Vote Bulletin – State Street Global Advisors Approach to Fossil Fuel Financing Shareholder Proposals in the North American Banking Sector

Key Takeaways:

- Climate change is a complex issue, and reaching net zero requires tremendous efforts and decisive actions from both the private and public sectors, including sound regulations and fiscal policies, technology innovation, and capital reallocation.
- State Street Global Advisors believes that achieving an effective and orderly transition to net zero will secure economic benefits, which will be reflected in the financial returns of long term investment.
- While we support the spirit of these proposals to encourage alignment with a net zero pathway, we also considered the potential risks related to supply-demand mismatch, energy equity and security, and price volatility that may arise if the banking sector were to halt all new fossil fuel financing by year end as requested by the proposals.
- Our analysis of the disclosure of US and Canadian companies that received a fossil fuel financing shareholder proposals in H1 2022 found that many of these financial institutions are accounting for climate risk as part of their lending and risk management processes**.**
- As a result, we were not supportive of many of this year's proposals. However, in instances where we found that there were opportunities for companies to enhance their climate risk disclosure to better align with our expectations and the peers in their market, we voted ABSTAIN.

Constructive Engagement and Stewardship are Paramount for Net Zero Transition

State Street Global Advisors believes that achieving an effective and orderly transition to net zero will secure economic benefits, which will be reflected in the financial returns of long term investment. Conversely we believe an unsuccessful transition could cause significant economic and social disruption with a corresponding effect on financial returns. Climate change is a complex issue, and reaching net zero requires tremendous efforts and decisive actions from both the private and public sectors, including sound regulations and fiscal policies, technology innovation, and capital reallocation. We prioritize issuer – real economy – emissions reduction over portfolio emissions reduction and choose engagement over divestment. We believe that constructive engagement and stewardship with the companies that we invest in will enable greater adoption of effective transition plans.

Our Perspective on the Fossil Financing Proposals

Often the focus of a transition to a lower carbon economy is the direct emissions from industries such as oil & gas, utilities, agriculture, and transportation. A successful transition will not only tackle reducing current emissions, but will also consider any future emissions that will need to be managed. The United Nations Environment Programme Finance Initiative[1] and the International Energy Agency[2] (IEA) have both highlighted that the financing of new fossil fuels may challenge ambitions towards net zero. With this in mind, during the 2022 proxy season a number of shareholder resolutions were introduced in North America which asked financial institutions to adopt a policy by year end committing to proactive measures to ensure that the company's lending and underwriting do not contribute to new fossil fuel development consistent with the IEA's Net Zero Emissions by 2050 Scenario.

---

[1] https://www.unepfi.org/wordpress/wp-content/uploads/2021/10/Recommendations-for-Credible-FI-NZ-Commitments.pdf
[2] https://www.iea.org/reports/net-zero-by-2050

While we are supportive of the spirit of these proposals to encourage alignment with a net zero pathway, we do have concerns with the request. It is important to note that while the IEA's scenario calls for no new oil and gas fields approved for development from 2021, the scenario also requires an immediate, massive deployment of all available clean and efficient energy technologies[3]. When assessing these proposals, we considered the potential risks related to supply-demand mismatch, energy equity and security, and price volatility that may arise if the banking sector were to halt all new financing by year end. According to the IEA, "secure transitions require careful sequencing to ensure that change in one area is complemented by change elsewhere"[4], and as noted above, we recognize the importance of an orderly, smooth transition to a lower carbon future.

Our Framework for Assessing Net Zero Strategies in the Banking Sector

As an investment manager, our priority is to ensure that our portfolio companies develop effective strategies to underpin their long-term climate ambitions. In evaluating these proposals, we assessed each bank's disclosure around managing climate risks related to fossil fuel financing and operationalizing their commitment to Net-Zero Banking Alliance announced last year.

Prior to making our final vote decision regarding fossil fuel financing shareholder resolutions we consider the following criteria:

- Interim portfolio targets and stated alignment with temperature pathways
- Disclosure of financed (Scope 3) emissions
- Integration of climate risk assessment into transaction due diligence
- Application of scenario analysis and portfolio stress testing
- Existing fossil fuel financing restrictions (Arctic drilling, oil sands, thermal coal, etc.)
- Approach to client engagement and financing low carbon solutions
- Overall portfolio exposure to fossil fuels
- Alignment with the Task Force on Climate-related Financial Disclosure

As we analyzed the disclosure of the US and Canadian companies that received a fossil fuel financing shareholder proposal, we found that many of these financial institutions are accounting for climate risk as part of their lending and risk management process. As a result we were not supportive of many of this year's proposals and where we did vote ABSTAIN we found that there were opportunities for those companies to further enhance their climate risk disclosure to the quality of peers in their market.

We recognize the critical role financial institutions will play in facilitating the transition to a net zero future. We will continue to engage these North American banks to hold them accountable on their commitments and encourage efforts to accelerate investments in the energy transition.

[3] In this scenario, clean energy investment more than triples by 2030 and annual solar and wind additions grow to 1020 GW/year. https://www.iea.org/reports/net-zero-by-2050
[4] Energy security and the risk of disorderly change – World Energy Outlook 2021 – Analysis - IEA

State Street Global Advisors Vote – Canadian Banks

Company	SSGA
Bank of Montreal	**AGAINST**
The Toronto-Dominion Bank	**ABSTAIN**
Royal Bank of Canada	**ABSTAIN**

State Street Global Advisors Vote – US Banks

Company	SSGA
Bank of America Corporation	**AGAINST**
Citigroup Inc.	**AGAINST**
The Goldman Sachs Group, Inc.	**AGAINST**
JPMorgan Chase & Co.	**AGAINST**
Morgan Stanley	**AGAINST**
Wells Fargo & Company	**ABSTAIN**

Important Risk Information:

Marketing Communication

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication is directed at professional clients (this includes eligible counterparties as defined by the appropriate EU regulator) who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

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 is from SSGA unless otherwise noted and 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 and it should not be relied on as such.

State Street Global Advisors Worldwide Entities

4748727.2.1.GBL.RTL Exp. Date: 06/30/2023