

# Accessing ESG Exposure with State Street Global Advisors & SPDR ETFs

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State Street Global Advisors has managed ESG index investment for many years and shown commitment to sustainability through its asset stewardship. As a global asset manager, we leverage our size, voice and vote to actively engage with portfolio companies on ESG factors.

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**State Street  
Global Advisors &  
Sustainability**

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SPDR ETFs are a part of State Street Global Advisors, the asset management arm of State Street. This structure affords SPDR a heritage of sustainability and significant resource to respond to client needs.

As a well-established provider of financial services to global institutional investors, State Street is dedicated to long-term value creation. Across our leading investment servicing, management, research and analytics capabilities, **State Street is committed to helping investors understand the Environmental, Social and Governance (ESG) issues that affect the value of their portfolios.**

As we witness the structural shift in our economies from tangible to intangible value drivers, we recognise that ESG considerations are becoming more important factors for companies. Whilst ESG investing is still in its early stages, we are committed to combining our financial data and analytics capabilities with our investment practitioner perspective to create a new generation of ESG solutions. We provide leading research, analytics and advisory for investors' ESG needs across asset classes and investment styles.

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Our asset stewardship activities and new ESG scoring model (described below) are differentiated activities in the financial world. Our commitment to sustainability is further illustrated by the following activities undertaken by State Street:

**UN Sustainable Development Goals** The UN's Sustainable Development Goals (SDGs) represent an ambitious plan to achieve a better and more sustainable future for all. There are 17 SDGs ranging from gender equality to sustainable cities and communities. These goals are interconnected and the UN has set a target of achieving these goals by 2030.

As a signatory to the UN Global Compact, State Street has committed to five UN SDGs specifically, including UN SDG 13: take urgent action to combat climate change and its impact. Meaningful research is being undertaken on this theme at State Street Global Advisors.

**Global Environmental Goals** SPDR's parent company, State Street, has environmental goals focused on reducing carbon dioxide (CO<sub>2</sub>), reducing water consumption, and increasing recycling rates. The company has set the following targets to be achieved by 2025:

- CO<sub>2</sub>: Reduce global emissions by 30%
- Water: Reduce global consumption on a per-person basis by 10%
- Recycling: Achieve an 80% rate

Since 2015, State Street has made steady progress towards these goals.

**Incorporation of ESG into Board Charter** State Street's Board of Directors has expanded its charter to include "monitoring the company's material activities and practices regarding environmental, social, and governance matters."

**Environmental Sustainability Employee Network** This proactive employee network has been adding more chapters across Europe this year.

**Carbon Offset Program** Since 2011, State Street has invested annually in carbon-related projects to offset employees' global business travel. To date, we have invested in six projects around the world, ranging from a hydroelectric project in Brazil to cook-stove manufacturing in Uganda, with additional projects in the pipeline.

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## Stewardship & Active Ownership

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As discussed in our paper, *Using ETFs to Gain ESG Exposure*, asset managers providing ETFs are increasingly aware of their fiduciary duties and the rewards of corporate governance activities. Unlike active managers, index managers cannot sell a stock based on heightened risk (including ESG factors) and, therefore, engagement is perhaps more important. State Street Global Advisors is increasingly active in its stewardship of assets across our range of funds.

Our **Asset Stewardship** team engages with and provides clear expectations of company performance on material ESG factors. The team screens companies for voting and proactive discussion based on their scores. During engagements, we disclose companies' scores on State Street Global Advisors' proprietary ESG measure, R-Factor™ (see page 3 for further explanation), as well as the underlying basis for those scores. This gives boards and management teams a guide for the specific dimensions that investors are evaluating to assess their sustainability efforts. It also helps companies identify which metrics to disclose and manage to improve future scores, creating a positive feedback loop in the market.

In terms of voting, State Street Global Advisors voted at 2,510 meetings globally in Q1 2019; 16% of the votes were against the companies' management and 13% of those votes were in Europe. In addition, there were 28 engagement meetings in Europe during the first quarter. This activity is carried out for company holdings across the State Street Global Advisors range of products, including ETFs and index funds as well as active funds.

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Thought leadership is also used as part of State Street Global Advisors' engagement process. The highly acclaimed **Fearless Girl** campaign, sponsored and led by State Street Global Advisors, has helped promote good governance amongst investors globally, specifically with regards to the issues of gender diversity and women in leadership.

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## R-Factor™

R-Factor™ measures the performance of a company's business operations and governance as it relates to financially material ESG challenges facing the company's industry.

**At State Street Global Advisors, we firmly believe that ESG investing and fiduciary responsibilities are not contradictory.** Rather, the consideration of material ESG factors in the investment process is an integral part of honoring our fiduciary duty. State Street Global Advisors' stewardship and investment expertise have helped us to build a solution.

**Research shows that ESG factors can affect a company's long-term performance.** However, whilst the universe of ESG data coverage is expanding, the lack of transparency into ESG materiality considerations and opaque scoring systems have created challenges. Accurately measuring material ESG factors requires access to quality data from many different sources. State Street Global Advisors' proprietary ESG scoring system leverages multiple data sources and is aligned with a financial materiality framework drawn from the Sustainability Accounting Standards Board (SASB). The transparent scoring of the R-Factor™ takes into account corporate governance codes and inputs from four best-in-class data providers: Sustainalytics, ISS-Oekom, Vigeo-EIRIS, and ISS-Governance.

The R-Factor™ is utilised in the engagement programme of SPDR ESG ETFs.

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## SPDR Launch

**We provide investors with the choice to invest based on their own values and preferences.** ETFs have democratised financial markets, offering a straightforward and transparent way to invest cost-effectively.\* As such, they are a perfect match for ESG investing. ESG ETFs open up investment themes that were once out of reach to all but the largest investors.

SPDR created the world's first US-listed ETF in 1993 and has been listening to clients and meeting their needs ever since. A recent survey with European investors, undertaken by SPDR, allowed us to understand their demands for standardisation and less complexity in ESG processes. In terms of exclusion, the main requirements of respondents were controversial weapons, including nuclear weapons and non-compliance with the Ten Principles of the UN Global Compact.

We have now partnered with STOXX to launch the **SPDR STOXX Europe 600 ESG Screened UCITS ETF**, which incorporates these needs in a straightforward and transparent investment vehicle. For more information please see our fund brochure.

Creating a simple exclusionary fund allows us to remain engaged with companies in an index that are in approved activities. As mentioned earlier, our new ETF does not directly employ an ESG scoring methodology but does benefit from State Street Global Advisors' R-Factor™ framework, specifically through engagement with the fund's holdings with the goal of improving corporate behaviour.

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\* Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

## ssga.com/ESG

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