Insights
Asset Stewardship

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Annual Climate Stewardship Review: 2021

The Climate Stewardship Review provides context around State Street Global Advisors' climate stewardship efforts, sharing insights into our climate-focused voting, engagement and thought leadership.

Introduction

Consistent with our fiduciary duty to preserve long-term value for our clients, State Street Global Advisors has incorporated climate change as a priority within our Asset Stewardship program for the past decade. As long-term investors, our approach is focused on value rather than values and has remained grounded in our view that climate change poses systemic risks to all investors. We consider climate change in our investment decision-making, where appropriate, for the purpose of long-term value protection and creation for our clients.

We have held around 1,000 engagements with global companies on climate and evaluated hundreds of climate-related proposals over time. Through our thought leadership, we provide both transparency to the market on our views and guidance for companies on appropriate disclosure. Our engagements center on how companies are effectively managing and disclosing climate-related risks and opportunities and preparing for the low-carbon transition, including their transition plans, decarbonization efforts, and capital allocation strategies. Where we feel companies are not making meaningful progress or aligned with our expectations on climate-related disclosure, we are prepared to use our stewardship tools, including our vote, to raise awareness and accountability.

The journey to a net-zero emissions world is complex and will require tremendous efforts from both the private and public sectors to achieve an effective transition that is orderly and just. As a fiduciary and steward of our clients' assets, it is important to ensure that the companies they are invested in today can deliver strong financial performance in the future, including in a carbon-constrained world. Our role is not to manage companies or dictate their strategies and, as an index-based investor, divestment is not an option. As near-permanent capital, we focus on working constructively with companies and seek disclosure to better understand each company's pathway toward net-zero. As our climate stewardship efforts evolve, we are committed to thoughtful engagement, maintaining our disciplined approach to proxy voting, and serving as pragmatic partners to companies.

Purpose

State Street Global Advisors publishes an Annual Stewardship Report that details our stewardship approach, including an overview of our engagement and voting activities during the year as well as our perspective on governance- and sustainability-related trends. Our Annual Stewardship Report is supplemented by the quarterly publication of our stewardship activity reports and regular updates of our voting record.

As many asset owners and asset managers continue to acknowledge and consider the financial materiality of climate-related risks, we are committed to providing additional transparency into how we approach issues related to climate change. Last year, we published our first Climate Stewardship Review to provide further context around our climate stewardship approach, and we will continue to use this report to share insights on our climate-focused engagements and voting.

This past year, we joined the Net Zero Asset Managers initiative (NZAM), and in April 2022, we set interim targets for our in-scope assets based on the IIGCC Paris Aligned Investment Initiative's Net Zero Investment Framework. We also completed our inaugural Task Force on Climate-related Financial Disclosures (TCFD) report, which provides information around our governance approach, strategy, risk management and climate-related targets. Our climate stewardship program has been thoughtfully designed and is a key component of our ambitions and obligations as a signatory to the NZAM initiative and TCFD.

Our Climate Stewardship Efforts

Our climate stewardship efforts are built around three pillars: proxy voting, company engagement, and thought leadership. Below we provide insight into how each of these three pillars informs and strengthens our approach and ultimately enhances the long-term value of our clients' assets.

Pillar 1: Proxy Voting

Our approach to proxy voting is grounded in our duty to minimize the risk of our client's investments. In the context of climate change, proxy voting can be used to address this risk through the director vote, which reflects the board's responsibility of overseeing this risk, and through shareholder — and now even management — proposals on various climate-related topics. Below we describe our proxy voting considerations both on director elections as well as climate proposals.

Disclosure and Director Elections

Reflecting the urgency of climate change and our view that climate change poses a systemic risk to all companies in our portfolios, we are taking action to drive stronger adoption of TCFD disclosure in the market across sectors. Starting in the 2022 proxy season, for the first time we began taking voting action against companies in the S&P 500, S&P/TSX Composite, FTSE 350, STOXX 600, and ASX 100 indices where companies fail 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, we 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 TCFD. We expect to continue to expand this policy in the coming years.

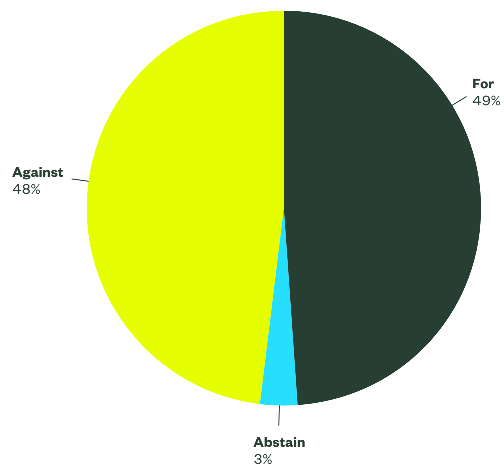
Shareholder Proposals

The number of climate-related shareholder proposals on company ballots has steadily increased over the past few years. Annually, we review and vote every climate-related proposal in our portfolio. We also endeavor to engage with the proponents of shareholder proposals to gain additional perspective, as well as with companies to better understand how boards are managing relevant risks. Our approach to voting shareholder resolutions can be found in our "Frameworks for Voting Environmental and Social Shareholder Proposals" and climate-specific expectations in our "Guidance on Climate-related Disclosures."

2021 Proxy Season: Voting on Climate-related Proposals

There was a significant increase in the number of climate-related proposals submitted at portfolio companies during 2021 with 105 proposals[1] going to vote (compared to 58 in total in 2020 and 47 in 2019) — and through the first half of 2022 we have already seen this trend continue. Of these climate-related proposals, we supported around half as illustrated in Figure 1 below. Through our thought leadership, we provide transparency to the market on our perspectives on climate-related topics and provide guidance for companies. We have maintained consistency in our approach to voting climate-related proposals as demonstrated by our voting record in Figure 2.

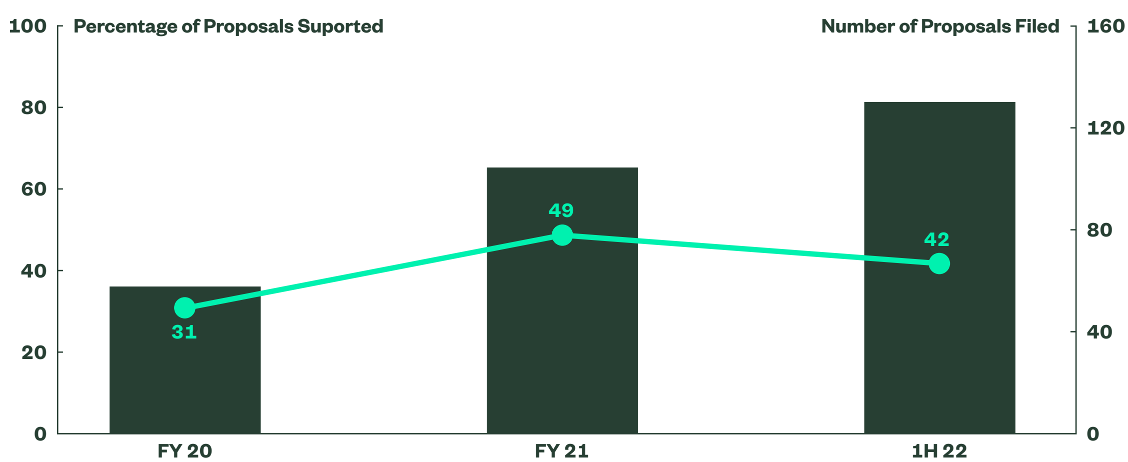
Figure 1
2021 Voting on Climate-Related Proposals



Source: State Street Global Advisors as of 31 December 2021.

Figure 2
State Street Global Advisors Support for Climate-Related Proposals

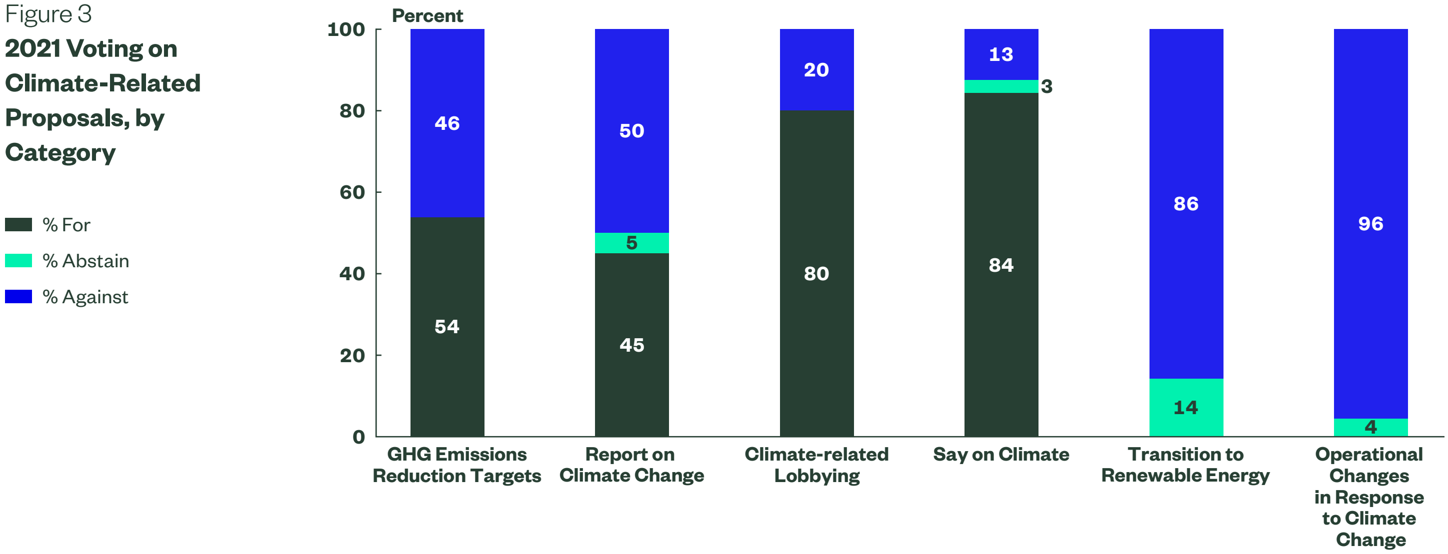
No Proposals
Percent Supported by SSGA



Source: State Street Global Advisors as of 31 June 2022.

Climate proposals vary in their content and intent as well as in their approach to advocating for a particular change in disclosure or practice. Further, some markets feature 'binding' shareholder proposals, which provide companies with less flexibility in implementing the expectations of majority supported proposals. A breakdown of our votes per category of climate-related shareholder proposals is provided in Figure 3.

Figure 3
2021 Voting on Climate-Related Proposals, by Category



Source: State Street Global Advisors as of 31 December 2021.

The targeting of climate-related proposals improved in 2021. For example, in past years, we found that most of the companies targeted with proposals requesting adoption of GHG reduction targets already had ambitious GHG reductions goals in place. We supported 54% of such proposals in 2021, as a larger number of the target companies lacked clear plans to reduce GHG emissions, compared to 33% support in 2020.

We continue to generally oppose resolutions that require companies to make specific operational changes, such as a transition to renewable energy, or to phase out a product or business within a defined timeframe. We find the actions requested by these shareholder proposals to be overly prescriptive. The following section highlights how we approach select climate proxy voting ballot items.

Say on Climate

The 2021 proxy season saw a new subset of climate proposals termed "Say on Climate" typically containing the following three expectations for companies:

1 Disclose GHG emissions in a manner consistent with the guidance provided by the TCFD.

2 Discuss the strategy in place to reduce GHG emissions.

3 Provide shareholders with the opportunity at each annual meeting to approve or disapprove of the company's climate strategy.

Through our commitment to the TCFD, we strongly advocate for the disclosure of GHG emissions as well as clear strategies to reduce those emissions. As mentioned above, starting in 2022, we have started to vote against directors of companies that do not provide this disclosure. However, we continue to have reservations regarding the final item of the "Say on Climate" proposal language. If "Say on Climate" were to be adopted as a formal market practice, potential adverse outcomes could include insulating directors from accountability, distracting from already existing frameworks (e.g. TCFD, SASB), which are increasingly beginning to harmonize and become widely adopted, and straining investors' limited proxy voting resources.

We appreciate the spirit of the "Say on Climate" proposals and while we do not currently endorse an annual advisory climate vote, we would be prepared to support a shareholder proposal calling for such a vote if companies have not provided investors with meaningful climate-related disclosure in line with our expectations, TCFD and where relevant, SASB, nor signaled the intention to enhance their disclosure in the future. Where management chooses to include a Say on Climate vote on the proxy, we assess the company's plan on a case-by-case basis consistent with our "Disclosure Expectations for Effective Climate Transition Plans".

The Expansion of Climate-related Lobbying Proposals

We first shared our views on climate-related lobbying proposals in 2019. These proposals ask for corporate membership in trade associations to be fully aligned with a company's stated position on climate change. The number of climate-related lobbying proposals that went to vote increased year-over-year — 10 proposals in 2021 compared to three in 2020 — as did our support — 80% in 2021 compared to 67% in 2020. Our disclosure expectations on this topic, which can also be found in our dedicated "Corporate Participation in the Political Process" guidance, is as follows:

- The board plays a key role in overseeing the company's participation in the political process in the US, including membership in trade associations.
- Whether the company regularly performs a gap analysis of its stated positions on relevant environmental and/or social issues versus those of its trade associations.
- Whether the company disclosed a list of its US trade association memberships (to which payments are above $50,000 per year).

Sempra Energy: Improving Consistency in Climate-related Lobbying Disclosure

In 2021, Sempra Energy received a shareholder proposal requesting a report describing how the company's lobbying activities align with the Paris Agreement's goal and how Sempra plans to mitigate risks presented by any misalignment. During our engagement ahead of Sempra's 2021 annual general meeting (AGM), the company shared its views on evaluating the positions and policies of its trade associations. Due to a lack of consistent disclosure, Sempra highlighted challenges that may arise if individual member companies characterize a single association's climate position differently.

Sempra shared its plans and public commitment to develop a standardized disclosure template for use by trade associations to help support member companies' evaluations of how those positions and activities align with their own. We viewed this proactive effort as an opportunity to help companies in the U.S. energy sector as well as investors better assess alignment of companies' climate positions and voted **AGAINST** the shareholder proposal.

During our subsequent dialogue with Sempra in Q1 2022, we were encouraged by the company's progress and engagement with the Edison Electric Institute (EEI), which published the requested disclosure using Sempra's template. In Q3 2022, Sempra published its assessment of its trade associations' stated positions and policies in its latest CSR report. We recognize Sempra's leadership in helping improve the quality of climate-related lobbying disclosure in the industry and will monitor the company's progress as it continues to collaborate with trade associations and peers on this effort.

Global Momentum Builds to Address Deforestation

Deforestation is a major driver of biodiversity loss and climate change and has significant environmental, social and financial implications. The Paris Climate Agreement[2] recognizes reducing deforestation as a key component of mitigating GHG emissions, with the IPCC stating that deforestation and conversion of natural ecosystems to human uses contributes 11% of global GHG emissions. Momentum around addressing deforestation and nature loss accelerated with the launch of the Task Force on Nature-related Financial Disclosures (TNFD)[3] and the focus on nature as part of the COP 26 agenda. Most notably, countries hosting 90% of global forests, along with financial institutions and companies, signed the Glasgow Leaders' Declaration on Forest and Land Use to halt and reverse forest loss and land degradation by 2030.[4]

As the world moves toward achieving net-zero emissions by midcentury, we believe it is essential for our portfolio companies with material exposure to deforestation and land degradation in their value chains to consider these topics when adopting long-term climate ambitions and to enhance disclosure on related actions.

Deforestation-related Voting and Engagement

In 2021, we engaged with Bunge Limited ahead of the AGM to discuss their approach to addressing and managing deforestation-related risks. We voted in support of the deforestation-related shareholder proposal in line with management which gained an unprecedented 97% support from investors. Our voting record on deforestation-related shareholder proposals over the past two years is shown below.

Voting Record on Deforestation-related Shareholder Proposals in 2020 and 2021		
Company	**State Street Global Advisors Vote**	**Overall Shareholder Support for Proposal (%)**
Bloomin' Brands, Inc — 2021	For	76%
Bunge Limited — 2021	For	99%
The Procter & Gamble Company — 2020	For	68%
Yum! Brands, Inc — 2020	Against	35%

Source: State Street Global Advisors as of 31 December 2021.

Voting on 2021 Climate Action 100+ Shareholder Proposals

During the 2021 Proxy Season, Climate Action 100+ (CA100+) identified 14 shareholder proposals for its members and other investors to take into consideration. Compared to the previous year, the CA100+ proposals were better targeted, and a greater number of proposals were crafted to address the issue of climate change rather than other governance issues. The chart below outlines our final vote decision for each of the 14 CA100+ shareholder proposals of which 12 are directly related to the issue of climate change. Of these, we supported 92%[5] of the proposals.

Company	Shareholder Proposal	State Street Global Advisors 2021 Vote
Berkshire Hathaway Inc.	Report on Climate-Related Risks and Opportunities	For
Bunge Limited	Report on the Soy Supply Chain	For
Caterpillar Inc.	Report on Climate Policy	For
Chevron Corporation	Report on Impacts of Net Zero 2050 Scenario	Against
Delta Air Lines Inc.	Report on Climate Lobbying	For
Dominion Energy Inc	Require Independent Board Chair	Against
Duke Energy Corporation	Require Independent Board Chair	Against
Exxon Mobil Corporation	Paris Aligned Lobbying	For
Exxon Mobil Corporation	Report on the Effect of Reduction of Fossil Demand in Financial Position and Underlying Assumptions	For
General Electric	Report on Meeting the Criteria of the Net Zero Indicator	For
General Motors	Report on GHG Emissions Targets as a Performance Element of Executive Compensation	Abstain
Imperial Oil Limited	Adopt a Corporate Wide Ambition to Achieve Net Zero Carbon Emissions	For
Phillips 66	Paris Aligned Lobbying	For
United Airlines Holdings, Inc.	Report on Global Warming-Related Lobbying Activities	For

Source: State Street Global Advisors as of 31 December 2021.

In evaluating shareholder proposals, the content and intent of the proposal is an important consideration. Where proponents did not make a strong connection in the 'resolved clause' or supporting statement, shareholders had to evaluate these proposals at face value and decide whether their adoption would promote long-term shareholder value in the context of the company's disclosure and practices. With this in mind, we gave careful consideration to each of the CA100+ proposals through fiscal year 2021.

Chevron Corporation: Voting Rationale Example

In spring 2021, Chevron received a shareholder proposal asking the company to conduct a scenario analysis of its energy portfolio under the International Energy Agency (IEA) Net Zero 2050 scenario (NZE2050). At the time, Chevron had only disclosed the potential impacts of the NZE2050 on its operations out to 2030 rather than 2050. We engaged with the company's management and members of the board of directors. We emphasized that it was important for long-term investors to have access to the disclosure of portfolio impacts of climate change under a number of climate scenarios including the NZE2050. As a result of our advocacy, Chevron made both verbal and written commitments to provide disclosure against NZE2050 model's full time horizon. We voted **AGAINST** the shareholder resolution with the understanding that Chevron would be responsive to our request and provide the appropriate disclosure within a reasonable timeframe. In October 2021, Chevron published its "Climate Change Resilience: Advancing a Lower Carbon Future" report. In this disclosure, Chevron described how it had conducted a scenario test of the IEA's NZE 2050 demand projections, including the scenario's oil, gas and carbon price projections, on its portfolio.

Independent Board Chair Proposals

At State Street Global Advisors, our focus is on electing strong, effective and independent boards. We believe that a well-constituted board of directors with a good balance of skills, expertise and independence provides the foundation for a well-governed company. We view board quality as a reflection of director independence, director succession planning, board diversity, evaluations and refreshment and corporate governance practices.

"Board Composition and Leadership" was designated a thematic priority for our 2016 stewardship program. In March 2016, we sent a letter to over 1,000 companies globally that articulated the importance of independent board leadership and included our Guidelines and Attributes for Effective Independent Board Leadership. We spoke to the lead independent director at each of the two companies that received Independent Board Chair proposals flagged by CA100+ prior to the companies' annual meetings and evaluated each company's board leadership structure using our guidelines when making our final vote decisions.

Climate Action 100+ Company with Proposal	State Street Global Advisors 2021 Vote	State Street Global Advisors Engagement with Lead Independent Director in 2021
Dominion Energy Inc.	Against	Yes
Duke Energy Corporation	Against	Yes

Source: State Street Global Advisors as of 31 December 2021.

Exxon Mobil Corporation: 2021 Proxy Contest

Beginning last year, State Street Global Advisors was highly engaged and closely followed Exxon Mobil Corporation's contested annual meeting. The day after Engine No. 1 sent a December 7th, 2020 letter to Exxon outlining their concerns, State Street Global Advisors engaged with senior management of the company. Since then we have held over one dozen engagements with both the dissident and the company as well as other significant shareholders and issue advocates. The Asset Stewardship Team led the conversations for State Street Global Advisors and included our global active portfolio managers and senior management in our discussions with both the full slate of dissident candidates as well as current independent directors serving on Exxon's board. Our views were primarily informed by our own insights and research, as well as these discussions and other third party research and the materials provided by each party.

In determining which candidates were best fit to serve on the Exxon board we considered the company's operations, practices, and strategy and weighed these against the experiences and backgrounds of each board candidate. As a long-term investor in Exxon we concur with the dissident that performance has been challenged at the company. We also recognize that with Exxon's peers advancing efforts to evolve their businesses, Exxon's existing strategy leaves the company more exposed to climate-related transition risk over the long-term. We recognize that Exxon has an opportunity to better leverage its expertise and resources to lead in the transition as the market continues to accelerate progress toward a net zero future.

We believe that shareholder value can be improved from 1) more disciplined capital allocation and 2) more attention to the transition risk that would result from a shift to a lower carbon economy. As of the New Year Exxon's management team has been communicating strategies intended to address these areas to the market. We are supportive of management's attention to these areas but believe that it is up to the independent members of Exxon's board to oversee the implementation of a more disciplined approach to capital allocation as well as a greater focus on the company's energy transition strategy.

While the Exxon board is highly qualified, State Street Global Advisors felt that nominating two dissident candidates that had the expertise in each of these areas would strengthen the independent leadership of Exxon's board and provide further board oversight in these areas. With this approach in mind, we felt that Kaisa Hietala and Alexander A. Karsner were the dissident candidates best suited for addressing each of these areas. Hietala's relevant industry experience along with her renewable energy experience suggest that she is capable of overseeing capital allocation decisions for the company's conventional business segments as well as alternative technology if the company were to pursue additional investments in that area. Karsner's regulatory and technological experience give us confidence that he would be a strong candidate to navigate the company through an energy transition.

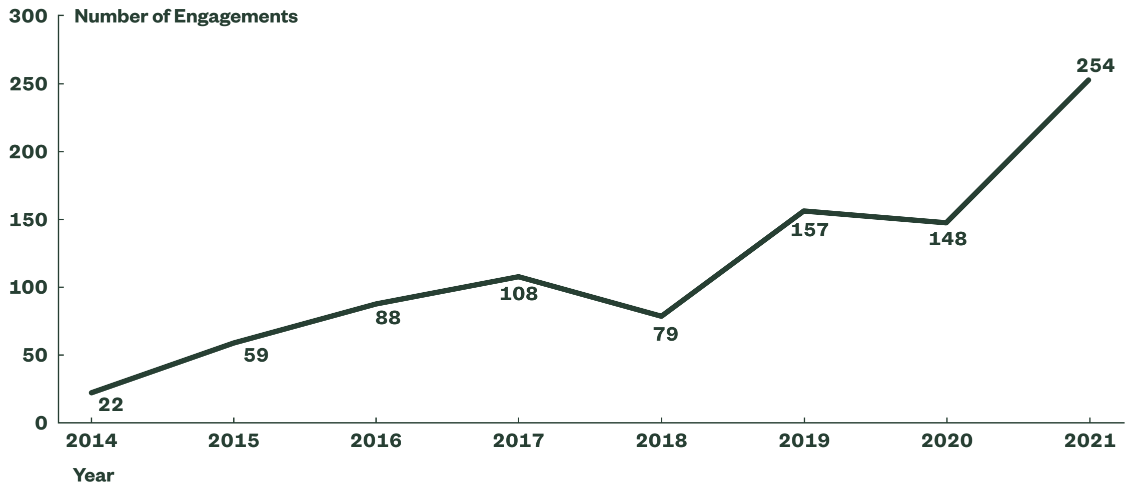
Pillar 2: Company Engagement

Our engagements center on how companies are both managing climate risk and addressing climate as an opportunity, and have been successful in driving improvement in both long-term strategy and climate-related disclosure in line with our expectations. Through our conversations with company management and boards, we aim to understand how companies are effectively planning for the low-carbon transition and incorporating climate into strategy-setting and financial planning processes. As a long-term holder of capital, our role is to serve as a constructive partner and help companies remain resilient as they effectively navigate the transition to a lower-carbon future.

Climate-related Engagement in 2021

Since 2014, we have held over 900 climate-related engagements across a range of industries and markets. During 2021, we conducted 254 climate-related engagements, a 72% increase compared to last year (148 in 2020), reflecting the heightened focus on this topic.

Figure 4
Climate-Related Company Engagements, 2014–2021



Source: State Street Global Advisors as of 31 December 2021.

Our engagement approach leverages the four dimensions of the TCFD framework: Governance, Strategy, Risk Management and Metrics & Targets. Our conversations with companies span a variety of topics such as:

Governance

- Where responsibility for climate oversight is housed at the board level and how frequently the board discusses the topic of climate change
- How climate — and other ESG — experience is considered in the board refreshment process
- How management and the board stay abreast of the emerging climate and ESG trends

Strategy

- How the company integrates climate considerations into business strategy, financial planning, and capital allocation decisions
- Decarbonization opportunities being considered in the company's operations and across the value chain, including with suppliers and customers
- How the company engages employees and integrates climate strategy into corporate culture and business strategy

Risk Management

- How the company assesses the potential impacts of climate-related physical risk on its assets and operations
- How the company addresses climate-related policy risks including conducting an assessment of its stated climate positions versus those of its trade and industry associations

Metrics and Targets

- Disclosure on the sources of GHG emissions that contribute most significantly to the company's carbon footprint
- Adoption of interim GHG targets to help ensure accountability toward long term climate goals

Collective/Collaborative Engagement

In November 2020, we announced our intention to become a signatory to CA100+, a global initiative led by investors to foster an orderly global energy transition by engaging the companies and sectors with the highest greenhouse gas emissions. CA100+ and State Street Global Advisors have long been aligned in our shared view that climate change presents a financially material risk to investors. The CA100+'s three central goals are consistent with what our team advocates through our company engagements, thought leadership and proxy voting. The three goals are as follows: 1) improve governance of climate change, 2) reduce emissions and 3) strengthen climate-related disclosure.

Collaborative Engagement Example: Rolls-Royce Holdings

As a CA100+ signatory, we actively engaged with Rolls-Royce Holdings throughout 2021 in collaboration with our fellow CA100+ investor members. Last year, Rolls-Royce, a major aerospace and defense company, joined the UN Race to Zero coalition and committed to enable the sectors in which it operates to reach net zero by 2050. This year, our engagements focused on understanding the company's approach to developing its net zero strategy and related goals as well as enhancing climate-related disclosure in line with TCFD and other leading frameworks.

In June 2021, Rolls-Royce released a report outlining its strategy for transitioning to net zero and held a dedicated investor webcast to discuss its latest commitments. These include: defining a science-based target to reduce the lifetime emissions of new sold products 35% by 2030, pivoting 75% of R&D expenditure towards lower carbon technologies by 2025, and making all commercial aero engines compatible with 100% sustainable aviation fuels by 2023, among others. We were pleased to see the company's net-zero strategy evolve in response to investor feedback.

In the summer of 2021, our Asset Stewardship team led an analysis of Rolls Royce's climate-related disclosure and strategy on behalf of the CA100+ group. We evaluated alignment with TCFD and provided feedback on priority areas for engagement, including enhanced disclosure on the company's approach to align capital allocation with its climate goals.

We view the company's responsiveness to investor feedback this year positively and look forward to continued constructive dialogue. We expect Rolls-Royce to provide additional transparency on climate-related lobbying in the coming months, including a review of stated climate positions against those of its trade associations.

Effective Climate Transition Plans

We are a signatory to the NZAM initiative, reflecting our commitment as long-term stewards of capital to helping 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. In 2021, 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.

We developed our Disclosure Expectations for Effective Climate Transition Plans to provide transparency on the core criteria we expect companies to address when developing these plans and strategy to achieve long-term climate ambitions. 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.

Our NZAM Commitment

As a signatory to the NZAM initiative, engagement with our portfolio companies serves as a primary lever in delivering on our long-term commitments. In April 2022, we announced an engagement goal which seeks to achieve that at least 70% of financed emissions in material sectors are either assessed as net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions. We will target to increase this ratio to at least 90% by 2030 at the latest as we continue to enhance our climate stewardship efforts.

Pillar 3: Thought Leadership

One of the key tools to amplify the voice of our Asset Stewardship program is through thought leadership. Our views, guidelines and other publications can be used to both inform companies and educate market participants on best practices in relation to climate-related disclosure and other environmental, social and governance issues. Our thought leadership is intended to provide transparency on our expectations and we encourage boards, executives, clients, regulators, asset owners and other asset managers to leverage the information as a useful resource. The following thought leadership content is available on our dedicated Climate Stewardship webpage:

- CEO'S Letter on Our 2022 Proxy Voting Agenda
- Guidance on Climate-related Disclosures
- Disclosure Expectations for Effective Climate Transition Plans
- Private Equity: The New Home for High-Emitting Assets?
- Why We're Joining Climate Action 100+
- Driving Action on Climate Change

Addressing Deforestation Risk In Supply Chains

Climate change and biodiversity loss are closely interconnected.[6] Incorporating nature-related risks and opportunities into climate agendas is a key component of an effective transition to a lower-carbon future, and a growing area of focus for our stewardship efforts. In 2021, we launched a series of targeted engagements with our portfolio companies with direct exposure to deforestation in their supply chains. As a result of our engagements and review of company disclosure practices, we identified the key challenges that companies face and some potential best practices to identify and address deforestation risks. These insights are discussed in in our thought leadership piece Environmental Management Insights: Addressing Deforestation Risk in Supply Chains.

In 2022, we intend to focus our engagement efforts on global banks that finance companies that carry out deforestation-related activities. In addition to sharing our insights from these conversations, we intend on publishing guidance on deforestation-related disclosure practices and our approach to voting on deforestation-related shareholder proposals, consistent with our existing publicly available environmental and social-related voting frameworks.

Insights: Addressing Deforestation Risk in Supply Chains

In 2021, we initiated a series of targeted engagements with 15 of our significant holdings in the Food & Beverage and Consumer Goods sectors, due to their usage or production of the core commodities and activities responsible for the majority of agriculture-related deforestation. This includes, but is not limited to, cattle, palm oil, cocoa, leather, rubber, soy, timber and mining. Our objective was to learn more about how these companies exercise oversight of their supply chains and how they are managing the various material risks stemming from deforestation. We identified the key challenges and a number of potential best practices to address deforestation risks in supply chains, including:

- **Supply Chain Risk Management** While many of the engaged companies have established supplier code of conducts, ongoing monitoring and non-compliance protocols differentiate leaders from laggards. A lack of industry consensus exists regarding how to engage non-compliant suppliers, stalling the implementation of no-deforestation commitments.
- **Integrity of Auditing Process During the Pandemic** Due to safety concerns of conducting in-person audits during the ongoing pandemic, companies have pivoted to virtual methods such as satellite monitoring and wearable technology. While the pandemic catalyzed innovation, this remote monitoring should be coupled with a return to recurring on-the-ground engagement to be most effective.
- **Product Certification** Several industry standard-setters play a critical role in defining industry best practices for product certification, but our portfolio companies echoed the belief that membership and certification are a floor for risk management, not a ceiling.
- **Government Relations and Policymaking Process** Challenges arise for companies when working with local governments with weak land use policies and lax enforcement by authorities.
- **Community Engagement & Protection of Human Rights** Companies should adopt policies that address indigenous rights such as FPIC and broader human rights topics, such as forced or child labor. Strong policies on these topics should be supported by stakeholder engagement in the value chain so that companies will have access to unfiltered information and perspectives from key communities.
- **No-Deforestation Commitments, Metrics & KPIs** We have highlighted the need for companies in high-impact sectors to set goals to reduce carbon emissions. Similar timebound goals should be considered when managing deforestation-related risks stemming from key commodities in the supply chain.

Companies with exposure to deforestation in their value chain and/or investments should continue to improve their disclosure in the following areas:

- Overarching commitment on deforestation — clarification on nature of commitment (“net-zero” vs “no deforestation”)
- Information on how trade association and industry coalition memberships align with company efforts and commitments
- Board-level oversight and accountability for deforestation and land use-related risks
- Reporting and targets to reduce emissions linked to deforestation
- Conservation or reforestation activity taken by the company
- How deforestation is managed as a business risk
- Quantitative and qualitative metrics covering high-risk commodities across value chain

Climate Stewardship and the Year Ahead

We have arrived at an important juncture on the journey to net-zero. Achieving a successful, orderly global energy transition will require significant action from governments, the private sector, and society at large, and there remains much progress to be made. As a fiduciary and steward of our clients' capital, our efforts remain rooted in our belief that climate change is a factor with financially material impact on long-term value creation. We remain committed to progressing on this journey with our portfolio companies and our clients.

As such, for the year ahead, our focus will be to drive both broad climate action across the market as well as more targeted, company-specific action. We will continue to advocate for enhanced disclosure in line with our expectations and support companies' efforts to effectively integrate climate considerations into long-term strategy and planning. Through our new director voting policy, we will hold companies accountable to providing decision-useful climate disclosure to the market. We will also launch thematic engagement campaigns focused on emerging climate-related topics and continue to provide transparency on our perspectives through our thought leadership.

Collectively, these efforts aim to advance both our Asset Stewardship program and our commitments as a net zero asset manager. We will update our progress in our quarterly stewardship activity reports with the intention to share successes in next year's climate report. For further information on our climate stewardship efforts, please see our Asset Stewardship team's dedicated climate webpage.

Further Information and Contact

For further information on our climate stewardship efforts please see the Asset Stewardship Team's dedicated climate page or contact Michael Younis at Michael_Younis@SSGA.com, Devika Kaul at Devika_Kaul@SSGA.com, or GovernanceTeam@SSGA.com.

Endnotes

1 This figure includes both climate-related shareholder proposals as well as management Say on Climate proposals which were introduced in 2021.

2 "Paris Agreement". United Nations Framework Convention on Climate Change. (April 2016).

3 The TNFD Nature-related & Opportunity Management and Disclosure Framework" Taskforce on Nature-related Financial Disclosures, (March 2020) https://tnfd. global/wp-content/uploads/2022/03/220321-TNFDframework-beta-v0.1-Exec-Summary-FINAL.pdf.

4 "Glasgow Leaders' Declaration on Forests and Land Use", UN Climate Change Conference UK 2021, (February 2021), https://ukcop26.org/glasgow-leadersdeclaration-on-forests-and-land-use/.

5 This figure includes only climate-related proposals as defined by State Street Global Advisors and excludes proposals related to splitting the role of Board Chair and Chief Executive Officer and related to executive compensation.

6 "IPBES-IPCC Co-sponsored Workshop Report on Biodiversity and Climate Change," IPBES-IPCC, (2021): https://ipbes.net/sites/default/files/2021-06/20210609_workshop_report_embargo_3pm_CEST_10_june_0.pdf.

Companies Engaged on Climate — 2021

Company Name	Market/Country
AAR Corp.	United States
ABN AMRO Bank NV	Netherlands
Accenture plc	United States
AGCO Corporation	United States
AGL Energy Limited	Australia
Air Canada	Canada
Alexander & Baldwin, Inc.	United States
Alphabet Inc.	United States
Amazon.com, Inc.	United States
Apache Corporation	United States
Apple Inc.	United States
Aptiv Plc	United States
Assicurazioni Generali SpA	Italy
ATOS SE	France
Australia and New Zealand Banking Group Limited	Australia
AutoZone, Inc.	United States
AvalonBay Communities, Inc.	United States
Aviva Plc	United Kingdom
Banco Bilbao Vizcaya Argentaria SA	Spain
Bank of America Corporation	United States
Barclays Plc	United Kingdom
Berkshire Hills Bancorp, Inc.	United States
BHP Billiton Plc	United Kingdom
BHP Group Plc	Australia
Blackbaud, Inc.	United States
Bloomin' Brands, Inc.	United States
Bluescope Steel Limited	Australia
Bouygues SA	France
BP Plc	United Kingdom
Broadcom Inc.	United States
Burlington Stores, Inc.	United States
Campbell Soup Company	United States
Cardinal Health, Inc.	United States
Casey's General Stores, Inc.	United States
Caterpillar Inc.	United States
Centrica Plc	United Kingdom
Charter Communications, Inc.	United States
Chartwell Retirement Residences	Canada
Cheniere Energy, Inc.	United States
Cherry Hill Mortgage Investment Corporation	United States
Chevron Corporation	United States
Choice Hotels International, Inc.	United States
Cinemark Holdings, Inc.	United States
Citigroup Inc.	United States
Citizens Financial Group Inc.	United States

Company Name	Market/Country
Clean Energy Fuels Corp.	United States
cocokara fine, Inc.	Japan
Commonwealth Bank of Australia	Australia
ConocoPhillips	United States
Covestro AG	Germany
Covivio SA	France
Dai-ichi Life Holdings, Inc.	Japan
Deere & Company	United States
Delta Air Lines, Inc.	United States
Dolby Laboratories, Inc.	United States
Dollar General Corporation	United States
Dominion Energy, Inc.	United States
Domino's Pizza, Inc.	United States
DTE Energy Company	United States
Duke Energy Corporation	United States
DuPont de Nemours, Inc.	United States
Enagas SA	Spain
Etsy, Inc.	United States
Everest Re Group, Ltd.	United States
Eversource Energy	United States
Exxon Mobil Corporation	United States
FANUC Corp.	Japan
Flushing Financial Corporation	United States
Foot Locker, Inc.	United States
Fortinet, Inc.	United States
Fox Corporation	United States
Freeport-McMoRan Inc.	United States
FUJIFILM Holdings Corp.	Japan
General Motors Company	United States
Genmab A/S	Denmark
Glencore Plc	Australia
Groupon, Inc.	United States
HealthEquity, Inc.	United States
Heiwa Real Estate Co., Ltd.	Japan
Hennes & Mauritz AB	Sweden
Hess Corporation	United States
Hillenbrand, Inc.	United States
Hilton Worldwide Holdings Inc.	United States
Honda Motor Co., Ltd.	Japan
Host Hotels & Resorts, Inc.	United States
HSBC Holdings Plc	United Kingdom
IAC/InterActiveCorp	United States
Iberdrola SA	Spain

Company Name	Market/Country
IHI Corp.	Japan
Incitec Pivot Limited	Australia
Incyte Corporation	United States
Jefferies Financial Group Inc.	United States
JetBlue Airways Corporation	United States
JPMorgan Chase & Co.	United States
Kinder Morgan, Inc.	United States
Kirin Holdings Co., Ltd.	Japan
Kyushu Railway Co.	Japan
Lennar Corporation	United States
Live Nation Entertainment, Inc.	United States
Loews Corporation	United States
Lonza Group AG	Switzerland
Lowe's Companies, Inc.	United States
Lumen Technologies, Inc.	United States
Macquarie Infrastructure Corporation	United States
Marriott Vacations Worldwide Corporation	United States
McDonald's Corporation	United States
Mediobanca Banca di Credito Finanziario SpA	Italy
Mitsubishi Corp.	Japan
Mitsubishi Electric Corp.	Japan
Mitsubishi Estate Co., Ltd.	Japan
Mitsubishi UFJ Financial Group, Inc.	Japan
Mitsui & Co., Ltd.	Japan
Mizuho Financial Group, Inc.	Japan
Model N, Inc.	United States
Mondelez International, Inc.	United States
Montrose Environmental Group, Inc.	United States
Moody's Corporation	United States
National Australia Bank Limited	Australia
News Corporation	United States
NextEra Energy, Inc.	United States
NexTier Oilfield Solutions Inc.	United States
Nippon Telegraph & Telephone Corp.	Japan
Nokia Oyj	Finland
Northrop Grumman Corporation	United States
NVIDIA Corporation	United States
Occidental Petroleum Corporation	United States
Oil Search Ltd.	Australia
Orange SA	France
Origin Energy Limited	Australia
PacWest Bancorp	United States
Park Hotels & Resorts Inc.	United States
Peabody Energy Corporation	United States

Company Name	Market/Country
Phillips 66	United States
Plug Power Inc.	United States
PPG Industries, Inc.	United States
Prudential Financial, Inc.	United States
Quaker Houghton	United States
QuantumScape Corporation	United States
R1 RCM Inc.	United States
Raytheon Technologies Corporation	United States
Repligen Corporation	United States
Rolls-Royce Holdings Plc	United Kingdom
Sabra Health Care REIT, Inc.	United States
Safran SA	France
Samsung Electronics Co., Ltd.	Republic of Korea
Santos Limited	Australia
Sasol Ltd.	South Africa
Scentre Group	Australia
Sekisui House, Ltd.	Japan
Sempra Energy	United States
Service Corporation International	United States
Seven & i Holdings Co., Ltd.	Japan
Severn Trent Plc	United Kingdom
Shell Plc	Netherlands
Smith & Wesson Brands, Inc.	United States
Solvay SA	Belgium
South32 Ltd.	Australia
Sprouts Farmers Market, Inc.	United States
Standard Bank Group Ltd.	South Africa
Stanley Black & Decker, Inc.	United States
Starbucks Corporation	United States
Starwood Property Trust, Inc.	United States
Sumitomo Corp.	Japan
Swiss Re AG	United States
Sysco Corporation	United States
T&D Holdings, Inc.	Japan
Takeda Pharmaceutical Co., Ltd.	Japan
TEGNA Inc.	United States
The Allstate Corporation	United States
The Bank of New York Mellon Corporation	United States
The Boeing Company	United States
The Boston Beer Company, Inc.	United States
The Clorox Company	United States
The Estee Lauder Companies Inc.	United States
The Goldman Sachs Group, Inc.	United States

Company Name	Market/Country
The Goodyear Tire & Rubber Company	United States
The Kansai Electric Power Co., Inc.	Japan
The Southern Company	United States
The TJX Companies, Inc.	United States
The Travelers Companies, Inc.	United States
TotalEnergies SE	France
TSURUHA Holdings, Inc.	Japan
Twitter, Inc.	United States
Uber Technologies, Inc.	United States
Unibail-Rodamco-Westfield SE	France
Unilever Plc	United Kingdom
Union Pacific Corporation	United States
United Airlines Holdings, Inc.	United States
United Natural Foods, Inc.	United States
United Parcel Service, Inc.	United States
United Utilities Group Plc	United Kingdom
Upwork Inc.	United States
Vail Resorts, Inc.	United States
Valero Energy Corporation	United States
VINCI SA	France
Vornado Realty Trust	United States
Walgreens Boots Alliance, Inc.	United States
Walmart Inc.	United States
Wells Fargo & Company	United States
WESCO International, Inc.	United States
Westpac Banking Corp.	Australia
Woodside Petroleum Ltd.	Australia
Wyndham Hotels & Resorts, Inc.	United States
Wynn Resorts, Limited	United States
Xcel Energy Inc.	United States
Yamaha Motor Co., Ltd.	Japan
Zendesk Inc.	United States

Source: State Street Global Advisors.

About State Street Global Advisors

Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day:

- 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.

* 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.