STATE STREET GLOBAL ADVISORS

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Cyrus Taraporevala
President and Chief Executive Officer

State Street Global Advisors
One Iron Street
Boston, MA 02210
USA

ssga.com

Dear Board Member,

I hope this letter finds you and your colleagues safe and healthy. As you know, each year State Street Global Advisors engages with portfolio companies such as yours on issues of importance to investors that we will be focusing on in the coming year. Our stewardship begins with the belief that strong, capable, independent boards exercising effective oversight are the linchpin to create long-term shareholder value. We express our stewardship beliefs by laying out what we expect boards to be doing on behalf of the ultimate owners of companies. As such, we choose where and when to use our voice and our vote carefully — to address systemic risks and opportunities we foresee for the companies in which we invest as a fiduciary on behalf of our clients.

Managing Through a Historic Transition

This year, I write to you at a moment of significant transition. As we enter the third year of the pandemic, and on the heels of the COP26 conference, challenges on multiple fronts — from a global health crisis, to supply chain disruptions, to the systemic risks of climate change and gender, racial, and ethnic inequity — continue to disrupt economies worldwide, threaten corporate resiliency, and test political stability. At State Street, we envisage our portfolio companies managing these threats and opportunities by transitioning their strategies and operations — enhancing efforts to decarbonize and embracing new ways of recruiting and retaining talent — as the world moves toward a low-carbon and more diverse and inclusive future.

As directors of public companies, you are keenly aware of these historic shifts. While capital markets transition to a more sustainable global economy, material environmental, social and governance (ESG) issues have come to the forefront alongside more traditional strategic and financial issues, making your role more important and more challenging than ever before. Indeed, as today's boards oversee a range of complex and evolving issues in the face of increasing and shifting stakeholder and investor expectations, many directors find themselves navigating these challenges for the first time, with Spencer Stuart reporting that approximately one-third of new directors at S&P 500[1] companies and the top FTSE 150 companies[2] are serving on a public company board for the first time.

As such, our approach to engaging with boards like yours has been evolving as well. While COP26 and the pandemic have brought certain issues into sharper focus, we have been in dialogue with boards on a range of material issues — from climate to diversity to human capital management — for many years. For us, these issues are matters of value, not values — opportunities for companies to mitigate downside risk, innovate, and differentiate themselves from competitors. To that end, we view the use of our voice and our vote as central to our fiduciary responsibility to our clients to maximize long-term risk-adjusted returns.

***For these reasons, our main focus in 2022 will be to support the acceleration of the systemic transformations underway in climate change and the diversity of boards and workforces*.**

Climate Change: Supporting the Transition to a Low-Carbon Future

Since 2014, climate change has been central to our stewardship activities — a reflection of growing evidence that showed climate change poses systemic risks to all investors. In the years since, companies have come a long way in disclosing and managing climate-related risks. Investors, too, have become more sophisticated in examining and addressing these risks in their portfolios, demanding more disclosure. Indeed, the Task Force for Climate-related Financial Disclosures (TCFD) framework has become table stakes for any climate-related discussion, with investors increasingly using this new information to tilt, or even transform, their portfolios for the future. With the recently-established International Sustainability Standards Board (ISSB) charged with developing the global set of standard metrics for sustainability-related corporate reporting and disclosure that investors have long needed, we believe this trend toward more — and more useful — climate-related and broader sustainability-related disclosure will continue, providing a clearer path to incorporating such criteria for investors.

We have arrived at an important juncture on the journey to net zero. At a macro level, there remains much progress to be made, and with increasing pressure from governments and regulators to cut emissions in half by the end of the decade, there is less and less time for companies to make the required progress. While more companies are making net-zero commitments, with over one-fifth of the world's 2,000 largest public companies having committed to meet a specific target[3], few have provided a clear roadmap to achieve these goals — and fewer asset managers have provided detail on what they expect these companies to disclose as they prepare for this historic transition.

Perhaps even more importantly, while the ultimate destination for companies making this transition is clear — to net-zero emissions — the journey there is not always as clear — and rarely uniform. While the path ahead may be relatively straightforward for some companies, in general we believe that the transition will be very hard and non-linear for most. We anticipate that many companies will likely need to adopt approaches that require experimentation, innovation, and ongoing adjustments along this unchartered journey.

As 2030 approaches — and with it the need to make significant progress reducing emissions — we must recognize that this transition is far more complex than "brown" versus "green" distinctions. If we instead consider companies and assets on a spectrum of dark brown *to* dark green, a fossil fuel such as coal would be considered "dark brown," whereas natural gas, with far fewer emissions, would be "light brown," and wind power would be a "dark green." Indeed, the impact from transitioning an asset from "dark brown" to "light brown" on reducing emissions may be considerably greater than moving from "green" to a "darker shade of green."

A worldview that only sees "brown" versus "green" may generate profound unintended consequences. While there has been a lot of discussion about so-called greenwashing recently, "brown-spinning" is a term that I have used to describe public companies selling off their highest-emitting assets to private equity or other actors at a discount. The end result reduces disclosure, shields polluters and allows the publicly-traded company to appear more "green," without any overall reduction in the level of emissions on the planet. Bottom line: in the near-term, the world may well need additional investments in some "light brown" fossil fuels to propel the transition to net zero, rather than relying on an improbable immediate shift to renewables to solve the massive climate challenge.

As a long-term investor in companies making these commitments, what we are seeking from these transition plans is not purity, but pragmatic clarity around how and why a particular transition plan helps a company make meaningful progress towards the destination. Indeed, it is essential that boards understand their companies' pathway to net-zero, and how they will leverage their unique strengths and opportunities, which in turn will help investors like us support companies on this journey.

As such, for the year ahead, our focus will be to drive both broad climate action in the market across sectors as well as more targeted action for companies with the most significant emissions. Beginning in the 2022 proxy season:

- We expect companies in major indices in the US, Canada, UK, Europe, and Australia to align with climate-related disclosures requested by TCFD, including whether the company discloses: (1) board oversight of climate-related risks and opportunities; (2) total direct and indirect GHG emissions ("Scope 1" and "Scope 2" emissions); and (3) targets for reducing GHG emissions. With approximately one-third of companies in the S&P 500 still not providing these TCFD disclosures[4], we will start taking voting action against directors across applicable indices should companies not meet these disclosure expectations.

- In the coming year, we will launch a targeted engagement campaign with the most significant emitters in our portfolio to encourage disclosure aligned with our expectations for climate transition plans, which covers 10 areas including decarbonization strategy, capital allocation, climate governance, and climate policy. In 2023, we will hold companies and directors accountable for failing to meet these expectations.

We also must do our part to hold ourselves accountable for progress. Last April, we joined the Net Zero Asset Managers Initiative to ensure our portfolios reach net-zero greenhouse gas emissions by 2050 or sooner and set interim targets for 2030. We will be announcing our plans including our interim targets, Investor Climate Action Plan, and our State Street Global Advisors TCFD report by April 2022. We also call on asset owners to develop a universal disclosure requirement for all companies of a certain size in their portfolios — irrespective of whether they are publicly-traded or privately-held, to avoid the pernicious effects of 'brown-spinning."

Ultimately, whether it is helping companies invent new, climate-positive business models, accelerate a push into renewables, or assist those making their traditional operations cleaner and more efficient, asset managers such as State Street have an important role in helping companies across the spectrum effectively plan for this transition and be a part of the climate solution. Indeed, while ambitious climate goals are important, it is supporting company efforts to make meaningful and pragmatic progress toward those goals that will be the focus of our climate work in the years ahead.

Diversity: Advancing the Transition Toward More Diverse Boards and Workforces

For nearly five years, we have focused our engagements with you on the issue of diverse board leadership across a number of dimensions, given the growing recognition that cognitive diversity (the diversity of thought) and a range of experiences are critical assets in the boardroom.

Beginning in 2017 with our Fearless Girl campaign, we have encouraged companies to add at least one woman director to their boards. In the years that followed, we've expanded this policy to most major markets and indices. Today, 862 (approximately 58%) of the 1,486 companies we identified with previously all-male boards have added one or more women directors.[5] This past year, every company in the S&P 500 had at least one woman on their board.[6]

While boards have become more gender diverse, it is clear that this work is not yet complete. As such, we are enhancing our existing gender diversity policy in the following ways:

- Beginning in the 2022 proxy season, we will expect all our holdings, across the globe, to have at least one woman on their boards. To-date, this policy has only applied to major indices in select markets around the world.
- Additionally, beginning in the 2023 proxy season, we will expect boards to be comprised of at least 30% women directors for companies in major indices in the US, Canada, UK, Europe, and Australia. We expect this change to result in boards with 3 or 4 female directors on average and as many as 3,000-to-4,000 additional female directors across covered indices.

In each instance, we are prepared to vote against the Chair of the board's Nominating Committee or the board leader should a company fail to meet these expectations.

We have also expanded our focus on diversity to include race and ethnicity. As I announced in my letter last year, in the upcoming proxy season we will take voting action against responsible directors if (1) companies in the S&P 500 and FTSE 100 do not have a person of color on their board, (2) companies in the S&P 500 and FTSE 100 do not disclose the racial and ethnic diversity of their boards, and (3) companies in the S&P 500 do not disclose their EEO-1 reports. Since 2020, the number of companies in the S&P 500 that disclose the racial and ethnic makeup of their boards has more than doubled[7], while those in the S&P 100 disclosing their EEO-1 reports has more than tripled[8]; and in the last year, nearly 3 in 10 FTSE 100 companies added an ethnic minority to their boards.[9]

We will continue to encourage boards to have effective oversight of diversity, equity, and inclusion more broadly, beyond the board. We recently partnered with Russell Reynolds Associates and the Ford Foundation to develop a playbook for effective board oversight of racial and ethnic diversity. With human capital management now widely seen as both a risk and opportunity for employers in the wake of the pandemic, we have also published guidance for effective disclosures and practices. And, while we engage boards and companies on these important topics, we at State Street also continue to advance progress in our own organization through our 10 Actions to Address Racism and Inequality. This topic will continue to be a key priority for us in the year ahead.

Embracing Transition as an Opportunity

While the past two years have brought tremendous change with global supply chain disruptions, an unpredictable and mutating virus, and a growing need to chart a pathway to net zero, we have always believed that when companies embrace transitions as opportunities for innovation and differentiation, shareholders stand to benefit. We hope that you and your fellow directors continue to oversee the increasingly material dimensions of ESG, alongside more traditional strategic and financial issues. As long-term investors, we share your goal of creating more resilient, sustainable, and inclusive companies.

We look forward to engaging with you to make this possible — and we wish you the very best in the coming year.

Sincerely,

Cyrus Taraporevala

Cyrus Taraporevala

President and CEO of State Street Global Advisors

Footnotes

[1] *Spencer Stuart Board Index 2021*. Page 13. https://www.spencerstuart.com/-/media/2021/october/ssbi2021/us-spencer-stuart-board-index-2021.pdf

[2] *2021 UK Spencer Stuart Board Index 2021 Snapshot*. https://www.spencerstuart.com/research-and-insight/uk-board-index/diversity

[3] Shetty, D. (2021, May 24). *A Fifth Of World's Largest Companies Committed to Net Zero Target*, Forbes.com. https://www.forbes.com/sites/dishashetty/2021/03/24/a-fifth-of-worlds-largest-companies-committed-to-net-zero-target/?sh=93c9d5f662ff

[4] Institutional Shareholder Services data, calculated by State Street Global Advisors, 2021.

[5] State Street Global Advisors, as of February 2021.

[6] Green, J. (2021, Jun 4). *After Pressure, All-Male Boards Have Now Vanished From S&P 500*, Bloomberg.com. https://www.bloomberg.com/news/articles/2021-06-04/after-pressure-all-male-boards-have-now-vanished-from-s-p-500

[7] *Russell Reynolds Associates Corporate Board Practices 2021 Edition*, The Conference Board, Inc.

[8] Green, J., & Kishan, S. (2021, May 25). *Shareholders Score Records on Corporate Diversity Push in 2020*, Bloomberg.com. https://www.bloomberg.com/news/articles/2021-05-25/ibm-turnabout-adds-pressure-to-keep-corporate-diversity-promises

[9] Pielichata, P. (2021, March 12). *FTSE 100 Companies Improve Ethnic Diversity of Boards*, Pensions & Investments. https://www.pionline.com/esg/ftse-100-companies-improve-ethnic-diversity-boards

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State Street Global Advisors, One Iron Street, Boston, MA 02210-1641

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State Street Global Advisors Worldwide Entities

Insights
Asset Stewardship

January 2022

Guidance on Climate-related Disclosures

At State Street Global Advisors, we believe climate change poses a systemic risk to all companies in our portfolios. Managing climate-related risks and opportunities is a key element in maximizing long-term risk-adjusted returns for our clients. As a result, we have a longstanding commitment to enhance investor-useful disclosure around this topic. We have encouraged our portfolio companies to report in accordance with recommendations of the Task Force for Climate-related Financial Disclosures (TCFD)[1] since we first endorsed the framework in 2017. Since then, companies have improved the quality and quantity of climate-related disclosure and investors have matured their expectations. Yet, there is more progress to be made.

This guidance outlines our expectations with respect to climate-related disclosure and our approach to voting and engagement on this important topic. It draws upon insights from our engagement with portfolio companies, including over 250 climate-focused engagements conducted in 2021. We will continue to use our voice and our vote to ensure investors receive the information we need to assess how companies are approaching climate-related risks and opportunities and hold them accountable on their progress.

Our Expectations for Climate-related Disclosures

With disclosure aligned with relevant Sustainability Accounting Standards Board (SASB) standards as a floor, State Street Global Advisors aims to enhance TCFD adoption across the market. Momentum around TCFD-aligned reporting is growing, evident in the increase of regulatory mandates for TCFD disclosure and the use of this framework as the basis for efforts of international standard-setting bodies[2].

We expect all companies in our portfolios to offer public disclosures in accordance with the four pillars of the TCFD framework: Governance, Strategy, Risk Management, and Metrics and Targets.

1. **Governance** The TCFD recommends companies describe the board's oversight of, and management's role in, assessing and managing climate-related risks and opportunities.

2. **Strategy** The TCFD recommends companies describe identified climate-related risks and opportunities and the impact of these risks and opportunities on their businesses, strategy, and financial planning.

3. **Risk Management** The TCFD recommends companies describe processes for identifying, assessing, and managing climate-related risks and describe how these processes are integrated into overall risk management.

4. **Metrics and Targets** The TCFD recommends companies disclose metrics and targets used to assess and manage climate-related risks and opportunities.

Disclosure Expectations for Carbon-Intensive Sectors

State Street Global Advisors first articulated climate-related disclosure expectations for carbon-intensive sectors[3] in 2017. **Building upon our earlier guidance, as of 2022, we expect companies in these sectors to disclose:**

1 **Interim GHG emissions reduction targets to accompany long-term climate ambitions** We expect companies in carbon-intensive sectors to adopt short- and/or medium-term green house gas (GHG) emissions reductions targets. Companies that commit to long-term ambitions, such as net-zero by 2050, are expected to accompany these commitments with interim GHG targets to provide accountability.

2 **Discussion of impacts of scenario-planning on strategy and financial planning** We expect companies, especially in carbon-intensive sectors, to conduct climate scenario-planning exercises to better understand and position themselves to respond to climate-related risks and capitalize on opportunities. We encourage companies to demonstrate the link between scenario-planning and strategic outcomes as opposed to an isolated exercise. As recommended by the TCFD, we encourage companies to take multiple scenarios into account. While State Street Global Advisors is not prescriptive on scenario selection, we believe it is best practice to consider a scenario that limits global temperature increase to well-below 2°C consistent with the Paris Agreement[4] or a scenario aligned with a net-zero by 2050 pathway.

3 **Use of carbon pricing in capital allocation decisions** We expect companies in carbon-intensive sectors to incorporate climate considerations into capital allocation decisions, such as for existing or planned projects, portfolio decisions, and financial planning. Companies are establishing a price for carbon (also known as a “carbon price”) to capture and monetize the costs/impacts of their activities as they relate to climate change. It allows for companies to express and incorporate the cost of operations, compliance, and future regulations into strategic decision-making. We evaluate if companies take forecasted carbon pricing into account for project assessment and encourage disclosure of the average and/or range of carbon price assumptions used.

4 **Scope 1, 2, and material categories of Scope 3 GHG emissions** We expect companies in carbon-intensive sectors to disclose Scope 1, Scope 2, and material categories of Scope 3 emissions. We consider it best practice for companies to obtain independent assurance of GHG emissions reporting. We recognize the inherent challenges associated with Scope 3 GHG emissions reporting, including data availability and uncertainty, double counting, and methodological challenges. However, Scope 3 emissions can account for the largest portion of a company’s footprint — especially in certain carbon-intensive sectors — and is an area of increased focus for investors. Therefore, we expect companies to report Scope 3 emissions estimates, focusing on material categories[5] of Scope 3 emissions that contribute most significantly to the overall footprint. We also encourage companies to assess and begin implementing actions to achieve incremental Scope 3 emissions reductions where feasible.

Disclosure Expectations for Effective Climate Transition Plans

State Street Global Advisors is a signatory to the Net Zero Asset Managers initiative, reflecting our commitment as long-term stewards of capital to help companies effectively plan for the low-carbon transition and to hold companies accountable on progress. To that end, we believe it is our responsibility to provide portfolio companies with clarity on our expectations for effective climate transition plan disclosure.

We recognize that there is no one-size-fits-all approach to reaching net-zero and that climate-related risks and opportunities can be highly nuanced across and within industries. As a first step, our expectations serve to provide transparency on the core criteria we expect companies to address when developing climate transition plans. Further information on our approach to developing these expectations can be found here.

Figure 1
Key Areas of Climate Transition Disclosure

Category	Disclosure Expectations
Ambition	• Long-term climate ambition
Targets	• Interim GHG emissions reduction targets • Alignment with temperature goals
TCFD Disclosure	• TCFD-aligned disclosure • Scenario analysis • Emissions reporting and assurance
Decarbonization Strategy	• Transition plan integration into long-term strategy • Decarbonization actions • Carbon offsets utilization • Decarbonization across the value chain
Capital Allocation Alignment	• Integration of climate considerations into capital allocation decisions • Capital expenditure on low carbon strategies • Carbon pricing • Investments in decarbonization
Climate Policy Engagement	• Disclosure of climate change policies and positions • Trade association review
Climate Governance	• Board oversight • Management oversight
Just Transition	*State Street Global Advisors is in the process of developing our disclosure expectations*
Physical Risk	• Physical risk assessment • Physical risk management
Stakeholder Engagement	• Industry collaboration • Investor engagement • Climate expert engagement • Internal engagement

Voting
Incorporating Our Expectations into our Proxy Voting Policies

As is typical across ESG issues, we will first approach our climate-related disclosure expectations outlined above with companies through engagements, focusing on companies and industries with the greatest risk and opportunity. **If we encounter laggards that are not making sufficient progress regarding climate-related disclosure as a result of our engagements, we will consider taking action using our votes, either by supporting relevant shareholder proposals or voting against directors at an upcoming shareholder meeting.**

Director Elections

Climate-related Disclosure Expectations

State Street Global Advisors has publicly supported the global regulatory efforts to establish a mandatory baseline of climate risk disclosures for all companies. Until these consistent disclosure standards are established, we find that the TCFD framework is the most effective framework by which companies can develop strategies to plan for climate-related risks and make their businesses more resilient to the impacts of climate change. As such, State Street Global Advisors has implemented the following proxy voting guidelines:

- Starting in the 2022 proxy season, we will begin taking voting action against companies in the S&P 500, S&P/TSX Composite, FTSE 350, STOXX 600, and ASX 100 indices if companies fails to provide sufficient disclosure in accordance with the TCFD framework, including:
  - Board oversight of climate-related risks and opportunities
  - Total Scope 1 and Scope 2 GHG emissions
  - Targets for reducing GHG emissions
- If a company fails to adequately meet our expectations, State Street Global Advisors may vote against the independent board leader. We view this policy as a natural escalation of our previously-stated expectations on climate-related disclosure and history of proxy voting and engagement on the TCFD framework. We expect to continue to expand this policy in the coming years.

Climate Transition Plan Disclosure Expectations for Significant Emitters

As a complement to this 2022 director voting policy, we will launch an engagement campaign on climate transition plan disclosure targeting significant emitters in carbon-intensive sectors. Starting in 2023, we will hold directors accountable if companies fail to show adequate progress on meeting our climate transition disclosure expectations (highlighted in Figure 1). Through our engagements, we will aim to better understand climate transition plans and strategies, and gain insight on each company's unique set of climate-related risks and strategic opportunities presented by the transition.

Shareholder Proposals

Climate-related Shareholder Proposals

We evaluate climate-related proposals on a case-by-case basis taking several factors into consideration, including, but not limited to: the reasonableness of the proposal, alignment with the TCFD framework and the SASB standards where relevant, emergent market and industry trends, peer performance, and dialogues with company management, boards, and other stakeholders. When analyzing climate-related proposals at companies in carbon-intensive sectors, we will consider alignment with our disclosure expectations outlined above.

Climate-focused Corporate Political Activity Shareholder Proposals

Below we outline our approach to assessing climate-related lobbying proposals specifically, given the growing prevalence of these proposals in recent years. These proposals request that the company reports on how its lobbying activities, including through membership in trade associations, align with the goals of the Paris Agreement. State Street Global Advisors evaluates the following when considering such a proposal:

- The board's role in overseeing the company's participation in the political process, including membership in trade associations.
- If the company performed a gap analysis of its stated positions on climate change versus those of its trade associations.
- If the company disclosed a list of its trade association memberships.

Engagements

Incorporating Our Expectations into Conversations with Companies

Climate continues to be a core stewardship priority for State Street Global Advisors. In 2021, we conducted over 250 climate-focused engagements, a 72% increase compared to the previous year, reflecting our increased focus on this topic. During engagement, we may ask companies one or more of the questions outlined below. For more information on our climate engagement efforts, see our Annual Climate Stewardship Review.

Governance

- Where is the responsibility for climate oversight housed at the board level? How frequently does the board discuss the topic of climate change?
- How is climate — and other ESG — experience considered in the board refreshment process?
- How is the board incorporating key sustainability drivers into the performance evaluation of management?
- How does management and the board utilize external expertise to stay abreast of the emerging areas of climate?

Strategy

- How does the company integrate climate considerations into business strategy and financial planning?
- What actions are being considered to support efforts to reduce GHG emissions across the value chain, such as with suppliers and customers?
- Where does the company identify the greatest opportunities for decarbonization in the short- and medium-term?
- How does the company engage employees on the development and integration of climate efforts into corporate culture and strategy?
- For relevant industries, how does the company consider carbon pricing in project assessment and portfolio decisions?

Risk Management

- How does the company consider climate-related risks as part of overall risk management? What is the board's role?
- Has the company assessed the potential impacts of physical risk on its assets and operations?
- How does the company manage climate-related policy risks? Has the company conducted an assessment of its stated climate positions versus those of its trade and industry associations?
- As investor interest in the intersection of environmental and social issues grows, how is the company considering emerging topics such as just transition?

Metrics and Targets

- What metrics does the company utilize to track progress on achieving its climate goals?
- What sources of GHG emissions contribute most significantly to the company's carbon footprint?
- What are the biggest challenges facing the company in achieving its GHG emissions reduction targets?
- What are the company's perspectives on using a lower hurdle rate or IRR for low-carbon projects?

Conclusion

We encourage companies in our portfolios to align their climate-related disclosures and practices with our expectations and at the same time we endeavor to communicate these expectations clearly to the market. Please reach out to our Asset Stewardship team at GovernanceTeam@ssga.com. We look forward to engaging with you on this important topic.

Endnotes

1 https://www.fsb-tcfd.org/publications/

2 https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/

3 Oil and gas, utilities and mining sectors

4 Article Two of the 2015 Paris Agreement commits parties to "holding the increasing in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels."

5 As defined by the GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US $3.86 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2020.
† This figure is presented as of September 30, 2021 and includes approximately $59.84 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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State Street Global Advisors Worldwide Entities

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Insights
Asset Stewardship

January 2022

Disclosure Expectations for Effective Climate Transition Plans

As the world mobilizes toward achieving net-zero emissions by midcentury, our portfolio companies are adopting long-term climate ambitions in increasing numbers. However, few have provided a clear roadmap to achieving these goals — and fewer asset managers have provided detail on what companies are expected to disclose as they prepare for the transition to a low-carbon economy.

State Street Global Advisors is a signatory to the Net Zero Asset Managers initiative, reflecting our commitment as long-term stewards of capital to help companies effectively plan for this transition and to hold companies accountable on making meaningful progress. To that end, we believe it is our responsibility to provide portfolio companies with clarity on our expectations for effective climate transition plan disclosure. We see this as the first step in ensuring we — and the broader investor community — receive the information necessary to assess each company's preparedness for the transition to a low-carbon economy.

Our Process for Developing Disclosure Expectations

The Asset Stewardship team conducted an in-depth assessment of existing ESG frameworks and standards[1] for relevant climate-related disclosures. We considered several factors (e.g., market adoption, usefulness for decision-making, applicability across sectors, financial materiality) and selected a core set of disclosures for climate transition plans that would be useful to investors like us. We leveraged existing frameworks and considered market practice to help reduce the reporting burden on companies while benefiting investors with more consistent and robust disclosure.

Our selected disclosures are organized into ten categories that closely align with those found in the Institutional Investors Group on Climate Change (IIGCC) Net-Zero Investment Framework[2] and Climate Action 100+ Net-Zero Company Benchmark. We included two additional categories, "Physical Risk" and "Stakeholder Engagement", as these are critical in understanding company performance and represent areas where disclosure practices could be improved.

Our Approach: Stakeholder Engagement

We conducted a series of engagements with key stakeholders — portfolio companies in carbon-intensive sectors, asset owners, investor advocates and coalitions, and internal cross-functional subject matter experts — to collect feedback on our expectations and inform our approach. Through these engagements, we identified areas of disclosure that are ambitious yet realistic and others where the market may need more time to coalesce around methodologies, such as just transition.

While stakeholders generally agree on the value of considering the social impacts of the transition to a low-carbon economy — including on workers, communities, and society at large — we found consensus around defining "just transition" and related disclosure expectations is still emerging. We will conduct a series of engagements to assess best practices and monitor developments in the market before articulating expectations for this category.

Our Disclosure Expectations for Effective Climate Transition Plans

State Street Global Advisors' Disclosure Expectations for Effective Climate Transition Plans are outlined below. We recognize that there is no one-size-fits-all approach to reaching net-zero and that climate-related risks and opportunities are highly nuanced across and within industries. As a first step, this publication serves to provide transparency on the core criteria we expect issuers to address when developing climate transition plans.

We recognize this is an emerging area of disclosure and we will continue to develop our expectations over time, including consideration of any mandated disclosure by regulators.

Figure 1
Key Areas of Climate Transition Disclosure

Category	Disclosure Expectations
Ambition	• Long-term climate-related ambition
Targets	• Interim GHG emissions reduction targets • Alignment with temperature goals
TCFD Disclosure	• TCFD-aligned disclosure • Scenario analysis • Emissions reporting and assurance
Decarbonization Strategy	• Transition plan integration into long-term strategy • Decarbonization actions • Carbon offsets utilization • Decarbonization across the value chain
Capital Allocation Alignment	• Integration of climate considerations into capital allocation decisions • Capital expenditure on low carbon strategies • Carbon pricing • Investments in decarbonization
Climate Policy Engagement	• Disclosure of climate change policies and positions • Trade association review
Climate Governance	• Board oversight • Management oversight
Just Transition	*State Street Global Advisors is in the process of developing our disclosure expectations*
Physical Risk	• Physical risk assessment • Physical risk management
Stakeholder Engagement	• Industry collaboration • Investor engagement • Climate expert engagement • Internal engagement

Applying our Expectations to Proxy Voting and Engagement

In 2022, we will launch an engagement campaign on climate transition plan disclosure targeting significant emitters in carbon-intensive sectors. Starting in 2023, we will be prepared to hold directors accountable if these companies fail to show adequate progress on meeting our disclosure expectations. Through our engagements, we will aim to better understand climate transition plans and strategies, and gain insight on each company's unique set of climate-related risks and strategic opportunities presented by the transition.

Where relevant, our expectations will be used to inform our assessment of issuer climate transition plan disclosure and related shareholder proposals. For more information on our approach to climate voting and engagement see our Guidance on Climate-related Disclosures.

Conclusion

We encourage companies in our portfolios to align their climate-related disclosures and practices with our expectations and at the same time we endeavor to communicate these expectations clearly to the market. Please reach out to our Asset Stewardship team at GovernanceTeam@ssga.com. We look forward to engaging with you on this important topic.

Endnotes

1 Climate Action 100+ Net-Zero Company Benchmark, Transition Pathway Initiative management quality assessment, World Economic Forum Stakeholder Capitalism Metrics, Taskforce on Climate-related Financial Disclosures (TCFD) Guidance on Metrics, Targets, and Transition Plans, Sustainability Accounting Standards Board (SASB) standards, World Benchmarking Alliance Just Transition Methodology, among others.

2 SSGA referred to the "asset class alignment" component of the IIGCC Net Zero Investment Framework provides a list of alignment criteria that constitute a Net Zero Transition Plan for listed equity and fixed income.

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US $3.86 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2020.
† This figure is presented as of September 30, 2021 and includes approximately $59.84 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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Insights
Asset Stewardship

January 2022

Guidance on Diversity Disclosures and Practices

At State Street Global Advisors, we believe that companies have a responsibility to effectively manage and disclose risks and opportunities related to diversity, equity, and inclusion, particularly regarding gender, race, and ethnicity. Research suggests that diversity can drive returns[1], and that companies that neglect this topic face risks to their reputation, productivity, and overall performance. This essential dimension of ESG risk management is a priority for our Asset Stewardship team, and what follows is an overview of our expectations and actions on this topic.

Our Expectations for Diversity, Equity, and Inclusion Disclosures

Investors can benefit from increased publicly-available data on diversity, equity, and inclusion at portfolio companies. As such, we encourage companies to share relevant information with the market, and we expect all companies in our portfolio to offer public disclosures in five key areas:

1. **Board Oversight** Describe how the board oversees the company's diversity, equity, and inclusion efforts, including the potential impacts of products and services on diverse communities.

2. **Strategy** Articulate the firm's approach to promoting diversity, equity, and inclusion (of gender, race, and ethnicity, at minimum), including how it is integrated into the overall long-term business strategy.

3. **Goals** Describe the firm's timebound and specific diversity goals (related to gender, race, and ethnicity, at minimum), what policies and programs are in place to meet these goals, and how they are measured, managed, and progressing.

4. **Metrics** Provide measures of the diversity of the firm's global workforce and board, including:

   — **Workforce** Employee diversity by gender, race, and ethnicity (at minimum), in markets where it is legal to collect and disclose this information. We expect to see this information broken down by industry-relevant employment categories or levels of seniority, for all full-time employees. In the US, companies are expected to at least use the disclosure framework set forth by the United States Equal Employment Opportunity Commission's EEO-1 Survey. Non-US companies are encouraged to disclose this information in alignment with SASB's guidance and nationally appropriate frameworks, or guided by their own perspective as to the best way to describe the composition of their workforce.

   — **Board** Diversity characteristics, including gender, racial, and ethnic makeup (at minimum) of the board of directors (in aggregate or at an individual level).

5. **Board Diversity** Articulate efforts to achieve diverse representation at the board level (including race, ethnicity, and gender, at minimum), including how the Nominating Committee ensures diverse candidates are considered in board recruitment.

Expanding the Aperture of Diversity, Equity, and Inclusion

Investors, regulators, and other stakeholders are increasingly focused on other dimensions of diversity beyond gender, race, and ethnicity. For example, California lawmakers and the Nasdaq exchange include LGBTQ-identified individuals in their perspectives on board diversity. Some advocates are calling for the prioritization of disability as an essential dimension of diversity, and several companies (especially outside of the US) already disclose information regarding the role of people with disabilities in their organization. We encourage our portfolio companies to consider providing disclosures about the full diversity of their organization, as these disclosures are wholly aligned with contributing to the intent to increase diversity of thought that underlies the present more common focus on gender, race and ethnic diversity. The reputational and regulatory risk of not doing so also may increase in the coming years.

Engagements
Incorporating Our Expectations into Conversations with Companies

Since first sharing our disclosure expectations with the market in August 2020, the Asset Stewardship team has had over 275 engagements with a variety of companies globally on the topic of diversity, equity, and inclusion. As part of these engagements, our team proactively reached out to 60 of the largest employers in our portfolio to have deeper conversations on human capital management and diversity, equity, and inclusion. In engagements with 25 of the largest US-based employers, we discussed specific areas for improvements in their diversity-related disclosures. We first analyzed each of the companies' diversity disclosures in fall 2020 and then again in summer 2021 to gauge whether their disclosures had improved. We found that of the 23 companies that initially had room for improvement, 20 had enhanced their disclosures by the following year. We will continue to monitor these companies' progress toward full alignment with our expectations.

In 2022, we will pursue a series of targeted engagements on the topic of racial and ethnic diversity. Additionally, as we further evaluate our gender diversity voting policy, we will have proactive engagements with companies in markets where progress on board gender diversity has been relatively slow. In 2022, we will reach out to companies and experts in relevant markets to better understand best practices and challenges for diversifying corporate boards in these regions.

Voting
Incorporating Our Expectations into Our Proxy Voting Policies

In order to achieve alignment with our aforementioned expectations and advance transparency in the public markets, State Street Global Advisors has the following proxy voting guidelines:

Race & Ethnicity

- If a company in the S&P 500 or FTSE 100 does not disclose the racial and ethnic composition of its board, we will vote against the Chair of the Nominating Committee. Acceptable disclosures include:
  - Aggregate-level (e.g., "5% of our Directors are Black", "Seven of our Directors are people of color", "30% chose not to self-identify").
  - Individual-level (e.g., "Jane Doe is African-American, John Smith is Caucasian," etc.).
- If a company in the S&P 500 or FTSE 100 does not have at least one director from an underrepresented racial or ethnic community, we will vote against the Chair of the Nominating Committee.

- If a company in the S&P 500 does not disclose its EEO-1 report, we will vote against the Chair of the Compensation Committee. Acceptable disclosures include:
  - The original EEO-1 report response.
  - The exact content of the report translated into custom graphics.

Gender

- Beginning in 2022, we expect boards of companies in all markets and indices to have at least one female board member. In markets where we are implementing this policy for the first time, we may waive the policy if a company engages with State Street Global Advisors and provides a specific, timebound plan for adding at least one woman to the board.
- Beginning in the 2023 proxy season, we will expect companies in the Russell 3000, TSX, FTSE 350, STOXX 600, and ASX 300 indices to have boards comprised of at least 30 percent women directors. We may waive the policy if a company engages with State Street Global Advisors and provides a specific, timebound plan for reaching 30 percent representation of women directors.
- If a company fails to meet any of the expectations outlined above, State Street Global Advisors may vote against the Chair of the Nominating Committee or the board leader in the absence of a Nominating Committee, if necessary. Additionally, if a company fails to meet this expectation for three consecutive years, State Street Global Advisors may vote against all incumbent members of the Nominating Committee or those persons deemed responsible for the nomination process.

While our existing diversity voting policies are mainly focused on increasing diverse representations on boards, given our belief in the centrality of effective board governance and oversight, we intend to shift our focus to the workforce and executive levels in the coming years. Companies should prepare by ensuring they are recruiting, promoting, and retaining diverse talent at all levels of the organization.

Shareholder Proposals

We also use the following frameworks for analyzing relevant shareholder proposals:

Diversity, Equity, and Inclusion Reporting If the company in question is aligned with four or five of our expectations outlined at the outset of this guidance document, we will most likely vote against the diversity-related proposal. If the company is aligned with only three or fewer of our expectations, we will most likely engage with the company to seek further alignment with our expectations. In certain circumstances, we will utilize an abstain option for those companies committing to improve their practices. In the absence of a commitment from the company to align with four or five of our expectations, and if our engagement is not productive, we will most likely support proposals that would meaningfully advance diversity-related disclosures.

Racial and Gender Pay Gap To evaluate shareholder proposals on this issue, we look for the following four disclosures by the company:

- Confirmation that individuals, regardless of race or gender, are compensated equally in the same positions;
- Workforce diversity statistics (including race and gender) at each level of management;
- Long-term, diversity-specific goals (specific to race and gender) established for each level of management; and
- A description of the strategy or practices that are in place to support achieving the goals.

We will vote against proposals at companies that meet our expectations. We will abstain on proposals at companies that commit to meeting our expectations within a specific and reasonable timeline. We will vote for proposals at companies that do not meet our expectations and cannot commit to doing so.

Racial Equity and/or Civil Rights Audits

We will vote against proposals at companies that clearly and publicly articulate (1) the board's process for overseeing risks related to racial equity and/or civil rights (e.g., committee responsible, frequency of discussions, etc.); (2) the specific risks that the board oversees related to the impact of a company's products, practices, and services on underrepresented communities inside and outside the organization; and (3) the company's plan and processes to mitigate these risks.

We will abstain on proposals at companies that have a stated and specific commitment to improving board oversight of racial equity and/or civil rights risks as described above, and to identifying and managing relevant risks.

We will vote for proposals at companies that do not disclose the board's process for overseeing risks related to racial equity and/or civil rights as described above, have no plan in place to address these risks, and/or cannot identify the relevant risks.

Thought Leadership

The Board's Oversight of Racial and Ethnic Diversity, Equity, and Inclusion

In 2020, State Street Corporation announced it would be taking "10 Actions to Address Racism & Inequality." As part of Action #7, State Street Global Advisors' Asset Stewardship team led an internal, cross-functional workstream to study best practices in board oversight of racial and ethnic diversity, equity, and inclusion. We partnered with Russell Reynolds Associates and the Ford Foundation to interview 27 directors of FTSE 100 and S&P 500 multinational corporations, culminating in a report titled "The Board's Oversight of Racial and Ethnic Diversity, Equity and Inclusion."

Our conversations with directors led to the development of “10 Responsibilities of Boards in the Effective Board Oversight of Racial and Ethnic Diversity,” a roadmap for boards that wish to elevate their focus on DE&I. These recommendations include:

1. Ensure the CEO and board chair have the capacity and commitment to drive the organization’s racial equity efforts long-term.
2. Build a board whose directors are racially and ethnically diverse and have experience with oversight of DE&I.
3. Make racial equity an active part of the business strategy and work toward clear and quantitative key performance indicators.
4. Make racial and ethnic diversity, equity, and inclusion both a committee and full-board responsibility.
5. Regularly evaluate the potential impacts of the company’s operations on communities of color, embracing relevant opportunities and mitigating relevant risks.
6. Facilitate boardroom discussions that are thoughtful, balanced, and intentional, and build a culture where directors are empowered to challenge ideas.
7. Include the perspectives of stakeholders (including employees) in board discussions.
8. Create a structured onboarding and ongoing training process that prepares all directors for effective oversight of DE&I.
9. Build a coalition, share best practices, and learn from peers and experts.
10. Realize this is a long journey — be patient and don’t give up.

Conclusion

We remain focused on our fiduciary duty to maximize the long-term risk-adjusted returns of our clients’ investments. It is our conviction that teams with a diversity of perspectives generate a diversity of ideas that can drive the long-term success of a firm. Please reach out to our Asset Stewardship team at GovernanceTeam@ssga.com. We look forward to engaging with you on this important topic.

Endnote

1 https://www.ssga.com/us/en/institutional/ic/insights/ceo-letter-2021-proxy-voting-agenda

About State Street Global Advisors

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Abu Dhabi: State Street Global Advisors Limited, ADGM Branch, Al Khatem Tower, Suite 42801, Level 28, ADGM Square, Al Maryah Island, P.O Box 76404, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. T: +971 2 245 9000. **Australia:** State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240-7600. F: +612 9240-7611. **Belgium:** State Street Global Advisors Belgium, Chaussée de La Hulpe 185, 1170 Brussels, Belgium. T: +32 2 663 2036. State Street Global Advisors Belgium is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Canada:** State Street Global Advisors, Ltd., 1981 McGill College Avenue, Suite 500, Montreal, Qc, H3A 3A8, T: +514 282 2400 and 30 Adelaide Street East Suite 800, Toronto, Ontario M5C 3G6. T: +647 775 5900. **France:** State Street Global Advisors Europe Limited, France Branch ("State Street Global Advisors France") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors France is registered in France with company number RCS Nanterre 899 183 289, and its office is located at Coeur Défense – Tour A – La Défense 4, 33e étage, 100, Esplanade du Général de Gaulle, 92 931 Paris La Défense Cedex, France. T: +33 1 44 45 40 00. F: +33 1 44 45 41 92. **Germany:** State Street Global Advisors Europe Limited, Branch in Germany, Brienner Strasse 59, D-80333 Munich, Germany ("State Street Global Advisors Germany"). T: +49 (0)89 55878 400. State Street Global Advisors Germany is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Hong Kong:** State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103-0288. F: +852 2103-0200. **Ireland:** State Street Global Advisors Europe Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered Number: 49934. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. **Italy:** State Street Global Advisors Europe Limited, Italy Branch ("State Street Global Advisors Italy") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Italy is registered in Italy with company number 11871450968 – REA: 2628603 and VAT number 11871450968, and its office is located at Via Ferrante Aporti, 10 - 20125 Milan, Italy. T: +39 02 32066 100. F: +39 02 32066 155. **Japan:** State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association. **Netherlands:** State Street Global Advisors Netherlands, Apollo Building 7th floor, Herikerbergweg 29, 1101 CN Amsterdam, Netherlands. T: +31 20 7181 000. State Street Global Advisors Netherlands is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Singapore:** State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501. **Switzerland:** State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16. **United Kingdom:** State Street Global Advisors Limited. Authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350. **United States:** State Street Global Advisors, 1 Iron Street, Boston, MA 02210-1641. T: +1 617 786 3000.