Asset Stewardship
**Activity Report**

**Q3 2020**



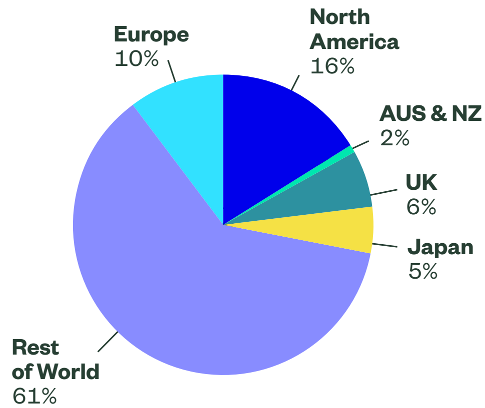
# Proxy Season Review

**This report covers our Voting Framework for Diversity-Related Shareholder Proposals, the launch of our Climate Stewardship Review, our Collaborative Investor Letter on Supervisory Board Election Terms in Germany, our Response to the Department of Labor's Proposed Proxy Voting Rule, and Q3 2020 engagement highlights.**

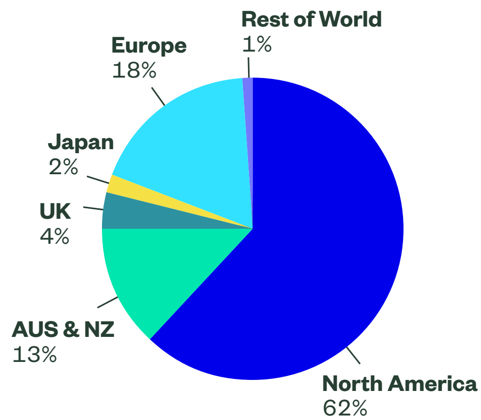
**Q3 2020 Voting & Engagement Breakdown**

| | | |
|---|---|---|
| Total Proposals | 26,562 | |
| Meetings | 3,220 | |
| Management Proposals | 25,831 | |
| Management Proposals For | 21,289 | 82.4% |
| Management Proposals Against | 4,542 | 17.6% |
| Shareholder Proposals | 731 | |
| Votes with Management | 675 | 92.3% |
| Votes Against Management | 56 | 7.7% |
| Countries | 59 | |

**Voting by Region**




**Engagement by Region**




STATE STREET GLOBAL ADVISORS

# Voting Framework for Diversity-Related Shareholder Proposals

While we have long focused on gender diversity as a priority area for our stewardship program, in an August 2020 letter we outlined our updated expectation for companies' racial diversity disclosures. Given the increased significance of diversity and inclusion in discussions of ESG risk management, we anticipate a higher volume of diversity-related shareholder proposals in the 2021 proxy season. In addition to our established framework for evaluating environmental and social proposals, we will consider the following factors in analyzing diversity-related proposals.

First, we will assess the target company's alignment with our racial and gender diversity expectations by asking the following questions in engagements and when reviewing its disclosures:

**1** Does the company articulate the role diversity (of race and gender, at minimum) plays in the firm's broader human capital management practices and long-term **strategy**?

— BEST PRACTICE: A pharmaceuticals company articulates the role of diversity and inclusion in advancing its long-term business strategy.

**2** Does the company describe what diversity **goals** (related to race and gender, at minimum) exist, how these goals contribute to the firm's overall strategy, and how these goals are managed and progressing?

— BEST PRACTICE: A semiconductor company discloses its progress against time-bound goals that are tied to its overall strategy. These goals specifically address gender and race.

**3** Does the company provide **measures** of the diversity of its global employee base and board, including (1) EEO-1 report data on gender and race for US companies and (2) diversity characteristics, including gender and racial and ethnic makeup, of the board of directors?

— BEST PRACTICE: A financial services firm discloses its EEO-1 report on race and gender, and also offers a snapshot of the data aligned with the Sustainability Accounting Standards Board (SASB). Another insurance company discloses the overall racial and gender composition of its board.

**4** If a company does not disclose that it has a diverse representation on its board, does the company articulate goals and strategy related to racial and ethnic representation at the **board** level, including how the board reflects the diversity of the company's workforce, community, customers and other key stakeholders?

— BEST PRACTICE: A communication services company has publicly committed to adding at least one Black director to its board within a year.

**5** Does the company describe how the board executes its **oversight** role in diversity and inclusion?

— BEST PRACTICE: An IT services company discloses the committee responsible for diversity and inclusion, and includes D&I in the committee's charter.

This analysis will inform our approach to voting:

- If the company is aligned with four or five of our expectations, we will most likely vote against the diversity-related proposal. If the company is aligned with only three or fewer of our expectations, we will most likely engage with the company to seek further alignment with our expectations.

- In certain circumstances, we will utilize an abstain option for those companies committing to improve their practices.

- In the absence of a commitment from the company to align with four or five of our expectations, and if our engagement is not productive, we will most likely support proposals that would meaningfully advance diversity-related disclosures.

This framework provides a general overview of our evaluation process, but the ultimate outcome of each vote is at the discretion of our analysts. As always, our priority in evaluating diversity-related proposals is our fiduciary responsibility to our clients.

# Launch of Climate Stewardship Review

Climate change presents a key systemic threat, representing both a strategic and business challenge for all companies. The prioritization of climate change as a core theme of our stewardship activities since 2014 is driven by our fiduciary obligation to maximize the long-term returns of our clients' investments.

As many asset owners and asset managers continue to acknowledge and consider the financial materiality of climate risks, we are committed to providing additional transparency into how we approach issues related to climate change and as a result have launched an annual climate review. This Climate Stewardship Review is intended to be part of our regular reporting cycle, providing context around State Street Global Advisors' climate stewardship approach, sharing insights into our climate-focused engagements and identifying emerging climate-related trends.

# Collaborative Investor Letter on Supervisory Board Election Terms in Germany

We view board accountability as fundamental to strong corporate governance. In particular, annual director elections provide increased accountability and encourage board members to be more responsive to shareholder interests, thus improving board quality.

Therefore in an August letter, we, alongside a group of like-minded investors, called on DAX 30 companies to voluntarily adopt a three-year election cycle for shareholder-elected supervisory board members.

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

We believe the proposed change would demonstrate that companies are taking a meaningful step toward alignment with good governance and stronger shareholder rights, without creating undue impediments to board succession or long-term strategic planning.

# US Department of Labor's Proposed Proxy Voting Rule a Step in the Wrong Direction

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

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

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

# Engagement Highlights

**EMEA**

We believe effective, independent board leadership is a key component of good corporate governance and long-term value creation. Therefore we expect the boards of our portfolio companies in developed European markets to be at least 50 percent independent, irrespective of their shareholder structure. Following our call for a greater level of board independence, the Swiss luxury goods company **Compagnie Financière Richemont SA** has added another independent director to its board, thus increasing the level of board independence from 43 percent to 47 percent.

During the third quarter, we engaged with the chair of the executive compensation committee of **Pearson plc** to discuss the proposed grant of a co-investment award to the new CEO. In our discussion we noted our concerns regarding the quantum of this one-off award (£7.38m) given the current economic climate. We also expressed concerns about the short vesting period (less than three years) of the award as well as the rigor of the Total Shareholder Return performance underpin, which requires only median performance against the FTSE 100 index.

Consequently, as no action was taken by Pearson to address our concerns, we voted against the remuneration proposal at the company's special shareholder meeting in September 2020. Although the proposal was adopted at the meeting, approximately one-third of shareholders voted against it. We will continue our ongoing dialogue with the company and will monitor its pay-for-performance alignment.

**North America**

In Q3 2020 SSGA engaged with the senior management of **Stanley Black & Decker, Inc.** to discuss both the challenges and opportunities the company faced due to the COVID-19 pandemic. Black & Decker began to recognize the risks related to COVID-19 as early as January 2020 due to the company's extensive Chinese supply chain; given the US-China trade war and the pandemic-related economic shutdown in China around the Lunar New Year, the company experienced significant supply chain disruption. This disruption motivated the company to accelerate moving its supply chain closer to the end consumers, particularly in the US. COVID-19 was a challenge for Black & Decker, but it also created business opportunities for the company as well. The pandemic caused many consumers to adopt a "do it yourself" approach to home projects, leading to more first-time Black & Decker customers.

The company is now working to maintain this customer loyalty, especially among its newest customers, and to also penetrate markets where Black & Decker has not had a strong presence in the past, such as Europe or Asia.

Ahead of its 2020 AGM, we had identified **NVR, Inc.** as a company that was not meeting our expectations for ESG disclosure. During an engagement prior to the annual meeting, we gained an understanding of the company's plan to meet our expectations over the coming year and thus chose not to vote against a board member for falling short of our disclosure expectations. We followed up with the company in July and learned that it had specifically added ESG oversight to the Nominating and Corporate Governance Committee charter, among other improvements. We expect continued improvement in the coming months as the company responds to shareholders' expectations for enhanced disclosure.

## APAC

This year we continued our constructive dialogue with **Commonwealth Bank of Australia** around corporate culture, remuneration and sustainability reporting. As a result of engagement with investors, the company conducted and published an annual report that aligns with the SASB materiality map. This market-leading report also continued to build off of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations through a robust climate scenario analysis. State Street Global Advisors will continue to use both the TCFD and SASB frameworks as road maps to provide quality ESG data and disclosure critical for effective investment analysis.

# Companies Engaged

| Company | Region |
|---|---|
| 3M Company | North America |
| Acorda Therapeutics, Inc. | North America |
| Adyen NV | Europe |
| AGCO Corporation | North America |
| AGL Energy Ltd. | Australia & New Zealand |
| AGL Energy Ltd. (Shareholder Proposal Proponent — Australasian Centre for Corporate Responsibility) | Australia & New Zealand |
| Alexion Pharmaceuticals, Inc. | North America |
| America's Car-Mart, Inc. | North America |
| ARYZTA AG | Europe |
| ARYZTA AG (Dissident Shareholder-Veraison Capital) | Europe |
| BASF SE | Europe |
| BHP Group Ltd. (Shareholder Proposal Proponent — Australasian Centre for Corporate Responsibility) | Australia & New Zealand |
| Bluerock Residential Growth REIT, Inc. | North America |
| Brunswick Corporation | North America |
| Capital One Financial Corporation | North America |
| Check Point Software Technologies Ltd. | Europe |
| Cisco Systems, Inc. | North America |
| CMS Energy Corporation | North America |
| Commonwealth Bank of Australia | Australia & New Zealand |
| Commvault Systems, Inc. | North America |
| Compagnie Financière Richemont SA | Europe |
| CoreLogic, Inc. | North America |
| Cromwell Property Group | Australia & New Zealand |
| Deutsche Bank AG | Europe |
| Digital Realty Trust, Inc. | North America |
| DXC Technology Company | North America |
| EastGroup Properties, Inc. | North America |
| Ebix Inc. | North America |
| Electronic Arts Inc. | North America |
| Ennis, Inc. | North America |
| Facebook, Inc. | North America |

| Company | Region |
|---|---|
| FedEx Corporation | North America |
| FirstGroup Plc | United Kingdom |
| Genuine Parts Company | North America |
| Gibson Energy Inc. | North America |
| Global Medical REIT, Inc. | North America |
| Grifols, SA | Europe |
| Gulfport Energy Corporation | North America |
| Heineken NV | Europe |
| KB Home | North America |
| KLX Energy Services Holdings, Inc. | North America |
| LTC Properties, Inc. | North America |
| Macquarie Group Limited | Australia & New Zealand |
| Marvell Technology Group Ltd. | North America |
| McKesson Corporation | North America |
| MEDNAX, Inc. | North America |
| Microsoft Corporation | North America |
| National Australia Bank Ltd. | Australia & New Zealand |
| Nike, Inc. | North America |
| Nuance Communications, Inc. | North America |
| NVR, Inc. | North America |
| Origin Energy Limited (Shareholder Proposal Proponent — Australasian Centre for Corporate Responsibility) | Australia & New Zealand |
| Pearson plc | United Kingdom |
| Pernod Ricard SA | Europe |
| Prosus NV | RoW |
| QEP Resources, Inc. | North America |
| Rainbow Tours SA | Europe |
| Raytheon Technologies Corporation | North America |
| Rio Tinto Plc | Australia & New Zealand |
| Royal Caribbean Group | North America |
| Spectrum Brands Holdings, Inc. | North America |
| Stanley Black & Decker, Inc. | North America |
| Synalloy Corporation (Significant Shareholder — Privet Fund Management, LLC) | North America |

| Company | Region |
| --- | --- |
| Tate & Lyle PLC | United Kingdom |
| Temenos AG | Europe |
| Tesla, Inc. (ESG Issue Advocate — Investor Advocates for Social Justice) | North America |
| The Clorox Company | North America |
| The Goldman Sachs Group, Inc. | North America |
| The Williams Companies, Inc. | North America |
| Toshiba Corporation | Japan |
| Toshiba Corporation (Dissident Shareholder — 3D) | Japan |
| Transurban Group Ltd. | Australia & New Zealand |
| United Bankshares, Inc. | North America |
| Verizon Communications Inc. | North America |
| Vienna Insurance Group AG | Europe |
| Virtusa Corporation | North America |
| Virtusa Corporation (Dissident Shareholder — New Mountain Vantage Advisers, LLC) | North America |
| Vista Outdoor Inc. | North America |
| Westpac Banking Corporation | Australia & New Zealand |
| Wolters Kluwer NV | Europe |

## 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 31 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third-largest asset manager with US $3.15 trillion* under our care.

* This figure is presented as of September 30, 2020, and includes approximately $80.51 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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**State Street Global Advisors Worldwide Entities**

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