

# Exclusions in the State Street Climate ESG International Equity Fund

Environmental, Social and Governance (ESG) screening involves excluding specific companies, industries, or countries from an investment portfolio based on ESG criteria or risks. At State Street Global Advisors, we believe it is important to offer a perspective on how to conduct ESG screening, and to approach this process with the same rigour that guides all of our work.

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We apply eight screens to the State Street Climate ESG International Equity Fund (the Fund). These screens (updated quarterly) are designed to identify companies with material business activity across the following categories;

- 1 Controversial Weapons
- 2 Extreme ESG Controversies
- 3 Tobacco
- 4 Thermal Coal
- 5 United Nations Global Compact Violators
- 6 Gambling
- 7 Alcohol
- 8 Adult Entertainment

Below, we provide an overview and outline the data sets used for each topic. Where two data providers are accessible to us, we generate a restricted list from each provider using the metrics and thresholds outlined below. We screen companies that are flagged by either or both data providers, in order to improve overall coverage and decrease biases associated with a single provider.

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## 1. Controversial Weapons

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The following types of controversial weapons are excluded by the Fund.

- **Anti-personnel Mines and Land Mines** Anti-personnel mines are designed to be exploded by the presence, proximity or contact of a person and that will incapacitate, injure or kill. Whereas, landmines are explosives that are designed to detonate at the presence, proximity or contact of a person or vehicle.<sup>1</sup> After being planted, both weapons can remain undetonated for years, creating a serious risk to civilians and preventing economic development.

- **Biological and Chemical Weapons** Biological or chemical weapons disseminate disease-causing organisms, toxins or chemicals to harm or kill humans, animals, or plants. Delivery mechanisms can disperse both weapons through a variety of forms including gas, liquid, or solids.<sup>2</sup> Civilian populations are often unintended victims due to widespread dispersion and person-to-person transmission (biological weapons).
- **Cluster Munitions** Cluster weapons are air-dropped explosives: bombs, missiles, rockets, or shells that carry submunitions and disperse them over a wide area. The submunitions often remain undetonated on the ground for decades, creating a serious risk to civilians and preventing economic development.<sup>3</sup>
- **Depleted Uranium** Depleted Uranium (DU) munitions are projectiles (bullets, rockets, etc.) that have been equipped with the radioactive chemical substance DU, a by-product of the uranium enrichment process used to make nuclear weapons and nuclear-reactor fuel. Because of its high density, DU is often used as a penetrator in ammunition to help pierce armour. Where DU munitions are observed in the environment, there is a potential risk of radiation effects for individuals who come into direct contact with such fragments or ammunitions.<sup>4</sup>
- **Incendiary Weapons and White Phosphorus** White phosphorus (WP) is an allotrope of the chemical element phosphorus, which burns fiercely when exposed to oxygen. A WP munition is any projectile (e.g. flares, grenades, or mortars) equipped with WP, which sets fire to objects or causes burn injuries to persons through the action of flame, heat or combination thereof, as a result of a chemical reaction.<sup>5</sup> Incendiary weapons and WP are controversial because they cause excruciating burns to individuals, leading to death or long-term physical and/or psychological injury. They also have the potential to start fires that destroy civilian property.
- **Nuclear Weapons** A nuclear weapon is a highly destructive explosive device, capable of releasing nuclear energy due to fusion and/or fission reactions.<sup>4</sup> The disproportionate impacts on civilian populations, and the environment, make nuclear weapons a controversial weapon.

## How We Screen

Data Source	Definition	Indicator/Threshold
Sustainalytics Controversial Weapons Radar	The company is involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.	Controversial weapons noted above for which: <ul style="list-style-type: none"> <li>• There is evidence of activity</li> <li>• The weapon is a core weapon system or a core weapon activity</li> <li>• The product has a dedicated scope</li> <li>• The scope is key to the production of the weapon</li> </ul>
	The company is involved, through corporate ownership, in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.	Any controversial weapon for a subsidiary that the company has (>=50%) ownership of
MSCI Business Involvement Screening Research	Companies that manufacture cluster munitions whole weapons systems, components, or delivery platforms.	Cluster Munitions Manufacturer = True
	Companies that manufacture landmines whole systems or components.	Landmines Manufacturer = True
	The recent-year percentage of revenue, or maximum estimated percent, a company has derived from the production of nuclear weapons.	Nuclear Weapons Manufacturer Maximum Revenue Percentage >= 10%
	Companies involved in the production of depleted uranium (DU) weapons, ammunition, and armour, including companies that manufacture armour piercing, fin stabilised, discarding sabot tracing rounds (APFSDS-T); Kinetic Energy Missiles made with DU penetrators; and DU-enhanced armour, including composite tank armour.	Depleted Uranium Manufacturer = True
	Companies that manufacture incendiary weapons using white phosphorus.	Incendiary Weapons (White Phosphorous) = True
	The recent-year percent of revenue, or maximum estimated percent, a company has derived from the manufacture of chemical or biological weapons and related systems or components.	Biological / Chemical Weapons Maximum Revenue Percentage >= 10%

## 2. Severe ESG Controversies

The Fund is screened for companies involved in incidents/events that may pose business or reputational risks due to the potential impacts on stakeholders, the environment, or the company's operations.

### How We Screen

Data Source	Definition	Indicator/Threshold
Sustainalytics Product Involvement	The event has a severe impact on the environment and society, posing serious business risks to the company. This category represents exceptionally egregious corporate behaviour, high frequency of recurrence of incidents, very poor management of ESG risks, and a demonstrated lack of willingness by the company to address such risks.	Category 5 — Severe Controversies

## 3. Tobacco

It is common knowledge that smoking tobacco is detrimental to health and increases the risk of disease and death. Perhaps less understood is how investing in tobacco stocks raises questions around ethics, social impacts and long-term financial value creation. Looking forward, tobacco companies face significant financial headwinds such as higher taxes,<sup>6</sup> declining demand and litigation.

The Fund is screened for companies that are involved in the production and manufacturing of tobacco and tobacco-related products (including vaping, pipes, and other related products).

### How We Screen

Data Source	Definition	Indicator/Threshold
Sustainalytics Product Involvement	The company derives revenue from the production of tobacco and tobacco-related products.	Tobacco Production, Level of Involvement $\geq$ 10%
MSCI Business Involvement Screening Research	The recent-year percent of revenue, or maximum estimated percent, a company has derived from the manufacture of tobacco products (such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable, and chewing tobacco. This also includes companies that grow or process raw tobacco leaves.)	Tobacco Production Maximum Revenue Percentage $\geq$ 10%
Global Industry Classification Standard (GICS)	Manufacturers of cigarettes and other tobacco products.	Industry = Tobacco (302030)

## 4. Thermal Coal

Climate change poses both physical and transition risks, and can have a material impact on long-term value creation for investment portfolios.

Physical risks are tangible risks such as extreme weather events, rising sea levels and gradual temperature warming. These phenomena can damage infrastructure, cause supply-chain disruption, or result in raw materials scarcity. Transition risks are risks to economic and business models associated with changing government policy and/or changing consumer and investor preferences.

Human activities are widely accepted to have contributed to global warming. Emissions from burning fossil fuels are the dominant contributor to observed growth in atmospheric CO<sub>2</sub>, which increases the temperature of the Earth's surface, ocean, and atmosphere.<sup>7</sup>

Demand growth for carbon-intensive thermal coal used in electricity production is particularly susceptible to climate change policies. We distinguish between thermal coal and metallurgical coal (that is, coal used for steel making) due to the competitive substitute renewable products for power generation, such as wind and solar energy. The Fund is screened for companies involved in the extraction, or power generation, of thermal coal.

## How We Screen

Data Source	Definition	Indicator/Threshold
Sustainalytics Product Involvement	<ul style="list-style-type: none"> <li>The company derives revenue from thermal coal extraction.</li> <li>The company derives revenue from generating electricity from thermal coal.</li> </ul>	<ul style="list-style-type: none"> <li>Thermal Coal Extraction, Level of Involvement &gt;=10%</li> <li>Thermal Coal Power Generation, Level of Involvement &gt;=10%</li> </ul>

## 5. United Nations Global Compact Violations

Sustainable companies are able to generate long-term financial value for investors, without detrimentally impacting society or the environment. At the core of a sustainable company are principles and values that underpin governance frameworks and business practices.

The UN Global Compact (UNGC) is the world's largest corporate sustainability initiative and outlines a set of 10 business principles based around fundamental responsibilities on human rights, labour, the environment, and anti-corruption.

The Fund is screened for companies who are in violation of the 10 UNGC principles.

### United Nations Global Compact Responsible Business Principles

<b>Human Rights</b>	<ol style="list-style-type: none"> <li>Businesses should support and respect the protection of internationally proclaimed human rights.</li> <li>They should make sure that they are not complicit in human rights abuses.</li> </ol>
<b>Labour</b>	<ol style="list-style-type: none"> <li>Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.</li> <li>They should promote the elimination of all forms of forced and compulsory labour.</li> <li>They should endorse the effective abolition of child labour.</li> <li>They should support the elimination of discrimination in respect of employment and occupation.</li> </ol>
<b>Environment</b>	<ol style="list-style-type: none"> <li>Businesses should support a precautionary approach to environmental challenges.</li> <li>They should undertake initiatives to promote greater environmental responsibility.</li> <li>They should encourage the development and diffusion of environmentally friendly technologies.</li> </ol>
<b>Anti-Corruption</b>	<ol style="list-style-type: none"> <li>Businesses should work against corruption in all its forms, including extortion, and bribery.</li> </ol>

## How We Screen

Data Source	Definition	Indicator/Threshold
Sustainalytics Global Standard Screening (GSS)	A company is assessed as Non-compliant when it is found to be responsible for egregious and severe violations of commonly accepted international norms related to human rights, labour rights, the environment, and business ethics. In other words, a company is assessed as Non-compliant when it does not act in accordance with the UNGC Principles and its associated standards, conventions and treaties. GSS also assesses companies that facilitate third parties in human rights violations due to their involvement in weapons with disproportional and/or non-discriminatory impact on citizens and society as Non-compliant (with Principle 2 of the UN Global Compact). However, this assessment is limited to companies involved in the production and development of antipersonnel mines, cluster munitions, and chemical and biological weapons, or producers of nuclear weapons who support their proliferation outside of the five designated nuclear states or who violate UN sanctions/International Atomic Energy Agency rules.	Global Compact Principles Breached = Non-Compliant

## 6. Gambling

The fund is screened for companies deriving revenue by owning and/or operating gambling establishments.

## How We Screen

Data Source	Definition	Indicator/Threshold
Sustainalytics Product Involvement	The company owns and/or operates a gambling establishment, and/or offers gambling services (operation of casinos, lotteries, bookmaking, online gambling etc.)	Gambling Operations, Level of Involvement $\geq 10\%$
MSCI Business Involvement Screening Research	Recent-year percentage of revenue, or maximum estimated percent, a company has derived from ownership or operation of gambling facilities such as casinos, racetracks, bingo parlors, or other betting establishments.	Gambling Operations Maximum Revenue $\geq 10\%$

## 7. Alcohol

The fund is screened for companies involved in the production of alcoholic beverages.

## How We Screen

Data Source	Definition	Indicator/Threshold
Sustainalytics Product Involvement	The company is involved in the manufacturing of alcoholic beverages.	Alcoholic Beverages Production, Level of Involvement $\geq 10\%$
MSCI Business Involvement Screening Research	Recent-year percentage of revenue, or maximum estimated percent, a company has derived from the manufacture of alcoholic products.	Alcohol Production Maximum Revenue $\geq 10\%$

## 8. Adult Entertainment

The fund is screened for companies involved in the production of adult entertainment.

### How We Screen

Data Source	Definition	Indicator/Threshold
Sustainalytics Product Involvement	The company is involved in the production of adult entertainment and/or owns/operates adult entertainment establishments. Those include sex shops, producers of adult movies and television programs, magazines and adult websites and ownership of strip clubs and topless bars.	Adult Entertainment Production, Level of Involvement >= 10%
MSCI Business Involvement Screening Research	Recent-year percentage of revenue, or maximum estimated percent, a company has derived from producing, directing or publishing adult entertainment materials that fall into the following categories: Producers of X-rate films, Producer of Pay-per-view programming or channels, Producer of sexually explicit video games, Producer of books or magazines with adult content, Live entertainment of an adult nature, Producer of adults-only material on the internet.	Adult Entertainment Production Maximum Revenue >= 10%

### Endnotes

- 1 *Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction* (1997), United Nations. Retrieved from <https://treaties.un.org/>.
- 2 *Biological Weapons Convention* (1972); *Chemical Weapons Convention* (1992), United Nations. Retrieved from <https://un.org/disarmament>.
- 3 *Convention on Cluster Munitions* (2008), United Nations. Retrieved from <https://un.org/disarmament>.
- 4 United Nations Office for Disarmament Affairs.
- 5 American Chemical Society; *Convention on Certain Conventional Weapons: Protocol III — Prohibitions or Restrictions on the Use of Incendiary Weapons* (1981), United Nations. Retrieved from <https://un.org/disarmament>.
- 6 Australia is a signatory to the World Health Organisation (WHO) Framework Convention on Tobacco Control (FCTC) which uses price and tax measures to reduce the demand for tobacco. As at June 2021, there were 168 global signatories to the WHO FCTC.
- 7 *State of the Climate* (2020), CSIRO. Retrieved from <https://csiro.au/state-of-the-climate>.

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- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 29 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's fourth-largest asset manager\* with US \$3.26 trillion† under our care.

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\* 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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ID1242074-4739603.21.ANZ.RTL 1022  
Exp. Date: 31/10/2023