
April 2020

State Street Global Advisors ESG Investment Statement

Our Mission

Driven by our more than 30-year legacy in environmental, social and governance (ESG) investing, State Street Global Advisors' mission — to invest responsibly to enable economic prosperity and social progress — reflects our commitment to ESG principles.

Whether clients are focused on risk management, responding to new regulations, making investments that align with their values, or seeking to enhance long-term performance, we believe full ESG integration into our investment processes, along with our ESG-specific investment capabilities, will help clients achieve their ESG objectives and investment goals.

How We Define ESG

ESG investing is the assessment of material environmental, social and governance issues during the investment process. This complements traditional research such as analyzing financial statements, industry trends and company growth strategies. We are committed to identifying opportunities and mitigating risks to create long-term shareholder value.

An abundance of research shows that companies that are managed responsibly deliver better financial results over the long-term. Additionally, firms that adhere to environmental efficiency, social awareness and high governance standards are well-positioned to withstand emerging risks and capitalize on new opportunities.

As such, we believe we have a responsibility to systematically and explicitly include material ESG metrics in the traditional investment analysis and decision-making process — and that identifying and incorporating material ESG issues is integral to our role as asset managers.

Our ESG Investment Capabilities

To make better decisions using ESG, our investment teams focus on four areas:

Data Analytics	Leveraging a multisource data architecture that helps investors better understand their ESG exposures, take action to achieve their investment goals and monitor results
Differentiated Solutions	Designing the next generation of ESG and climate-oriented investment solutions and integrating material ESG issues into our investment processes
Asset Stewardship	Using our voice and vote to engage portfolio companies to actively consider material ESG issues such as gender diversity and climate change
Reporting	Including ESG metrics in client reporting to assist in measuring impact and ensuring accountability

Data Analytics

Using ESG to inform better decision-making starts with the right data. With increased transparency and improved reporting, investors now have access to more insights than ever before to understand their exposures, take action to achieve their investment goals and monitor progress.

We developed an ESG scoring methodology, R-Factor™, to address market infrastructure challenges around ESG data quality. By offering companies a transparent road map for how to improve their ESG practices and disclosures, we aim to build more sustainable markets. The R-Factor score draws on data from four ESG data providers and leverages the Sustainable Accounting Standards Board’s (SASB) widely accepted, transparent materiality framework, as well as its corporate governance codes, to generate a unique ESG score for listed companies. We currently score more than 6,600 issuers and are continuously expanding our coverage universe.

Differentiated Solutions

Utilizing SASB’s materiality framework, industry-leading data providers and our own investment expertise, we offer a wide variety of solutions to meet clients’ various ESG goals. These include solutions that employ the following:

ESG Investment Solutions

Screening	Building on more than 30 years of experience with screened portfolios, we have developed a firm-wide approach to ESG screening. This approach represents the shared perspective of all State Street Global Advisors investment teams across equities and fixed income in index, active and alternatives. It offers clients a thoughtful way to express their values or risk mitigation preferences in their portfolios. We have access to a variety of externally provided screening data sets to implement clients’ preferences.
Thematics	For investors seeking to align portfolios with the Paris Agreement and the transition to a low-carbon economy, we offer a variety of options, including low-carbon mitigation, as well as a combined mitigation and adaptation approach.
Integration	Our active and index portfolio managers systematically integrate ESG signals and factors to mitigate risk and identify opportunities for long-term performance potential.
Best in Class	Utilizing R-Factor as well as other ESG data sources, we have the capabilities to invest in sectors and companies selected for superior performance relative to investment universes and industry peers.

Asset Stewardship

Our Asset Stewardship program is designed to promote long-term sustainable returns on behalf of our clients. We use our voice and our vote to make a measurable difference around the globe. Through strong engagement, voting and thought leadership, we have seen companies respond to our calls to action to enhance diversity at the board level, strengthen board leadership and improve disclosure on their sustainability practices.

The Three Pillars of Our Stewardship Program

Thought Leadership	To inform and provide guidance to our investee companies on the development of ESG practices across our key issues.
Engagement	With portfolio companies to encourage the building of transparent, accountable, high-performing boards and companies.
Proxy Voting	That incorporates our investment objectives and aligns with our long-term investment horizon.

Reporting

In addition to building out our investment capabilities, we have introduced ESG sections as part of clients' monthly performance reports. Using R-Factor as their foundation, these reports initially focus on equities and in time will include fixed income as well. Further, we are expanding our analytical capabilities to provide a more transparent lens into the ESG profile of clients' multi-asset portfolios at the total portfolio level.

Our Approach to ESG

We do not take a one-size-fits-all approach to ESG investing. Our approach varies between investment teams to reflect the ESG integration philosophies of each team and the specific nuances of each investment area. As such, to achieve better risk-adjusted returns, our investment teams each assess if and how financially material ESG issues are integrated into their investment analysis and decision-making processes. Specific approaches to ESG investing by investment area are summarized below.

Equity Index and
Smart Beta

Our indexing capabilities range from traditional market-cap-weighted index portfolios to smart beta and thematic ESG index portfolios. Within our equity index strategies, ESG can be integrated in multiple ways — either through the index itself (such as an ESG third-party index) or as part of portfolio construction (through screens, tilts or optimized approaches), recognizing that any deviation from the market-cap-weighted parent index should be viewed as an active decision with trade-offs managed accordingly.

The R-Factor score, along with climate-related metrics, can facilitate the systematic integration of ESG data into our index investment process. Additionally, Bloomberg selected R-Factor to be the scoring system that powers its Bloomberg SASB ESG equity and fixed-income indices.

Our smart beta strategies are designed to deliver the exposures that investors are seeking in a transparent, efficient way through innovative R&D/design and skilled portfolio management. We have approached integrating ESG in a similar way. For strategies with ESG objectives, we focus on achieving predetermined ESG improvement through preferred portfolio construction mechanisms. For strategies that are not explicitly ESG-focused, we aim to achieve benchmark-neutral ESG and carbon exposure, recognizing that many smart beta approaches display less favorable ESG or climate properties than cap-weighted benchmarks. Our conviction in factors as the primary drivers of long-term sources of outperformance remains unchanged.

Active Quantitative Equity

The Active Quantitative Equity team believes that higher-quality companies, as measured by their scores on relevant ESG metrics, will deliver better risk-adjusted returns than lower-quality companies over the long term. The team has embedded ESG considerations into its investment process to enhance outcomes for our clients through the measurement of ESG risks, asset stewardship and by integrating ESG metrics into our assessment of stock returns.

As active managers, the team believes that **taking a nuanced view of companies' treatment of their key ESG risks and opportunities gives insights into management and company quality**, which can be a driver of relative stock return outperformance over medium-term investment horizons.

Active Fundamental Equity

The Active Fundamental Equity teams believe that assessing the impact of material ESG issues on the future earnings power of a business should be part of any fundamental analysis of a company. The teams evaluate company ESG attributes from a bottom-up, fundamental perspective, and each analyst looks to capture material ESG observations in their research notes in the course of evaluating a company.

Having long used ESG data to help isolate specific issues and assess the quality of companies and the sustainability of their growth, the teams systematically incorporate R-Factor and other ESG data metrics into their investment decision-making processes. Even still, they may invest in companies that are at odds with ESG scores and data. In some cases, the team may have a positive view of company fundamentals despite a lack of data and/or poor ESG scores; as data issues resolve, the teams believe that this will become less common. Additionally, our teams engage with portfolio company management on a regular basis, pushing these firms to seriously examine financially material ESG issues and improve disclosures. This type of engagement is, of course, coordinated with the efforts of our Asset Stewardship team.

Fixed Income

Integrating ESG factors into fixed-income investing can be complex given the wide spectrum of available security types. Today, robust ESG data exists for most corporate bonds, but it can become more challenging to apply ESG data to other fixed-income security types. **Our Fixed-Income teams strive to measure ESG impact across corporate bonds, financial institutions, sovereigns and securitized products.**

ESG factors play a particular role in helping to better assess any “events” that can impact creditworthiness and valuation. In particular, corporate governance plays an overarching role in fixed-income credit assessments. Governance structures drive risk policies and can safeguard proper checks and balances. The same investment considerations are also applicable to environmental and social factors, where precautionary measures are taken to ensure that significant changes are made over time, assessing financial feasibility and impact to investors.

State Street Global Advisors manages both fixed-income index strategies, which seek to minimize costs and tracking errors while adding value through a stratified sampling approach, as well as active strategies, including cash, which are heavily reliant on credit research assessments. Our fixed-income teams have integrated ESG considerations into portfolios in multiple ways, including direct integration, portfolio tilts and direct investment in green bonds. Most recently they have developed low-carbon and climate investment strategies, helping investors not only reduce the environmental impact of their portfolios but also fund the transition to a greener economy.

**Alternatives, Multi-Asset
and Customized Solutions**

Our Investment Solutions Group (ISG) is responsible for building multi-asset and custom solutions to meet our clients' specific investment objectives. ISG engages directly with the client to create a portfolio that meets the client's specific ESG objectives and plan mandates. As part of the portfolio construction process, the team assesses the ESG characteristics of each underlying investment strategy. **They incorporate these findings into the overall portfolio construction process, balancing the client's ESG goals with other risks to achieve a portfolio solution that addresses the client's total investment objectives.**

Our Global Fiduciary Services (GFS) team is responsible for outsourced investment management with specific expertise across traditional long-only as well as alternative investment asset classes. Similar to the ISG, the GFS team engages directly with clients to understand their specific investment objectives. As a natural part of their investment process, **the GFS team carefully assesses the ESG policies and distinct practices of our investment partners and direct investments, and also evaluates material ESG factors at the total portfolio level.** With this understanding, the team is able to design solutions that align with our clients' ESG objectives.

Both the Investment Solutions Group and the Global Fiduciary Services team rely on State Street Global Advisors' asset stewardship insights as necessary to inform investment decision-making.

Related Resources

Additional information regarding State Street Global Advisors ESG investment approach can be found on our website at ssga.com/esg

To learn more about our ESG Solutions, please contact your State Street Global Advisors Relationship Manager at SSGAINstitutional@ssga.com.

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 27 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 \$3.12 trillion* under our care.

* AUM reflects approximately \$43.72 billion USD (as of December 31, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

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