

# Stewardship Activity Report

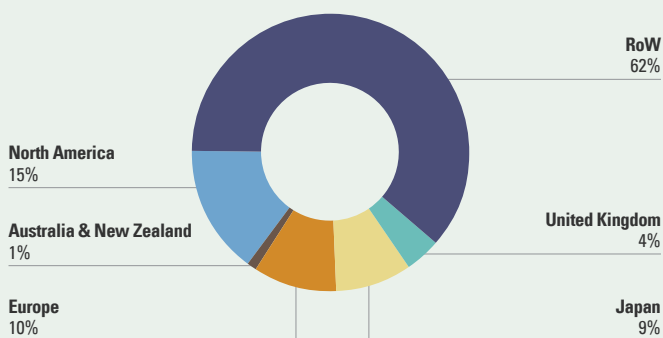
Q1 2018

**Figure 1: Vote Summary Q1 2018**

<b>Number of Meetings Voted</b>	<b>2,596</b>
<b>Number of Countries</b>	<b>60</b>
<b>Management Proposals</b>	<b>18,105</b>
Votes For (%)	82.8
Votes Against (%)	17.2 <sup>1</sup>
<b>Shareholder Proposals</b>	<b>382</b>
With Management (%)	87.2
Against Management (%)	12.8 <sup>1</sup>

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

**Figure 2: Breakdown of Voting by Region Q1 2018**

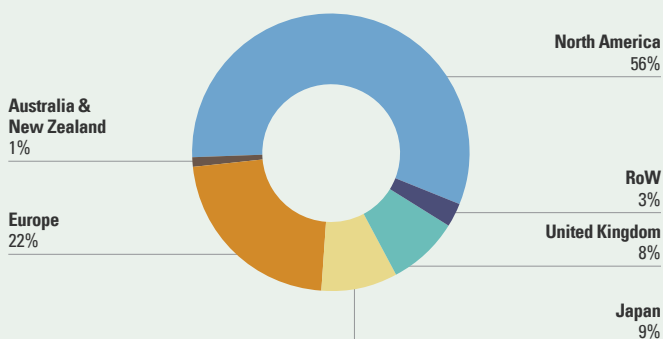


Source: State Street Global Advisors (SSGA). As of March 2018. Data are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

**Figure 3: Engagement Summary**

<b>Q1 Engagement Meetings</b>	<b>147</b>
<b>2018 Engagement Meetings</b>	<b>147</b>

**Figure 4: Engagement by Region Q1 2018**



Source: SSGA. As of March 2018. Data are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

## Stewardship Highlights

This report highlights the impact of our Fearless Girl campaign in 2017, our focus on board accountability in Europe, new voting guidelines related to corporate governance best practices and management compensation votes, our approach to engaging with civilian firearm manufacturers, and our comment letter responding to a recent UK FRC consultation.

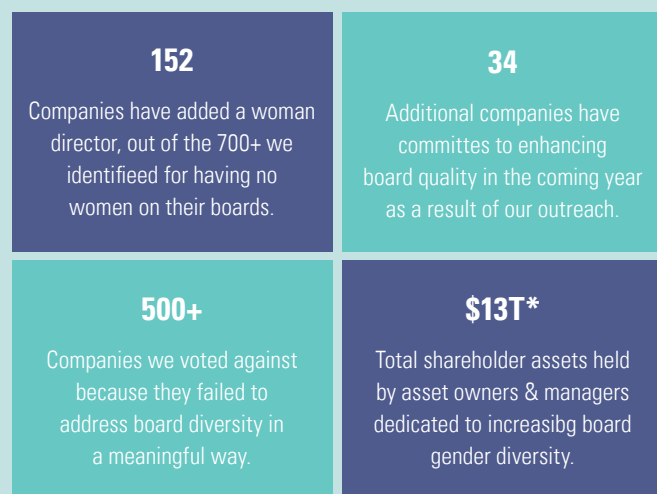
### Fearless Girl's Impact: One Year of Action

International Women's Day on March 8, 2018, marked the one-year anniversary of State Street's Fearless Girl campaign that began with us placing a statue of a girl near Wall Street in order to bring attention to the lack of women on corporate boards. We issued a call to action to over 700 companies in the US, UK and Australia to add at least one woman to their board, failing which, we would take voting action against directors on the board.

We followed our call to action by engaging with dozens of companies on this issue. In cases where companies failed to address board diversity in a meaningful way, we used our vote, taking action against directors at over 500 companies. We are extremely encouraged by the fact that of the companies we identified through the campaign, 152 companies have responded to our call and have added at least one woman to their board and an additional 34 companies have now committed to do so in the near future. Further, in the months following our call to action, asset managers and asset owners controlling over \$13 trillion have joined us and are also prioritizing diversity as a stewardship priority.<sup>2</sup>

However, there is still work to be done. This year we expanded our call to action to include companies listed in Canada and Japan where female representation on corporate boards continues to be low with 37% of TSX and 55% of TOPIX 500 listed companies having zero women on their board.<sup>2</sup> Additionally, we know that low levels of gender diversity are not only found in the board room and feel our efforts cannot stop at the board level if we truly want companies to adopt policies and practices that will help strengthen gender diversity throughout their organizations. To that end, this year we will expect that our portfolio companies monitor and disclose the level of gender diversity not only on their boards but at all levels of management - focusing on the development pipeline of diverse candidates. We will begin screening and engaging with companies in the STOXX 600 and FTSE 350 indexes to start, seeking to understand company practices that promote diversity.

To learn more about the Fearless Girl campaign please visit: <https://ssga.com/global/en/about-us/who-we-are/fearless-girl.html>.



Source: SSGA Asset Stewardship Team, March 8, 2018.  
 WSJ.com, Bloomberg, Pensions & Investments, CNBC March 2018.  
 \* Shown in USD.

### Board Accountability in Europe

In a recent **paper**, we affirmed our belief that board accountability is fundamental to strong corporate governance. Furthermore, annual director elections provide increased accountability and encourage board members to be more responsive to shareholder interests thereby improving board quality. Without annual elections, no matter how dissatisfied shareholders are, they may have to wait several years to hold board members accountable.

Recent high profile corporate governance controversies involving some of the largest European companies have prompted us to review and compare board accountability and election systems for board directors across countries in Western Europe. As Figure 5 demonstrates, there is still significant variation in director election terms in Western Europe which ultimately impacts board quality. Within Europe, board accountability is weakest among German companies, where directors stand for election only once every five years.

In our experience, we find that the shift to annual election of directors in markets such as the US or UK has had a positive impact by encouraging board members to be more responsive to shareholder interests. Codes in some European countries such as France recommend having staggered board “so as to avoid replacement of the entire body and to favor a smooth replacement of directors.” The Dutch Corporate Governance Code also recommends that terms should be staggered. However, the majority of Western Europe now has annual board elections. Therefore, we believe investors in the outlier European countries would be better served if the terms of office for board members were limited to one year. Consequently, we strongly encourage that all European Corporate Governance Codes be amended to require annual board elections.

The excessive terms of office in Germany and other European markets will be a key area of focus for SSGA’s Asset Stewardship Team in 2018.

**Figure 5: Terms of Office for Board Members in Western Europe by Country**

Country	Terms of Office (in Years)			
	Common Practice	Corporate Governance Code Recommendation	Legal Limit (up to)	Staggered Boards — Common Practice
United Kingdom	1	1	N/A*	No
Ireland	1	1	N/A*	No
Switzerland	1	1	1	No
Finland	1	1	1**	No
Sweden	1	1	1**	No
Norway	1	1	2**	No
Denmark	1	1	4	No
Italy	3	N/A*	3	No
Spain	4	N/A*	4	Yes
Netherlands	4	4	4	Yes
France	4	4	6	Yes
Belgium	4	4	6	Yes
Germany	5	N/A*	5	No

\* No recommendation or restriction provided.

\*\* The terms of office in these countries can be extended to more than one year if provided in the company’s articles of association.

Source: SSGA — based on information that was collected from corporate governance codes and national company laws of the countries under review.

### Changes for the Upcoming 2018 Proxy Season

For SSGA’s complete 2018 Proxy Voting and Engagement Guidelines, including a summary of material changes, please visit our website: <https://ssga.com/na/us/institutional-investor/en/about-us/asset-stewardship.html>

### SSGA Introduces Screens to Monitor Compliance with Corporate Governance Principles

In a March 2018 **letter** to S&P 500 boards, SSGA’s Chief Investment Officer, Richard Lacaille, called on board chairs and lead directors at S&P 500 companies to report their compliance with the governance principles put forth by the Investor Stewardship Group (ISG). The six corporate governance principles<sup>3</sup>, which are based on the commonalities of the public proxy voting guidelines of the founding ISG members, including SSGA, went into effect in January 2018. The principles establish common investor expectations regarding the corporate governance structures and practices of companies publicly listed in the US.

Starting in March 2018, SSGA will review governance practices at S&P 500 companies for their adherence to the principles and seek to proactively engage with companies to better understand the reasons for non-compliance. In the event that non-compliant companies fail to adequately explain their governance approaches, SSGA may hold the board accountable by voting against select independent directors. Based on 2017 proxy filings, we expect 40% of S&P 500 companies to be in full compliance with our expectations and fewer than 15% will be targeted for review and engagement.

While the ISG introduces a set of minimum governance expectations for the US market, such standards have existed in other markets for many years. Consequently, as a global investor, we have also developed principle compliance screens that align with the corporate governance codes in the UK, Australia and the EU. We will proactively screen companies within these three markets to highlight and engage with companies that are failing to meet minimum governance expectations.

The introduction of screens to monitor compliance with local market corporate governance expectations for potential voting action is an important evolution in the Asset Stewardship Team's approach to proxy voting. By actively evaluating a company against corporate governance best practices irrespective of there being a vote on any discrete topic we can hold directors accountable for taking a thoughtful, well-disclosed approach to establishing the company's governance structures.

### **Transparency in Pay Evaluation: Adoption of Abstain as a Vote Option on Management Pay Resolutions**

Beginning with the 2018 proxy season, SSGA will exercise 'Abstain' as a vote option, in addition to the use of 'For' and 'Against' vote options, on management compensation resolutions. Going forward we will use an 'Abstain' vote, in situations where we cannot provide unqualified support for compensation proposals or where companies have responded to some but not all of our concerns on pay. This change will apply to all markets SSGA invests in globally where 'Abstain' is a valid vote option.

However, the introduction of an 'Abstain' vote should not be considered as an outright rejection of a specific pay plan, but as qualified support based on some reservations. As such the option of using an 'Abstain' vote will allow us to increase transparency to both companies and clients and demonstrate more clearly our qualified support for pay proposals where we have concerns.

Figure 6 illustrates typical examples of our votes 'For and 'Against' on pay and circumstances where we may consider the use of an 'Abstain' vote.

**Figure 6: Examples of vote decisions on Compensation Proposals**

SSGA Vote on Compensation	Potential Rationale for Vote Decision
For	<ul style="list-style-type: none"> <li>Pay metrics are clearly disclosed and aligned to strategy and the pay structure supports long-term value creation.</li> <li>Pay is aligned with long-term company performance.</li> </ul>
Against	<ul style="list-style-type: none"> <li>Pay quantum is excessive despite poor performance.</li> <li>Disclosure of the specific performance targets for long-term/short-term plans is inadequate.</li> <li>The pay program includes a re-testing feature.</li> </ul>
Abstain	<ul style="list-style-type: none"> <li>A onetime award grant is made for retention purposes and is not deemed to be excessive and company performance is strong.</li> <li>Company has responded to some of our concerns on pay, but other significant concerns persist.</li> <li>There is a lack of adequate disclosure or some concerns with performance metrics but there is evidence of strong long-term performance.</li> </ul>

Source: SSGA Asset Stewardship Team.

### **SSGA's Engagement Approach to Civilian Firearm Companies**

In February 2018, SSGA announced we will be engaging with publicly listed civilian weapons manufacturers and distributors to seek greater transparency from them on the ways that they support the safe and responsible use of their products and we will also seek to ensure that any shareholder resources used to influence legislation and regulations, or fund other advocacy efforts is consistent with the company's public views.

There are three public companies engaged in the manufacturing of civilian firearms, American Outdoor Brands, Sturm Ruger & Co, and Vista Outdoor. Collectively, our investment in the equity and debt of these companies represents less than 0.005% of SSGA's assets under management. Consistent with our commitment, we have reached out to these companies seeking a meeting with their board leaders to understand their perspective on the following:

- The company's approach and practices to ensure product safety.
- Changing public sentiment and its potential impact on the business.
- Strategic impacts of potential regulatory and legislative changes.
- Mitigation of reputational risks to the business.

In addition, when revenue from civilian firearm sales contribute more than 10% of a publicly-listed company's gross revenues we will engage with the company to understand how they are mitigating possible reputational risk to their broader business from their participation in the sale of civilian firearms.

### Regulatory Activities

#### SSGA Response to the Financial Reporting Council's (FRC) Consultation on the 'Proposed Revisions to the UK Corporate Governance Code'

The FRC issued its long-awaited **consultation** on the UK Corporate Governance Code to seek investor feedback. In February 2018 SSGA submitted its response to the FRC. Our main comments are set out below. The full response is available [here](#).

- In our response, although we welcome the inclusion of a specific reference to the UN Sustainable Development Goals (SDGs) in the Code's guidance, we stress that this alone would not be sufficient to guide corporate thinking on their sustainability objectives. We believe that specific guidance from the FRC would be useful to help companies report on their adherence to the UN SDGs and how their long-term corporate strategy is aligned to them.
- Furthermore, we cautioned against introducing a hard-coded nine year term limit for independent directors and Chairs which could lead to UK companies seeking to comply with the Code by simply enforcing the new tenure limit, as opposed to retaining those directors who they believe

provide a valuable contribution via their insights and independence of thought. Moreover, unforeseen scenarios based on specific market events (for example, the unexpected departure of the CEO) may lead to a need for the existing board Chair to be retained for a period beyond nine years in order to maintain stability and effective board leadership. We believe that attention should be placed upon the overall manner in which a company empowers the board Chair to be more independent.

- Finally, we agree with the FRC that while gender diversity at board level has grown steadily since 2011, such progress at the executive committee level of FTSE 100 companies is less advanced. However, while we support the FRC's proposal to require FTSE 350 companies to disclose within their annual report the gender balance on the Executive Committee and its direct reports, we do not believe it goes far enough. In our view, FTSE 350 companies should be required to report to investors not only the current gender balance at all levels of the organization, but also on their strategic plans to increase the number of women at Executive Committee level.

<sup>2</sup> WSJ.com, Bloomberg, Pensions & Investments, CNBC May 2017.

<sup>3</sup> Data provided by ISS as of December 31, 2017.

<sup>4</sup> For more information on the ISG visit [isgframework.com](http://isgframework.com).

**Figure 7: Companies Engaged**

Company Name	Market	Company Name	Market
AECOM	North America	Electronic Arts Inc.	North America
Aegon NV	Europe	EMCORE Corporation	North America
Airbus SE	Europe	Emerson Electric Co.	North America
Akamai Technologies, Inc.	North America	Enagas	Europe
Alexandria Real Estate	North America	Eni S.p.A.	United Kingdom
Alliant Energy Corporation	North America	Exxon Mobil Corporation	North America
AmerisourceBergen Corporation	North America	Fair Isaac Corporation	North America
Anheuser-Busch InBev SA	Europe	Fanuc Corp.	Japan
Apple Inc.	North America	GEA	Europe
Applied Materials, Inc.	North America	GKN	United Kingdom
Aramark	North America	H.B. Fuller Company	North America
Arconic	North America	HEICO Corporation	North America
Arkema	Europe	Heineken NV	Europe
Atos SE	Europe	Hewlett Packard Enterprise Company	North America
Aviragen Therapeutics, Inc.	North America	Hologic, Inc.	North America
Axa S.A.	Europe	Honda Motor Co. Ltd.	Japan
B2Gold	North America	HP Inc.	North America
Banco de Sabadell	Europe	Iberdrola	Europe
Bayer AG	Europe	Illinois Tool Works Inc.	North America
Becton, Dickinson and Company	North America	ING	Europe
Best Buy Co., Inc.	North America	InnerWorkings, Inc.	North America
BHP Billiton	United Kingdom	Insteel Industries Inc	North America
Boeing	North America	Intertek	United Kingdom
Broadcom Limited	Rest of World	Intesa San Paolo SpA	Europe
CF Industries Holdings, Inc.	North America	Iron Mountain Incorporated	North America
Chesapeake Energy Corporation	North America	J. Alexander's Holdings Inc.	North America
Cisco Systems, Inc.	North America	JFE Holdings, Inc.	Japan
Colgate-Palmolive Company	North America	KB Financial Group Inc.	Rest of World
Comcast Corporation	North America	Kenedix Inc.	Japan
Commercial Metals Company	North America	Leggett & Platt, Inc.	North America
Commonwealth Bank of Australia	Australia & New Zealand	Lufthansa	Europe
Conagra Brands, Inc.	North America	Macerich	North America
Coronation Fund Managers	Rest of World	Matthews International Corporation	North America
Costco Wholesale Corporation	North America	MCBC Holdings, Inc.	North America
Credit Agricole Group	Europe	McDonald's Corporation	North America
Crest Nicholson	United Kingdom	Medical Properties Trust, Inc.	North America
Cummins Inc.	North America	Melrose plc	United Kingdom
CVS Health Corporation	North America	Merck	Europe
Dai-ichi Life Holdings Inc.	Japan	MGM Resorts International	North America
Daikin Industries Ltd.	Japan	Mitsubishi Corp.	Japan
Daimler	Europe	Mitsui & Co., Ltd.	Japan
Danone	Europe	Mobile Mini, Inc.	North America
Deere & Company	North America	Monsanto Company	North America
DXC Technology Company	North America	Munich Re	Europe
EDF	Europe	National Fuel Gas Company	North America
Electric Power Development Co.	Japan	Navistar International Corporation	North America

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Company Name	Market
Nintendo Co. Ltd.	Japan
Nippon Yusen K.K.	Japan
Norbord Inc.	North America
NRG Energy, Inc.	North America
Nuance Communications, Inc.	North America
Opus Bank	North America
Orange	Europe
Pioneer Natural Resources Company	North America
Prismian SpA	Europe
QUALCOMM Incorporated	North America
Quest Diagnostics Incorporated	North America
Reckitt Benckiser	United Kingdom
Renault	Europe
Royal Dutch Shell	United Kingdom
Saint-Gobain	Europe
Samsung	Rest of World
Sanderson Farms Inc.	North America
Sanmina Corporation	North America
Sapporo Holdings Ltd	Japan
Schaeffler	Europe
Schlumberger Limited	North America
Schneider Electric	Europe
Schnitzer Steel Industries Inc.	North America
Segro plc	United Kingdom
Severn Trent	United Kingdom
Six Flags Entertainment Corporation	Europe

Company Name	Market
Sonic Corp.	North America
Starbucks Corporation	North America
Suncor Energy Inc.	North America
Swiss RE	Rest of World
Teleperformance S.A.	Europe
Tenet Healthcare Corporation	North America
Tesla, Inc.	North America
THE COOPER COMPANIES, INC.	North America
The Travelers Companies	North America
The Walt Disney Company	North America
Tiffany & Co.	North America
Toll Brothers, Inc.	North America
Toray Industries	Japan
Total	Europe
TransDigm Group Incorporated	North America
Unibail-Rodamco SE	Europe
Unicredit	Europe
United Parcel Service, Inc.	North America
VeriFone Systems, Inc.	North America
Vinci	Europe
Wal-Mart Stores, Inc.	North America
Weir Group	United Kingdom
Whitestone REIT	North America
Xenia Hotels & Resorts, Inc.	North America
ZPG plc	United Kingdom



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