

State Street Global Advisors' Approach to ESG Screening

At State Street Global Advisors, we aim to help our clients achieve their goals, which could include social progress or risk mitigation. Our capabilities in environmental, social, and governance (ESG) investing help us to generate long-term value for our clients.

The Complexities of ESG Screening

ESG screening involves excluding specific companies, industries, or countries from an investment portfolio based on ESG factors or risks. ESG screening can be applied to portfolios as a standalone approach, or in combination with other styles, such as thematic investing or integrating ESG into the investment process. While screening may sound relatively simple, the process involves a significant amount of judgment on the part of asset managers or the third party data providers with whom they partner to conduct this screening.

Investors who seek screened portfolios often express their desire for screening as a topic area — for example, seeking to screen tobacco from a portfolio. Yet there are a variety of ways that a company might be involved in tobacco: for example, as a manufacturer, licensor, or retailer. Additionally, there are multiple potential thresholds for what it means to be “involved” in tobacco. Should a business that derives 1% of revenue from tobacco-related products count as involved? What about a business that is a significant owner of a tobacco manufacturer, but does not conduct activities directly?

These questions highlight the challenges of defining involvement in screened products or industries. At State Street Global Advisors, we believe it important to offer our clients our own perspective on how to conduct ESG screening, and to approach this process with the same rigor that guides all of our work. In light of this, we have developed a recommended approach to applying ESG screens to investment portfolios. This approach represents the shared perspectives of our investment teams across active and index investment styles in equity, fixed income, and alternatives.

Below, we set forth the principles that guide our approach, a framework for understanding product involvement, our method for incorporating perspectives from multiple data providers, and our initial focus areas and applications.

Guiding Principles

Our approach is guided by the following principles:

- 1 Systematic and transparent approach** We follow a well-defined methodology that can be flexibly applied to different use cases.
- 2 Leverage best-in-class available data** We use inputs from multiple data providers where accessible to us. This broadens our overall coverage universe, and reduces the potential biases of a single data provider.
- 3 Awareness of impact on risk and return objectives** Our point of view is attentive to the impact of excluded securities on a broader set of investment considerations.
- 4 Strive for consistency while accommodating for differences** Deviations from this approach are made where appropriate to adapt to investment styles, national legislation, and/or market-specific norms prevalent in certain regions. This allows us to offer our clients both a defined perspective, and investment solutions most appropriate to their contexts.

Defining Involvement in Screened Industry, Product, or Topic

Given the complexities in defining product involvement articulated above, screening involves judgment on the part of investors. At State Street Global Advisors, we draw on the following framework to guide how we define product involvement.

There are two core elements to the framework: the drivers of product involvement, and the scope of a resulting restricted list of securities.

Drivers of product involvement might be described in terms of 1) revenue thresholds, 2) activities or 3) significant ownership relationship with a company. We describe these in more detail below. Due to the nature of ESG data, different data providers describe product involvement differently; for example, some use revenue thresholds, while others use binary metrics indicating whether a company is involved in the production of a product.

The scope of a restricted list can be thought of as how extensively a given topic is screened — or, put differently, the length of the resulting list of restricted securities. A focused list will be comprised of companies with more direct involvement in the product; a broader list will include companies with involvement farther up or down the value chain, or for whom involvement comprises a smaller part of their overall business.

3 Drivers of Product Involvement	Description	Focused Involvement Fewer names screened	Broad Involvement More names screened
1 Revenue	What percent of a company's total revenue is derived from this industry, product, or topic?	Higher revenue threshold	Lower revenue threshold
2 Activities	What part of the value chain is the company involved in?	Direct involvement in the product	Direct and/or indirect involvement in the product
3 Significant Ownership	Is the company an owner of, or owned by, another company with involvement in this issue?	Companies that are majority owned, invested in, or owned by companies with involvement in the product in question are screened	Companies with any ownership relationship to the product in question are screened

Combining Data Providers + Producing a Final List

Where available, our approach generates focused lists of restricted securities from two leading providers of ESG screening data¹: MSCI and Sustainalytics. We apply the more focused list with the intention of concentrating our restricted securities on those issuers with meaningful involvement in the product, issue, or topic in question, rather than more tertiary involvement. Our intention is not to screen every issuer that touches the topic in question in any way, but to screen those with notable involvement. This allows us to balance screening preferences with other investment considerations.

We then combine the lists of restricted securities; any issuer that is screened out by either data provider will be screened by our final list. We do this because methodologies and universes of different ESG data providers vary. By combining the lists of each provider, we are able to provide more comprehensive coverage for our clients. Lists are updated on a quarterly basis.

While this represents our recommended approach, the framework outlined above allows for flexibility and customization to address specific client needs or preferences.

Focus Areas and Applications

This approach is applied in a variety of ESG funds managed by State Street Global Advisors. The resulting restricted lists are also available for use by clients in separately managed accounts.

We have applied the guiding principles and product involvement framework to fourteen ESG topic areas which are commonly screened by our clients. They are:

- Adult Entertainment
- Alcohol
- Arctic Drilling
- Cannabis
- Civilian Firearms
- Controversial Weapons
- Extreme ESG Controversies
- Gambling
- Oil & Gas
- Oil Sands
- Shale Energy
- Tobacco
- Thermal Coal
- UN Global Compact Violators

We continue to explore screening topics that are relevant to a significant set of our clients globally, and expect to apply our approach to a broader set of screening topics over time.

Defining Controversial Weapons

Controversial Weapons is one of the ESG topics to which our approach to screening is applied. In addition to the common questions related to product involvement that are outlined above, this topic in particular poses the additional challenge of lacking a unified definition.

Controversial weapons broadly refer to weapons that can have a disproportionate and indiscriminate impact on civilian populations, sometimes even years after a conflict has ended.

Despite multiple international conventions and pieces of national legislation banning controversial weapons, there is no globally accepted definition of what weapons are encompassed by this definition. This is an

area where asset owners and managers, and the data providers they rely on, must define for themselves what should be included in a controversial weapons screen.

State Street Global Advisors screens weapons that are banned by national legislation in countries around the world, as well as weapons that investors commonly express preferences to exclude.

The weapons included in our controversial weapons screen are:

- Cluster Munitions
- Land Mines
- Nuclear Weapons
- Chemical Weapons
- Biological Weapons
- Depleted Uranium
- Incendiary Weapons/White Phosphorus

Conclusion

As we continue to expand our ESG capabilities and offerings, we look forward to partnering with clients to implement this approach to screening in portfolios. For more information, please contact your State Street Global Advisors relationship manager.

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Endnote

1 We use two sources of data where accessible to us.

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 index and active 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 \$3.26 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2021.

† This figure is presented as of September 30, 2022 and includes approximately \$55.12 billion USD 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. Please note all AUM is unaudited.

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

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