

# R-Factor™ Screening, Engagement and Proxy Voting

In our January 2020 *letter* to portfolio companies we announced that we will be evaluating a company's disclosure and performance against financially material environmental, social and governance (ESG) metrics in a proactive and comprehensive manner, using our R-Factor scoring system.

In this paper we hope to explain our R-Factor screen, how we intend to engage with companies on their ESG disclosure and practices, and the potential voting action that may result from this process. For further information on R-Factor and its scoring methodology we recommend reviewing literature on our website at [ssga.com/esg/r-factor-score](https://ssga.com/esg/r-factor-score).

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We have created an engagement and voting screen that leverages **R-Factor**, a scoring system that measures the performance of a company's business operations and governance as it relates to financially material ESG factors facing the company's industry.

Drawing on data from four leading providers and leveraging the **Sustainability Accounting Standards Board (SASB) materiality framework**, R-Factor generates unique ESG scores for over 6,000 listed companies globally and allows us to evaluate a company's ESG performance against both regional and global industry peers. **Beginning this proxy season, we will take appropriate voting action against board members at companies in the S&P 500, FTSE 350, ASX 100, TOPIX 100, DAX 30, and CAC 40 indices that are laggards based on their R-Factor scores and that cannot articulate how they plan to improve their score.** Beginning in 2022, we will expand our voting action to include those companies who have been consistently underperforming their peers on their R-Factor scores for multiple years, unless we see meaningful change.

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## R-Factor Profile of Key Indices

State Street Global Advisors (SSGA) has the capabilities to generate scores for over 6,000 listed companies, however for the 2020 R-Factor screen we chose to focus on select indices across six markets. These markets tend to have some of the strongest disclosure regimes and engagement culture. Moreover, we expect companies in these key indices to have good ESG disclosure practices as they set best practices for the rest of their markets to follow.

As with all campaigns, we typically start in select markets and then consider expanding it to other markets in due course. Focusing our efforts on a few markets allows us to allocate resources appropriately and increases our ability to effect change.

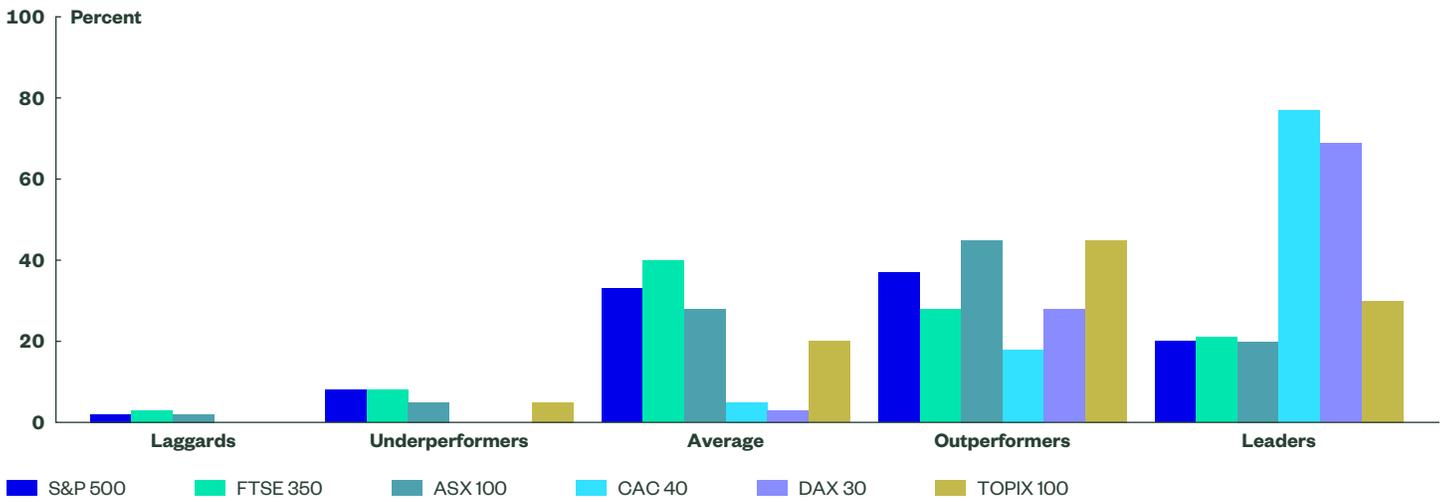
We found some variance in the quality of disclosure and performance of companies in the different markets we selected. For example, based on data as of December 31st, 2019, the French (CAC 40) and German (DAX 30) companies were Leaders from an R-Factor score perspective with no Laggards or Underperformers included in either of the indices. In Australia (ASX 100) and Japan (TOPIX 100) a majority of companies were Outperformers and Leaders. Of the two countries where we considered R-Factor score of broader indices US (S&P 500) companies on an overall basis profiled better R-Factor scores than their UK (FTSE 350) counterparts. (See Figure 1).

As we expected, only a small number of companies in these indices were classified as Laggards, which is the focus of our voting guidelines in 2020. We have sent letters to all companies identified as Laggards and have requested engagements to understand their ESG disclosure and practices and discuss our expectations. We will also be monitoring Underperformers and engaging with them as part of our stewardship program.

Companies interested in receiving their R-Factor™ scores should submit an email request to [myrfactorscore@ssga.com](mailto:myrfactorscore@ssga.com) including the following information:<sup>1</sup>

- Company's legal name
- Ticker
- ISIN
- Company's headquarter location
- Contact name
- Contact's Title at Company
- Contact email address (must be an official company email address)
- Contact phone#

Figure 1  
**R-Factor Profiles of  
 Key Indices**



Source: State Street Global Advisors' R-Factor Scoring Platform (data as of December 31, 2019).

## Engaging with Companies on Their R-Factor Score

We seek to engage with independent director(s) on the board as we expect boards to be fully conversant with financially material ESG issues facing a company. In preparation for the engagement we will review all publicly available information regarding a company's ESG practices and evaluate its performance and disclosure against industry peers.

Our primary purpose of engagement is to understand why a company is a Laggard according to their R-Factor score and what can be done from a process, oversight and disclosure perspective to improve its performance. During engagement we seek to understand:

- A company's approach to ESG;
- What the company considers to be financially material ESG metrics that are relevant to its industry and business strategy;
- The board's process for considering financially material ESG issues in strategic decision making and overseeing ESG risks;
- Which financially material ESG metrics are managed and disclosed to investors.

We encourage board members to review our recent guidance **ESG Oversight Framework for Directors** to better understand our expectations on this issue.

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## Potential Voting Implications of Our R-Factor™ Integration

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### Director Elections

In the event we feel that a company is not committed to engaging with us or improving their disclosure and/or performance related to financially material ESG matters, we will not support the re-election of the board's independent leader. This voting action could be taken against the Chairperson of the board (if Chair/CEO roles are separated), Lead Independent Director or the longest-serving independent director, whoever is up for election.

### ESG-related Shareholder Proposal

In our ESG **proxy voting and engagement guidelines** (link to 2020 version), we explain our approach to evaluating ESG-related shareholder proposals. We highlight how we reference a company's R-Factor score when evaluating ESG proposals.

We intend leveraging the R-Factor scoring framework to establish materiality of an issue addressed in a shareholder proposal, especially if it relates to enhancing disclosure and performance of practices tied to company's business operations. We will also assess a company's R-Factor performance against its industry peers and will be more likely to support proposals at companies that are falling behind others in their peer group.

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## Monitoring Progress and Reporting on Impact

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To evaluate the efficacy of this initiative we will be monitoring and publicly reporting on the following metrics that include the number of:

- Unique companies that have requested their R-Factor score
- Engagements with companies on their R-Factor score
- Companies at which we took voting action against a director due to concerns with their ESG disclosure and/or performance
- Laggards and Underperformers that have improved their ESG disclosure and/or performance
- Companies at which we did not take voting action against a director due to their commitment to improve their ESG disclosure and/or performance
- Companies that have improved their disclosure and adoption of SASB standards

*We hope you found this guidance useful. Please contact the [governanceteam@ssga.com](mailto:governanceteam@ssga.com) if you have additional questions.*

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## Endnotes

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- 1 Please note that R-Factor™ scores will be provided only to employees affiliated with a company's Investor Relations, Chief Financial Officer, ESG/Sustainability Leadership or General Secretary's organizations. Please include attestation in your email stating that you are affiliated with one of these functions.

## 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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Investing involves risk including the risk of loss of principal.

The returns on a portfolio of securities which exclude companies that do not meet the portfolio's specified ESG criteria may trail the returns on a portfolio of securities which include such companies. A portfolio's ESG criteria may result in the portfolio investing in industry sectors or securities which underperform the market as a whole.

Responsible-Factor (R Factor) scoring is designed by State Street to reflect certain ESG characteristics and does not represent investment performance. Results generated out of the scoring model is based on sustainability and corporate governance dimensions of a scored entity.

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