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# 2018 CONSULTATION ON SSGA Gender Diversity Index

GEBS Research  
November 2018

This consultation may or may not lead to the implementation of any or all of the proposed changes in the Gender Diversity Index. Consultation feedback will remain confidential. SSGA may publicly disclose feedback if so requested by the provider of the feedback. In that case, the relevant feedback would be published together with the final results of the consultation.

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# Summary

- State Street Global Advisors is currently seeking feedback/consultation on the SSGA Gender Diversity Index.
- The proposed enhancements aim to potentially increase overall index diversification, lower sector biases and reduce turnover.
- SSGA welcomes feedback from the investment community on this consultation.

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# Current Methodology

- Stocks are ranked within their sectors by 3 different gender ratios—Senior Managers, Directors, and Executives
  - Directors include all senior leadership positions plus all Board members and includes CEOs and Chairpersons
  - Executives: Directors minus Non-executive (outside) board members
  - Senior Managers: Executives minus board members
- If a stock ranks in the top 10% by cumulative market cap in its sector for any of the 3 ratios (Senior Managers, Directors, or Executives), and at least one female Board OR either CEO or Chairperson is a woman, then it is included in the portfolio.
- All securities are market cap weighted

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# Proposal: Methodology Changes

- **Neutralize sector active weights:** Scale sector weights such that they align with BM weights to achieve pure sector neutrality
- **Impose individual stock maximum weight:** Cap security weights at 5% (for the ETF, but not necessarily for segregated accounts)
- **Change treatment of big companies in a sector:** Cap the weight of companies within its sector to 5% to not penalize mega/large companies
- **Refine companies eligible for selection:** Remove companies whose total number of senior managers and directors are less than 10
- **Reduce turnover:** Implement a buffer rule such that if a company is selected into the portfolio, as long as its ratio doesn't decrease, it will stay in the portfolio. In order to mitigate the issue of expanding number of holdings, if such company doesn't rank in sector top 10% in next period, then it will be removed from the portfolio
- **Alternative turnover buffer rule:** If a security is in the current portfolio, as long as its gender ratio does not decrease, it will stay in the portfolio regardless of its relative ranking in the sector. The securities are selected such that the cumulative market cap reaches 10% of the sector (this will ensure stable number of holdings in the portfolio)
- **Increase market coverage:** Companies that rank among the sector top 15% (or 20%) market cap by gender ratios will be eligible for final inclusion into the index

# Neutralize Sector Active Weights

## Active Sector Weights in 2017 and 2018 Rebalance

### July 2017

Sector	Index	Universe	Diff
Consumer Discretionary	12.1%	12.9%	-0.8%
Consumer Staples	14.3%	9.4%	4.9%
Energy	5.4%	5.5%	-0.1%
Financials	10.7%	14.6%	-3.9%
Health Care	16.7%	14.0%	2.7%
Industrials	10.4%	10.4%	0.0%
Materials	3.0%	3.4%	-0.4%
Real Estate	2.8%	3.9%	-1.1%
Technology	19.3%	20.5%	-1.2%
Telecommunications	1.0%	2.2%	-1.2%
Utilities	4.3%	3.2%	1.1%

### July 2018

Sector	Index	Universe	Diff	Active Risk*	% of Active Risk*	Contribution to Active Risk*
Consumer Discretionary	13.2%	13.6%	-0.5%	1.5%	27.7%	0.8%
Consumer Staples	11.0%	7.2%	3.8%	0.3%	1.3%	0.0%
Energy	6.2%	6.0%	0.1%	0.4%	2.5%	0.1%
Financials	16.3%	13.9%	2.3%	1.0%	11.4%	0.3%
Health Care	17.1%	13.6%	3.4%	1.1%	14.2%	0.4%
Industrials	9.8%	9.9%	-0.1%	0.4%	2.2%	0.1%
Materials	2.9%	3.0%	-0.1%	0.2%	0.6%	0.0%
Real Estate	3.0%	3.6%	-0.6%	0.2%	0.8%	0.0%
Technology	15.9%	24.2%	-8.2%	1.8%	39.1%	1.1%
Telecommunications	1.9%	2.0%	-0.1%	0.2%	0.3%	0.0%
Utilities	2.8%	2.9%	0.0%	0.1%	0.0%	0.0%

\* Based on Axioma US Fundamental Equity Risk Model MH 4 as of 7/16/2018

# Impose Individual Stock Maximum Weight

## Top 10 Largest Security Weights in 2017 and 2018 Rebalance

July 2017			July 2018		
Name	CUSIP	Weight	Name	CUSIP	Weight
Pfizer Inc.	717081103	5.6%	Johnson & Johnson	US4781601046	7.7%
Coca-Cola Company	191216100	5.3%	Wells Fargo & Company	US9497461015	6.4%
PepsiCo, Inc.	713448108	4.6%	Home Depot, Inc.	US4370761029	5.4%
International Business Machines Corporation	459200101	4.0%	Mastercard Incorporated Class A	US57636Q1040	4.8%
Amgen Inc.	031162100	3.7%	Coca-Cola Company	US1912161007	4.4%
McDonald's Corporation	580135101	3.6%	PepsiCo, Inc.	US7134481081	3.7%
Mastercard Incorporated Class A	57636Q104	3.4%	Amgen Inc.	US0311621009	2.9%
U.S. Bancorp	902973304	2.5%	Texas Instruments Incorporated	US8825081040	2.6%
Lockheed Martin Corporation	539830109	2.4%	U.S. Bancorp	US9029733048	2.0%
Texas Instruments Incorporated	882508104	2.3%	ConocoPhillips	US20825C1045	1.9%

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# Change Treatment of Big Companies in a Sector

Some companies with high gender ratios are not selected due to their market cap size

Name	CUSIP	Sector	Female Director Ratio	Weight in Sector	Running Sum	In the Index?
Zayo Group Holdings, Inc.	98919V10	Telecommunications	48.00%	1.66%	1.66%	Y
AT&T Inc.	00206R10	Telecommunications	30.95%	43.19%	1.66%	N
Verizon Communications Inc.	92343V10	Telecommunications	24.69%	38.16%	1.66%	N
CenturyLink, Inc.	15670010	Telecommunications	21.43%	3.69%	5.36%	Y
T-Mobile US, Inc.	87259010	Telecommunications	20.00%	9.29%	14.65%	Y

Some companies will push up the sector weight when selected into the index due to the large weight in the sector

Name	CUSIP	Sector	Female Director Ratio	Weight in Sector	Running Sum	In the Index?
Estee Lauder Companies Inc. Class A	51843910	Consumer Staples	47.89%	1.65%	1.65%	Y
Clorox Company	18905410	Consumer Staples	44.44%	0.90%	2.56%	Y
McCormick & Company, Incorporated	57978020	Consumer Staples	41.94%	0.73%	3.28%	Y
Coty Inc. Class A	22207020	Consumer Staples	37.84%	0.55%	3.83%	Y
Kroger Co.	50104410	Consumer Staples	36.92%	1.17%	5.00%	Y
Lamb Weston Holdings, Inc.	51327210	Consumer Staples	35.29%	0.52%	5.52%	Y
J.M. Smucker Company	83269640	Consumer Staples	35.14%	0.63%	6.15%	Y
Coca-Cola Company	19121610	Consumer Staples	34.86%	9.64%	15.79%	Y

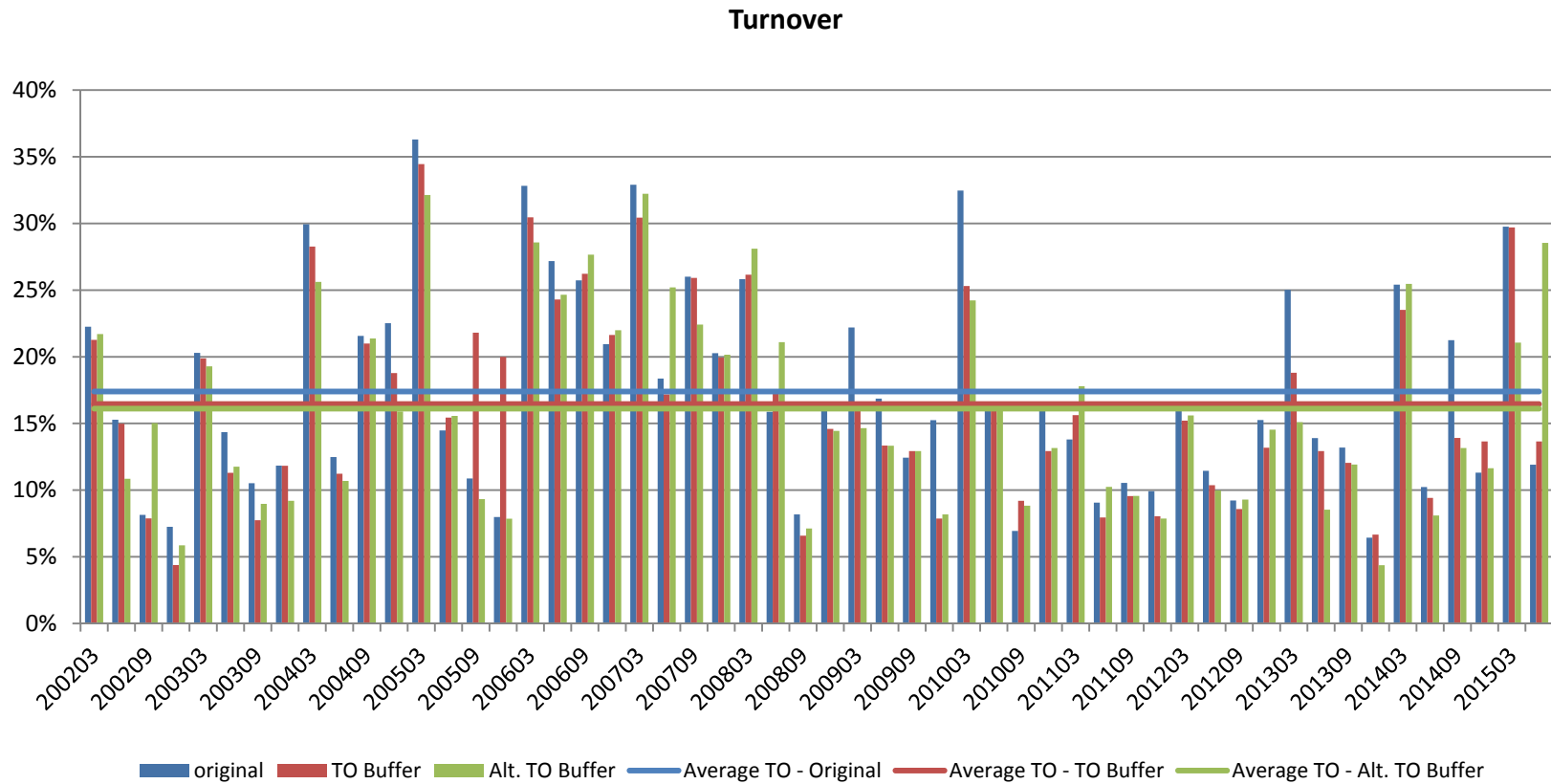
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# Refine Companies Eligible for Selection

<b>Name</b>	<b>CUSIP</b>	<b>Sector</b>	<b># of total Female Senior Managers</b>
TEXAS PACIFIC LAND TRUST	Financials	882610108	5
MADRIGAL PHARMACEUTICALS INC	Health Care	558868105	8
HOSPITALITY PROPERTIES TRUST	Real Estate	44106M102	9
NEW RESIDENTIAL INVESTMENT CORP (NIC MSR LLC prior to 12/2012)	Financials Consumer	64828T201	9
GRAND CANYON EDUCATION INC	Discretionary	38526M106	10
LASALLE HOTEL PROPERTIES	Real Estate	517942108	10

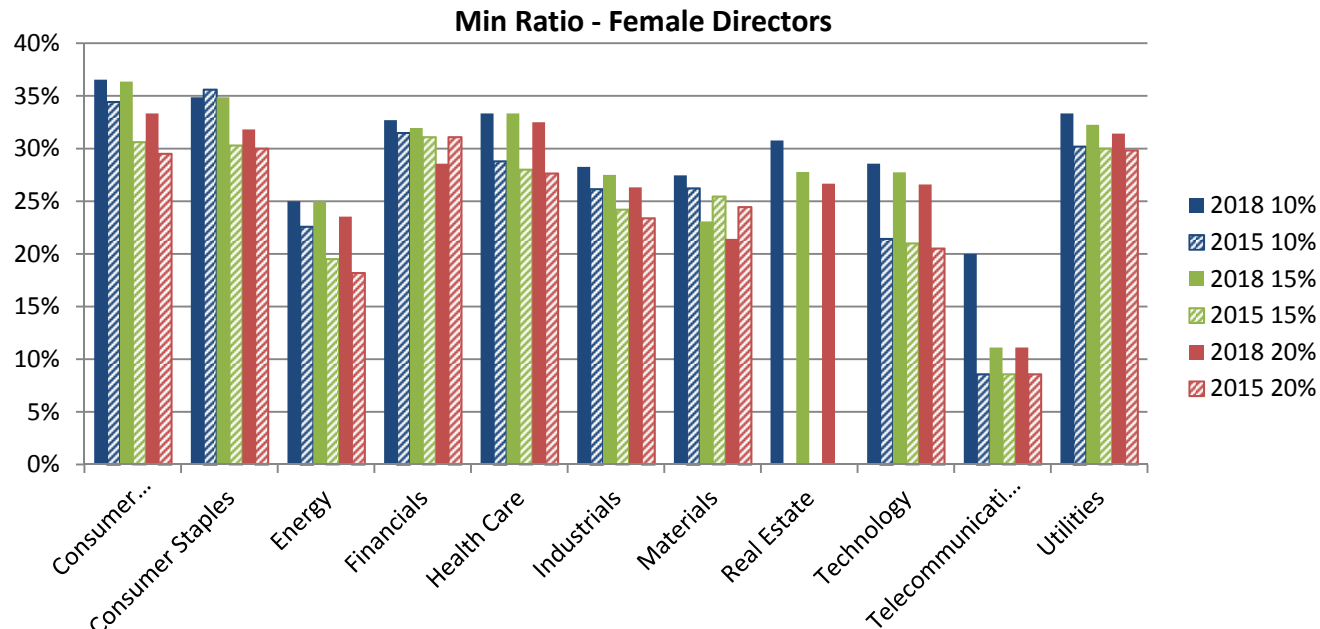


# Impact of Changes in Turnover Buffer



# Impact on the Gender Diversity Integrity from Expanded Market Cap Threshold

To see whether increasing market cap coverage will decrease gender diversity integrity, we compared the minimum gender ratio of the companies selected into the index, based on 10%, 15% and 20% market coverage, for the year 2015 (the index formation year), and the year 2018



Over the past three years, the gender diversity ratio has improved. Increasing market cap coverage from 10% to 20% does not appear to harm the gender diversity integrity.

The result for other gender ratios including female senior managers and female executives are very similar. The reason that min ratio for telecomm drops bigger is because we excluded companies whose size are more than 10% of the sector market cap. For Telecomm, those are ATT and VZ that rank the highest. So the index has to reach deeper to include lower ranking stocks to cover 15% or 20% of the sector.)

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# Conclusion

Do you agree with the proposed methodology enhancements?

Do you prefer the alternative turnover buffer instead?

Do you prefer 15% or 20% market coverage?

Any comments/thoughts?

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# Important Disclosures

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