Environmental, Social and Governance

September 2020

Driving Action on Climate Change

In recent years, climate change has emerged as a key systemic threat, representing both a strategic and business challenge for all companies. State Street Global Advisors' primary fiduciary obligation is to maximize the long-term returns of our clients' investments, and we have therefore prioritized climate change as a core theme of our stewardship activities since 2014.

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Climate change presents challenges to companies as they balance their strategic direction, commitments and goals. Equally, forward-thinking companies will have the opportunity to benefit both financially and reputationally from the transition to a lower-carbon economy. Examples include companies that can develop sustainable business lines, adapt to new regulations, build strong stakeholder relationships and improve efficiency and cost-savings.

At State Street Global Advisors, our climate stewardship approach is built around four pillars — company engagement, proxy voting, thought leadership, and policy and regulatory support at the market level. Tackling these four pillars effectively requires companies to disclose robust information regarding how they are addressing both climate risks and opportunities thus enabling State Street Global Advisors and other investors to make informed decisions about the appropriateness of the companies' climate-related practices.

With climate concerns rising to the top of board and client agendas we have produced this document to clarify our approach and provide companies with guidance on our expectations related to climate change. In this paper we:

- Explain the four pillars of State Street Global Advisors' climate stewardship approach;
- Highlight key climate change-related milestones;
- Share insights into our expectation of companies in relation to climate change; and
- Outline our approach to evaluating climate-related shareholder proposals.

Four Pillars of Our Climate Stewardship Approach

Company Engagement We engage with companies to understand their approach and practices to mitigate and manage the physical and transitional impacts of climate change. Since 2014, we have engaged with over 600 companies across multiple industries on climate-related issues. Our engagement approach leverages the four dimensions of the Task Force on Climate-related Financial Disclosures (TCFD) framework — I/c: governance, strategy, risk management and metrics. We expect companies to disclose information regarding their approach to identifying climate-related risks and the management policies and practices in place to address such issues.

Proxy Voting Our voting on climate change is mainly driven through shareholder proposals. However, we may take voting action against directors even in the absence of shareholder proposals for unaddressed concerns pertaining to climate change. Climate-related proposals on company ballots have been steadily increasing over the past few years. Annually, we review and vote every climate-related proposal in our portfolio.

We have a nuanced approach to voting shareholder proposals and rely on public disclosure and reporting of climate practices. We also consider insights from our company engagements and year-on-year commitments to improve their climate-mitigation and management practices in our final vote decision.

We endeavor to engage both with the proponents of shareholder proposals to gain additional perspective on the issue and with companies to better understand how boards are managing risks. We are committed to providing clients with transparency into our voting decisions and disclose our votes on climate in our quarterly newsletters, quarterly vote-disclosure reports and annual reports. Beginning in this year, we are providing annual reporting on our climate-stewardship efforts, including an overview of our climate engagement and voting.

Further information on our approach to voting such climate and other environmental and social shareholder proposals can be found here: https://ssga.com/library-content/pdfs/ic/global-Proxy-Voting-and-engagement-guidelines-es-issues.pdf.

Thought Leadership/Company Guidance At State Street Global Advisors, we aim to help our portfolio companies by publishing papers that provide insights into our thinking and sector-specific guidance on best practices related to climate-related disclosure. Our thought leadership is leveraged widely by boards, executives, clients, regulators, asset owners and other asset managers, thus helping to further the climate conversation in the market. We have published the following climate-related papers that are all available on ssga.com:

Climate Change Risk Oversight Framework for Directors

State Street Global Advisors' Perspectives on Effective Climate-Change Disclosure

Climate-Related Disclosures in Oil and Gas, Mining and Utilities

Effective Climate-Risk Disclosure in the Agricultural and Forestry Sectors Through the Lens of the TCFD

Statement of Support for the Task Force on Climate-Related Financial Disclosures

Policy/Regulatory We utilize voting and engagement as effective tools to shape climate disclosure and practices on a company-by-company basis. However, certain issues, such as a universal carbon price, must be addressed at the market level.

As the third-largest asset manager in the world, we actively participate in collaborative initiatives that help shape the policy or regulatory landscape. We have participated in the TCFD and Ceres working groups related to climate. We have also signed a climate pledge at the Vatican Summit organized by the Focusing Capital on the Long Term (FCLT) group. Further insights into our activities can be found in our **Annual Stewardship Report 2018–19**.

Figure 1
Key Milestones in Climate Stewardship
Over the Years

Year	Milestone
2014	State Street Global Advisors prioritized climate change as a thematic engagement area.
2016	State Street Global Advisors supported climate change-related shareholder proposals for the first time in the 2016 proxy season.
2017	State Street signed a public statement of support for the TCFD recommendations and incorporated the TCFD framework into our guidance for companies in the oil and gas, utilities and mining sectors.
2018	State Street joined the US Asset Managers TCFD group to promote adoption and reporting of climate activities. We published our first TCFD activities update in its I/c: corporate social responsibility report.
2019	State Street signed the Participant Statements on Climate Risk Disclosures and Carbon Pricing following the "Energy Transition and Care for Our Common Home" summit hosted by the Vatican's Dicastery for Promoting Integral Human Development and the University of Notre Dame.
2020	State Street launched R-Factor™, a transparent scoring system that evaluates companies on their performance against financially material ESG metrics relevant to their business operations as identified by the Sustainability Accounting Standards Board (SASB). R-Factor will also inform State Street's stewardship activities, bringing an objective and relative (to industry peers) view into our engagement and proxy-voting activities.

Fundamental Expectations of Portfolio Companies on Their Climate Stewardship

We expect companies to evaluate climate change as a systemic risk:

- **Address the systemic risks of climate change and the impact on their business** We view climate change as a risk to all our portfolio companies. Consequently, we expect companies to explain how they consider climate change as a risk to their business. At a minimum, we expect companies to take a position on whether climate change will impact their business. We also expect companies to explain positions that may conflict with our views.

- **Commit to reduce emissions** We expect portfolio companies to establish long-term carbon-emission reduction goals. We recognize that long-term goals may be aspirational at first and we will engage with companies as they develop strategies to better understand and evaluate their progress towards achieving their goals.

- **Educate boards and ensure directors are aware of climate-related risks** We expect board members to understand the strategic climate-related risks and opportunities facing their companies. Directors should also be able to discuss their governance and oversight process related to climate issues.

- **Provide climate reporting** Companies should disclose their views and actions related to climate change, conforming with the TCFD reporting standards and, in applicable industries, SASB.

Evaluation Framework for Common Climate-Related Shareholder Proposals

We expect companies to evaluate:

- **2 -or 1.5-Degree Shareholder Proposals** These proposals call on companies to align business strategies with the transition to a lower-carbon economy, as envisioned in the Paris Agreement. Through engagements, we evaluate companies' responses to the following questions:

– Has the company acknowledged climate as a material long-term risk?

– Are its strategy or emissions goals aligned with the Paris Agreement goals?

– Is the company in an industry/sector that is a focus of its country's Intended Nationally Determined Contributions plan?

– Has the company established long-term emissions goals? What is the time horizon of these goals? Has it developed a plan to achieve these goals? If yes, is the plan sufficiently detailed and in line with the timeline for required emissions reductions?

– Does the company disclose its carbon-price assumptions? Are they meaningful?

– Has the company conducted or published a climate-scenario analysis? If yes, is it sufficiently robust?

– What are the impacts of the company's scenario planning on the company's long-term capital-allocation decisions? How has the scenario analysis influenced the company's strategy?

- **Shareholder Proposals on Climate Lobbying** These climate-related-lobbying proposals request that corporate membership in trade associations be fully aligned with a company's stated position on climate change. Where there are inconsistencies between a company's climate position and that of the company's trade associations, the proposal asks companies to suspend their membership to such organizations.

State Street Global Advisors believes that a conflict in a company's climate positions and the activities of its trade associations creates potential financial and reputational risks. Through engagements with issuers, we evaluate companies' responses to the following questions:

– What is the board's role in the oversight of the company's participation in the political process, including membership of trade associations?

– Has the company performed a gap analysis of its stated positions on climate change and those of its trade associations?

– Does the company disclose a list of its trade association memberships?

We hope you find this guidance helpful. If you have any questions or comments, please write to governanceteam@ssga.com.

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