical piece of infrastructure in the development of more sustainable capital markets, and to communicate to portfolio companies the importance of focusing on financially material ESG issues.

Regulatory Update: US

In the United States, the Securities and Exchange Commission (SEC) is the primary regulator of the proxy voting process. The introduction of a mandatory say-on-pay vote in 2011 led to a transformation of the stewardship landscape resulting in the robust engagement culture and increased focus on proxy voting that we have today. Over the past eight years, the SEC has generally allowed for market-based solutions to the growth in stewardship activity. Unlike most markets, however, the US does not have nationally promulgated corporate governance and stewardship codes and private ordering has not softened perceptions of the outsized role of proxy advisors in influencing investors. Recently, the SEC has signaled that it would take a more active role in regulating the proxy voting process and began this effort with two guidance documents issued in August 2019, a staff announcement in September and two proposed rules in November. To date, the SEC has focused on the role of proxy advisors and the shareholder proposal process, but Chairman Jay Clayton has indicated that more action is likely.

SEC Action on Proxy Advisors
Proxy advisors have faced ongoing criticism over the accuracy of reports, conflicts of interest and undue influence over vote outcomes. The SEC has addressed this criticism through the August guidance documents and a proposed rule. One guidance codified a staff legal bulletin previously issued in 2014. The guidance called for enhanced diligence by investment managers of their proxy advisors around conflicts of interest, staffing resources and the accuracy of reports. The second guidance established that proxy advisor recommendations are proxy solicitations, akin to a management proxy statement or shareholder letter in support of their proposal. Based on this guidance, the SEC will be able to regulate proxy advisors through the proxy solicitation rules. To that end, in November 2019 the SEC proposed a change to the proxy solicitation rules that would require proxy advisors to allow companies up to seven days in total to review and comment on their research reports prior to them being provided to clients.

SEC Action on Shareholder Proposals
In its oversight of the proxy voting process, the SEC sets the rules for shareholder proposals appearing on a company's ballot and determines whether proposals comply with the rules

through the “no-action” process. In the “no-action” process, if a company believes that a shareholder proposal is inappropriate based on the rules governing submission, a letter is sent to the SEC asking the staff whether they agree. If a company asks for permission to exclude a proposal, the shareholder proponent also has an opportunity to make a case for why the proposal should be allowed. Based on the facts and precedent, the SEC ultimately issues a letter stating whether they concur with the company’s position on excluding the proposal and why. The SEC’s finding and the letters from the company and proponent are publicly available on the SEC’s website.[6] Making this information available assists proponents in drafting future proposals that comply with the rules because proponents can learn from precedent and get insight into the SEC’s rationale through this public disclosure.

In a September 2019 announcement, the SEC staff stated that they may respond orally to no-action requests in the future to address the volume of requests they receive leading up to proxy season. Issuing oral responses could lead to decreased transparency and increased confusion around why a proposal was excluded by a company. The announcement also reaffirmed the SEC’s ability to take no view on such requests, something it has rarely done in the past. The lack of an SEC opinion on a proposal being excluded could result in an increase in costs to companies and proponents if it means they must go to the courts for an answer.

In November, the SEC also proposed changes to the rules for shareholder proposal submission and resubmission that would take effect in the coming years and may impact the volume of proposals over time. The most significant proposed rule changes would:

- Increase the holding requirement to submit a shareholder proposal from at least $2,000 or 1 percent of outstanding shares for one year to at least $2,000 for three years, $15,000 for two years or $25,000 for one year;
- Limit proposal submissions to one per person; and
- Increase resubmission thresholds from requiring a proposal to receive 3 percent, 6 percent and 10 percent of votes cast, respectively, each successive time it is filed in the last five years to thresholds of 5 percent, 15 percent and 25 percent

Engagement Highlights: Europe

In Q3 2019, we engaged with the Chair of the Remuneration Committee of **Berkeley Group Holdings plc** to discuss the long-term incentive scheme resolution and remuneration policy proposed at the 2019 Annual General Meeting (AGM). During our engagement we expressed our concerns with the structure of variable compensation and relatively high quantum of remuneration and encouraged the company to lower the overall dilution limit for all share schemes to 10 percent of issued share capital. Berkeley Group responded to our feedback on dilution and shortly after our engagement it issued a public statement setting a 10 percent dilution limit to awards made under the long-term incentive scheme. Consequently, we voted in favor of the long-term incentive plan resolution. Balancing the company’s demonstrated responsiveness with our concerns with the structure of variable compensation due to the entire variable compensation plan being based only on a single metric (annual cumulative returns), we abstained on the company’s remuneration policy resolution. The vote reflects our qualified support for management and expectation for continued improvement in the remuneration policy.

6 https://sec.gov/divisions/corpfin/cf-noaction/2019_14a-8.shtml

In total, 43 percent of shareholders voted against the remuneration policy and 46 percent against the long-term incentive plan resolution at the 2019 AGM.

In July 2019, we engaged with the chair of the Remuneration Committee of **Whitbread plc** to discuss the company's new proposed remuneration framework. During our call we outlined our framework on restricted stock plans and expressed concerns with the company's existing restricted stock plan that had no performance conditions attached. In line with our framework, we suggested that the committee, at minimum, include a Return on Capital Employed (ROCE) performance criterion to better align executive compensation to business strategy.

In response to our feedback, the company subsequently added a ROCE criterion to its restricted stock plan and an additional performance criterion: that there will be no breach of debt covenants throughout the entire vesting period of the scheme. We view these changes as positive enhancements.

Emerging Voting Issue: Climate-Related Lobbying Proposals

As highlighted in our **Q2 2019 newsletter**, we found that there was an uptick in the number of shareholder proposals related to political activities and lobbying during the 2019 proxy season. We expect to see this trend continue, especially with the upcoming 2020 presidential election in the US. Further, we have found that shareholder proposals related to political activities are evolving and bringing together both the issue of lobbying as well as climate change.

These "climate-related lobbying proposals" are asking for corporate membership in trade associations to be fully aligned with a company's stated position on climate change. Where there are inconsistencies with a company's position on climate and those of the company's trade associations, the proposal asks companies to suspend their membership to such organizations.

State Street Global Advisors believes that a conflict in a company's climate positions and the activities of its trade associations creates potential financial and reputational risks. As such we will endeavor to engage both with the proponents of such proposals to gain additional perspective on the issue as well as with companies to better understand how boards are managing the risk. Through engagements with issuers, we expect to evaluate companies' responses to the following questions:

- What is the board's role in the oversight process of the company's participation in the political process, including membership in trade associations?
- Has the company performed a gap analysis of its stated positions on climate change and those of its trade associations?
- Does the company disclose a list of its trade association memberships?

Companies Engaged

Company Name	Market
3M Company	USA
Abiomed, Inc.	USA
Aena SME S.A.	EU-Spain
AGL Energy Ltd.	Australia
AGL Energy Ltd. (Proponent: Market Forces)	Australia
Aircastle Limited	USA
Alexander & Baldwin, Inc.	USA
Ambac Financial Group, Inc.	USA
American Campus Communities, Inc.	USA
American Outdoor Brands Corporation	USA
Applied Materials, Inc.	USA
Aqua America, Inc.	USA
Australia and New Zealand Banking Group Ltd.	Australia
AVEVA plc	UK
BASF SE	EU-Germany
Bayer AG	EU-Germany
Bed Bath & Beyond Inc.	USA
Berkeley Group Holdings plc	UK
BHP Ltd.	UK
BHP Ltd. (Proponent: Australasian Center for Corporate Responsibility)	Australia
BioCryst Pharmaceuticals, Inc.	USA
Boston Properties, Inc.	USA
Brambles Ltd.	Australia
Cadence Design Systems, Inc.	USA
Cisco Systems, Inc.	USA
Coles Group Ltd. (Proponent: Australasian Center for Corporate Responsibility)	Australia
Colruyt Group SA	EU-Others
Commonwealth Bank of Australia	Australia
Commvault Systems, Inc.	USA
Compagnie Financiere Richemont SA	Switzerland
Cracker Barrel Old Country Store, Inc.	USA
Dassault Aviation SA	EU-France
DCC plc	EU-Ireland
Deere & Company	USA
DuluxGroup Ltd.	Australia
ENGIE SA	EU-France
ExxonMobil Corporation	USA

Company Name	Market
FedEx Corporation	USA
FirstGroup plc	UK
FLEX Ltd.	EM-Others
Goodman Group	Australia
GVC Holdings plc	UK
HCP, Inc.	USA
Hennes & Mauritz AB	EU-Sweden
HomeServe Plc	UK
Husqvarna Group AB	EU-Sweden
Infosys Ltd.	EM-India
Insurance Australia Group Ltd.	Australia
James Hardie Industries plc	Australia
Johnson & Johnson	USA
Jones Lang LaSalle Inc.	USA
KLX Energy Services Holdings, Inc.	USA
Komatsu Ltd.	Japan
Leggett & Platt, Inc.	USA
MasterCraft Boat Holdings, Inc.	USA
McKesson Corporation	Canada
MDU Resources Group, Inc.	USA
Mirvac Group	Australia
Mitsubishi Corp.	Japan
National Fuel Gas Company	USA
NextEra Energy, Inc.	USA
Nordstrom, Inc.	USA
Occidental Petroleum Corporation	USA
OMV AG	EU-Others
Orica Ltd.	Australia
Origin Energy Ltd. (Proponent: Australasian Center for Corporate Responsibility)	Australia
PetMed Express, Inc.	USA
PPL Corporation	USA
Progenics Pharmaceuticals, Inc.	USA
Progenics Pharmaceuticals, Inc. (Dissident: Velan Capital)	USA
Qantas Airways Ltd. (Proponent: Australasian Center for Corporate Responsibility)	Australia
QBE Insurance Group Ltd.	Australia
QEP Resources, Inc.	USA
Regions Financial Corporation	USA

Company Name	Market
Remy Cointreau SA	EU-France
RH Company	USA
RioCan Real Estate Investment Trust	USA
Rite Aid Corporation	USA
Royal Mail Group plc	UK
Sanderson Farms, Inc.	USA
Sempra Energy	USA
Signature Bank	USA
Sony Corporation	Japan
Sophos Group plc	UK
Sorrento Therapeutics, Inc.	USA
Southern Company	USA
Standard Chartered plc	UK

Company Name	Market
Suncorp Group Ltd.	Australia
Swedbank AB	EU-Norway
Tabcorp Holdings Ltd.	Australia
The Clorox Company	USA
Transurban Group Ltd.	Australia
Unilever plc	UK
United Natural Foods, Inc.	USA
Vicinity Centres	Australia
Vista Outdoor, Inc.	USA
Vodacom Group Ltd.	EM - South Africa
Westpac Banking Corporation	Australia
Whitbread plc	UK
WPP plc	UK

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- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world, helping millions of people secure their financial futures. This takes each of our employees in 27 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third-largest asset manager with US $2.95 trillion* under our care.

* AUM reflects approximately $43.96 billion USD (as of September 30, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

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