

# Statement on the UK Stewardship Code

State Street Global Advisors endeavors to implement the spirit of the UK Stewardship Code across all jurisdictions in which we invest.

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State Street Global Advisors is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors, with \$2.5trn<sup>1</sup> assets under management (as of 31 December 2018).

State Street Global Advisors is a strong supporter of the principles of good stewardship that are embodied in the UK Stewardship Code. We firmly believe that the building of strong relationships with the boards and management teams of investee companies and the monitoring of their performance is an essential component of enhancing the long-term value of our clients' investments. State Street Global Advisors endeavors to implement the spirit of the UK Stewardship Code across all jurisdictions in which we invest.

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## Statement on the UK Stewardship Code


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The UK Stewardship Code ("the Code") embraces the idea that all stakeholders in the engagement process play a role in advocating sound corporate governance practices. The Code describes seven basic principles designed to promote the long-term success of companies. State Street Global Advisors supports the principles of the Code and we are committed to being transparent on how State Street Global Advisors exercises its ownership responsibilities. State Street Global Advisors' approach to voting and engagement is described in our Summary of Global Proxy Voting and Engagement Principles, found on the website of State Street Global Advisors Ltd ([ssga.com](http://ssga.com)).

State Street Global Advisors reviews our internal policies, practices and compliance with the Stewardship Code on an annual basis.

Figure 1

**State Street Global Advisors' Compliance with the UK Stewardship Code at a Glance by Country**

<b>Principles: Institutional investors should...</b>	<b>State Street Global Advisors Compliance</b>	<b>Highlights</b>
<b>Publicly disclose their policy on how they will discharge their stewardship responsibilities</b>		State Street Global Advisors' approach to proxy voting and engagement activities is explained in our global proxy voting and engagement guidelines and annual stewardship report.
<b>Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed</b>		Comprehensive standalone Conflicts of Interest Policy to help manage conflicts arising from State Street Global Advisors' proxy voting and engagement activities.
<b>Monitor their investee companies</b>		Annual active monitoring list of companies across all geographies.
		Proprietary screens that help prioritize specific company engagements on broad range of financial and environmental, social and governance ('ESG') metrics.
		Annual review and prioritization of sector and thematic focus for active engagements.
		Integrated approach across investment teams.
<b>Establish clear guidelines on when and how they will escalate their stewardship activities</b>		Engagement protocol establishes process for escalating stewardship activities.
		Systematic review of portfolios to identify high-risk companies requiring heightened shareholder attention.
		Multi-channel communications with company management and boards.
		Multi-year voting and engagement database captures corporate interactions, identifies issues for follow-up and measures successes.
<b>Be willing to act collectively with other investors where appropriate</b>		Developed framework for collaborating and engaging with like-minded investors.
		Active membership of global and regional investor bodies and networks.
<b>Have a clear policy on voting and disclosure of voting activity</b>		Global proxy voting principles and six market specific guidelines reviewed and updated annually.
		Quarterly and annual proxy voting statistics and engagement highlights complements bespoke client/fund- specific reporting of voting activities
<b>Report periodically on their stewardship and voting activities</b>		Comprehensive annual stewardship report is supplemented by quarterly updates on stewardship activities.

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## Details of Compliance with Each Code Principle

### **Principle 1** Institutional Investors should Publicly Disclose their Policy on How they will Discharge their Stewardship Responsibilities

State Street Global Advisors manages numerous investment strategies on behalf of our clients with various investment viewpoints and objectives. Nevertheless, the value of good governance practices of investee companies is of equal concern and importance under all investment approaches. Consequently, State Street Global Advisors maintains a centralized governance and active ownership process covering all discretionary holdings. This allows us to ensure we speak and act with a single voice and maximize our influence with companies by leveraging the weight of our entire assets under management on behalf of all clients.

In conducting our voting and engagement activities, State Street Global Advisors evaluates the various factors that play into the corporate governance framework of a country, including macroeconomic conditions, the political environment, quality of regulatory oversight, enforcement of shareholder rights and the effectiveness of the judiciary. State Street Global Advisors complements its company specific dialogue with targeted engagement with regulators and government agencies to address systemic market-wide concerns.

State Street Global Advisors uses a blend of quantitative and qualitative research and data to help identify issuers where active engagement may be necessary to protect and promote shareholder value. Issuer engagement may also be event driven, focusing on specific corporate governance and sustainability concerns or wider industry related trends. State Street Global Advisors also gives consideration to the size of our total position in the issuer in question and/or the potential negative governance, performance profile, and circumstance at hand. As a result, State Street Global Advisors believes issuer engagement can take many forms and be triggered under numerous circumstances.

State Street Global Advisors has a dedicated team of governance experts, based in Boston and London, who are charged with implementing its proxy voting guidelines and engagement activities on a global basis. The activities of the Asset Stewardship Team (“AST”) are overseen by State Street Global Advisors’ Investment Committee (“IC”). The IC is responsible for approving the annual stewardship strategy, engagement priorities and proxy voting policies, and monitoring the delivery of objectives. Furthermore, the Global Proxy Review Committee (“GPRC”), a dedicated sub-committee of the IC, provides day-to-day oversight of the AST, including approving departures from policy and management of conflicts of interest.

The AST is supported by several specialists within State Street Global Advisors in executing their stewardship responsibilities. These include members of State Street Global Advisors’ proxy operations team who are responsible for managing fund set up, vote execution, vote reconciliation, share recalls and class action lawsuits, and members of the firms’ client reporting and compliance teams.

State Street Global Advisors utilizes a variety of third-party service providers to support its stewardship activities. Data and analysis from service providers are used as inputs to help inform State Street Global Advisors’ position and assist with prioritization. However, all voting decisions and engagement activities are undertaken in accordance with State Street Global Advisors’ in-house policies and views, ensuring the interests of our clients remain the sole consideration when discharging our stewardship responsibilities.

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**Principle 2** Institutional Investors should Have a Robust Policy on Managing Conflicts of Interest in Relation to Stewardship which should be Publicly Disclosed

State Street Corporation has a comprehensive standalone Conflicts of Interest Policy that addresses a range of conflicts identified by our parent company. In addition, State Street Global Advisors maintains a conflicts register that identifies key conflicts and describes systems in place to mitigate the risks. State Street Global Advisors has also published a specific conflicts policy that provides guidance on managing conflicts that may arise through the firm's proxy voting activities.

State Street Global Advisors policies and procedures are designed to prevent undue influence on State Street Global Advisors' voting activities that may arise from relationships between proxy issuers or companies and State Street Corporation, State Street Global Advisors, State Street Global Advisors affiliates, SSGA Funds or SSGA Fund affiliates; and ensure that the interests of our clients remain our primary consideration.

In general, we do not believe matters that fall within the scope of our guidelines and are voted consistently present any potential concerns, since the vote has effectively been determined without the influence of the soliciting entity. However, in circumstances where a potential conflict has been identified, the matter will be referred to the GPRC who reviews the matter and determines whether a conflict of interest exists, and if so, how to best resolve such a conflict. For example, the GPRC may (i) determine that the proxy vote does not give rise to a conflict due to the issues presented, (ii) refer the matter to the Investment Committee for further consideration or (iii) retain an independent fiduciary to execute the vote on behalf of State Street Global Advisors.

State Street Global Advisors' policy for managing conflicts arising from our stewardship activities is publically available on the State Street Global Advisors website (<https://ssga.com/global/en/about-us/asset-stewardship.html>).

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**Principle 3** Institutional Investors Should Monitor their Investee Companies

State Street Global Advisors is a leading global provider of passive fund strategies and holds over 10,000 listed equities across its global portfolios. Therefore, the effectiveness of our engagement strategy is built upon our ability to prioritize, and allocate resources to focus on companies and issues that will have the greatest impact on shareholder returns. To support this process State Street Global Advisors has developed proprietary in-house screening tools to help identify companies for active targeted engagement based upon various financial and environmental, social and governance ('ESG') risk indicators. Factors considered in developing the target list include: size of absolute and relative holdings; companies with poor long-term financial performance within their sector; companies identified through the ESG screening tool as lagging market and industry standards; and outstanding concerns from prior engagements.

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In addition to issuer specific screening, State Street Global Advisors develops annual stewardship priority programs to enhance the quality and define the scope of our stewardship activities for the year. This enables State Street Global Advisors to focus engagement and reporting on sectors and ESG themes that are of increasing importance to our clients. We develop our priorities based on several factors including client feedback, emerging ESG trends, and developing macroeconomic conditions and regulation.

State Street Global Advisors monitors the performance of investee companies amongst its target list through a combination of in-depth research and analysis and the maintaining of regular channels of communication with boards and senior management. The process has been designed to allow State Street Global Advisors to better understand the long-term corporate strategy and performance, governance practices, financial controls and risk management systems of companies held in our client portfolios. State Street Global Advisors will carefully consider ethical, environmental and social factors when deemed to be material to the long-term prospects of a company.

Beyond State Street Global Advisors' active engagement program, the AST undertakes base level monitoring of the entire portfolio and participates in reactive engagement in response to company or market specific events.

Based on the outcome of our company analysis and dialogue, State Street Global Advisors may identify potential concerns or areas for improvement. State Street Global Advisors will utilize its voting rights and engagement influence to seek positive change at companies with the ultimate objective of enhancing the value of our clients' investments.

The monitoring and engagement process is integrated within State Street Global Advisors' investment functions to ensure a consistent position across the firm. Investment integration within our passive mandates is supported through State Street Global Advisors' global and regional investment heads who may participate directly in meetings with companies and/or regulators. In addition, the AST collaborates with other members of the passive investment teams on matters related to market policies and company specific events. Integration between the teams is of particular importance when considering corporate restructurings and mergers and acquisitions which may have a significant impact on benchmark index composition and rebalancing.

Under our active strategies, State Street Global Advisors' AST works closely with our active fundamental investment teams, collaborating on issuer engagements and sharing inputs on company specific fundamentals. This facilitates an integrated approach towards investment research and engagement with company management and boards. The active equity teams also provide recommendations on all resolutions tabled for shareholder approval at companies within their investment universe.

**Under no circumstance is State Street Global Advisors willing to be made insiders to assist investee company boards and their advisers as part of our engagement process. Companies should take care to ensure that all material information disclosed during engagements with State Street Global Advisors be publicly available in the market.**

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In general, State Street Global Advisors does not attend shareholder meetings. Rather, State Street Global Advisors votes at all shareholder meetings by proxy where eligible, and believes that proxy voting and engaging with issuers is the most effective means to address governance concerns. To the extent practicable, the AST will arrange meetings with investee companies prior to the vote, to discuss any areas of concern.

Externally, State Street Global Advisors is a member or participant in a range of investor based organizations that complement State Street Global Advisors' internal mechanisms of regularly tracking noteworthy company, industry and regulatory issues and events.

Our monitoring process is reviewed at least annually to ensure that engagement efforts are appropriately targeted and that the process is effective and efficient.

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**Principle 4** Institutional Investors should Establish Clear Guidelines on When and How they will Escalate their Stewardship Activities

State Street Global Advisors has published an engagement protocol that provides transparency to companies on our approach to stewardship and the manner in which we prioritize and select engagements. The protocol gives guidance on how and when companies should approach State Street Global Advisors and sets out expectations for the development and maintenance of long-term and constructive relationships with shareholders (<https://ssga.com/global/en/about-us/asset-stewardship.html>).

State Street Global Advisors has developed a proprietary portfolio screening tool based on various data points including long-term financial performance, governance and sustainability structures and performance and State Street Global Advisors' absolute and relative exposure. The screening tool enables the AST to build an 'active' engagement target list of companies for each geographical region. This is complemented by the adoption of annual thematic and sector priorities designed to balance our risk-based approach with wider industry coverage. **The annual engagement prioritization process is described in greater detail under Principle 3.**

Depending on the issue and whether the engagement activity is reactive, recurring, or active, engagement with issuers can take the form of written communication, conference calls, or face-to-face meetings. While the Stewardship Code is specific to UK stakeholders, State Street Global Advisors conducts the same engagement practices globally.

The engagement process will depend on the nature of the issue that is being addressed. Matters related to execution of strategy, finance, operations and risk management will ordinarily be directed towards representatives of the senior executive team. While communications focused on wider strategic considerations and the structure, effectiveness and responsibilities of the board and oversight of the broader governance regime will normally be channelled through relevant members of the board.

State Street Global Advisors will consider escalating concerns if engagement has failed to result in a satisfactory outcome. The specific steps of the escalation process will depend upon the subject and seriousness of the concern, and the openness and responsiveness of the company. State Street Global Advisors will consider escalating concerns to the company chairman, senior independent director, and where appropriate, the relevant regulatory authority. State Street Global Advisors will also consider collaborating with other like-minded investors provided there is alignment with the engagement objectives and desired outcomes.

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Our experiences and conclusions reached during the engagement process will help shape State Street Global Advisors' voting decisions on relevant ballot items and when considering the continued suitability of directors that are standing for re-election.

To enable engagement continuity, the AST maintains a database that allows us to record both our engagements and the details of our voting analysis in contentious situations. The multi-year engagement database ensures that issues identified for follow-up are carried through in subsequent engagements and that positive changes implemented by companies are captured.

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**Principle 5** Institutional Investors should be Willing to Act Collectively with Other Investors where Appropriate

The size of State Street Global Advisors' global assets and reputation in the market provides the AST with access to the management and boards of investee companies. Therefore, the majority of corporate engagements are carried out on a one-to-one basis behind closed doors, as we feel this is critical to building trust and establishing constructive long-term relationships with companies. Nevertheless, State Street Global Advisors collaborates with like-minded investors under certain circumstances. Factors that are considered when determining the merits of collaborative action include:

- Agreement amongst investors on core areas of concern and potential solutions;
- Systemic market-wide concerns and regulatory environment;
- Responsiveness of management and boards to prior individual engagements;
- Concentrated ownership within the share register; and,
- Market culture and acceptance of shareholder engagement.

To facilitate this process, State Street Global Advisors are members of national and global investor bodies including the UK Investment Association, UK Corporate Governance Forum, International Corporate Governance Network, Asian Corporate Governance Association, the Council of Institutional Investors and the United Nations Principles for Responsible Investment. In addition, through our membership in various industry networks, as well as our contact with corporate pension plans, public funds and unions, we are able to communicate extensively with other stakeholders regarding events and issues relevant to individual corporations, general industry trends and current shareholder concerns.

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**Principle 6** Institutional Investors should have a Clear Policy on Voting and Disclosure of Voting Activity

State Street Global Advisors has developed voting guidelines which are approved and overseen by the IC. The general principles and six market specific guidelines are available for public review on the State Street Global Advisors website (<https://ssga.com/global/en/about-us/asset-stewardship.html>).

These policies have been designed to encourage better governance practices at investee companies based upon State Street Global Advisors' understanding of global principles of good governance, while taking account of local market nuances and standards where appropriate.

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State Street Global Advisors votes at over 17,000 meetings on an annual basis and tiers companies based on factors including the size of our holdings, past engagement, corporate performance, and voting items identified as areas of potential concern. Based on this assessment, State Street Global Advisors will allocate appropriate time and resources to shareholder meetings and specific ballot items of interest, to maximize value for our clients. All voting decisions are exercised exclusively in accordance with State Street Global Advisors' in-house policies or specific client instructions. State Street Global Advisors has established robust controls and auditing procedures to ensure that votes cast are executed in accordance with State Street Global Advisors instructions. State Street Global Advisors has contracted Institutional Shareholder Services ("ISS") to assist with the management of the voting process and provide inputs into the research of shareholder meetings. State Street Global Advisors utilizes ISS's services in three ways: (1) as State Street Global Advisors' proxy voting agent (providing State Street Global Advisors with vote execution and administration services); (2) for applying State Street Global Advisors' Proxy Voting Guidelines; and (3) as providers of research and analysis relating to general corporate governance issues and specific proxy items. We provide State Street Global Advisors' current policy on proxy voting and engagement to our institutional clients and a summary of this policy (Summary of Global Proxy Voting and Engagement Principles); along with quarterly reports detailing voting activity for the State Street Global Advisors MPF funds. The voting activity reports include company details, proposal type, resolution description, and State Street Global Advisors' vote cast. We publicly disclose State Street Global Advisors' voting policy and voting activity for our US registered mutual funds as part of our annual N-PX reporting requirements to the US Securities Exchange Commission ('SEC').

State Street Global Advisors votes in all markets where it is feasible; however, State Street Global Advisors may refrain from voting when meeting specific power of attorney documentation is required; where voting will have a material impact on our ability to trade the security; where issuer-specific special documentation is required; or various market or issuer certifications are required. State Street Global Advisors is unable to vote proxies when certain custodians, used by our clients, do not offer proxy voting in a jurisdiction or when they charge a meeting specific fee in excess of the typical custody service agreement. From time to time, State Street Global Advisors may recall securities on loan for proxy voting purposes if the result of a particular proxy voting ballot item is deemed to be significant enough to justify the loss of fees from lending for our clients.

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**Principle 7** Institutional Investors should Report Periodically on their Stewardship and Voting Activities

We recognize the importance of being accountable to our clients on the manner in which we fulfil our duties as responsible owners on their behalf. We aim to provide transparency of our stewardship activities through our regular client reports and other information reported publicly online.

State Street Global Advisors publishes an annual stewardship report which provides details of our stewardship approach, engagement and voting activities during the year, perspectives on governance and sustainability trends and themes, and forward looking priorities. The annual report is supplemented by a quarterly stewardship activity report and the quarterly publication of our voting record (<https://ssga.com/global/en/about-us/asset-stewardship.html>).

State Street Global Advisors' stewardship policies and procedures related to proxy voting, corporate engagement and the management of conflicts are subject to regular review by internal audit.



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## Key Contacts for State Street Global Advisors Asset Stewardship

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## Endnotes

01 AUM reflects approximately \$32.4 billion (as of December 31, 2018), 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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## ssga.com

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The views expressed in this material are the views of the Asset Stewardship Team through the period ended December 31, 2018 and are subject to change based on market and other conditions.

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