STATE STREET GLOBAL ADVISORS

March 31, 2023

Yie-Hsin Hung
President and Chief Executive Officer

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Dear Board Member,

As the new President & CEO of State Street Global Advisors, I am excited to join this firm for a number of reasons, not least of which is the size, scope, and reach of our business, and the responsibility we have to our global client base. And, as an industry participant and senior leader in the investment management industry for the past 25 years, I have always admired State Street Global Advisors' value-driven stewardship efforts, and its pragmatic and consistent approach to promoting sound governance practices with the boards of companies in its clients' investment portfolios.

Given the sheer number of views espoused and the vigorous debate about asset stewardship — and in light of our recently expanded program offering more investors the power to direct how shares held in the funds they own are voted — I want to share some of my observations on how State Street Global Advisors seeks long-term value, the increasing need for boards to assess and disclose value-related risks, and what it means for our relationship with directors like you going forward.

Committed to a Pragmatic, Value-Driven Approach

Fulfilling the fiduciary duty it owes to its clients is an investment manager's most important responsibility. To that end, State Street Global Advisors has always focused its stewardship activities — including engagements with portfolio companies, proxy voting activity, and thought leadership — on long-term risks and opportunities facing portfolio companies. As long-term holders of capital on behalf of our clients, we believe that our portfolio companies must have effective oversight and governance to ensure they consider these risks and opportunities and integrate them into their strategy and management.

While recently there has been a great deal of discussion in the market regarding environmental, social, and governance (ESG) issues, State Street Global Advisors has consistently viewed these issues through a lens of long-term ***value*** creation. While values are important to all of us, in this context we focus exclusively on value: how to drive long-term portfolio value. We focus our stewardship efforts on issues we believe can have significant impact to our clients' portfolios over the long term based on our review of policies and rules developed by regulators and government bodies, academic research, insights from investment colleagues, and data gathered and produced by industry experts. We believe that the risks and opportunities we identify are important for portfolio companies to manage and boards to oversee, and our clients expect us to encourage effective portfolio company disclosure of material information in those areas. Our unwavering attention to these issues has always been rooted in a combination of best practices, evidence-based research, pragmatism balanced with a long-term view, and sound governance. This will continue to be our approach in the years ahead.

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Our Stewardship Focus in 2023

Our 2023 stewardship priorities are to encourage transparency and disclosure in the areas of 1) **effective board oversight**, 2) **climate risk management**, 3) **human capital management**, and 4) **diversity, equity and inclusion**. Each of these topics presents short- and long-term risks and opportunities to companies across our portfolio. For instance, we ask companies to disclose information about their human capital management practices because research suggests that employees themselves increasingly are considered to be a material asset and how firms manage their people can create risks and opportunities and impact financial performance.[1] In addition, we have long encouraged boards to recruit diverse directors in light of research that suggests that a diversity of perspectives can enhance strategic oversight; likewise, we ask companies to offer insight into their diversity, equity, and inclusion efforts given the potential impact on financial performance.[2] And with increasing consensus that climate change is a potential systemic risk to firms and sectors alike,[3] we ask portfolio companies to provide transparency into their plans for managing climate-related risks, and encourage boards to have oversight of relevant climate risks and opportunities.

Engaging With Boards and Ensuring Accountability

Underpinning all of this work is the importance of effective board oversight, which has always been a cornerstone of our asset stewardship approach, given that the strength, independence, and effectiveness of boards is critical to ensuring the long-term value of a firm.[4] In my experience, I have found that boards are not only the conduit between investors and management teams, but also often are best positioned to keep management focused on long-term strategy and provide needed perspective and governance with respect to material risks and opportunities facing the companies in which we invest our clients' asset.

State Street Global Advisors' approach over the years has been to use constructive engagement to encourage two-way dialogue with boards while at the same time holding them accountable for improving disclosure, oversight, and strategy. While shareholder proposals can be effective at raising awareness on certain issues — and we will support them when both reasonable and likely to maximize long-term value for clients — proposals are non-binding in most markets and often too prescriptive.

By contrast, our team has found that votes in director elections are far more effective at focusing board attention on issues we believe important to long-term value and on which we have engaged with a portfolio company. This makes sense, as responsibility lies with boards to oversee related strategy. Our voting guidelines outline the scenarios in which we may vote against directors and/or chairs of relevant committees for governance failures (our voting record can be found here).

Our Focus for 2023: Effective Board Oversight of Risks and Opportunities

The consistent, transparent, and pragmatic approach our team has taken to fulfilling our asset stewardship responsibilities on behalf of clients has not been static. Each year we have worked to evolve the way we engage with boards to understand how they are conducting their oversight and other governance responsibilities.

As boards have increasingly focused on managing longer-term risks and opportunities, their governance, committee structure, and effectiveness have become that much more important. For example, this past year, after our team identified shortcomings in board oversight and governance at a large, diversified e-commerce company, we voted against the Compensation Committee Chair. Going forward, we will continue using director and committee chair votes to encourage sound governance and oversight while holding relevant directors accountable on a case-by-case basis as outlined in our related guidance on Effective Board Oversight.

Today, directors are busier than ever, reporting a 25% increase both in formal board meetings and number of days spent on director work[4] — often serving on multiple boards simultaneously. This raises the concern that a substantial increase in directors' workloads could lead to a degradation of overall board effectiveness over time. To date, the proxy voting guidelines of most asset managers permit named executive officers, chairs, and lead independent directors to sit on a certain number of publicly listed portfolio company boards. In contrast, making subjective decisions to determine the caliber and time commitment of individual directors should be the job of well-governed boards themselves, not asset managers.

We have generally found that good disclosure reduces the tendency for shareholders to micromanage companies in which they invest. Unfortunately, more than 1 in 5 companies in the S&P 500 provide limited transparency into how they manage their directors' time commitment.[5] Shareholders expect boards to effectively govern themselves with respect to the ability of directors to devote adequate time to the board's work. As such, in the year ahead we will be looking to the nominating and governance committees of portfolio companies to be responsible for establishing and enforcing, as well as disclosing, robust director time commitment policies.

Starting in 2024, we will 1) no longer use numerical limits to identify overcommitted directors, and instead 2) vote against the chair of the nominating and governance committee at companies in the S&P 500 that do not disclose their internal policy on director time commitments.

By providing clear guidance to nominating and governance committees on director commitment levels and holding them accountable through our annual vote, we hope to advance transparency on this issue, and prioritize other topics in our discussions with portfolio companies relating to long-term risks and opportunities.

Supporting Long-Term Value Creation in a Changing World

In a world of ongoing economic and geopolitical uncertainty and market volatility, the need for strong governance and board oversight, transparency, and disclosure could not be more important.

As our now State Street Chairman & CEO, Ron O'Hanley, said in 2017 when he was CEO of State Street Global Advisors: "Long-term value begins at the board." Despite all of the changes we have witnessed in these intervening six years, his words remain true today and continue to guide us in our mission to serve all investors. Our commitment to pragmatic stewardship and our focus on long-term value creation remain steadfast. I look forward to continuing to work together with board directors like you in the years to come.

Sincerely,

Yie-Hsin Hung
President & CEO, State Street Global Advisors

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Endnotes
[1] e.g., Donangelo et al., Rouen et al., Edmans
[2] e.g., McKinsey, Bernile et al., BoardReady
[3] Institutions including the Bank of England, the IMF, and the Federal Reserve have all asserted these risks, as has the UN-sponsored Intergovernmental Panel on Climate Change
[4] U.S. Spencer Stuart Board Index, 2021. Page 7. https://spencerstuart.com/-/ media/2021/october/ssbi2021/us-spencer-stuartboard-index-2021.pdf
[5] MyLogIQ data, calculated by State Street Global Advisors, December 2022. *https://www.mylogiq.com/*

Disclosure

Important Risk Information

Marketing Communication

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