STATE STREET GLOBAL ADVISORS

Stewardship Report 2020

To Our Clients

Rick Lacaille
Global Chief Investment Officer
State Street Global Advisors

I'm pleased to present our annual report showcasing the work we undertook on your behalf in 2020. Our stewardship approach is designed to have impact and drive positive environmental, social, and governance (ESG) changes to promote long-term, sustainable returns for our clients.

As long-term stewards of capital we have a fiduciary duty to effectively manage the ESG risks of our portfolio companies. Through our engagement with boards on issues that can drive long-term value creation and by using our proxy voting power to reinforce this perspective, we rigorously advocate for our clients' interests.

Overall Engagement and Core Campaigns
In 2020, we engaged with 1,721 companies, accounting for 78% of our equity AUM. We continued to make significant progress on our core multi-year campaigns of gender diversity and climate change. I'm especially pleased to announce that as of end of February 2021, 862 of the 1,486 companies identified as part of our Fearless Girl campaign responded to our call, either by adding a female director or committing to do so.

We also further elevated our focus on climate change and enhanced our reporting by launching a new annual report and web hub dedicated to climate stewardship. During the year we became a signatory to Climate Action 100+ and continued our extensive climate-risk engagement program.

Responding to a Global Health Crisis
As the Covid-19 pandemic emerged, companies faced not only traditional financial risks — declining cash reserves, dramatic drops in demand — but also ESG risks such as keeping workers safe and healthy, avoiding layoffs and limiting supply-chain disruption. In March, our CEO offered guidance to companies on navigating the challenges of Covid-19 in a way that aligned with the expectations of long-term investors like State Street Global Advisors. We subsequently engaged with 233 issuers on their response to the pandemic, and also issued guidance on our expectations regarding executive compensation in the context of Covid-19.

Rising Social Risks
The pandemic accelerated a trend I predicted in my last letter — the increasing significance of social risks within ESG risk management. Insufficient data remains a challenge, but the 'S' is undeniably more important than ever to investors and other stakeholders. As a result, companies are more focused on social issues, which will likely lead to a proliferation in data over the coming years. We are currently working with the Sustainability Accounting Standards Board (SASB) and other stakeholders to develop relevant KPIs, and are refining our own approach to social issues such as human capital management.

Enhancing Racial & Ethnic Diversity Disclosures
One dimension of the 'S' that has rightfully received increased attention this year is racial & ethnic diversity and inclusion. Tragic incidents of police violence highlighted the longstanding legacy of systemic racism that plagues the United States and other markets around the globe. This motivated us to re-examine our focus on diversity and expand our efforts to include race and ethnicity, as articulated in my August letter to issuers.

We have incorporated racial & ethnic diversity into our voting guidelines, and will be voting against US and UK companies that do not disclose the racial & ethnic diversity of their boards. We engaged with 88 companies on racial & ethnic diversity, and will be proactively engaging with the largest US- and UK-based employers over the coming year in an effort to enhance their human capital management disclosures and practices. A comprehensive overview of our focus on racial & ethnic diversity is available in our January 2021 guidance on the topic.

Driving ESG Progress Across Our Portfolio
We have successfully integrated our R-Factor™ scoring system into our stewardship efforts. We use R-Factor to encourage companies to manage and disclose ESG risks, thereby reducing risks across not only our own portfolio but the market overall. In 2020, we wrote to companies to inform them of our intentions to take voting action against the bottom 10% of R-Factor scores, subsequently voting against 14 of those companies. We also shared scores with 698 companies, and continued to incorporate our transparent scoring system into our engagements, giving companies an opportunity to assess their ESG risk management efforts and take action to improve their practices.

Elevating Our Impact
Asset Stewardship is an essential part of creating value for shareholders, and despite the challenges we are facing — a global health crisis, a lack of data on issues that matter, greater social instability — we stay focused on our mission. We have enhanced our impact by pursuing targeted engagements, adopting more rigorous voting policies, joining Climate Action 100+, and initiating an authentic, data-driven campaign to enhance racial diversity disclosures. We have also adopted new technology platforms and recruited new talent to further strengthen our team.

We are consistently focused on refining our impact, and communicating our efforts to important stakeholders like you. We hope you appreciate the increased transparency and detail in our report, and we welcome your feedback

On a final note, to further increase our focus on this key area, this year I will move to a newly-created role providing enterprise-wide leadership of the company's ESG solutions, services and thought leadership across all of State Street's businesses. I wish my colleague Lori Heinel — an innovative, change leader with a strong client focus — who will take over the reins as global CIO, all the best in her new role.

Sincerely,
Rick Lacaille

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2020 in Review

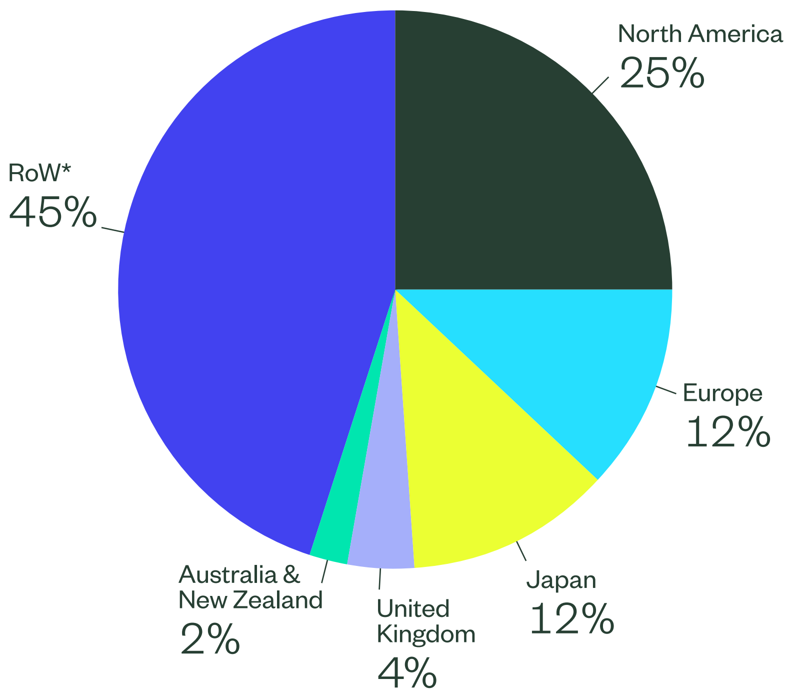
In 2020, we voted in over 19,000 meetings and engaged with over 2,400 companies. In all, our engagement activities encompassed companies representing 78% of our 2020 equity AUM.

In this section, we provide highlighted insights from our voting and engagement activities, as well as core campaign, sector and thematic takeaways.

Vote Breakdown

Figure 1

2020 Voting by Region



Source: State Street Global Advisors 2020 Stewardship Platform. *Rest of the World.

Number of Meetings Voted

19,370

Number of Countries

73

Management Proposals

176,680

Shareholder Proposals

4,690

Votes For

84.5%

With Management

88.6%

Votes Against

15.5%

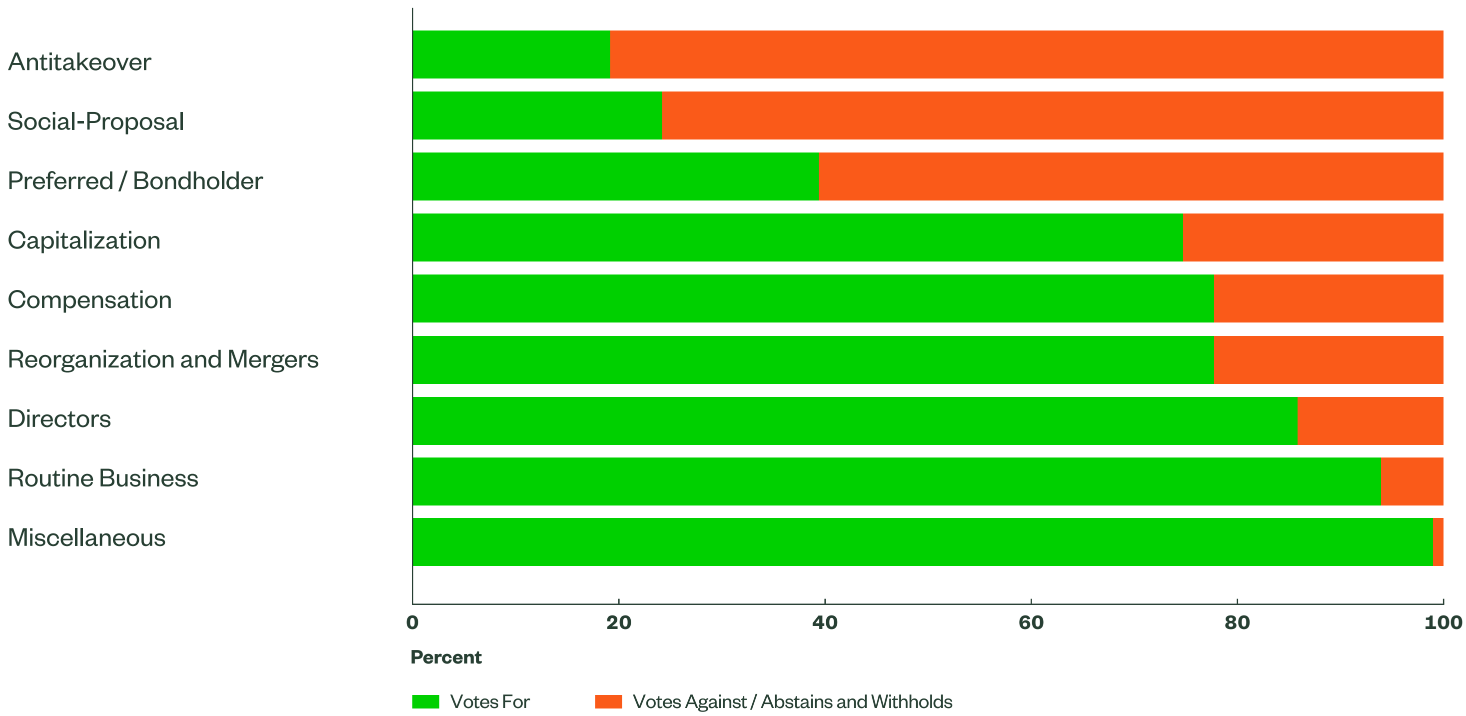
Against Management

11.4%

Our 2020 voting record is publicly available here.

Figure 2

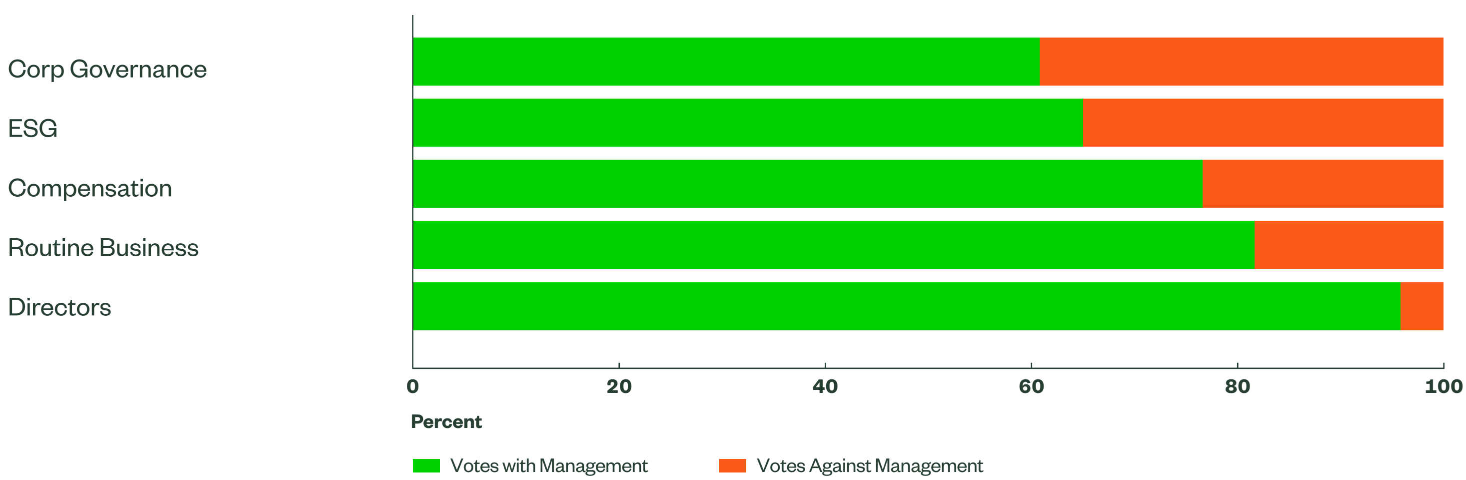
Votes on Management Resolutions by Category



Source: State Street Global Advisors Voting Statistics 2020.

Figure 3

Votes on Shareholder Proposals by Category

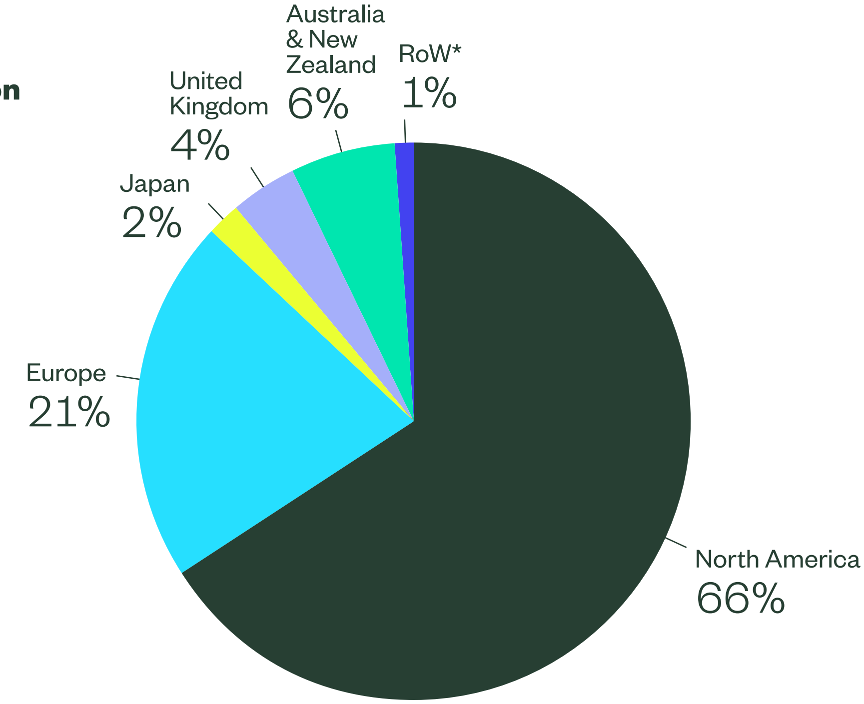


Source: State Street Global Advisors 2020 Stewardship Platform.

Engagement Breakdown

Figure 4

2020 Comprehensive Engagements by Region



Source: State Street Global Advisors 2020 Stewardship Platform.

2020 Comprehensive Engagements

672

Portion of Equity AUM Engaged (%)

78

2020 Engagements Through Letter Writing

1,740

Countries

73

Engagement Statistics

We engaged with 1,721 companies during 2020, of which 672 were comprehensive engagements based on in-person meetings or via conference calls and 1,740 were through letter-writing campaigns. We identify target companies for engagement through multiple methods, including proprietary ESG screens and the sector and thematic priorities identified in our annual stewardship objectives.

We sent letters to 80 companies on the thematic issue of gender diversity across three markets and 1,125 companies our 2020 CEO letter. We also sent letters to all S&P 500 companies on Racial Diversity Guidance. In addition we sent a collaborative letter with other investors to all DAX 30 companies on the thematic issue of board accountability calling on them to voluntarily adopt a three-year election cycle for shareholder-elected supervisory board members.

In 2020, we also conducted 851 engagements with companies on their R-Factor scores. Details on these campaigns can be found in the Fearless Girl (page 30) and Integrating R-Factor Into Vote Decisions (page 40) and Our Collaborative Initiatives (page 60) sections of this report.

Companies Engaged by Topic

For a comprehensive list of companies engaged with during 2020 and the topics of engagement, please see here.

Engagement & Voting Highlights

Compensation

Executive compensation is a perennial engagement and voting topic for the Asset Stewardship team. We believe that executive compensation presents risks, such as creating perverse incentives, as well as opportunities, such as demonstrating a commitment to ESG priorities.

When structured appropriately, executive compensation can be well aligned with operational goals and shareholder results. However, this topic is receiving elevated attention because the Covid-19 pandemic has rendered many compensation-linked performance targets unattainable.

During our engagements with our portfolio companies, most report that they plan to update their executive compensation programs but acknowledge that they have not yet acted.

In 2020, there were 7,416 proposals on compensation practices or policies across our global investment portfolios. We supported approximately 84% of pay-related proposals, an increase from 82% support in 2019.

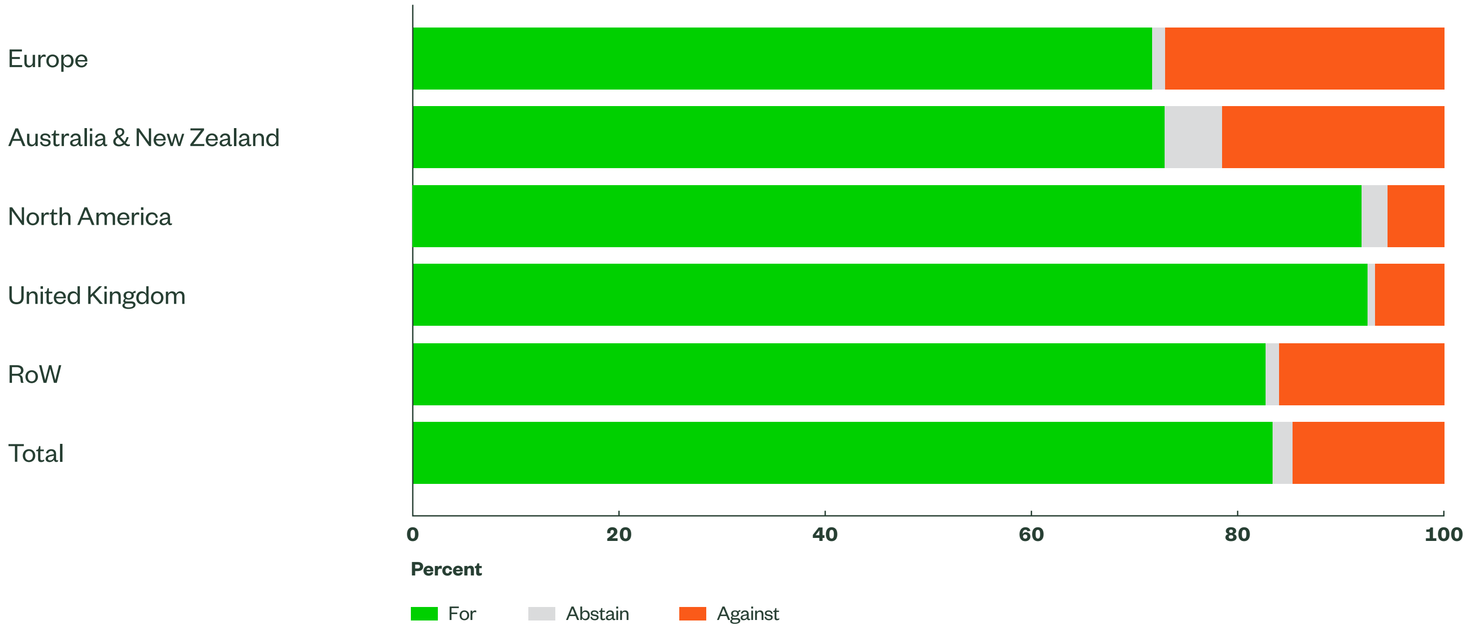
During the year, our votes against compensation proposals were mainly due to growing concerns about pay-for-performance misalignment, poor disclosure of pay structures, and increasing pay quantum in the prior year.

In contrast, our rationale for abstaining on pay-related proposals was the result of situations where we could not provide unqualified support or where companies had responded to some, but not all, of our concerns on pay.

As was the case in 2019, we continue to find that poor structure (43%) remains a key factor driving our voting rationale on pay proposals, as presented in Figure 4. We have found that, in terms of structure, incentive design is still in need of improvement and that there is not always a strong link between pay and business strategy.

Figure 5

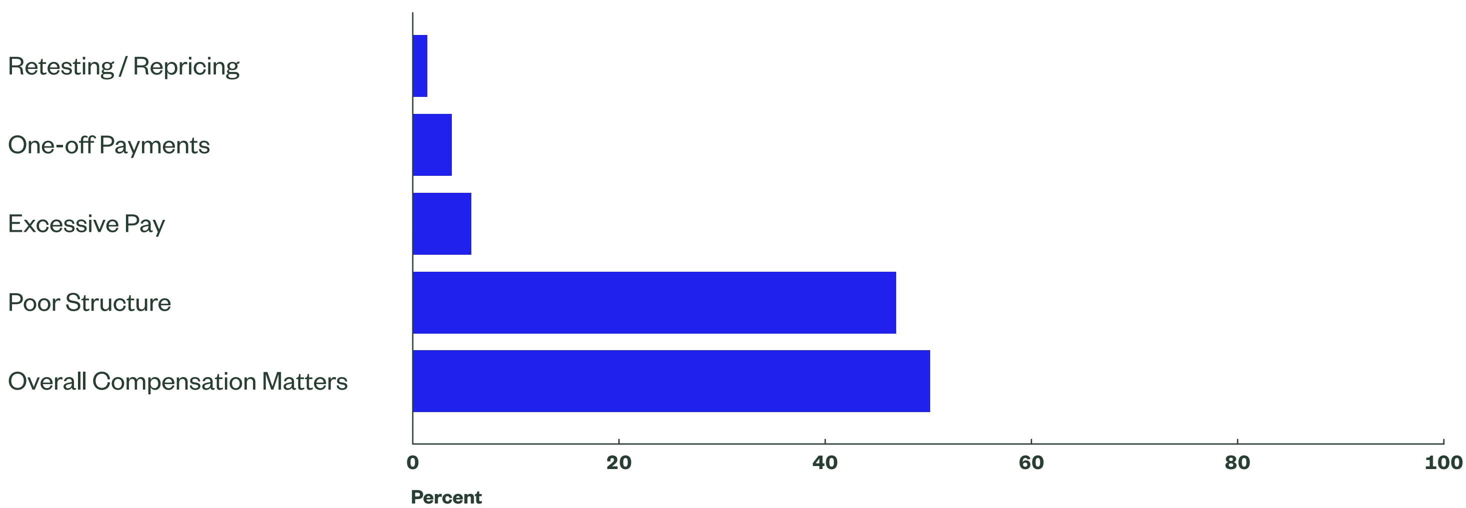
2020 Votes on Screened Pay Proposals



Source: State Street Global Advisors 2020 Stewardship Platform.

Figure 6

Top 5 Reasons Driving Our Voting Rationale on Pay Proposals



Source: State Street Global Advisors 2020 Stewardship Platform.

Examining Regional Differences in Our Voting on Pay Proposals

United States and United Kingdom
The higher level of 'for' votes in compensation proposals in the US and UK markets is rooted in the fact that companies within both markets have provided detailed disclosure of their compensation structures for many years.

Further, the consistency of reporting on pay in the US and UK markets has made it easier for investors to analyze and compare pay levels, and drive change in specific areas such as holding periods for long-term awards. Consequently, companies in the US and UK are much more aware of the specific pay practices that may concern investors and lead to a negative vote.

Europe
The high level of 'against' votes is a consequence of the lack of consistency and transparency in reporting on pay structures across European markets, and market variations in the ability of investors to approve remuneration structures/policy through an annual advisory or binding shareholder vote.

We expect companies to improve the level of disclosure and structure of their remuneration plans going forward because of the implementation of the European Union's Shareholder Rights Directive (SRD II), which came into effect for European member states in June 2019 and aims to create a consistent framework for remuneration disclosure by issuers. We also saw an increase by over 948 votes in Europe due to a significant increase in the number of proposals in all markets

Australia
We voted against proposals that had poor remuneration structures, inadequate disclosure, or a misalignment between pay and performance. We find that Australian remuneration plans are shifting more toward short-term priorities and away from long-term targets. While Australian companies have improved disclosure on the metrics used within their short-term incentive plans, we expect them to disclose their performance against such targets when making remuneration decisions.

Further, the benchmarking of total remuneration against much larger US companies without sufficient justification resulted in a ratcheting up of pay to senior executives in some companies. We have increased our engagement with Australian companies with a focus on ensuring compensation plans are linked to long-term performance and do not include aspirational peers.

Board Refreshment

Board refreshment is the mechanism through which companies can update board skills and seek director candidates with diverse backgrounds and skills to complement the expertise of serving directors. Since 2014, we have voted against 1,366 companies for board refreshment or tenure concerns.

Of the 313 companies we voted against in 2019, 96 fell off our screen in 2020, meaning that 31% of the companies we voted against in 2019 improved their board refreshment practices.

Incorporating R-Factor

Beginning in the 2020 proxy season, we started taking action against board members at companies in the S&P 500, FTSE 350, ASX 100, TOPIX 100, DAX 30 and CAC 40 indices that are laggards based on their R-Factor scores and that cannot articulate how they plan to improve their score. In the event that we feel a company is not committed to engaging with us or improving their disclosure or performance related to financially material ESG matters, we may not support the re-election of the board's independent leader. Ultimately, we took voting action against 14 companies in 2020. For further information, please see the R-Factor section (page 40).

Gender Diversity (Australia, Canada, Europe, Japan, United Kingdom, and United States)

Ultimately, we took voting action against 313 companies in 2020 for failing to demonstrate sufficient progress on board diversity. For further information, please see the Fearless Girl Campaign section (page 30).

Key Takeaways from 2020

Through voting and engagement with our investee companies we have found:

Covid-19's Impact on Pay

Executives are taking temporary pay cuts in light of Covid-19. Many CEOs and senior executives in the companies hardest hit by the pandemic have announced that they will voluntarily reduce their pay until Covid-19 has subsided. However, most companies refrained from fundamentally restructuring schemes as they are still actively trying to assess the impact of the pandemic.

Discretion will be a key consideration going forward. In light of the pandemic's impact on executives' annual and long-term incentives, many companies are considering using discretion to determine any awards to be earned for 2020.

In our view, compensation committees should be clear about the discretionary powers available to them. We expect committees using discretion to adjust payouts to ensure the outcomes will reflect company and executive performance and align with shareholders.

Increasing Complexity

We have observed annual plans becoming overly complex, using numerous metrics with differentiated weighting. Complex plans make it difficult for us to determine what the executive is being incentivized for, or how business results translate into awards. We encourage companies to simplify bonus plans and to ensure they have clear linkage to strategy.

Overreliance on Relative TSR

We have also observed relative total shareholder return (TSR) increasingly becoming the metric of choice for performance-based equity awards.

While relative TSR shows a company's commitment to creating long-term value for shareholders relative to competitors, it should not be used as the sole performance metric. Rather, we encourage companies to take a more holistic approach using a blend of relative TSR and long-term operational metrics that aligns with the company's strategy.

Performance-Based Equity Plans Continue to Increase in the US

There has been a further shift away from time-vested awards without performance conditions attached to performance-based equity in long-term incentive plans.

We view this as a positive trend that creates stronger alignment among executive rewards, company performance and shareholder value.

Proxy Voting and Engagement

Given the size of our assets under management, US$3.47 trillion,* the global scope of our investments, and the nature of our investment portfolios, our stewardship role in global capital markets extends beyond proxy voting and engagement with issuer companies.

It also includes promoting investor protection for minority shareholders through partnerships with local investors and regulators alongside working with investee companies to encourage adoption and disclosure of strong ESG practices.

* This figure includes approximately $75.17 billion of asset with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

Program Design and Objectives

As near-perpetual holders of the constituents of the world's primary indices, we take a value-based approach and use our voice and vote to influence companies on long-term governance and sustainability issues.

Our approach to stewardship focuses on making an impact. Accordingly, our stewardship program proactively identifies companies for engagement and voting in order to mitigate ESG risks in our portfolios.

Stewardship with an Impact

To measure and demonstrate impact, we monitor and follow up with companies that we previously engaged with and evaluate their responsiveness to our feedback. This requires a long-term, multi-year approach to stewardship. Additionally, in order to maximize our impact, we publish thought leadership that is intended to both inform companies and educate market participants.

We continue to invest in resourcing our stewardship activities. Over the years, we have increased the size of our Asset Stewardship Team, which reflects the growing importance of our stewardship program.

Effectively leveraging technology and using a robust prioritization approach (page 23) ensures that our Team is sized appropriately for the scope of our program. Our engagement activities encompassed companies representing more than 78% of our equity AUM in 2020. Last year, our Stewardship Team reviewed over 6,100 or 31% of 19,730 meetings voted using multiple proprietary ESG screens.

We will continue to evaluate our resource needs annually to ensure that we are sufficiently staffed and are optimally leveraging ESG information and technology to achieve our stewardship objectives.

Advanced New Platform and Technologies

In January 2020, in order to enhance our Asset Stewardship program, we launched a new web-based Stewardship Platform which centralizes engagement and voting data as well as analytical and reporting capabilities on a single platform. The platform has enabled us to enhance the operational capabilities of the Stewardship Team, better track the impact and outcome of our engagements, as well as improve the collaboration with active investment teams. In addition, State Street Global Advisors' R-Factor scores have been integrated into the platform to facilitate ESG evaluation and monitoring.

Starting in 2021 we will begin using a cloud-based corporate access platform that will allow us to enhance the process of scheduling and booking engagements with our investee companies.

State Street Global Advisors' Approach to Proxy Voting and Engagement

Who We Are	→	**Our Process**	→	**Value Creation**
Long-term shareholder with a global focus.		Value-driven philosophy implemented by a dedicated team of ESG analysts, using a risk-based screening approach.		Engagement and voting conducted to maximize impact and create sustainable value for clients.

Stewardship Program Philosophy and Objectives

Through our overarching stewardship philosophy of protecting and promoting the long-term economic value of client investments and in an effort to fully embrace our commitment to external initiatives such as the PRI (see page 23), our stewardship objectives are as follows:

Clearly communicate our commitment to responsible investing on behalf of our clients and report on the impact of our stewardship activities We aim to achieve this objective through honest evaluation, continuous enhancement and increased transparency in our stewardship practices.

Develop effective proxy voting and engagement guidelines that enhance and evolve ESG practices in the market We aim to achieve this objective by applying higher voting standards in markets where governance and sustainability practices are below global investors' expectations, and by clearly identifying engagement priorities that focus on sector, thematic and/or market-specific issues. We collaborate with other investors in markets where we believe collective action is needed.

Ensure that companies see us as a long-term partner as they navigate the evolution of ESG practices We aim to achieve this objective by screening our portfolio holdings on performance and ESG factors to prioritize our engagement efforts and by constructively engaging with senior management and board members to effect change in investee companies. In addition, we use thought leadership to inform and provide guidance to our investee companies on the development of ESG practices across our key markets.

Corporate Responsibility

We have robust policies on Corporate Responsibility and ESG, which strengthen our commitment. Our Corporate Responsibility Statement is available on our website.

As a responsible corporate citizen, we're focused on conducting business in a transparent, ethical manner. This includes working to maximize our global impact through charitable contributions, employee volunteering and more — while minimizing our global footprint.

From reducing carbon emissions, to prioritizing asset stewardship, to investing in human capital, we aim to create long-term value — for our clients, employees, shareholders and communities.

Our employee activities are detailed in our annual Corporate Responsibility Report available on our website.

Our Organization and Oversight Structure

All voting and engagement activities are centralized within our Stewardship Team, irrespective of investment strategy or geographic region. The Stewardship Team leverages the breadth of our investment capabilities to make informed decisions. Consolidating and harmonizing our voting decisions and engagement efforts in this way enables us to leverage the full power of our institutional discretionary holdings and exert greater influence with management and boards. By not limiting our Team's expertise to specific sectors or regions we are able to leverage our global perspective when developing insights and to share best practices across sectors and geographies.

Incorporating Full Range of Factors

In our voting and engagement activities, we evaluate the range of factors that play into the corporate governance framework of a country, including macroeconomic conditions, the political environment, the quality of regulatory oversight, enforcement of shareholder rights and the effectiveness of the judiciary. We complement our company-specific dialogue with targeted engagements with regulators and government agencies to address systemic industry concerns.

Oversight

The Stewardship Team's activities are directly overseen by the State Street Global Advisors Investment Committee (IC). The IC is responsible for approving our annual stewardship strategy, engagement priorities, and proxy voting guidelines in addition to monitoring the delivery of objectives. The Proxy Review Committee, a dedicated subcommittee of the IC, provides day-to-day oversight of the Stewardship Team, including approving departures from proxy voting guidelines and managing conflicts of interest.

R-Factor: A Transparent ESG Score to Build Sustainable Capital Markets

The R-Factor or the Responsibility-Factor Score measures the performance of a company's business operations and governance as it relates to financially material ESG challenges facing the company's industry.

It was designed to address market infrastructure challenges around ESG data quality and give companies a road map to implement and improve disclosure of financially material ESG data to all investors, thereby helping build more sustainable capital markets. (For more, see *The ESG Data Challenge.*)

The score draws on data from four ESG data providers, and leverages widely accepted, transparent materiality frameworks (Sustainability Accounting Standards Board and corporate governance codes) to generate a unique ESG score for listed companies.

In 2019, we began integrating R-Factor into our Asset Stewardship program. We began sharing companies' R-Factor scores with them, and using the scores as a screen for voting and engagement.

Since the score leverages transparent materiality frameworks, companies have the information needed to understand exactly what powers the score — and which financially material ESG issues to focus on in terms of management and disclosure.

Over time, this will bring better ESG data into the market, ultimately helping to build more sustainable companies and capital markets.

Beginning in the 2020 proxy season, we started taking action against board members at companies in the S&P 500, FTSE 350, ASX 100, TOPIX 100, DAX 30 and CAC 40 indices that are laggards based on their R-Factor scores and that cannot articulate how they plan to improve their score. In the event that we feel a company is not committed to engaging with us or improving its disclosure or performance related to financially material ESG matters, we may not support the re-election of the board's independent leader.

The R-Factor website provides more information on this exciting new capability. For further information, please see *R-Factor: Reinventing ESG Through a Transparent Scoring System.*

Senior Management Involvement

Ultimate responsibility for oversight of our ESG Investing and Asset Stewardship efforts sits with our CEO, Global CIO, and the Investment Committee. They work in collaboration with the Co-Heads of Asset Stewardship, Head of ESG Integration, Deputy-CIO, and our investment team CIOs to set the strategy, direction, and priorities for our responsible investing initiative.

Additional Support

The Stewardship Team works closely with our ESG research team to leverage R-Factor scores and other ESG data in our activities. The Team is also supported by several specialists within the firm when executing its stewardship responsibilities.

These specialists include members of our proxy operations team, who are responsible for managing fund setup, vote execution, vote reconciliation, share recall, and class action lawsuits, as well as members of our client reporting and compliance teams.

ESG & Stewardship Resources

Committed to full ESG integration into our investment processes, State Street Global Advisors has 20 members in the dedicated ESG and Asset Stewardship teams who devote 100% of their time to ESG or Asset Stewardship, as well as 18 ESG resources within individual investment, marketing and reporting teams who devote more than 30% of their time to ESG.

Our Stewardship Team of 11 professionals, based in Boston, Stamford, London, Krakow and Bangalore, boasts combined industry experience of over 100 years, with professional expertise in the fields of governance, corporate strategy, environmental management, social impact, labor rights and economics, developed in corporate, advisory and financial roles.

Extensive Training Programs

Our ESG and Asset Stewardship teams have given multiple series of ESG training courses to internal stakeholders across firm functions in global locations, such as portfolio management teams, sales teams, relationship management teams, portfolio strategy teams, and research teams. Training covers a variety of ESG topics and development such as voting policies and engagement, ESG investment strategies and products, ESG taxonomy, as well as ESG portfolio assessment on ESG score, climate and business involvement and controversy.

In addition to formal training, we have several processes and mechanisms to share ESG knowledge, insights, trends, and other information across the organization. For example, members of the ESG Investment Strategy, ESG Research, ESG Integration and Asset Stewardship teams regularly meet with internal colleagues to discuss industry trends, client needs, research priorities, ESG metrics and analytics, and new ESG strategies, among other topics.

Conflicts of Interest Policy

State Street Corporation has a comprehensive standalone Conflicts of Interest Policy that addresses a range of conflicts identified by our parent company. In addition, we maintain a conflicts register that identifies key conflicts and describes systems in place to mitigate the risks. We have also published a specific conflicts policy that provides guidance on managing conflicts that may arise through the firm's proxy voting activities.

Alignment with the Principles for Responsible Investment

As a signatory to the Principles for Responsible Investment (PRI), we have fully aligned our stewardship program with the PRI's Blueprint. This initiative, launched in 2016, defines the PRI's objectives for the following 10 years across a number of areas of impact.

We are particularly supportive of PRI's commitment to building sustainable markets by challenging barriers to a sustainable financial system and by driving meaningful data throughout markets. R-Factor, our ESG scoring system launched in 2019, is designed specifically to advance these goals.

State Street Global Advisors' 2020 (FY2019) Assessment, Principles for Responsible Investment

Reporting Module	Median	Score
Strategy & Governance	A	A+
Listed Equity Active Ownership	A	A+
Listed Equity Incorporation	B	A
Fixed Income Corporate Financial	B	B
Fixed Income Corporate Non-Financial	B	B
Fixed Income SSA	B	B
Fixed Income Securitized	B	E
Property	B	E
Infrastructure	A	E

NOTE: Signatories are provided a PRI Assessment Score of A+ through E on an annual basis. Such assessments are granted by the PRI based on six broad ranges to be assigned based on the score in a specific module. A module score of 95% or higher is A+, 76-94% is A, 41-75% B, 26-50% C, 1-25% D and 0% E.

Showcasing Responsible Investment Leadership

In October 2020, State Street Global Advisors was selected for the PRI Leaders' Group based on our disclosure, targets and transparency around climate-related reporting. The Leaders' Group showcases signatories considered to be at the cutting edge of responsible investment and highlight best practice in what they do. The PRI uses signatories' reporting responses and assessment data to identify those that are doing excellent work in responsible investment — across their organizations and with a focus on a given theme each year. Full details on the PRI Leaders' Group, including methodology, can be found here.

Additionally, we were pleased that both our overall firmwide activities, as well as our stewardship program specifically, continued to be rated A+ by the PRI in 2020, based on our activities in FY2019.

These are some of the highest possible ratings and represent our deep commitment to responsible investing.

Our Mission, Values and Beliefs

At State Street Global Advisors our mission is to invest responsibly to enable economic prosperity and social progress. As such, we are committed to responsible investing. We are driven by a desire to help our clients, and those who rely on them, achieve a better future.

Our ESG beliefs are central to this mission and encompass the following tenets:

1. Our stewardship role in global capital markets extends beyond proxy voting and engagement with issuer companies.
2. Our approach to stewardship is designed to have an impact through thought leadership, engagement, proxy voting and client disclosure.
3. Companies embracing ESG best practice have strong, effective independent boards and incorporate sustainability into their long-term strategy across these two issues.

It's critical for our success and employee experience that our values are integrated into our culture. We are steadfast in our commitment to a culture of risk excellence that mitigates potential risks that threaten our business. We put risk excellence at the heart of our business strategy, balancing the goal of long-term value creation with the protection of our economic, human and environmental capital.

The human capital aspect of our business, including how we engage with and support our employees, is material to our long-term success. Issues and initiatives related to our human capital are important both in our internal operations and in our external affiliations with companies in State Street Global Advisors' portfolio. Our employees help us create long-term value and constantly innovate better ways to provide services to our clients and engage with our stakeholders.

At State Street Global Advisors, we are driven by the belief that an inclusive culture and diverse workforce are essential to the long-term sustainability and success of our business.

We hold our employees and leadership accountable to standards of conduct that ensure our business is run in an ethical and responsible manner.

Our values

Our values define what we stand for and the behaviors we want to encourage in each other. They unite us as an organization and guide every decision we make.

What our values mean:

Global Force, Local Citizen We're a global company with a deep commitment to our individual markets, clients and communities.

Always Finding Better Ways We're committed to continuous improvement. Delivering value to clients, shareholders and communities. Developing our people. Operating efficiently and ethically.

ESG Investment Integration

We integrate material ESG factors and stewardship into our investment approach for all asset classes and regions that we invest in. Each asset class CIO oversees the implementation of ESG investment strategies by portfolio managers and research analysts.

Investment Integration

All our global investment teams manage ESG portfolios and conduct ongoing research on ESG data and themes, with ESG portfolios being managed within each investment team rather than by a dedicated team. This reflects the breadth and depth of investment capabilities we provide, while effective collaboration ensures client assets are managed by professionals with expertise in their asset class and investment style with support from subject-matter experts.

Our Investment Committee owns and is responsible for stewardship activities through its oversight of the Asset Stewardship Program. Members of our index and active investment teams provide opinions on voting and engagement matters and may engage alongside the Stewardship Team to help mitigate company-specific risks or to obtain more information about shareholder items that are to be voted on at upcoming shareholder meetings. We believe this transfer of knowledge internally enables us to better advise companies.

Equity Investments

For our index investment strategies, our global and regional chief investment officers represent our investment teams by participating in company engagements and meeting regulators alongside the Stewardship Team.

In addition, where appropriate, the Stewardship Team presents insights to our internal investment teams on ESG issues that are related to market policies and company-specific events.

Collaboration between the stewardship and investment teams is particularly important when considering corporate restructurings and mergers and acquisitions, which may have a significant impact on benchmark index composition and rebalancing.

The Stewardship Team also works closely with our active fundamental investment teams, collaborating on issuer engagements and sharing inputs and valuable insights on company-specific fundamentals. This facilitates an integrated approach toward investment research and engagement with company management and boards. Our active fundamental equity investment teams also provide recommendations for every resolution tabled for shareholder approval at companies within their investment universe.

These recommendations and insights allow the Stewardship Team to leverage the expertise of our active investment teams when determining voting decisions for our aggregated positions.

Fixed Income Stewardship

Without an annual vote, creditors have limited ability to engage with and influence management behavior. Their relationship with issuers is largely contractual. Consequently, debt issuers have typically focused their engagement efforts on matters that directly influence their returns, such as strategy, cashflow generation and utilization, and financial leverage. However, ESG risks can also impact returns on fixed income assets.[1] These risks need to be managed and addressed in asset managers' fixed income stewardship programs.

We formally integrated ESG stewardship into our fixed income investment process in 2015. Details of the program can be found on our website.

The two elements of our fixed income stewardship program are:

Proxy Voting
While matters that arise for voting at bondholder meetings vary by jurisdiction, examples of common proxy voting resolutions at bondholder meetings include:

- Approving amendments to debt covenants and/or terms of issuance.
- Authorizing procedural matters, such as filing of required documents/other formalities.
- Approving debt-restructuring plans.
- Abstaining from challenging the bankruptcy trustees.
- Authorizing repurchase of issued debt security.
- Approving the placement of unissued debt securities under the control of directors.
- Approving spin-off/absorption proposals.

Given the nature of the items that arise for voting at bondholder meetings, we take a case-by-case approach to voting on bondholder resolutions. Where necessary, we will engage with issuers on voting matters prior to arriving at voting decisions. All voting decisions will be made in the best interest of our clients.

In addition when evaluating a debt-issuance request, we adopt a nuanced market-based approach that takes into account the gearing ratio, capital intensity, cashflow and volatility of a company within a sector.

1 Corporate Bonds: Spotlight on ESG Risks, December 2013 and Sovereign Bonds: Spotlight on ESG Risks, September 2013 https://unpri.org/fixed-income/corporate-bonds-spotlight-on-esg-risks/41.article

Issuer Engagement
We recognize that debt holders have limited leverage with companies on a day-to-day basis. However, we believe that given the size of our holdings in corporate debt, we can meaningfully influence ESG practices of companies through issuer engagement. Our guidelines for engagement with fixed income issuers broadly follow the engagement guidelines for our equity holdings, as described earlier.

Green Bond Investments

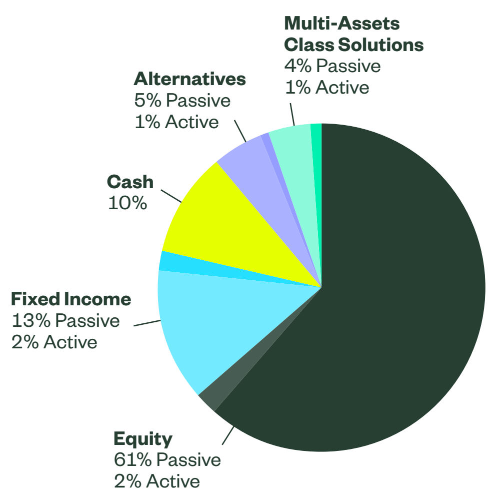
We have been an active investor in green bond issues globally since April 2015. In 2020, we published *Guidance on Enhancing Green Bond Participation.* This document aims to provide underwriters and impact bond issuers with an overview of our investment approach to green bonds.

We believe green bonds are one of the most effective financial vehicles available for companies and countries to finance their transition to more climate friendly and sustainable infrastructure needs. Such transition is necessary for companies to meet the goals and objectives of the Paris Agreement.

In 2020, we engaged with some of our investee companies to understand the details of their green bond allocation and strategy. For fixed income engagement case studies please see the Engagement Case Studies section (page 71).

Figure 7

$3.47 Trillion Assets Under Management* by Asset Class and Investment Approach



* This figure includes approximately $75.17 billion of asset with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

Applying R-Factor in Fixed Income

Fixed income stewardship requires good data on holdings in order to evaluate and engage on ESG practices. However, the biggest challenge is that most data providers capture information at the parent public company level, which is difficult to link to individual fixed income issuances.

To solve this problem, we undertook a project in 2018 to map equity ISINs to their fixed income counterparts so that our R-Factor score could be used across asset classes. This mapping will allow us to further integrate our fixed income holdings into our prioritization, engagement and other stewardship activities in the coming years.

Alternative Investment Strategies

Our Global Fiduciary Services (GFS) division engages with clients to fulfil their plan and investment mandates. Where ESG considerations are part of those objectives, GFS works as a fiduciary to integrate them into the client investment policy statement and govern the outcome in line with client priorities.

As part of investment diligence, GFS assesses the ESG policies and practices of our investment partners, leveraging industry standards and techniques to evaluate ESG data across asset classes to evaluate the material factors for the investment portfolios.

GFS portfolios may include long-only as well as a range of alternative investment strategies, including Private Equity, Hedge Funds and Real Estate. While GFS looks to harmonize across investment strategies, each asset class has idiosyncrasies that require a differentiated authentic expression of ESG integration. As industry standards and techniques to extract and evaluate ESG data continue to evolve, we will enhance our program and research methodologies accordingly.

As it relates to the different alternative investment strategies, we engage in ESG integration as a risk mitigation strategy that can also offer the potential for alpha generation. This includes assessing the ESG policies and practices of our partners, as well as evaluating the material ESG factors of portfolio companies and real estate assets when investing in direct deals and co-investments. The purpose of this analysis is to consider the ESG risks and opportunities of our investments, and align with individual investor policies and priorities.

Today, our active direct investment activity largely relates to Real Estate and Private Equity, where we underwrite and manage directly owned assets on behalf of our clients.

Direct Real Estate Investments

Our business strategy as it relates to Direct Real Estate is to acquire and manage a diverse portfolio of real estate properties that achieves client return objectives while minimizing risk.

In order to accomplish this objective we take a responsible investment approach that includes detailed due diligence. We typically focus on areas such as environmental condition, operating partner background checks and anti-money laundering policies, transit orientation, on-site and local area amenities, tenant interviews, fitness facilities and energy efficiency (such as LEED designation, EnergyStar score).

After investing in an asset we typically work with our partners and/or property managers to identify and implement renovation plans that both improves the quality of the asset and maximizes the return on investment.

Using the expertise of specialist environmental consultants, we evaluate the environmental risks associated with each property during our due diligence process and don't proceed with any acquisitions where we believe the potential risk of incurring a loss from contamination is too great.

We also evaluate opportunities to improve the sustainability profile of a property with our third-party property managers, including using green cleaning products, waste management/ recycling programs and completing renovations that reduce energy usage, and move forward with those programs if they are determined to also result in a positive economic benefit to the property.

Private Equity Investments

Our business strategy as it relates to direct Private Equity is to acquire a diverse portfolio of equity stakes that achieves client return objectives while controlling for risk. In order to accomplish this objective we take a responsible investment approach that includes detailed due diligence typically focusing on sub-sector specific, most relevant ESG considerations.

We have designed our pre- and post-investment ESG integration process to actively leverage industry best practices and guidance developed by the United Nations-supported PRI, SASB, and other relevant industry bodies.

Company Engagement

The success of our engagement strategy is built on our ability to prioritize and allocate resources to companies and issues that have the greatest potential impact on shareholder returns.

We endeavor to build geographic diversity into our engagement activities to reflect our economic exposure to global markets.

How We Engage

Our Stewardship Team has developed an Issuer Engagement Protocol and a framework to increase the transparency of our engagement philosophy, approach and processes. This protocol is designed to communicate the objectives of our engagement activities and to facilitate a better understanding of our preferred terms of engagement with our investee companies. A copy of the protocol can be found on our website.

We monitor the percentage of engagements with companies we previously identified as requiring proactive discussions and the percentage of unique engagements to ensure that our activity is aligned with the long-term, risk-based approach to stewardship that is fundamental to our program.

We actively seek direct dialogue with the board and management of companies that we have identified through our screening processes. In 2020, a board member was present for 32% of our 672 comprehensive engagements.

We regularly review our Issuer Engagement Protocol to ensure that our interactions with companies remain effective and meaningful. This includes reviewing indicators in our screening models and assessing emerging ESG issues and trends.

Engagements in 2020

79%

were with a unique company.

62%

were with companies that we had identified as requiring proactive discussions.

Engagement Topics

Through our engagement activities, we seek to encourage the building of transparent, accountable, high-performing boards and companies. We believe that regular and constructive communication with our investee companies allows us to engage in an honest dialogue with boards and management on a spectrum of topics, including:

Strategy	• Capital Allocation • Corporate Reporting • Long-Term Strategy • Risk Management
Environmental Issues	• Climate Change • Environmental Strategy and Management • Supply Chain Management
Social Issues	• Human Capital Management • Diversity • Health and Safety • Labor Standards and Human Rights
Governance Issues	• Board Accountability and Leadership • Board and Management Succession Planning • Board Composition and Effectiveness • Bribery and Corruption • Corporate Culture • Executive Compensation • Regulatory Compliance • Shareholder Rights

Prioritizing Engagements

We hold over 12,000 listed equities across our global portfolios. Therefore, the success of our engagement strategy is built on our ability to prioritize and allocate resources to focus on companies and issues that have the greatest potential impact on shareholder returns. To support this process, we have developed proprietary in-house screening tools to help identify companies for active engagement based on various financial and ESG indicators. The factors we consider in identifying target companies include:

- The size of absolute and relative holdings.
- The top holdings of our commingled/pooled funds.
- Systematic input from our active equity and fixed income investment teams.
- Companies with poor long-term financial performance within their sector.
- Companies identified as lagging market and industry standards on ESG matters.
- Outstanding concerns from prior engagement.
- Priority themes and sectors based on an assessment of emerging ESG risks.

Types of Engagement

Active

In 2020, 62% of our annual company engagements were classified as active. We use screening tools designed to capture a mix of company-specific data, including governance and sustainability profiles, to help us focus our engagement activity.

As noted earlier, we actively seek direct dialogue with the board and management of companies that we have identified through our screening processes. Such engagements may lead to further monitoring to understand and improve company practices. In these cases, the engagement process represents the most meaningful opportunity for us to protect long-term shareholder value from excessive risk due to poor governance and sustainability practices.

Reactive

In 2020, 38% of our annual company engagements were classified as reactive. Here, members of our Stewardship Team engage with companies that wish to solicit our votes or seek feedback on corporate governance and sustainability issues as shareholders, or on breaking news developments. These meetings are typically initiated by the companies, who drive the meeting agenda.

Measuring Engagement Success

Our stewardship activities are designed to impact company-specific and market-level ESG practices. Therefore, we define success as:

- A company implementing changes to its ESG-related programs, practices or processes consistent with our engagement or voting feedback;
- Several market participants, such as asset owners, asset managers, consultants or proxy advisory firms, being influenced by our thought leadership on thematic ESG issues; or
- Regulators responding to our concerns/collaborative initiatives.

Company-Specific Successes

Assessing the effectiveness of our company-specific engagement process is often difficult. To limit the subjectivity of measuring our success, we actively seek issuer feedback and monitor the actions taken by issuers post-engagement in order to identify tangible changes. This enables us to establish indicators to gauge how issuers respond to our concerns and to what degree these responses satisfy our requests.

It is also important to note that successful engagement activity can be measured over multiple years depending on the facts and circumstances involved. These engagements not only inform our voting decisions but also allow us to monitor improvement over time and to contribute to our evolving perspectives on priority areas.

We also track the impact of our proxy votes by reviewing changing trends in market practices on specific corporate governance or sustainability-related issues that we address through voting action. We report successful engagement and voting actions to clients on an annual basis. See page 72 for examples from this year.

Market-Level Successes

We track the broader adoption of the thematic ESG issues that we have been championing by assessing the number of market participants that have embraced positions consistent with our thought leadership. The following issues are examples of ESG topics where over the years we have published robust thought leadership that has influenced market participants:

- Diversity Strategy, Goals & Disclosure: Our Expectations for Public Companies
- Effective Independent Board Leadership (Global)
- Incorporating Sustainability into Long-Term Strategy (Global)
- Gender Diversity — Fearless Girl Campaign (Global)
- Climate-Related Disclosures in Oil and Gas, Mining, and Utilities
- Board Accountability in Europe: A Review of Director Election Practices Across the Region

Proxy Voting

In 2020, we voted at over 19,000 meetings. We prioritize company meetings for further review based on factors such as the size of our holdings, past engagement, corporate performance and voting items identified as areas of potential concern.

Proxy Voting Guidelines

We vote our proxies in accordance with voting guidelines approved by our Investment Committee. We publish both a set of global principles and six market-specific guidelines. We have also published Voting and Engagement Guidelines for Environmental and Social Issues, to offer further information to portfolio companies. All of these principles and guidelines are available for public review on our website.

Our voting guidelines have been designed to drive governance and sustainability practices at issuer companies toward global principles of good governance, while taking account of individual market nuances and standards. As such, in some instances, we may hold companies to standards that exceed local market practice. We do this out of recognition that different types of issues require different approaches.

Material environmental and social issues are industry specific but market agnostic. For example, climate change will affect companies regardless of where they are in the world, but its effects will be felt differently by a financial services firm than by a consumer goods company. In contrast, the business practices, governance structures, and market expectations of firms vary widely when it comes to different geographic regions, and we believe it important to hold companies to the corporate governance standards appropriate to their market.

These nuances are reflected in our proxy voting guidelines, as well as in R-Factor scores, which rely on different materiality frameworks to capture these different types of data.

We aim to vote at all shareholder meetings where our clients have given us the authority to vote their shares and it is feasible. However, when we deem appropriate, we could refrain from voting meetings in cases as listed below:

1. Where power of attorney documentation is required.
2. Voting will have a material impact on our ability to trade the security.
3. Voting is not permissible due to sanctions affecting a company or individual.
4. Issuer-specific special documentation is required or various market or issuer certifications are required.
5. We are unable to vote proxies when certain custodians, used by our clients, do not offer proxy voting in a jurisdiction or when they charge a meeting specific fee in excess of the typical custody service agreement.

In 2020 we voted at 99.4% of the meetings and 98.5% of the ballots where our clients had given us their authority to vote their shares.

State Street Global Advisors Engagement and Proxy Voting Prioritization Process

Engagement As an investor in more than 12,000 listed companies, prioritization is essential to effectiveness. Our active target list includes companies across seven main regions/markets (Australia, Canada, EM, EU, Japan, UK, US) of our stewardship activities

Factor How we prioritize	→	**Portfolio exposure** Absolute and relative holdings	→	**Proprietary ESG Screens** Negative screening on ESG factors	→	**Thematic and Sector Priorities** Stewardship plan

Proxy Voting Our universe comprises about 19,000 meetings per year, or about 180,000 ballot items. As such, prioritization of vote issues is an equally important aspect of our stewardship program. We review more than 6,000 meetings each year, or 30% of total meetings.

Focus Areas

1 Director Elections
2 Remuneration
3 Shareholder Proposals
4 Mergers and Acquisition
5 Capital Raising
6 Restructuring
7 Debt Policies
8 Related-Party Transactions

Process How we prioritize	→	**Alignment with Investment Strategy and Value Creation** Strong financial link to portfolio	→	**Proprietary ESG Screens** Negative screening on ESG factors	→	**Proxy Voting Priorities** Stewardship plan

Prioritizing Voting Issues

In 2020, we voted at over 19,000 meetings. We prioritize company meetings for further review based on factors such as the size of our holdings, past engagement, corporate performance, and voting items identified as areas of potential concern. Based on this assessment, we allocate appropriate time and resources to meetings and specific ballot items of interest, to maximize value for our clients.

All voting decisions are exercised in accordance with our in-house guidelines or specific client instructions.

Third-Party Service Providers

We use a variety of third-party service providers to support our stewardship activities. Data and analysis from service providers are used as inputs to help inform our position and assist with prioritization. However, all voting decisions and engagement activities are undertaken in accordance with our in-house policies and views, ensuring the interests of our clients remain the sole consideration when discharging our stewardship responsibilities.

We have contracted Institutional Shareholder Services (ISS) to assist us with managing the voting process at shareholder meetings. We use ISS to: (1) act as our proxy voting agent (providing State Street Global Advisors with vote execution and administration services), (2) assist in applying our voting guidelines, (3) provide research and analysis relating to general corporate governance issues and specific proxy items, and (4) provide proxy voting guidelines in limited circumstances.

In addition, we also have access to Glass Lewis and region-specific meeting analysis provided by the Institutional Voting Information Service.

Research and data provided by these third parties complement our in-house analysis of companies and individual ballot items. All final voting decisions are based on our proxy voting policies and in-house operational guidelines.

Stock-Lending Policy

From time to time, we may recall securities on loan (or restrict future lending) for proxy voting purposes if the result of a particular proxy voting ballot item is deemed to be significant enough to justify the loss of fees from lending for our clients. Further, for funds where we act as trustee, we may recall securities in instances where we believe that a particular vote will have a material impact on the fund(s).

Several factors shape this process. First, we must receive notice of the vote in sufficient time to recall the shares on or before the record date. In many cases, we do not receive timely notice, and are unable to recall the shares on or before the record date.

Second, we, exercising our discretion, may recall shares if we believe the benefit of voting shares will outweigh the foregone lending income. This determination requires that we, with the information available at the time, form judgments about events or outcomes that are difficult to quantify.

In addition to one-off situations, we generally recall securities on loan or restrict future lending of securities of large companies identified as ESG laggards using our proprietary R-Factor scoring methodology. For example, in 2020, recalls included an Australian software company and a British financial holding company that were identified as R-Factor laggards.

Core Campaign Focus

We continue to focus on **gender diversity** and on **climate risk and reporting** as our core, multi-year campaigns. Since starting to focus on these issues, we have observed substantial progress in both areas.

Fearless Girl Campaign
Positive Change Continues

Companies are continuing to respond to our call and adding women to the highest positions of their organizations.

With our Fearless Girl campaign playing no small part, today there is global focus on the value of diversity in the boardrooms.

Engagement Topics	Number of Engagements
Independent oversight of the board and its key committees	57
Board effectiveness, skills and experience	
Board refreshment and succession-planning processes	

Did you know that since the launch of the Fearless Girl campaign...

In the US,

62%

or 612 / 983
Russell 3000 companies we identified as not having a woman on their board added a female director.

In the UK,

83%

or 15 / 18
FTSE 350 companies we identified as not having a woman on their board added a female director.

In Canada,

45%

or 39 / 87
TSX companies we identified as not having a woman on their board added a female director.

In Europe,

71%

or 10 / 14
STOXX 600 ex-UK companies we identified as not having a woman on their board added a female director.

In Japan,

46%

or 140 / 302
TOPIX 500 companies we identified as not having as not having a woman on their board added a female director.

In Australia,

69%

or 44 / 64
companies we identified in the ASX 300 as not having a woman on their board added a female director.

In Hong Kong,

17%

or 2 / 12
companies we identified in the Hang Seng as not having a woman on their board added a female director.

In Singapore,

0%

or 0 / 6
companies we identified in the Straits Times as not having a woman on their board added a female director.

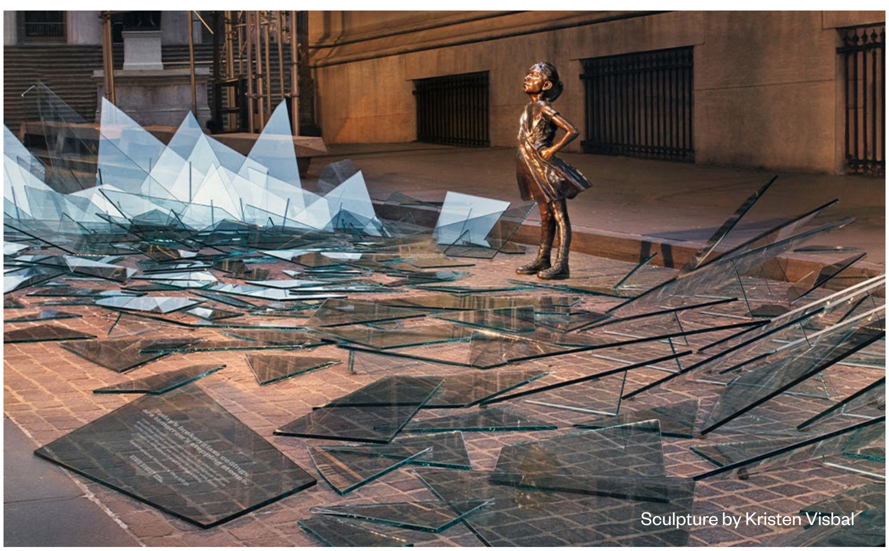
Our Campaign

On the eve of International Women's Day 2017, State Street Global Advisors placed a statue of a Fearless Girl in the heart of New York's Financial District, to raise awareness about the importance of gender diversity in corporate leadership and to call attention to our minimum expectation for companies to have at least one woman on their boards.

Today, there is a global focus on the value of diversity in the boardroom; this is a far cry from where we started out just over three years ago and this change has had a direct impact on the tone of our engagements. When we engage with companies that lack gender diversity, the conversation is no longer about 'why' we are engaging on this issue. Instead, the focus is on 'why not' enhance their board by embracing the value of diversity.

Fearless Girl Impact — Worldwide Numbers

Market	Number of companies identified (since March 2017)	Number of companies adding a female director	Number of companies where State Street Global Advisors voted against a director for lack of board diversity (March 2020–February 2021)
Global	1,486	862	313
Breakdown by Region			
Australia	64	44	9
Canada	87	39	27
Europe	14	10	1
Hong Kong	12	2	8
Japan	302	140	106
Singapore	6	0	4
UK	18	15	2
US	983	612	156



Sculpture by Kristen Visbal

Fearless Girl's Fourth Anniversary

On March 8, 2021, in celebration of International Women's Day and Fearless Girl's fourth anniversary, we launched an exciting activation at the statue in front of the New York Stock Exchange. The installation reflected a broken glass ceiling, representing the many glass ceilings that women have shattered, especially in the last year, both in and out of the boardroom. Because when one glass ceiling shatters, it shatters for us all.

Regional Focus: Our Engagement and Voting Action in 2020

North America

United States (Russell 3000) The campaign's momentum continued in the US in 2020, building on its positive impact from the previous years. Since the launch of our campaign, 612 of the Russell 3000 companies initially identified have added at least one female director to their boards. As of Q4 2020, 6% of Russell 3000 companies had all male boards, down from 24% at the start of our campaign.[2] We view these as proof points of gender diversity's status of a mainstream boardroom issue and the ongoing impact of our campaign.

Canada (TSX) In 2018, the first year of our Fearless Girl campaign in Canada, 37% of companies listed on the Toronto Stock Exchange (TSX) lacked gender diversity on their board.[3] We identified 73 companies in our investable universe without a female on their boards. Among these companies, 45% have added a female board member.

Europe and the Middle East

UK (FTSE 350) In the UK, we continued to monitor the few remaining companies in the FTSE 350 that were lacking in board gender diversity. Of the 18 companies identified, 83% (15 companies) have added a female director to the board since Fearless Girl's original placement.

Europe (STOXX 600 ex-UK) In 2018, we also expanded the Fearless Girl campaign to the STOXX 600 ex-UK. During the year, 10 companies added a woman to their boards.

Asia-Pacific

Japan (TOPIX 500) In 2018, we expanded our campaign to Japan, where 56% of TOPIX 500 (281 out of 500) listed companies had all-male boards as of December 2017.[4] Since then, despite the low levels of gender diversity, we saw significant progress in companies' willingness to appoint women to their boards.

We informed these companies of our expectations with regard to diversity. Consequently, 46%[5] or 140 of those companies have added a female director to their boards since the expansion of our campaign into Japan.[6]

During our engagements, many companies explained that they could not identify qualified, internal female candidates to appoint in the next three-to-five years. However, as part of our engagement we helped companies to establish a pathway to improve gender diversity levels within their organizations as this market was starting from a much lower base in terms of establishing a pipeline to improve gender diversity.

This pathway included establishing goals, improving hiring practices, and enhancing disclosure related to each company's position on gender diversity.

In 2020, we voted against directors at 106 companies of Japanese companies that were unresponsive to our engagement efforts.

Australia (ASX 300) Australian companies have continued to respond well to our call to action, with the percentage of companies within the ASX 300 without a female director decreasing from 17% to 6% over a four-year period.[7]

Hong Kong (Hang Seng) In early 2020, when we introduced our gender diversity policy in Hong Kong, 22% of companies (11 issuers) within the Hang Seng index lacked a female director. In the course of 2020, 2 companies added a woman to their board.

Singapore (Straits Times) We started to apply our gender diversity policy to the companies within Singapore's Straits Times index in 2020, when 23% of the companies (six issuers) did not have a woman on their board. By the end of 2020, none of 6 companies responded to our call. We will continue holding these companies accountable.

2 2016 figures: Board profiling universe includes 2,743 companies listed on the Russell 3000. Source: ISS Analytics as of November 2016. Q4 2020 figures: https://www.equilar.com/reports/78-q4-2020-equilar-gender-diversity-index.html

3 Institutional Shareholder Services (ISS) Analytics as of December 2017

4 Institutional Shareholder Services (ISS) Analytics as of December 2017

5 302 TOPIX 500 listed companies have been identified through the campaign through December 2020

6 Institutional Shareholder Services (ISS) Analytics as of February 2021 and State Street Global Advisors Database

7 ISS Analytics as of March 2020 and State Street Global Advisors Database

Climate Risk and Reporting

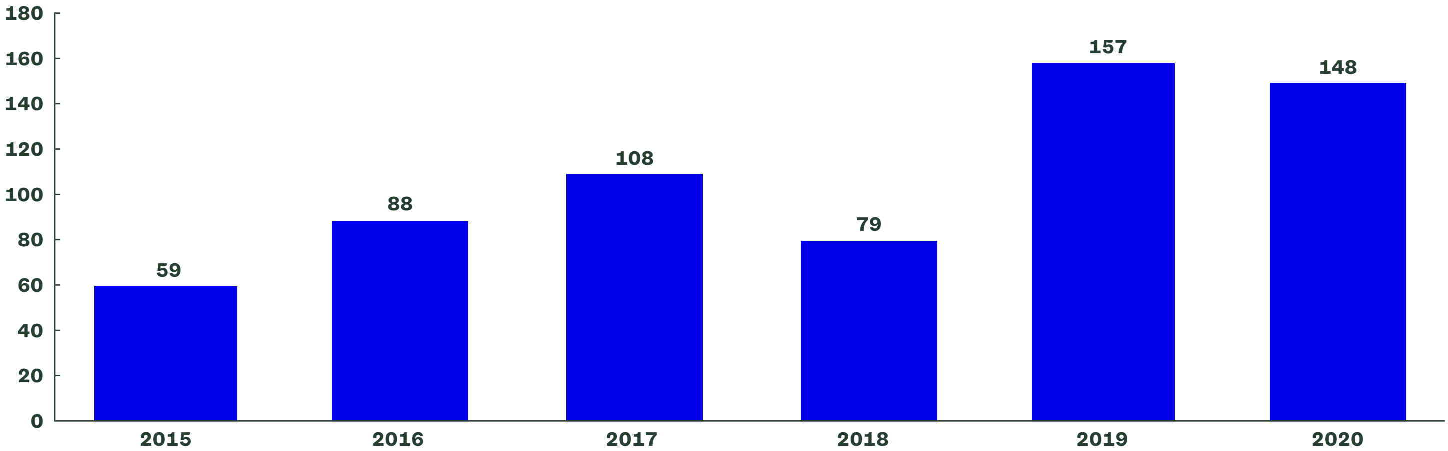
In 2020, we elevated our focus on climate risk. In our engagements with investee companies we found that progress is being made but not at a pace that is commensurate with the risk.

We enhanced our reporting by launching our new Annual Climate Stewardship Review and web hub dedicated to climate stewardship. During the year we became a signatory to Climate Action 100+ and continued our extensive climate-risk engagement program.

Engagement Topics	Number of Engagements
Climate-Change Strategy	148
Board Governance and Oversight of Climate Change-Related Risks	
Quality of Climate-Related Reporting and Discussion	
Emissions Management Strategies	
Investment in Technology	
Public Policy Engagement	
Climate Risk Disclosure	
Climate-Related Lobbying Activities	

Figure 8

Number of Annual Climate Engagements



Source: State Street Global Advisors. As of 31 December 2020.

Engagement Statistics

During the year we engaged with 148 companies across multiple industries to understand their approaches to mitigating and managing the physical and transitional impacts of climate change.

We have been engaging with companies on climate change-related matters since 2014. In that time, we have had over 630 climate-related engagements across a range of industries and markets.

More Board Fluency Needed

In our engagements we found that while progress is being made to manage climate risk, it is not happening at a pace commensurate with the challenge. We believe more fluency is needed on boards in order to adequately manage climate risks and opportunities.

Our Continued Focus

Climate change will remain a core campaign until we are confident that portfolio companies are effectively addressing this issue. In 2021, we will focus on specific companies especially vulnerable to the transition risks of climate change. Furthermore, we will continue our ongoing engagement with companies in other sectors that, while not carbon intensive, also face risks such as the physical impact of climate change.

We believe that the Covid-19 crisis accelerates the need for transformative change to address climate change. It shows the importance of being prepared and the huge cost of slow action.

New Reporting and Climate Stewardship Hub

In 2020, we launched our Annual Climate Stewardship Review which will be a part of our regular reporting cycle, and will provide context around our climate-stewardship approach, share insights into our climate-focused engagements and identify emerging climate-related trends.

We have also launched a dedicated climate stewardship webpage that provides the most up-to-date information on our climate-related thought leadership, and views.

Climate 100+ Initiative

We also became a signatory to Climate Action 100+ and look forward to sharing our experience and insights on climate stewardship with other members.

Overview of Climate Proposal Voting

On the voting front, there was a significant increase in the number of climate-related shareholder proposals submitted at our investee companies during 2020 (58 in total in 2020, compared to 47 in 2019). A breakdown of our votes per category of climate-related shareholder proposals is provided in Figure 9.

In line with our views on climate-related disclosure set out above, in 2020 we supported 50% of shareholder proposals requesting that companies report on the financial and physical risks of climate change to their business and their plans to reduce greenhouse gas emissions. We also supported 66% of the climate-related lobbying proposals, which are described in the next section of this report.

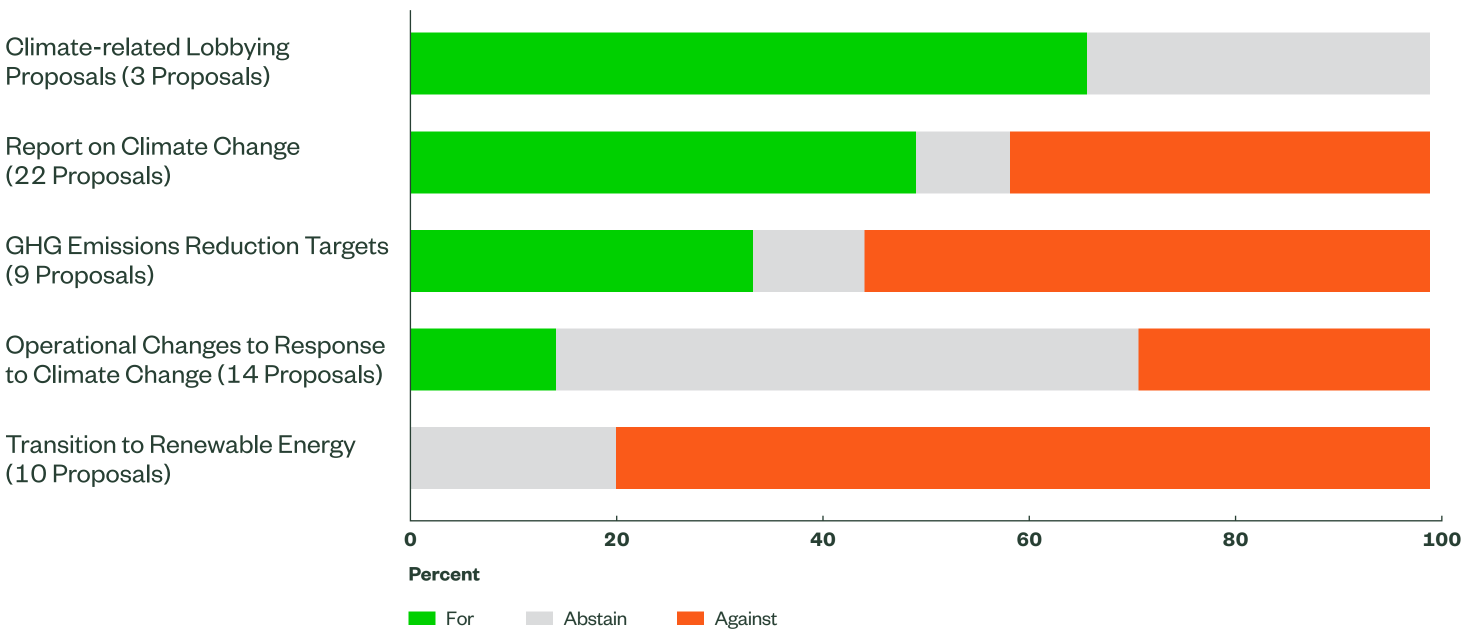
We found that most of the companies targeted with proposals to establish greenhouse gas (GHG) reduction targets already had ambitious GHG reductions goals, which explains the decrease in our support for such proposals — from 45% in 2018 and 20% in 2019 to 33% in 2020.

As Figure 9 illustrates, we were not generally supportive of resolutions that require companies to make specific operational changes such as a transition to renewable energy within a defined timeframe or a phase out of a project, business or product. We found the actions requested by many of these shareholder proposals to be overly prescriptive.

While we give investee companies discretion to decide what climate-related goals are appropriate for them, we will continue to monitor the rigor of such goals and engage with them to ensure that climate is meaningfully integrated into their long-term strategy.

Figure 9

2020 Support on Climate Proposals



Source: State Street Global Advisors. As of 31 December 2020.

High-Impact Sectors: Companies Respond to Our Call for Climate Risk Disclosure

In recent years, the number of companies receiving shareholder proposals that require them to 'Assess Portfolio Impacts of Policies to Meet *2-Degree* Scenario' has been in steady decline. Such proposals ask companies in high-impact sectors to report to investors on how a transition to a low-carbon economy could impact their strategy, business and assets. The 2020 proxy season was the first time in five years that there were no *2-Degree* scenario proposals submitted to our investee companies, dropping from a high of 15 in 2017.

State Street Global Advisors was one of the first large institutional investors to support such proposals in 2016. Since then, we have been actively voting and engaging to improve climate disclosure with our issuers across all industries, including the oil and gas, mining and utilities sectors, which are typically targeted by *2-Degree* proposals.

As a result of voting action, engagement and thought leadership from long-term investors, including State Street Global Advisors, climate risk disclosure under the *2-Degree* scenario has become standard market practice and therefore the need for *2-Degree* shareholder resolutions at companies has diminished.

Following the 2019 proxy season, we explored how such disclosures have evolved over time and what still needs to be improved. Our findings are outlined in our publication Climate-Related Disclosures in Oil and Gas, Mining, and Utilities: The Current State and Opportunities for Improvement.

United States: The Emergence of Climate-related Lobbying Proposals

As highlighted in our Q3 2019 Stewardship Activity Report, we 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 of such organizations.

We believe that a conflict in a company's climate positions and the activities of its trade associations creates potential financial and reputational risks. We find that trade association disclosure is generally poor in the US and that few, if any, companies in this market currently disclose if they are performing a gap analysis of their stated positions on climate change and that of their trade associations.

As we expected, during the 2020 proxy season we saw these climate-related lobbying proposals go to vote in the US for the first time.

Figure 10

Three Companies that Received Climate-Related Lobbying Proposals and Our Final Voting Decisions

Company	SSGA Vote on Climate-Related Lobbying Shareholder Proposal	Overall Shareholder Support for Proposal
Chevron Corporation	Abstain	54%
Delta Air Lines, Inc.	For	46%
United Airlines Holdings, Inc.	For	31%

We supported the climate-related lobbying proposals submitted at **Delta Air Lines, Inc.** and **United Airlines Holdings, Inc.** as we believe that additional reporting on lobbying-related practices and policies would help us better understand the relevant risks.

In contrast, **Chevron Corporation** provides superior disclosure on its trade group, not only compared to its oil and gas peers, but also relative to the broader US market. However, the company lacks a gap analysis on its stated position on climate and that of its trade association. Therefore, we abstained on the climate-related lobbying proposal submitted at the company's 2020 AGM.

Europe: Oil and Gas Majors Commit to Reach Net Zero Emissions by 2050

The first few months of 2020 saw an unprecedented wave of large European oil and gas companies voluntarily setting ambitious carbon neutrality goals; in contrast, their US peers have yet to make such commitments.

In December 2019, Spain-based **Repsol SA** became the first oil company to commit to becoming globally carbon neutral by 2050. Repsol not only pledged to achieve carbon neutrality on operational emissions (Scope 1 and 2) but also on indirect emissions that occur in the value chain from the use of its products (Scope 3). Following this announcement, other European oil and gas majors soon followed suit, pledging to reach net zero emissions by 2050. They included **Equinor ASA, Royal Dutch Shell plc, BP plc, Total SE** and **Lundin Energy AB** (by 2030). Most of these companies included Scope 3 emissions in their carbon neutrality ambitions.

We believe that such efforts are a fundamental component of moving toward a low-carbon economy and, through engagement, we aim to encourage other companies in the oil and gas sector to join this commitment.

However, while we welcome and applaud companies that voluntarily set and disclose Scope 3 emission targets, we recognize that this is still an evolving practice. During our engagements many oil and gas companies stated that the lack of direct control and difficulty collecting high-quality data can create challenges to setting and disclosing Scope 3 emissions targets.

For example, each of the European integrated oil and gas companies that have set a Scope 3 emissions target has developed its own metric, making it difficult for investors to draw comparisons and for the companies to benchmark against their peers. We aim to continue engaging with our investee companies on this topic in order to better understand how they are navigating these challenges.

Climate-Related Proposals at Financial Institutions

In the last few years the majority of climate-related shareholder resolutions were aimed at energy companies that are directly responsible for emissions themselves. In the 2020 proxy season we saw the emergence of a new trend of climate-related shareholder resolutions targeting financial institutions. These climate-related shareholder proposals were not concentrated in a single region, but rather were spread out globally. This was partly due to the proponents of the proposals leveraging an analysis of the largest fossil fuel financers from the *Banking on Climate Change Report* first published by the Rainforest Action Network in 2018 and updated in 2020.

Figure 11

Three Financial Institutions That Received Climate-Related Lobbying Proposals

Company	Country	SSGA Vote on Climate-Related Shareholder Proposal	Shareholder Support for Proposal
JPMorgan Chase & Co	USA	For	49%
Mizuho Financial	Japan	For	35%
Barclays plc	UK	Abstain	24%

When analyzing the proposals above, we considered how these companies were managing climate-related risks. Specifically, we considered decision making regarding financing of fossil fuel activities, as well as commitments the companies had made to address the issue of climate change.

At **JPMorgan Chase & Co** we supported a shareholder proposal requesting the company to report on if and how it plans to reduce GHG emissions associated with its lending activities in alignment with the Paris Agreement. As long-term investors we would welcome additional information on the company's strategy for reducing climate-related risks and its plans to align its operational, as well as financed, GHG emissions with the Paris Agreement goals. While the resolution was defeated at the company's AGM in May, it received the support of 49% of votes cast.

Mizuho Financial Group received a similar shareholder proposal asking the company to disclose a plan outlining their business strategy to align investments with the goals of Paris Agreement. While **Mizuho Financial Group** has committed to the Paris Agreement, it has not provided any disclosure around its strategy or targets for accomplishing these goals. As a result, we supported this shareholder resolution.

Barclays plc also received a climate-related shareholder resolution that sought to direct the company to phase out of the provision of financial services to companies within the energy and utilities sectors that are not aligned with the Paris Agreement. Our decision to abstain on this resolution is described in detail in the Engagement Case Studies (page 71).

Integrating R-Factor into Vote Decisions

In 2019, we created an engagement and voting screen that leverages R-Factor, our proprietary scoring system. R-Factor measures the performance of a company's business operations and governance as it relates to financially material and industry-specific ESG risk factors, as defined by the Sustainability Accounting Standards Board (SASB).

Beginning in the 2020 proxy season, we started taking action against board members at companies in the S&P 500, FTSE 350, ASX 100, TOPIX 100, DAX 30 and CAC 40 indices that are laggards based on their R-Factor scores and that cannot articulate how they plan to improve their score.

Engagement Topics	Number of Engagements
R-Factor Scores SASB Materiality Map	851

Integrating R-Factor Scoring System into Our Asset Stewardship Program

Drawing on data from four leading providers and leveraging the Sustainability Accounting Standards Board (SASB) transparent materiality framework, R-Factor generates unique ESG scores for more than 7,300 listed companies globally and allows us to evaluate a company's performance against both regional and global industry peers.

Consequently, in 2019, we began integrating R-Factor into our Asset Stewardship program. We have begun sharing companies' R-Factor scores with them and guiding companies towards resources on how to improve their ESG practices and ultimately their score. Because the score leverages transparent materiality frameworks, companies have the information needed to understand exactly what powers the score — and which financially material ESG issues to focus on in terms of management and disclosure. Over time, this will bring better ESG data into the market — helping to build more sustainable companies and capital markets.

Employees affiliated with a company's investor relations, chief financial officer, ESG/sustainability leadership or general secretary's organizations may request their R-Factor score here.

A Positive Framework for Progress

We continue to find that companies we engage with find the transparent nature of the SASB framework as positive, and are open to further exploring the integration of SASB into their reporting efforts. Our company engagements continue to be enhanced by the use of our R-Factor score to demonstrate how investors are using the SASB framework to measure the performance of a company's business operations and governance as it relates to financially material ESG challenges facing the company's industry. The R-Factor score provided companies with tangible feedback on how well they were meeting our need for material ESG information, and the SASB framework creates clarity on what that information is.

Screening Engagements and Proxy Voting

We have long believed that ESG issues can pose long-term risks and opportunities to portfolio companies and should be managed as such, including through oversight by a company's board of directors. Reflecting that belief, in our January 2020 CEO letter to portfolio companies, we outlined a new engagement and voting policy which went into effect in 2020.

As part of this process we created an engagement and voting screen that leverages R-Factor, our proprietary R-Factor scoring system. Beginning in the 2020 proxy season, we started taking action against board members at companies in the S&P 500, FTSE 350, ASX 100, TOPIX 100, DAX 30 and CAC 40 indices that are laggards based on their R-Factor scores and that cannot articulate how they plan to improve their score. In the event that we feel a company is not committed to engaging with us or improving their disclosure or performance related to financially material ESG matters, we may not support the re-election of the board's independent leader.

In addition, starting in 2022, we will expand our screen to include those companies that have been consistently underperforming their peers on their R-Factor scores for multiple years, and may take voting action unless we see meaningful change.

Further, our commitment to enhancing ESG disclosure and transparency was restated within our January 2021 CEO proxy letter.

As of 31 December 2020, 698 companies requested their R-Factor score and this represents 44% of our equity AUM. Of these 70% came from companies based in the United States and 7% from UK-based companies.

During 2020 we voted against directors in 14 companies that were identified as R-Factor Laggards. Of these, seven companies (50%) were in the United States, five companies (36%) were in the United Kingdom, and two (14%) were in Australia.

Figure 12

How Are R-Factor Scores Created?

	Data Characteristics	Materiality Frameworks Leveraged	Data Source	Weighting
ESG Score	Industry Specific Market Agnostic	Sustainability Accounting Standards Board (SASB)	Sustainalytics Vigeo-Eiris ISS-ESG* (*formerly known as Oekom Research)	90% of overall score
+ CorpGov Score	Industry Agnostic Market Specific	17 market-specific corporate governance codes, developed by regulators or investors	ISS-Governance	10% of overall score
= R-Factor Score	4 Data Providers	Transparent, commonly accepted materiality frameworks		100%

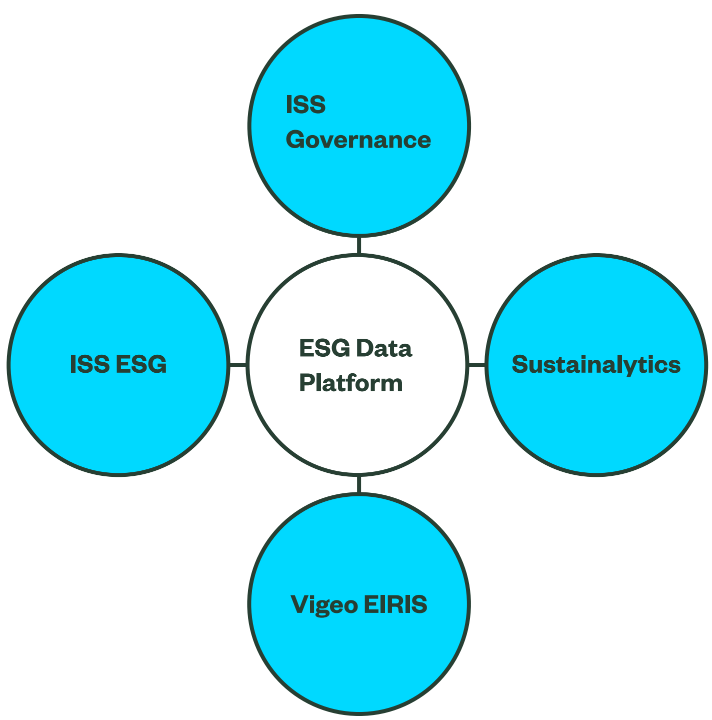
Weighting Rationale: Why 90+10?

R-Factor scores are designed to create change in companies' ESG and sustainability practices. While the SASB framework considers governance and oversight of sustainability issues such as regulatory compliance, risk management, and anti-competitive behavior, it does not consider traditional corporate governance factors (such as board independence, shareholder rights, executive compensation).

R-Factor incorporates a CorpGov element in addition to the ESG Score. to make it a more comprehensive measure

Figure 13

Multiple Best-in-Class Data Sources



R-Factor CorpGov Score Screens

In 2020, our team implemented a proactive screen to identify portfolio companies in our key markets that do not comply with their country-specific governance codes. The screen's methodology centers around the R-Factor Corporate Governance score component (CorpGov), leveraging our proprietary framework to develop insights and drive our engagements with companies identified as laggards based on their low-ranking scores relative to their domestic and global peers. *Laggard* companies score in the bottom 10% relative to their local peers, and belong to one of the major indices where we applied the screen.

Since most governance codes are implemented on a comply-or-explain basis, we engaged with these companies to understand their reasons for the laggard score status. In the event companies were unable to provide effective explanations for their noncompliance or have not made evident progress to improve their practices, we held them accountable by taking voting action against the independent leader of the board standing for election.

Our team also targets engagements with corporate governance *Leaders* (top 10% of scores) to understand best practices in their respective region, and include these practices in our guidance to the broader market.

Guidance for Boards

In our view, boards that are responsive to our engagements on improving their governance to meet minimum market expectations are likely to face less investor scrutiny of their governance practices and structure.

We believe that boards should evaluate their compliance with the national governance codes that have been developed by either regulators or investors, so they can better communicate their approach to governance in the context of investor expectations.

In markets where no country-specific code exists, boards should ensure their practices are aligned with the International Corporate Governance Network's Global Governance Principles.

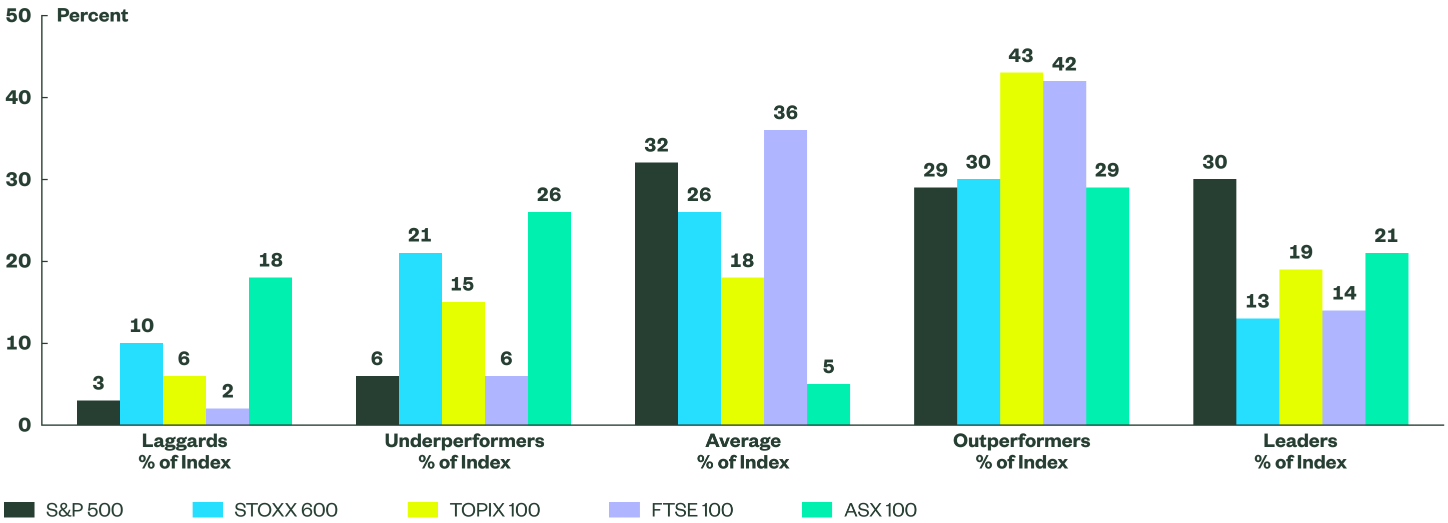
Figure 14

SSGA Voting on Laggard Companies

Index	R-Factor CorpGov Company Laggards	Companies SSGA Voted Against in Consequence	Companies that improved their governance practices or provided sufficient rationale or had no director standing for election
S&P 500	17	16	1
STOXX 600	61	36	25
TOPIX 100	6	5	1
FTSE 100	2	2	—
ASX 100	18	11	7

Figure 15

Regional Differences in Compliance with Corporate Governance Standards



Source: State Street Global Advisors, as at 31 December 2020.

United States, United Kingdom and Japan

We found some variance in the quality of disclosure and performance of companies in the different markets (Figure 15). US companies (S&P 500) on an overall basis profiled better on R-Factor CorpGov scores than their counterparts in other markets, with 30% of the index identified as global Leaders and 29% of companies identified as Outperformers.

In the UK (FTSE 100) and Japan (TOPIX 100) a majority of companies were Leaders and Outperformers. Only a small number of companies were classified as Laggards in the UK (2%) and the US (3%), while Japan exhibited higher levels of Laggards at 6%.

Generally, the R-Factor CorpGov scores indicate that these markets have generally been responsive to calls to action from international investors and domestic regulatory bodies to enhance governance practices on core areas relative to their own national standards in topics including board independence, shareholder rights and executive compensation.

Australia

Australia (ASX 100) exhibited the highest levels of companies classified as corporate governance Laggards (18%). From our observations, one driver of this trend is a lower level of board independence on key committees relative to other core markets. Additionally, some Australian companies lag behind their global peers on executive compensation, due to poor remuneration structures and inadequate disclosure or misalignment between pay and performance. In our future Australian engagements, we will continue to focus on encouraging greater board independence on key committees, ensuring compensation plans are linked to long-term performance and that these plans are benchmarked appropriately.

Europe

Europe (STOXX 600) exhibited lower levels of Leaders and Outperformers combined when compared to the other key markets and the second highest levels of Laggards and Underperformers after Australia. Companies in the region are continuing to work on their compliance with progressive regulation, including the European Union's Shareholder Rights Directive. We will continue to engage with companies classified as Laggards and Underperformers to understand their performance and discuss our expectations.

Sector and Thematic Focus

A significant challenge for asset managers with index strategies invested in thousands of listed companies globally is to provide active oversight of their holdings. As noted, our stewardship program identifies a series of strategic priorities designed to enhance the quality and define the scope of our stewardship activities for the year. Identifying these priorities enables us to plan and actively focus our engagement efforts on thematic ESG and sector-specific issues that are important to our clients.

We develop our priorities based on several factors, including client feedback received in the past year, emerging ESG trends, developing macroeconomic conditions, and the regulatory environment.

Sector Focus

We identify two or three 'deep dive' sectors each year. This allows us to proactively monitor and engage with companies on matters such as long-term strategy and performance.

Selecting Our Sector Focus

We regularly review our holdings within sectors to identify the business and ESG trends that are impacting them.

Doing so strengthens our ability to provide input to boards and management when they seek feedback or guidance from us. We select our focus sectors based on a variety of factors, including:

- **Emerging Systemic Challenges** We focus on sectors that are meaningfully impacted by wider systemic challenges we observe in the market.
- **Time Since Previous Focus** We revisit previously focused sectors when sufficient time has passed for progress to have been made or where the sector faces new challenges or opportunities.
- **Alignment to Our Thematic Priorities** We select sectors that are relevant to our thematic ESG focus.
- **Client Input** received in the past year.
- **ESG Insights** derived from our R-Factor scores.

On the following pages we detail our insights and views on the long-term challenges and opportunities for three of this year's key focus sectors: Information Technology, Consumer Staples and Transport.

Information Technology

The global pandemic had a positive financial impact on the technology sector. As people around the world were forced to move their lives online, information technology (IT) companies provided the tools and infrastructure that made this shift possible, increasing revenues and valuations.

Despite the financial tailwinds afforded to the sector by the pandemic, however, technology companies also faced increased scrutiny from stakeholders over the past year.

Engagement Topics	Number of Engagements
Corporate Strategy	92
Human Capital Management	
Racial Diversity	
Content Risk Strategy	
Regulatory Risk	
Climate Risk	

Our Views

Shareholders, employees, regulators, and consumers pressured IT firms to enhance their competitive and ethical business practices, among other ESG issues. The heightened attention from the public reinforced the need to effectively manage reputational, regulatory, and legal risks. Without effective ESG risk management and oversight, a firm might alienate consumers or legislators, potentially leading to boycotts, regulations, or lawsuits that could destroy value for investors.

This context informed our engagements with IT companies, as we sought to understand how they are responding to regulatory concerns related to data collection, disinformation, and anti-competitive behavior, as well as how they are addressing other ESG issues such as human capital management, diversity & inclusion, content risk management, corporate culture, governance structures, and pay equity.

Managing ESG Risks Across Businesses

Many technology companies have grown in size and scope, transcending the boundaries of traditional industry categorization. Some companies engage in a variety of businesses from retail to food delivery to transportation, for example, all of which have different financially-material ESG risks according to the SASB.

We expect these companies to implement an overarching approach to ESG risk management that takes into account the unique challenges of managing and overseeing ESG issues at a large, diversified organization. For instance, the **Microsoft** corporate social responsibility (CSR) website outlines the most material ESG risks to the company as well as the governance structures that support its risk management and oversight efforts.

ESG Risks as Opportunities

This year's engagements have demonstrated that effective ESG risk management can also create business opportunities. For example, we learned how **Salesforce** is using its Clean Cloud product as a differentiator in the competitive cloud computing market. The company also shared how it turned its internal process for tracking its emissions into the Salesforce Sustainability Cloud product that is available to clients.

Amidst increasing scrutiny regarding the tech sector's use of consumer data, companies might also find opportunities to create value by prioritizing the privacy, security and ethical use of their growing troves of data. We will continue to discuss ESG opportunities with companies in this sector.

Focus on Employees

An IT company's biggest asset is the intellectual capital created by its employees. Given this dynamic, it is imperative that technology firms focus on building diverse and engaged workforces. Many IT companies have long recognized the importance of supporting their employees, a perspective which helped them navigate the challenges of the global pandemic and the national conversation on race.

Over the past decade, the industry has been a leader in disclosing workforce demographics and addressing systemic racism. The sector's progress in this area has been driven by pressure from engaged employees, and bolstered by the fact that employee engagement and diversity are considered financially-material ESG risks according to SASB. **Intel** is an example of a company that is aligned with all of our racial diversity disclosure expectations — it clearly communicates its strategy for improving diversity and inclusion within the firm, and also shares the racial composition of its board and workforce.

In the context of the pandemic, technology companies were nimble in moving the majority of their employees offsite. The industry also leads the way in inventing the future of office work, with many companies focused on making remote work a permanent option, a notable departure from the longstanding focus on campuses. Our team will continue to monitor the industry's progress on rebasing compensation and effectively managing workforce diversity, among other human capital-related risks.

Long-Term Challenges and Opportunities

Regulatory Risk

As described above, the technology sector faced increasing regulatory scrutiny and action this year. In Europe, antitrust agencies have actively pursued the question of whether *Big Tech* is too big. In the US, the CEOs of major tech companies have become regular attendees at congressional hearings, and government officials have pursued legal action against IT firms.

In China, there are outstanding questions regarding the role of the Chinese Communist Party as companies grow larger, threatening the tech sector's social license to operate.

Our engagements with technology companies have focused on the importance of effectively managing these regulatory and legal risks.

Consumer Staples

The consumer staples sector — often viewed as less volatile than the broader market due to sustained demand for its products — is undergoing a massive transformation. This is primarily due to shifting consumer preferences and purchasing behaviors that were transforming prior to, and accelerated during, the Covid-19 pandemic.

In 2020, we engaged with consumer staples companies to discuss long-term strategy and material ESG issues such as changing consumer preferences, the lifecycle of plastic materials, supply chain management and human capital management.

Engagement Topics	Number of Engagements
Corporate Strategy	42
Covid-19	
Supply Chain Management	
Human Capital Management	

Our Views

The Growing Importance of Health

Increased consumer focus on personal health has driven consumer staples companies to incorporate health and wellness into their strategy. A thoughtful balance between reformulating brands, especially iconic ones, and the pace of consumer preference and regulatory shift has been critical.

In order to avoid alienating existing customers, **The Coca-Cola Company, Keurig Dr Pepper Inc, PepsiCo, Inc** and **Suntory Beverage & Food Ltd** set long-term health goals of gradually changing the composition of their products, and keeping their brand relevant to health-conscious consumers.

During our engagement with the **US Foods Holding Corp,** the company told us that consumer preference to reduce consumption of less healthy foods has remained consistent throughout the pandemic. What has changed, however, is that consumers are increasingly choosing foods that may boost their immune system or include nutrients or other properties that promote health.

Whether a company is trying to reduce the negative health impacts of its products or expand its product offerings to include products with positive health outcomes, none of these strategies is possible without investments in either innovation or acquisitions. As pointed out to us by **The Boston Beer Company Inc** during an engagement, in 2016, the company launched *Truly*, which has gained over a quarter of the hard seltzer segment.

As many brewers have been struggling with the impact from Covid-related restaurant closures and dining restrictions, the company's share price has increased by 180 percent. This increase is attributed to the early adoption of hard seltzer products, which are preferred by many consumers because of their lower calorie and carbohydrate content when compared to traditional beer.

Looking to address the detrimental health impacts of alcohol, **Anheuser-Busch InBev SA/NV**, with which we discussed trends in the sector, launched its first no-alcohol content product in July 2020. Adopting a different approach, **Mondelez International Inc** and **L'Occitane International SA** used acquisition strategies to build-out health and wellness product areas that their portfolios lacked.

Digitally-Driven Demand

Innovation is the backbone of e-commerce whose growth — accelerated at an unprecedented rate by the Covid-19 pandemic — is redefining the consumer staples sector as the most fundamental shift in its business model. In the first half of 2020, **Target Corp** added 10 million new digital customers, while e-commerce sales jumped by 195 percent. Even online sales of food and beverage — which have had slow online adoption compared to other consumer categories — have increased significantly on **Nestle SA, Danone SA** and **General Mill Inc's** digital and e-commerce platforms.

Rising consumer demand for selection and convenience forces consumer staples companies to provide a seamless omnichannel experience. Unconstrained space allows retailers to provide customers with a range of products that were not previously available. As we learned during an engagement, in August, **The Kroger Co** rolled out a marketplace strategy that will initially double the company's online assortment by sourcing 50,000 products from third-party sellers. Such a broad offering of products, without the need to build-out pricey infrastructure, is a clear win for both consumers and retailers.

Online shopping is selective and intentional — customers benefit from a breadth of information about products and manufacturers, may make price comparisons, and benefit from user reviews and recommendations. Hence, maintaining brand and reputation will become even more critical for consumer staples companies.

The Continuing Specter of Plastic

Finally, plastic pollution is one of the greatest environmental challenges for consumer staples companies and many consumers find sustainability non-negotiable. Consequently, to strengthen their brand reputation, most large consumer staples companies have already committed to cut the use of plastic in their packaging or to increase the use of recycled plastic. For example, **Unilever plc**, with whose CEO we discussed the company's sustainability efforts and industry trends, has pledged to halve its plastic use by 2025, while **Tesco plc** has banned brands that use excessive packaging.

Despite the global destabilizing impact of Covid-19, consumer staples companies remain well-positioned to recover from the crisis and also carry forward lessons learned from the pandemic. Companies that listen to consumer preferences, embrace data and technology, establish a local experience and face sustainability head-on should benefit over the long term.

Long-Term Challenges and Opportunities

The Rising Importance of Emerging Markets

Much of the growth in the middle class worldwide is coming from emerging markets, where experience and taking a local approach to the consumer journey are the key factors for success. Given consumers' distinct preferences, tailoring products to meet their local needs will be key. Human capital management practices focused on promoting both local expertise and global, unified corporate culture are also likely to prove crucial.

Supply Chain Risk Management

The global supply chain is becoming increasingly volatile, as climate change poses a risk for the agricultural supply chain and as only select markets have specialized in supplying some key commodities. Any political, macroeconomic or environment-related crises in the supplier countries could dangerously disrupt key supply chains.

The pandemic, in particular, highlighted the importance of robust risk management systems that evaluate supply chain vulnerabilities, including ESG risks. Many companies said that Covid-19 demonstrated the need to not be overly reliant on a single supplier region, most often associated with an over representation of Chinese suppliers.

Other companies, especially those with robust agricultural supply chains, stated that the physical impacts of climate change pose disruption risks and much like the pandemic it was important to consider a diversification of the supply chain in mitigating these systemic risks.

Regulation Globally

The obesity epidemic has impacted developed markets across the globe. It has increased healthcare costs and is a central comorbidity of Covid-19, thus creating both financial incentives and public health need to manage this risk at a local, state, and national level. While there has been strong public resistance to any regulation restricting what is consumed, governments continue to explore options for limiting products that have adverse health outcomes.

Although there are numerous examples of governments failing to manage calorie, sugar content or portion size, many jurisdictions are moving forward with labeling requirements that provide consumers with more transparent information regarding the nutritional content of food and beverages. We expect governments to continue to pursue creative regulatory remedies for addressing expensive public health challenges.

Industry Collaboration and Self-Regulation Needed to Fend Off Possible Regulation

As highlighted above, while companies could do more to differentiate themselves on ESG dimensions, the industry as a whole is facing significant reputational and regulatory risk stemming from the perceived lack of accountability shown by a few companies that are mired in aggressive pricing and sales practice (particularly related to opioids) controversies. Industry action is needed to establish acceptable norms that help demonstrate that companies are serious about changing practices that have been dogging this sector for years.

Transport — Airlines

Transport emissions, which primarily involve road, rail, air and marine transportation, account for over 24% of global greenhouse gas emissions from energy. They are also expected to grow at a faster rate than that from any other sector, posing a major challenge to efforts to reduce emissions in line with the Paris Agreement and other global goals.

In 2020, we engaged with companies in the sector to understand their sustainability practices and discuss the unprecedented challenges these companies face due to the Covid-19 outbreak. In this section we particularly focus on the airline sector as the pandemic has led to the deepest crisis in the history of this sector.

Engagement Topics	Number of Engagements
Corporate Strategy	29
Covid-19	
Disruptive Technologies	
Climate Change	
Sustainability	

Our Views

The transport sector is one of the worst hit by the Covid-19 pandemic. Even before the outbreak of the pandemic, the sector was already under a significant amount of pressure.

Global freight was suffering due to international trade tensions and airlines were struggling with profitability, excess capacity and intense competition from low-cost carriers. Meanwhile, growing environmental concerns, changing customer preferences and the growth of shared mobility were altering long-standing demand patterns. Furthermore, the whole sector was being disrupted by new technologies, including automation, big data, predictive analytics, electrification and connectivity.

Historically, freight companies have not kept up with other industries when it comes to technological innovation and adoption. However, through our engagements we found that the pandemic disruption of global supply routes has led to an increased focus on supply chain resilience and the opportunity for the rapid adoption of new technology within the sector. We believe that freight companies that fully leverage new data sources and cutting-edge analytics will be well-positioned and resilient in a post-crisis world.

The Road to Green Recovery

The grounding of the majority of the world's airlines in response to the Covid-19 pandemic has led to the deepest crisis ever in the history of the sector.

The International Air Transport Association (IATA) projects airlines will post their largest-ever collective net loss this year, totaling $84.3 billion. IATA expects the industry's recovery to be long and challenging, with passenger demand recovering to 2019 levels as late as 2023.

In an attempt to keep the industry on life support, various governments across the globe have agreed to provide $123 billion of financial aid in a variety of forms. While maintaining the size of the workforce is a common contingency attached to these bailout funds, only France and Netherlands have set environmental conditions.

Flying is one of the fastest growing sources of GHG emissions and the most carbon-intensive form of transport. Direct emissions from commercial aviation account for over 2% of global carbon emissions. Therefore, this sector can play a key role in the global efforts to address climate change.

We find that airlines have comprehensive GHG-reduction programs and measures in place to improve fuel efficiency by optimizing their operational practices. However, few companies establish targets to support strategic initiatives that will help them adapt to the impacts that climate change may have on their business. As these companies strengthen their risk-management processes and further incorporate sustainability into business strategy, future targets should reflect this change. Modernizing fleets, improving operational efficiency and making investments in sustainable aviation fuels (which currently represent <1% of total jet fuel demand) are key to reducing aviation's carbon emissions.

In our engagements with **Deutsche Lufthansa AG, Air France–KLM SA, Delta Air Lines Inc** and **United Continental Holdings Inc** we discussed the unprecedented challenges that these companies face as well as their sustainability practices. We highlighted that the current crisis and state support are a unique opportunity for the airline sector to reset strategy and pursue a recovery that is consistent with the transition to a low-carbon economy.

Long-Term Challenges and Opportunities

Improve Board Level Oversight of ESG Risks and Embrace Sustainability as Business Opportunity

Boards need to do more to incorporate sustainability into their companies' long-term strategy. We believe that shifts in customer preferences, the regulatory environment and international policy are changing the characteristics of the services demanded by customers. While boards have begun to identify material sustainability risks, we believe they need to go further by fully communicating to investors the strategic implications of such risks and their potential impact on long-term strategy.

Increase Investment in New Technologies

New technologies can support efficiency increases, reduce fuel impact, and enable the use of alternative fuels. Most technologies, however, are immature, and there is a broad variety of alternative fuel candidates for full decarbonization, each with relative merits. We believe boards should proactively incorporate a sustainability lens into capital allocation processes in order to scale up investments in green technology.

Thematic Focus

We take a risk-based approach to identifying thematic ESG issues that we view as having the largest material impact on the long-term value of our portfolio companies.

Covid-19 Pandemic

As a result of the Covid-19 pandemic, we shifted the focus of our conversations with investee companies to more immediate ESG issues, including employee health, human capital, serving and protecting customers and ensuring the overall safety of supply chains. We also focused on near-term survival issues, such as business continuity and resilience (including C-suite succession planning), financial stability, capital allocation and liquidity.

Engagement Topics	Number of Engagements
Covid-19 & ESG Implications	233
Social Issues	
Liquidity Management	
Supply Chain Management	
Human Capital Management	
Succession Planning	
Business Recovery and Resilience	

Stewardship Engagement Guidance to Companies in Response to Covid-19

The outbreak and rapid spread of the Covid-19 pandemic in 2020 presents a threat not only to global health, but also to our communities, economies and the investment returns people depend on.

In light of these extraordinary circumstances, in a March publication, we shared perspectives on our 2020 asset stewardship agenda, recognizing that our portfolio companies are going through a challenging time and that their immediate priority is the safety and well-being of their employees and other stakeholders.

As a long-term shareholder, we assured companies that we stand ready to help them navigate existential financial threats and market volatility, and to provide guidance through our stewardship engagements.

A Shift in Focus

We also recognized that our engagement conversations, at least in the short term, will likely shift from very specific longer-term material sustainability matters to more immediate ESG issues, such as employee health, serving and protecting customers, and ensuring the overall safety of supply chains.

Companies will also face a delicate balance in determining how to manage their short-term liquidity needs, in order to maintain their financial stability. With this in mind, we encouraged our portfolio companies to:

- Refrain from undertaking undue risks that are beneficial in the short term, but harm longer-term financial stability and the sustainability of the business model.
- Communicate to investors Covid-19's potential short- and medium-term impact to the business, overall operations and supply chains, including management preparedness and scenario-planning and analysis.
- Articulate how Covid-19 might impact or influence their approach to material ESG issues, as part of their long-term business strategy.
- Lastly, to continue to help stop the spread of the virus, we encouraged companies to follow guidance from government authorities to either postpone their shareholder AGMs or shift to virtual meetings. When conducting an AGM meeting virtually, we expect companies to preserve all of the rights and opportunities afforded to shareholders through a physical meeting.

Covid-19 and ESG Implications — Insights from Company Engagements

The global health, social and economic impacts of Covid-19 intensified as 2020 progressed. As a result, we shifted the focus of our conversations with investee companies to more immediate ESG issues.

The Importance of Contingency Planning

We also focused on near-term survival issues, such as business continuity and resilience (including C-suite succession planning), financial stability, capital allocation and liquidity.

Since the outbreak of the pandemic we have conducted 233 engagements with companies globally, across various markets and sectors, to understand how they have navigated the crisis and positioned their business for the future. Below we discuss our key takeaways and insights from these engagements.

What became apparent through these engagements is that very few companies had plans in place for responding to a pandemic before the Covid-19 outbreak. Many companies were forced to adapt quickly though managing their business remotely and making changes to their operations, supply chains and customer connectivity.

Social Issues in the Spotlight

The Covid-19 pandemic has shown how a global health crisis can become a profound social issue. As a result, we have renewed our focus on human capital, employee health, safety, inequality, diversity and inclusion. In our engagements, we encouraged our investee companies to articulate how the pandemic might impact or influence their approach to these material issues as part of their long-term business strategy.

We believe that companies should consider redeploying talent by reskilling and upskilling the workforce. We also think companies should re-evaluate their purpose, culture and portfolios to deliver more sustainable business models in the post-pandemic era. We are confident that forward-looking companies with strong ESG practices will use this crisis as an opportunity to reinvent themselves.

Liquidity Management a Top Priority for Companies

As a consequence of the pandemic, many companies have been in greater need of capital and liquidity and have consequently suspended their dividend payments and share buy-back programs to preserve cash and ensure the ongoing viability of their business. In light of the current uncertainties, we understand that some companies have to take a prudent approach in assessing their ability to withstand financial stress. However, we are also concerned when companies unnecessarily suspend or reduce their return of capital to shareholders. We would expect companies that do decide to suspend dividend payments to resume them as soon it is prudent to do so.

Unsurprisingly, there was also a significant increase in the number of investee companies seeking to raise survival cash from shareholders during the 2020 Proxy Season. The number of capital-raising resolutions submitted for approval at shareholder meetings more than doubled compared to the same period last year. As we recognize that a global health and economic crisis of this magnitude presents extraordinary challenges for businesses, we have been supportive of well-thought out capital raising requests.

Supply Chain Resilience Will Be Key to Lasting Recovery

In our discussions, it is clear that Covid-19 has accelerated the need for companies to embrace digital transformation and supply chain optimization. The pandemic and the associated production stoppages across the globe have revealed the fragility of many companies' centralized production and supply chain systems. Some companies are now reconsidering the benefits of their existing system. We believe that companies should re-evaluate their supply chains and consider implementing more diverse sourcing, digitalization and robust supply chain risk management processes. These factors will be key for companies to achieve resilience and ensure a lasting recovery from the pandemic.

Pandemic Highlights Need for Succession Plans

The potential impact of Covid-19 on the health of company senior executives and the risk of multiple absences occurring concurrently highlights the need for robust succession plans in a time of crisis. Such leadership continuity risk is a new experience for many boards. Therefore, we have placed additional focus on succession plans in our engagements with investee companies since the outbreak of the pandemic. Our engagements revealed that even though many boards spend more time and effort on succession planning than ever before, some companies are still not fully prepared to handle multiple unexpected executive transitions.

Human Capital

Much has been made of the 'Rise of the S' pillar of ESG and the emerging importance of topics like human capital management to investors. We have long understood that a company's workforce is a core asset and driver of long-term sustainable performance, and the disruption caused by the global pandemic only reinforced our perspective.

In 2020, we continued to engage with companies to understand how their approach to human capital management advances their long-term strategy, and we elevated our approach to managing racial and gender diversity-related risks.

Engagement Topics	Number of Engagements
Racial Diversity	244
Gender Diversity	
Employee Health & Safety	
Employee Compensation	
Recruitment & Retention	
Employee Voice	

Insights from the Past Year

Our focus on human capital management has increased in recent years. We had over 5 times as many human capital-related engagements in 2020 as we did in 2018, and we've steadily increased our support of relevant shareholder proposals in the past 4 years, from not supporting any proposals in 2016 to 23% in 2020.

In our engagements this year, the topic of human capital management was unavoidable given the context of Covid-19. We spoke to companies about shifting workforce composition and compensation, prioritizing employee health and safety, and creating channels for employee voice. Many companies instituted regular meetings, town halls, and surveys to surface sentiment from their workforce, some in response to protests and petitions from workers.

Pay strategies — a thematic priority discussed in our most recent Asset Stewardship Report — was a particularly salient topic this year. In our conversation with **The Kroger Company**, we discussed the relationship between worker pay and the company's profits in the pandemic, and learned about company investment in its employees through higher wages and health benefits. Compensation Committee members at **Chipotle Mexican Grill Inc** gave us insight into their efforts to compensate company executives fairly in the context of the pandemic, and in a way that mirrored the approach to compensating frontline workers.

Some companies experimented with new human capital management practices — **Twitter's** board chair discussed the company's approach to allowing employees to work from home on a permanent basis, and **The Bank of New York Mellon Corporation** described its intention to continue its updated approach to employee compensation post-pandemic. We understand that many companies are faced with great uncertainty around the future of their workforces, and, as always, we expect clear disclosures and strong oversight of these challenging decisions.

Beyond the context of the global health crisis, another important topic was employee attraction and retention. Industries and companies with less appealing cultures, compensation practices, and benefits can lose employees to competitors.

Finally, racial diversity was a priority for the Asset Stewardship team in the latter half of 2020. In August, we published guidance articulating our enhanced expectations for racial diversity disclosures, and subsequently led over 50 engagements on the topic. Companies we spoke with were overwhelmingly supportive of our perspective, and several committed to improving their disclosures and practices.

Where We're Headed This Year

Over the year, expect a continued focus on this essential dimension of ESG risk. Human Capital Management will be a 2021 Thematic Priority, and producing new perspectives, frameworks, and publications on the topic will be a priority. We anticipate an increase in relevant shareholder proposals, and expect a surge in interest from issuers to discussing human capital management with us as the economy recovers from Covid. We also intend to sharpen our analysis on managing the systemic risk that economic inequality presents to our portfolio.

As outlined in our guidance to the market, we will incorporate our perspective on racial diversity into our voting policies in 2021 and 2022, and we will also proactively engage the largest US- and UK-based employers to monitor their progress toward aligning with our expectations on this topic.

Effective Human Capital Management: Questions for Management and Boards to Consider

- How does human capital management fit into your firm's long-term business strategy?
- How does the composition and compensation of your workforce advance your firm's human capital management strategy?
- How does your management and board oversee human capital management practices and risks?
- How would you describe your culture, and what opportunities exist for employees to voice concerns to management and the board?
- What are the key human capital management challenges that your firm is navigating?
- What is the impact of increased automation of the workforce on your approach to human capital management?
- Have you incorporated any human capital management-related metrics into your executive pay policy?

Our Collaborative Initiatives

The collaborative efforts of institutional investors and associations have played an important role in the progress made in recent years in the fields of ESG investing.

We are proud participants in this collaboration through our membership of a number of global investor bodies.

Collaborative efforts of institutional investors and associations play an important role in the progress made in recent years in the fields of ESG investing. We are proud participants in this collaboration through our membership of a number of global investor bodies, including:

- The United Nations Principles for Responsible Investment
- The Council of Institutional Investors
- The Asian Corporate Governance Association
- The UK Corporate Governance Forum
- Investor Network on Climate Risk (INCR)/CERES
- SASB Investor Advisory Group
- Task Force on Climate-related Financial Disclosures (TCFD)
- University of Cambridge Institute for Sustainability Leadership, Investment Leaders Group
- Japan Investment Advisers Association

We continually assess opportunities for collaborative work, with the impact of our existing efforts on an issue as a key determinant when considering these opportunities.

When determining the merits of collaborative action, we also consider a range of other factors. These include:

- Agreement among investors on core areas of concern and potential solutions.
- Development of a market position on a new and emerging thematic issue.
- Systemic market-wide concerns and the regulatory environment.
- Responsiveness of management and boards to prior individual engagements.
- Concentrated ownership within the share register.
- Market culture and acceptance of shareholder engagement.

During 2020, we collaborated on a number of projects, some of which we detail on the following pages.

Climate Action 100+ — Global (Sustainability)

In November 2020, State Street Global Advisors became a signatory to Climate Action 100+. This is a global initiative led by investors to foster the clean energy transition by engaging the companies and sectors with the highest greenhouse gas emissions. Climate Action 100+ and State Street have long been aligned in our shared values. Climate Action 100+'s three central goals are consistent with what our team has been advocating through our company engagements, thought leadership, and proxy voting.

Climate Action 100+ Goals

Reducing Emissions

Improving Governance of Climate Change

Strengthening Climate-Related Disclosure

In joining Climate Action 100+, we look forward to sharing with our peers what we have learned in our engagement with more than 630 companies across multiple industries and markets on climate-related issues since 2014.

Client-Related Engagements in 2020

148
Engagements

121
Companies

22
Industries

In 2020 alone we undertook more than 140 climate-related engagements and we will be building on this active approach in 2021. In parallel, we have continued to increase our support of climate-related shareholder proposals, supporting an average of 31% of such proposals through 2020, compared to 15% in 2019.

Further, we supported 50% of shareholder proposals requesting companies to report on the financial and physical risks of climate change on their business as well as their plans to reduce greenhouse gas emissions. We are also excited at the prospect of working closely with other asset managers and asset owners to scale our impact on climate change risks. This collaborative effort builds on our team's efforts thus far to ask our portfolio companies to report on how they are managing climate change risk using the guidelines promulgated by the Task Force on Climate-related Financial Disclosures (TCFD). This provides another opportunity for knowledge sharing and collaborative effort, building on our 2020 engagement across nine countries and 17 GICS sectors to review portfolio companies' climate reporting and alignment with TCFD.

For State Street Global Advisors, driving more transparency around climate change risk and its impact on long-term value is urgent. As Ron O' Hanley, Chairman and CEO of our parent company, State Street Corporation, has stated, our goal must be to make it 'easier for investors to understand the sustainability risks and opportunities in their portfolios… and promote a more sustainable and resilient future that will benefit all of our stakeholders.'

This move to become a signatory is just the latest step in our efforts to lead by example and continue to strengthen our engagements with and guidance for our portfolio companies on managing climate-related risks.

As outlined earlier in this report, we were pleased to launch our first Annual Climate Stewardship Report in 2020, and remain committed to providing this disclosure with future iterations expected to contain information regarding our work as part of the Climate Action 100+ initiative. Moving forward, we will continue to focus on managing climate-related risks in our investments through thought leadership, engagement, proxy voting and policy development.

Sustainability Accounting Standards Board (SASB): Investor Advisory Group — Global (Sustainability)

Three members of our leadership team, including Lynn Blake, Chief Investment Officer and Global Head of Beta Solutions for State Street Global Advisors, alongside Robert Walker and Benjamin Colton, respective Global Co-Heads of Asset Stewardship, are members of the Investor Advisory Group (IAG) of the Sustainability Accounting Standards Board (SASB). The IAG is composed of more than 30 global asset owners and asset managers, representing over $33 trillion in assets under management.

During 2020, we were a regular participant in quarterly IAG meetings to discuss how we could expand the group and participate in more collaborative engagements with IAG members. Through the course of the year, members of our team beyond the three IAG representatives above led and participated in several formal and informal working groups with our fellow IAG community.

Encouraging the Sharing of ESG Information

State Street Global Advisors worked together with a group of other IAG members to encourage companies to disclose material and decision-useful ESG information to investors. As a result of this initiative the group published an open letter on behalf of the entire IAG addressed to data analytics firms, soliciting the creation of new data sets based on the collection and organization of SASB-based data as reported by companies.

In addition, members of our team participated in a virtual SASB-Society Corporate-Investor Dialogue (CID) in partnership with the Society For Corporate Governance (SCG) in November 2020.

SCG membership includes roughly 1,000 public companies, representing more than 70% of the S&P 500. These forums continue to demystify investors' interest in and use of ESG information and provide a platform for our team to share our thoughts on SASB as a useful tool to help improve communications between investors and their portfolio companies. The two sessions we participated in were devoted to explaining how we are using our R-Factor framework for investment and stewardship-related purposes, and outlining how R-Factor itself is highly aligned with the SASB materiality framework.

Aligning Our Stewardship Priorities with Our SASB IAG Participation

We continue to participate in SASB's Human Capital Research Project, offering our perspectives as investors to contribute to their updated Human Capital Management standards. As we articulated in our August 2020 letter, SASB's approach to human capital management is evolving, with current coverage for diversity metrics only applying to nine industries. By participating in this project's dialogue, we will continue to support expanded industry coverage of these metrics through meaningful evaluation of what constitutes materiality with regards to human capital management in each sector.

Working Towards Greater SASB Adoption

We also played a leading role in the Exchanges Working Group (EWG) as SASB IAG members. The EWG's primary objective is to establish SASB as an acceptable reporting structure via exchange guidance, and leveraging the advisory role of exchanges to support further ESG disclosure. Engagement mechanisms of this group included investor days at exchanges, as well as direct dialogue via consultation letters and meetings with exchange representatives.

A featured engagement was the group's work regarding evolving disclosure practices in the Canadian equity market. This involved writing consultation letters to the Government of Ontario's Capital Markets Modernization Taskforce in response to their feedback request on how to improve their capital markets to better support a dynamic and competitive economy; and direct dialogue with representatives from the Montreal (MX) and Toronto Stock Exchanges (TSX). Through these engagements, we emphasized that investors would benefit from accessing material ESG disclosures by TSX issuers, and promoted SASB as the investor community's disclosure framework of choice. In our conversations with exchange representatives, we reiterated our view that SASB presents measurable, comparable and consistent reporting of material ESG issues by industry, thereby providing industry-specific and standardized guidance to companies and all users of the framework.

The work of the IAG is of great importance to us, as it underscores the need for a market standard for ESG disclosure. We will continue to encourage companies to participate in SASB's ongoing standards development process to ensure that outcomes reflect both issuer and investor viewpoints. Further, we will also educate companies on how SASB standards can be used with other reporting frameworks/standards to reduce the need for companies to report against multiple reporting frameworks.

2020 Multi-Stakeholder Working Group on Practices for Virtual Shareholder Meetings — North America (Governance)

Due to the COVID-19 pandemic, there was explosive growth in virtual shareholder meetings (VSMs) globally in 2020 in ways that that corporate and investment communities could have never anticipated.

At the onset of the pandemic, State Street Global Advisors' CEO Cyrus Taraporevala published a letter to our portfolio companies and the investment and corporate community at large, providing stewardship engagement guidance to companies in response to COVID-19. Among the recommendations, State Street Global Advisors encouraged companies to follow guidance from government authorities to either postpone shareholder annual general meetings or shift to VSMs.

When conducting an annual meeting virtually, consistent with our core principles and voting policies, we reiterated our expectations that companies preserve all the rights and opportunities afforded to shareholders through a physical meeting. Critically, we stated our belief that shareholders should be able to have active and robust interactions with management and the board at appropriate times, even with the change in hosting format.

As more companies and investors experienced VSMs for the first time, both positive and negative sentiment emerged regarding the virtual format. Much of the negative feedback was not unique to 2020, and direct parallels were drawn to the reaction VSMs evoked from market participants over the previous decade.

This trend, coupled with our core beliefs around the preservation of shareholder rights in virtual formats, compelled our team to join a multi-stakeholder group convened in August 2020 by the Rutgers Center for Corporate Law and Governance. The aspiration of the 2020 Working Group is for companies, investors, and service providers to conduct VSMs in ways that replicate the in-person annual meeting experience for the shareholders as closely as possible in order to foster effective corporate governance. In December 2020, the working group published baseline and evolving practices for improving virtual meetings.

As the global COVID-19 situation evolves, and local safety restrictions change in response to improving public health, we reiterate our preference for in-person shareholder meetings when and where possible. While companies have largely been responsive to calls for sound VSM practices, the potential for shareholder rights to be abused by virtual formats, whether intentional or not, remains.

When possible and safe as determined by local authorities, we look forward to the return of in-person shareholder meetings.

Our team will continue to engage and provide guidance on this subject as practices evolve.

Collaborative Investor Letter on Supervisory Board Election Terms in Germany — Europe (Governance)

In August, State Street Global Advisors led a collaborative letter campaign where we, alongside a group of like-minded investors representing in aggregate $8.3 trillion of assets under management, called on DAX 30 companies to voluntarily adopt a three-year election cycle for shareholder-elected supervisory board members.

German companies continue to lag their European peers, with supervisory board members elected for the maximum five-year term permitted by law. This is in direct contrast to other European markets, which have embraced investor-led efforts for more frequent board election cycles.

We view board accountability as fundamental to strong corporate governance and we believe that shorter election terms would provide increased accountability and encourage board members to be more responsive to shareholder Interests, thus improving board quality in the market.

Regulatory Initiatives and Public Speaking

Public advocacy through responding to requests for comments by regulators, and by speaking at gatherings of key stakeholders, allows the Stewardship Team to advance market debate on a range of ESG topics.

Where appropriate, the Stewardship Team aligns its advocacy with the same key themes and focus areas that underpin our proxy voting, engagement and thought leadership work. Examples of our advocacy in 2020 include responding to requests for comments by key regulatory bodies such as the Securities and Exchange Commission and the European Commission, and speaking at gatherings of key stakeholders.

International

In December, we provided comments on IFRS' Paper on Sustainability Reporting. The IFRS proposes to create a new Sustainability Standards Board (SSB) which would be responsible for developing and maintaining global corporate sustainability reporting standards.

The thoughtful assessment of material sustainability factors as a complement to traditional financial research is important in our efforts to assess opportunities, risks and potential long-term shareholder value for investors. While sustainability reporting has improved over the past several years, and there have been significant efforts to improve the quality and consistency of these disclosures, investors would benefit from further global coordination, as proposed in the consultation. Overall, we agree that the IFRS Foundation can provide leadership in this area, and that the development and maintenance of a global set of sustainability reporting standards through a thoughtfully constructed SSB would be valuable to investors.

In our view, the success of a new SSB will depend on several key factors, including:

- Adoption of a 'climate first' approach to mandatory disclosures, even though we recognize the growing need for other types of sustainability disclosures.
- Leveraging and deferral to existing standard setting efforts, especially the TCFD and SASB frameworks.
- The need to recognize investors as the primary constituency and predominate consumer of such disclosures for the purposes of investment decision-making.

The IFRS Foundation will take forward the proposals on the basis of feedback received from stakeholders, including other international standards-setters. We stand ready to support these international efforts.

North America

United States

US Department of Labor's Proposed Proxy Voting Rule
On September 4, 2020, the United States Department of Labor (DOL) proposed a new rule that could negatively affect the private sector retirement plans that are subject to the Employee Retirement Income Security Act of 1974 (ERISA). The objective of the proposed Fiduciary Duties Regarding Proxy Voting and Shareholder Rights rule is to impose certain requirements on proxy votes made by plan fiduciaries — individuals or entities who manage an employee benefit plan and its assets under ERISA. According to the proposed rule, plan fiduciaries cannot participate in shareholder voting or engage with portfolio companies unless these activities are understood to be enhancing the economic value of the plan.

In our view, the proposed rule will materially reduce the impact of proxy voting, which we deem to be a vital tool in creating long-term shareholder value. The rule also has the potential to eliminate proxy voting in certain cases by seemingly prejudging the voting of proxies as imprudent unless the applicable proposals relate to certain enumerated events. These include corporate events, corporate repurchases of shares, issuances of additional securities with dilutive effects on shareholders or contested elections for directors.

Considering these consequences, State Street Global Advisors sent a comment letter to the DOL, where we argued that by imposing requirements that will discourage proxy voting in retirement plans covered by ERISA, the financial interests of ERISA plan beneficiaries will be compromised in the long term. We additionally elaborated that the proposed rule would increase, rather than decrease, costs for ERISA plans, thereby further eroding the long-term value that plan participants and their beneficiaries can potentially realize.

SEC Proposed Rules on Proxy Advisors and Guidance
In January, we responded to the Securities and Exchange Commission's (SEC) request for comment on proposed rules that would impact proxy advisors and their guidance. In our response, we supported the SEC's overall effort to improve the proxy voting process, but we also raised concerns about the proposed rules.

In addition, with respect to the proposal that companies be able to review proxy advisor reports prior to them being sent to investors, we noted that we have not seen evidence that a mandated review is necessary. However, if such a review were mandated, we said that it should be limited to a single review of the facts and data in the report and that investors should receive the draft report at the same time that the company does. We also suggested that proxy advisors should not be mandated to include links to company responses in their reports, nor should companies have access to any custom research or recommendations produced for proxy advisor's clients.

Finally, in our view, while the proposals address certain aspects of proxy voting and are an important step in improving the proxy voting process, they do not address the core proxy plumbing issues, and, presumably, assume accurate recording of vote results. Therefore, we urged the SEC to move quickly to address plumbing and vote accuracy issues as well. We believe such reforms should include, at a minimum, end-to-end vote confirmation and completion of the universal proxy rule, which would significantly reduce complexity when voting contested elections. State Street Global Advisors will continue to monitor proposed rules regarding the proxy voting process.

US Department of Labor's Proposed Regulation on Financial Factors in Selecting Plan Investments

On June, 23, the US Department of Labor (DOL) published a proposed rule establishing new requirements, under ERISA, for the use of ESG investments for US private retirement plans, both defined benefit and defined contribution. While the DOL had suggested that the proposal is merely a codification of existing guidance, we viewed this development as a significant barrier to ESG integration by US ERISA fiduciaries. The proposed rule sought to impose a higher scrutiny and hurdles in connection with the use of ESG related investments by ERISA governed pension plans. While the DOL's explanation of the proposal focuses on potential use of social responsibility or environmentally-targeted (SRI/ETI), otherwise known as impact investing, where the collateral social or environmental impacts of the investment may be prioritized over other factors, the rule does not appear to distinguish those strategies to the more sophisticated ESG integration strategies. ESG integration means systematically incorporating financially-material ESG factors, in addition to traditional financial factors, into the investment management approach. In addition, the DOL proposal aimed to prohibit the use of any ESG investment in relation to Qualified Default Investment Alternatives (QDIAs). Overall, it strongly discouraged the use of any ESG-related investments for US private sector pension plans.

In July 2020, we wrote a letter opposing the DOL's proposal. While we agreed with the DOL that ERISA fiduciaries have a duty to maximize financial returns, we disagreed that this precludes a consideration of material ESG factors in the selection of investment approaches. Material ESG factors are clearly relevant to a company's long-term performance. Blocking ERISA plans from taking advantage of these investment strategies will deny financial — or in the DOL's language, 'pecuniary' — benefits to plans, participants, and beneficiaries. This is contrary to ERISA fiduciaries' obligation to act prudently, and in the best interest of the plan. In fact, we provided evidence to support our view that incorporating financially material ESG factors into our investment approach is entirely commensurate with the concept of fiduciary duty. However, the DOL's rule singles out such strategies for higher scrutiny, and consequently, higher legal liability. We strongly urge the DOL to withdraw the rule, initiate a substantive dialogue with all stakeholders, and develop a strategy for capitalizing on the benefits of ESG integration for ERISA plans. If left unchanged, the DOL's proposed regulation would block any consideration or use of any ESG related investment, a proposition that we believe would not be consistent with the mandate of ERISA fiduciaries and a penalty to plan participants that would negatively impact their financial futures.

Nasdaq Proposed Rule Change to Adopt Listing Rules Related to Diversity

In December 2020, the Nasdaq Stock Market LLC, (Nasdaq) filed a proposal with the SEC to adopt new listing rules related to board diversity and disclosure. If approved by the SEC, the new listing rules would require all companies listed on Nasdaq's US exchange to publicly disclose consistent, transparent diversity statistics regarding their board of directors.

Additionally, the rules would require most Nasdaq-listed companies to have, or explain why they do not have, at least two diverse directors.

Shortly after the filing, we wrote a letter to the SEC expressing our support for the Nasdaq's proposed rule change. Our team has long viewed strong, independent and effective corporate board oversight as the single most important driver of long term value in public companies, which we view as closely correlated to board diversity. Board diversity is a key focus, therefore, of our ongoing engagement with companies held in our clients' portfolios.

We supported Nasdaq's view that acknowledged progress towards greater corporate board diversity in recent years, but highlighted the need for further improvements. As long-term investors, we believe improving the availability of useful information and data is a critical element in advancing board diversity, and, as a result, will help improve corporate governance and long-term risk management and financial performance.

Board diversity has been an important part of our engagement with portfolio companies for many years, and we continue to increase our focus on racial and ethnic diversity at companies in our investment portfolio. We referenced a letter to the boards of companies in which we invest, sent in August 2020, describing our expectations for portfolio companies related to diversity, including that companies provide specific communications to shareholders regarding corporate diversity characteristics, such as the racial and ethnic composition of board directors. As such, we urged the SEC to approve Nasdaq's proposed rule change, consistent with our view that disclosures around board diversity are critical to effective corporate governance and long-term risk management and value generation.

EMEA

United Kingdom

Department of Work & Pensions (DWP) Pension Schemes' Governance and Reporting on Climate-Related Risk
On 10 October, we submitted a response to the UK Department of Work (DWP) consultation on *Taking action on climate risk: improving governance and reporting by occupational pension schemes*, which essentially seeks to codify the recommendations of the international Taskforce on Climate-Related Financial Disclosures (TCFD) by requiring trustees of larger occupational pension schemes and authorized schemes to address climate change through governance and risk management measures. Our team contributed to this collective State Street Global Advisors response, providing an investor's perspective on TCFD best practices for pension plans.

We are broadly supportive of the proposed requirement for trustees to assess and manage climate risks, reporting in line with the TCFD framework. There are, however, a number of broader issues that the UK Government should be mindful of when prescribing mandatory TCFD-style reporting in the UK pensions markets. Most notably, we think that there is a need for coherent requirements across the full length of the investment chain, starting with corporates as a means of improving the overall quality of ESG and climate data.

Furthermore, in view of the UK's commitment to achieve carbon net-zero by 2050, we called on the Government to clearly articulate its pathway towards this laudable climate goal, in order to allow the financial services sector to transition in an orderly manner.

EU

Sustainable Finance Disclosure Regulation (SFDR)
In September 2020, we responded to the European Supervisory Authorities' (ESAs) consultation on draft regulatory technical standards (RTS) for the Sustainable Finance Disclosure Regulation (SFDR), which will introduce comprehensive — entity level and product-specific — disclosure requirements for a broad range of financial market participants and financial advisors from 10 March 2021. As an overarching matter, the compliance timeline for implementing SFDR is highly compressed, further frustrated by the delay in delivering these RTS, so we highlighted the importance of sufficient time in order to satisfy the SFDR and provide meaningful disclosure.

With respect to the ESAs' proposed entity-level disclosure requirements, there are a number of operational challenges associated with obtaining the necessary data from investee companies to satisfy the extensive disclosure requirements, with seemingly limited benefit to end investors. With this in mind, we recommended that the ESAs propose a substantially reduced subset of indicators that have more universal relevance across sectors and asset classes.

On product-level disclosure for ESG funds, aside from specific issues around the appropriateness of reporting templates and disclosing certain information on public websites, we emphasized the need to ensure adequate time for the supervisory community to approve precontractual disclosures (i.e. prospectuses). Finally, there would appear to be an incoherence between the SFDR and other pieces of legislation like the EU Taxonomy Regulation and the Non-Financial Reporting Directive, particularly with regard to the definitions of "sustainable investments" and the principle of 'do no significant harm', and so we called on EU authorities to ensure better alignment.

Non-Financial Reporting Directive (NFRD)
In June 2020, State Street responded to the European Commission's survey on the review of the Non-Financial Reporting Directive (NFRD), which sought stakeholder views on the mandatory versus voluntary nature of the NFRD regime and the prospect of widening the scope in terms of reporting entities and reportable information.

Disclosure of financially-material ESG information is essential to better inform investor decisions, hence we are supportive of expanding the scope and information to be reported in line with the NFRD. Given the proliferation of ESG frameworks globally, we urged the EU Commission to ensure alignment with the TCFD and SASB frameworks, and suggested that its new international platform for Sustainable Finance would present a good opportunity to discuss international collaboration. However, given the nascency of non-financial reporting and limited experience or standards, it is premature to require thorough assurance for auditing such reports. Finally, we advised that companies should retain their discretion as to where this information is best made available to investors.

APAC

Hong Kong

Corporate Weighted-Voting-Rights Consultation Response
In Q2 2020, we provided a comment letter to the Hong Kong Exchange and Clearing Limited (HKEX) on a proposal to extend the weighted voting rights (WVR) regime to permit corporate entities as beneficiaries.

State Street Global Advisors strongly advocates for the ‘one share, one vote’ principle in every market that we invest in. We had conveyed this same feedback in our comment letter to the HKEX in August 2017, when HKEX had consulted on the New Board Concept Paper, which subsequently permitted the granting of weighted voting rights to individuals. This principle stays and our opposition remains, regardless of whether the shareholder in question is an individual or a corporate entity. In fact, as highlighted in our comment letter, we believe that granting WVR to corporate entities, in addition to individuals, will further erode the principle of ‘one share, one vote’. Corporate entities do not have a natural lifespan, whereas an individual’s WVR will lapse when the individual passes on. Allowing corporate entities to benefit from WVR introduces the possibility that they could enjoy such rights in perpetuity, even with a change in ownership or without future exceptional contribution to the listed companies.

In our response we appreciated HKEX’s proposal to mandate that the WVR of a corporate WVR beneficiary be subject to a time-defined sunset clause of 10 years. However, we note that this could nonetheless be renewed with the approval of independent shareholders for perpetual five-year periods following the expiry of the previous terms. Furthermore, there could be multiple individuals and corporate entities as WVR beneficiaries in an issuer at the same time, resulting in a more complex structure.

Japan

Drafted Revisions to the Principles for Responsible Institutional Investors, Japan’s Stewardship Code
In Q1 2020, we submitted a comment letter on the drafted revisions to the Principles for Responsible Institutional Investors, Japan’s Stewardship Code. We expressed our support of the revised draft, as it appropriately identifies ESG factors as financially material drivers of long-term performance and encourages asset managers to integrate ESG into the investment process. Additionally, it encourages asset managers to effectively conduct their stewardship activities through voting, engagement and reporting.

Public Speaking Examples

In addition to responding to consultations and white papers, we also participate in industry and stakeholder gathering as panelists or keynote speakers.

We use the speaking opportunities to amplify our message on stewardship or share our views on developing ESG issues.

Sponsor Organization	Discussion Topic
Covid-19 and ESG Implications	
Focusing Capital on the Long Term Global	Investor & corporate engagement post Covid-19
State Street Global Advisors – Client Event	Engagement guidance in response to Covid-19
State Street Global Advisors – Fall Summit	Executive compensation in light of Covid-19
CSR Europe	Materiality & ESG metrics post Covid-19
International Corporate Governance Network	Voting guidelines in light of global pandemic
Harvard Law School Corporate Governance Forum	2020 Proxy Season review in light of Covid-19
Investor Advisory Committee – SEC	2021 Proxy Season preview – impact of Covid-19
Deloitte	Role of audit committee and virtual audits
Institutional Shareholder Services	Executive compensation in light of Covid-19
Racial & Ethnic Diversity	
National Investor Relations Institute	Company commitments to diversity & inclusion
Consortium of Endowed Episcopal Parishes	Racial diversity on corporate boards, best practices
Stewardship and Corporate Governance Best Practices	
Sustainability Accounting Standards Board Symposium	Sustainability and financial performance
Jefferies Group	Shareholder activism trends & landscape
Columbia University	Climate stewardship and shareholder proposals
The Conference Board	Role of investors and companies in social change
Spencer Stuart Governance Chair Network	Institutional investor engagement expectations
Harvard Law School	Role of asset managers in ESG investing landscape
The Deal	Corporate path to ESG Success & KPI monitoring
Corporate Secretary	2020 Proxy season review, 2021 season preview
Morgan Stanley	Stewardship priorities and company best practices
The Conference Board	Investor & Company role in driving social change
Sustainalytics	Governance of SDGs, disclosure & board priorities
Morrow Sodali	2020 Proxy season review, board accountability
PricewaterhouseCoopers	ESG Disclosure & reporting, Russell 100 focus
Ernst & Young	Audit Committee's role in ESG oversight
Harvard Law School	Corporate law & policy, asset stewardship
Gender Diversity	
Women Corporate Directors Global Institute	Best practices for gender diversity at companies
London Business School	Fearless Girl Campaign insights & outcomes
Responsible Asset Owners Global Symposium	Investors' role in promoting gender diversity

Engagement Case Studies

Our stewardship activities are designed to maximize impact. We use our vote and voice to influence companies on long-term governance and sustainability issues across geographical regions. We successfully worked with several of our investee companies to enhance their governance, compensation, and/or sustainability practices. Here we provide examples of notable successes and high-profile engagements from 2020.

North America

In response to our guidance, a company implemented guidelines to limit hateful content and harassment on its site, a policy which attracted significant press coverage.

EMEA

In response to engagement, a company improved the structure of its executive compensation scheme.

APAC

In response to engagement, a bank conducted and published an annual report that aligns with the SASB materiality map.

Sustainability

Barclays PLC
In January 2020, the UK charity and campaigning organization ShareAction filed a climate-related shareholder resolution at Barclays plc to be voted on by investors at the company's 7 May AGM. The resolution sought to direct Barclays to 'phase out of the provision of financial services to companies within the energy and utilities sectors that are not aligned with the Paris Agreement.' This vote was especially high profile as it marked the first time a European bank faced such a climate-related shareholder proposal.

Following engagements with shareholders and ShareAction, Barclays announced on 30 March a plan to reach net-zero carbon emissions by 2050 and a commitment to align all of its financing activities with the goals and timelines of the Paris Agreement. The company also submitted a management resolution at the AGM asking shareholders to endorse its plan and commitment. The alignment of Barclays' portfolio will first focus on the energy and power sectors, and will cover all sectors over time. Progress against its plan will be reported annually, starting from 2021. In our April 2020 engagement with the Chairman of the Board of Barclays we communicated our support of the firm's updated climate strategy, which sets a new benchmark in the banking sector.

Although the climate-related resolutions submitted by Barclays and ShareAction broadly shared the same spirit, we opted to support Barclays' resolution and Abstain from the resolution submitted by ShareAction for the following reasons:

- We believe Barclays' proposal was the more ambitious of the two. Further, Barclays' ambition to achieve net zero emissions by 2050 covers all of its portfolio, not just lending as proposed by ShareAction's resolution.
- The resolution submitted by Barclays sought to transition its provision of financial services across all sectors to align with the Paris Agreement, whereas ShareAction's resolution was too narrowly focused on the 'phase out' of specific financial services in the energy and power sectors. In our view, such a narrow focus could have limited the flexibility of the company to deliver a more broad transition strategy to a lower-carbon economy.
- The passing of both resolutions could have created legal uncertainties, as they are both binding.

ShareAction's resolution was defeated at the AGM, receiving 24% of votes cast, whereas Barclays' resolution was adopted, receiving over 99% support.

Unilever PLC
In December 2020, Unilever plc became the second company in the world to put its climate transition plan to a shareholder vote. In our engagement with Unilever, the CEO made it clear that the company is determined to be a world-wide leader in sustainability.

Interestingly, Unilever does not have a sustainability strategy that's separate from the business strategy, but a business strategy has sustainability built into it. To Unilever, according to the CEO, sustainability is an opportunity rather than a challenge, considering that the demand for sustainable products growing. The company also applies a sustainability lens to innovation, stating during the engagement that it is more efficient to innovate their own brands than to acquire others.

In June 2020, Unilever set a target to reach net zero carbon emissions both in its operations and in the supply chain (up to the point of sale) by 2039. The first shareholder vote on Unilever's climate transition will be at the company's May 2021 AGM, with subsequent votes every three years.

Commonwealth Bank of Australia
This year we continued our constructive dialogue with Commonwealth Bank of Australia around corporate culture, remuneration and sustainability reporting. As a result of engagement with investors, the company conducted and published an annual report that aligns with the SASB materiality map.

This market-leading report also continued to build off of the TCFD recommendations through a robust climate scenario analysis. State Street Global Advisors will continue to use both the TCFD and SASB frameworks as road maps to provide quality ESG data and disclosure critical for effective investment analysis.

ESG Disclosure

NVR Inc
Ahead of its 2020 AGM, we had identified NVR Inc as a company that was not meeting our expectations for ESG disclosure. During an engagement prior to the AGM, we gained an understanding of the company's plan to meet our expectations over the coming year and thus chose not to vote against a board member for falling short of our disclosure expectations.

We followed up with the company in July and learned that it had specifically added ESG oversight to the Nominating and Corporate Governance Committee charter, among other improvements. We expect continued improvement in the coming months as the company responds to shareholders' expectations for enhanced disclosure.

Social and Reputational Risks

Rio Tinto PLC
During an engagement with the Chair of Rio Tinto PLC, we expressed our concerns over the Juukan Gorge incident and the subsequent fallout. In May 2020, despite the vocal opposition of Aboriginal traditional owners, the company damaged an Aboriginal heritage site in the Pilbara region of Western Australia as part of an iron ore mine expansion.

The resulting stakeholder fallout contributed to the departure of the company's CEO and two senior executives. These events highlighted the importance of engaging with local communities and revealed the significant reputational risks arising from identifiable ESG risks.

In our engagement, we urged the company to work with the local communities and set appropriate governance and oversight arrangements to ensure that the risk of similar incidents in future would mitigated. We also encouraged the board to proactively review and monitor corporate culture and incentivize management to take corrective action.

Human Rights-Related Risks

Alphabet Inc
Prior to Alphabet Inc.'s June 2020 AGM, we engaged with the company to better understand the board's role in the oversight of human rights-related risks. We learned that while it's not explicitly stated in a board or committee charter, the board was already discussing and overseeing human rights-related risks within the Audit and Compliance committee.

We suggested that the company explicitly state the committee's involvement in overseeing such risks. As a result of investor feedback on this issue, the company ultimately approved language that more accurately demonstrated the board's involvement in overseeing human rights risks throughout the company.

Ethical Content Management

Amazon.com Inc
In October 2020, our team conducted an off-season ESG engagement with Amazon.com Inc. For many years, we have engaged with companies that run social media platforms to understand how they manage the unique risks created by their products.

During the conversation, we asked how the company manages hateful and violent content on Twitch, its popular gaming platform. The Amazon team committed to engaging with the appropriate teams internally to provide more information.

In December 2020, they contacted us to share the update that Twitch implemented guidelines to limit hateful content and harassment on the site, a policy which attracted significant press coverage.

Board Leadership and Succession Planning

Compagnie Financière Richemont SA
Following our call for a greater level of board independence, the Swiss luxury goods company Compagnie Financière Richemont SA has added another independent director to its board, thus increasing the level of board independence.

The Walt Disney Company
Following a leadership transition, we engaged with The Walt Disney Company to discuss the succession planning process as well as the expectations for the leadership structure and senior management responsibilities moving forward. In addition, as in previous years, we expressed concerns about the total quantum of CEO pay and the growing reputational risk resulting from this.

Consequently, we did not support Disney's executive compensation at its 2020 AGM, as we believe that the board needs to take action in order to mitigate long-term reputational risk stemming from high levels of executive compensation.

Supply Chain Management

Stanley Black & Decker, Inc
In Q3 2020, we engaged with the senior management of Stanley Black & Decker, Inc. to discuss both the challenges and opportunities the company faced due to the Covid-19 pandemic. Black & Decker began to recognize the risks related to Covid-19 as early as January 2020 due to the company's extensive Chinese supply chain; given the US-China trade war and the pandemic-related economic shutdown in China around the Lunar New Year, the company experienced significant supply chain disruption. This disruption motivated the company to accelerate moving its supply chain closer to the end consumers, particularly in the US.

Covid-19 was a challenge for Black & Decker, but it also created business opportunities. The pandemic caused many consumers to adopt a 'do it yourself' approach to home projects, leading to more first-time Black & Decker customers. The company is now working to maintain this customer loyalty, especially among its newest customers, and to also penetrate markets where Black & Decker has not had a strong presence in the past, such as Europe or Asia.

Mylan NV
In our engagement with global pharmaceutical company Mylan NV, we discussed the company's decentralized global supply-chain system that has various production facilities across the globe. As Covid-19 hit different areas of the world at different times, Mylan was able to navigate and leverage the different aspects of its supply chain, allowing it to experience minimal disruptions and deliver critical medicines to patients.

Fixed Income — Green Bonds

Danske Bank A/S
In Q4 2020, we engaged with Danske Bank A/S on its ESG reporting practices in light of a money laundering scandal the company faced in 2019. Our conversation revolved around the importance of timely reporting to ESG data providers so the company's remediation efforts and enhanced risk management practices be accurately captured and reflected in its ESG scores and assessments.

As we use various ESG providers in assessing the investment profiles of our issuers, the accuracy and timeliness of this information will continue to be essential in our evaluation of green bonds.

Engie SA
In Q4 2020, we also engaged with Engie SA on its initiatives to green down its 'brown' revenues as well as the maturities of its green bonds. The company plans to phase lower its brown revenue in the future as it continue its initiatives to align with the Paris agreement and invest more in renewable energy infrastructure.

In our engagement, we urged the company to work with the local communities and set appropriate governance and oversight arrangements to ensure that the risk of similar incidents in future would mitigated. We also encouraged the board to proactively review and monitor corporate culture and incentivize management to take corrective action.

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