

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 research¹ 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.

ssga.com

State Street Global Advisors Worldwide Entities

Abu Dhabi: State Street Global Advisors Limited, ADGM Branch, Al Khatem Tower, Suite 42801, Level 28, ADGM Square, Al Maryah Island, P.O. Box 76404, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. T: +971 2 245 9000.

Australia: State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +61 2 9240-7600. F: +61 2 9240-7611.

Belgium: State Street Global Advisors Belgium, Chaussée de La Hulpe 120, 1000 Brussels, Belgium. T: 32 2 663 2036. F: 32 2 672 2077. SSGA Belgium is a branch office of State Street Global Advisors Ireland Limited. State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Canada:** State Street Global Advisors, Ltd., 1981 McGill College Avenue, Suite 500, Montreal, Qc, H3A 3A8, T: +514 282 2400 and 30 Adelaide Street East Suite 800, Toronto, Ontario M5C 3G6. T: +647 775 5900.

France: State Street Global Advisors Ireland Limited, Paris branch is a branch of State Street Global Advisors Ireland Limited, registered in

Ireland with company number 145221, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Ireland Limited, Paris Branch, is registered in France with company number RCS Nanterre 832 734 602 and whose office is at Immeuble Défense Plaza, 23-25 rue Delarivière-Lefoullon, 92064 Paris La Défense Cedex, France. T: (+33) 1 44 45 40 00. F: (+33) 1 44 45 41 92.

Germany: State Street Global Advisors GmbH, Briener Strasse 59, D-80333 Munich. Authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin"). Registered with the Register of Commerce Munich HRB 121381. T: +49 (0)89-55878-400. F: +49 (0)89-55878-440. **Hong Kong:** State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103-0288. F: +852 2103-0200. **Ireland:** State Street Global Advisors Ireland Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered Number: 145221. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. **Italy:** State Street Global Advisors Ireland Limited, Milan Branch (Sede Secondaria di Milano) is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Ireland Limited, Milan Branch (Sede

Secondaria di Milano), is registered in Italy with company number 10495250960 - R.E.A. 2535585 and VAT number 10495250960 and whose office is at Via Ferrante Aporti, 10 - 20125 Milano, Italy. T: +39 02 32066 100. F: +39 02 32066 155. **Japan:** State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association. **Netherlands:** State Street Global Advisors Netherlands, Apollo Building, 7th floor Herikerbergweg 29 1101 CN Amsterdam, Netherlands. T: 31 20 7181701. SSGA Netherlands is a branch office of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Singapore:** State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501. **Switzerland:** State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16. **United Kingdom:** State Street Global Advisors Limited. Authorised and regulated by

the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350. **United States:** State Street Global Advisors, 1 Iron Street, Boston, MA 02210-1641. T: +1 617 786 3000.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without State Street Global Advisors' express written consent.

© 2021 State Street Corporation.
All Rights Reserved.
ID371541-33830571.1.GBL.RTL 1220
Exp. Date: 01/31/2022