Insights
Asset Stewardship

January 2021

Guidance on Enhancing Racial & Ethnic Diversity Disclosures

At State Street Global Advisors, we believe that companies have a responsibility to effectively manage and disclose risks and opportunities related to racial and ethnic diversity. A growing body of research[1] suggests that diversity can drive returns, and that boards that neglect this topic face risks to their reputation, productivity, and overall performance. We have expanded our firm's longstanding focus on gender diversity to include race and ethnicity, and this essential dimension of ESG risk management will be a priority for our Asset Stewardship team in 2021. What follows is an overview of what to expect from us on this topic.

Our Expectations For Enhanced Racial & Ethnic Diversity Disclosures

Investors would benefit from increased publicly-available data on diversity and inclusion at portfolio companies. As such, we are focused on increasing the availability of relevant information in the market. As articulated in our August 2020 letter to Board Chairs, we expect all companies in our portfolio to offer public disclosures in five key areas:

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

2. **Goals** Describe what timebound and specific 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.

3. **Metrics** Provide measures of the diversity of the firm's global employee base and board, including:

    a. **Workforce** Employee diversity by race, ethnicity and gender, broken down by industry-relevant employment categories or levels of seniority, for all full-time employees. In the US, companies can use the disclosure framework set forth by the United States Equal Employment Opportunity Commission's EEO-1 Survey. Non-US companies are encouraged to disclose this information in alignment with SASB's guidance and nationally appropriate frameworks.

    b. **Board** Diversity characteristics, including gender and racial and ethnic makeup, of the board of directors.

4. **Board Diversity** 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.

5. **Board Oversight** Describe how the board executes its oversight role in diversity and inclusion.

Engagements: Incorporating Our Racial & Ethnic Diversity Expectations into Conversations with Companies

Since outlining our expectations to the market, the Asset Stewardship team has had over 70 engagements with issuers on racial and ethnic diversity, offering feedback to companies on how they can improve their alignment with our expectations for effective disclosures. The following are some of the general insights we have gleaned thus far:

- Companies are on a journey toward greater racial and ethnic diversity. We appreciate this, and are focused on where companies are headed.
- Issuers have been largely supportive of our expectations. Some companies have questioned whether the EEO-1 report is an accurate representation of a company's workforce, but we ask companies to disclose this as a baseline and we encourage them to share additional context to help investors understand the fuller picture.
- Based on our engagements and developments in the field, we anticipate that many companies will offer disclosures generally in line with our expectations in the coming months.
- While many companies share diversity and inclusion materials that are oriented toward prospective employees, there is less content about how diversity and inclusion helps to advance a firm's long-term strategy, or the goals that help them measure progress along the way.
- The strongest disclosures overall are in the Technology and Financial Services sectors, which is logical since diversity and inclusion is considered financially-material for these sectors according to the Sustainability Accounting Standards Board.
- Out of all our expectations, we saw the least alignment with regards to public disclosure of workforce and board diversity metrics. The data corroborates this observation.

2021 Engagement Campaign: Racial & Ethnic Diversity at Largest US and UK Employers

In an effort to better understand the state of racial and ethnic diversity disclosures and practices in the US and UK, and to encourage greater alignment with our expectations across these markets, we will engage the largest employers in the US and UK on human capital management topics including racial and ethnic diversity in 2021. We will analyze their diversity disclosures at the beginning of the year, request an engagement during the year, and generally report on their progress at the end of 2021.

Voting: Incorporating Our Expectations into Our Proxy Voting Policies

In order to achieve alignment with our aforementioned expectations and advance transparency in the public markets, State Street Global Advisors will implement the following voting guidelines, in addition to our existing guidelines regarding gender diversity:

- Starting in the 2021 proxy season, if a company in the S&P 500 or FTSE 100 does not disclose the racial and ethnic diversity of its Board, we will vote against the Chair of the Nominating & Governance Committee. Acceptable disclosures include:
    - — Aggregate-level (e.g., "5% of our Directors are Black," "Seven of our Directors are people of color," "30% chose not to self-identify")
    - — Individual-level (e.g., "Jane Doe is African-American, John Smith is Caucasian," etc.)
- Starting in the 2022 proxy season, if a company in the S&P 500 does not disclose its EEO-1 report, we will vote against the Chair of the Compensation Committee. Acceptable disclosures include:
    - — The original EEO-1 report response.
    - — The **exact** content of the report translated into custom graphics.
- Starting in the 2022 proxy season, if a company in the S&P 500 or FTSE 100 does not have at least one director from an underrepresented community, we will vote against the Chair of the Nominating & Governance Committee.

We will continue to engage companies and provide guidance on this important topic. Absent substantive engagements resulting in a formal commitment to comply with our expectations outlined above, we will taking voting action against the appropriate directors.

Additionally, we have created a framework for analyzing diversity-related shareholder proposals which is grounded in our disclosure expectations outlined above. This framework can be reviewed in our Q3 2020 Stewardship Activity Report and has already been incorporated into our voting practices.

Thought Leadership: Identifying Best Practices for Board Oversight of Racial & Ethnic Diversity-Related Risks and Opportunities

Our Asset Stewardship team has long been focused on the "G of E," or the governance of environmental risks. We are expanding our focus to include the "G of S," or social risks, and will be partnering with Russell Reynolds Associates and the Ford Foundation to identify potential best practices for board oversight of racial diversity and inclusion. This effort is part of State Street Corporation's racial equity initiative.

Conclusion

We remain focused on our fiduciary duty to seek the long-term value of our clients' investments. It is our conviction that teams with a diversity of perspectives generate a diversity of ideas that can drive the long-term success of a firm. Please reach out to our Asset Stewardship team at GovernanceTeam@ssga.com, and we look forward to engaging with you on this important topic.

Endnote

1 https://ssga.com/insights/diversity-strategy-goals-disclosure-our-expectations-for-public-companies.

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become 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.