
April 2022

Stewardship Report 2021

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**Statement From
Cyrus Taraporevala,
President & CEO, State
Street Global Advisors**



We are pleased to have the opportunity to report on our stewardship activities for 2021, where we set out how we created sustainable benefits for the economy, the environment, and for society.

State Street Global Advisors' mission is to invest responsibly to enable economic prosperity and social progress. Over the past 40+ years, we have built a universe of active and index strategies across asset classes to help fulfil our fiduciary duty and to enable our clients to achieve their investment goals. As the asset management arm of State Street Corporation, we have pioneered the creation of the world's first exchange-traded funds (ETFs) and we are a global leader in indexing.

There are three specific areas we would like to highlight:

- 1** First and foremost, we want to highlight how we have brought ESG to the fore of our governance across State Street Corporation and State Street Global Advisors.
- 2** We continue supporting the acceleration of the systemic transformations under way in climate change.
- 3** Additionally, we are advancing the transition towards more diverse boards and workforces.

ESG Governance
Across State Street
Corporation and State
Street Global Advisors

As we mentioned in our 2020 Report, Rick Lacaille (our former Global Chief Investment Officer) took on a new role as Global Head of ESG responsible for ESG across all of State Street Corporation. Our corporate Board of Directors oversees material ESG issues identified by key stakeholders. Under Rick's leadership, we are advancing State Street's mission, which is *to help create better outcomes for the world's investors and the people they serve*. ESG is central to our purpose, because we believe addressing ESG issues can help generate better long-term outcomes.

Within State Street Global Advisors, we are focusing on our ESG resourcing, oversight, and governance. We hired Karen Wong as our new Global Head of ESG and Sustainable Investing in 2021, and realigned internal reporting lines so that Karen has responsibility for all our ESG functions, including our Asset Stewardship programme. This reflects our continued multi-year strategic investment in ESG to improve the outcomes we deliver for our clients.

We also worked to centralise the governance of our ESG activities across State Street Global Advisors. To do this, in early 2022 we created a new ESG Committee, chaired by Karen Wong, which took on the responsibilities previously undertaken by several different committees across the business. The ESG Committee brings together senior staff from across our Investment, Client-facing, Legal, Compliance, Risk Management, and Operational teams. This cross-functional Committee facilitates better discussions about themes emerging from engagements and voting activities.

We look forward to reporting on the improvements these changes have delivered in 2022.

Focus on Climate Change Transformation

We continue to focus on climate change as one of our multi-year stewardship priorities, both in the activities we undertook in 2021 and where we will focus efforts in 2022. In April 2021 we joined the Net Zero Asset Managers Initiative with the goal of reaching net zero greenhouse gas emissions by 2050 or sooner, and in 2022 we are setting interim targets for 2030.

However, we are also concerned about the risk posed by companies “brown-spinning,” i.e., seeking to reduce their carbon exposure in portfolios by selling the highest-emitting components to private equity, hedge funds, and other actors. We are concerned this practice can reduce disclosure, shield polluters from scrutiny, and marginalise the voice of investors through moving the same emissions to another fund, rather than actually reducing emissions. Therefore, to drive positive change, we believe engagement with companies on emission reduction rather than divestment is a critical lever for long-term change.

It is for this reason that stewardship is at the centre of our net zero strategy to ensure we hold portfolio companies accountable for their statements and actions around their Net Zero pledges and their transition planning. Further, as we move toward our net zero target, our engagement strategy will also continue to evolve: For example, we are planning a targeted engagement campaign in 2022 to encourage the most significant carbon emitters that we invest in to disclose climate transition plans.

Focus on Diversity and Equality

2021 was another year of significant transitions. We came through the second year of the COVID pandemic and dealt with supply chain disruptions and the effects of climate change. All these continued to disrupt economies worldwide, threaten corporate resiliency, and test political stability. At the same time, issues of gender, racial, and ethnic inequality continued to challenge countries and companies to do better.

That is why we instituted new guidance on Racial and Ethnic Diversity Disclosure, in which we stated how we would drive better disclosure on racial and ethnic composition of boards in 2021 and 2022. For 2021, our expectation was that, if a company in the S&P 500 or FTSE 100 did not disclose its racial and ethnic composition, we would vote against the Chair of the Nominating & Governance Committee. We were also clear that, in 2022, if a company in the S&P 500 or FTSE 100 did not have at least one director from an underrepresented community, we would vote against the Chair of the Nominating & Governance Committee.

As part of our work on gender and equality, we continue to lead the market with our Fearless Girl campaign. Since we began this campaign, 948 (more than 60%) of the 1,548 companies we identified that had all-male boards have added one or more female directors. Whilst this is an improvement on board diversity, it's not the end goal of our work. In 2022, we expect that all companies we invest in, across the globe, will have at least one woman on their board.

This significantly expands upon our historic approach, which applied this approach only to constituents of major indices in select global markets. If we do not see companies engaging on this topic, we are prepared to vote against the Chair of the board's Nominating Committee or the board leader. Additionally, beginning in the 2023 proxy season, we will expect boards to comprise at least 30% women directors for companies in major indices in the US, Canada, UK, Europe, and Australia. We expect this change to result in boards with 3 or 4 female directors on average and as many as 3,000–4,000 additional female directors across covered indices.

We look forward to working even more closely with our clients, regulators, and our other stakeholders as we enter the next stage of our stewardship journey.

**Statement From
Lori Heinel, CIO, State
Street Global Advisors**



We recognise that a crucial element of good stewardship for our clients is the continued enhancement of our approach to ensure we remain aligned with our mission, client expectations, and ESG commitments. This year's report highlights a number of areas where we believe we have done just that.

We have also identified some areas where continuing improvement is necessary, one of which relates to our stewardship of non-equity assets. To demonstrate our developing stewardship of non-equity assets, this report includes some relevant examples of the work we have done beyond engagement and proxy voting. I am particularly proud of the work we are doing around our direct real estate investments in Europe to meet carbon reduction targets. In 2022, we will further develop our stewardship of fixed income assets, particularly with regard to how we engage with clients.

We continue to improve our stewardship practices and processes with an ever-present focus on satisfying the long-term needs of our clients. Below is a summary of several areas that we focused on in 2021 and where we are committed to building on progress in 2022.

Investment in R-Factor™

In 2019, we launched our ESG scoring system — Responsibility Factor (R-Factor) — based on a transparent framework of materiality.¹ Since then, we have continued enhancing R-Factor. In 2021, we expanded our coverage universe and now score more than 10,000 companies. This provides us with an effective prism through which to assess sustainability risks and ESG opportunities in our clients' portfolios. We have developed in-house sustainability screens to help identify companies for proactive engagement. These screens leverage R-Factor scores to identify sector and industry outliers for engagement and voting on sustainability issues. We also use R-Factor to help clients understand their portfolio exposures.

Our approach is enriched by assessments from our Asset Stewardship Team, which actively engages directly with companies, allowing us to leverage their expertise to map hundreds of governance metrics and assign custom weightings for each metric across six global regions. By linking together our R-Factor analysis of companies and our engagement processes, we focus our efforts on those companies that score poorly in R-Factor.

We currently vote against companies that fail to improve their R-Factor score and show no signs of taking action to improve their score. In 2022, we will continue to vote against companies where we do not see action to improve their score; we will now also vote against companies that show a downward trend in their R-Factor scoring as well as those that consistently underperform their peers in the same market sector.

Our Use of ESG and Climate Analytics

Following a robust research and due diligence examination of more than 35 ESG data providers, we partner with 13 best-in-class ESG data providers that can offer valuable insights into client portfolios. To support our clients in their assessment of ESG risks embedded in portfolios, we have developed an ESG and climate analytical platform, which gives us the capabilities to assess and monitor progress on carbon emission metrics such as carbon intensity and reserves, greenhouse gas emissions, as well as a full scope of ESG portfolio analytics on ESG scores, controversies, and business involvement. This data and analysis helps us to provide valuable insights to our clients as to how their investment portfolios perform on these ESG risk areas.

Establishment of Client Unit Function

The Asset Stewardship Team works closely with our global client relationship teams to maintain an open and constructive dialogue with clients on the delivery of our stewardship activities. We have recently dedicated some members of the Asset Stewardship Team to meeting our clients' ESG and stewardship expectations. This change ensures we are more closely connected to the needs of our clients and aligned with their stewardship priorities.

Resources

To address our expanding and evolving mandate, we have added to the headcount, experience, and expertise within our Asset Stewardship and ESG teams. Moreover, we continue to prioritise the expansion of our teams, as well as increasing investment in the areas of technology, infrastructure, and data. With our focus on climate change and our commitment to net zero, we understand the importance of expanding our approach to engagement. We believe this is one of the most powerful tools available to us to help move companies, and the wider market, towards achieving a more positive climate change outcome.

Conflicts of Interest

As an asset steward, a number of potential conflicts of interest may arise in our investment activities. We have therefore identified and captured within this report the mitigants that we use and a clear process for governance oversight of such potential conflicts.

In 2022, we have further developed our Conflict Mitigation Guidelines to better capture the processes we already follow internally. We look forward to reporting again in our 2022 report on how this has impacted our management of conflicts of interest.

Focus on Outcomes

We recognise that the expectations of regulators and our clients are more focused on outcomes rather than initiatives. As was the case in 2021, this will remain a key focus area for us in 2022 as we continue to evolve our data capture of engagement outcomes. In particular, we will focus on improving the way we record and communicate the outcomes of our engagement and voting activities. Overall, we will ensure that mechanisms are in place to effectively measure, analyse, and report on our efforts to regulators, clients, markets, and our employees.

We will continue to engage with our clients on their climate goals. The case studies that we present in Chapter 5 highlight the climate engagement activities we undertook in 2021 and the positive outcomes achieved by this engagement.

We believe that there is much still to do — the topics we have outlined contain ongoing challenges that cannot be achieved in a year. However, we recognise the importance of the incremental efforts we can successfully support each year to help drive towards the desired longer-term outcomes.

We look forward to detailing our progress in the 2022 report.

Who We Are and Who We Serve

In this section, we have set out the values that drive our stewardship activities. These are initially set and guided by State Street Corporation, and flow through to State Street Global Advisors, informing our philosophy and how we serve our clients.

State Street Corporation

Mission and Values

Our parent company provides a framework for our mission and culture. 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, and operating efficiently and ethically.
- **Stronger Together:** We're passionate about building relationships and creating shared goals that help our employees and clients achieve success.
- **Trust Is Our Greatest Asset:** We're committed to acting with integrity and treating our clients, employees, and stakeholders with fairness and respect.

It is 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' portfolios. Our employees help us create long-term value and constantly innovate better ways to provide services to our clients and engage with our stakeholders.

**State Street
Global Advisors**

Mission and Values

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 high standards of conduct that ensure our business is run in an ethical and responsible manner.

Our mission is to invest responsibly to enable economic prosperity and social progress. Our mission is evidenced by our enduring commitment to ESG principles across our investment strategies. Our ESG beliefs are central to our corporate mission and encompass the following tenets:

- 1** We believe that identifying and systematically incorporating material ESG issues is integral to our role as fiduciaries of our clients' capital.
- 2** As one of the world's largest asset managers, we partner with clients to achieve their ESG objectives through our global expertise in ESG research, investment strategy, and data analytics.
- 3** Our stewardship role in global capital markets extends beyond proxy voting and engagement with issuer companies. We seek value for our clients through thought leadership, engagement, and disclosures.
- 4** Companies embracing ESG best practice have strong, effective, independent boards and incorporate sustainability into their long-term strategy.
- 5** State Street's values define what we stand for and the behaviours we want to encourage in each other. They unite us as an organisation and guide every decision we make.

Our Company

State Street Global Advisors, a fully owned subsidiary of State Street Corporation, is one of the world's largest asset managers, responsible for \$4.14 trillion in assets under management and the third-largest provider of exchange-traded funds globally (as of 31 December 2021).² We recognise our role within financial markets, given our size and scope.

We are a global scaled Index and systematic investment manager, with strengths in Indexing (institutional and ETFs) and Cash, as well as select active and multi-asset capabilities, underpinned by a strong ESG ethos.

ESG offers a source of increasingly valuable information for investors, impacting both potential returns and risk. Our Index business is evolving rapidly, propelling innovative approaches to investing that take ESG criteria into account.

Whether driven by regulation, investment beliefs, or values — many of our investors are asking how their indexed investments can adapt to this new realm. As growing data availability creates the opportunity to integrate ESG into index portfolios, we continue to broaden our toolkit to help our clients future-proof their portfolios with leading-edge solutions.

Our active and index capabilities span the investment spectrum.

Figure 1
Assets Under Management
Split by Asset Class

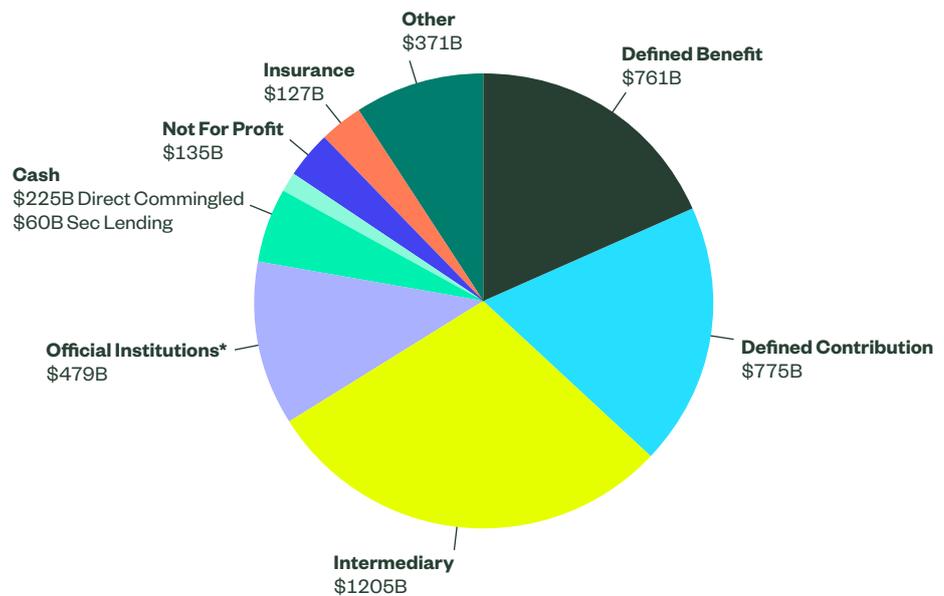


Source: State Street Global Advisors, 31 December 2021.

* Cash includes both floating- and constant-net-asset-value portfolios held in commingled structures or separate accounts.

† Alternatives Includes real estate investment trusts, currency and commodities, including gold-backed ETFs for which SSGA only serves as marketing agent.

Figure 2
US \$4.14 Trillion in
Assets Under Management²
Clients by AUM



Source: State Street Global Advisors, 31 December 2021.

* Official Institutions is a client type that includes all plan type assets including DB and DC.

As a long-term holder of the constituents of the world's primary indices, it is imperative that we use our voice and vote to influence companies on long-term governance and sustainability issues. We firmly believe in the impact our voting and engagement can have in creating value for our clients. We use sustained, multi-year engagements to drive improved disclosure and standards around material ESG risks and opportunities and the long-term preservation of the value of the companies in which we invest.

Stewardship Programme Philosophy and Objectives

Our stewardship philosophy is an extension of our mission and values to protect and promote the long-term economic value of client investments. 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, seeking feedback, 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 identifying engagement priorities that focus on sector, thematic, and/or market-specific issues. We work (where such activities are permitted by law) with other stakeholders in markets where we believe collective action is needed to promote market enhancements towards best practice.
- 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 (1) screening our portfolio holdings on performance and, where applicable, ESG factors to prioritise our engagement efforts and (2) by constructively engaging with senior management and board members to effect change in investee companies. R-Factor, our proprietary ESG scoring system, plays an important role in informing our Stewardship process, including our screening, voting, and engagement with investee companies (for more information on R-Factor, please see Chapter 3 of this report). 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.
- Create outcome-oriented stewardship. To measure and demonstrate impactful outcomes, 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 as well as perseverance and commitment to our process. Examples of this can be found in Chapter 5 of this report.
- As fiduciaries, we recognise the importance of being accountable to our clients. As such, we aim to provide transparency of our stewardship activities through meetings with clients, publication of quarterly stewardship activity reports, ESG thought leadership, and other information reported publicly online. During our meetings with clients, we actively seek feedback and input to help inform our stewardship priorities.

Who We Serve

Our Client Base

Figure 3

**Our Capabilities Deliver
for Our Diverse and
Global Client Base**

As one of the world's largest asset managers, we serve a diverse range of clients across the globe. Below is a high-level summary of our firm as at 31 December 2021.

\$4.14	2100+	30
Trillion in Assets ²	Clients ³	Million DC Participants ⁴
58	10	24-hour
Countries with Clients ³	Investment Centers ³	Global Trading Capability ⁵

Source: www.ssga.com/ie/en_gb/institutional/ic/about-us/who-we-are

Our institutional clients include pension providers, intermediaries, institutions, and not-for-profit organisations. We are also a leading partner to some of the largest government retirement plan providers and sovereign wealth funds globally. Consequently, for many of our clients the investment horizon is measured in decades. Although we do not have direct relationships with retail clients, we are acutely aware that the services we provide to institutional investors ultimately impact their underlying investor base. For example, underlying the pension scheme clients with whom we work are individual scheme members and beneficiaries, whose future financial well-being and retirement security is impacted by the role we play. A breakdown of our clients by type and by geography follows.

Figure 4
Client Assets Under Management
 Net AUM

Institution Type	
Intermediary	\$1.2T
Institutional	\$2.9T
Geography	
Americas	\$1.5T
APAC	\$0.6T
EMEA	\$0.5T
Other*	\$1.5T

* Other includes Securities Lending Pools, SSGA Funds, Mutual Funds, ETFs, and other investment vehicles where underlying client data is unavailable. Includes SPDR Gold Fund, for which SSGA only serves as marketing agent.
 Source: State Street Global Advisors, 31 December 2021.

We partner with many of the world's largest, most sophisticated investors and financial intermediaries to help them reach their goals through a rigorous, research-driven investment process spanning both indexing and active disciplines. The majority of our investments lie across our intermediary business as well as our defined contribution and defined benefit businesses. We do not currently have any direct retail clients. Below is a brief description of our key end-clients and how we work with them.

Pension Schemes We work with employers to help millions of people live more secure and dignified retirements, serving defined benefit and defined contribution pension plans and other pension providers around the world.

Investment Consultants We partner with consultants to share investment insights and expertise to help their clients achieve their unique investment goals.

Endowments and Foundations We help endowments and foundations fund educational, scientific, and environmental breakthroughs by offering a wide range of solutions and products to help them achieve their goals regardless of the time horizon.

Countries We help countries build their infrastructure, implement monetary policy, and save for future generations by partnering with central banks, governments, and sovereign wealth funds.

Financial Advisors and Other Intermediaries We work with financial advisors and other intermediaries to help them and their clients create better financial futures — from registered investment advisors in the US to discretionary wealth managers and private banks in Europe — by offering them a variety of ETFs and model portfolios.

Corporate Treasurers and Chief Financial Officers (CFOs) We work with Corporate Treasurers and CFOs to help their companies meet their financial commitments and fiduciary obligations, as well as to reinvest in their businesses through a variety of cash management solutions.

Asset Managers We act as sub-adviser for our asset manager clients and solve complex needs such as portfolio transitions and solutions for liquidity within an asset class.

We have a client-first approach, whether our clients are focused on risk management, responding to new regulations, making investments that align with their values, or seeking to enhance long-term performance. Our ultimate aim is always to secure the financial future of our clients.

As we manage portfolios that are long-term holders of capital, it is imperative that we assess and manage ESG risks on an ongoing basis. This is especially important given the long-term and unpredictable nature of systemic risks, such as climate change, whose impact may play out for decades to come.

We have integrated ESG considerations into our investment decisions and investment processes, where appropriate. We have also developed ESG-specific investment and asset stewardship capabilities that enable our clients to achieve their ESG objectives and investment goals while contributing to sustainable economic prosperity and growth.

Case Study: Decarbonisation in Investment Portfolios

Below is a case study explaining one of the ways in which we have sought clients' views on ESG issues and used them to inform our stewardship activities.

Background: In 2021 we conducted a survey of over 300 institutional investors, many of whom are our clients, to help us better understand their views on decarbonisation. We surveyed senior executives with asset allocation responsibilities at institutions including private and public pension funds, sovereign wealth funds, endowments, foundations, and official institutions from around the world.

Findings: We found that, although only 20% of investors have committed to a specific portfolio decarbonisation target, a further two-thirds say they will do so within the next three years. In total, over three-quarters (77%) of respondents were already taking (either targeted or non-targeted) action on decarbonisation. Equities and fixed income are top priorities for institutional investors concerned with decarbonisation, but all asset classes are under consideration. Respondents' preferred strategy to address climate issues is strong asset stewardship and engagement, followed by more robust climate criteria for selecting asset managers, then supplementing existing portfolios with climate-themed managers.

Outcome: Our survey showed that our clients and other investors view decarbonisation as an increasingly important topic. They clearly told us that priority should be given to stewardship and engagement with investee companies as a mechanism to drive change. As a result, we are working with our data providers to continually improve the quality of the carbon-related data we hold on our investee companies. This data informs how we engage with our investee companies and the changes we want them to make in relation to their carbon footprints and decarbonisation targets. Where appropriate, we use our votes to reinforce the views of our clients.

Responsible Investing at State Street Global Advisors

In this section, we discuss the ways in which State Street Global Advisors integrates stewardship and investment, including material environmental, social and governance issues, and climate change, within our investment processes. We approach ESG investing in four ways:

- 1 Exclusion** Building on more than 30 years of experience with screened portfolios, we have developed a firm-wide approach to ESG screening. This approach represents the shared perspective of all State Street Global Advisors investment teams across equities, fixed income, and alternatives, and across both index and active investment styles. The exclusionary approach offers clients a thoughtful way to express their values or risk mitigation preferences in their portfolios. We use a variety of externally provided screening data sets to implement clients' preferences.
- 2 Best in class** Utilising R-Factor as well as other ESG data sources, we have the capability to invest in sectors and companies selected for superior performance, relative to their respective investment universes and industry peers.
- 3 Thematics** Our thematic strategies focus on a range of themes, including gender diversity and climate. For investors seeking to align portfolios with the Paris Agreement and the transition to a low-carbon economy, we offer a variety of options, including low-carbon mitigation, as well as a combined mitigation and adaptation approach.
- 4 Integration** Our active portfolio managers integrate ESG signals and factors, where appropriate, in efforts to mitigate risk and identify opportunities for long-term performance potential.

Our investment teams are given a variety of tools to support them in the implementation of these approaches, which we discuss later in this chapter. We will also address the way we integrate responsible investing into our investment strategies across the various asset classes in which we invest.

Most of our ESG assets are within Equity Index and Smart Beta strategies, and our Global Equity Beta Solutions team integrates ESG either through the index itself (e.g., an index that either incorporates ESG characteristics or has sustainable investment as its objective) or as a custom solution, constructed through our beta solutions capability.

Our Approach to ESG Exclusions

At State Street Global Advisors, exclusionary screening can be applied to portfolios as a standalone ESG approach, or in combination with other styles, such as thematic investing or integrating ESG into the investment process. Screening may sound simple, but the process can involve a significant amount of judgment on the part of asset managers, or the third-party data providers with whom they partner to conduct exclusionary screens.

The majority of our mandates are client directed; therefore, it is the choice of our clients if or how they apply exclusionary screens. Still, we believe it is important, where appropriate, to offer our clients our own perspective on how to conduct exclusionary screening. This perspective, which we have named Point of View (POV), is guided by the same rigour that guides all of our work. More detail on POV is set out later in this chapter.

POV: Guiding Principles

Four guiding principles inform our exclusionary screening POV (as of December 2021):

- 1 Systematic and Transparent Approach** We follow a well-defined methodology that can be flexibly applied to different use cases.
- 2 Leverage Available Data** We typically use inputs from multiple data providers where accessible to us, which broadens our overall coverage universe.
- 3 Awareness of Impact on Tracking Error** Our point of view is attentive to the impact on tracking error of excluded securities.
- 4 Strive for Firm-Wide Consistency While Accommodating Differences** We deviate where appropriate to adapt to investment styles, legal requirements, and/or market-specific norms prevalent in certain regions.

“Best in Class/ Positive Screening”

Under our ‘best in class’ approach, we determine which investments should be actively included within our ESG-focused funds and portfolios, based on the positive ESG characteristics they exhibit. We invest in companies, sectors, and countries selected for superior ESG performance relative to their peers.

To facilitate this, we have developed new ESG indexes in partnership with Bloomberg and SASB powered by R-Factor (explained in greater detail later in this chapter), where we seek to improve financial outcomes by incorporating ESG data into research and security-selection processes. This family of indices, known as the Bloomberg SASB ESG Indices, includes equity and fixed income ESG indices, and focuses on the subset of ESG factors most likely to materially impact the financial condition or operating performance of companies in a given industry. This is accomplished by aligning with the SASB Materiality Map, which means that only material, financial ESG factors are taken into consideration.

Thematics

Our thematic investing capabilities enable our clients to align their portfolios with the transition to a low-carbon economy and climate initiatives such as the Paris Accord and Net Zero Asset Owner Alliance. For investors seeking to align portfolios with the Paris Agreement goals and the transition to a low-carbon economy, we offer a variety of options across equities and fixed income.

Our suite of Sustainable Climate Strategies are designed to address climate change through two main approaches. The first is through reducing the level of greenhouse gas emissions, which is referred to as climate change mitigation. The second is climate change adaptation, which addresses how to adapt to the climate change taking place and how to build resilience.

ESG Integration

We systematically integrate material ESG factors and stewardship into our investment approach for asset classes and regions, where appropriate. Each asset class chief investment officer (CIO) oversees the implementation of ESG investment strategies by portfolio managers and research analysts. We also have recurring cross divisional and functional ESG meetings that bring the various teams together to update each other and share best practices.

All our global investment teams manage ESG portfolios and conduct ongoing research on ESG data and themes. 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 and with support from our ESG subject-matter experts.

Tools Available to Our Investment Teams

Our investment teams utilise a number of different data and analytical tools in the various approaches to ESG investing. Our ESG data platform includes 40 datasets from twelve data providers, leveraging thematic information from leading third-party vendors like MSCI, Sustainalytics, Moody's, FTSE, Refinitiv, and S&P Trucost. These data cover a range of matters from ESG ratings and scores, thematic ESG topics like climate (carbon emissions, fossil fuel reserves, brown and green revenues, physical and transition risk, carbon value at risk, Paris Alignment, and Net Zero efforts), corporate governance, controversies, product involvement, and impact. Below we have set out additional information on two ways State Street Global Advisors employs those raw ESG data to create ESG models and screens — R-Factor and POV.

R-Factor

What Is R-Factor?

Responsible investing requires a tool 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. We have developed a proprietary scoring mechanism which we refer to as the Responsibility Factor, or R-Factor. R-Factor scores draw on multiple data sources and leverage widely accepted, transparent materiality frameworks from SASB and corporate governance codes to generate a unique ESG score for listed companies. R-Factor helps to address market infrastructure challenges around ESG data quality.

How We Use R-Factor

We currently score more than 10,000 issuers and we are continually expanding our coverage universe. This provides us with an effective prism through which we can assess sustainability risks and ESG opportunities in our clients' portfolios.

R-Factor is used by State Street Global Advisors for stewardship purposes and in its management and reporting of portfolios that incorporate R-Factor. For example, we have developed in-house sustainability screens to help identify companies for proactive engagement. These screens leverage R-Factor scores to identify sector and industry outliers for engagement and voting on sustainability issues. We also use R-Factor to help clients understand their portfolio exposures.

For more information see: [R-Factor — A Roadmap to Build Sustainable Companies](#). Please also see Chapter 5 for additional information on how we used R-Factor to support and enhance our engagements with our portfolio companies.

Our standard POV screens employ, where possible, a 10% revenue threshold and focus specifically on entities with direct involvement (versus ownership criteria) in a particular area.

In addition, our POV screens leverage ESG data provided by Sustainalytics and, whenever available, MSCI, and are updated on a quarterly basis. We apply focused lists and 10% revenue-based metrics with the intention of concentrating our restricted securities on those issuers with meaningful involvement in the product, issue, or topic in question, rather than more indirect or minimal involvement. Our intention is not to screen every issuer that touches the topic in question, but rather to screen those with significant involvement. This allows us to balance screening preferences with other investment considerations.

Figure 6
MSCI World/MSCI EM Companies and Market Cap Coverage, by Fossil Fuel Screen Revenue Threshold

	Revenue Threshold of 10%
MSCI World Coverage by Number of Companies (%)	94.63
MSCI World Coverage by Market Cap (%)	95.29
MSCI EM Coverage by Number of Companies (%)	91.55
MSCI EM Coverage by Market Cap (%)	89.18

Source: Sustainalytics and State Street Global Advisors. As of 31 December 2021.

Integrating Responsible Investing Across Our Asset Classes and Investment Strategies
 Equity Investments

Index

For our index investment strategies, when appropriate, our global and regional CIOs represent our investment teams by participating in company engagements and by meeting regulators, alongside the Asset Stewardship Team.

In addition, where appropriate, the Asset Stewardship Team presents insights to our internal investment teams on ESG issues that are related to market policies. One way we achieved this in 2021 was through creating an internal “Climate Club”, which includes a number of different teams from across the business. We used the Climate Club to share information about climate insights between the teams, making market and company intelligence available across relevant teams.

Climate change is one area where we have been developing specific products to help our clients avoid specific ESG risks. Our investment capabilities are designed to help investors meet their carbon and climate goals while achieving benchmark returns. Examples of our solutions follow.

Sustainable Climate Strategy The State Street Sustainable Climate Strategy is a long-only investment approach that uses a mitigation and adaptation methodology to build climate change thematically into equity portfolios. Designed from the ground up to be flexible, the customisable framework allows us to create client portfolios that target reductions in current and future carbon emissions, increase exposure to green revenues and increase resiliency to the physical risks posed by climate change. The Strategy is aligned with the most ambitious goals stemming from the landmark 2015 Paris Agreement — including limiting climate change to the 2° Celsius warming scenario over the 21st century. It’s designed for investors who wish to prepare their portfolios for the transition to a low-carbon economy in a scalable and risk-aware way.

Low Carbon Equity Index Strategy This is a fully customisable equity exposure, which allows clients to select their preferred carbon-reduction objective or targeted tracking error.

Case Study: St James' Place Sub-advisory Relationship As announced in November 2021, we are one of three new sub-advisors to the St James' Place £14 billion Global Equity Fund that has been restructured to bring it in line with the SJP's criteria for responsible investing and its Net Zero commitments. We have been engaged to manage one of three strategies within the fund using a variant of our Sustainable Climate Equity strategy. In their press release, SJP commented that: "[State Street Global Advisors and the other sub-advisors] have proven track records in integrating responsible investing and Environmental, Social and Governance (ESG) factors into their investment processes and offer greater diversification of investment styles and exposures."

Active Quantitative Equity

The approach to ESG integration in our Active Quantitative Equity (AQE) team is based on the belief that material ESG risks and opportunities can impact the long-term performance of companies. Our view in AQE is that better-quality companies, as measured by scores on relevant ESG metrics, will deliver better risk-adjusted returns than weaker companies over the long term.

Our approach to the integration of ESG considerations in AQE is therefore anchored on the concept of financial materiality. For each company, we map raw scores from our ESG data sources to the ESG risks that are most important, in terms of financial materiality, for that company's industry and business lines. This mapping enables us to build a detailed view on each company's overall ESG rating, and therefore its return potential.

These ESG ratings are directly incorporated as quality factors within the stock-selection model that generates AQE's stock-return forecasts. ESG is a non-traditional metric that captures difficult to measure corporate characteristics, and we find it exhibits low correlations to traditional financial quality measures, providing unique insights and additional diversification benefits.

In AQE, we can further integrate climate or ESG considerations into our clients' portfolios through our portfolio construction process. We manage, for example, portfolios with exclusionary, norms-based screens, low-carbon tilts, and broader climate strategies, to provide the targeted exposures our clients require.

Active Fundamental Growth and Core Equity

Our Fundamental Growth and Core Equity (FGC) team takes an active, concentrated, high-conviction approach to equity investing. The FGC team conducts company-level, fundamental analysis that includes both quantitative and qualitative elements. Qualitative analysis is founded on the team's proprietary framework for assessing quality, called the Confidence Quotient (CQ).

The CQ framework was first developed in 2002 and has been continually refined since. CQ scores generated through the CQ framework and process allow analysts to score key characteristics of a company that we believe will lead to long-term sustainable growth. CQ scores are an indicator of confidence that is comparable across sectors and regions. They are also an excellent communication tool, signalling to the portfolio managers when changes have occurred in the outlook for a company. As such, we consider the Confidence Quotient to be our best forward-looking risk management tool.

In our fundamental research process, we explicitly incorporate ESG factors into our CQ evaluation process. ESG considerations are an inherent part of our investment approach in FGC, because we believe they will improve our assessment of sustainable growth. This includes evaluations of a company's governance, labour practices, and environmental concerns. We believe that poor ESG practices could be detrimental to the sustainability of a company's business model. Such an assessment therefore would likely lower a company's CQ score.

Fundamental Growth and Core Equity's Climate Transition Strategy

We believe that a determined effort by both the public and private sectors to bring about a significant reduction in greenhouse gas emissions in this decade will offer the potential for significant capital growth in equities. This new era of climate transition, when paired with discerning and forward-looking equity investment, presents opportunities for generating significant alpha. Our Fundamental Growth and Core Equity team has developed climate-related strategies which will aim to generate long-term capital growth through investment in equity securities that contribute directly towards climate change mitigation and/or are leaders in their respective industries regarding climate change preparedness, with credible transition plans.

Active Fundamental Value

Our Active Fundamental Value (FV) team has long sought to identify and incorporate material ESG issues into their investment decision-making processes. Analysts will not typically exclude companies on the basis of a low or challenged ESG score. Instead, they seek to understand the underlying ESG issues and their potential impact on earnings power, balance sheet strength and the value of the business. Their priority is long-term return, and they seek to focus on the price paid compared to the risk taken.

In cases where, after analysis, the team have a positive view of both the fundamentals and valuation of a company, they may still invest despite a challenged ESG score. The team coordinates with our Asset Stewardship team to engage with portfolio companies' management on a regular basis, pushing these firms to examine financially material ESG issues and improve disclosures.

Fixed Income Investments

We manage both fixed-income index and active strategies. Our fixed-income index strategies include approaches which seek to minimise costs and tracking error while adding value through a stratified sampling approach. Our active strategies in fixed income can be heavily reliant on credit research assessments.

ESG factors play a particular role in helping to better assess events that can impact creditworthiness and valuation. In particular, corporate governance plays an overarching role in fixed-income credit assessments. Governance structures drive risk policies and can safeguard proper checks and balances. The same investment considerations may also be applicable to environmental and social factors.

Integrating ESG factors into fixed income investing can be complex given the wide spectrum of available security types. Robust ESG data now exists for most corporate bonds, but it can become more challenging to assess sustainability risks of other fixed income security types, such as sovereign bonds and securitised products. Most recently our fixed income teams have developed low-carbon and climate investment strategies, helping investors not only reduce the environmental impact of their portfolios but also fund the transition to a greener economy.

Within our fixed income indexing capabilities, sustainability risk can be integrated in a number of ways — similar to equities, this could be through the index itself (such as a third-party index) or by deploying screens, tilts, or stratified sampling techniques using ESG factors. Similar to equity indexing strategies, mandates with the sole objective of replicating the return of a non-ESG fixed income benchmark do not consider sustainability risk in investment selection, because the primary driver of investment decisions will be the constituents of the relevant index.

Our active fixed income teams consider sustainability risk in their investment decision-making process by utilising R-Factor and other tools and data sets to consider the impact of ESG issues on an issuer's creditworthiness. In addition, our Risk team increasingly considers sustainability credentials in its counterparty selection and oversight processes.

Cash management combines short duration and high-quality investments (those, in the team's view, carrying minimal credit and liquidity risk) with the primary objectives of principal preservation and access to liquidity. ESG factors are available for portfolio managers to consider as part of their cash investment analyses and portfolio construction process/philosophies. These ESG factors focus on risk mitigation, as well as balancing regulatory and rating requirements.

The R-Factor score has been integrated into our Global Cash systems and investment process. As a result, our investment professionals have real-time access to approved issuers and their corresponding R-Factor score. Similar to issuer ratings, the R-Factor score is an input to the credit process but is not the driver of the overall investment decision. Notably, we have found that there tends to be a positive correlation between the historical benchmark that the Global Cash team uses to measure credit risk for our universe of approved investment issuers (an internal investment maturity restriction) and the R-Factor score for that universe of issuers. In other words, approved investment issuers with longer maturity restrictions tend to have higher R-Factor scores.

Green Bonds

We have been an active investor in green bond issues globally since April 2015. We believe green bonds are one of the most effective financial vehicles available for companies and countries to finance their transition to a more climate friendly and sustainable infrastructure. Such transition is necessary for companies to meet the goals and objectives of the Paris Agreement. We are also a close partner with the Climate Bond Initiative, with whom we are coordinating research on this important topic.

Debt Investment Engagement

Without an annual vote, creditors have limited ability to engage with and influence management behaviour. Instead, 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, cash flow generation and utilisation, and financial leverage. However, ESG risks can also impact returns on fixed income assets. We work to manage these risks through our fixed income stewardship programme.

The two core elements of our fixed income stewardship programme are Proxy Voting and Issuer Engagement.

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
- Authorising procedural matters, such as filing of required documents/other formalities
- Approving debt-restructuring plans
- Abstaining from challenging the bankruptcy trustees
- Authorising 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 engage with issuers on voting matters prior to arriving at voting decisions. We make all voting decisions in the best interests 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, cash flow, and volatility of a company within a sector.

Issuer Engagement We recognise 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 part of our annual asset stewardship planning process, we identify thematic sustainability priorities that will be addressed during most engagement meetings. We develop our priorities based upon several factors, including client feedback, emerging sustainability trends, developing macroeconomic conditions, and evolving regulations. These engagements not only inform our voting decisions but also allow us to monitor improvements over time and to contribute to our evolving perspectives on priority areas.

We continue to develop our approach to fixed income stewardship, and we seek to enhance the tools we have available to engage and seek improved outcomes from companies with which we hold fixed income instruments. We look forward to detailing this progress in our 2022 Report.

Alternative Investment Strategies

Our Investment Solutions Group (ISG) division engages with clients to fulfil their plan and investment mandates. Where ESG considerations are part of those objectives, ISG 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, ISG 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.

ISG portfolios may include long-only strategies, as well as a range of alternative investment strategies, including private equity, private credit, hedge funds and real estate. While ISG looks to harmonise 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 the ESG data continue to evolve, we will enhance our programme and research methodologies accordingly.

As it relates to various 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.

While our real estate teams come up with a development plan for each asset we manage, we are currently developing an escalation strategy to improve upon, and set, targets. Going forward, this strategy may include an approach that calibrates standards to the maturity of the market and to progress against local market standards.

Today, our active direct investment activity largely relates to real estate, where we underwrite and manage directly owned assets on behalf of our clients. Details are below.

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 our client return objectives while managing 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 operating partner background checks and anti-money laundering policies, transit orientation, on-site and local area amenities, tenant evaluations, assessment of wellness facilities, environmental due diligence, and energy efficiency (such as LEED or BREEAM designation, EnergyStar score).

After investing in an asset, we typically work with our partners and/or property managers to identify and implement asset management initiatives that both improve the quality of the asset and maximise the return on investment. It is important to emphasise that an improvement in energy efficiency can serve to both improve the quality and value of individual assets by making them more marketable to potential tenants and investors alike. Positive climate impact projects can therefore serve to deliver positive investment performance.

Using the expertise of specialist environmental consultants, we evaluate the environmental risks associated with each property during our due diligence process, and we do not 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 programmes, and completing renovations that reduce energy usage. We move forward with those programmes if we determine they will also result in a positive economic benefit to the property.

A recent example is an office building we acquired for a client in Dublin's International Financial Services Centre, where we have recently completed an extensive refurbishment of the building's common areas. During this first phase of the refurbishment, a key focus was on optimising the use of existing materials wherever possible, which helped us to not only reduce waste, but also to improve overall energy efficiency of the building. During Phase 2 of the project, which is now under way, the office accommodation is being refurbished with a specific focus on the replacement of existing equipment with newer, more energy-efficient heating, cooling, and lighting systems. These works will significantly improve the building's energy efficiency and marketability in securing new tenants going forward.

Case Study: Our Existing Direct Real Estate Investments

In recent years, our European Real Estate Team has been working with sustainability and energy efficiency consultants on a multi-year project to help our clients' real estate portfolios to meet European carbon reduction targets for 2030 and ultimately for 2050. This project is split into several workstreams:

- 1** The preparation of Climate Impact Reports, which will identify the level of energy being consumed and carbon emitted for buildings. This ongoing project will allow our consultants to make recommendations regarding asset- and portfolio-level emission reduction targets, in line with 2030 and 2050 objectives
- 2** The installation of Automatic Metre Reading (AMR) devices which will ultimately provide real time energy consumption data via an online portal to enhance the accuracy and completeness of the Climate Impact Reporting and Analysis.
- 3** The phased undertaking of ESG Technical Assessments and BREEAM In Use Pre-Assessments of buildings with a view to identifying how the carbon intensity of

assets may be reduced over time to meet the 2030 and 2050 targets. These audits will help to identify areas for improvement in buildings (i.e., refurbishment/upgrade, additional amenities, wellness etc.) and also assist in accelerating plans to divest of assets which do not meet the cost assessment criteria. This, in turn, will allow for capital to be reinvested into more sustainable buildings.

- 4** Individual, asset-specific, carbon reduction projects are being formulated and costed, giving priority to assets with existing or impending vacancy and those readily available for physical intervention.
- 5** In addition to the above technical assessments, we are working with our consultants and property managers to prepare a detailed set of Property ESG KPIs. These KPIs will be designed to assist us in measuring both the performance of our physical properties and also our retained property managers' performance. Our aim for these KPIs is that they align with GRESB Reporting Standards, as our goal is to enlist our clients' portfolios for GRESB Reporting.

Outcome: All of the above actions will contribute to enhancing our integration of ESG in our real estate investments.

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, e.g., that developed by the United Nations-supported PRI, SASB, and other relevant industry bodies.

Indirect Investments

Investment Solutions Group Public Asset-Manager Research

In an effort to ensure that core ESG principles are integrated in these investments, we follow a careful selection and monitoring process for all third-party managers.

Investments with Other Managers

Where we invest in strategies operated by third-party asset managers, we conduct a rigorous evaluation process covering initial screening and due diligence, as well as ongoing monitoring.

Our evaluation process has been developed to include various ESG considerations. For example, when we are screening asset managers and the funds they operate for us, part of our assessment may include their approach to ESG implementation, as well as traditional factors such as assets under management and the investment teams' years of experience. Similarly, the due diligence phase of our evaluation, which we conduct on the highest-potential candidates, involves a more detailed review, typically including more detailed ESG due diligence.

We monitor the performance of third-party asset managers across a range of factors, including adherence to mandate (including any ESG-specific requirements or guidelines we may have put in place). Where we have significant and prolonged concerns about any area of manager performance, we may choose to terminate our relationship with the manager in question. Termination of a manager can be driven by a range of factors, including prolonged underperformance. However, termination may also result from changes in client needs, better opportunities elsewhere, breach of guidelines, investment-professional turnover, deviation of style, failing to achieve expectations, or changes in firm ownership. The termination could also be driven by a change in direction by the investment team.

ESG Manager Ratings

Ongoing monitoring and asset management are key to the manager research process as they will inform the decision to enter the redemption queue or re-up in a closed end fund series. In addition to our investment team's oversight, other functions including Risk, Operational Due Diligence, and Compliance also monitor the manager's activities.

Figure 7
ESG Manager Rating Framework

ESG Manager Rating	Criteria
ESG-R (Responsible/Impact) Manager fully embeds applicable ESG criteria, and is congruent with "RI/Responsible Investment", "Green" and/or "Impact Investment" considerations	<ul style="list-style-type: none"> Investment charter/objective directly states, or by virtue can be identified as one which actively addresses at least one socially responsible cause (e.g. environment, society, etc.) Metrics on specific impact are likely enumerated and monitored In most circumstances, should expect the investment would also meet majority of requisites as related to an ESG-1 rating (below)
ESG-1 (Embedded) Manager fully embeds applicable ESG criteria, incorporating ESG into the investment process for risk mitigation and/or alpha generation purposes	<ul style="list-style-type: none"> The manager clearly identifies an ESG statement, and avails the methodology in written documents Individuals responsible for ESG oversight can be identified (does not need to be their sole responsibility) ESG assessment and/or implementation falls to the investment team Training on ESG topics is provided on a consistent basis Occasional use of ESG consultants for individual investment assessments Various recent examples of ESG incorporation in practice — Most material E, S and G factors considered (e.g. SASB materiality guide) In the case of direct investments (e.g. private equity), ESG is a topic covered by the board annually.
ESG-2 (Partial) Manager embeds various applicable ESG elements, or has acceptable plans to further incorporate applicable ESG into investment process	<ul style="list-style-type: none"> The manager clearly identifies an ESG statement, and avails the methodology in written documents Individuals responsible for ESG oversight can be identified (does not need to be their sole responsibility) ESG assessment and/or implementation falls to investment team Some recent examples of ESG incorporation in practice — Some, but not most, material E, S or G factors considered (e.g. SASB materiality guide) While some elements are missing versus ESG-1 rating, there is a tangible commitment by the manager to sustaining and improving their effort
ESG-3 (Low) Manager embeds little-to-no ESG into investment considerations, or has an unsubstantiated ESG approach with few ESG criteria, greenwashing or other concerns	<ul style="list-style-type: none"> Managers with several elements missing versus ESG-1 or ESG-2 More likely than not, there would be no ESG statement and/or responsible individuals for an ESG programme, and investment team members do not have even a semi-consistent process for ESG assessment Of note, this category is not meant to reflect on managers with high exposure to certain sectors such as energy, tobacco, or transportation. Companies in these sectors can satisfy material ESG consideration as per the SASB materiality guide. Rather, a rating of ESG-3 flags managers without much ESG incorporation. ESG-3 managers are not explicitly prohibited
N/A (Not Applicable) Strategies with no visible ESG interpretation	

Source: State Street Global Advisors. As of 31 December 2021.

Within the Investment Solutions Group, we engage with our clients to fulfil their investment mandates. Where ESG considerations are part of those objectives, we work 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, we assess the ESG policies and practices of our investment partners, leveraging industry standards and techniques to evaluate financially material ESG data across asset classes. All approved managers are given an ESG rating, which reflects the extent to which ESG is incorporated into their investment processes.

UN Principles for Responsible Investment (PRI) Leaders' Group

Our efforts in the responsible investment space have been recognised by the UN Principles for Responsible Investment (PRI), who selected us for their 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 highlights best practices.

The PRI uses signatories' reporting responses and assessment data to identify those that are doing excellent work in responsible investment — across their organisations 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 our strategy and governance, and our active ownership programme 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. We await our 2020 rating, and expect it to continue the trend from 2019.

Background on PRI

The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, the financial markets and economies in which they operate, and ultimately the environment and society as a whole.

As a signatory to the PRI, we have fully aligned our stewardship programme 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 the 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. We have set out more information in Chapter 5 about our use of R-Factor to enhance our stewardship programme in 2021.

Figure 8
**State Street Global
 Advisors' 2020 (FY2019)
 Assessment, Principles for
 Responsible Investment**

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

4 Identifying and Managing Systemic Risks

This section provides an overview of our risk management framework and explains how we generally identify and respond to market-wide and systemic risks — and specifically, the risks we identified and responded to in 2021.

Structure and Approach to Risk Management

State Street Global Advisors leverages Three Lines of Defence principles in designing its overall risk framework to drive strong risk accountability, identification, monitoring, and control improvement activities. The First Line business and support teams have direct risk ownership and risk management responsibilities. These teams are supported by an embedded and dedicated Business Risk Management Executive (BRME) Team with dual reporting lines to the Chief Administrative Officers of State Street Global Advisors and of State Street Corporation, respectively. The Second Line Risk and Compliance Teams establish and monitor adherence to the risk and control framework and create an additional layer of independence. The Third Line Audit Team then provides final assurance that the First and Second Lines of Defence are designed and operating effectively in carrying out these responsibilities.

The Second Line risk approach is driven by our Enterprise Risk Management Group, led by the Chief Risk Officer. This group includes our Investment, Liquidity, Counterparty, Model, Operational Risk Management, and Chief Operating Officer (COO) Risk Teams and is tasked with monitoring, supporting, and ensuring the management of business risks throughout the organisation. The Enterprise Risk Management Group's mission is to protect both our firm and our clients from unintended risks by providing an independent assessment framework to evaluate risk exposures and process controls across asset classes.

Environmental, Social, and Governance (ESG) Integration

In recent years we have focused on integrating ESG into our risk management processes. In 2021, the Risk Management Team set ESG goals aligned to our ESG priorities, to ensure that its approach to risk management took into account ESG considerations. We took this step because we believe that embedding ESG into our processes helps ensure ESG is front of mind in the risk team's daily operations. We also reviewed our risk management processes for ESG risks and enhanced our processes where needed. As an example, we established ESG risk monitoring and engagement in risk reviews with investment teams on ESG exposures to ensure ESG-related risks are captured and are in line with investment objectives during various stages of the investment cycle. This step was taken across all strategies with more emphasis and usage of tailored risk monitoring metrics for strategies that have explicit ESG objectives. In 2022, we will seek to continue to build out our climate risk management framework, to ensure we are appropriately measuring the risks attached to climate change impacting State Street Global Advisors, as well as our products. We look forward to providing an update on this process in our 2022 Report.

Identifying Systemic Risks

Emerging Risk Review Framework

We have established an emerging risk review framework that allows the risk team to proactively identify and respond to market-wide and systemic risks in the global financial system and global economies. The framework is intended to help mitigate and manage uncertainties in investment strategies and/or funds by proactively measuring and quantifying associated risk, thereby enabling a preventive approach to risk management. We have built out our risk management framework to include systemic risks such as climate change, which we consider transversal.

Over 2021, several emerging risks were identified through the framework and were reviewed, which included:

- Asset price bubbles and the risk of rapid decline in asset prices driven by shifts in investor risk appetite, COVID-19, changes in interest rates, or hiccups in the ongoing economic recovery.
- Increasing inflationary pressures due to fiscal stimulus and supply constraints, and associated rising interest rate pressures.
- The continued impact of the COVID-19 pandemic on global economies.
- Physical, economic, and regulatory risks posed by climate change.
- Geopolitical risks: Global decoupling and the heightening of political or economic instability or conflict that could lead to sovereign default, currency devaluations, or economic contagion.

Investment Risk

The Investment Risk Team is responsible for independently monitoring investment risk exposures to ensure that risk contributions are consistent with return expectations and to highlight intentional and unintentional exposures. Attention is focused on where we have risk, how much risk we have, and whether it is consistent with our views and client objectives. In addition, the team provides portfolio level risk reporting to investment managers to help ensure that they are taking appropriate level risks in the portfolios.

Liquidity Risk

The Liquidity Risk Management Team is responsible for independently monitoring and reporting on asset and funding redemption liquidity risk to ensure appropriate levels of liquidity risk across the portfolios and to highlight intentional and unintentional exposures. Liquidity risk remains a systemic risk, and in 2021, the Liquidity Risk Management Team held several calls with regulators to discuss a range of such risks and the tools available for mitigation purposes.

Counterparty Risk

The Counterparty Risk Management Team is responsible for establishing firmwide counterparty policies — not only reviewing and approving prospective counterparties, but also monitoring and reporting on counterparty exposures. This group also participates in the approval of new derivative products, provides input into International Swaps and Derivatives Association, Inc. (ISDA) negotiations, and advises on the financial profile of authorised participants for Standard & Poor's Depository Receipt (SPDR) ETFs and security lending borrowers.

Operational Risk

The role of the Operational Risk Management Team is to assist the organisation in effectively managing the risk of errors in people, processes, technology, and external events in conjunction with achieving business objectives. The Team oversees this process by executing a framework to identify, measure, mitigate, and monitor risks. The Team, in partnership with the business, is responsible for delivering a risk governance structure that facilitates risk discovery, prioritisation, and management in order to influence business discussions and decision-making. The Team is also responsible for assessing processes, procedures, and control structures to ensure proper alignment and to promote best practices.

Model Risk

State Street Corporation has company-wide requirements for model risk management, to which our models adhere. The Model Risk Team administers State Street's Model Risk Management (MRM) framework to ensure that model risk is identified, assessed, mitigated, and monitored over time. In addition, at State Street Global Advisors, the Technical Committee (a sub-committee of the Investment Committee consisting of a first-line team of investment professionals) is focused on model risk within the Investment Division (which includes all models used to manage and value funds).

Independent model validation is a formally structured process intended to determine whether a model has been developed and implemented consistently with its design objectives and business uses, and has an ongoing monitoring plan in place. Validation is performed in accordance with State Street corporate guidelines by independent MRM validators or by independent first-line reviewers, specialising in the model's asset class and investment style, depending on the model risk tier. The validation conclusions determine if the model is approved for implementation and use.

These model validators are also responsible for identifying any weaknesses with the model, defining the need for remediation actions, and compensating controls, to address the identified issues and review the completion of remediation actions and compensating controls. Model validation is conducted prior to model use and on a periodic basis with a frequency commensurate with the assessed risk and whenever model changes are made, along with model annual reviews. These guidelines apply to both internally-developed models and to all third-party models (vendor models).

Chief Operating Officer (COO) Risk Team

The COO Risk Team manages the risk infrastructure at State Street Global Advisors. The Team oversees project management of key technology and platform initiatives, as well as the development and execution of our risk strategy, leading coordination across all risk disciplines and ensuring that client and enterprise risks are identified, measured, and monitored in an effective manner. To support this enterprise risk identification process, the Enterprise Risk Management Team prepares an annual overview of the top emerging risks at State Street Global Advisors, with the objective to facilitate an open business discussion on the prioritisation and management of evolving risk trends. The Team is also responsible for ensuring that risk management regulatory requirements are met.

Managing Systemic Risks

Managing Industry Risk and Liquidity Risk

In the past decade, crises have demonstrated that liquidity risk has often been the cause of fund failures and contagion risks across asset classes. We have sought to manage systemic risks from a lack of liquidity by building out a liquidity risk management framework based on: measurement and monitoring; contingency planning; and disclosures, transparency, and governance.

Clear and transparent disclosures have resulted in a clear set of liquidity risk management tools designed to minimise and mitigate liquidity risks for funds. Furthermore, regular table-top exercises are held within each investment and product team, to ensure that the teams are aware of the steps to follow and that processes are well-documented and understood. These steps, along with regular monitoring and governance, have ensured that systemic risk arising from liquidity is well understood and appropriately managed.

In addition, we have engaged in numerous regulatory and industry initiatives that seek to socialise industry best practices on liquidity risk management. For example, in 2021 we met with the European Systemic Risk Board (ESRB) to discuss ways in which asset management activities could impact systemic risks in financial markets. We also presented at the European Fund and Asset Management Association (EFAMA) workshop, discussing liquidity risk management and lessons learned from March 2020.

In addition, we responded to the International Organisation of Securities Commissions' (IOSCO) survey of market participants regarding the implementation of IOSCO's Liquidity Risk Management Recommendations and market participants' responses to the COVID-19 induced market challenges in 2020.

Moreover, we engaged with several global regulators on Money Market Fund reform options. We responded to the European Securities and Markets Authority (ESMA) Consultation Paper on European Union (EU) Money Market Fund Regulation as well as to the U.S. Securities and Exchange Commission's (SEC) request for comment on potential money market fund reform measures as set out in the President's Working Group on Financial Markets' (PWG) December 2020 report.

Given the size of our assets under management (AUM), our engagement and voting practices play a key role in managing systemic risks. We consider key systemic risks when developing our stewardship priorities. For example, we consider Diversity and Inclusion as a key risk, and provide an example of how we address racial and ethnic diversity with investee companies below. Please refer to Chapter 5 for details on our wider Stewardship priorities including climate change and good governance measured through R-Factor.

Stewardship Priorities in Risk Management

A Call to Lead on Racial and Ethnic Diversity

Our Stewardship priorities help drive our approach to mitigating the identified market-wide and systemic risks, in our efforts to support well-functioning financial markets. The death of George Floyd in 2020 and the health and economic inequities amplified by the COVID-19 pandemic underscored the need for deep, structural changes — and the urgent need for Corporate America to take the lead in offering solutions. In February 2021, Cyrus Taraporevala, President and Chief Executive Officer of State Street Global Advisors, outlined steps that we would take in this published [Insight](#).

Outcome: In 2021, State Street Global Advisors formally began calling on our portfolio companies in the United States to follow what we ourselves began two years ago – to publicly disclose their Equal Employment Opportunity (EEO-1) data. This data details the gender, racial, and ethnic make-up of employees in the US. In 2021, only 6% of Russell 1000® companies shared detailed data publicly on their employees' gender and ethnic identities. Providing disclosures is a natural and important first step. Our parent company also developed the [Ten Actions Addressing Racism and Inequality](#) to address racial inequity in our organisation, industry, and community. Looking forward to 2022, we will consider ways to take more direct action through reviewing our voting guidelines.

Effectiveness of Our Risk Management Approach

We are comfortable that our approach to risk management, including the identification of, and response to, market-wide and systemic risks helps promote well-functioning markets. In recent years there has been recognition that we need to focus on improving our governance and oversight of ESG risks. Although establishing an ESG Committee demonstrates significant progress, we will continue to develop our risk governance in this area. Risk team membership of the ESG Committee, and attendance at the Global Product Committee and Investment Committee, will continue to enhance our broader oversight of ESG risks across the business. These are the areas, as highlighted above, that we intend to focus on in 2022, and that we believe will further refine our approach.

In this section we set out the details of our engagement and proxy voting activities in 2021. This includes our engagement and voting philosophy, details on the number of engagements and votes we performed in 2021, as well as some example case studies to show the outcomes achieved from our activities.

State Street Global Advisors' approach to proxy voting and issuer engagement is premised on the belief that companies that adopt robust, progressive governance and sustainability practices will be better positioned to generate long-term value and manage risk. As near-perpetual holders of the constituents of the world's primary indices, the informed exercise of voting rights, coupled with targeted and value-driven engagement, is the most effective mechanism of creating value for our clients. Accordingly, our stewardship programme proactively identifies companies for engagement and voting in order to mitigate ESG risks in our portfolios.

Given the size of our assets under management, 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.

Our approach 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.

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, which we believe is necessary and reflects the anticipated long-term nature of our investments into these companies. Additionally, in order to maximise our impact, we publish thought leadership that is intended to both inform companies and educate market participants. More information on the thought leadership we published in 2021 is included in chapter 7.

How We Engage

Our Asset Stewardship Team has developed our *Issuer Engagement Protocol* 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.

The Protocol explains key engagement processes including:

- Methodology for developing our Annual Engagement Strategy
- Information to include in Engagement Request emails
- Information on how to request R-Factor scores
- Our guidelines for engaging with investee companies
- Our guidelines for engaging with activist investors or investors soliciting our votes in connection with Vote-No campaigns or shareholder proposals
- Investor engagement protocol guidance

A copy of the Protocol [can be found here](#).

We review our Issuer Engagement Protocol annually as part of our Asset Stewardship Team's strategic review process, 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. There is an intentional lag of one or two years between changes in many of our voting policies and changes in our voting, to encourage companies to take action during this time period. We believe that this approach leads to the best outcome for our clients, and for companies — allowing time to react to our input, rather than taking voting action against companies. In addition, we will often test our proposed policy on a topic before it goes into effect — this ensures that our approach is considered and aware of the challenges it may place on a company, such as additional costs outweighing the benefits that we are intending to achieve.

We actively seek direct dialogue with the board and management of companies that we have identified through our screening processes.

We focus our engagement activities where we will have the biggest impact, such as where we have our biggest holdings. Other factors — such as ownership-structure overlap with our strategic priorities and contentious issues — are also considered in our engagement approach. We consider the specific cultural and regulatory contexts of markets in which we invest and develop specific voting and engagement guidelines for each territory. These are available [here](#). Our Asset Stewardship Team is located across the globe, ensuring we are well placed to navigate the diversity of markets in which we invest.

Escalation

At the start of each engagement, we define our priorities and objectives for the dialogue with company management. Progress against these objectives is tracked within our internal Stewardship Platform.

We will always prioritise engagement in our communications with investee companies. However, when change is not occurring at the rate that we expect, we use voting as our main tool to escalate issues to company boards. In case of lack of progress, our escalation strategies may include:

- Voting against the re-election of board members or specific resolutions linked to our areas of concern
- Writing to the board of the company to formalise our concerns and requests
- Supporting shareholder resolutions

Our escalation process has 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.

Our escalation approach is adjusted for fixed income engagements where there is no ability to vote. Fixed income escalation, however, may take the form of letter writing or direct engagement. Whilst we believe our approach to equities is mature, we will continue to develop our approach to fixed income engagement in 2022 to ensure we engage across all asset classes we hold in our funds and mandates.

Measuring Engagement Success

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

- A company implementing changes to its ESG-related programmes, practices or processes consistent with our engagement or voting feedback
- Several market participants — such as asset owners, asset managers, consultants or proxy advisory firms — are influenced by our stewardship position and thought leadership on ESG issues
- Regulators responding to our concerns/collaborative initiatives

To better monitor our engagement success, we are in the process of developing additional stewardship statistics and key performance indicators that we can track progress against in order to monitor the impact of our engagement process more effectively. We intend finalise these in 2022 and look forward to reporting on our progress in our 2022 report.

Company-Specific Successes

Assessing the effectiveness of our company-specific engagement process can be challenging to measure. To limit subjectivity in 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.

Please refer to R-Factor-Related Engagement Case Studies on Estée Lauder and HealthEquity, Inc. later in this chapter as examples of this.

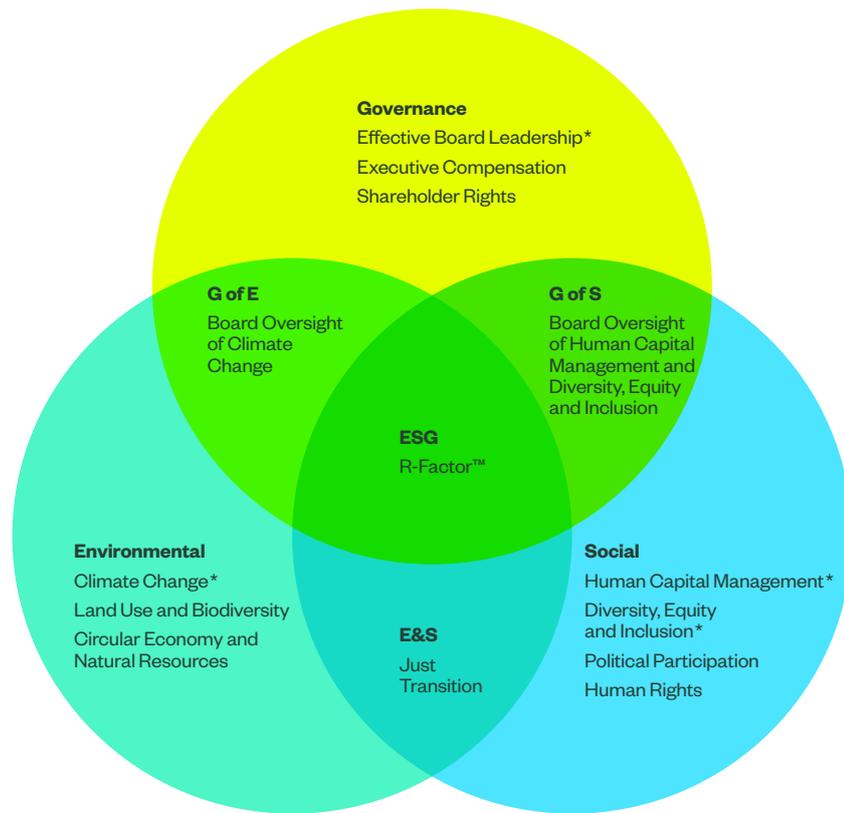
We also track the impact of our proxy votes by reviewing changing trends in market practices on specific corporate-governance or sustainability-related issues that we address through voting action. We report successful engagement and voting actions to clients on an annual basis. We provide some examples of company-specific successes in the Engagement Case Studies section later in this chapter.

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 and advocacy. We detail our efforts and outcomes in this regard next.

As an investor in more than 12,000 listed companies, prioritisation is essential to our effectiveness. Our active target list includes companies across seven main regions/markets (Australia, Canada, emerging markets, European Union, Japan, the UK and the US) of our stewardship activities. 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.

Figure 9
**Engagement Screening
Process**



Source: State Street Global Advisors.
* 2022 Stewardship Priority

Types of Engagement

Active

In 2021, 58% 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.

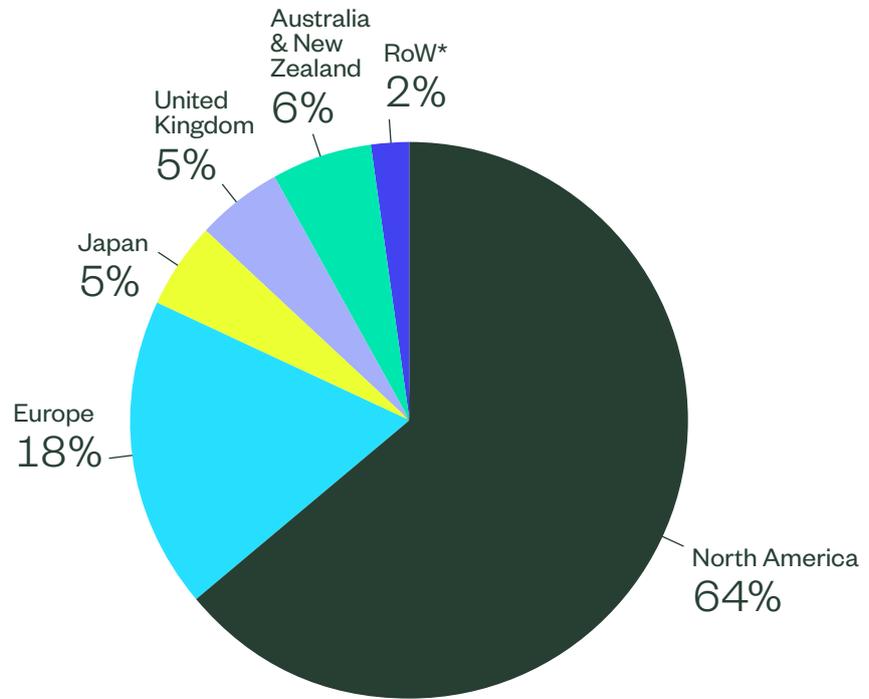
As noted earlier, we actively seek direct dialogue with the board and management of companies that we have identified through our screening processes. Such engagements may lead to further monitoring to understand and improve company practices. In these cases, the engagement process represents the most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

Reactive

In 2021, 42% of our annual company engagements were classified as reactive. Here, members of our Asset Stewardship Team engaged with companies that wished to solicit our votes, seek feedback on corporate governance and sustainability issues as shareholders or seek comment on breaking-news developments. These meetings were typically initiated by the companies, which typically drove the meeting agendas.

Engagement Breakdown

Figure 10
2021 Comprehensive Engagements: Key Figures



Source: State Street Global Advisors 2021 Stewardship Platform. *Rest of the World.

2021 Comprehensive Engagements

878

Portion of Equity AUM Engaged (%)

73%

Environmental

337

Countries

42

Social

478

Human Capital Management Engagement

228

Governance

660

Figure 11
Top 5 Engagement Topics

Stewardship Priorities	877
Human Capital	229
Racial Equity	220
COVID-19	217
Climate-related Reporting	211
Compensation	344
Overall compensation matters	344
Other	545

Source: State Street Global Advisors.

Engagement Case Studies and Outcomes of Core Campaigns

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.

In addition, we have 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 resulting outcomes from high-profile engagements during 2021, as well as voting and engagement outcomes from our core campaigns: Climate Change, Gender Diversity and R-Factor.

Figure 12
Case Studies

Company	Box, Inc
Geography and Industry	United States/Technology
Key Topics	Board Leadership / Board Accountability
Asset Class	Equity
Background	No engagement history with Box prior to the contest.
Activity	<p>Consistent with our approach to protecting long-term shareholder interests in this proxy contest, our team conducted multiple engagements with members of the Box board and management team, as well as the dissident nominees.</p> <p>At the September 2021 EGM, we withheld our support from the Chair of the Nominating & Governance Committee to signal our expectation that the company would take meaningful steps in adopting leading governance practices and foster a stronger culture of regular shareholder engagement moving forward.</p> <p>We also shared our expectation that in any significant decisions on capital allocation and long-term strategy, particularly those with voting implications, long-term shareholder voice is solicited for consideration.</p>
Outcome	<p>We supported management on all other items. The Box board achieved majority support in the shareholder vote and committed to remaining focused on delivering shareholder value while strengthening their company's governance practices and prioritising shareholder voice in their oversight processes.</p> <p>As a result of the company's renewed commitment to adopt enhanced corporate governance practices and to bring transparency to investors, the company has elevated its R-Factor score.</p>
Company	Pfizer Inc.
Geography and Industry	United States / Healthcare
Key Topics	Participation in the political process
Asset Class	Equity
Background	<p>In April 2021, Pfizer Inc. received a shareholder proposal asking the company to provide a report analysing the congruence of political and electioneering expenditures against the company's publicly stated corporate values and policies.</p> <p>The proposal to <i>Report on Political Contributions and Expenditures</i> is a fairly new class of shareholder proposals and represents an evolution of the climate lobbying proposals which we have seen for the past several years. It expands the focus from just climate change to an alignment of broad corporate values and that of the company's political activities. This was the first time that Pfizer had been asked to produce a report comparing its political contributions to its stated values or positions.</p>
Activity	<p>We engaged with the Pfizer management team in 2021 in order to discuss its 2021 AGM proxy, including the <i>Report on Political Contributions and Expenditures</i> proposal. During the engagement, we expressed our view that participation in the political process can present risks to companies, and we expect enhanced disclosure of the alignment of political contributions to the company's stated values or positions.</p> <p>While the company had not disclosed the information requested in the shareholder proposal, we abstained on the proposal due to our productive engagement with the company and understanding that Pfizer would enhance its political participation disclosures.</p> <p>We had a follow-up engagement with the company to check on its responsiveness to our vote and the previous engagement. During the call, Pfizer stated that it will enhance its political participation disclosures in response to the submitted shareholder proposal.</p>
Outcome	<p>The <i>Report on Political Contributions and Expenditures</i> proposal ultimately failed, although it received a high level (47%) of shareholder support.</p> <p>In December 2021, Pfizer responded to our request to enhance its political participation disclosure and for the first time published a report analysing the incongruencies between its political positions and those of its industry associations.</p>

Company	Rio Tinto Plc
Geography and Industry	United Kingdom (Plc) / Metals & Mining
Key Topics	Remuneration / Social Responsibility
Asset Class	Equity
Background	<p>In 2021, we engaged with the Chair of the Board and the Senior Independent Director of Rio Tinto to express our concerns over the exit package of the former CEO who had stepped down over the destruction of an aboriginal heritage site in Juukan Gorge in Western Australia as part of an iron ore mine expansion.</p> <p>Even though the Remuneration Committee applied a malus provision to the former CEO's 2020 long-term incentive award, reducing the vesting outcome by £1 million, and the forfeiting of his 2020 bonus, in our view the exit package (circa £27 million) is still excessive given the gravity of the events at Juukan Gorge in 2020.</p> <p>We believe that there is a case for a more robust application of the malus provisions for unvested awards granted from 2018 onwards.</p>
Activity	As no action was taken by the Remuneration Committee to address our concerns, we voted against the company's non-binding remuneration report resolution
Outcome	The remuneration report was subsequently rejected at the company's AGMs in London and Sydney with more than 60% of the votes cast against this proposal.
Company	Rolls-Royce Holdings Plc
Geography and Industry	United Kingdom / Aerospace & Defence
Key Topics	Collaborative Engagement / Climate Change
Asset Class	Equity
Background	In June 2021, Rolls-Royce released a report outlining its strategy for transitioning to net zero and held a dedicated investor webcast to discuss its latest commitments. These include: defining a science-based target to reduce the lifetime emissions of new sold products 35% by 2030, pivoting 75% of R&D expenditure towards lower-carbon technologies by 2025, and making all commercial aero engines compatible with 100% sustainable aviation fuels by 2023, among others. We were pleased to see the company's net zero strategy evolve in response to investor feedback.
Activity	<p>In the summer of 2021, we led an analysis of Rolls-Royce's climate-related disclosure and strategy on behalf of the CA100+ group. We evaluated alignment with TCFD and provided feedback on priority areas for engagement, including enhanced disclosure on the company's approach to align capital allocation with its climate goals.</p> <p>We view the company's responsiveness to investor feedback this year positively and look forward to continued constructive dialogue.</p>
Outcome	We expect Rolls-Royce to provide additional transparency on climate-related lobbying in the coming months, including a review of stated climate positions against those of its trade associations.

Addressing E, S and G

As we noted above, we consider all areas of ESG in our company engagements through our focus on three key topics: Climate Change, Inclusion and Diversity and responsible governance measured by R-Factor.

Climate Risk and Reporting (Environment)

In 2021, we believed it was even more urgent than ever before to respond to the growing climate risks. The latest UN IPCC report stressed the need for rapid, large-scale reductions in greenhouse gas (GHG) emissions and the "unequivocal" science behind climate change. Further, the pandemic highlighted the impact of systemic risks on global financial markets and reaffirmed the importance of prioritising such threats, including climate change, via our stewardship programme. Due to this, we undertook a number of climate engagements in 2021, 89% more than 2020.

We are signatories to Climate Action 100+ and the Net Zero Asset Manager initiative. In 2021 we published our [journey to net zero](#) guidance for companies. This complemented existing resources available on our Climate Stewardship Web Hub which we launched in 2020, and was made available on our dedicated [climate stewardship webpage](#).

On the one-year anniversary of signing on to the Net Zero Asset Managers Initiative, we published our 2030 interim targets in April 2022. In 2022, we will launch a targeted engagement campaign with the most significant emitters in our portfolio to encourage disclosure aligned with our expectations for climate-transition plans, which covers 10 areas including decarbonization strategy, capital allocation, climate governance, and climate policy. In 2023, we will hold companies and directors accountable for failing to meet these expectations. We will report further on the development of our engagement activities in our 2022 report to set out the changes we have made to align with our own net zero target.

Say on Climate

In the 2021 proxy season, we, alongside other investors, voted on proposals that asked companies to provide shareholders with a non-binding *Say on Climate* vote. In several cases, management teams voluntarily added a *Say on Climate* resolution to their annual general meeting (AGM) agenda.

Outcome: With our backing, proposals at Ferrovial, Total, Unilever, and Iberdola, among others, received well above 90% support.

We evaluate these proposals on a case-by-case basis in line with our Proxy Voting and Engagement Guidelines. Of the 32 *Say on Climate* proposals filed at investee companies in 2021, we voted in favour of 84%. While we are generally supportive of the spirit and aim of such proposals, we have expressed our reservations with the potential unintended consequences of an annual advisory climate vote. If *Say on Climate* were to become a formal market practice, resulting adverse outcomes could include insulating directors from accountability, distracting from already existing frameworks (such as TCFD, SASB, and GRI) which are increasingly beginning to harmonise and become widely adopted, and straining investors' limited proxy voting resources.

Looking ahead, we will continue to focus on companies that are particularly vulnerable to climate-transition risks and continue to encourage companies' climate-related disclosure by reviewing our own proxy voting guidelines. As stated in our CEO's Proxy Voting letter of 2021, climate was a key focus for us in 2021, and will remain a key focus in 2022 also.

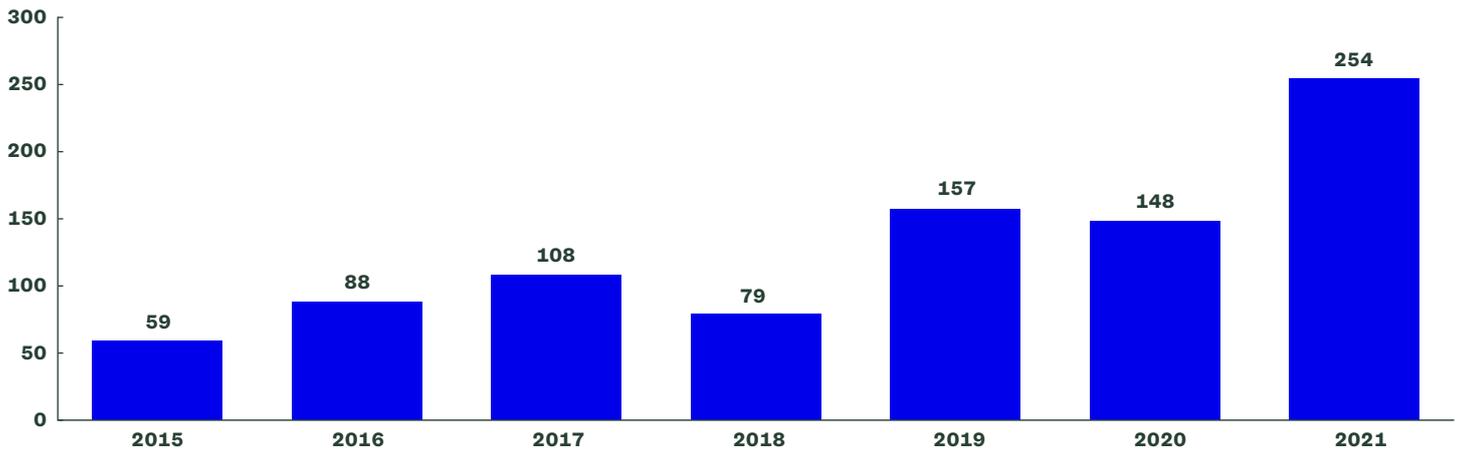
Finally, we will also continue our engagement with companies in other sectors which, while not carbon-intensive, also face risks including exposure to the physical effects of climate change.

Engagement Statistics

During the year, we engaged with 254 companies across multiple industries to understand their approaches to mitigating and managing the physical and transitional impacts of climate change. This is an 72% increase in our climate-related engagements compared to 2020. We have been engaging with companies on climate change-related matters since 2014. In that time, we have had over 900 climate-related engagements across a range of industries and markets.

Figure 13

Number of Annual Climate Engagements



Source: State Street Global Advisors. As of 31 December 2021.

Our Continued Focus

Climate change will remain a core campaign until we are confident that portfolio companies are effectively addressing this issue. Our approach will continue to develop in 2022 as we align our engagement with companies to our net zero targets. We believe that engagement with, and enhancement of, company practices is key — and an area where we can deliver positive outcomes for our clients. We look forward to reporting on the outcomes of our continued discussions in our 2022 Report.

Climate Action 100+ Initiative

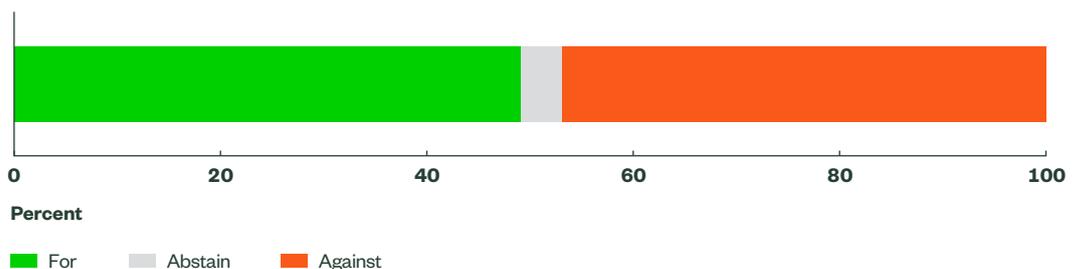
In November 2020, we became a signatory to Climate Action 100+ (CA100+). A global initiative led by investors to foster the clean energy transition by engaging the companies and sectors with the highest greenhouse gas emissions, Climate Action 100+ and State Street Global Advisors have long been aligned in our shared values. The Climate Action 100+’s three central goals are consistent with what our Asset Stewardship Team advocates through our company engagements, thought leadership, and proxy voting. The three goals are:

- Improve governance of climate change
- Reduce emissions
- Strengthen climate-related disclosure

Climate Proposal Vote Rationale

On the voting front, there was a significant increase in the number of climate-related shareholder proposals submitted at our investee companies during 2021 (105 in total in 2021, compared to 58 in 2020 and 47 in 2019). A breakdown of our votes per category of climate-related shareholder proposals is provided below.

Figure 14
2021 Support on Climate Proposals



Source: State Street Global Advisors. As of 31 December 2021.

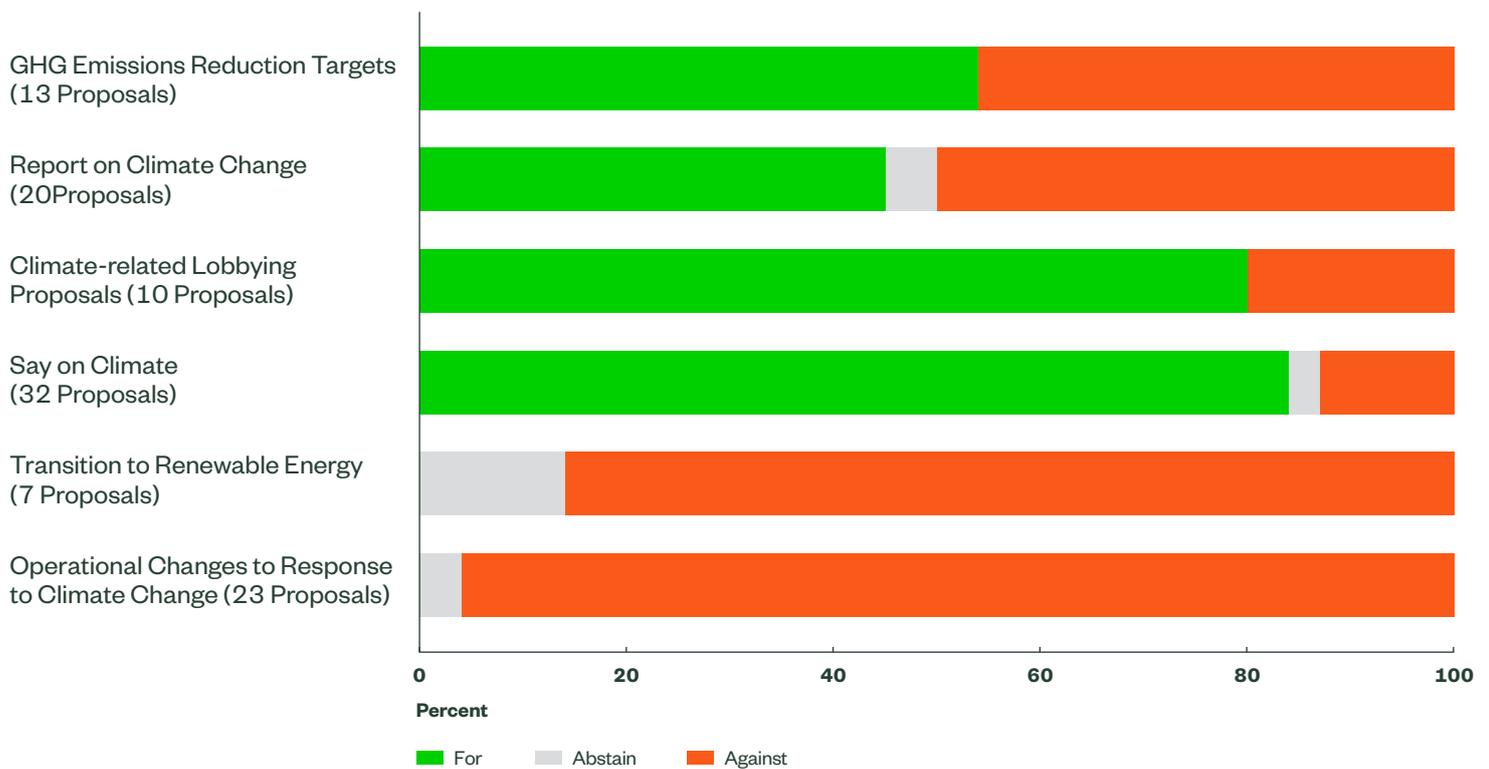
In line with our views on climate-related disclosure set out above, in 2021 we supported 45% of shareholder proposals requesting that companies report on the financial and physical risks of climate change to their business and their plans to reduce GHG emissions. We also supported 80% of the climate-related lobbying proposals, which are described in the next section of this report and supported 84% of the *Say on Climate* proposals described previously in this chapter.

Our support for GHG emissions reductions target proposals increased in 2021 — from 33% in 2020 to 54% in 2021.

We were not generally supportive of resolutions that required companies to make specific operational changes such as a transition to renewable energy within a defined timeframe or phasing out 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 rigour of such goals and engage with them to ensure that climate is meaningfully integrated into their long-term strategy.

Figure 15
**Company Climate-Related
Lobbying Proposals**



Source: State Street Global Advisors. As of 31 December 2021.
* Includes both shareholder and management "Say on Climate" proposals.

Continued Global Emergence of Climate-Related Lobbying Proposals

As highlighted in our [Q2 2021 Stewardship Activity Report](#), we saw the number of climate-related lobbying proposals in the 2021 proxy season double compared to the 2020 season. These proposals ask for corporate membership in trade associations and/or political contributions to be fully aligned with a company's stated position on climate change. At the beginning, we [issued guidance](#) on our expectations and approach to this topic. We look for:

- Board oversight of lobbying and trade association memberships
- Disclosure of political contributions and trade association dues
- Gap analysis of stated climate positions versus those of trade associations

Six climate-related lobbying proposals were filed in H1 2021.

Figure 16
Climate-Related Lobbying Proposals

Company	State Street Global Advisors Vote on Proposal	Overall Shareholder Support for Proposal
Delta Air Lines Inc.	For	63%
ExxonMobil Corporation	For	64%
Norfolk Southern Corporation	For	76%
Phillips 66	For	62%
Sempra Energy	Abstain	37%
United Airlines Holdings Inc.	For	65%

Source: ISS. As of 31 December 2021.

In Australia, we saw a similar increase in climate-related lobbying proposals in the 2021 proxy season, which are discussed in more detail in our [Q3 2021 Stewardship Activity Report](#).

Figure 17
Engagements in the Energy Sector

Company	Chevron Corporation
Geography and Industry	United States / Energy
Key Topics	Climate Change / GHG Reduction targets
Asset Class	Equity
Background	In spring 2021, Chevron received a shareholder proposal at its annual meeting asking the company to conduct a scenario analysis of its energy portfolio under the International Energy Agency (IEA) Net Zero 2050 scenario (NZE2050). At the time, Chevron had only disclosed the potential impacts of the NZE2050 on its operations out to 2030 rather than 2050.
Activity	<p>We engaged with the company's management and members of the board of directors and emphasised that it was important for long-term investors to have access to disclosure of portfolio impacts of climate change under a number of climate scenarios including the NZE2050.</p> <p>We supported the proposal at Chevron Corporation requesting the adoption of GHG reduction targets covering Scope 3 emissions. We recognize Chevron's transparency in Scope 3 emissions reporting and efforts to improve management and reduction of these emissions as part of Chevron's energy transition strategy. Per our recent engagements, we believe management is directionally aligned with this proposal and voted in favour to signal our support for continued advancement of these efforts.</p> <p>As a major US integrated oil and gas company, we believe that setting time-bound Scope 3 targets and outlining steps to achieve such targets will not only bring Chevron more in line with European peers, but also help lead the US industry in establishing Scope 3 disclosure and targets as market practice.</p>
Outcome	As a result of our advocacy, Chevron made both verbal and written commitments to provide disclosure against NZE2050 model's full-time horizon. We voted against the shareholder resolution with the understanding that Chevron would be responsive to our request and provide the appropriate disclosure within a reasonable timeframe. In October 2021, Chevron published its Climate change resilience: Advancing a lower carbon future report. In this disclosure, Chevron described how it had conducted a scenario test of the IEA's NZE2050 demand projections, including the scenario's oil, gas, and carbon price projections, on its portfolio.

Company	Mizuho Financial Group, Inc.
Geography and Industry	Japan / Commercial Banks
Key Topics	Climate-related disclosure / Climate-related target-setting / Shareholder feedback
Asset Class	Equity
Background	<p>In June 2020, Mizuho Financial Group (Mizuho) received a shareholder proposal asking the company to disclose its plan to align its investments with the goals of the Paris Agreement.</p> <p>In the past few years, the majority of climate-related shareholder resolutions were aimed at energy companies globally, which are often targeted because of that industry's higher absolute GHG emissions. The 2020 proxy season saw the emergence of a new trend of climate-related shareholder resolutions targeting financial institutions. When analysing the proposal, we considered how the company was managing climate-related risks. Specifically, we evaluated decision-making regarding financing of fossil fuel activities, as well as commitments the company had made to address climate change.</p>
Activity	<p>While Mizuho had committed to the Paris Agreement, it had not provided any disclosure around its strategy or targets for accomplishing these goals. As a result, we supported this shareholder resolution.</p> <p>To couple this voting action with direct dialogue, we engaged with members of Mizuho's board in 2021 to hear how they are approaching setting meaningful, science-based targets and their plans for improving disclosure efforts. While we maintain reservations regarding the company's disclosure practices on its efforts and lack of details on climate-related targets, we were encouraged in our engagement with the board regarding the initial steps taken since the 2020 AGM, and their commitment to provide enhanced transparency both in the company's 2022 TCFD-aligned report and Scope 3 targets by the end of FY 2022.</p>
Outcome	<p>In November 2020, Mizuho was the first financial institution in Japan to carry out measurement and disclosure based on PCAF's Global GHG Accounting and Reporting standards, and formally joined the PCAF partnership in July 2021 as the first Japanese financial institution. In May 2021, Mizuho pledged to stop financing new thermal coal mining projects from June 2021, the first major Japanese lender to make such a pledge. In October 2021, Mizuho formally joined the Net-Zero Banking Alliance, committing to setting medium- to long-term science-based climate targets, formulate concrete action plans and advance disclosure efforts detailing progress.</p>
Company	Sempra Energy
Geography and Industry	United States / Energy
Key Topics	Climate Change / Disclosure
Asset Class	Equity
Background	<p>In 2021, Sempra Energy received a climate-related lobbying shareholder proposal. The proponent requested that Sempra issue a report describing how the company's lobbying activities align with the Paris Agreement's goal and how Sempra plans to mitigate risks presented by any misalignment.</p>
Activity	<p>During our engagement with Sempra ahead of the 2021 AGM, the company shared its views on the challenges related to evaluating the positions and policies of its trade associations. Due to a lack of consistent disclosure, individual member companies may characterise a single association's climate position differently. To address this concern, Sempra shared its plans to develop a standardised disclosure template for use by trade associations to help support member companies' evaluations of how those positions and activities align with their own.</p> <p>We voted AGAINST the proposal due to the quality of Sempra's disclosure on lobbying and political participation relative to peers as well as its public commitment to develop a standardised disclosure template. We viewed this effort as an opportunity to help companies in the U.S. energy sector as well as investors better assess alignment of companies' climate positions with the positions of their trade associations.</p>
Outcome	<p>We engaged with Sempra Energy in Q1 2022 and discussed their progress on this effort. We were encouraged by the company's successful engagement with Edison Electric Institute (EEL), which published the requested disclosure using Sempra's template. We recognize Sempra's leadership in helping move the industry forward on improving the quality of climate-related lobbying disclosure and look forward to future engagement on this topic as Sempra continues to collaborate with its trade associations and peers on this effort.</p>

Europe: The Race to Net Zero

In 2021, the race to net zero intensified in Europe ahead of COP26. Throughout the year, a number of our European portfolio companies announced ambitions to achieve net zero by 2050 or sooner. In advance of COP26, we [published a guide to the event](#) and then followed that up with an article on the [key opportunities and outcomes post COP26](#).

Thirty of the UK's FTSE 100 companies have committed to the United Nations' Race to Zero campaign. And according to S&P Global Market Intelligence, all but three of the 22 largest European power and gas utilities on the continent have now set net zero targets. While we welcome these commitments, we believe investors would benefit from more robust disclosure on the detailed strategy and capital allocation plans underpinning these ambitions. We will continue our ongoing dialogue with these companies to better understand their path to net zero.

As the focus on climate increased, financial institutions across Europe experienced growing pressure to reduce exposure to fossil fuel financing. In 2021, banks including Credit Suisse, UBS, Deutsche Bank, and HSBC were the targets of a series of protests and demonstrations as advocates demanded stronger action. European banks that were viewed by the market as laggards continued to be targeted by climate-related shareholder proposals, which shifted from seeking stronger climate-related disclosure in 2020 to requiring specific actions on climate strategy in 2021. Both Barclays and HSBC received proposals in 2021 requesting the companies adopt targets to reduce exposure to fossil fuels in line with the Paris Agreement.

Figure 18

Engagements in the Financials Sector

Company	Barclays
Geography and Industry	United Kingdom / Banking
Key Topics	Climate Risk
Asset Class	Equity
Background	<p>In 2020, we engaged with Barclays on climate risk and supported its updated climate strategy, adopted (in part) due to the resolution proposed by the UK charity and campaigning organisation ShareAction.</p> <p>We committed in our 2020 Stewardship Code Report to provide an update on our subsequent engagements with Barclays to monitor their progress against its updated climate strategy.</p>
Activity	In Q4 2021, we engaged with Barclays to discuss and monitor progress on their climate commitments. In our engagement, we encouraged the company to step up their efforts to tackle climate change.
Outcome	<p>Following engagements with shareholders and ShareAction in 2021, Barclays announced that at the 2022 Annual General Meeting they will offer their shareholders a vote on their approach to climate change. In March 2022, the company also committed to (among other things) the following:</p> <ul style="list-style-type: none"> • Introduce phase out dates for entities engaged in thermal coal mining of 2030 in Organisation for Cooperation and Development (OECD) countries, and 2035 in the rest of the world. • Introduce phase out dates for clients engaged in coal-fired power generation in the UK and EU by 2030, and in the rest of the world (including the USA) by 2035. • Introduce tighter restrictions on General Corporate Purposes (GCP) financing for clients engaged in opening new thermal coal mines or material expansion of existing thermal coal mines. • Not onboard new clients engaged in thermal coal mining from 2023 onwards. <p>While we welcome these requests we will maintain our ongoing dialogue with the company on climate risks, seek to engage with them again in the following year and monitor progress on their climate commitments.</p>
Company	HSBC Holdings plc
Geography and Industry	United Kingdom / Banking and Financial Services
Key Topics	Climate Change / Emissions Targets
Asset Class	Equity
Background	The company has a strong track record in climate-related disclosure and became the first European bank to adopt a net zero commitment.
Activity	After engaging with our team, along with other shareholders, the company committed to phase out financing of coal-fired power and thermal coal mining in the EU and OECD by 2030 and other regions by 2040. As a result, the proposal was withdrawn by the proponent.
Outcome	HSBC has committed to set, disclose and implement a strategy with short and medium-term targets to align its financing across all sectors with the goals of the Paris agreement. It will start with the oil and gas, and power and utilities sectors.

Gender Diversity: Fearless Girl Campaign (Social)

On the eve of International Women's Day 2017, State Street Global Advisors placed the Fearless Girl statue in the heart of New York's financial district. Its purpose was to raise awareness about the importance of gender diversity in corporate leadership and to call attention to our minimum expectation that companies have at least one woman on their boards. Since 2017, 948 (more than 60%) of the 1,548 companies we had identified with all-male boards have responded to our call by adding at least one female director. Every company in the S&P 500 now has at least one woman on the board.

Today, there is a global focus on the value of diversity in the boardroom. This is a far cry from where we started out five 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.

On March 8, 2021, in celebration of International Women's Day and the fourth anniversary of Fearless Girl, 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 such ceilings that women have shattered, especially in the last year, both in and out of the boardroom. We also announced our intention to build on the success of the Fearless Girl campaign by increasing our focus on racial and ethnic diversity.

Racial and Ethnic Diversity (Social)

As highlighted in chapter 4, we have increasingly focused on how we can address systemic racial inequality through our stewardship activities, and we published [guidance on enhancing disclosure in January 2021](#).

Figure 19
Engagement Case Studies
and Outcomes

Company	CRH Plc
Geography and Industry	Ireland / Construction Materials
Key Topics	Racial and Ethnic Diversity / Disclosure
Asset Class	Equity
Background	Racial and ethnic board diversity was one of the topics we discussed with the Chair of CRH in early 2021.
Activity	During our engagement, we informed the Chair of our policy to take voting action against the Chair of the Nominating Committee in the event that a company has not disclosed, at minimum, the gender, racial, and ethnic makeup of its board, which was the case at CRH.
Outcome	In response to our feedback, the company included relevant disclosure within its 2021 AGM materials, stating that all directors classified their ethnic background as white European heritage. Starting in 2022, we will take voting action against boards without at least one director from an underrepresented community. As such, we urged CRH to bring racial and ethnic diversity to its board
Company	Amazon.com Inc
Geography and Industry	United States / Consumer Discretionary
Key Topics	Racial and Ethnic Diversity / Disclosure
Asset Class	Equity
Background	Amazon received a shareholder proposal to Oversee and Report on a Civil Rights, Equity, Diversity and Inclusion Audit at their 2020 AGM. While the company has disclosure around its workforce diversity and inclusion efforts, we believe the company can continue to enhance its disclosure into specific racial equity-related risks of products and services that management has systematically identified and addressed throughout the organisation's operations.
Activity	As described in the framework provided above, given the gap of information in this area and the company's vast exposure to risks relating to racial equity, we voted for the shareholder proposal.
Outcome	While the company has recently completed a human rights risk assessment in line with the UN Guiding Principles on Business and Human Rights, we felt a report focused specifically on racial equity would benefit all stakeholders, including investors. Amazon subsequently published company-wide goals in 2021 for diversity, equity and inclusion across the business.

Integrating R-Factor into Vote Decisions (Governance)

In 2019, we created an engagement and voting screen that leverages R-Factor, our proprietary ESG 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 SASB (as set out earlier in the Report, SASB is now the Value Reporting Foundation). In 2021, the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) announced their merger to form the Value Reporting Foundation (VRF).

Using our vote to reduce systemic market risk: We believe that by aligning R-Factor with SASB's leading materiality framework and national corporate governance standards, we can play an important role in promoting long-term sustainable value creation, higher-quality reporting standards, and the more efficient allocation of capital. See chapter 4 for more information on our work in identifying and managing systemic risks.

During the 2021 proxy season, we started taking action against board members at companies in the S&P 500, FTSE 350, ASX 100, TOPIX 100, DAX30 and CAC 40 indices that were laggards based on their R-Factor scores and could not articulate how they planned to improve their score. We also took action against companies that showed a continual decline in their scoring against our methodology, suggesting improvement was needed in those companies. We believe this approach leads to positive improvements within these companies since we can measure how a company's score changes year on year.

Figure 20
State Street
Global Advisors Voting
on R-Factor Laggards

Index	R-Factor Laggards	Companies State Street Global Advisors Voted Against in Consequence	Companies with Improved ESG Risk Management*
S&P 500	14	13	1
TOPIX 100	1	0	1
FTSE 350	6	5	1
ASX 100	3	2	1

Source: State Street Global Advisors. As of 31 December 2021.

* Or provided sufficient rationale or had no director standing for election.

Using R-Factor in Our Engagements

We have long believed that ESG issues can pose long-term risks and opportunities to portfolio companies and should be managed as such, including thorough oversight by a company's board of directors.

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.

Figure 21

Case Studies on the Use of R-Factor in Our Engagements

Company	The Estée Lauder Companies, Inc.
Geography and Industry	United States / Household & Personal Products
Key Topics	Racial and Ethnic Diversity / Disclosure
Asset Class	Equity
Background	The purpose of the engagement was to discuss our proprietary R-Factor scoring system.
Activity	In February 2021, our team had a discussion with Estée Lauder's Corporate Sustainability team, part of a series of engagements with the company focused on its ESG disclosure practices and R-Factor score over the past year.
Outcome	Through our conversations, we have observed the continued growth of the company's robust SASB-aligned reporting. This included a deep-dive on the quantitative and qualitative measures that have impacted management and board discussions when making capital allocation decisions and setting objectives relating to financially material ESG issues.
Company	HealthEquity, Inc.
Geography and Industry	United States / Health Care
Key Topics	Governance / Board Leadership / Racial Equity
Asset Class	Equity
Background	This direct engagement with the entire board was a first for our team, and also marked the first occasion the board had hosted a shareholder at its meeting.
Activity	In March 2021, our team spoke at the quarterly board meeting of HealthEquity regarding director oversight of ESG issues and the company's R-Factor score.
Outcome	In parallel with this dialogue, the company has committed to releasing its first corporate sustainability report and appointing a head of sustainability in 2021. In addition to discussing the ESG opportunity for directors, we identified several SASB-aligned areas of disclosure and best practices the company can focus on in its inaugural reporting efforts. We look forward to the continued evolution of the company's ESG disclosure and practices, and reflecting this progress in its R-Factor and continued engagement with shareholders.
Company	Union Pacific Corporation
Geography and Industry	United States / Transportation
Key Topics	R-Factor Climate / Diversity & Inclusion
Asset Class	Equity
Background	This was part of a multi-year dialogue with Union Pacific. Our previous engagements with the company focused on recent shareholder proposals including "Say on Climate" and their diversity and inclusion disclosure practices.
Activity	In September 2021, our team spoke at the quarterly board meeting of Union Pacific Corporation regarding director oversight of ESG issues and the company's R-Factor score. Our previous engagements with the company focused on shareholder proposals, including "Say on Climate," and on Union Pacific's diversity and inclusion disclosure practices. We supported management on both topics due to their company's ongoing disclosure practices and firm commitment to publish strengthened TCFD-aligned reporting and complete EEO-1 workforce data in 2021. During our engagement, we also identified several SASB-aligned areas of disclosure and best practice the company can focus on in its ongoing reporting efforts.
Outcome	As a result of our ongoing engagement and the company delivering on several of their enhanced climate and racial and ethnic diversity disclosure commitments this year, the company has elevated its R-Factor score compared to its industry peers as of November 2021.

Our commitment to enhancing ESG disclosure and transparency was restated in our January 2021 CEO proxy letter. As of 31 December 2021, 401 companies requested their R-Factor score — this represents 26% of our equity AUM. Seventy percent of these requests came from companies based in the US and seven percent came from UK-based companies.

US, UK and Japan: We found some variance in the quality of disclosure and performance of companies in these different markets. US companies (S&P 500) on an overall basis performed better on R-Factor CorpGov scores than their counterparts in other markets, with 27 percent of the index identified as global Leaders and 38 percent of companies identified as Outperformers.

In the UK (FTSE 100), a majority of companies were Leaders and Outperformers. However, the number of companies classified as Laggards increased in the UK to eight percent in 2021 (versus two percent in 2020) and remained at three percent in the US. In Japan, the number of Laggards increased to nine percent in 2021 (versus three percent in 2020).

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

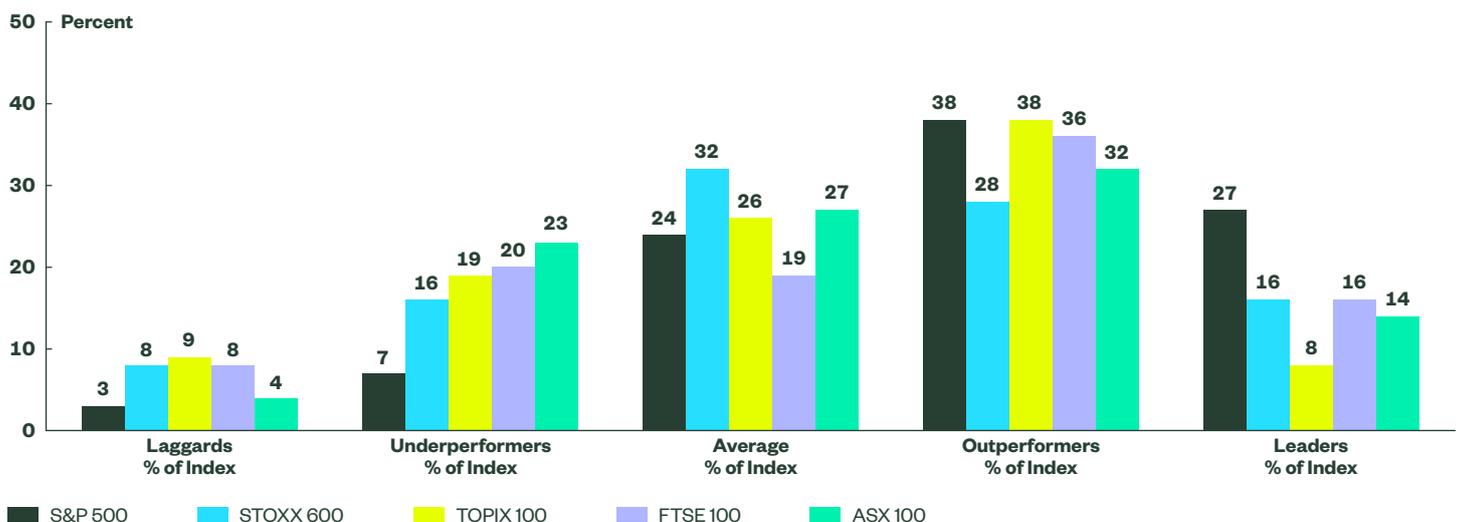
Australia: The Australian ASX 100 exhibited the highest percentage of companies classified as corporate governance Underperformers (23 percent). From our observations, one driver of this trend is a lower level of board independence on key committees relative to other core markets. In addition, some Australian companies lag 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: The STOXX 600 exhibited lower levels of Leaders and Outperformers combined, when compared with 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.

Figure 22

Regional Differences in Compliance with Corporate Governance Standards



Source: State Street Global Advisors, as at 31 December 2021.

Figure 23
**Voting on Corporate
 Governance Laggards**

Index	R-Factor CorpGov Company Laggards	Companies Voted Against	Companies With Improved Governance Practices*
S&P 500	12	10	2
STOXX 600	37	25	12
TOPIX 100	3	3	—
FTSE 100	3	3	—
ASX 100	3	1	2

Source: State Street Global Advisors, as at 31 December 2021.
 * Or provided sufficient rationale or had no director standing for election.

Our Approach to Proxy Voting

A core part of our escalation approach is centred around voting against companies that do not meet our expectations set during engagement or in our guidance pieces. We are therefore committed to maintaining a robust approach and high levels of activity when it comes to exercising our voting rights.

In 2021, we voted at 20,902 meetings. We prioritise 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. As a result of this assessment, we allocate appropriate time and resources to meetings and specific ballot items of interest in order to maximise value for our clients.

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 compared to 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. We believe it is 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 where it is feasible to do so.

However, when we deem appropriate, we could refrain from voting at meetings in cases, as listed below, where:

- 1 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 Unless a client directs otherwise, State Street Global Advisors will not vote proxies in so-called “share blocking” markets (markets where proxy voters have their securities blocked from trading during the period of the annual meeting).

The Asset Stewardship Team will outsource any voting decision related to the State Street shareholder meeting to an independent fiduciary other than the primary proxy voting advisor. When engaging the independent fiduciary, the team will confirm that they have published proxy voting guidelines that describe how they will vote in clients' best interests and are appropriately resourced to do so.

In 2021, we voted at 99.4 percent of the meetings where our clients had given us their authority to vote their shares. Our voting positions are monitored daily by our Asset Stewardship Team via the ISS electronic voting platform. Using the same platform, we also track the progress of the vote submissions through to the relevant custodian bank or other intermediary responsible for the final submission of the vote to the issuing company.

Exercising Voting Rights

Pooled Fund Structure

We retain voting authority across all pooled funds, which follow our voting policy, except SPDR® Portfolio S&P 500® ETF (SPY) and SPDR® Dow Jones® Industrial Average ETF Trust (DIA). State Street Global Advisors seeks to vote proxies in the economic interests of its clients as a whole and make proxy voting decisions we believe will protect and promote the long-term economic value of the pooled funds.

Segregated Accounts

Our separately managed account (SMA) clients can retain the right to vote their own shares, or to delegate the voting authority to us, in which case we will vote in accordance with our voting policy. Where clients retain the right to vote their own shares, we do not apply our voting policies.

Stock-Lending Policy

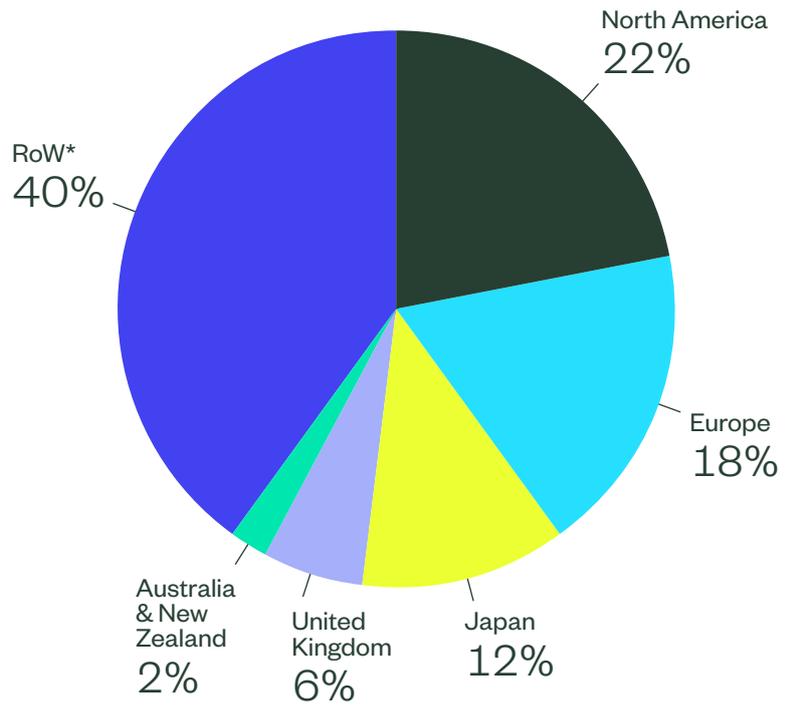
From time to time, we may recall securities on loan (or restrict future lending) for proxy voting purposes if the result of a particular proxy voting ballot item is deemed to be significant enough to justify the loss of fees from lending for our clients. Further, for funds where we act as trustee, we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

Our Proxy Voting/Securities Lending Procedure is reviewed annually by the State Street Global Advisors Asset Stewardship Team, Proxy Operations Group and Securities Lending Group to determine whether any changes are necessary and whether it is working as intended.

In 2021, we voted at nearly 21,000 meetings on over 187,000 management and shareholder proposals. A full summary is below, followed by a breakdown of how we voted on each category of proposal.

Figure 24
2021 Voting: Key Figures



Source: State Street Global Advisors 2021 Stewardship Platform. *Rest of the World.

Number of Meetings Voted

20,902

Number of Countries

75

Management Proposals

186,906

Shareholder Proposals

4,524

Votes For

85%

With Management

90%

Votes Against

15%

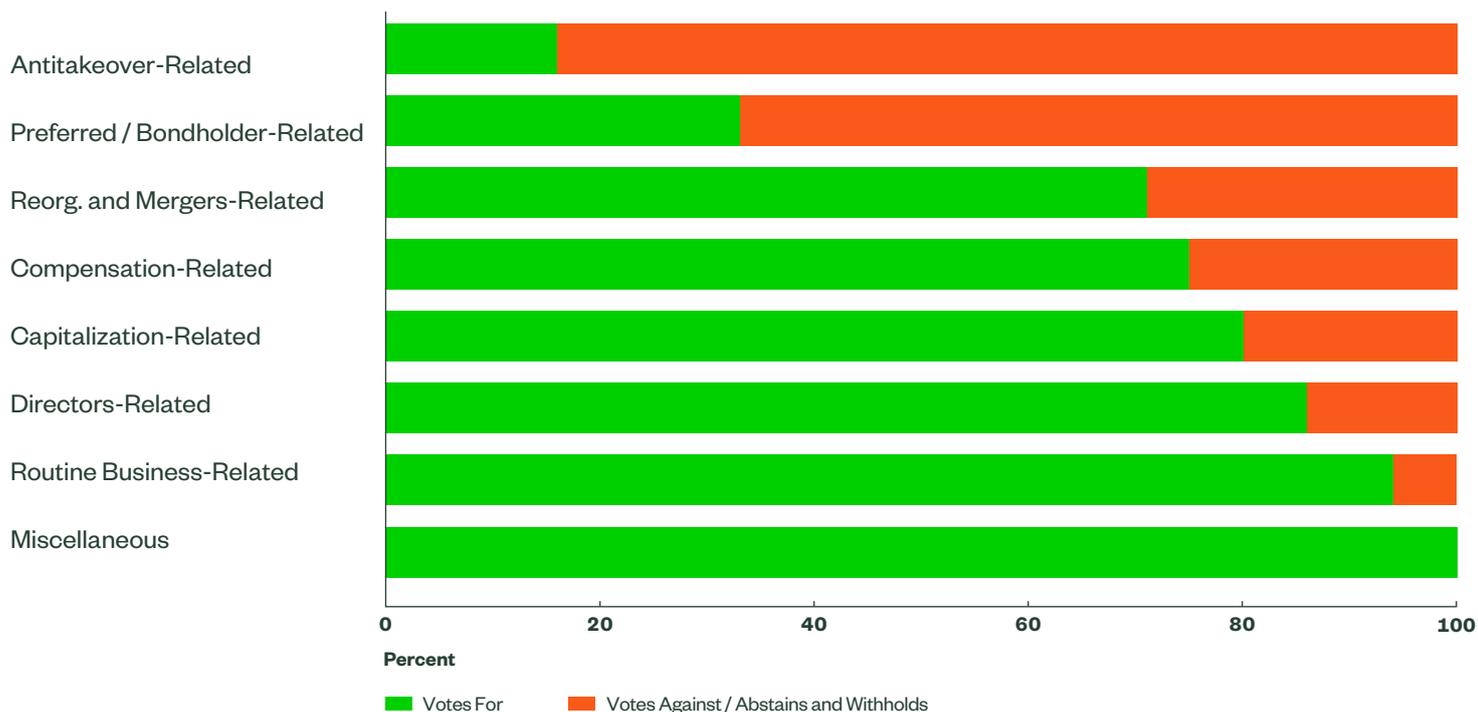
Against Management

10%

Figure 25
Key Figures in 2021 Voting

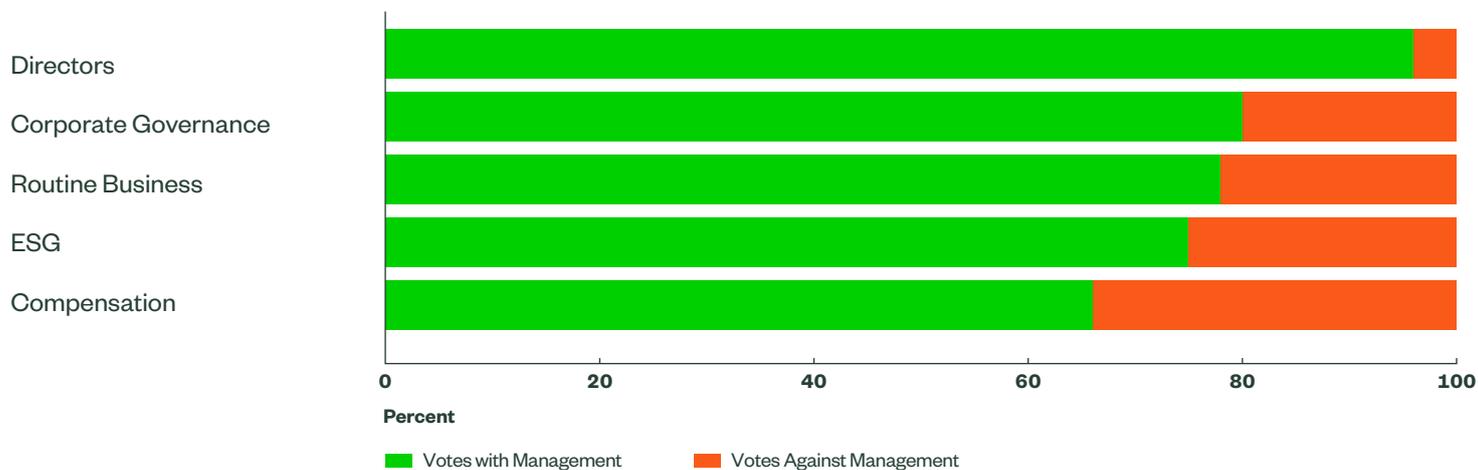
Number of Meetings Voted	20,902
Total Proposals Voted	191,430
Management Proposals	186,906
Votes For	158,158
Votes Against	28,748
Shareholder Proposals	4,524
With Management	4,090
Against Management	434

Figure 26a
Votes on Management Resolutions by Category



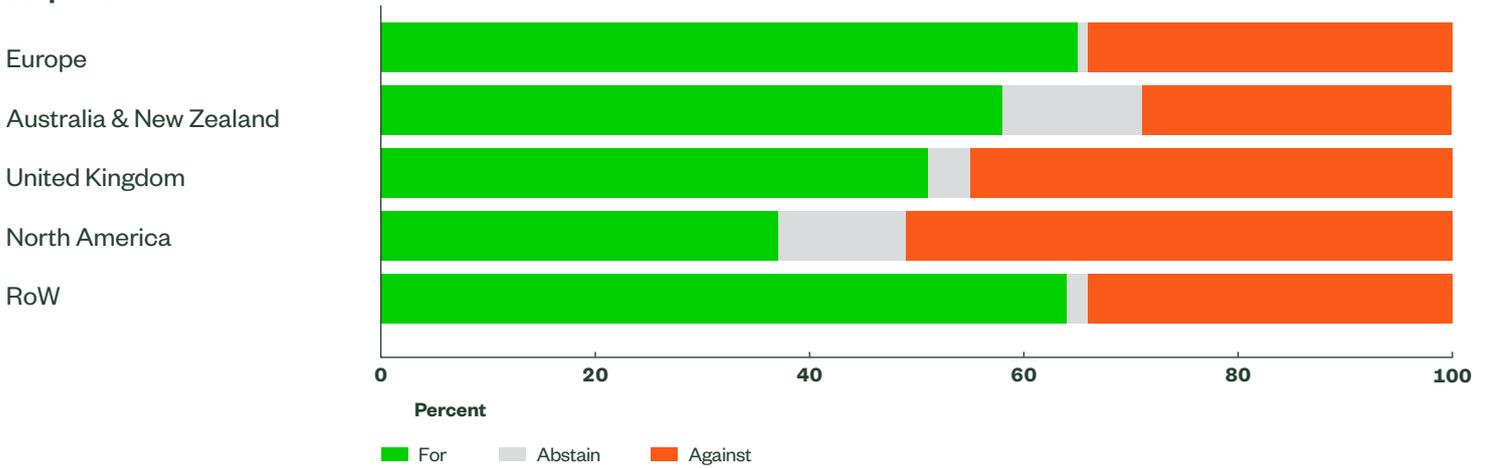
Source: State Street Global Advisors 2021 Stewardship Platform.

Figure 26b
Votes on Shareholder Proposals by Category



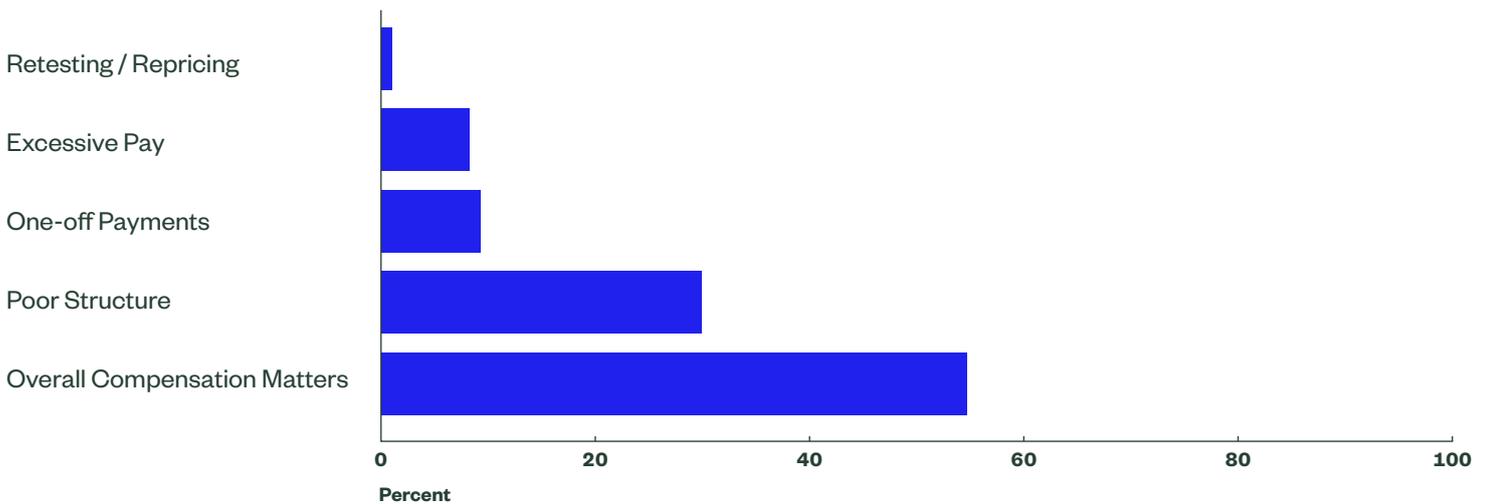
Source: State Street Global Advisors 2021 Stewardship Platform.

Figure 27a
Votes on Screened Pay Proposals



Source: State Street Global Advisors 2021 Stewardship Platform.

Figure 27b
Top 5 Reasons Driving Our Voting Rationale on Pay Proposals



Source: State Street Global Advisors 2021 Stewardship Platform.

Vote View

We continue to take steps to increase transparency around our voting process. In 2021, we published our proxy voting records on our [website](#) for listed equity assets, using our Vote View tool. The tool allows you to search our voting records by company name, and includes withheld votes.

Next Steps

Looking forward to 2022, we will continue to focus on our key stewardship priorities of climate change, diversity, equity and inclusion, human capital management, and effective board leadership. This commitment is clearly demonstrated through material changes to our voting policies. In 2022, we expect to ask companies to report against the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD), and we will publish our own TCFD report. This year we announced that in the upcoming 2022 proxy season we will take voting action against responsible directors if (1) companies in the S&P 500 and FTSE 100 do not have a person of colour on their board and (2) companies in the S&P 500 do not disclose their EEO-1 reports.

Overall, our approach to engagement and strategy on engaging with companies does not change. Instead, we are ensuring that the action we take delivers clearly captured outcomes that we can report on to clients throughout the year and within this Stewardship Code Report.

An effective stewardship approach is underpinned by strong governance, resourcing and robust processes, and must follow a deliberate and well-considered approach. In this section, we set out the governance structure of State Street Global Advisors, as well as how we align our remuneration and incentives programme to our core values. We also set out our model for managing conflicts of interest and providing assurance over our stewardship programme.

Our Approach to Governance

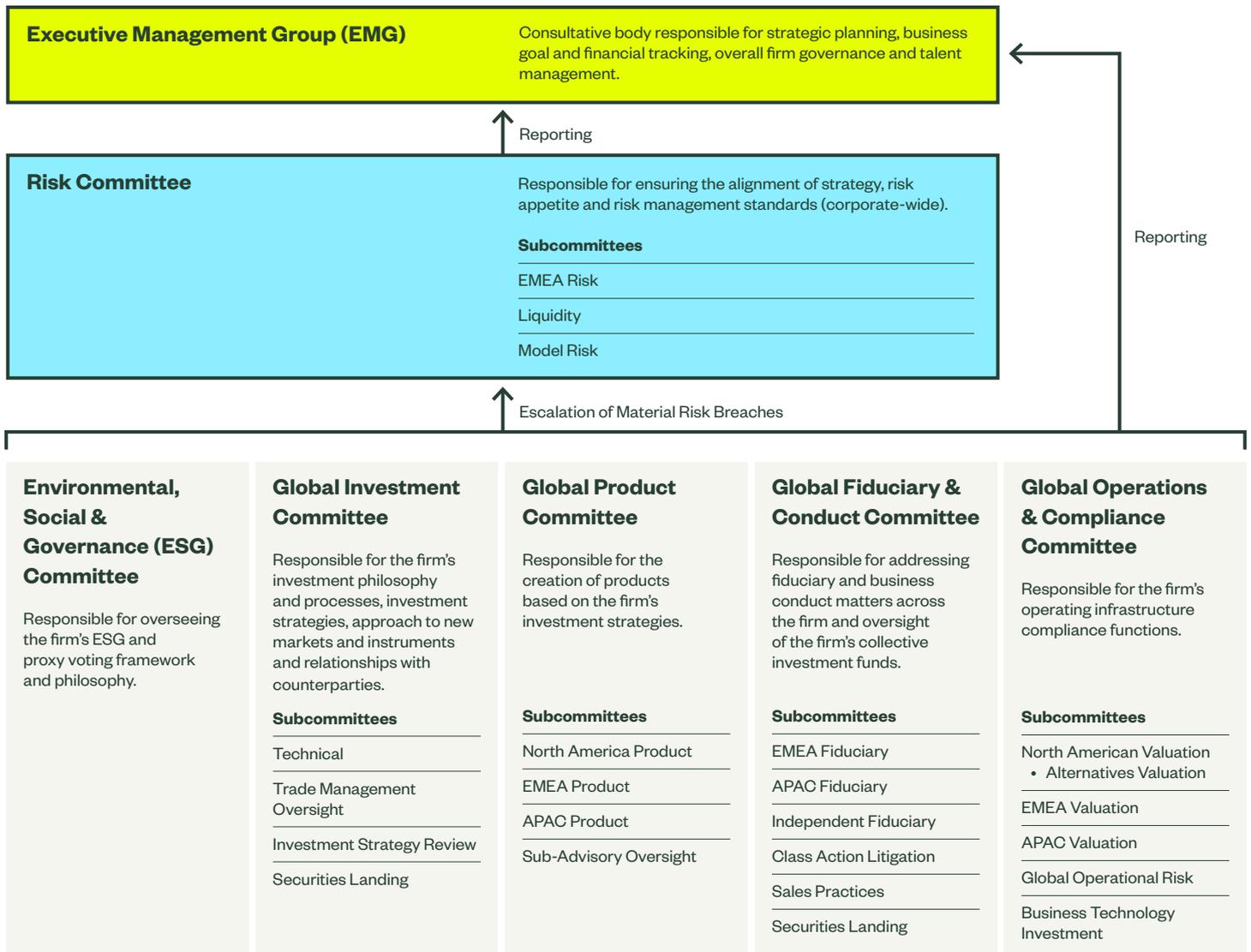
State Street Global Advisors sits within State Street Corporation's wider corporate governance framework, led by its Board of Directors. Within State Street Global Advisors, our governance structure is designed to support effective and efficient decision-making and provide oversight of business functions. The structure consists of an Executive Management Group (EMG), which is composed of the firm's most senior leadership serving as a consultative body for the benefit of the firm's President and Chief Executive Officer (CEO).

The EMG is responsible for strategic planning, business goal and financial tracking, overall firm governance, and talent management. It also oversees the activities of the six senior committees: the Risk Committee, the Global Investment Committee, the Global Fiduciary and Conduct Committee, the Global Product Committee, the Global Operations and Compliance Committee, and the ESG Committee. These six senior committees and the subcommittees underlying each apply a consistent approach to the establishment and implementation of firm-wide policies and procedures and provide broad oversight of the business functions. This governance structure is administered by an Internal Governance Oversight Team, which focuses on promoting efficiency, clarity, and accountability with respect to decision rights and firmwide oversight.

In 2021, certain Asset Stewardship Team activities were reviewed by the Proxy Review Committee (PRC), a sub-committee of the State Street Global Advisors Investment Committee (IC). The PRC reviewed State Street Global Advisors' overall stewardship strategy and engagement priorities, as well as material changes to its proxy voting guidelines.

Figure 27

Governance Structure



Source: State Street Global Advisors. As of January 2022.

Launch of the ESG Committee

To strengthen governance of stewardship and ESG, we established a new ESG Committee at the beginning of 2022, which assumed the responsibilities formerly overseen by the PRC. The ESG Committee is responsible for overseeing our ESG and proxy voting framework and philosophy and is chaired by Karen Wong, our Global Head of ESG and Sustainable Investing. The ESG Committee's purpose is:

- To oversee the Firm's on-going commitments to ESG and sustainable investing, related business practices, and relevant public policy matters, both with respect to the Firm itself and in its capacity as an asset manager (collectively "ESG Matters") and
- To oversee the Asset Stewardship Team's proxy voting and issuer engagements on behalf of the Firm's discretionary portfolios (collectively, "Asset Stewardship Matters") and to review and approve the Global Proxy Voting and Engagement Principles, as well as the Proxy Voting Guidelines for select markets (the "Voting Policy").

The ESG Committee is composed of senior staff across our Investment, Client-facing, Legal, Compliance, Risk Management, and Operational teams. We look forward to reporting further on the role of the ESG Committee in our 2022 report.

Our Approach and Oversight of Proxy Voting Policies

The Asset Stewardship Team publishes 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. The PRC was responsible for making recommendations to the IC relating to the Global Proxy Voting and Engagement Principles and Proxy Voting Guidelines for select markets (the Voting Policy). Going forward, the ESG Committee will review and approve the Voting Policy.

In addition, the firm's Proxy Voting/Securities Lending Procedure is reviewed annually by the Asset Stewardship Team, the Proxy Operations Group, and the Securities Lending Group to determine whether it is consistent with relevant principles and guidelines and working as intended.

Team Structure and Resourcing

We have a team of dedicated ESG and Stewardship staff who devote 100% of their time to ESG and Asset Stewardship. In addition, we have a number of other ESG resources that sits across the business, within individual Investment, Marketing and Reporting teams, who devote a portion of their time to ESG. Biographies of the senior leaders within our Asset Stewardship Team are outlined in Appendix D.

Our total Asset Stewardship Team is based across the globe, operating out of Australia, India, Poland, the US, and the UK. The team has a combined industry experience of over 100 years across varying levels of seniority, experience, and background and supports a diversity of thought and innovations. The team members have professional expertise in the fields of governance, corporate strategy, environmental management, social impact, labour rights, and economics. This expertise was developed in corporate, advisory, and financial roles.

We will continue to invest in resourcing our stewardship activities. In 2021, we acted by hiring a new Global Head of ESG and Sustainable Investing (Karen Wong), as well as making new hires to cover our Asia-Pacific engagement activities and to further develop the documentation of the process and control environment in our Asset Stewardship Programme. We started this work in 2021, but expect to continue to develop our approach through 2022.

We also believe that effectively leveraging technology and using a robust prioritisation approach would ensure that our team is sized appropriately for the scope of our programme. We continually evaluate our resource and technology needs to ensure that we are sufficiently staffed and are optimally leveraging ESG information and technology to achieve our stewardship objectives.

Through R-Factor (as explained fully in chapter 5), we use technology to help us identify companies with which we should engage. Beyond this, a key focus in 2021 was on developing key performance indicators to manage and track our engagement and proxy voting activities in a more systematic way. Over time, we expect the data generated through these key performance indicators to feed into R-Factor, which should help us understand how our engagement with a company impacts its R-Factor score. This updated approach will be implemented in 2022.

Advanced New Platform and Technologies

Our ESG and Asset Stewardship teams provide ESG training courses internally to key stakeholders on an ongoing basis, across firm functions in global locations, including portfolio management teams, sales teams, relationship management teams, portfolio strategy teams, and research teams. Training covers a variety of ESG topics and developments, including voting policies and engagement, investment strategies and products, taxonomy, as well as portfolio assessment on ESG score, climate and business involvement, and controversy. One of the outcomes of this training in 2021, and wider discussions across the business, was the need for an internal Climate Club. The Climate Club allows our internal stakeholders to quickly and continually share information about the evolving climate and ESG client and regulatory landscape. We see this as a useful and informal tool to connect teams from across the business with regard to climate updates on different topics.

In addition to formal training, we have several processes and mechanisms to share ESG knowledge, insights, trends, and other information across the organisation. For example, members of the ESG Investment Strategy, ESG Research, ESG Integration, and 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.

Third-Party Service Providers

We enhance the services provided by our in-house resources through third-party service providers. The most notable of these are third-party data providers that are employed to generate R-Factor scoring and Institutional Shareholder Services (ISS) that are utilised to assist us with managing the voting process at shareholder meetings. In the voting process, we use ISS to help us monitor our voting rights across the asset classes in which we invest.

Where third-party service providers are used, they are expected to deliver the same standard that we have set for our internal resources. We employ robust processes and governance oversight to monitor service providers and engage with them when expectations are not being met.

Monitoring R-Factor Data Providers We designed and built R-Factor, which is an ESG scoring system that leverages multiple data sources and aligns them to widely accepted, transparent materiality frameworks, to generate a unique ESG score for listed companies. It draws on our systematic investment management expertise and offers deeper insights and stronger solutions to our clients. We have incorporated the 'materiality map' developed by the Sustainability Accounting Standards Board (SASB) into our framework because of its consultative approach and the strong academic evidence that supports the implementation of such standards. By aligning this approach to our SASB guidelines, we aim to support and facilitate the development of a market infrastructure that makes material ESG data available to investors.

R-Factor relies on this third-party data and is a key tool in our ESG integration approach. Regular meetings with providers also allow us to provide clear and actionable criteria to those third-party providers, where data governance issues have been flagged, to ensure R-Factor continues to be fit for purpose in driving ESG integration. See [here](#) for more information on R-Factor.

Monitoring Proxy Voting Activities As set out above, we use ISS to support our proxy voting processes. As part of this relationship, ISS assists us with managing the voting process at shareholder meetings. We employ ISS to:

- Act as our proxy voting agent (providing us with vote execution and administration services)
- Assist in applying our voting guidelines
- Provide research and analysis relating to general corporate governance issues and specific proxy items
- Provide proxy voting guidelines in limited circumstances

All voting decisions and engagement activities are undertaken in accordance with our in-house policies and views, ensuring that the interests of our clients remain the sole consideration when discharging our stewardship responsibilities. The only exception to this policy is the use of an independent third party to vote on State Street stock, to mitigate a conflict of interest of voting on our parent company.

At the end of every quarter, ISS provides a meeting-level Statistical Summary report (SIS) to the Asset Stewardship Team. Once the Asset Stewardship Team advises which broad issues/categories they would like the audit to focus on, ISS generates a list of meetings for review (e.g., 25 meetings selected in Q1, Q3, Q4, and 50 meetings in Q2). The list of meetings for review is sent to the Asset Stewardship Team for sign-off. From the time the Asset Stewardship Team signs off on the meeting list, ISS has 30 days to complete the audit and provide results to the Asset Stewardship Team. A memo explaining any errors identified in the audit accompanies the audit results.

Periodically, we undertake a due diligence exercise with ISS. Our team consists of governance, compliance, and operational specialists. The team undertakes a review of ISS staff resources and competencies, systems, processes, and controls. As committed to in our 2020 Report, we reviewed our use of ISS in 2021 to ensure that the quality and timeliness of the service remain high. We did not identify any material concerns from this review.

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.

We do not automatically follow vote recommendations of ISS or other proxy advisors and have put in place a 'custom' voting policy with specific voting instructions. All final voting decisions are based on our proxy voting policies and in-house operational guidelines.

In 2021, our voting stance differed from ISS recommendations by approximately 8% of votes. When our stance differs, the majority of our votes cast are usually against management — particularly around issues of board elections, as we have specific custom policies on gender diversity, board refreshment and independence that reflect our consideration of acting in the best interests of our clients. We have also integrated R-Factor and R-Factor CorpGov into voting decisions.

Figure 28
Proportion of Companies Voted Against in 2021

	Vote Against	Vote For
Management	90%	8%
Shareholder	2%	0%

Source: State Street Global Advisors as of 31 December 2021.

Linking Remuneration to Our Stewardship Activities: Performance and Incentives

Each year our Global Human Resources Team participates in compensation surveys in order to provide State Street Global Advisors with critical, market-based compensation information that helps support our compensation designs, structure, and pay decisions. Subject to State Street's and State Street Global Advisor's business results, we allocate an incentive pool to reward our employees. Since the size of the incentive pool is based on the firm's overall profitability and performance against risk-related goals, each staff member is motivated to contribute both as an individual and as a team member.

The incentive pool is allocated to various functions within State Street Global Advisors. The discretionary determination of the allocation amounts to business units is influenced by market-based compensation data, as well as by the overall performance of the whole of State Street. Individual compensation decisions are made by the employee's manager, in conjunction with the senior management of the employee's business unit. While investment performance is an important component of individual compensation awards, it is not the only factor. Performance against risk-related goals is an important component of the overall funding of the Incentive Compensation pool and an important consideration of the discretionary compensation decisions at the individual level.

For our Investment Teams, we recognize and reward performance by linking annual incentive decisions for investment professionals to investment performance over a multi-year period. This includes ESG strategies where they support the strategies' risk profile, alpha achievement of mandates, or investment outcomes. As part of our Total Rewards strategy, we are continuously reviewing compensation and benefit offerings to ensure strong alignment with best practices in the marketplace. To seek to align the performance of senior personnel to the performance of the firm, we incentivize senior personnel with significant deferred compensation in Stock Awards (State Street stock). These incentives vest over a four-year period. In addition, active management equity teams have a portion of their deferred compensation tied to product performance.

The CEO and Executive Vice Presidents receive incentive compensation awards that may be impacted by goal behaviours that include serving as an ethical role model and ensuring that management practices, such as diversity, inclusion, and employee engagement initiatives, are in place to deliver the required talent pipeline. These goals and behaviours are tracked and measured using targeted scorecards. Those in Senior Management Functions (SMFs), including our Chief Risk Officer and Chief Finance Officer, have included climate change objectives in their statements of responsibilities that may impact incentive compensation should those objectives are not met.

Our approach to performance management involves a collaborative planning process and ongoing assessments, enabling flexibility to account for evolving business priorities, more opportunities for professional challenge, and discussions on risk excellence and better performance differentiation across the workforce. In terms of our performance management system, we focus on individual performance priorities as well as demonstrated behaviours, so the core part of our evaluation focuses on how goals are achieved and not just what is achieved.

Risk excellence and leadership qualities are also evaluated. Additionally, our Performance Management system requires each manager to list a specific goal related to diversity and inclusion. This goal is reviewed and measured throughout the year, which could impact performance assessments and incentive compensation outcomes.

Assurance of Our Stewardship Programme

Our Stewardship Programme is subject to internal independent assurances and reviews conducted by State Street's Internal Audit department. Internal Audit's scope encompasses, but is not limited to, the monitoring and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal controls.

During the first half of the year, the Asset Stewardship Team performs a daily real-time audit of voting decisions by our proxy voting agent. As a result of this, when a company under review is identified as an audit company, through a random process, it is assigned to an analyst on the Asset Stewardship Team. The analyst reviews the votes inputted by the proxy agent for each item on the ballot to ensure that our voting guidelines are implemented accurately.

Each stewardship analyst has access to a desktop procedure document which outlines our stewardship practices. This document serves as a reference point for analysts on stewardship procedures, including proxy voting procedures, advisor oversight, conflicts of interest, share recalls and guidelines for engagement and information sharing. Our desktop procedure document is signed off annually by the co-heads of the Asset Stewardship Team.

We did not seek any external assurance of our Asset Stewardship Programme in 2021. Instead, we utilised internal assurance resources, as we believe they allow us to use resources intelligently and leverage existing teams and processes to ensure that our ESG activities are robust.

Examples of the processes and oversight that support our stewardship activities include:

- **Internal Audit Reviews** Our Internal Audit function conducts independent reviews of our internal controls, such as the processes and controls followed in our stewardship activities.
- **Committee Oversight** Both the Model Risk Committee and the Technical Committee have reviewed, validated, and approved our R-Factor methodology and scoring system, which supports our stewardship activities. The Model Risk committee, in particular, is responsible for validating R-Factor models, specifically data governance and controls.
- **Stress-testing Client Portfolios Against Climate Change Scenarios** Our Investment Risk and Liquidity Risk Teams have designed and implemented dozens of stress tests and scenario analyses, which have been performed across our client portfolios. Stress tests have most recently been focused on climate scenarios to validate an investment approach.
- **Risk Reviews** Investment and Liquidity Risk Teams consider ESG factors in their risk reviews with portfolio managers.

In future we may seek external assurance over our stewardship activities and other ESG disclosures, such as TCFD.

We also employ a consistent approach to ensure that our stewardship reporting is fair, balanced, and understandable. All thought leadership and stewardship activity reports are reviewed by senior leaders within the Asset Stewardship Team before publication to ensure they align with our approach, reflect our discussions with companies, and consider our clients' best interests.

Our comprehensive review seeks to ensure that the reporting is fair and factual. When we publish company engagement case studies, we select examples that are balanced among different sectors and regions, and based on a wide range of topics, challenges, and successes.

Our Conflicts of Interest Policy

State Street Corporation has a comprehensive, standalone [Conflicts of Interest Policy](#) that addresses a range of potential conflicts of interest that applies to State Street Global Advisors. Under this Policy, State Street sets out that “a conflict of interest may arise when State Street or its employees have interests or relationships that could raise questions about State Street’s objectivity, judgement, or ability to perform services for a particular client or group of clients and, in the case of an employee interest, that could raise questions about the employee’s ability to perform his or her responsibilities as an employee”.

Other specific policies for situations related to our work and industry have been created and implemented as required to ensure we are able to identify, manage, and mitigate conflicts of interest that occur in our activities.

In addition, State Street Global Advisors maintains a Conflicts of Interest Procedure and Conflicts of Interest Register that establish our process and framework for the identification, mitigation, and recording of potential conflicts and associated mitigants. This framework is designed to act in conjunction with related policies and practices employed by other parts of State Street. Further, we complement those policies and practices by providing specific guidance on managing the conflicts of interests that may arise through our proxy voting and engagement activities (summarised in our statement on [Managing Conflicts Arising from our Proxy Voting and Engagement Activity](#).) The combination of Policy, Procedure, Register and Guidance enables us to identify, manage, and mitigate conflicts of interest that may arise through our business activities.

Conflicts Arising From Our Stewardship Activities

A number of potential conflicts of interest may arise in our role as an asset steward. We have therefore identified mitigants and a clear process for governance oversight of such potential conflicts. Typical conflicts of interest that we manage and the protocols designed to help mitigate potential conflicts of interest include:

Figure 29
Examples of Potential Conflicts of Interest and Mitigation Protocols

	Stewardship Conflict of Interest Description	Typical Conflict Mitigation Protocols That We Employ
Business Relationships	A conflict of interest may arise where, for example, we hold investments in companies with which we, or our affiliates, have material business relationships.	Proxy voting is undertaken in accordance with Proxy Voting Guidelines, which are reviewed and overseen by the ESG Committee. Any changes to the guidelines are communicated to employees in a timely manner to ensure that they understand the potential impact on their proxy voting activities. This mitigant seeks to ensure that we moderate the risk of voting in accordance with our business relationship, rather than the favoured stewardship outcome.
Equity Investments	A conflict of interest may arise where we hold investments in State Street securities on behalf of our clients.	Any voting decision relating to a shareholder meeting of State Street stock is outsourced to an independent third party.
Personal Conflicts	A conflict of interest may arise where an employee has an outside business interest (such as a director role in a company we invest in, or in the same industry as we invest). In addition, a conflict of interest can be created where family members of an employee are employed by a company in which we invest	Proxy voting is undertaken in accordance with the Proxy Voting Guidelines, which are reviewed and overseen by the ESG Committee. Any changes to the guidelines are communicated to employees in a timely manner to ensure they understand the potential impact on their proxy voting activities. Employees must submit a request requiring approval before undertaking any outside activities that are captured by the Outside Activities Policy. The request will be reviewed by the employees' manager and the Ethics Office to ensure compliance with applicable policies and procedures (such as the Global Anti-Corruption Policy and the Standard of Conduct). Additional mitigation steps may be implemented for personal conflicts on a case-by-case basis. This would include, for example, retaining an independent fiduciary to take a voting decision where we believe we may be conflicted from voting due to a personal conflict of interest.
Securities Lending	We may lend securities that we hold in one of our portfolios to another manager. This may create a conflict of interest if we then need to recall those securities to enable us to vote in a shareholder resolution, impacting the intended securities lending income.	Our approach to securities lending, and any potential conflicts that may be created through our securities lending activity, is governed by the Proxy Voting / Securities Lending Procedure, which is owned by the Securities Lending Team and the Asset Stewardship Team.

Source: State Street Global Advisors.

Conflicts of Interest Identified in 2021

Conflicts of interest that arise are captured within our Conflicts Register. In 2021 we added five new conflicts of interest to our Conflicts Register. We believe the approach we have outlined above sets out the robustness of the internal policies and procedures we follow for managing conflicts of interest. In 2022, we further developed our Conflict Mitigation Guidelines to better capture the processes we already follow internally. We look forward to reporting again in our 2022 report on how this has impacted our management of conflicts of interest.

Making an Impact on the Real Economy

At State Street Global Advisors, we recognize our responsibility to support well-functioning markets. We do this through a multi-targeted approach, focused on engagement with the market, regulators and policymakers, our clients, our company, and our investee companies on key systemic risks, and taking action where necessary. This section will review each of these dimensions of our holistic approach toward fulfilling this important responsibility.

Figure 30
Collaborating to Support Well-Functioning Markets



Source: State Street Global Advisors.

The Market

In the following sections, we discuss how we engage and communicate with the market to impact the real economy and support well-functioning markets.

Fearless Girl

We launched the Fearless Girl campaign in March 2017 based on a simple truth: that companies with more diverse leadership perform better.⁶ Increased diversity helps to improve board quality and makes the board stronger. Research shows that companies with strong female leadership perform better than those without it.⁷ A study by MSCI showed companies with strong female leadership generated a return on equity of 10.1% per year, versus 7.4% for those without a critical mass of women at the top — a 36.4% increase of average return on equity.⁸

Objective: Starting in 2017, our Asset Stewardship Team has called on companies in our investment portfolio to increase the number of women on their boards and has made clear that we would use our proxy voting power to effect change should they fail to act. We continue to take further action and seek to drive additional change. Beginning in the 2022 proxy season, we expect all our holdings, across the globe, to have at least one woman on their boards, or we will vote against directors responsible. We have set and made public our expectations that from 2023 at least 30% of board members at our investee companies would be women.

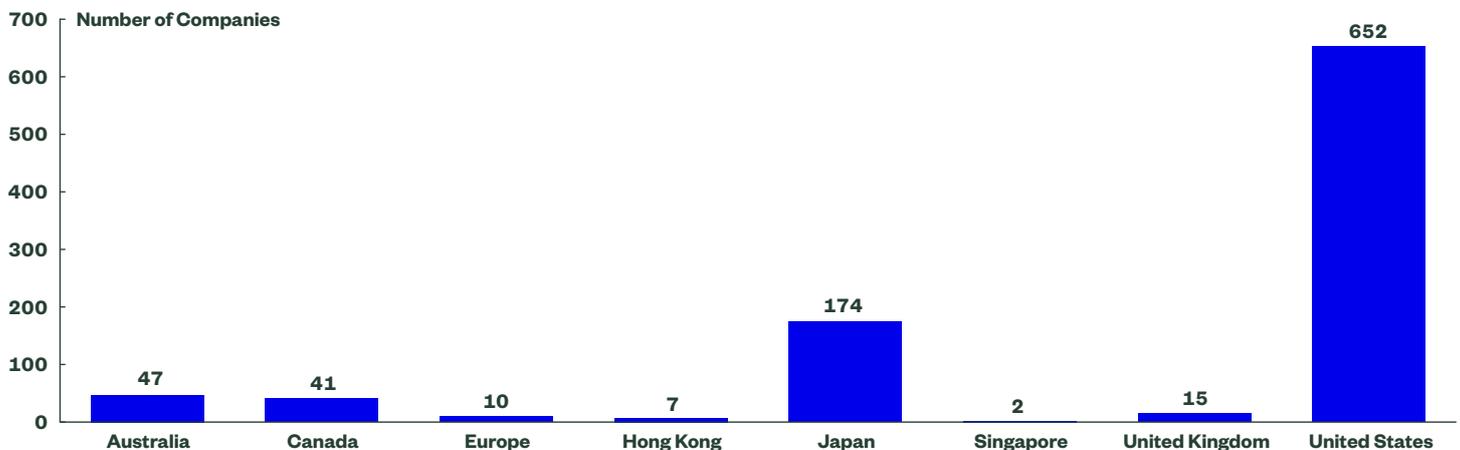


Outcomes as of February 2022

- 1,548** companies were identified for not having a woman on their board.
- 205** companies voted against during year 5 of the campaign (March 2021–February 2022).
- 948** companies (approximately 61%) have now added a female director to their board globally as a result of our engagement and proxy voting.

Our work is all the more important as research shows that large index investors such as State Street Global Advisors are more effective than government mandates to bring about broad-based governance changes and expand women’s participation in corporate leadership. Diverse thinking and problem-solving in leadership are critical to the effective stewardship of assets.

Figure 31
Companies that Added a Female Board Director in 2021



Source: State Street Global Advisors. As of February 2022.

Diversity

In 2020, tragic incidents of police violence in the US highlighted the longstanding legacy of systemic racism that plagues the US and other countries around the globe. Following these events, our Chief Investment Officer sent guidance to the Board Chairs of portfolio companies within our key markets that set out the rationale for expanding our gender diversity focus to include race and ethnicity.

A clear outcome of our new guidance was the recognition that more data was needed to help us and other investors to understand the extent to which our portfolio companies are managing diversity at the board level and within the wider employee base. As such, we worked to create specific voting policies to support our expectations and hold companies accountable during the 2021 proxy season where we felt they were not taking appropriate action. Where companies do not disclose the racial and ethnic composition of their boards we voted against the Chair of the Nominating and Governance Committee at companies in the S&P 500 and the FTSE 100.

Thought Leadership

We promote awareness of our stewardship priorities amongst market participants in various ways, including through thought leadership pieces on our website. Examples of thought leadership that we issued in 2021 across a range of topics include:

Climate Change

- [Keeping Pace With the Climate Transition](#)
- [Post COP26](#)
- [Climate Metrics — A Primer for Investors](#)
- [Reducing Carbon in Equity Portfolios](#)
- [Understanding Paris-Aligned Indexes](#)
- [Engage or Divest? The Question at the Heart of Climate Impact](#)

Diversity

- [The Board's Oversight of Racial and Ethnic Diversity, Equity and Inclusion](#)
- [Gender Diversity on Boards in Gulf Cooperation Council Countries](#)
- [Capturing the Power of Diversity](#)

Other Thought Leadership Samples

- [Human Rights Insights: Addressing Modern Slavery in Supply Chains](#)
- [Key Findings 2 — ESG Moves Mainstream in Fixed Income](#)
- [An Integrated Approach to ESG and Quality](#)
- [5 Questions for Board Oversight](#)

Public Speaking and Press Coverage

In addition to our thought leadership and responses to consultations and white papers, we also seek to drive the debate in our industry by participating in industry and stakeholder gatherings as panellists and keynote speakers. We use the speaking opportunities to amplify our message on stewardship or share our views on developing ESG issues. A list of events that we have spoken at can be found in Appendix C.

Similarly, we utilise strategic opportunities to engage with the press to promote aspects of stewardship and ESG that we think are particularly important for both our investors and the wider industry. See for example an opinion piece our CEO wrote for the [Financial Times in May 2021](#), an excerpt of which is provided here.

“ The role investors play in holding companies accountable on the journey to net zero is so important. When investors are at the table, we can use our voice urging disclosure of metrics and strategy and, if no action is forthcoming, our vote.”

—Cyrus Taraporevala, President and CEO, State Street Global Advisors, *The Other Climate Risk Investors Need to Talk About*, *Financial Times*, May 2021

Collaboration With Other Market Participants

We work informally (where such activities are permitted by law) with other stakeholders in markets where we believe collective action is needed to promote market enhancements towards best practice. This work is often conducted through our membership of various organisations and initiatives, including the following related to climate and building sustainable capital markets:

- Institutional Investors Group on Climate Change (IIGCC)
- The Task Force on Climate Related Disclosure (TCFD)
- Coalition for Climate Resilient Investment (CCRI)
- Climate Action 100+
- The Climate Bonds Initiative
- The Net Zero Asset Managers Initiative
- International Institute of Finance (IIF)
- Vatican's Dicastery for Integral Human Development and the University of Notre Dame
- One Planet Summit
- The Sustainable Accounting Standards Board (SASB)
- Investor Stewardship Group (ISG)
- Embankment Project for Inclusive Capitalism (EPIC)
- Investment Leaders Group (ILG)
- The UN Global Compact (UNGC)
- Investor Leadership Network (ILN)
- Sustainable Trading

We provide here a summary of the work we have done as a member of some of these organisations.

Sustainable Trading Network Founding Member In February, we became a founding member of the Sustainable Trading membership network. The network is dedicated to transforming ESG practices within the financial markets trading industry. It also brings firms together to devise practical solutions to industry specific ESG issues as well as provide a mechanism for self-assessment and benchmarking, as the press release [here](#) shows.

Climate Action 100+ We are now signatories of Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. We are one of the more than 615 investors, responsible for over \$65 trillion in assets under management, who are engaging companies on improving climate change governance, cutting emissions, and strengthening climate-related financial disclosures. Broadly, the initiative aims to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Climate Action 100+ has become the largest ever global investor engagement initiative on climate change, with growing influence and impact, and we are pleased to be playing our part in it.

SASB: Investor Advisory Group (IAG) (Sustainability) Our membership on the IAG allows us to feed into the ongoing monitoring and reviewing of the SASB standards, which is a fundamental part of the scoring methodology of our gr ESG scoring system. We support market infrastructure initiatives to standardise reporting — in particular SASB (now the Value Reporting Foundation).

The Value Reporting Foundation is an independent not-for-profit organisation that has developed a set of standards to support companies in identifying and disclosing financially material sustainability information usable by investors. Their standard-setting framework follows a multi-year process that encompasses evidence-based research followed by consultation and engagement with investors and other industry experts. The result is a materiality map that ranks sustainability issues across 77 industries in 10 sectors and offers companies a clear disclosure framework that aligns with investor and market needs.

We are pleased that the SASB regulatory standard is gaining recognition as an optimal disclosure framework among regulators. In turn, this is a core part of how we integrate ESG into our equity indices and identify targets for engagement, to ensure that we can drive ESG alignment across all of our equity and corporate debt portfolios.

The IAG is composed of more than 62 global asset owners and managers, representing over \$52 trillion in assets under management. Three members of our leadership team were members of SASB's IAG in 2021: Karen Wong, our Global Head of ESG and Sustainable Investing, and Robert Walker and Benjamin Colton, our Global Co-Heads of Asset Stewardship.

During 2021, we were a 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 2020, members of our team led and participated in several formal and informal working groups with our fellow IAG community.

Encouraging the Sharing of ESG Information We worked together with a group of other IAG members to encourage companies to disclose material and decision-relevant 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 organisation of SASB-based data, as reported by companies. In addition, we participated in a virtual SASB-Society Corporate-Investor Dialogue (CID) in partnership with the Society For Corporate Governance (SCG).

SCG membership includes roughly 1,000 public companies, representing more than 70% of the S&P 500 index. These forums are used 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. We participated in two sessions where we explained how we use our R-Factor framework for investment and stewardship-related purposes and outlined how R-Factor is highly aligned with the SASB materiality framework.

Sustainable Markets Initiative (SMI)/G7 Engagement In 2020, the Sustainable Markets Initiative (SMI) was launched at the World Economic Forum and formed part of a ‘Coalition of the Willing’ convened by His Royal Highness The Prince of Wales. The group represents over 300 global business leaders that have a common aim to accelerate the finance, investment, and technology solutions needed to protect people and the planet from climate change.

In 2021, in collaboration with other taskforce members, we published our expectations on the transition to net zero emissions for the shipping sector, a copy of which can be found [here](#).

In our role as a member of the Net-Zero Asset Allocation Working Group, working on behalf of the SMI Asset Manager & Asset Owner Task Force, we published a proposed framework of principles and best practices to include climate change and net-zero considerations in portfolio construction. This guide is dedicated to all types of asset owners, regardless of their asset class mix or their investment strategies. The proposed guide can be found [here](#).

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

In August 2020, 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.

The initial response from DAX 30 companies to our letter was disappointing with few companies committing to adopt a three-year election term. During 2021, we continued to engage with members of the DAX 30 to encourage them to voluntarily adopt a three-year election cycle.

Such collaborative efforts of institutional investors and associations play an important role in the progress made in recent years in the fields of ESG investing. In order to benefit from guidance and to share best practices, we are proud participants in this collaboration through our membership in a number of global investor bodies, including:

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

The Investor Leadership Network Climate Change Committee The ILN Climate Change Committee launched at the 2018 G7 to facilitate and accelerate collaboration by leading global investors on key issues related to sustainability and long-term growth. As the leading network of investors taking action for people, planet and prosperity, the CEO-led group is composed of 14 global institutional investors representative of six countries, with over US\$9 trillion in assets under management. Cyrus Taraporevala, our President and Chief Executive Officer, is on the ILN CEO Council.

Coalition for Climate Resilient Investment We are a member of the Coalition for Climate Resilient Investment, a United Nations Climate Action Summit and COP26 flagship initiative. The Coalition represents the commitment of the global private financial industry, in partnership with key private and public institutions, to foster the more efficient integration of physical climate risks (PCRs) in investment decision-making.

The Climate Bonds Initiative Our role within this partnership allows us to support the global development to mobilize the largest capital market of all the \$100 trillion bond market, for transition to a low-carbon economy. The partnership will help develop a trusted standard for bonds, as well as supporting investors who want to use green bonds to improve the climate profile of their portfolios in a quantifiable way. We are also a significant investor in green bonds and a founding member of the Green Bond Principles, which are incorporated in the Climate Bonds Standard.

Regulators and Policymakers

Stewardship extends beyond interactions between investors and the companies in which they invest, to interactions with wider society. In recent years, regulatory and supervisory agendas around the world have focused on climate and wider sustainability policy matters.

At State Street, the Regulatory, Industry and Government Affairs (RIGA) division is responsible for monitoring policy, legislative or regulatory developments globally, and for engaging regulators and policymakers on these issues — either directly or indirectly via industry groups. We publish letters to regulators and policymakers on State Street's and State Street Global Advisors' company websites, and details of our lobbying activities can be found [here](#). With respect to trade organisations, we periodically assess their scope and purpose to identify where their positions may materially diverge from State Street's positions, including on ESG issues, and evaluate the benefit of continued membership.

Our interactions with asset owners, asset managers, data providers, and other key stakeholders from across the globe give us unique insight to engage in evolving policy debates around sustainability issues.

Examples of Our Collaboration on Stewardship and Wider Sustainability-related Issues

HM Treasury's Asset Management Task Force

We continue to support the recommendations produced by HM Treasury's Asset Management Task Force, of which we are an active member.

Since publication of these recommendations, we continue to demonstrate our support, particularly with respect to new Government mandates to introduce mandatory TCFD-aligned reporting across the investment chain. We engaged in the TCFD consultation on forward looking climate metrics in January 2021, where we not only exhibited our support but also highlighted the challenges we see as a result of data quality and methodological consistency.

Recognising the importance of transparency across the investment chain and that responsible investing transcends geographic borders for global investors, we have sought to promote the Taskforce's recommendations globally. For example, in September 2021, we supported the FCA proposal (consultation paper (CP) 21/17) to enhance climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers.

We also led the company's response to the US SEC Request for Comment in June 2021 that supported new SEC mandates for climate-related disclosures consistent with TCFD.

At the international level, we encouraged IOSCO to produce recommendations for asset management sustainability practices, processes and procedures in August 2021.

Specifically, on embedding better stewardship in pension assets, as previously reported, we took exception to two of the U.S. Department of Labor's (DOL) proposed rulemakings. These would have infringed our stewardship duties concerning US pension funds in 2020: a proposed rulemaking on fiduciary duties regarding proxy voting and shareholder rights which sought to regulate ESG strategies by investment fiduciaries under ERISA (23 June); and another proposed rulemaking on financial factors in plan investments (4 September).

Both of these rules contained significant negative implications for ERISA fiduciaries and ultimately American savers. Through direct engagement with the DOL and the Biden administration during 2021, enabled as a result of temporary non-enforcement, we achieved a positive outcome, with the publication of a revised rule that we commended in our response to the DOL on 13 December 2021.

Listing Rules

We have also been engaged, via industry associations, in reviewing UK listing rules and prospectuses. We emphasised the utmost importance of quality stewardship and good governance standards — which have been and should remain a competitive advantage in London.

Adopting an international approach with this standpoint, we are heavily engaged in ongoing policy developments relating to listing rules and/or voting rights outside of the UK. For example, in December 2020, Nasdaq Stock Market LLC (Nasdaq) filed a proposal with the U.S. Securities and Exchange Commission (SEC) to adopt new listing rules related to board diversity and disclosure. The new listing rules proposed a requirement for 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.

We wrote to the SEC outlining our support for this proposal, and they approved the proposed rule change in 2021. We view this as a positive outcome of our engagement.

Our Clients

We have a client-first approach, which, as our CEO Cyrus Taraporevala has said, consistently aims to "meet the client in their journey, regardless of whatever stage they are at, and push them forward."

The Asset Stewardship Team works closely with our global client relationship teams to maintain an open and constructive dialogue with clients on the delivery of our stewardship activities. Our client approach is centred on client engagement and reporting.

Client Engagement

We recognise the importance of being accountable to our clients on how we fulfil our duties as responsible fiduciaries on their behalf. The first step is to understand our clients' needs and we use surveys as part of this process. For example, in 2021, we surveyed a cross-section of our client base on decarbonisation. This survey allowed us to gather views at scale from a wide range of existing clients and other institutional investors and, where appropriate, use our votes to reinforce the views of our clients (see chapter 2 for more information).

In addition, we meet our clients to educate them on how we are conducting our stewardship activities. We believe that regularly engaging with our clients allows us to better understand their expectations in terms of their stewardship journey. We incorporate their feedback into our stewardship programme where appropriate.

We are continually looking for ways to develop our client engagement on these important topics, and as such, we have introduced periodic client meetings specifically to discuss stewardship and ESG matters. These discussions are attended by subject matter experts from our Stewardship and ESG teams alongside the Client Relationship Team. The aim is to have a detailed discussion regarding their preferences and how these can be incorporated into both our engagement strategy and our investment approach.

Outcomes From Client Feedback

We have been able to implement the following improvements to ensure that we continue to deliver increasing levels of support and value to our clients:

- **Enhanced Vote Transparency** We implemented a new quarterly reporting schedule in response to our client's demand for more transparency on how we vote.
- **Vote Bulletins** In 2020, we received client feedback on the need for more vote bulletins. As a result, in 2021, we further enhanced the resources dedicated to the production of these bulletins.
- **Advisory Client Council** To further improve our client-facing activities, we considered the creation of a new advisory client council of our key clients in order to better understand their expectations and needs. As part of this we have now begun to engage with our key clients on the benefits of launching this council, and to determine the best course of action.

Reporting

We provide transparency for our stewardship activities through our regular client reports and relevant information reported online. We publish an annual stewardship report that provides details of our stewardship approach, engagement and voting policies, and activities during the year, complying with the principles of the Shareholder Rights Directive (SRD) II. The annual report is complemented by quarterly stewardship activity reports as well as the regular publication of thought leadership on governance and sustainability on our website.

Consistent with our commitment to transparency, we increased the frequency of the publication of our voting record from annual to quarterly from Q1 2021. This information is available on [Vote View](#), an interactive platform that provides relevant company details, proposal types, resolution descriptions, and records of our votes cast.

Our 2021 Stewardship activity reports can be found below:

- **Q4 2021:** <https://www.ssga.com/us/en/institutional/ic/library-content/pdfs/inst-firm-level-q4-2021-stewardship-activity-report.pdf>
- **Q3 2021:** <https://www.ssga.com/library-content/products/esg/inst-firm-level-asset-stewardship-report-q3-2021.pdf>
- **Q2 2021:** <https://www.ssga.com/library-content/products/esg/asset-stewardship-activity-q2-2021.pdf>
- **Q1 2021:** <https://www.ssga.com/library-content/products/esg/asset-stewardship-report-q1-2021.pdf>

In compliance with the UK SRD II, we have developed a framework that identifies our most significant votes for our UK clients. On a quarterly basis, using this framework, we also create reports for our UK clients that include a brief explanation of the most significant votes identified in their portfolios.

We identified significant votes for the purposes of the SRD II as follows:

- 1 All votes on environmental-related shareholder proposals
- 2 All votes on compensation proposals where we voted against the management's recommendation
- 3 All against votes on the re-election of board members due to poor ESG performance of their companies (as measured by their R-Factor ESG score)
- 4 All against votes on the re-election of board members due to poor compliance with the local corporate governance score of their companies (as measured by their R-Factor CorpGov score)
- 5 All against votes on the re-election of board members due to a lack of gender diversity on the board

Our Company

We strive to hold ourselves accountable to the same standards that we expect of our investee companies. We believe that it is not only important to set a clear example but also to play our role in moving the market on these important issues. Our Asset Stewardship Team engages with the Board of Directors of State Street Corporation, the parent company of State Street Global Advisors, on a biannual basis. The purpose is to inform and educate the Board on key developments in the team's engagement and proxy voting, and best practices.

Furthermore, in 2018, the Board of Directors of State Street Corporation adopted a formal mandate to oversee material ESG risks, including climate-related risks. As part of the execution of that mandate, the Executive Corporate Responsibility Committee, of which Karen Wong, Global Head of ESG and Sustainable Investing at State Street Global Advisors, is a member, reports to the Board of Directors at least once a year on relevant topics.

To increase awareness around ESG among employees, our ESG and Asset Stewardship Teams have given multiple series of ESG training courses to internal stakeholders globally and across functions, including portfolio management, sales, relationship management, portfolio strategy, and research. Training covers a variety of ESG topics and development such as voting policies and engagement; ESG investment strategies and products; ESG taxonomy; and 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 organisation.

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.

In general, we are committed to upholding the highest standards of integrity, decency, and respect. As part of our recognition of the growing importance of diversity and inclusion, State Street is implementing [10 Actions Against Racism and Inequality](#). These ten strategic actions demonstrate our focus on the internal and external changes to bring about a more diverse, equitable, and inclusive workplace, community, and industry.

For example, we have committed to improving our Black and Latinx employee representation. Specifically, we have committed to triple our Black and Latinx leadership (Senior Vice Presidents and above) and double our percentage of Black and Latinx populations by 2023. We have extended our requirement to interview a diverse slate of candidates for positions at all levels. Also, as part of our 10-point action plan, we have committed to improving Black and Latinx representation at the Board level. As a result, we have added two directors to the Board to increase racial diversity to 25%. Our action plan also contains a number of diversity training and awareness measures (for example, our anti-racism conversations and training) to further promote an inclusive mindset within the organisation.

Furthermore, the State Street Foundation has established combatting racism as a priority pillar, and introduced a 2:1 match for staff donating to organisations addressing racial equity issues. We also have set ourselves specific 3-year and 5-year goals in relation to the proportion of female employees and employees of colour at all levels from Assistant Vice President and above.

Corporate Responsibility

We have robust policies on corporate responsibility and ESG. As responsible corporate citizens, we are focused on conducting business in a transparent and ethical manner. This includes working to maximise our global impact through charitable contributions, employee volunteering and more while minimising our global footprint. From reducing carbon emissions, to prioritising asset stewardship, to investing in human capital, we aim to create long-term value — for our clients, employees, shareholders, and communities.

Our Corporate Responsibility Statement is available [here](#) and our employee activities are detailed in our annual Corporate Responsibility Report available on our website.

Our Investee Companies

The final element of our holistic stewardship approach is to engage with our investee companies. This is where we demonstrate influence over the \$4.14 trillion under management.² While we already influence our investee companies indirectly through our thought leadership, through direct engagement we are able to set clear expectations, making direct engagement a core part of our stewardship approach. We discuss our approach to engagement and voting in the Engagement and Escalation section of this report.

Appendices

Appendix A: State Street Global Advisors Global Policy and Voting Links

Asia Pacific

- [2022 Proxy Voting and Engagement Guidelines: Australia and New Zealand](#)
- [2022 Proxy Voting and Engagement Guidelines: Japan](#)

Europe

- [2022 Proxy Voting and Engagement Guidelines: Europe](#)
- [2022 Proxy Voting and Engagement Guidelines: UK and Ireland](#)

North America

- [2022 Proxy Voting and Engagement Guidelines North America \(United States & Canada\)](#)

Global

- [2022 Global Proxy Voting and Engagement Guidelines: Summary of Material Changes](#)
- [2022 Global Proxy Voting and Engagement Principles](#)
- [2022 Global Proxy Voting and Engagement Guidelines for Sustainability Issues](#)
- [2022 Proxy Voting and Engagement Guidelines: Rest of the World](#)
- [2022 State Street Global Advisors' Conflict Mitigation Guidelines](#)
- [State Street Global Advisors' Issuer Engagement Protocol](#)
- [Frameworks on Voting Environmental & Social Shareholder Proposals](#)
- [Protecting Long-Term Shareholder Interests In Activist Engagements](#)

Voting Summary

- [Vote View](#)

Appendix B: Public Speaking Examples

- 13D Monitor: Corporate Governance Roundtable
- API Climate Related Reporting Initiative Consultation
- Boston University School of Law: Climate Risk and Financial Institutions
- Cambridge Executive Connections Inc: Forum on Executive Compensation
- Ceres All Network Member Day
- CII Conference: Climate Change and Net-Zero Initiatives
- Columbia Sustainability Program Event
- Compensation Committee Leadership Network
- Earth Day 2021: The Biden Presidency Puts Climate at the Forefront
- ESG 2021 & Beyond: Earth Day Panel
- ESG disclosure: Co-hosted by the Coalition for Inclusive Capitalism and the NYU Law School's Institute for Corporate Governance and Finance
- ESG priorities at Rivel Governance & Sustainability Symposium
- Fall Engagement Summit: Panel Discussions on Expectations for Fall Engagement and the Outlook for the 2022 Proxy Season
- Harvard Business School Climate Symposium: Public Markets Investing Panel 2021
- Harvard Law School: Forum for Corporate Governance Roundtable
- ICCR Oil & Gas Industry Roundtable on Federal Methane Regulations
- Morgan Stanley Financial Decision Making Conference
- NACD ESG Continuous Learning Cohort: Metrics and Investor Disclosures Expert Director Briefing
- NYU Law Panel: Disclosure and Regulatory Landscape
- Professional Women's Network: ABC's of ESG,
- Public Relations and Communications Association 2021 Conference: Reputational Risks and Opportunities in the Year of COP26
- PWC Director Engaging Summit
- PwC's Outlook 2022: ESG Data
- Stanford Institutional Investors' Forum
- The Conference Board's ESG Summit Governance Panel: Enlisting the Board in ESG
- The Council of Institutional Investors Fall Conference: The Hidden Cost of Human Rights Violations in the Food Sector
- The Fall Engagement Summit: New Expectations and Perspectives for Fall Engagement 2021
- The Future of Diversity of Boards Panel for Harvard Business School Accelerating Board Diversity Program
- Today's Board Mandate: Diversity, Equity and Inclusion in the Spotlight co-hosted by State Street and the Toigo Foundation
- Weinberg Center for Corporate Governance and the Ceres Accelerator for Sustainable Capital Markets: Roundtable Discussion
- Wharton CEO Academy: What Do Shareholders Want From Boards?
- World Economic Forum: Climate Change

**Appendix C:
Stewardship Team
Senior Leader
Biographies**



Karen Wong

Senior Managing Director and Global Head of ESG and Sustainable Investing
State Street Global Advisors

Karen Wong is a Senior Managing Director and Global Head of ESG and Sustainable Investing at State Street Global Advisors. In this capacity, she leads the ESG functions including ESG investment strategy, ESG integration, and asset stewardship. She is responsible for developing and driving the firmwide ESG positioning and business strategy, defining the ESG product roadmap, and coordinating with the broader State Street ESG initiatives to amplify our collective voice.

She is a member of the company's Executive Management Group, and chairs the ESG Committee. Before joining State Street Global Advisors, Karen worked at Mellon Investments Corporation for more than 20 years, where she held various investment and leadership positions.

Most recently, she was Head of Index Portfolio Management overseeing over \$300 billion assets in equity and fixed income index and beta strategies, with primary responsibility for portfolio management and business strategy. In addition, she was Mellon's ESG Champion and collaborated across the firm to drive ESG integration. In 2014, she developed and launched Mellon's first green beta product, a landmark sustainable investment solution.

Karen is a graduate of San Francisco State University with a Master of Business Administration and Bachelor of Science in Statistics and Accounting. She earned the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute and the CFA Society of San Francisco.



Benjamin Colton

Global Head of Asset Stewardship — Voting and Engagement

Benjamin and his colleagues on the Stewardship Team are responsible for developing and implementing our global proxy voting policies and guidelines across all investment strategies, and also managing our proxy voting activities and issuer engagement on ESG issues.

Previously, he was the Stewardship Team's Head of Asia-Pacific. Prior to joining the company, Benjamin served as a member of the Active Ownership Team at Norges Bank Investment Management (NBIM) based in Oslo, Norway and later in New York City, USA.

Benjamin earned an Executive Global Master of Science in Management (Distinction) from the London School of Economics & Political Science (LSE). He has master's degree in economics from the University of Nevada and a bachelor's degree (Distinction) in economics from University of Nevada.



Robert Walker

Global Head of Asset Stewardship — Strategy

Robert is responsible for developing and implementing our global proxy voting policies and guidelines across all investment strategies. He also manages our advisor's proxy voting activities and issuer engagement on ESG issues.

Prior to joining the company in 2017, Robert was Director for Social and Governance Research at HSBC Bank plc, wherein he led the coverage on ESG issues. He has also worked as Head of Governance Research for equity broker Kepler Cheuvreux and as Stewardship Services Manager Europe for GO Investment Partners. During his career, Robert has been ranked in the Extel survey, ranking #1 in 2017, 2015, 2014 and 2013 for governance equity research.

Endnotes

- 1 Responsibility-Factor (R-Factor) scoring is designed by State Street to reflect certain ESG characteristics and does not represent investment performance. Results generated out of the scoring model are based on sustainability and corporate governance dimensions of a scored entity.
- 2 This figure is presented as of 31 December 2021 and includes approximately \$61.43 billion of assets 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.
- 3 As of December 31, 2021.
- 4 Estimate based on Department of Labor (DOL), S&P Global Market Intelligence Money Market Directories (MMD), and State Street Global Advisors data as of December 31, 2021.
- 5 During regional market hours.
- 6 "The Effect of Gender Diversity on Board Decision-making: Interviews with Board Members and Stakeholders" The Conference Board, Jan 2017.
- 7 "Why Diversity Matters" McKinsey, Feb 2015. "Women on Boards: Global Trends in Gender Diversity on Corporate Boards" MSCI, Nov 2015. "Is Gender Diversity Profitable?" Peterson Institute for International Economic, Feb 2016.
- 8 "Women on Boards: Global Trends in Gender Diversity on Corporate Boards" MSCI, Nov 2015.

About State Street Global Advisors

Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day:

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

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 30 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's fourth-largest asset manager* with US \$4.02 trillion[†] under our care.

* Pensions & Investments Research Center, as of December 31, 2020.

[†] This figure is presented as of March 31, 2022 and includes approximately \$73.35 billion USD of assets 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.

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