October 2021

2020 UK Stewardship Code Report

STATE STREET GLOBAL ADVISORS

Contents

1 Introduction and Background (Principles 1, 3, 4, 5, 6, 7, 9)

Statement From Cyrus Taraporevala, CEO, State Street Global Advisors

We would like to thank the Financial Reporting Council (FRC) for their revised 2020 Stewardship Code and accompanying outcome-based framework, which we fully support. The UK Stewardship Code is critical to strengthening and enforcing standards of robust and effective stewardship across the market and acts to benefit clients of all fiduciary asset managers. We very much welcome the opportunity to receive feedback on our resubmission. In response to feedback received on our original submission, we have enhanced our report to better measure our progress against the 2020 UK Stewardship Code, demonstrating our commitment to the FRC principles and to our valued clients. We look forward to working closely with the FRC in the months and years ahead.

As long-term investors, we always take a broad view of sustainability as it relates to better business outcomes. We believe that working with regulators and company boards on a range of environmental, social and governance (ESG) best practices helps create a more resilient, sustainable and inclusive future for our clients, investee companies, economies and societies. Our investment stewardship programme operates at the intersection of corporate governance, environmental risk and social risk, and we examine these matters through a fiduciary lens.

State Street Global Advisors' mission is to invest responsibly to enable economic prosperity and social progress. We have been implementing this stewardship strategy for 18 years and have been involved in responsible investing for more than 30 years. Over the past 40 years, we have built a universe of active and index strategies across asset classes to help fulfil our fiduciary duty and to enable our clients to achieve their investment goals. As the asset management arm of State Street Corporation, we have pioneered the creation of the world's first exchange-traded funds (ETFs), and we are a global leader in indexing.

We view this enhanced regulation as critical to strengthening and enforcing standards of robust and effective stewardship across the market and benefitting clients of all fiduciary asset managers. In response, we have enhanced our report to better measure our progress against the 2020 UK Stewardship Code, demonstrating our commitment to the FRC principles and to our valued clients. We look forward to working closely with the FRC in the months and years ahead.

In 2020, we witnessed a remarkable year. From a global health crisis that has taken millions of lives, to a conversation about racial justice, to the ever-increasing risks associated with climate change, the past year has cast a stark light on systemic vulnerabilities and reinforced the connections we see across sustainability, inclusion and corporate resiliency.

In response, we have adapted our stewardship programme. We have worked to become more global in our approach, deepen our analysis and communicate our principles and outcomes more clearly. In 2020, we shifted the focus of our thematic engagements to issues of employee health, serving and protecting customers and ensuring the overall safety of supply chains. Further, as our “Fearless Girl” campaign continued to highlight the issue of gender diversity on boards and in senior leadership, it was clear in the wake of protests against racial injustice that we needed to expand our focus to consider financial risks related to racial and ethnic diversity.

As a major systemic risk, climate change continues to be a multi-year stewardship priority. We have continued to engage with boards on climate risk oversight, particularly related to their plans for the transition to a lower carbon world and reporting using the Task Force on Climate-Related Financial Disclosures (TCFD) framework. As a signatory to Climate Action 100+, we look forward to sharing our experience and insights on climate stewardship with other members.

In 2020, we also wrote to our investee companies about R-Factor™ — our transparent scoring system based on the Sustainability Accounting Standards Board (SASB) framework (SASB is now the Value Reporting Foundation), which focuses on financially material, industry-specific ESG risks. We announced that starting in 2020 we would be voting against companies in the bottom 10% of R-Factor scores that could not articulate a plan to improve their score.

Despite the progress we have made, we consider our work to be ever-evolving, and we continuously focus on improving how we carry out our mission. In November 2020, we announced the promotion of Lori Heinel to Global Chief Investment Officer for State Street Global Advisors and appointed Richard F. Lacaille to the newly-created role of Senior Investment Advisor responsible for ESG across all of State Street. Heinel will oversee the full spectrum of State Street Global Advisors’ industry-leading investment capabilities from index funds and ETFs to active, multi-asset class solutions and alternative investments. In his new role, Lacaille will provide enterprise-wide leadership of the company’s ESG solutions, services and thought leadership across all of State Street’s businesses. In June 2021, we hired Karen Wong as Global Head of ESG and Sustainable Investing. Karen will focus on how we can further strengthen our stewardship capabilities (among her other responsibilities).

With this new leadership team and experience, we seek to provide clarity about the challenges we face and the opportunities we have along the way. We look forward to working even more closely with our clients, regulators and our other stakeholders as we enter the next stage of our stewardship journey. It is in that spirit that we submit this report.

Statement From Richard Lacaille, 2020 CIO, State Street Global Advisors

As one of the largest asset managers in the world, State Street Global Advisors is in a unique position to responsibly and effectively drive a step change in sustainability outcomes. The majority of our offerings are index funds and we are strong proponents of the benefits of indexing as an investment approach. Indexing can provide clients with clear investment objectives, investment efficiency, sound governance, diversification, liquidity, low turnover, low expenses and control over investment allocations.[1]

As near permanent holders of capital, it is essential that we can effectively engage with companies on key sustainability challenges and opportunities and vote proxies where change is necessary. We achieve this through a holistic approach to engagement in the market.

- First, we engage with our portfolio companies on key material ESG risks and opportunities with a specific focus on the systemic risks of climate change and lack of diversity.

- We continually engage with our clients so that they can understand our approach, provide feedback on our objectives and priorities and hold us accountable for their delivery. We work with and alongside regulators, sustainability standard-setters and voluntary initiatives to drive improved market standards and reduce systemic market risks.

- We use initiatives to highlight key issues and raise awareness, an example being our "Fearless Girl" campaign to address the lack of gender diversity on company boards. We also write a range of thought leadership to educate company boards and management of our expectations regarding their strategy and approach to addressing ESG challenges.

- We write this with the aim of improving the quality of the public debate around the management of systemic ESG challenges like climate change.

Our focused, holistic and integrated approach to long-term effective stewardship of capital allows us to use our resources intelligently to drive desired outcomes. This is how we deliver value to our clients.

Stewardship Priorities

In 2020, we witnessed a tumultuous year with the global spread of the COVID-19 pandemic and the social challenges of racial inequality and diversity. In response, we realigned our stewardship initiatives and priorities.

Responding to a Global Health Crisis. The global COVID-19 pandemic has been a public health tragedy and has severely tested the viability of companies across regions and sectors. As the COVID-19 pandemic emerged, companies faced not only traditional financial risks, including declining cash reserves and dramatic drops in demand, but also ESG risks that included keeping workers safe and healthy, avoiding layoffs and limiting supply-chain disruption. We have aimed to improve market standards and address systemic risks by encouraging a global conversation on COVID-19 and other key issues through new initiatives and thought leadership. We have also prioritised COVID-19 in our engagements with individual companies.

In March 2020, our CEO offered guidance to companies on navigating the challenges of the pandemic in a way that aligned with the expectations of long-term investors such as State Street Global Advisors. Subsequently, we engaged with 233 issuers on their response to the pandemic, and also issued guidance on our expectations regarding executive compensation in the context of COVID-19.

Enhancing Racial & Ethnic Diversity Disclosure. The tragic death of George Floyd underlined the emergence of a dimension of the 'S' in 'ESG' that has rightfully received increased attention this year: racial & ethnic diversity and inclusion. Tragic incidents of police violence highlighted the longstanding legacy of systemic racism that plagues the United States and other markets around the globe. This motivated us to re-examine our focus on diversity and expand our efforts to include race and ethnicity, as articulated in my August letter to issuers.

Driving ESG Progress Across Our Portfolio. We have successfully integrated our R-Factor scoring system into our stewardship efforts. We use R-Factor to encourage companies to manage and disclose ESG risks, thereby reducing risks across not only our own portfolio but also the overall market. In 2020, we wrote to inform companies of our intentions to take voting action against those with the bottom 10% of R-Factor scores, subsequently voting against 13 of those companies. We also shared scores with 698 companies, and continued to incorporate our transparent scoring system into our engagements, giving companies an opportunity to assess their ESG risk management efforts and take action to improve their practices. We are proud of the progress we have made but acknowledge that we have further work to do as the following section highlights.

Statement From Lori Heinel, Current CIO, State Street Global Advisors

The preparation of State Street Global Advisors' 2020 report for consideration by the FRC has enabled us to acknowledge some of our stewardship successes over the past year. As importantly, the report has been a forcing function that has helped us to acknowledge areas where we must focus attention. We support the broader definition of stewardship as outlined under the 2020 UK Stewardship Code, and we believe this represents an opportunity for State Street Global Advisors to demonstrate a clear commitment to continuous improvement in our stewardship practices.

We continue to improve our stewardship practices and processes with an ever-present focus on satisfying the long-term needs of our clients. Below is a summary of several areas that we are prioritising in 2021:

Governance

We have re-evaluated our governance structure and processes and have addressed some key areas for improvement. We are in the process of creating a more prominent ESG committee that has clearer oversight of our stewardship and ESG activities. We are also considering external assurance over our stewardship activities in relation to our engagement and voting on ESG and climate issues, for example, ensuring investee companies are aligned to the TCFD guidelines.

Our policies will ensure that the CIO and CEO are accountable individuals for our ESG and stewardship efforts, and that they are fully engaged in ensuring our success. We will create a clearer hierarchy of, and structure for, all related initiatives in the areas of stewardship, climate and ESG. We will also create dedicated cross-firm teams as necessary for specific issues such as TCFD reporting and Net Zero.

We are also working to improve and clarify our conflict of interest policy, in particular, how conflicts are mitigated and resolved. We will report on our progress in next year's report.

Review and Assurance

Our Asset Stewardship programme is subject to internal independent assurances conducted by State Street's Internal Audit department. We utilise internal processes to ensure our ESG activities are robust. Going forward, we recognise that we may also need to develop external assurance over our stewardship activities and other ESG disclosures such as TCFD guidelines.

Establishment of Client Unit Function

The stewardship team works closely with our global client relationship teams to maintain an open and constructive dialogue with clients on the delivery of our stewardship activities. Our client approach is centred on helping clients with their stewardship journey through education, engagement, thought leadership and research.

To further improve our client-facing activities, we are considering the creation of a new advisory council of our key clients in order to better understand their expectations and needs.

Focus on Outcomes

We recognise the expectations of regulators and our clients are more focussed on outcomes rather than initiatives, and therefore we will take a more outcome-focussed perspective going forward. In particular, we will focus on improving the way we record and communicate the outcomes of our engagement and voting, as well as on connecting our investment-related outcomes to our stewardship efforts. Overall, we will ensure that mechanisms are in place to effectively measure, analyse and report on our efforts to regulators, clients, markets and our employees.

Resources

To address our expanding and evolving mandate, we continue to prioritise expanding headcount within the Stewardship and ESG teams as well as improving investment in technology, infrastructure and data.

In June 2021, we hired Karen Wong as Global Head of ESG and Sustainable Investing. Prior to joining SSGA, Wong worked for Mellon Investments Corporation, most recently serving as Managing Director, Head of Index Portfolio Management, where she oversaw equity and fixed income index and beta strategies. In addition, she was Mellon's ESG Champion. In her current role, Karen will oversee all of State Street Global Advisors' ESG functions, including ESG integration and investment strategy, ESG research and data analytics, and asset stewardship. In particular, Karen will focus on how State Street Global Advisors can further strengthen its stewardship capabilities.

Ongoing Focus on Climate

Our stewardship group engages with the entire global universe of listed companies and their boards to drive transparency around how they are managing the risks and opportunities around climate change. In 2020, we asked our portfolio companies to report on how they are managing climate change risk using the guidelines promulgated by the TCFD. We were recognised for our climate reporting practices when we were named to the 2020 Leaders' Group by the UN-supported Principles for Responsible Investment (PRI).

In 2021, State Street Global Advisors became a signatory to the Net Zero Asset Managers Initiative (NZAMI). We are proud to support the NZAMI, which promotes the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C. Four out of ten obligations under NZAMI relate directly to stewardship activity and others are indirectly linked. As a result, we will be looking strategically at how to integrate the initiative into our existing work, so it might have a multiplying effect.

We also became a signatory to Climate Action 100+. As highlighted in our Annual Climate Stewardship Review, the Climate Action 100+'s three central goals — improving governance of climate change, reducing emissions and strengthening climate-related disclosure — are consistent with what we have been advocating for through our company engagements, thought leadership and proxy voting.

We will continue to engage with our clients on their climate aspirations. We have rolled out a "point of view" on climate-relevant activity exclusions and have built a powerful, climate-specific data platform. The latter covers a multitude of climate metrics that are used by our clients to inform portfolio construction and asset allocation decisions. This knowledge, and these capabilities, are useful both in an investment and a reporting context. We are committed to further investment in these capabilities as the markets evolve.

Expanding Integration of R-Factor

Our proprietary ESG rating system, R-Factor ('Responsibility Factor') will continue to be integral to all our investment processes and stewardship engagement, including sector prioritisation and voting decisions. Our active investment teams are increasingly using R-Factor as part of their investment approach.

Both our Model Risk Committee and the Technical Committee have reviewed, validated and approved our R-Factor methodology and scoring system. The Model Risk committee in particular is responsible for validating R-Factor models, specifically data governance and controls.

In sum, there is much to do, but we are on a path to meeting these stewardship challenges. We look forward to reporting on our successes in the 2021 report.

2 Who We Are and Who We Serve (Principles 1, 6)

Who We Are
Our Company

State Street Global Advisors is one of the world's largest asset managers, responsible for $3.5tn assets under management and the third-largest providers of exchange-traded funds globally (as at 31 December 2020). We recognise our role within financial markets, given our size and influence.

We are predominantly an index asset manager, driven by the belief that indexing can provide clear investment objectives, investment efficiency, sound governance, diversification, liquidity, low turnover, low expenses and control over investment allocations. However, we also believe that good active management exists and can be the best approach in specific areas and assets classes.

ESG offers a source of new and potentially valuable information for investors, impacting both potential returns and risk. The Index business is evolving rapidly, propelling innovative approaches to investing that take ESG criteria into account.

Whether driven by regulation, investment beliefs or values — investors are increasingly asking how their indexed investments can adapt to this new realm. As growing data availability creates the opportunity to integrate ESG into index portfolios, we continue to broaden our toolkit to help our clients futureproof their portfolios with leading-edge solutions.

Our active and index capabilities span the investment spectrum.

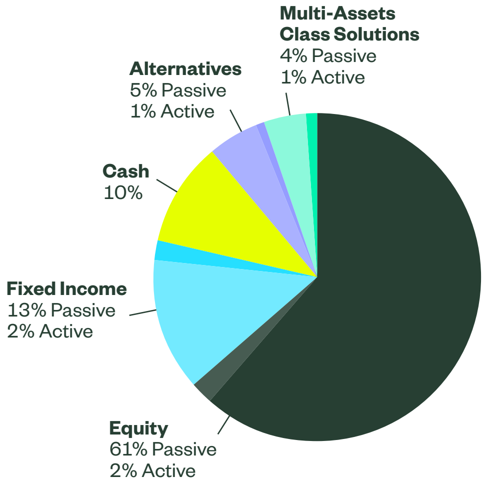
Figure 1
Assets Under Management Split by Asset Class

Equity	Fixed Income & Cash[2]	Multi-Asset	Alternatives
$2.17T	**$892B**	**$190B**	**$213B**
Active • Quantitative • Fundamental	Active	Strategic and Tactical Asset Allocation	Hedge Funds
Smart Beta	Smart Beta	Outcome Oriented • Target Date Funds • Real Assets • Inflation Protection • Absolute Return	Private Equity
Index	Index	Exposure Management	Private and Public Real Estate
	Cash Management	Model Portfolios	Currency
			Commodities
			Real Assets

Source: State Street Global Advisors, 31 December 2020.

A more detailed asset breakdown is shown below.

Figure 2
$3.47 Trillion Assets Under Management* by Split by Asset Class and Investment Approach



Source: State Street Global Advisors, 31 December 2020.
* This figure includes approximately $75.17 billion of asset 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.

As a long-term holder of the constituents of the world's primary indices, we have a strong incentive to use our voice and vote to influence companies on long-term governance and sustainability issues. We use sustained, multi-year engagements to drive improved disclosure and standards around material ESG risks and opportunities and the long-term preservation of the value of the companies in which we invest.

Our Mission, Values and Beliefs

State Street Global Advisors' mission is to invest responsibly to enable economic prosperity and social progress. Our mission is evidenced by a more than 30-year legacy in ESG and an enduring commitment to ESG principles across our investment strategies.

Our ESG beliefs are central to our corporate mission and encompass the following tenets:

1. We believe that identifying and systematically incorporating material ESG issues is integral to our role as fiduciaries of our clients' capital.

2. As one of the world's largest asset managers, we can partner with clients to achieve their ESG objectives through our global expertise in ESG research, investment strategy and data analytics, leveraging our ESG capabilities.

3. Our stewardship role in global capital markets extends beyond proxy voting and engagement with issuer companies.

4. Our approach to stewardship is designed to seek value for our clients through thought leadership, engagement, proxy voting and client disclosure.

5. Companies embracing ESG best practice have strong, effective independent boards and incorporate sustainability into their long-term strategy.

6. Our values define what we stand for and the behaviours we want to encourage in each other. They unite us as an organisation and guide every decision we make.

What our values mean:

Global Force, Local Citizen: We're a global company with a deep commitment to our individual markets, clients and communities.

Always Finding Better Ways: We're committed to continuous improvement: delivering value to clients, shareholders and communities, developing our people, and operating efficiently and ethically.

Stronger Together: We're passionate about building relationships and creating shared goals that help our employees and clients achieve success.

Trust Is Our Greatest Asset: We're committed to acting with integrity and treating our clients, employees and stakeholders with fairness and respect.

It is critical for our success and employee experience that our values are integrated into our culture. We are steadfast in our commitment to a culture of risk excellence that mitigates potential risks that threaten our business. We put risk excellence at the heart of our business strategy, balancing the goal of long-term value creation with the protection of our economic, human and environmental capital.

With climate change at the forefront of considerations for investors assessing the long-term viability of companies around the world, our Asset Stewardship Program has developed a rigorous and thoughtful engagement approach with portfolio companies.

We believe that boards should regard climate change as they would any other significant risk to the business and ensure that a company's assets and its long-term business strategy are resilient to the impacts of climate change.

The global energy system is undergoing a seismic transition from one based primarily on fossil fuels to one increasingly based on renewable energy sources, driven by necessity, technology and policy. We realize and act upon risks and opportunities related to climate change and a transition to a low-carbon economy. We expect fossil fuel demand to peak in the medium term. At the same time, renewable energy costs are decreasing quickly, which leads to capital reallocations due to improved means by investors to tangibly assess climate-related risks in investment portfolios across asset classes. We have helped and are continuing to help investors make that shift.

Investment managers must recalibrate their strategies in an era of climate change. The ESG risks that are material to a business will impact almost all segments and industries — not just the obvious polluters. However, with climate risk comes tremendous investment opportunity as the economy reworks to address the impacts of climate change. State Street Global Advisors has developed a suite of capabilities to help clients meet their investment goals specific to climate challenges. These include a spectrum of climate-related investment solutions, from exclusionary and mitigation solutions to those that also incorporate adaptation.

And while perhaps not as daunting as the climate change challenge, the human capital aspect of our business, including how we engage with and support our employees, is material to our long-term success. Issues and initiatives related to our human capital are important both in our internal operations and in our external affiliations with companies in State Street Global Advisors' portfolios. Our employees help us create long-term value and constantly innovate better ways to provide services to our clients and engage with our stakeholders.

At State Street Global Advisors, we are driven by the belief that an inclusive culture and diverse workforce are essential to the long-term sustainability and success of our business. We hold our employees and leadership accountable to high standards of conduct that ensure our business is run in an ethical and responsible manner.

Stewardship Program Philosophy and Objectives

Our overarching stewardship philosophy is an extension of our mission and values to protect and promote the long-term economic value of client investments and to fully embrace our commitment to external initiatives such as the PRI. Our stewardship objectives are as follows:

- Clearly communicate our commitment to responsible investing on behalf of our clients and report on the impact of our stewardship activities. We aim to achieve this objective through honest evaluation, continuous enhancement and increased transparency in our stewardship practices.

- Develop effective proxy voting and engagement guidelines that enhance and evolve ESG practices in the market. We aim to achieve this objective by applying higher voting standards in markets where governance and sustainability practices are below global investors' expectations, and by clearly identifying engagement priorities that focus on sector, thematic and/or market-specific issues. We work informally (where such activities are permitted by law) with other investors in markets where we believe collective action is needed to engage companies on specific issues or promote market enhancements towards best practice.

- Ensure that companies see us as a long-term partner as they navigate the evolution of ESG practices. We aim to achieve this objective by screening our portfolio holdings on performance and, where applicable, ESG factors to prioritise our engagement efforts and by constructively engaging with senior management and board members to effect change in investee companies. In addition, we use thought leadership to inform and provide guidance to our investee companies on the development of ESG practices across our key markets.

- Creating Stewardship with an impact. To measure and demonstrate impact, we monitor and follow up with companies that we previously engaged with and evaluate their responsiveness to our feedback. This requires a long-term, multi-year approach to stewardship as well as perseverance and commitment to our values and our process.

- We recognise the importance of being accountable to our clients on the manner in which we fulfil our duties as responsible owners on their behalf. As such we aim to provide transparency of our stewardship activities through annual meetings with key clients, publication of quarterly stewardship activity reports, ESG thought leadership and other information reported publicly online.

Who We Serve
Our Client Base

As one of the world's largest asset managers, we cater for the needs of a large variety of clients across the globe. Below is a high-level summary of our firm as at 31 December 2020.

Figure 3
Our Capabilities Deliver for Our Diverse and Global Client Base

$3.47	2400+	23
Trillion in Assets[3]	Clients[4]	Million DC Participants[5]
63	10	24-hour
Countries with Clients[4]	Investment Centers[6]	Global Trading Capability[7]

Our institutional clients are predominantly pension providers, and range from intermediaries to not-for-profit institutions. We are also a leading partner to institutions and intermediaries, the largest government retirement plan providers and sovereign wealth fund asset managers globally. Consequently, for a large part of our clients the investment horizon is in excess of 50 years. A breakdown of client type by institution and geography follows.

Figure 4
Client Assets Under Management by Institution Type

Defined Benefit	$676 Billion
Defined Contribution	$572 Billion
Intermediary	$930 Billion
Official Institutions[8]	$496 Billion
Cash	$269 Billion
Cash Sec Lending	$59 Billion
Cash Direct Commingled	$210 Billion
Not For Profit	$131 Billion
Insurance	$123 Billion
Other	$272 Billion

Source: State Street Global Advisors, 31 December 2020. This figure includes approximately $75.17 billion 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.

Figure 5
Client Assets Under Management by Geography

North America	69.6%
Europe / Middle East / Africa	14.7%
Asia / Pacific	15.7%

Note: Geographic mix is based on client location or fund management location.
Source: State Street Global Advisors, 31 December 2020.

We partner with many of the world's largest, most sophisticated investors and financial intermediaries to help them reach their goals through a rigorous, research-driven investment process spanning both indexing and active disciplines. The majority of our investments lie across our intermediary business as well as our defined contribution and defined benefit businesses.

In order to deliver the best value for our diverse range of clients, we take efforts to understand their specific requirements. Below is a brief description of our key end-clients and how we work with them.

Employers. We work with employers to help millions of people live more secure and dignified retirements, ranging from managing global pension funds, to defined contribution in the US and UK, to superannuation funds in Australia.

Consultants. We partner with consultants to share investment insights and expertise to help their clients achieve their unique investment goals.

Endowments and Foundations. We help endowments and foundations fund educational, scientific and environmental breakthroughs by offering a wide range of solutions and products to help them achieve their goals regardless of the time horizon.

Countries. We help countries build their infrastructure, implement monetary policy and save for future generations by partnering with central banks, governments and sovereign wealth funds.

Financial Advisors and Other Intermediaries. We work with financial advisors and other intermediaries to help them and their clients create better financial futures — from registered investment advisors in the US to discretionary wealth managers and private banks in Europe — by offering them a variety of ETFs and model portfolios.

Corporate Treasurers and Chief Financial Officers (CFOs). We work with Corporate Treasurers and CFOs to help their companies meet their financial commitments and fiduciary obligations, as well as reinvest in their businesses through a variety of cash management solutions.

Asset Managers. We partner with Asset Managers to solve complex needs such as portfolio transitions and solutions for liquidity within an asset class.

Meeting Client and Beneficiary Needs

We have a client-first approach, whether our clients are focused on risk management, responding to new regulations, making investments that align with their values, or seeking to enhance long-term performance. Our ultimate aim is always to secure the financial future of our clients. As a consequence, we have aligned our investment and stewardship strategy to our clients' needs and preferences.

As near-permanent holders of capital with a long-term investment horizon, it is imperative that we assess and manage ESG risks both at the point of investment and regularly throughout our holding period. This is especially important given the long-term and unpredictable nature of systemic risks, such as climate change, whose impact may play out for decades to come.

We have integrated ESG considerations into our investment decisions and investment processes, where appropriate. We have also developed ESG-specific investment and asset stewardship capabilities that enable our clients to achieve their ESG objectives and investment goals, and contribute to sustainable economic prosperity and growth.

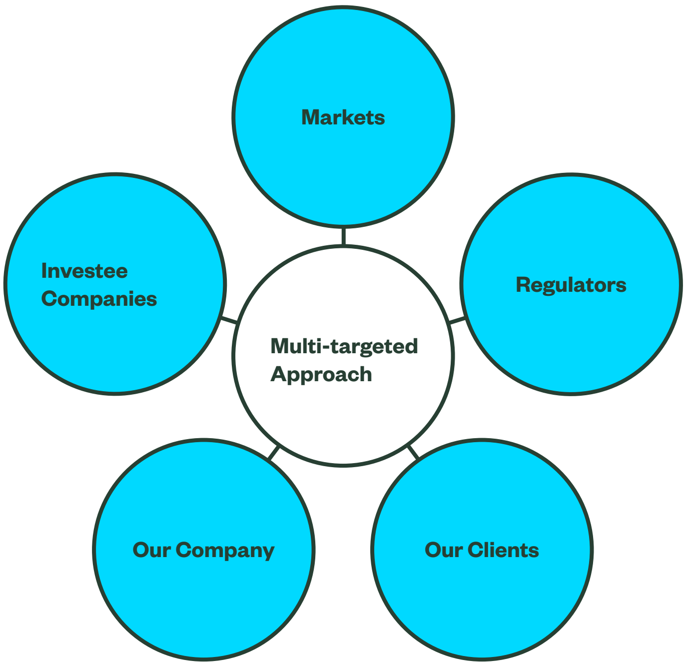
3 Making an Impact in the Real Economy (Principles 4, 6, 9, 10)

Supporting Well-Functioning Markets

At State Street Global Advisors, we are cognisant that we have a potentially significant impact on financial markets, given our size and influence. As such, we see it as our responsibility to leverage our size and influence to drive the impacts and change we need to see in the real economy.

We do this through a multi-targeted approach focused on engaging the market, regulators and policymakers, our clients, our company and our investee companies on key systemic risks, and taking action where necessary.

Figure 6
Collaborating to Support Well-Functioning Markets



Source: State Street Global Advisors.

Markets

Asset Stewardship in Action: Fearless Girl

We launched the Fearless Girl campaign in March 2017 based on a simple truth: that companies with more diverse leadership perform better.[9] We believe that increased diversity helps improve board quality and makes the board stronger. Research shows that companies with strong female leadership perform better than those without it.[10] A study by MSCI[11] showed companies with strong female leadership generated a return on equity of 10.1 percent per year, versus 7.4 percent for those without a critical mass of women at the top — a 36.4 percent increase of average return on equity.

Objective: Starting in 2017, our Asset Stewardship team has called on companies in our investment portfolio to increase the number of women on their boards, and made clear we would use our proxy voting power to effect change if they failed to act.

Sculpture by Kristen Visbal.
Commissioned by State Street Global Advisors.

Outcomes as of March 2021	
1,486	companies identified in the US, UK, Australia, Japan, Canada, Continental Europe, Singapore and Hong Kong that had no women on their boards.
313	company boards voted against during year 4 of the campaign (March 2020-February 2021).
862	companies (approximately 58%) have now added a female director to their board globally as a result of our engagement and proxy voting.

Our work is all the more important as research shows that the work of large index investors like State Street Global Advisors is more effective than government mandates to bring about broad-based governance changes and expand women's participation in corporate leadership.

Given the clear implications for businesses, the economy and society, these challenges remind us why diversity of thinking and problem-solving in leadership is critical to the effective stewardship of assets.

Thought Leadership

We track the broader adoption of the thematic ESG issues that we have been championing by assessing the number of market participants that have embraced positions consistent with our thought leadership.

In response to the spread of the COVID-19 pandemic in the first quarter of 2020, we produced guidance to inform our portfolio companies of our expectations concerning their response to the pandemic. In particular, we prepared a roadmap and advised how companies could improve their communication regarding the key material risks facing their business and wider stakeholders. In connection with this guidance we recognised the need to re-prioritise our stewardship focus towards COVID-19-related engagements that prioritised health and safety and human capital.

In May 2020, the tragic incidents of police violence in the US highlighted the longstanding legacy of systemic racism that plagues the US and other countries around the globe. Following these events in August 2020 our then CIO Rick Lacaille sent guidance to the Board Chairs of portfolio companies within our key markets setting out the rationale for expanding our gender diversity focus to include race and ethnicity.

A clear outcome of our new guidance was the recognition that more data was needed to help us and other investors to understand the extent to which our portfolio companies are managing diversity at the board level and within the wider employee base. As such, in 2020 we worked to create specific voting policies to support our expectations and hold companies accountable during the 2021 proxy season where we felt they were not taking appropriate action.

Other examples of recent thought leadership:

Climate Change	• Climate Change Risk Oversight Framework for Directors • State Street's 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
Racial Diversity	• Guidance on Enhancing Racial & Ethnic Diversity Disclosures
Other Thought Leadership Examples	• Incorporating Sustainability into Long-Term Strategy • Effective Independent Board Leadership • Board Accountability in Europe: A Review of Director Election Practices Across the Region

Public Speaking

In addition to our thought leadership, and responding to consultations and white papers, we also participate in industry and stakeholder gathering as panellists or keynote speakers. We use the speaking opportunities to amplify our message on stewardship or share our views on developing ESG issues. A list of events that we have spoken at can be found in Appendix C.

Collaboration with Other Market Participants

As a global index manager, where such activities are permitted by law we work informally with other investors in markets where we believe collective action is needed to engage companies on specific ESG issues or highlight market enhancements towards best practice. During 2020, we collaborated on a number of projects to facilitate this approach, some of which we detail here.

Sustainability Accounting Standards Board (SASB): Investor Advisory Group (IAG) (Sustainability)

Our membership on the IAG allows us to feed into the ongoing monitoring and review of the SASB standards, which is a fundamental part of our scoring methodology of our R-Factor ESG scoring system. We support market infrastructure initiatives to standardize reporting — in particular SASB. SASB is an independent not-for-profit organization that has developed a set of standards to support companies in identifying and disclosing financially material sustainability information usable by investors. Their standard-setting framework follows a multi-year process that encompasses evidence-based research followed by consultation and engagement with investors and other industry experts. The result is a materiality map that ranks sustainability issues across 77 industries in 10 sectors, and offers companies a clear disclosure framework that aligns with investor and market needs.

We are pleased that the SASB regulatory standard is gaining recognition as an optimal disclosure framework among regulators.

In turn, this is a core part of how we integrate ESG into our equity indices and identify targets for engagement, to ensure that we can drive ESG alignment across all of our equity and corporate debt portfolios.

The IAG is composed of more than 30 global asset owners and asset managers, representing over $33 trillion in assets under management. Three members of our leadership team, including Lynn Blake, Chief Investment Officer and Global Head of Beta Solutions for State Street Global Advisors, alongside Robert Walker and Benjamin Colton, Global Co-Heads of Asset Stewardship, were members of SASB's IAG in 2020.

During 2020, we were a participant in quarterly IAG meetings to discuss how we could expand the group and participate in more collaborative engagements with IAG members. Through the course of 2020, members of our team beyond the three IAG representatives mentioned above led and participated in several formal and informal working groups with our fellow IAG community.

Encouraging the Sharing of ESG Information

State Street Global Advisors worked together with a group of other IAG members to encourage companies to disclose material and decision-relevant ESG information to investors. As a result of this initiative, the group published an open letter on behalf of the entire IAG addressed to data analytics firms, soliciting the creation of new data sets based on the collection and organisation of SASB-based data, as reported by companies. In addition, members of our team participated in a virtual SASB-Society Corporate-Investor Dialogue (CID) in partnership with the Society For Corporate Governance (SCG) in November 2020.

SCG membership includes roughly 1,000 public companies, representing more than 70% of the S&P 500 index. These forums continue to demystify investors' interest in and use of ESG information and provide a platform for our team to share our thoughts on SASB as a useful tool to help improve communications between investors and their portfolio companies. We participated in two sessions where we explained how we use our R-Factor framework for investment and stewardship-related purposes, and outlined how R-Factor is highly aligned with the SASB materiality framework.

Sustainable Markets Initiative (SMI)/G7 engagement

In January 2020, the Sustainable Markets Initiative (SMI) was launched at the World Economic Forum and formed part of a 'Coalition of the Willing' convened by His Royal Highness The Prince of Wales. The group represents over 300 global business leaders that have a common aim to accelerate the finance, investment and technology solutions needed to protect people and planet from climate change.

The SMI is comprised of several workstreams, or taskforces, focused on either specific industries/sectors or sustainability issues (e.g., hydrogen fuel). State Street CEO Ron O'Hanley was appointed Chair of the Asset Owner and Asset Manager taskforce (representing around $60 trillion assets under management). The Asset Owner and Asset Manager taskforce outlined six broad objectives, the first of which centres on stewardship and engagement — with a goal of enhancing TCFD-aligned disclosure, including industry-specific transition plans to net zero, with interim science-based targets and capital expenditure implications, in order to move institutional holdings in line with 'net zero' commitments. This work has been highly influential, given close proximity to the world's leaders, with notable direct State Street engagement on climate-related issues at the G7-level.

In 2021, in collaboration with other taskforce members we will be publishing our expectations on the transition to net zero emissions for the shipping and banking sectors.

Separately, in 2020, State Street engaged in two important collative initiatives relating to climate change and inclusive capitalism, through the Vatican Council. It further underlines our commitment to the wider global sustainability transition, and this particular group enlightens State Street Global Advisors' collaborative efforts in the Climate Action 100+ initiative.

Collaborative Investor Letter on Supervisory Board Election Terms in Germany — Europe (Governance)

We believe German companies continue to lag their European peers, with supervisory board members elected for the maximum five-year term permitted by law. This is in direct contrast to other European markets, which have embraced investor-led efforts for more frequent board election cycles.

We view board accountability as fundamental to strong corporate governance and we believe that shorter election terms would provide increased accountability and encourage board members to be more responsive to shareholder interests, thus improving board quality in the market.

In August 2020, State Street Global Advisors led a collaborative letter campaign where we, alongside a group of like-minded investors representing in aggregate $8.3 trillion of assets undermanagement, called on DAX 30 companies to voluntarily adopt a three-year election cycle for shareholder-elected supervisory board members.

Our decision to pursue this collaborative approach was in response to the failure of the German Governance Code Commission to listen to the concerns of both large international institutions and local market investors.

In 2019, the German Corporate Governance Code Commission, in a public consultation, proposed to recommend three-year terms for shareholder elected supervisory board members. We considered this a sensible compromise that was supported by both large international institutions and local market investors. As such, the Commission's ultimate decision to withdraw its proposal led us to engage collectively on this systemic governance issue in 2020.

The initial response from DAX 30 companies to our letter was disappointing with few companies committing to adopt a three-year election terms. During 2020 and 2021, we continue to engage with members of the DAX 30 to encourage them to voluntarily adopt a three-year election cycle.

Such collaborative efforts of institutional investors and associations play an important role in the progress made in recent years in the fields of ESG investing. In order to benefit from guidance and to share best practices, we are proud participants in this collaboration through our membership in a number of global investor bodies, including:

- The United Nations PRI
- The Council of Institutional Investors
- The Asian Corporate Governance Association
- The UK Corporate Governance Forum
- Investor Network on Climate Risk (INCR)/CERES
- SASB Investor Advisory Group
- TCFD
- University of Cambridge Institute for Sustainability Leadership, Investment Leaders Group
- Japan Investment Advisers Association

Regulators and Policymakers

Stewardship extends beyond interactions between investors and the companies in which they invest, to interactions with wider society. In recent years, regulatory and supervisory agendas around the world have focused on climate and wider sustainability policy matters.

At State Street, the Regulatory, Industry and Government Affairs (RIGA) division is responsible for monitoring policy, legislative or regulatory developments globally, and for engaging regulators and policymakers on these issues — either directly or indirectly via industry groups. We publish letters to regulators and policymakers on State Street's and State Street Global Advisors' company websites, and details of our lobbying activities can be found here. With respect to trade organisations, we periodically assess their scope and purpose to identify where their positions may materially diverge from State Street's positions, including on ESG issues, and evaluate the benefit of continued membership.

It is our interactions with asset owners, asset managers, data providers, and other key stakeholders from across the globe that we believe gives us unique insight to engage in evolving policy debates around sustainability issues.

Below are some examples of our collaboration with policymakers on stewardship and wider sustainability-related issues.

HM Treasury's Asset Management Task Force

In February 2019, the UK Government announced a revamp of its Asset Management Taskforce, appointing five new members including Cuan Coulter[12] (Executive Vice President and Head of EMEA, State Street Global Advisors) with a view to explore ways in which to promote responsible investment, amongst other things. The Taskforce was originally set-up in 2017, comprising a group of the UK's leading investment managers, stakeholders and regulators, led by HM Treasury and supported by industry groups such as the UK Investment Association (State Street Global Advisors also sits on the Taskforce's stewardship sub-committee in addition to various relevant committees hosted by the Investment Association).

In November 2020, the Taskforce outlined a series of 20 recommendations in a report titled *Investing with purpose: placing stewardship at the hard of sustainable growth*, in order to 'build back better' post the coronavirus pandemic. The Taskforce's proposals aimed at incentivising market participants, such as investment managers and asset owners, to expand their stewardship activity across different asset classes, including bonds — State Street Global Advisors had been a strong proponent of this particular recommendation, having previously advocated for the UK Stewardship Code to be similarly extended in our response to the Financial Reporting Council the year before. Additional recommendations included:

- **Strengthening escalation of stewardship** by providing guidance to asset managers on bringing forward their own resolutions when companies are perceived to be "laggards" via engagement, and asking the UK government to review the rules governing shareholders' ability to initiate their own resolutions.

- **Embedding better stewardship in pension assets** by establishing a Council of UK pension schemes to promote high standards of pension stewardship, in addition to requiring UK pension schemes to explain how their stewardship policies and activities are designed in the best interests of scheme members.

- **Improving companies' reporting and disclosure to ensure consistency** and comparability, including supporting the Government's intention to change company law in order to require all large UK incorporated companies consistent with the TCFD framework.

- **Widening adoption of the new UK Stewardship Code** beyond investment managers, to all service providers involved in the investment process so that the entire value chain follows the same high standards with respect to stewardship.

Through the course of 2020, State Street Global Advisors demonstrated its support for these recommendations, particularly with respect to new Government mandates to introduce mandatory TCFD-aligned reporting across the investment chain.

For example, State Street Global Advisors led the State Street Corporation response supporting the UK Government's Department of Work and Pensions (DWP) proposals for mandatory climate-related disclosure by pension schemes consistent with TCFD, in October 2020. We were pleased to see that, as an outcome of this effort, UK pension schemes with over £5 billion in AUM are now required to finalise their first TCFD reports from 1 October 2021. We also highlighted the importance of ensuring an appropriate sequencing of mandatory disclosure requirements, to ensure pension schemes have sufficient information from their investment managers and on the companies in which they invest to satisfy TCFD requirements. Further, to address potential disconnect, in 2020, State Street Global Advisors (Rob Walker, Co-Head Stewardship) joined a new steering group set up by the UK Investment Association (UK IA) and the Pensions and Lifetime Savings Association (PLSA), which aims to strengthen the relationship between asset owners and investment managers.

Recognising the importance of transparency across the investment chain, and that responsible investing transcends geographic borders for global investors, State Street Global Advisors has sought to promote the Taskforce's recommendations internationally. For example, we encouraged Canadian authorities (May 2020) and the EU (November 2020) to enhance corporate sustainability reporting in line with the TCFD framework. We believe that this is best developed at the international level, hence our endorsement of the International Financial Reporting Standards Foundation's Sustainability Standards Board initiative at the end of 2020, which we suggested leverage off existing frameworks such as TCFD.

Specifically on embedding better stewardship in pension assets, State Street Global Advisors took exception to two U.S. Department of Labor's (DOL) proposed rulemakings that would have infringed our stewardship duties with respect to US pension funds. On 23 June, the DOL published a proposed rulemaking on Fiduciary duties regarding proxy voting and shareholder rights which sought to regulate ESG strategies by investment fiduciaries under ERISA and on 4 September the DOL released another proposed rulemaking on Financial Factors in Plan Investments. Both of these proposed rules contained significant negative implications for ERISA fiduciaries and ultimately American savers. The so-called ESG rule would have restricted ERISA fiduciaries from integrating ESG considerations into the investment process, strictly prohibiting an ESG fund from being selected as a qualified default investment fund, thus denying millions of American savers from maximising more sustainable returns – and more ge nerally raising the compliance costs and increasing reporting burdens for US fiduciaries. Implications arising from the DOL's proxy voting rule mirror the costs and burdens associated with the ESG rule.

Recognising the importance of engaging the DOL on its proposed rulemaking not only to voice State Street Global Advisors' concerns, as we systematically integrate ESG factors across asset classes and use our vote to effect change, but also our clients, plan participants and end-beneficiaries, who would, ultimately, be restricted access to an entire type of long-term, value-driven investment that could help ensure future retirement security, or denied the right to vote on long-term issues affecting stakeholder value. State Street Global Advisors felt strongly about the damaging impacts of these policy changes that our CEO published a public opinion on the matter (FT article). Although we, and the wider asset management industry, were unsuccessful in preventing these rulemakings from being passed into US law, we were able to secure temporary non-enforcement of all ESG-related rules agreed under the Trump administration, thereby allowing US fiduciaries to continue considering ESG factors in relation to ERISA funds. State Street Global Advisors has continued to engage the DOL, directly and via industry associations, on introducing amendments to the 'ESG' and 'proxy voting' rulemakings that would allow for full consideration of ESG factors, amongst other things. We are hopeful to report a positive overall outcome related to this topic in next year's annual stewardship report.

Much of the collaboration in HM Treasury's Asset Management Taskforce during 2020 focused on the industry's response in areas such as stewardship through the coronavirus pandemic, in particular, the role of equity and debt and the role of dividends in providing income for pensioners. The work had good support from regulators and the Government, resulting in collaborative industry letters providing guidance to companies across the UK. For example, we contributed to an IA letter on employee health and safety, share buy-backs and dividends and resilience of supply chains, which was made publicly available in April 2020.

Listing Rules

State Street Global Advisors has also been engaged, via industry associations, on the review of UK listing rules and prospectuses. We emphasised the utmost importance of quality stewardship and good governance standards, which have been and should remain a competitive advantage in London.

Adopting an international approach with this standpoint, State Street Global Advisors has also been heavily engaged in ongoing policy developments relating to listing rules and/or voting rights outside of the UK. For example, in December, Nasdaq Stock Market LLC (Nasdaq) filed a proposal with the U.S. Securities and Exchange Commission (SEC) to adopt new listing rules related to board diversity and disclosure. If approved by the SEC, the new listing rules would require all companies listed on Nasdaq's US exchange to publicly disclose consistent, transparent diversity statistics regarding their board of directors. Additionally, the rules would require most Nasdaq-listed companies to have, or explain why they do not have, at least two diverse directors.

We wrote to the SEC to approve Nasdaq's proposed rule change, consistent with our view that disclosures around board diversity are critical to effective corporate governance and long-term risk management and value generation. Following subsequent engagement with the SEC, State Street Global Advisors is hopeful that it will be able to report another positive outcome in next year's report (i.e., the SEC approving Nasdaq's proposal). Enhanced diversity disclosure will be a continuing area of focus for State Street Global Advisors, and we expect to broaden our engagement with policymakers and stock exchanges on listing rules changes through 2021, more generally.

Our Clients

We have a client-first approach, which as our CEO Cyrus Taraporevala has said, consistently aims to "meet the client in their journey, regardless of whatever stage they are at, and push them forward".

The Stewardship team works closely with our global client relationship teams to maintain an open and constructive dialogue with clients on the delivery of our stewardship activities. Our client approach is centred on client engagement and reporting.

Client engagement

We recognise the importance of being accountable to our clients on how we fulfil our duties as responsible owners on their behalf. Our process begins with understanding our clients' needs and we use surveys as part of this process. For example, in 2019, we surveyed a cross-section of our client base on multiple voting rights. This survey allowed us to gather views at scale from a wide range of existing clients. We assessed these views in 2020 and made changes to our voting process as a result of these findings.

In addition, we meet with our larger clients to educate them on how we are conducting our stewardship activities. We believe that client engagement allows us to better understand our client expectations in terms of their stewardship journey and we incorporate their feedback into our stewardship program where appropriate.

Outcomes from Client Feedback

The effectiveness of our client communication and engagement is directly linked to their impact. As a result of recent meetings we have been able to implement the following improvements to ensure that we continue to deliver increasing levels of support and value to our clients:

- **New Thematic Focus:** During 2019, our dialogue with clients consistently identified environmental management as a key issue of interest. As a result, we introduced it as a new thematic priority in 2020.

- **Enhanced Vote Transparency:** During 2020, we also implemented a new quarterly reporting schedule, in response to client demands for more transparency on how we vote.

- **Vote Bulletins:** In 2020, we received client feedback on the need for more vote bulletins. This is an area where we have not delivered as consistently as we would have liked and are therefore planning to add additional resources in 2021 to help increase the frequency of these bulletins going forward.

- **Advisory Client Committee:** Looking ahead, we are also planning to launch an advisory committee to further improve the way we solicit views from our clients.

Reporting

We provide transparency of our stewardship activities through our regular client reports and other information reported publicly online. State Street Global Advisors publishes an annual stewardship report that provides details of our stewardship approach, engagement and voting policies, and activities during the year, complying with the principles of the Shareholder Rights Directive (SRD) II. The annual report is complemented by quarterly stewardship activity reports as well as the regular publication of thought leadership on governance and sustainability themes available on our website.

Consistent with our commitment to transparency on our stewardship activities, State Street Global Advisors will increase the frequency of the publication of our voting record from annual to quarterly starting in Q1 2021. This information will be hosted on "Vote View", an interactive platform that will provide important company details, proposal types, resolution descriptions, and records of our votes cast.

Our 2020 Stewardship activity reports can be found below:

- **Q4 2020:** https://www.ssga.com/library-content/products/esg/stewardship-activity-report-q4-2020.pdf
- **Q3 2020:** https://www.ssga.com/library-content/pdfs/asset-stewardship/inst-asset-stewardship-activity-report-q3.pdf
- **Q2 2020:** https://www.ssga.com/library-content/products/esg/asset-stewardship-report-q2-2020.pdf
- **Q1 2020:** https://www.ssga.com/library-content/products/esg/asset-stewardship-report-q1-2020.pdf

Disclosure of Significant Votes (SRD II)

In compliance with the Shareholder Rights Directive (SRD) II, we have developed a framework, as described below, that identifies our most "significant votes" for our UK clients. On a quarterly basis, using this framework, we also create reports for our UK clients that include a brief explanation of the most significant votes identified in their portfolios.

State Street Global Advisors identifies "significant votes" for the purposes of the Shareholder Rights Directive II as follows:

1. All votes on environmental-related shareholder proposals.
2. All votes on compensation proposals where we voted against the company management's recommendation.
3. All against votes on the re-election of board members due to poor ESG performance of their companies (as measured by their R-Factor ESG score).
4. All against votes on the re-election of board members due to poor compliance with the local corporate governance score of their companies (as measured by their R-Factor CorpGov score).
5. All against votes on the re-election of board members due to a lack of gender diversity on board.

Our Company

We strive to hold ourselves accountable to the same standards that we expect of our investee companies. We believe that it is not only important to set a clear example, but also to play our role in moving the market on these important issues.

Our Stewardship team engages with the State Street Corporation Board on a biannual basis. The purpose of these meetings is to inform and educate the Board on key developments in the team's engagement and proxy voting, and best practice.

In order to increase literacy of ESG within our business, our ESG and Asset Stewardship teams have given multiple series of ESG training courses to internal stakeholders globally and across firm functions, including portfolio management teams, sales teams, relationship management teams, portfolio strategy teams and research teams. Training covers a variety of ESG topics and development such as voting policies and engagement, ESG investment strategies and products, ESG taxonomy, as well as ESG portfolio assessment on ESG score, climate and business involvement and controversy. In addition to formal training, we have several processes and mechanisms to share ESG knowledge, insights, trends and other information across the organisation.

For example, members of the ESG Investment Strategy, ESG Research, ESG Integration and Asset Stewardship teams regularly meet with internal colleagues to discuss industry trends, client needs, research priorities, ESG metrics and analytics and new ESG strategies, among other topics.

In general, we are committed as a firm to upholding the highest standards of integrity, decency and respect. As part of our recognition of the growing importance of diversity and inclusion, State Street implemented '10 Actions to Address Racism and Inequality'. These ten steps demonstrate our intentional focus on the changes we must make internally and externally to bring about a more diverse, equitable and inclusive workplace, community and industry.

Furthermore, in 2018, the Board of Directors of State Street Corporation, parent company of State Street Global Advisors, adopted a formal mandate to oversee material ESG risks facing the business, including climate-related risks. As part of the execution of that mandate, the Executive Corporate Responsibility Committee reports to the Board of Directors at least once per year on relevant topics.

Corporate Responsibility

We have robust policies on corporate responsibility and ESG. As a responsible corporate citizen, we're focused on conducting business in a transparent and ethical manner. This includes working to maximise our global impact through charitable contributions, employee volunteering and more, while minimising our global footprint. From reducing carbon emissions, to prioritising asset stewardship, to investing in human capital, we aim to create long-term value — for our clients, employees, shareholders and communities.

Our Corporate Responsibility Statement is available here and our employee activities are detailed in our annual Corporate Responsibility Report available on our website.

Our Investee Companies

The final element of our holistic stewardship approach is to engage with our investee companies. This is where we demonstrate influence over the $3.5trn under management.

Whilst we already influence our investee companies indirectly, e.g., through our thought leadership, our direct engagement is where we are able to set clear expectations, making it a core part of our stewardship approach. We discuss our approach to engagement and voting in the Engagement and Escalation section of this report.

4 Identifying and Managing Systemic Risks (Principle 4)

In line with our mission, we are committed to investing responsibly to enable economic prosperity and social progress. Therefore, identifying and responding to market-wide and systemic risks to promote a well-functioning financial system is of utmost importance to us. This is in the best interests of our clients, our company and the market as a whole.

This section provides an overview of our risk management framework and explains how State Street Global Advisors identifies and responds to market-wide and systemic risks.

Identifying Systemic Risks: Our Risk Management Process

State Street Global Advisors' Enterprise Risk Management Group, led by the Chief Risk Officer, comprises the Investment, Liquidity, Counterparty, Model, Operational Risk Management and COO Risk teams and is tasked with monitoring, supporting and managing business risks taken throughout the organisation. The Enterprise Risk Management Group's mission is to protect both our firm and our clients from unintended risks by providing an independent assessment framework to evaluate risk exposures and process controls across asset classes.

Investment Risk

The Investment Risk Team is responsible for independently monitoring investment risk exposures to ensure that risk contributions are consistent with return expectations and to highlight intentional and unintentional exposures. Attention is focused on where we have risk, how much risk we have, and whether it is consistent with our views and client objectives. In addition, the team provides risk reporting to portfolio managers to help ensure that they are taking appropriate risks in their area of expertise.

Liquidity Risk

The Liquidity Risk Management Team is responsible for independently monitoring and reporting on asset and funding redemption liquidity risk to ensure appropriate levels of liquidity risk across the portfolios and to highlight intentional and unintentional exposures. The Liquidity Risk Management Team is responsible for independently monitoring and reporting on asset and funding redemption liquidity risk to ensure appropriate levels of liquidity risk across the portfolios and to highlight intentional and unintentional exposures.

Counterparty Risk

The Counterparty Risk Management Team is responsible for establishing firmwide counterparty policies, reviewing and approving prospective counterparties and monitoring and reporting on counterparty exposures. This group also participates in the approval of new derivative products, provides input into ISDA negotiations and advises on the financial profile of authorised participants for SPDR (Standard & Poor's Depositary Receipt) ETFs and Security Lending Borrowers.

Operational Risk

The role of Operational Risk Management is to assist the organisation in effectively managing the risk of errors in people, processes, technology and external events in conjunction with achieving business objectives by executing a framework to identify, measure, mitigate and monitor risks. The team, in partnership with the business, is responsible for delivering a risk governance structure that facilitates risk discovery, prioritisation and management in order to influence business discussions and decision making, as well as for assessing processes, procedures and control structures to ensure proper alignment and promote best practices.

COO Risk Team

The COO Risk Team manages State Street Global Advisors' risk infrastructure, including project management of key technology and platform initiatives, the development and execution of our risk strategy, leading coordination across all risk disciplines and ensuring that client and enterprise risks are identified, measured and monitored in an effective manner. The team is also responsible for designing solutions to meet regulatory requirements.

Emerging Risk Review Framework

State Street Global Advisors has established an emerging risk review framework that allows the investment risk team to proactively identify and respond to market-wide and systemic risks in the global financial system and global economies. The framework is intended to help reduce and manage uncertainties in investment strategies and/or funds by proactively measuring and quantifying associated risk, thereby enabling a preventive approach to risk management. Over 2020, several emerging risks were identified and reviewed, which include:

- The impact of the COVID-19 pandemic on global economies
- Physical, economic and regulatory risks posed by climate change
- Racial and ethnic inequity that threatens lives, companies, communities and our economy
- Repo crisis: impact to rates, specifically negative rates, and the consequences to the functioning of money market funds
- Inflation drivers and expectations: supply-driven transient inflation or potential for unexpected inflation
- Impact of sanctions on Russia and China

Managing Systemic Risks

Managing Industry Risk and Liquidity Risk

In the past decade, crises have demonstrated that liquidity risk has often been the cause of fund failures and contagion risks across asset classes. We have sought to manage systemic risks from lack of liquidity by building out a liquidity risk management framework based on: measurement and monitoring; contingency planning; and disclosures, transparency and governance.

Clear and transparent disclosures have enabled a clear set of liquidity risk management tools designed to minimise and mitigate liquidity risks for funds, while regular table-top exercises are held with each investment and product team, to ensure that they are aware of the steps that can be taken and that processes are well-documented and understood. These steps, together with regular monitoring and governance, have ensured that systemic risk arising from liquidity is well understood and appropriately managed.

In addition, State Street Global Advisors has engaged in numerous regulatory and industry initiatives that seek to socialise industry best practices on liquidity risk management. For example, in 2020, the firm helped prepare the UK Investment Association (IA) Guidance on Liquidity Management Toolkit that also took into account lessons learned from the COVID-19 market turmoil. The firm also engaged with the International Organization of Securities Commissions (IOSCO) in October 2020 to discuss ETF performance during March 2020 to identify key areas of focus for IOSCO and broader policy makers; this engagement also highlighted the positive performance of the ETF Sector during the height of market volatility. Given the interlinkage between leverage and liquidity risk, the firm also responded to the European Securities and Markets Authority's (ESMA) Consultation on Leverage in August 2020.

In addition, State Street Corporation has company-wide requirements for model risk management, to which State Street Global Advisors' models adhere. The Model Risk Team administers State Street's Model Risk Management (MRM) framework to ensure that model risk is identified, assessed, mitigated and monitored over time. In addition, at State Street Global Advisors the Technical Committee (a subcommittee of the Investments Committee consisting of a first-line team of investments professionals) is focused on model risk within the Investments Division (which includes all models used to manage and value funds).

Independent model validation is a formal structured process intended to determine whether a model has been developed and implemented consistent with its design objectives and business uses and has an ongoing monitoring plan in place. Validation is performed in accordance with State Street corporate guidelines by independent MRM validators or by independent first-line reviewers specialized in the model's asset class and investment style, depending on the model risk tier. The validation conclusions determine if the model is approved for its implementation and use.

These model validators are also responsible for identifying any weaknesses with the model, defining the need for remediation actions and compensating controls to address the identified issues and reviewing the completion of remediation actions and compensating controls. Model validation is conducted prior to model use and on a periodic basis on a frequency commensurate with the assessed risk and whenever model changes are made, along with annual reviews conducted for all models. These guidelines apply to both internally developed models and all third-party models (vendor models).

COVID-19 Pandemic

> "We were able to manage $3.5 trillion of client assets and help our clients navigate the rough volatile markets with huge trading volume spikes — all while almost none of our people were in an office building."
>
> —Cyrus Taraporevala, President and CEO, State Street Global Advisors

The COVID-19 crisis provides a pertinent example of how State Street Global Advisors navigated unprecedented circumstances that presented market and human risk in real time.

Supporting our Employees

In 2020, the COVID-19 pandemic had a significant impact on how we managed our human capital. Nearly all of our workforce began working remotely, reaching approximately 90% in April 2020, and we instituted safety protocols and procedures for essential employees who returned to work on site. During this period of uncertainty for our employees, we committed in the first quarter of 2020 that no workforce reductions would occur in 2020, other than for performance or conduct reasons. We also expanded support of our most important asset — our employees — by offering additional resources to assist with child care, time needed to care for family, physical and mental health needs, support for home office equipment and consideration of employee concerns as we mapped out a new post-COVID "normal."

Outcome: Due to the net impact of hiring and attrition levels, both of which we monitor closely, our workforce at the end of 2020 was up 1% compared to 2019 at approximately 39,000 employees, 67% of whom are located outside the US. Moreover, approximately 90% of responding employees indicated during an all-employee survey that they were proud of the way the company has responded to the crisis.

We also directed our internal audit team to review all systems, processes and deliverables to confirm that the employee and client experience remained at pre-COVID levels and that we did not experience any control degradation as a result of the disrupted work force and the extreme market volumes and volatility. The objective of this review was to assess the operational effectiveness of the control environment for high-risk business activities impacted most by market and work stresses brought upon by COVID-19. During this time of heightened risk and stress, Corporate Audit performed a risk-based review. We established a COVID-19 Risk Oversight Working Group, consisting of members from the GA Business Controls Office, Corporate Audit, GA Risk and Compliance, who worked together to identify areas of focus for the review. Manual processes most likely to be affected by factors such as market volatility, increased volume/activity and the sudden transition to remote working were selected. These included samples from Portfolio Management & Trading.

Overall, Corporate Audit's testing indicated that GA's control environment operated in a satisfactory manner during the stressed conditions brought upon by COVID-19. This also aligned with GA Management's assertion that any initial concerns resulting from the COVID-19 environment were addressed in a timely way, and that there were no significant increases in control failures or operational errors. Furthermore, the results were consistent with the 1st and 2nd lines as well as the SOC 1 outcomes, which also indicated that the control environment operated in a satisfactory manner.

Portfolio Resilience

During the exceptional months of 2020, we deployed the full breadth of our market insights and risk and exposure management skills to help clients weather historic market shifts. Most investors entered 2020 with the expectation that the longest equity bull market in history would most likely experience a correction during the year. But no one anticipated the severity and speed with which COVID-19 shut down economies around the world and caused the most precipitous drop in the S&P 500 index since Black Monday in 1987.

Mitigating the Impact of COVID-19 Portfolio Risks Within Our Core Growth Equity Portfolio

Following the confirmation of COVID-19 as a global pandemic in March 2020, various risk analyses were carried out primarily to assess the potential range of global economic shocks that might arise from the pandemic. By end-May 2020, and in discussion with the Portfolio Managers' team, the range of outcomes for the outlook was narrowed to:

- A prolonged slump — probability of 10%
- Recovery interrupted by lockdowns — probability of 80%
- Sustained recovery — probability of 10%

Our Fundamental Growth and Core Equity team came together to look at each of our holdings and assessed the sensitivity of price for each individual stock to these scenarios, leaving out all stock-specific risk except for that related to the crisis. The team then aggregated the weighted average sensitivity of these holdings.

Outcome: As assessed in early June, the Global Equity Select Fund portfolio showed relatively little sensitivity to market risk in the two adverse scenarios, and this in turn gave us a reasonable degree of confidence in our sector and regional positioning. This forward-looking analytical exercise also highlighted where potential portfolio vulnerabilities and risks might lie should the pandemic, demand patterns and market risks change.

Stewardship Focus during the Pandemic

In light of these extraordinary circumstances, in March 2020, we shared our perspectives on our 2020 asset stewardship agenda, recognising that our portfolio companies were going through a challenging time and that their immediate priority is the safety and well-being of their employees and other stakeholders.

With this in mind, we encouraged our portfolio companies to:

- Refrain from undertaking undue risks that are beneficial in the short term, but harm longer-term financial stability and the sustainability of the business model.

- Communicate to investors COVID-19's potential short- and medium-term impact to their business, overall operations and supply chains, including management preparedness and scenario-planning and analysis.

- Articulate how COVID-19 might affect or influence their approach to material ESG issues, as part of their long-term business strategy.

- To continue to help stop the spread of the virus, we encouraged companies to follow guidance from government authorities to either postpone their shareholder annual general meetings (AGMs) or shift to virtual meetings. When conducting an AGM meeting virtually, we expect companies to preserve all of the rights and opportunities afforded to shareholders through a physical meeting.

Outcome: Companies have used our COVID-19 guidance as a road map to understand our expectations and improve their communication on how they identified and managed material pandemic risks. In addition, we shifted our stewardship activities towards COVID-19-related engagements, which focused on health and safety and human capital.

To manage a crisis of this magnitude successfully we believe companies need to strike the right balance between managing short-term priorities and staying focused on long-term goals. Since the outbreak of the pandemic we have engaged with 150 companies globally, across various markets and sectors, to understand how they navigated the crisis and positioned their business for the future.

The two key issues we identified from our engagements were:

Social Issues in the Spotlight

The COVID-19 pandemic has shown how a global health crisis can become a profound social issue. As a result of the pandemic, waves of social disruption followed in many countries, which caused us to amplify our focus on human capital, employee health, safety, equality, diversity and inclusion. In our engagements, we encouraged our investee companies to articulate how the pandemic might influence their approach to these material issues as part of their long-term business strategy.

We believe that companies should consider redeploying talent by re-skilling and up-skilling the workforce. Companies may also need to re-evaluate their purpose, culture and portfolios to deliver more sustainable business models in the post-pandemic era. We are confident that forward-looking companies with strong ESG practices will use this crisis as an opportunity to reinvent themselves.

Liquidity Management: A Top Priority for Companies

As a consequence of the pandemic, many companies have been in greater need of capital and liquidity, and have consequently suspended their dividend payments and share buy-back programs to preserve cash and ensure the ongoing viability of their business. In light of the current uncertainties, we understand that some companies have to take a prudent approach in assessing their ability to withstand financial stress.

However, we are also mindful when companies unnecessarily suspend or reduce their return of capital to shareholders. We expect companies that decide to suspend dividend payments to resume them as soon it is prudent to do so. Unsurprisingly, there was also a significant increase in the number of investee companies seeking to raise survival cash from shareholders during the 2020 proxy season. The number of capital raising resolutions submitted for approval at shareholder meetings more than doubled compared to the same period last year.

Outcome: We have been supportive of well thought-out capital-raising requests from our issuers, enabling them to raise the capital they need to ensure the long-term sustainability of their business.

5 Engagement and Escalation (Principles 6, 9, 10, 11, 12)

Our approach to proxy voting and issuer engagement is premised on the belief that companies that adopt robust and progressive governance and sustainability practices will be better positioned to generate long-term value and manage risk. As near perpetual holders of the constituents of the world's primary indices, the informed exercise of voting rights coupled with targeted and value-driven engagement is the most effective mechanism of creating value for our clients. Accordingly, our stewardship program proactively identifies companies for engagement and voting in order to mitigate ESG risks in our portfolios.

Given the size of our assets under management, the global scope of our investments and the nature of our investment portfolios, our stewardship role in global capital markets extends beyond proxy voting and engagement with issuer companies. It also includes promoting investor protection for minority shareholders through partnerships with local investors and regulators, alongside working with investee companies to encourage adoption and disclosure of strong ESG practices.

To measure and demonstrate impact, we monitor and follow up with companies that we previously engaged with and evaluate their responsiveness to our feedback. This requires a long-term, multi-year approach to stewardship. Additionally, in order to maximise our impact, we publish thought leadership that is intended to both inform companies and educate market participants.

How We Engage

Our Stewardship Team has developed an Issuer Engagement Protocol and a framework to increase the transparency of our engagement philosophy, approach and processes. This protocol is designed to communicate the objectives of our engagement activities and to facilitate a better understanding of our preferred terms of engagement with our investee companies. A copy of the protocol can be found on our website. We regularly review our Issuer Engagement Protocol to ensure that our interactions with companies remain effective and meaningful. This includes reviewing indicators in our screening models and assessing emerging ESG issues and trends.

We monitor the percentage of engagements with companies we previously identified as requiring proactive discussions and the percentage of unique engagements to ensure that our activity is aligned with the long-term, risk-based approach to stewardship that is fundamental to our program. We actively seek direct dialogue with the board and management of companies that we have identified through our screening processes.

Escalation

At the start of each engagement, we define our priorities and objectives for the dialogue with company management. Progress against these objectives is tracked within our internal Stewardship Platform.

We will always prioritise engagement in our communications with investee companies. However, when change is not occurring at the rate that we expect, we use voting as our main tool to escalate issues to company boards. In case of lack of progress, our escalation strategies may include:

- Voting against the re-election of board members or specific resolutions linked to our areas of concern.
- Writing to the board of the company to formalise our concerns and requests.
- Supporting shareholder resolutions.
- Eventually, in our active funds we may decrease or exit a position.

Our escalation process has been designed to drive governance and sustainability practices at issuer companies toward global principles of good governance, while taking account of individual market nuances and standards.

For example, for a number of years we have been engaging with companies in Germany on the issue of board accountability, urging them to reduce their five-year election cycles for shareholder-elected supervisory board members.

As these companies did not respond to our call to action, in August 2020, we escalated this by leading a collaborative letter campaign where we, alongside a group of like-minded investors representing in aggregate $8.3 trillion of assets under management, calling on them to voluntarily reduce the five-year election cycle for shareholder-elected supervisory board members.

Our escalation approach is adjusted for fixed income engagements where there is no ability to vote. Fixed income escalation, however, may take the form of letter writing or divestment. Going forward, we are looking to further enhance our fixed income stewardship programme and as part of this we will review our engagement and escalation procedures.

Measuring Engagement Success

Our stewardship activities are designed to have an impact on company-specific and market-level ESG practices. Therefore, we define success as:

- A company implementing changes to its ESG-related programs, practices or processes consistent with our engagement or voting feedback.

- Several market participants, such as asset owners, asset managers, consultants or proxy advisory firms, being influenced by our thought leadership on thematic ESG issues.

- Regulators responding to our concerns/collaborative initiatives.

Company-Specific Successes

Assessing the effectiveness of our company-specific engagement process can be challenging to measure. To limit subjectivity in measuring our success, we actively seek issuer feedback and monitor the actions taken by issuers post-engagement in order to identify tangible changes. This enables us to establish indicators to gauge how issuers respond to our concerns and to what degree these responses satisfy our requests.

It is also important to note that successful engagement activity can be measured over multiple years depending on the facts and circumstances involved. These engagements not only inform our voting decisions but also allow us to monitor improvement over time and to contribute to our evolving perspectives on priority areas.

We also track the impact of our proxy votes by reviewing changing trends in market practices on specific corporate-governance or sustainability-related issues that we address through voting action. We report successful engagement and voting actions to clients on an annual basis. We provide some examples of company-specific successes in the Engagement Case Studies & Outcomes of Core Campaigns section.

Market-Level Successes

We track the broader adoption of the thematic ESG issues that we have been championing by assessing the number of market participants that have embraced positions consistent with our thought leadership and advocacy. We detail our efforts and outcomes in this regard below.

How We Prioritize Our Engagements

As an investor in more than 12,000 listed companies, prioritisation is essential to our effectiveness. Our active target list includes companies across seven main regions/markets (Australia, Canada, emerging markets, European Union, Japan, the UK and the US) of our stewardship activities.

We identify target companies for engagement through multiple methods, including proprietary ESG screens, and the sector and thematic priorities identified in our annual stewardship objectives.

Figure 7
Engagement Screening Process

Factor
How we prioritize

→

Portfolio Exposure
Absolute and relative holdings

→

Proprietary ESG Screens
Negative screening on ESG factors

→

Thematic and Sector Priorities
Stewardship plan

Source: State Street Global Advisors.

Types of Engagement

Active

In 2020, 62% of our annual company engagements were classified as active. We use screening tools designed to capture a mix of company-specific data, including governance and sustainability profiles, to help us focus our engagement activity.

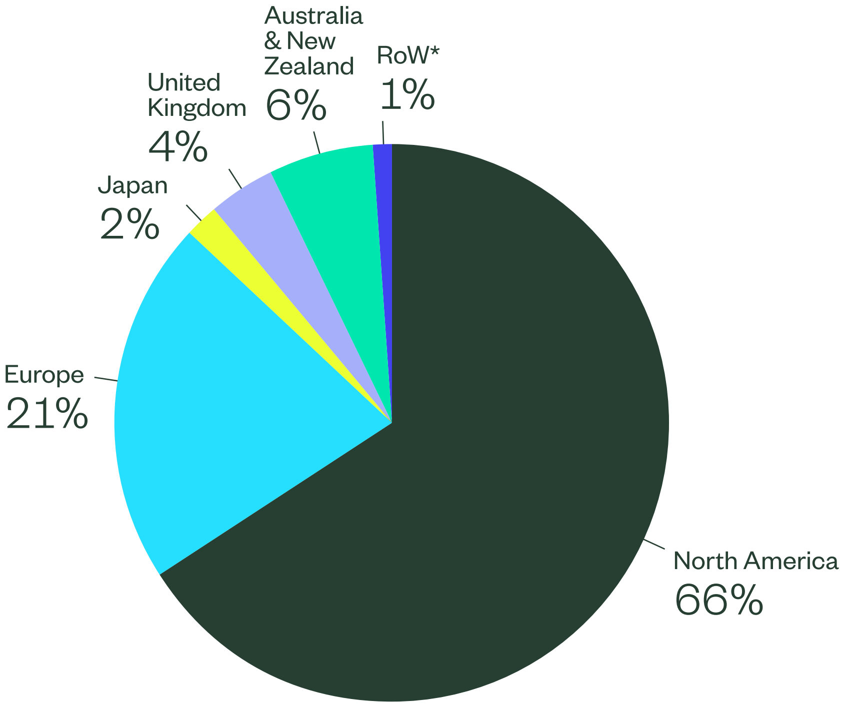
As noted earlier, we actively seek direct dialogue with the board and management of companies that we have identified through our screening processes. Such engagements may lead to further monitoring to understand and improve company practices. In these cases, the engagement process represents the most meaningful opportunity for us to protect long-term shareholder value from excessive risk due to poor governance and sustainability practices.

Reactive

In 2020, 38% of our annual company engagements were classified as reactive. Here, members of our Stewardship Team engaged with companies that wished to solicit our votes, or seek feedback on corporate governance and sustainability issues as shareholders, or seek comment on breaking news developments. These meetings were typically initiated by the companies, which typically drove the meeting agendas.

Engagement Breakdown

Figure 8
2020 Comprehensive Engagements: Key Figures



Source: State Street Global Advisors 2020 Stewardship Platform.

2020 Comprehensive Engagements
672

Portion of Equity AUM Engaged (%)
78

2020 Engagements Through Letter Writing
1,740

Countries
73

In 2020, we engaged with 1,721 companies, of which 672 were comprehensive engagements based on in-person meetings or via conference calls and 1,740 were through letter-writing campaigns. A board member was present for 32% of our 672 comprehensive engagements.

We sent letters to all S&P 500 companies setting out our expectations on Racial Diversity Guidance. We also sent letters to 80 companies on the thematic issue of gender diversity across three markets and sent our 2020 CEO letter to 1,125 companies. In addition, we sent a collaborative letter with other investors to all DAX 30 companies on the thematic issue of board accountability calling on them to voluntarily adopt a three-year election cycle for shareholder-elected supervisory board members. In 2020, we also conducted 851 engagements with companies on their R-Factor scores.

Sector and Thematic Focus

A significant challenge for asset managers with index strategies invested in thousands of listed companies globally is to provide active oversight of their holdings. As noted, our stewardship program identifies a series of strategic priorities designed to enhance the quality and define the scope of our stewardship activities for the year. Identifying these priorities enables us to plan and actively focus our engagement efforts on thematic ESG and sector-specific issues that are important to our clients.

We identify two or three 'deep dive' sectors each year, which allows us to proactively monitor and engage with companies on matters such as long-term strategy and performance. In addition, we have found that our sector focus and activities allow us to communicate changing ESG trends and characteristics that we identify through engagement, both internally with our investment teams and externally to our clients.

Selecting Our Sector Focus

We regularly review our holdings within sectors to identify the business and ESG trends that are having an impact on them. This strengthens our ability to provide input to boards and management when they seek feedback or guidance from us. We select our focus sectors based on a variety of factors, including:

- Emerging Systemic Challenges: We focus on sectors that are meaningfully affected by wider systemic challenges we observe in the market.
- Time Since Previous Focus: We revisit previously focused sectors when sufficient time has passed to monitor for progress made as well as new challenges or opportunities faced.
- Alignment to Our Thematic Priorities: We select sectors that are relevant to our thematic ESG focus.
- Client Input received in the past year.
- ESG Insights derived from our R-Factor scores.

In the following table, we detail our insights and views on the long-term challenges and opportunities for three of this year's key focus sectors: Information Technology, Consumer Staples and Transport.

Figure 9
Key Sector Focus

Sector Focus Area	Number of Engagements	Key Insights
Information Technology	**92**	The global COVID-19 pandemic had a positive financial impact on the technology sector. As people around the world were forced to move their lives online, information technology (IT) companies provided the tools and infrastructure that made this shift possible, increasing revenues and valuations. The technology sector faced increasing regulatory scrutiny and action this year. In Europe, antitrust agencies actively questioned whether 'Big Tech' is too big. In the US, the CEOs of major tech companies have become regular attendees at congressional hearings, and government officials have pursued legal action against IT firms. Our engagements with technology companies have focused on the importance of effectively managing these regulatory and legal risks.
Consumer Staples	**42**	The consumer staples sector — often viewed as less volatile than the broader market due to sustained demand for its products — is undergoing a massive transformation. This is primarily due to shifting consumer preferences and purchasing behaviours that were transforming prior to, and accelerated during, the COVID-19 pandemic. In 2020, we engaged with consumer staples companies to discuss long-term strategy and material ESG issues such as changing consumer preferences, the lifecycle of plastic materials, supply chain management and human capital management.
Transport — Airlines	**29**	Transport emissions, which primarily involve road, rail, air and marine transportation, account for over 24% of global greenhouse gas emissions from energy. They are also expected to grow at a faster rate than that from any other sector, posing a major challenge to efforts to reduce emissions in line with the Paris Agreement and other global goals. In 2020, we engaged with companies in the sector to understand their sustainability practices and discuss the unprecedented challenges these companies face due to the COVID-19 outbreak. In this section we particularly focus on the airline sector as the pandemic has led to the deepest crisis in the history of this sector.

Engagement Case Studies & Outcomes of Core Campaigns

Through our engagement activities, we seek to encourage the building of transparent, accountable, high-performing boards and companies. We believe that regular and constructive communication with our investee companies allows us to engage in an honest dialogue with boards and management on a spectrum of topics.

To measure and demonstrate impact, we monitor and follow up with companies with which we previously engaged and evaluate their responsiveness to our feedback. This requires a long-term, multi-year approach to stewardship.

Further, we regularly review our Issuer Engagement Protocol to ensure that our interactions with companies remain effective and meaningful. This includes reviewing indicators in our screening models and assessing emerging ESG issues and trends.

In addition, we have successfully worked with several of our investee companies to enhance their governance, compensation and/or sustainability practices. Here, we provide examples of notable successes and resulting outcomes from high-profile engagements during 2020, as well as voting and engagement outcomes from our core campaigns: Climate Change, Gender Diversity and R-Factor.

Equity

Company	**Barclays Plc**
Geography and Industry	United Kingdom / Banking
Key Topics	Climate Risk
Asset Class	Equity
Key Resolutions	Approve Market Forces Requisitioned Resolution
Board Recommendation	The Board recommended voting against this shareholder resolution
Our Vote	Abstained on this shareholder resolution
Background	In January 2020, the UK charity and campaigning organisation ShareAction filed a climate-related shareholder resolution at Barclays plc to be voted on by investors at the company's 7 May 2020 AGM. The resolution sought to direct Barclays to "phase out of the provision of financial services to companies within the energy and utilities sectors that are not aligned with the Paris Agreement". This vote was especially high profile as it marked the first time a European bank faced such a climate-related shareholder proposal. Following engagements with shareholders and ShareAction, Barclays announced on 30 March 2020 a plan to reach net zero carbon emissions by 2050 and a commitment to align all of its financing activities with the goals and timelines of the Paris Agreement. The company also submitted a management resolution at the AGM asking shareholders to endorse its plan and commitment. The alignment of Barclays' portfolio will first focus on the energy and power sectors, and will cover all sectors over time. Progress against its plan will be reported annually, starting from 2021.
Activity	In our April 2020 engagement with the Chairman of the Board of Barclays we communicated our support of the firm's updated climate strategy, which sets a new benchmark in the banking sector. Although the climate-related resolutions submitted by Barclays and ShareAction broadly shared the same spirit, we opted to support Barclays' resolution and abstain from the resolution submitted by ShareAction for the following reasons: • We believe Barclays' proposal was the more ambitious of the two. Further, Barclays' ambition to achieve net zero emissions by 2050 covers all of its portfolio, not just lending, as proposed by ShareAction's resolution. • The resolution submitted by Barclays sought to transition its provision of financial services across all sectors to align with the Paris Agreement, whereas ShareAction's resolution was too narrowly focused on the 'phase out' of specific financial services in the energy and power sectors. In our view, such a narrow focus could have limited the flexibility of the company to deliver a broader transition strategy to a lower carbon economy. • The passing of both resolutions could have created legal uncertainties, as they are both binding.
Outcome	ShareAction's resolution was defeated at the AGM, receiving 24% of votes cast, whereas Barclays' resolution was adopted, receiving over 99% support. We will maintain our ongoing dialogue with the company on climate risks, seek to engage with them again in the following year and monitor progress on their climate commitments.

Company	**Rio Tinto Plc & Rio Tinto Ltd**
Geography and Industry	Dual listed in the United Kingdom (Plc) & Australia (Ltd) / Metals & Mining
Key Topics	Social Responsibility – Communities and social performance practices
Asset Class	Equity
Background	We have conducted regular engagements over the years with Rio Tinto to discuss corporate governance and sustainability issues that we believe will enhance or protect long-term value creation. In May 2020, despite the vocal opposition of traditional owners, the company damaged an aboriginal heritage site in the Pilbara region of Western Australia as part of an iron ore mine expansion. These events highlighted the importance of engaging with local communities and revealed the significant reputational risks arising from identifiable ESG risks. The resulting stakeholder fallout contributed to the departure of the company's CEO and two senior executives.
Activity	During an engagement with the Chair of Rio Tinto in September 2020, we expressed our concerns over the Juukan Gorge incident and the subsequent fallout. We urged the company to work with the local communities and set appropriate governance and oversight arrangements to ensure that the risk of similar incidents in future would be mitigated. We also encouraged the board to proactively review and monitor corporate culture and incentivise management to take corrective action.
Outcome	Rio Tinto committed to us to improve its communities and social performance practices and work to rebuild trust and relationships with Traditional Owners. In March 2021, the company announced actions it has introduced to strengthen its performance and governance of cultural heritage and outlined the steps it will take to further improve its performance. In addition, the company announced that it will establish an Indigenous Advisory Group to ensure it has a better understanding of indigenous culture and issues in Australia, including at the board level.
Company	**Amazon.com Inc**
Geography and Industry	United States / Internet & Direct Marketing Retail
Key Topics	Ethical Content Management
Asset Class	Equity
Background	For several years, we have engaged with companies that run social media platforms to understand how they manage the unique risks created by their products. In October 2020, we conducted an off-season ESG engagement with Amazon.
Activity	During the conversation, we highlighted the importance of having strong social media ethics and urged the company to provide more disclosure on how they manage hateful and violent content on Twitch, its popular gaming platform.
Outcome	Amazon committed to us to engage with the appropriate teams internally, review their practices and provide more information on their social media ethics policy. In December 2020, as a follow-up to our engagement, Amazon contacted us to share the update that Twitch implemented guidelines to limit hateful content and harassment on the site, a policy which attracted significant press coverage.
Company	**The Walt Disney Company**
Geography and Industry	United States / Media & Entertainment
Key Topics	Executive Compensation
Asset Class	Equity
Key Resolutions	Voted against the Named Executive Officers' Compensation
Board Recommendation	The Board recommended voting in favour of all management resolutions
Our Vote	Voted against the Named Executive Officers' Compensation resolution
Background	Our Asset Stewardship team has a robust engagement history with The Walt Disney Company, lasting several years.
Activity	In our last engagement in March 2020, we expressed concerns over the high quantum of pay and the growing reputational risk resulting from this. Consequently, as no action was taken by the compensation committee to address our concerns, we escalated our engagement by voting against the company's non-binding remuneration resolution at the 2020 AGM.
Outcome	While the compensation proposal was approved at the meeting, 46% of shareholders voted against. In 2021, as a result of our engagement and vote, the compensation committee set the target compensation of the new CEO significantly lower than that of his predecessor.

Fixed Income

Company	**Verizon Communications Inc**
Geography and Industry	United States / Diversified Telecommunication Services
Key Topics	Strategy, Leadership, Culture and Sustainability
Asset Class	Debt
Key Resolutions	N/A
Board Recommendation	N/A
Our Vote	N/A
Background	The company had struggled with strategic direction, capital allocation and management departures, and brought in a new Chairman and CEO. The communications company was famously insular, yet chose its new leader from outside the company, outside the sector and beyond its geography.
Activity	We engaged with the company to discuss the appointment of the new Chairman and CEO and the cultural shift towards a more open, inclusive and flexible environment. We also engaged with the company to understand their approach to ESG, particularly their issuance of green bonds.
Outcome	The appointment of the new Chairman and CEO led to early cultural changes, which we believed lent much greater credibility to management. Our constructive engagement and the company's response to our initial concerns have given our fixed income team greater confidence in buying and holding the company's debt during periods of stress including the early, turbulent days of the COVID-19 pandemic. The company was one of the first issuers to return to the debt markets in late March 2020, which was successful for the issuer, and lucrative for State Street Global Advisors.

Climate Risk and Reporting (Environment)

In 2020, we elevated our focus on climate risk and became a signatory to Climate Action 100+. In our engagements with investee companies we found that progress is being made but not at a pace that is commensurate with the risk posed by the world's climate crisis and the forecast impact on human capital, social progress, corporate resiliency and shareholder value. As a result, in 2020, we enhanced our reporting by launching our new Annual Climate Stewardship Review Report and Climate Stewardship Web Hub.

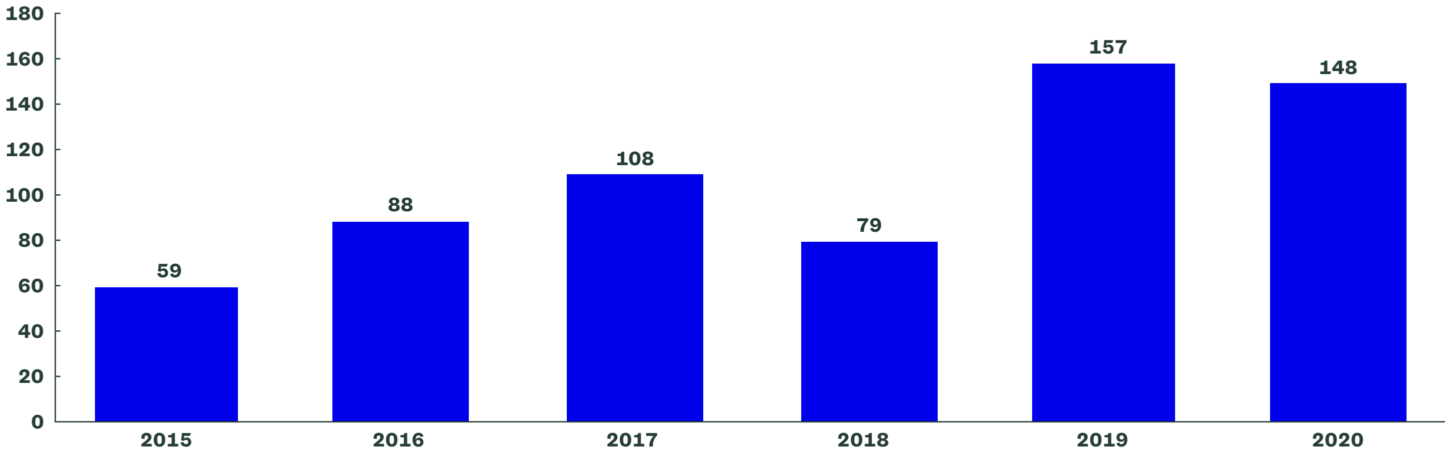
We have been engaging with companies on climate change-related matters since 2014. In that time, we have had over 630 climate-related engagements across a range of industries and markets. In 2020 we had 148 climate-related engagements. Our aim is to understand companies' approaches to mitigating and managing the physical and transitional effects of climate change.

We believe that the COVID-19 pandemic accelerates the need for transformative change to address climate change through effective stewardship as it shows the importance of being prepared and the huge cost of slow action.

Looking ahead, we will continue to focus on companies that are particularly vulnerable to climate transition risks.

Finally, we will also continue our engagement with companies in other sectors which, while not carbon-intensive, also face risks including exposure to the physical effects of climate change.

Figure 10
Number of Annual Climate Engagements



Source: State Street Global Advisors. As of 31 December 2020.

Engagement Statistics

During the year, we engaged with 148 companies across multiple industries to understand their approaches to mitigating and managing the physical and transitional impacts of climate change. We have been engaging with companies on climate change-related matters since 2014. In that time, we have had over 630 climate-related engagements across a range of industries and markets.

More Board Fluency Needed

In our engagements we found that while progress is being made to manage climate risk, it is not happening at a pace commensurate with the challenge. We believe more fluency is needed on boards in order to adequately manage climate risks and opportunities.

Our Continued Focus

Climate change will remain a core campaign until we are confident that portfolio companies are effectively addressing this issue. One of the ways we will measure this in 2021 will be to focus on specific companies especially vulnerable to the transition risks of climate change. We believe that the COVID-19 crisis accelerates the need for transformative change to address climate change. It shows the importance of being prepared and the huge cost of slow action.

New Reporting and Climate Stewardship Hub

In 2020, we launched our Annual Climate Stewardship Review, which will be a part of our regular reporting cycle and will provide context around our climate-stewardship approach, share insights into our climate-focused engagements and identify emerging climate-related trends.

We have also launched a dedicated climate stewardship webpage that provides the most up-to-date information on our climate-related thought leadership, and views.

Climate 100+ Initiative

In December 2020, we also became a signatory to Climate Action 100+ and look forward to sharing our experience and insights on climate stewardship with other members. In 2021, we will actively participate in collective engagements with other members and report progress and outcomes to our clients in our next Annual Stewardship Report.

Climate Proposal Vote Rationale

On the voting front, there was a significant increase in the number of climate-related shareholder proposals submitted at our investee companies during 2020 (58 in total in 2020, compared to 47 in 2019). A breakdown of our votes per category of climate-related shareholder proposals is provided below.

Figure 11
2020 Support on Climate Proposals

Source: State Street Global Advisors. As of 31 December 2020.

In line with our views on climate-related disclosure set out above, in 2020, we supported 50% of shareholder proposals requesting that companies report on the financial and physical risks of climate change to their business and their plans to reduce greenhouse gas emissions. We also supported 66% of the climate-related lobbying proposals, which are described in the next section of this report.

We found that most of the companies targeted with proposals to establish greenhouse gas (GHG) reduction targets already had ambitious GHG reductions goals, which explains the decrease in our support for such proposals — from 45% in 2018 to 33% in 2020.

We were not generally supportive of resolutions that required companies to make specific operational changes such as a transition to renewable energy within a defined timeframe or a phase out of a project, business or product. We found the actions requested by many of these shareholder proposals to be overly prescriptive.

While we give investee companies discretion to decide what climate-related goals are appropriate for them, we will continue to monitor the rigour of such goals and engage with them to ensure that climate is meaningfully integrated into their long-term strategy.

Three Companies that Received Climate-Related Lobbying Proposals and Our Final Voting Decisions

We supported the climate-related lobbying proposals submitted at Delta Air Lines, Inc., and United Airlines Holdings, Inc., as we believe that additional reporting on lobbying-related practices and policies would help us better understand the relevant risks.

In contrast, Chevron Corporation provides superior disclosure on its trade group, not only compared to its oil and gas peers, but also relative to the broader US market. However, the company lacks a gap analysis on its stated position on climate and that of its trade association. Therefore, we abstained on the climate-related lobbying proposal submitted at the company's 2020 AGM.

We will continue our engagement efforts with these companies, urging them to enhance their reporting on climate-related lobbying activities.

Figure 12
Company Climate-Related Lobbying Proposals

Company	Our Vote on Climate-Related Lobbying Shareholder Proposal	Vote Outcome
Chevron Corporation	Abstain	53%
Delta Air Lines Inc.	For	46%
United Airlines Holdings Inc.	For	31%

Source: State Street Global Advisors. As of 31 December 2020.

Three Financial Institutions That Received Climate-Related Lobbying Proposals

When analysing the proposals below, we considered how these companies were managing climate-related risks. Specifically, we considered decision making regarding financing of fossil fuel activities, as well as commitments the companies had made to address the issue of climate change plans to reduce GHG emissions associated with lending activities in alignment with the Paris Agreement.

Figure 13
Company Climate-Related Lobbying Proposals

Company	Country	Our Vote on Climate-Related Lobbying Shareholder Proposal	Vote Outcome
JPMorgan Chase & Co	USA	For	49%
Mizuho Financial	Japan	For	35%
Barclays Plc	UK	Abstain	24%

Source: State Street Global Advisors. As of 31 December 2020.

Mizuho Financial Group received a similar shareholder proposal asking the company to disclose a plan outlining their business strategy to align investments with the goals of Paris Agreement. While Mizuho Financial Group has committed to the Paris Agreement, it has not provided any disclosure around its strategy or targets for accomplishing these goals. As a result, we supported this shareholder resolution. The high support that this resolution received at the AGM provided a signal to the board that additional information is required. We will monitor the company's response to the outcome of the vote and further engage with them on this next year.

Barclays plc also received a climate-related shareholder resolution that sought to direct the company to phase out of the provision of financial services to companies within the energy and utilities sectors that are not aligned with the Paris Agreement. Our decision to abstain on this resolution and the outcomes of our engagement are described in detail in the Engagement and Escalation section.

At **JPMorgan Chase & Co**, we supported a shareholder proposal requesting the company to report on if and how it plans to reduce GHG emissions associated with its lending activities in alignment with the Paris Agreement. As long-term investors we would welcome additional information on the company's strategy for reducing climate-related risks and its plans to align its operational, as well as financed, GHG emissions with the Paris Agreement goals. The high support that this resolution received at the AGM provided a signal to the board that additional information is required. We will monitor the company's response to the outcome of the vote and further engage with them on this next year.

As long-term investors, we would welcome additional information on the company's strategy for reducing climate-related risks and its plans to align its operational, as well as financed, GHG emissions with the Paris Agreement goals. While the resolution was defeated at the company's AGM in May, it received the support of 49% of votes cast.

High-Impact Sectors: Companies Respond to Our Call for Climate Risk Disclosure

In recent years, the number of companies receiving shareholder proposals that require them to 'Assess Portfolio Impacts of Policies to Meet 2-Degree Scenario' has been in steady decline. Such proposals ask companies in high-impact sectors to report to investors on how a transition to a low-carbon economy could affect their strategy, business and assets. The 2020 proxy season was the first time in five years that there were no '2-Degree Scenario' proposals submitted to our investee companies, dropping from a high of 15 in 2017.

State Street Global Advisors was one of the first large institutional investors to support such proposals in 2016. Since then, we have been actively voting and engaging to improve climate disclosure with our issuers across all industries, including the oil and gas, mining and utilities sectors, which are typically targeted by 2-Degree proposals.

As a result of voting action, engagement and thought leadership from long-term investors, including State Street Global Advisors, climate risk disclosure under the 2-Degree Scenario has become standard market practice and therefore the need for 2-Degree shareholder resolutions at companies has diminished.

Following the 2019 proxy season, we explored how such disclosures have evolved over time and what still needs to be improved. Our findings are outlined in our publication Climate-Related Disclosures in Oil and Gas, Mining, and Utilities: The Current State and Opportunities for Improvement.

United States: The Emergence of Climate-related Lobbying Proposals

As highlighted in our Q3 2019 Stewardship Activity Report, we found that shareholder proposals related to political activities are evolving and bringing together both the issue of lobbying as well as climate change. These climate-related lobbying proposals are asking for corporate membership in trade associations to be fully aligned with a company's stated position on climate change.

Where there are inconsistencies with a company's position on climate and those of the company's trade associations, the proposal asks companies to suspend their membership of such organisations.

We believe that a conflict in a company's climate positions and the activities of its trade associations creates potential financial and reputational risks. We find that trade association disclosure is generally poor in the US and that few, if any, companies in this market currently disclose if they are performing a gap analysis of their stated positions on climate change and that of their trade associations. As we expected, during the 2020 proxy season we saw these climate-related lobbying proposals go to vote in the US for the first time.

Europe: Oil and Gas Majors Commit to Reach Net Zero Emissions by 2050

The first few months of 2020 saw an unprecedented wave of large European oil and gas companies voluntarily setting ambitious carbon neutrality goals. In contrast, their US peers have yet to make such commitments. In December 2019, Spain-based Repsol SA became the first oil company to commit to becoming globally carbon-neutral by 2050. Repsol not only pledged to achieve carbon neutrality on operational emissions (Scope 1 and 2), but also on indirect emissions that occur in the value chain from the use of its products (Scope 3).

Following this announcement, other European oil and gas majors followed suit, pledging to reach net zero emissions by 2050. They included Equinor ASA, Royal Dutch Shell plc, BP plc, Total SE and Lundin Energy AB (by 2030). Most of these companies included 'Scope 3' emissions in their carbon neutrality ambitions.

We believe that such efforts are a fundamental component of moving toward a low-carbon economy and, through engagement, we aim to encourage other companies in the oil and gas sector to join this commitment.

However, while we welcome and applaud companies that voluntarily set and disclose Scope 3 emission targets, we recognise that this is still an evolving practice. During our engagements, many oil and gas companies stated that the lack of direct control and difficulty collecting high-quality data can create challenges to setting and disclosing Scope 3 emissions targets.

For example, each of the European integrated oil and gas companies that have set a Scope 3 emissions target has developed its own metric, making it difficult for investors to draw comparisons and for the companies to benchmark against their peers. We aim to continue engaging with our investee companies on this topic in order to better understand how they are navigating these challenges.

Gender Diversity — Fearless Girl Campaign (Social)

At State Street Global Advisors, we took the first step in our commitment to managing risks related to diversity by focusing on gender diversity, an area where the research was most conclusive regarding financial materiality.

There is extensive research showing the positive impacts of a critical mass of diversity on performance and risk management, and we leveraged those insights to launch the Fearless Girl campaign in March 2017.

Since 2017 we have identified 1,486 boards accountable for lacking gender diversity across our key markets. Between 2017 and 2020, 862 companies (58% of 1,486 boards) responded to our engagement and added a women to their board. In 2020, we also re-examined our focus on diversity and expanded our efforts to include race and ethnicity.

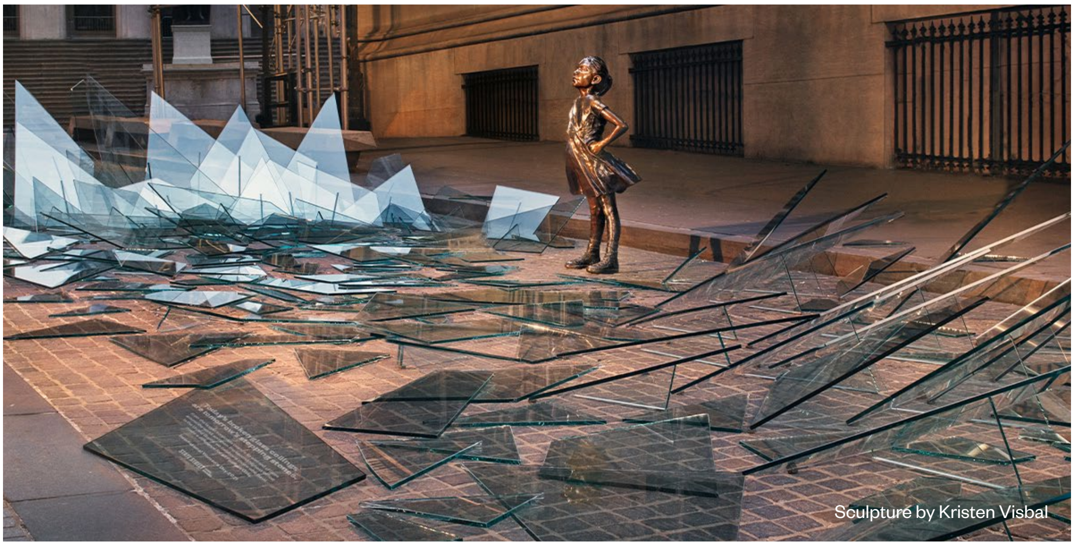
Fearless Girl Campaign

On the eve of International Women's Day 2017, State Street Global Advisors placed a Fearless Girl statue in the heart of New York's financial district to raise awareness about the importance of gender diversity in corporate leadership and to call attention to our minimum expectation that companies have at least one woman on their boards.

Today, there is a global focus on the value of diversity in the boardroom. This is a far cry from where we started out just four years ago and this change has had a direct impact on the tone of our engagements. When we engage with companies that lack gender diversity, the conversation is no longer about 'why' we are engaging on this issue. Instead, the focus is on 'why not' enhance their board by embracing the value of diversity.

Fearless Girl's Fourth Anniversary

On March 8, 2021, in celebration of International Women's Day and Fearless Girl's fourth anniversary, we launched an exciting activation at the statue in front of the New York Stock Exchange. The installation reflected a broken glass ceiling, representing the many glass ceilings that women have shattered, especially in the last year, both in and out of the boardroom. Because when one glass ceiling shatters, it shatters for us all.



Sculpture by Kristen Visbal

Regional Focus: Our Engagement and Voting Action in 2020

North America

United States (Russell 3000): The campaign's momentum continued in the US in 2020, building on its positive impact from the previous years. Since the launch of our campaign, 612 of the Russell 3000 companies initially identified have added at least one woman director to their boards. As of Q4 2020, just 6% of Russell 3000 companies had all-male boards, down from 24% at the start of our campaign. We view these as proof points of gender diversity's status as a mainstream boardroom issue and the ongoing positive impact of our campaign.

Canada (TSX): In 2018, the first year of our Fearless Girl campaign in Canada, 37% of companies listed on the Toronto Stock Exchange (TSX) lacked gender diversity on their board. We identified 73 companies in our investable universe without a woman on their boards. Among these companies, 45% have added a woman board member.

Europe and the Middle East

UK (FTSE 350): In the UK, we continued to monitor the few remaining companies in the FTSE 350 index that were lacking in board gender diversity. Of the 18 companies identified, 83% (15 companies) have added a woman director to the board since Fearless Girl's original installation.

Europe (STOXX 600 ex-UK): In 2018, we also expanded the Fearless Girl campaign to the STOXX 600 ex-UK index. In 2020, 10 companies added a woman to their boards.

Asia-Pacific

Japan (TOPIX 500): In 2018, we expanded our campaign to Japan, where 56% of TOPIX 500 (281 out of 500) listed companies had all-male boards as of December 2017. Since then, despite the low levels of gender diversity, we saw significant progress in companies' willingness to appoint women to their boards. We informed these companies of our expectations with regard to diversity. Consequently, 46% or 140 of those companies have added a woman director to their boards since the expansion of our campaign into Japan.

During our engagements, many companies explained that they could not identify qualified, internal woman candidates to appoint in the next three-to-five years. However, as part of our engagement we helped companies to establish a pathway to improve gender diversity levels within their organisations as this market was starting from a much lower base in terms of establishing a pipeline to improve gender diversity.

This pathway included establishing goals, improving hiring practices and enhancing disclosure related to each company's position on gender diversity. In 2020, we voted against directors at 106 companies of Japanese companies that were unresponsive to our engagement efforts.

Australia (ASX 300): Australian companies have continued to respond well to our call to action, with the percentage of companies within the ASX 300 without a woman director decreasing from 17% to 6% over a four-year period.

Hong Kong (Hang Seng): In early 2020, when we introduced our gender diversity policy in Hong Kong, 22% of companies (11 issuers) within the Hang Seng index lacked a woman director. In the course of 2020, two companies added a woman to their board.

Singapore (Straits Times): We started to apply our gender diversity policy to the companies within Singapore's Straits Times index in 2020, when 23% of the companies (six issuers) did not have a woman on their board. As of the end of 2020, none of six companies had responded to our call. We will continue to hold these companies accountable.

Enhancing Racial & Ethnic Diversity Focus

One dimension of the 'S' in 'ESG' that rightfully received increased attention in 2020 was racial & ethnic diversity and inclusion. Tragic incidents of police violence highlighted the longstanding legacy of systemic racism that plagues the US and other markets around the globe.

This motivated us to re-examine our focus on diversity and expand our efforts to include race and ethnicity. A growing body of research suggests that diversity can drive returns, and that boards that neglect this topic face risks to their reputation, productivity and overall performance.

As such, we believe investors would benefit from increased publicly available data on diversity and inclusion at portfolio companies. Consequently, we produced guidance which expanded our firm's longstanding focus on gender diversity to include race and ethnicity. As articulated in our August 2020 letter to Board Chairs, we expect all companies in our portfolio to offer public disclosures in five key areas:

1. **Strategy:** Articulate the role diversity (of race and gender at minimum) plays in the firm's broader human capital management practices and long-term strategy.

2. **Goals:** Describe what timebound and specific diversity goals (related to race and gender, at minimum) exist, how these goals contribute to the firm's overall strategy and how these goals are managed and progressing.

3 **Metrics:** Provide measures of the diversity of the firm's global employee base and board, including:

— Workforce employee diversity by race, ethnicity and gender, broken down by industry relevant employment categories or levels of seniority, for all full-time employees. In the US, companies can use the disclosure framework set forth by the United States Equal Employment Opportunity Commission's EEO-1 Survey. Non-US companies are encouraged to disclose this information in alignment with SASB's guidance and nationally appropriate frameworks.

— Diversity characteristics of the board of directors, including gender and racial and ethnic makeup.

4 **Board Diversity:** Articulate goals and strategy related to racial and ethnic representation at the board level, including how the board reflects the diversity of the company's workforce, community, customers and other key stakeholders.

5 **Board Oversight:** Describe how the board executes its oversight role in diversity and inclusion.

The expansion of our longstanding focus on gender diversity to include race and ethnicity is a reflection of its importance within the dimension of ESG risk management.

As such, our guidance made it clear that racial and ethnic diversity would be a priority for our Asset Stewardship team in 2021. Furthermore, as is our standard stewardship practice, we will give companies some time to make desired changes, as we know this is a complex issue. However, we are prepared to use our proxy voting authority to support ongoing efforts at companies and to hold companies accountable for meeting our expectations in 2021.

Integrating R-Factor into Vote Decisions (Governance)

In 2019, we created an engagement and voting screen that leverages R-Factor, our proprietary scoring system. R-Factor measures the performance of a company's business operations and governance as it relates to financially material and industry-specific ESG risk factors, as defined by SASB.

A New Lens into Company Performance: We now use R-Factor to help clients understand their portfolio exposures, as well as inform our own asset stewardship engagements and investment decisions. We believe a company's ESG score will soon effectively be as important as its credit rating.

Using our vote to reduce systemic market risk: We believe that by aligning our asset stewardship scoring model with SASB's leading materiality framework and national corporate governance standards, we can play an important role in promoting long-term sustainable value creation, higher-quality reporting standards and the more efficient allocation of capital.

During the 2020 proxy season, we started taking action against board members at companies in the S&P 500, FTSE 350, ASX 100, TOPIX 100, DAX30 and CAC 40 indices that were laggards based on their R-Factor scores and could not articulate how they planned to improve their score.

Outcomes of R-Factor engagement in 2019 & 2020

- During 2020 we voted against directors at 13 companies that were identified as R-Factor Laggards. Of these, seven companies (50%) were in the United States, five companies (36%) were in the United Kingdom, and two (14%) were in Australia.

- At the end of 2019, we had R-Factor values assigned for 6,613 companies.

- Since then, we conducted 1,323 engagements and sent companies their R-Factor score on 765 occasions.

- 3,338 companies improved their R-Factor score from the framework's inception (August 2019) through the end of 2020.

- Significant R-factor score improvers include:
  — UK: Barclays Plc, Next Plc, Anglo American Plc, 3i Group Plc
  — USA: Navistar International Corp, Atmos Energy Corp, Jefferies Financial Group, Genuine Parts Co, Stanley Black & Decker Inc, Diamondback Energy Inc

Integrating R-Factor into Vote Decisions (Governance)

We have long believed that ESG issues can pose long-term risks and opportunities to portfolio companies and should be managed as such, including through oversight by a company's board of directors.

Reflecting that belief, in our January 2020 CEO letter to portfolio companies, we outlined a new engagement and voting policy which went into effect in 2020.

As part of this process we created an engagement and voting screen that leverages R-Factor, our proprietary R-Factor scoring system. Beginning in the 2020 proxy season, we started taking action against board members at companies in the S&P 500, FTSE 350, ASX 100, TOPIX 100, DAX 30 and CAC 40 indices that are laggards based on their R-Factor scores and that cannot articulate how they plan to improve their score.

In the event that we feel a company is not committed to engaging with us or improving their disclosure or performance related to financially material ESG matters, we may not support the re-election of the board's independent leader.

In addition, starting in 2022, we will expand our screen to include those companies that have been consistently underperforming their peers on their R-Factor scores for multiple years, and may take voting action unless we see meaningful change.

Further, our commitment to enhancing ESG disclosure and transparency was restated within our January 2021 CEO proxy letter. As of 31 December 2020, 698 companies requested their R-Factor score and this represents 44% of our equity AUM. Of these 70% came from companies based in the US and 7% from UK-based companies.

Regional Differences in Corporate Governance Standards

US, UK and Japan: We found some variance in the quality of disclosure and performance of companies in the different markets as shown above. US companies (S&P 500) on an overall basis performed better on R-Factor CorpGov scores than their counterparts in other markets, with 30% of the index identified as global Leaders and 29% of companies identified as Outperformers.

In the UK (FTSE 100) and Japan (TOPIX 100) a majority of companies were Leaders and Outperformers. Only a small number of companies were classified as Laggards in the UK (2%) and the US (3%), while Japan exhibited higher levels of Laggards at 6%.

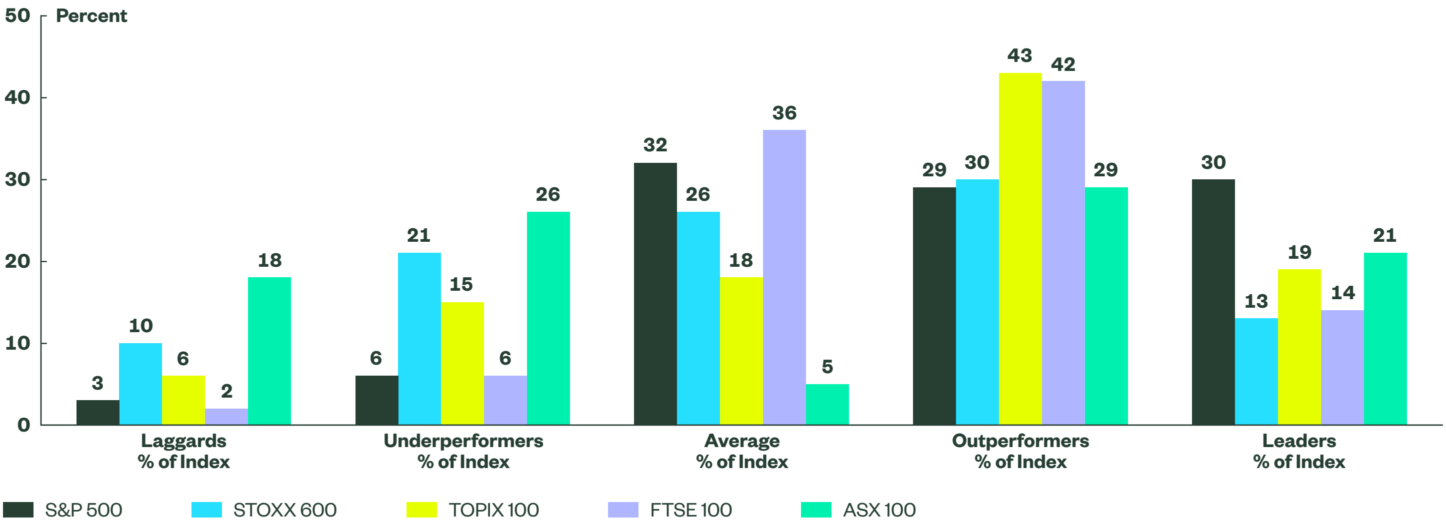
Generally, the R-Factor CorpGov scores indicate that these markets have generally been responsive to calls to action from international investors and domestic regulatory bodies to enhance governance practices on core areas relative to their own national standards in topics including board independence, shareholder rights and executive compensation.

Australia (ASX 100) exhibited the highest levels of companies classified as corporate governance Laggards (18%). From our observations, one driver of this trend is a lower level of board independence on key committees relative to other core markets. Additionally, some Australian companies lag behind their global peers on executive compensation, due to poor remuneration structures and inadequate disclosure or misalignment between pay and performance.

In our future Australian engagements, we will continue to focus on encouraging greater board independence on key committees, ensuring compensation plans are linked to long-term performance and that these plans are benchmarked appropriately.

Europe (STOXX 600) exhibited lower levels of Leaders and Outperformers combined, when compared with the other key markets, and the second-highest levels of Laggards and Underperformers after Australia. Companies in the region are continuing to work on their compliance with progressive regulation, including the European Union's Shareholder Rights Directive. We will continue to engage with companies classified as Laggards and Underperformers to understand their performance and discuss our expectations.

Figure 14
Regional Differences in Compliance with Corporate Governance Standards



Source: State Street Global Advisors, as at 31 December 2020.

Our Approach to Proxy Voting

A core part of our escalation approach is centred around voting against companies that do not meet our expectations set during engagement. We are therefore committed to maintaining a robust approach and high levels of activity when it comes to exercising our voting rights.

In 2020, we voted at over 19,000 meetings. We prioritise company meetings for further review based on factors such as the size of our holdings, past engagement, corporate performance and voting items identified as areas of potential concern. Based on this assessment, we allocate appropriate time and resources to meetings and specific ballot items of interest, to maximise value for our clients.

Our voting guidelines have been designed to drive governance and sustainability practices at issuer companies toward global principles of good governance, while taking account of individual market nuances and standards. As such, in some instances, we may hold companies to standards that exceed local market practice. We do this out of recognition that different types of issues require different approaches.

Material environmental and social issues are industry specific but market agnostic. For example, climate change will affect companies regardless of where they are in the world, but its effects will be felt differently by a financial services firm compared to a consumer goods company. In contrast, the business practices, governance structures and market expectations of firms vary widely when it comes to different geographic regions. We believe it is important to hold companies to the corporate governance standards appropriate to their market.

These nuances are reflected in our proxy voting guidelines, as well as in R-Factor scores, which rely on different materiality frameworks to capture these different types of data. We aim to vote at all shareholder meetings where our clients have given us the authority to vote their shares and where it is feasible to do so.

However, when we deem appropriate, we could refrain from voting at meetings in cases as listed below where:

1. Power of attorney documentation is required
2. Voting will have a material impact on our ability to trade the security
3. Voting is not permissible due to sanctions affecting a company or individual
4. Issuer-specific special documentation is required or various market or issuer certifications are required
5. Unless a client directs otherwise, State Street Global Advisors will not vote proxies in so-called "share blocking" markets (markets where proxy voters have their securities blocked from trading during the period of the annual meeting[13]

The Stewardship team will outsource any voting decision related to the STT shareholder meeting to an independent fiduciary other than the primary proxy voting advisor. When engaging the independent fiduciary, the team will confirm that they have published proxy voting guidelines that describe how they will vote in clients' best interests and are appropriately resourced to do so.

In 2020, we voted at 99.4% of the meetings and 98.5% of the ballots where our clients had given us their authority to vote their shares. Our voting positions are monitored daily by our Stewardship team via the ISS electronic voting platform. Using the same platform we also track the progress of the vote submissions through to the relevant custodian bank or other intermediary who is responsible for the final submission of the vote to the issuing company.

Exercising Voting Rights

Pooled Fund Structure

We retain voting authority across all pooled funds, which follow our voting policy. SSGA seeks to vote proxies in the economic interests of its clients as a whole and make proxy voting decisions SSGA believes will protect and promote the long-term economic value of the pooled fund.

Segregated Accounts

Our separately managed account (SMA) clients can retain the right to vote their own shares, or to delegate the voting authority to us, in which case we will vote in accordance with our voting policy. Where clients retain the right to vote their own shares we do not apply our voting policies.

Stock-Lending Policy

From time to time, we may recall securities on loan (or restrict future lending) for proxy voting purposes if the result of a particular proxy voting ballot item is deemed to be significant enough to justify the loss of fees from lending for our clients. Further, for funds where we act as trustee, we may recall securities in instances where we believe that a particular vote will have a material impact on the fund(s).

Several factors shape this process. First, we must receive notice of the vote in sufficient time to recall the shares on or before the record date. In many cases, we do not receive timely notice, and are unable to recall the shares on or before the record date.

Second, we, exercising our discretion, may recall shares if we believe that the benefit of voting shares will outweigh the foregone lending income. This determination requires that we, with the information available at the time, form judgments about events or outcomes that are difficult to quantify.

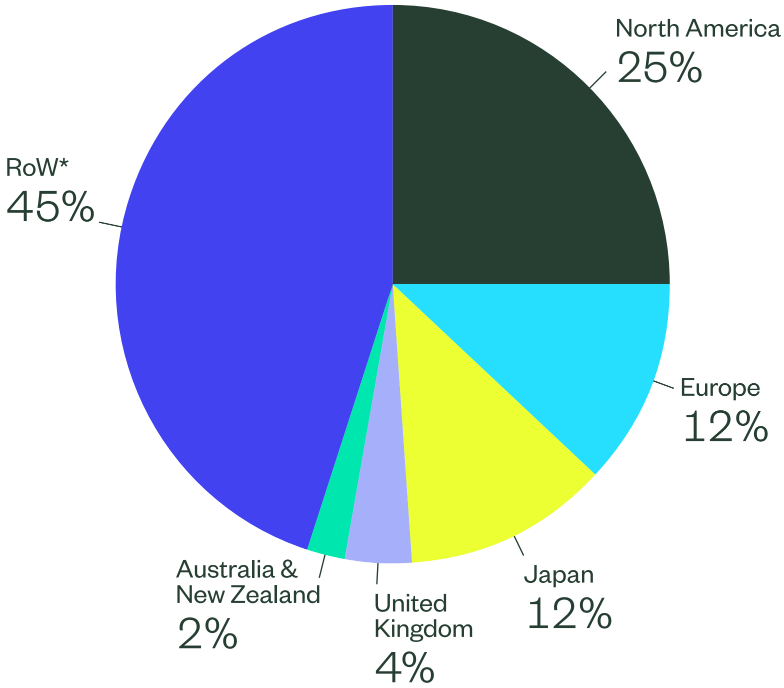
In addition to one-off situations, we generally recall securities on loan or restrict future lending of securities of large companies identified as ESG laggards using our R-Factor scoring methodology. For example, in 2020, recalls included an Australian software company and a British financial holding company that were identified as R-Factor laggards.

Our Proxy Voting/Securities Lending Procedure is reviewed annually by the Asset Stewardship Team, Proxy Operations Group and Securities Lending Group to determine whether any changes are necessary and whether it is working as intended.

Proxy Voting Breakdown

In 2020, we voted at over 19,000 meetings on over 180,000 management and shareholder proposals. A full summary is below followed by a breakdown of how we voted on each category of proposal.

Figure 15
2020 Voting: Key Figures



Source: State Street Global Advisors 2020 Stewardship Platform. *Rest of the World.

Number of Meetings Voted
19,370

Number of Countries
73

Management Proposals
176,680

Shareholder Proposals
4,690

Votes For
84.5%

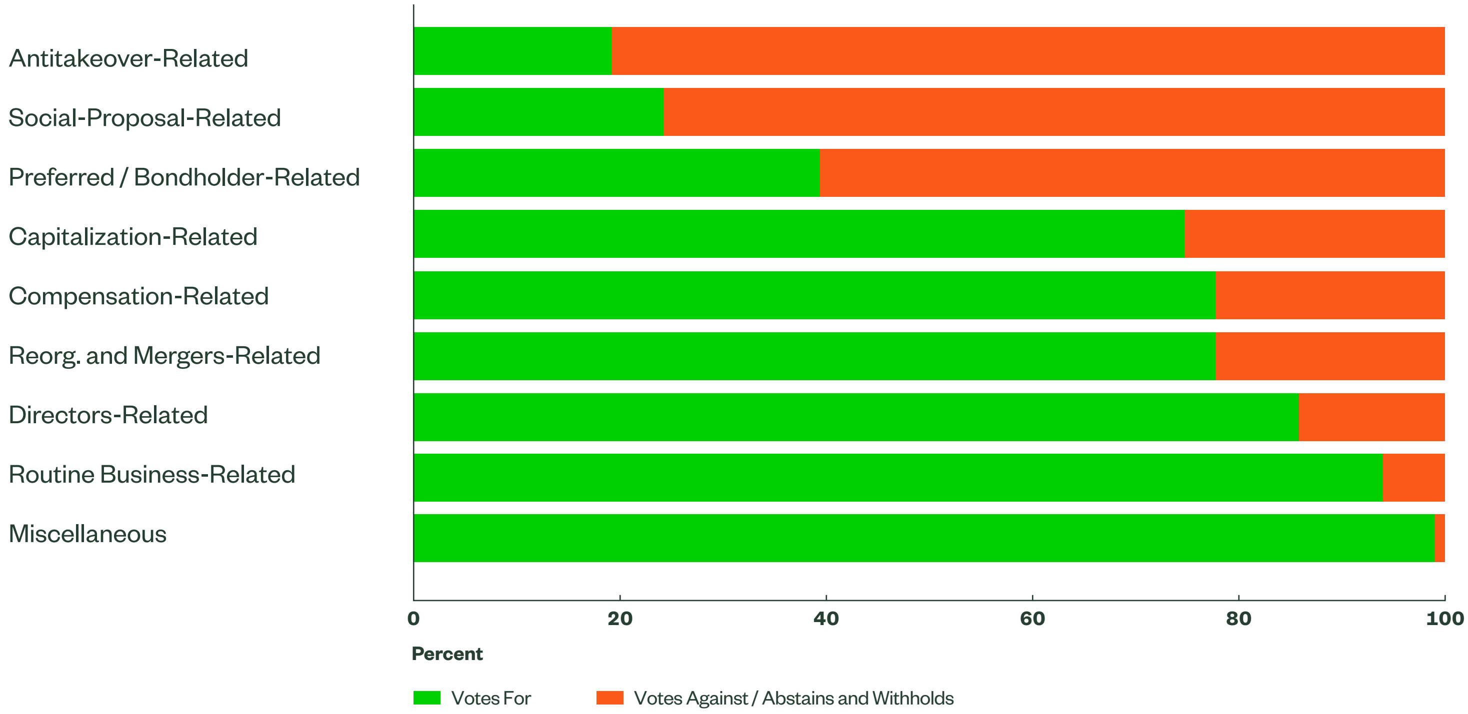
With Management
88.6%

Votes Against
15.5%

Against Management
11.4%

Figure 16a

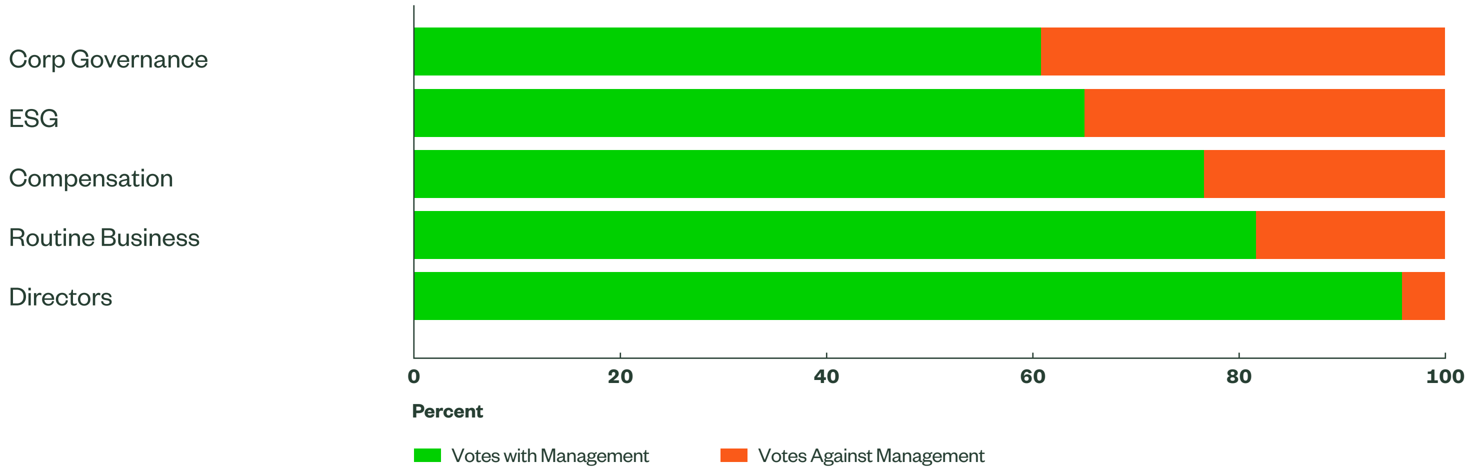
Votes on Management Resolutions by Category



Source: State Street Global Advisors 2020 Stewardship Platform.

Figure 16b

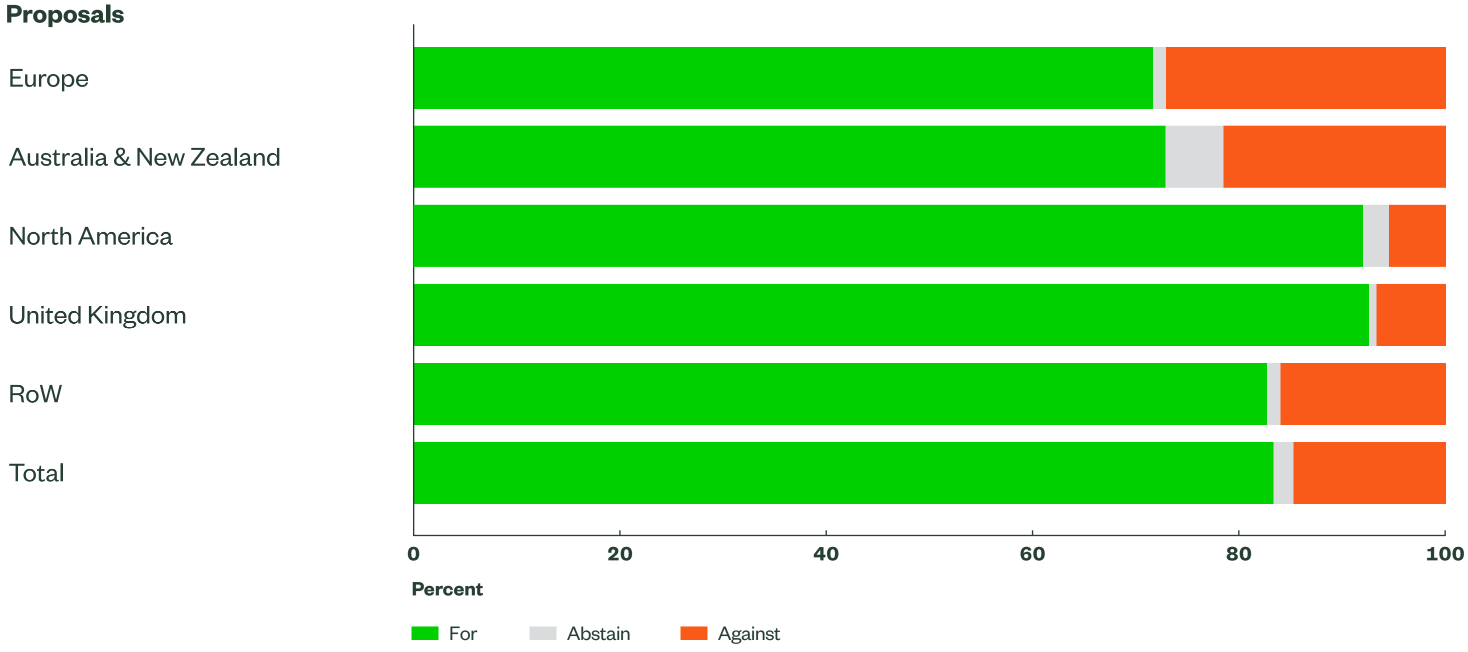
Votes on Shareholder Proposals by Category



Source: State Street Global Advisors 2020 Stewardship Platform.

Figure 17a

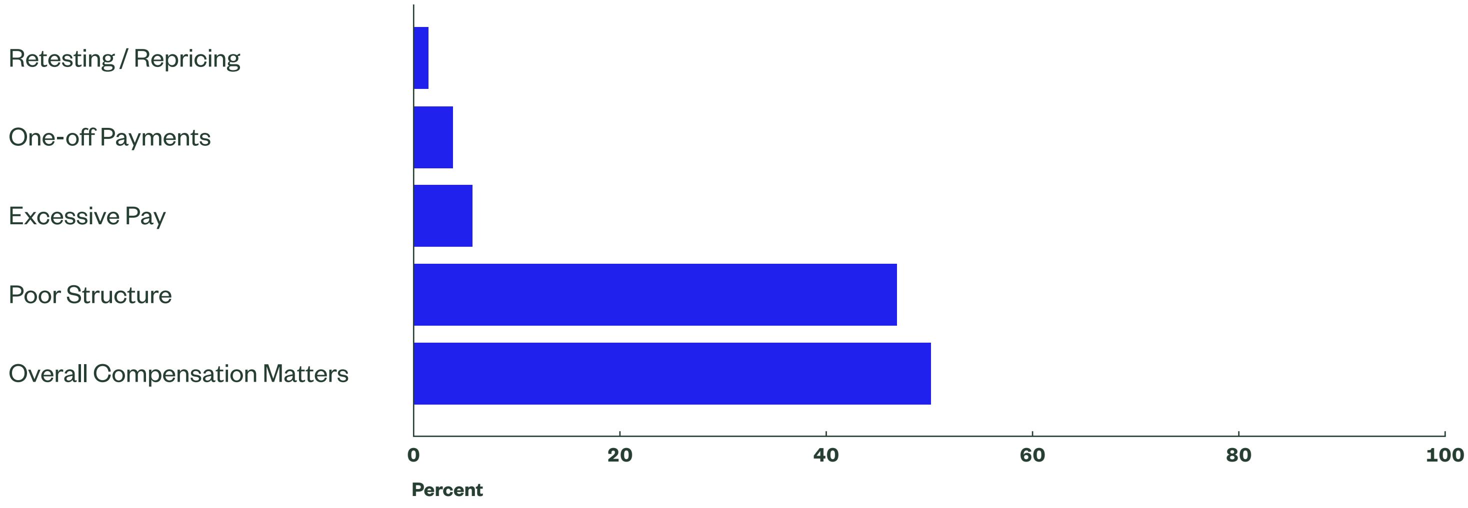
Votes on Screened Pay Proposals



Source: State Street Global Advisors 2020 Stewardship Platform.

Figure 17b

Top 5 Reasons Driving Our Voting Rationale on Pay Proposals



Source: State Street Global Advisors 2020 Stewardship Platform.

6 Responsible Investing at State Street Global Advisors (Principles 1, 6, 7, 8, 12)

As of December 2020, State Street Global Advisors had more than $464 billion in ESG assets under management, or 12 percent of State Street's AUM. In terms of asset classes, most of our ESG assets are within Equity Index and Smart Beta, and the team integrates ESG either through the index itself (e.g., an index that either incorporates ESG characteristics or has sustainable investment as its objective) or as a custom solution via our beta solutions capabilities. In terms of geographical split, we have similar levels of ESG assets in the North America, Asia-Pacific and Europe, Middle East and Africa (EMEA) regions.

State Street Global Advisors integrates material ESG factors and stewardship into our investment approach for all asset classes and regions that we invest in. Each asset class chief investment officer (CIO) oversees the implementation of ESG investment strategies by portfolio managers and research analysts.

All our global investment teams manage ESG portfolios and conduct ongoing research on ESG data and themes, with ESG portfolios being managed within each investment team, rather than by a dedicated team. This reflects the breadth and depth of investment capabilities we provide, while effective collaboration ensures client assets are managed by professionals with expertise in their asset class and investment style and with support from subject-matter experts.

The ESG integration approaches we employ can vary substantially by geography. The nature of, and maturity of, ESG conversations are different across the US, EMEA and emerging markets and thus, different ESG integration approaches reflect these differences.

Below, we outline our approach to responsible investing and ESG integration across asset classes, beginning with our approach to screening investments.

Our ESG Exclusion Approach

Exclusionary screening can be applied to portfolios as a standalone ESG approach, or in combination with other styles, such as thematic investing or integrating ESG into the investment process. Screening may sound simple, but 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 exclusionary screens.

The majority of our mandates are client-directed; therefore, it is the choice of our clients if or how they apply exclusionary screens. Whilst we cannot dictate how exclusions are applied across all of our assets under management, we believe it important to offer our clients our own perspective on how to conduct exclusionary screening. This perspective is guided by the same rigour that guides all of our work.

We have developed a recommended approach to exclusionary screening in ESG portfolios. This approach represents the shared perspectives of our investment teams across active and index investment styles in equity, fixed income and alternatives.

Our Guiding Principles

1. **Systematic and Transparent Approach.** We follow a well-defined methodology that can be flexibly applied to different use cases.

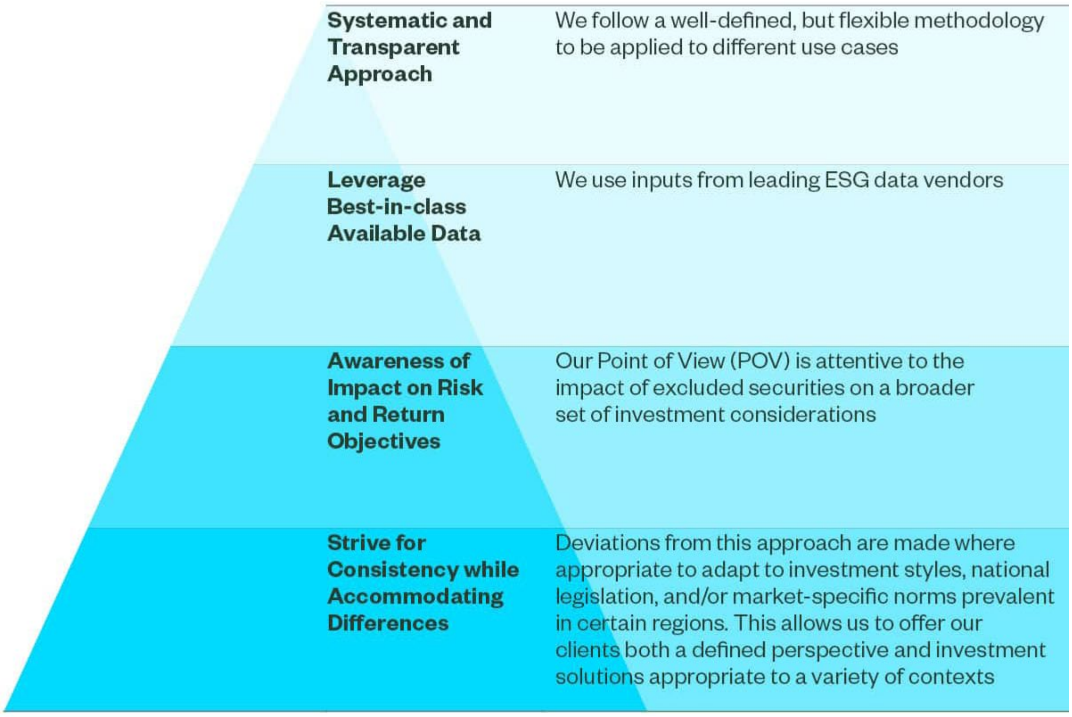
2. **Leverage Best-In-Class Available Data.** We use inputs from multiple data providers where accessible to us. This broadens our overall coverage universe and reduces the potential biases of a single data provider.

3. **Awareness of Impact on Tracking Error.** Our point of view is attentive to the impact on tracking error of excluded securities.

4. **Strive for Firm-Wide Consistency While Accommodating Differences.** Deviations from firm-wide consistency are made where appropriate to adapt to investment styles, legal requirements and/or market-specific norms prevalent in certain regions.

An overview of our ESG exclusion approach is shown in Figure 18.

Figure 18
State Street's ESG Exclusion Approach



Source: State Street Global Advisors.

Fossil Fuels: An Example of an ESG Screening Approach

There is a growing interest among global investors in divesting, or minimising exposure to, fossil fuels in their portfolios. Specifically, more than 1,200 global institutional investors, with $14.6 trillion in combined assets, have committed to divesting from fossil fuels in 2020. These investors seek to position themselves in opposition to the physical effects stemming from climate change and seek to prepare their firms for future regulation around fossil fuels.

Some regulators and standard-setters have established requirements and criteria to identify and tackle fossil fuels; however, the definitions, measurements and investment products used to mitigate fossil fuel exposure can vary widely and, in some cases, can prove to be confusing for investors.

To help our clients navigate this landscape, State Street Global Advisors has created a framework that detects and classifies fossil fuels in a comprehensive and sensible manner. The framework focuses on the following activities, which are generally associated with fossil fuels:

- Oil Extraction and Power Generation
- Natural Gas Extraction and Power Generation
- Thermal Coal Extraction and Power Generation
- Shale Extraction
- Oil Sands Extraction
- Arctic Oil and Gas Exploration

POV Screening Approach

State Street's standard Point of View (POV) screens employ, where possible, a 10% revenue threshold and focus specifically on entities with direct involvement (vs. ownership criteria) in a particular area such as fossil fuels.

In addition, our POV screens leverage best-in-class ESG data provided by Sustainalytics and are updated on a quarterly basis. We apply focused lists and 10% revenue-based metrics 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 indirect or minimal involvement. Our intention is not to screen every issuer that touches the topic in question, but rather to screen those with notable involvement. This allows us to balance screening preferences with other investment considerations.

While our approach to fossil fuel exclusions follows State Street's standard approach, we are also able to provide some level of customisation in our screening process. For example, investors can adjust the revenue thresholds of each specific screen and expand the "blacklist" to include indirect/ownership dimensions, or add/remove a particular metric or indicator, as shown below.

Figure 19
MSCI World/MSCI EM Companies and Market Cap Coverage, by Fossil Fuel Screen Revenue Threshold
Revenue Thresholds of 5%, 10%, and 25%

	5%	10%	25%
MSCI World Coverage by Number of Companies (%)	92.25	93.69	95.69
MSCI World Coverage by Market Cap (%)	93.95	95.41	96.81
MSCI EM Coverage by Number of Companies (%)	93.38	93.74	94.96
MSCI EM Coverage by Market Cap (%)	87.28	87.41	87.82

Source: Sustainalytics and State Street Global Advisors.

Another means of customisation is using the volume of CO2 emissions (in millions of tonnes) owned by a company as a means of identifying fossil fuels. While that method has the upside of allowing for a more granular understanding of the volume of emissions, it introduces some subjectivity in the screening process. In other words, we would need to establish specific emissions thresholds (in millions of tons of CO2) to flag companies in violation of the screen.

Our preferred POV screening approach focuses on flagging companies that derive a particular percentage of their revenue from involvement in fossil fuels. This approach enables us to narrow down the focus our of screening methodology and identify companies whose business models and operations are significantly dependent upon owning and burning fossil fuels. It also aligns with the standard screening framework we use for other products and services, such as tobacco and controversial weapons, making it an easy complement to other POV screens.

R-Factor — A Roadmap to Build Sustainable Companies

We have developed in-house sustainability screens to help identify companies for proactive engagement. These screens leverage our proprietary R-Factor score to identify sector and industry outliers for engagement and voting on sustainability issues. R-Factor scores draw on multiple data sources and leverage widely accepted, transparent materiality frameworks from the SASB and corporate governance codes to generate a unique ESG score for listed companies.

We now use R-Factor to help clients understand their portfolio exposures, as well as to inform our own asset stewardship engagements and investment decisions. For more information see: R-Factor™ — A Roadmap to Build Sustainable Companies.

Equity Investments: Index

For our index investment strategies, when appropriate, our global and regional CIOs represent our investment teams by participating in company engagements and meeting regulators alongside the Stewardship Team.

In addition, where appropriate, the Stewardship Team presents insights to our internal investment teams on ESG issues that are related to market policies and company-specific events. Collaboration between the stewardship and investment teams is particularly important when considering corporate restructurings, and mergers and acquisitions, which may have a significant impact on benchmark index composition and rebalancing.

Climate change is one area where we have been developing specific products to help our clients avoid specific ESG risks. Since introducing our first fossil fuel exclusionary fund five years ago, we have been helping clients to address climate risks within their investment decision-making. Our investment capabilities are designed to help investors dramatically improve their portfolio's carbon and climate profiles while achieving benchmark returns. Four examples of our solutions follow.

Sustainable Climate Strategy. The State Street Sustainable Climate Strategy is a long-only investment approach that uses a mitigation and adaptation methodology to build climate change thematically into equity portfolios. Designed from the ground up to be flexible, the customisable framework allows us to create client portfolios that target reductions in current and future carbon emissions, increase exposure to green revenues and increase resiliency to the physical risks posed by climate change. The Strategy is aligned with the most ambitious goals stemming from the landmark 2015 Paris Agreement — including limiting climate change to the 2° Celsius warming scenario over the 21st century. It's designed for investors who wish to prepare their portfolios for the transition to a low-carbon economy in a scalable and risk-aware way.

Sustainable Climate Bond Strategy. This strategy is similar to the equity strategy but was developed for fixed income exposure using our research. This strategy transforms the climate profile of fixed income portfolios and helps fund the transition to the coming low-carbon economy.

Low Carbon Corporate Bond Strategy. This strategy offers fully customisable corporate bond exposure with a client-selected carbon-reduction target range, minimising tracking error and maintaining benchmark characteristics.

Low Carbon Equity Index Strategy. This is a fully customisable equity exposure, which allows clients to select their preferred carbon-reduction objective or targeted tracking error.

Equity Investments: Active

Fundamental Growth & Core Equity Confidence Quotients (CQs): Assessing Risk as Well as Return

The assumptions for a company's revenue generation and profitability must be continuously reassessed and conviction reaffirmed. The impact of disruptive trends must be weighed, alongside stock-specific analysis for both local companies and companies with a global footprint. This is where our confidence quotient (CQ) quality ratings come in as a forward-looking tool, helping us to anticipate the likely pitfalls for a company as well as its potential returns. CQs are used to assess the quality of a company, good or bad.

Management is assessed for its integrity, the strength of its strategy and how agile it is likely to be in meeting new challenges. Industrial, competitive and any other emerging trends are assessed in terms of their possible impact on market position and fundamental earnings momentum. Management's transparency in engaging with us as shareholders is important, as is the financial strength of the company, which will ultimately carry it through a difficult economic cycle.

In general, a low CQ rating points to a negative factor. This includes potential ESG fallouts, which are usually more qualitative in nature and difficult to quantify in advance, but which could ultimately impair an investment thesis around future earnings growth. For example, a low CQ for transparency helped steer our portfolio managers against investing in Wirecard in 2017-2018. This was at a time of strong industry growth and when the stock was a market favourite.

CQs can thus be used as a tool to pre-empt mistakes and help protect a portfolio against loss-making situations. Analyst changes in CQs are carefully monitored and flagged to the portfolio managers. A reduction in the score of any overall CQ component is taken very seriously. A portfolio made up of high-CQ names should imply portfolio resilience in testing market conditions.

The team may also use scenario analyses to complement discussions around individual stocks by assessing possible market and portfolio reaction to specific events (e.g., the impact of the COVID-19 pandemic). The Risk team conducts rigorous quarterly reviews where performance attribution, ESG exposures to R-factor and independent scenario analyses are considered.

In sum, CQs are more than just a means to assess a company's capacity to deliver sustainable growth in earnings. CQs are an important forward-looking risk-assessment tool that allows a portfolio manager to weigh downside possibility alongside investment opportunity.

The Stewardship Team also works closely with our Active Fundamental Equity investment teams, collaborating on issuer engagements and sharing inputs and valuable insights on company-specific fundamentals. This facilitates an integrated approach toward investment research and engagement with company management and boards. Our Active Fundamental Equity investment teams also provide recommendations for every resolution tabled for shareholder approval at companies within their investment universe. These recommendations and insights allow the Stewardship Team to leverage the expertise of our active investment teams when determining voting decisions for our aggregated positions.

We have a suite of products for institutional clients to support efforts to achieve net zero alignment:

- **Negative screening**, which excludes certain stocks (e.g., weapons, tobacco or oil). We also use off-the-shelf screening methodologies (e.g., MSCI) depending on client needs.
- **Setting net carbon reduction percentage targe**t, compared to any developed market benchmark
- **Positive screening** on companies that are resilient to climate transition

Case Study: Fundamental Equity Team

We've been following a British online retail company that faced allegations about working conditions and underpayment of workers in its supply chain. Allegations concerning working conditions and underpayment of workers raised red flags to our Fundamental Equity Research analyst, who advised our portfolio managers to hold off on initiating a position in the company despite its differentiated business model and strong execution.

The company commissioned a third-party independent review of its supply chain and published findings. Through multiple engagements with management, we've been following the retailer's progress on ESG.

Outcome: Since then, the company has committed to improving its corporate governance and to raising standards across its entire supply chain, demonstrating a significant turnaround in its ESG approach, improving transparency and increasingly following best practices. We continue to monitor their evolution and, as we gain more confidence in the sustainability of these initiatives, we may change our stance on the name to be more constructive.

Fixed Income

Without an annual vote, creditors have limited ability to engage with and influence management behaviour. Instead, their relationship with issuers is largely contractual. Consequently, debt issuers have typically focused their engagement efforts on matters that directly influence their returns, such as strategy, cashflow generation and utilisation and financial leverage. However, ESG risks can also impact returns on fixed income assets.[14] These risks need to be managed and addressed in asset managers' fixed income stewardship programs.

We formally integrated ESG stewardship into our fixed income investment process in 2015. The two core elements of our fixed income stewardship program are Proxy Voting and Issuer Engagement.

Proxy Voting: While matters that arise for voting at bondholder meetings vary by jurisdiction, examples of common proxy voting resolutions at bondholder meetings include:

- Approving amendments to debt covenants and/or terms of issuance
- Authorising procedural matters, such as filing of required documents/other formalities
- Approving debt-restructuring plans
- Abstaining from challenging the bankruptcy trustees
- Authorising repurchase of issued debt security
- Approving the placement of unissued debt securities under the control of directors
- Approving spin-off/absorption proposals

Given the nature of the items that arise for voting at bondholder meetings, we take a case-by-case approach to voting on bondholder resolutions. Where necessary, we will engage with issuers on voting matters prior to arriving at voting decisions. All voting decisions will be made in the best interests of our clients. In addition, when evaluating a debt issuance request, we adopt a nuanced, market-based approach that takes into account the gearing ratio, capital intensity, cashflow and volatility of a company within a sector.

Issuer Engagement: We recognise that debt holders have limited leverage with companies on a day-to-day basis. However, we believe that given the size of our holdings in corporate debt, we can meaningfully influence ESG practices of companies through issuer engagement. Our guidelines for engagement with fixed income issuers broadly follow the engagement guidelines for our equity holdings, as described earlier.

As part of our annual asset stewardship planning process we identify thematic sustainability priorities that will be addressed during most engagement meetings. We develop our priorities based upon several factors, including client feedback, emerging sustainability trends, developing macroeconomic conditions and evolving regulations. These engagements not only inform our voting decisions but also allow us to monitor improvements over time and to contribute to our evolving perspectives on priority areas. Insights from these engagements are shared with clients through our publicly available Annual Stewardship Report.

Green Bond Investments

We have been an active investor in green bond issues globally since April 2015. We believe green bonds are one of the most effective financial vehicles available for companies and countries to finance their transition to more a climate friendly and sustainable infrastructure. Such transition is necessary for companies to meet the goals and objectives of the Paris Agreement.

In 2020, we published Guidance on Enhancing Green Bond Participation. This piece aims to provide underwriters and impact bond issuers with an overview of our investment approach to green bonds. Over the year, we also engaged with some of our investee companies to understand the details of their green bond allocation and strategy.

Alternative Investment Strategies

Our Global Fiduciary Services (GFS) division engages with clients to fulfil their plan and investment mandates. Where ESG considerations are part of those objectives, GFS works as a fiduciary to integrate them into the client investment policy statement and govern the outcome in line with client priorities.

As part of investment diligence, GFS assesses the ESG policies and practices of our investment partners, leveraging industry standards and techniques to evaluate ESG data across asset classes to evaluate the material factors for the investment portfolios.

GFS portfolios may include long-only strategies, as well as a range of alternative investment strategies, including private equity, hedge funds and real estate. While GFS looks to harmonise across investment strategies, each asset class has idiosyncrasies that require a differentiated authentic expression of ESG integration. As industry standards and techniques to extract and evaluate ESG data continue to evolve, we will enhance our program and research methodologies accordingly.

As it relates to the different alternative investment strategies, we engage in ESG integration as a risk mitigation strategy that can also offer the potential for alpha generation. This includes assessing the ESG policies and practices of our partners, as well as evaluating the material ESG factors of portfolio companies and real estate assets when investing in direct deals and co-investments. The purpose of this analysis is to consider the ESG risks and opportunities of our investments and align with individual investor policies and priorities.

While our real estate teams come up with a development plan for each asset we manage, we are currently developing an escalation strategy to improve upon, and set, targets. Going forward, this strategy may include an approach that calibrates standards to the maturity of the market and progress against local market standards.

Today, our active direct investment activity largely relates to real estate and private equity, where we underwrite and manage directly owned assets on behalf of our clients.

Direct Real Estate Investments

Our business strategy as it relates to direct real estate is to acquire and manage a diverse portfolio of real estate properties that achieves our client return objectives while minimising risk.

In order to accomplish this objective we take a responsible investment approach that includes detailed due diligence. We typically focus on areas such as environmental condition, operating partner background checks and anti-money laundering policies, transit orientation, on-site and local area amenities, tenant interviews, fitness facilities and energy efficiency (such as LEED designation, EnergyStar score).

After investing in an asset we typically work with our partners and/or property managers to identify and implement renovation plans that both improve the quality of the asset and maximise the return on investment. It is important to emphasise that an improvement in energy efficiency directly represents an improvement in the quality of the asset. Positive climate impacts can be accompanied by positive investment impacts.

Using the expertise of specialist environmental consultants, we evaluate the environmental risks associated with each property during our due diligence process and don't proceed with any acquisitions where we believe the potential risk of incurring a loss from contamination is too great.

We also evaluate opportunities to improve the sustainability profile of a property with our third-party property managers, including using green cleaning products, waste management/recycling programs and completing renovations that reduce energy usage. We move forward with those programs if they are determined to also result in a positive economic benefit to the property.

A recent example is an office and residential building we acquired for a client in Amsterdam. Since acquisition of the building, we have refurbished much of the building and been successful in raising the energy efficiency rating of the property from an "E" rating to a "C" rating. Refurbishments include improvements to lighting installations (using LED lighting), reconditioning of the existing glazing system and recalibration and upgrades to the HVAC systems — all of which have helped achieve a marked improvement in energy performance. We are targeting additional improvements with the goal of raising the energy efficiency to an "A" rating.

Private Equity Investments

Our business strategy as it relates to direct private equity is to acquire a diverse portfolio of equity stakes that achieves client return objectives while controlling for risk. In order to accomplish this objective, we take a responsible investment approach that includes detailed due diligence, typically focusing on sub-sector-specific, most-relevant ESG considerations.

We have designed our pre- and post-investment ESG integration process to actively leverage industry best practices and guidance, e.g., that developed by the United Nations-supported PRI, SASB and other relevant industry bodies.

Indirect Investments — Investment Solutions Group

As of 31 December 2020 we have $81.2bn of third-party fund assets under management. In an effort to ensure that core ESG principles are integrated in these investments, we follow a careful selection and monitoring process for all third-party managers.

Public Asset Manager Research

The manager research function has eight investment professionals, and they cover 2,000 investment strategies and over 1,400 investment managers. The elements of our manager investment process are:

- Screening
- Due Diligence
- Documentation
- Selection
- Monitoring
- Watch List
- Termination

Screening: Screening criteria are devised for each search, and may include assets under management, years of experience of investment professionals, style and capitalisation range, excess returns, information ratio, batting average and ESG implementation.

Due Diligence: Investment due diligence is conducted on the highest-potential candidates. The first phase of due diligence involves reviewing materials and having an in-depth discussion regarding the firm — i.e., sharing information that cannot be determined from a database. Next, the team further narrows the list to high-potential candidates. This group receives detailed RFPs, which are used to evaluate all aspects of the firm, process, philosophy, people and operations.

A subset of these managers is selected for final due diligence, which includes a lengthy onsite visit covering all aspects of the firm. This final step is conducted by the Manager Research Team for investment due diligence and the Operational Due Diligence Team.

Documentation: Documentation is maintained in our in-house database to provide a complete and accurate summary of the investment manager characteristics, selection and monitoring processes.

Selection: Once selected by the Manager Research Team, every strategy is evaluated for its quantitative characteristics to ensure proper fit within a client's portfolio. This ensures that strategies appropriately fit into a client's objectives and is complementary to existing investments. All strategies are approved for investment by our Investment Panel to ensure appropriate fit and oversight.

Monitoring: All investment managers that have been approved are reviewed periodically to ensure: consistency with the initial investment thesis; adherence to investment process and philosophy; low personnel turnover; and attractive performance relative to the benchmark and peer group (among other criteria).

This ongoing due diligence is conducted by a quarterly questionnaire and through quarterly calls, annual visits and other ad-hoc forms of communications and requests. The Manager Research Team meets weekly to discuss any issues that occur with managers and points of concern. On a quarterly basis, there is a formal review of the Watch List.

Watch List: Our watch list is run quarterly to flag strategies where we have concerns about investment performance or other emerging risks. Our quantitative screen assesses strategy performance (relative to benchmarks and peers) over a range of time horizons as well as tracking error. If a strategy 'fails' our watch list criteria, it is mandatory that it be placed on our watch list, which drives additional due diligence each quarter. Strategies may also be placed on watch even if they pass the quantitative criteria. While performance may drive this action, other factors such as team turnover, substantial asset growth or declines or firm risk can also place a strategy on watch.

Termination: Termination of a manager can be driven by a range of factors, including prolonged underperformance or a persistent presence on our watch list. However, termination may also result from changes in client needs, better opportunities elsewhere, breach of guidelines, investment professional turnover, deviation of style, failing to achieve expectations or changes in firm ownership. The termination could also be driven by a change in direction by the investment team.

In any case, the Manager Research Team will identify the reasons for termination and highlight those to the appropriate committee or panel. Investment managers are terminated as soon as is practical after a termination decision is made. In cases where State Street has full discretion over the assets, we will also have a replacement strategy identified. For accounts where the client retains investment manager discretion, termination is recommended to the client along with a replacement, and if accepted by the client, the investment manager is terminated. For strategies that are terminated in advance of onboarding a replacement, we will ensure market exposure in the given asset class is retained.

Private Asset Manager Research

The State Street Global Advisors Alternatives Investments Team has developed a rigorous external manager evaluation, selection, due diligence and ongoing management program that is deployed for the benefit of our clients. We are actively invested in around 250 funds across more than 150 managers on behalf of our clients.

Evaluation/Underwriting: The investment team conducts an in-depth review of the strategy and sources managers that are active in the space. The team then assesses the managers' platforms, track records and risk/return attributes. To help narrow the field, deep-dive analyses including deal level underwriting, legal/tax structures and ESG implementation are amongst the factors considered.

Due Diligence: Due diligence questionnaires and interviews are utilised for fee disclosures and a gross to net analysis, investment allocation procedures, approval processes, key person/bench strength analysis, compensation policies and more detailed ESG diligence, amongst other areas. Operational due diligence conducted by a dedicated team examines policies and procedures, internal controls, segregation of duties, background checks, AML/KYC checks, regulatory compliance, litigation checks, negative news searches and other considerations.

Documentation: All marketing materials and offering memorandums along with all due diligence materials and closing documentation (including limited partnership agreements and amendments, subscription agreements and side letters) are organised where members of the Investment, Legal and Operations teams can access them, as needed.

Ongoing monitoring and asset management is key to the manager research process as it will inform the decision to enter the redemption queue or re-up in a closed end fund series. In addition to the Investment team's oversight, other functions including Risk, Operational Due Diligence and Compliance continue to monitor the manager's activities.

ESG Manager Ratings

Within the Investment Solutions Group, we engage with our clients to fulfil their investment mandates. Where ESG considerations are part of those objectives, we work as a fiduciary to integrate them into the client investment policy statement and govern the outcome in line with client priorities.

As part of investment diligence, we assess the ESG policies and practices of our investment partners, leveraging industry standards and techniques to evaluate financially material ESG data across asset classes. All approved managers are given an ESG rating, which reflects the extent ESG is incorporated into their investment processes.

Figure 20
ESG Manager Rating Framework

ESG Manager Rating	Criteria
ESG-R (Responsible/Impact) Manager fully embeds applicable ESG criteria, and is congruent with "RI/Responsible Investment", "Green" and/or "Impact Investment" considerations	• Investment charter/objective directly states, or can be identified as, one which actively addresses at least one socially responsible cause (e.g., environment, society) • Metrics on specific impact are likely enumerated and monitored • In most circumstances, should expect the investment would also meet the majority of requisites as related to an ESG-1 rating (below)

ESG Manager Rating	Criteria
ESG-1 (Embedded) Manager fully embeds applicable ESG criteria, incorporating ESG into the investment process for risk mitigation and/or alpha generation purposes	• The manager clearly identifies an ESG statement, and avails the methodology in written documents • Individuals responsible for ESG oversight can be identified (does not need to be their sole responsibility) • ESG assessment and/or implementation falls to the investment team • Training on ESG topics is provided on a consistent basis • Occasional use of ESG consultants for individual investment assessments • Various recent examples of ESG incorporation in practice — most material E, S and G factors considered (e.g., SASB materiality guide) • In the case of direct investments (e.g., private equity), ESG is a topic covered by the board annually.
ESG-2 (Partial) Manager embeds various applicable ESG elements, or has acceptable plans to further incorporate applicable ESG into investment process	• The manager clearly identifies an ESG statement, and avails the methodology in written documents • Individuals responsible for ESG oversight can be identified (does not need to be their sole responsibility) • ESG assessment and/or implementation falls to investment team • Some recent examples of ESG incorporation in practice — some, but not most, material E, S or G factors considered (e.g., SASB materiality guide) • While some elements are missing versus ESG-1 rating, there is a tangible commitment by the manager to sustaining and improving their effort
ESG-3 (Low) Manager embeds little-to-no ESG into investment considerations, or has an unsubstantiated ESG approach with few ESG criteria, greenwashing or other concerns	• Managers with several elements missing versus ESG-1 or ESG-2 • More likely than not, there would be no ESG statement and/or responsible individuals for an ESG program, and investment team members do not have even a semi-consistent process for ESG assessment • Of note, this category is not meant to reflect on managers with high exposure to certain sectors such as energy, tobacco or transportation. Companies in these sectors can satisfy material ESG consideration as per the SASB materiality guide. Rather, a rating of ESG-3 flags managers without much ESG incorporation. • ESG-3 managers are not explicitly prohibited.
N/A (Not Applicable) Strategies with no visible ESG interpretation	

Source: State Street Global Advisors.

Showcasing Responsible Investment Leadership

In October 2020, State Street Global Advisors was selected for the Principles for Responsible Investment (PRI) Leaders' Group based on our disclosure, targets and transparency around climate-related reporting. The Leaders' Group showcases signatories considered to be at the cutting edge of responsible investment and highlights best practices in what they do.

The PRI uses signatories' reporting responses and assessment data to identify those that are doing excellent work in responsible investment — across their organisations and with a focus on a given theme each year. Full details on the PRI Leaders' Group, including methodology, can be found here.

Additionally, we were pleased that both our overall firmwide activities, as well as our stewardship program specifically, continued to be rated A+ by the PRI in 2020, based on our activities in FY2019. These are some of the highest possible ratings and represent our deep commitment to responsible investing.

PRI Signatory

As a signatory to the PRI, we have fully aligned our stewardship program with the PRI's Blueprint. This initiative, launched in 2016, defines the PRI's objectives for the following 10 years across a number of areas of impact. We are particularly supportive of PRI's commitment to building sustainable markets by challenging barriers to a sustainable financial system and by driving meaningful data throughout markets. R-Factor, our ESG scoring system launched in 2019, is designed specifically to advance these goals.

Figure 21
State Street Global Advisors' 2020 (FY2019) Assessment, Principles for Responsible Investment

Reporting Module	Median	Score
Strategy & Governance	A	A+
Listed Equity Active Ownership	A	A+
Listed Equity Incorporation	B	A
Fixed Income Corporate Financial	B	B
Fixed Income Corporate Non-Financial	B	B
Fixed Income SSA	B	B
Fixed Income Securitized	B	E
Property	B	E
Infrastructure	A	E

7 Stewardship Enablement (Principles 2, 3, 5, 6, 8)

An effective stewardship approach is underpinned by strong governance, resourcing and robust processes, and must follow a deliberate and well considered approach.

Building an Effective Stewardship Program (Stewardship Enablers)

The Stewardship team's activities are overseen by State Street Global Advisors' Investment Committee (IC), acting through the Proxy Review Committee (PRC), which is a sub-committee of the IC. The PRC is responsible for reviewing SSGA's stewardship strategy, engagement priorities and proxy voting guidelines, and monitors the delivery of voting objectives. In addition, the PRC provides oversight of the Stewardship team, reviews departures from our proxy voting guidelines and reviews conflicts of interest involving proxy voting.

Governance, Incentives and Resourcing

State Street Global Advisors' internal governance framework as it relates to our stewardship activities is set out below.

Figure 22
State Street Global Advisors Internal Governance Framework

Investment Committee	• Chaired by Global CIO • General Oversight of proxy voting and engagement strategy and activities • Owns SSGA's Proxy Voting and Engagement Guidelines — reviews and approves additions/changes to the guidelines
Global Proxy Review Committee	• Nine memberinvestment sub-committee consists of representatives of investment strategy, risk, legal and compliance • Approves and oversees applications of voting guidelines, company engagement and conflicts of interest process
Asset Stewardship Team	• 11 members based in Boston, Londonand Krakow focus on proxy voting and engagement and are assisted by four members focused on operational issues • Develops engagement strategy and voting guidelines • Executes proxy voting and engagement guidelines • Coordinates with investment teams across SSGA • Provides period updates to SSGA fund boards and clients

Source: State Street Global Advisors Asset Stewardship Team.

The Stewardship team publishes both a set of global principles and six market-specific guidelines. We have also published "Voting and Engagement Guidelines for Environmental and Social Issues" to offer further information to portfolio companies. All these principles and guidelines are reviewed annually by the PRC and available for public review on our website and in Appendix B.

In addition, the firm's Proxy Securities Lending Procedure is reviewed annually by the Asset Stewardship Team, Proxy Operations Group and Securities Lending Group to determine whether it is consistent with relevant principles and guidelines and working as intended.

In Q1 2020, the PRC approved changes to our director attendance policy for Chinese issuers, as well as the extension of our board gender voting guidelines to Hong Kong and Singapore. In addition, the PRC also agreed to an enhancement of our voting policy concerning board independence in Europe. Independent board leadership is widely accepted as a good governance practice for our clients across Europe, although it is not the norm in every country.

In Q4 2020, the PRC and separately the IC also approved our proposed racial equity voting guidelines. These guidelines reflected our commitment and recognition that racial equity is now a material risk component of ESG. Both the PRC and IC committees receive regular updates from the Stewardship team throughout the year. Through these meetings, members of the Stewardship team share progress and insights on key initiatives, as well as updates on current and future policy work, engagement strategy and global thematic trends. We believe this constructive dialogue enhances the direction and accountability of our stewardship programme as it supports good corporate governance around the world.

Team Structure and Resourcing

State Street Global Advisors has 20 members in its dedicated ESG and Stewardship teams who devote 100% of their time to ESG or Asset Stewardship. In addition, 18 ESG resources within individual Investment, Marketing and Reporting teams devote more than 30% of their time to ESG. Biographies of the senior leaders within our Stewardship Team are outlined in Appendix D.

Our total Stewardship Team of 11 professionals, based in Boston, Stamford, London, Krakow and Bangalore, and has a combined industry experience of over 100 years, with professional expertise in the fields of governance, corporate strategy, environmental management, social impact, labour rights and economics. This expertise was developed in corporate, advisory and financial roles.

We will continue to invest in resourcing our stewardship activities. Over the years, we have increased the size of our Asset Stewardship Team, which reflects the growing importance of our stewardship program.

However, we also believe that effectively leveraging technology (see discussion below) and using a robust prioritisation approach which ensures that our team is sized appropriately for the scope of our program. We will continue to evaluate our resource needs annually to ensure that we are sufficiently staffed and are optimally leveraging ESG information and technology to achieve our stewardship objectives.

Advanced New Platform and Technologies

Our ESG and Asset Stewardship teams have conducted multiple series of ESG training courses to internal stakeholders across firm functions in global locations, including portfolio management teams, sales teams, relationship management teams, portfolio strategy teams and research teams. Training covers a variety of ESG topics and developments, including voting policies and engagement, ESG investment strategies and products, and ESG taxonomy, as well as ESG portfolio assessment on ESG score, climate and business involvement and controversy.

In addition to formal training, we have several processes and mechanisms to share ESG knowledge, insights, trends and other information across the organisation. For example, members of the ESG Investment Strategy, ESG Research, ESG Integration and Stewardship teams regularly meet with internal colleagues to discuss industry trends, client needs, research priorities, ESG metrics and analytics and new ESG strategies, amongst other topics.

Third-Party Service Providers

We are able to enhance the services provided by our in-house resources through the use of third-party service providers. The most notable of these are third-party data providers used to deliver R-Factor scoring, and the use of Institutional Shareholder Services (ISS) to assist us with managing the voting process at shareholder meetings. Where third-party service providers are used, however, these services are delivered to the same standard that we would expect of our internal resources. We therefore employ robust processes to monitor service providers and engage with them when expectations are not being met.

Monitoring R-Factor Data Providers: R-Factor is powered by the raw metrics from four different data providers: three that inform the ESG component of the score and one that informs the Corporate Governance component of the score.

This approach increases the overall coverage of our data set, filling in the gaps that exist with any one data provider. Using the inputs from multiple providers also reduces the potential biases that may be built into a provider's methodology. Every 4-6 weeks, we have scheduled meetings with providers to understand changes and address issues to ensure we stay current and consistent with new methods.

R-Factor relies on this third-party data and is a key tool in our ESG integration approach. These regular meetings with providers also allow us to provide clear and actionable criteria to those third-party providers, where data governance issues have been flagged, to ensure R-Factor continues to be fit for purpose in driving ESG integration.

Monitoring Proxy Voting Providers

We have contracted ISS to assist us with managing the voting process at shareholder meetings. We use ISS to:

- Act as our proxy voting agent (providing us with vote execution and administration services)
- Assist in applying our voting guidelines
- Provide research and analysis relating to general corporate governance issues and specific proxy items
- Provide proxy voting guidelines in limited circumstances

However, except for circumstances involving voting State Street stock (for which we use an independent third party) or client-retained voting, all voting decisions and engagement activities are undertaken in accordance with our in-house policies and views, ensuring that the interests of our clients remain the sole consideration when discharging our stewardship responsibilities.

At the end of every quarter, ISS provides a meeting-level Statistical Summary report (SIS) to the Stewardship Team. Once the Stewardship team advises which broad issues/categories they would like the audit to focus on, ISS generates a list of meetings for review (e.g., 25 meetings selected in Q1, Q3, Q4, and 50 meetings in Q2).

The list of meetings for review is sent to the Stewardship team for sign-off. From the time the Stewardship team signs off on the meeting list, ISS has 30 days to complete the audit and provide results to the Stewardship team. A memo explaining any errors identified in the audit accompanies the audit results. Annually, we usually undertake a due diligence exercise with ISS. Our team consists of governance, audit, compliance and operational specialists. The team undertakes a review of ISS staff resources and competencies, systems, processes and controls.

In 2020, no errors were identified in the audit process. However, during the annual due diligence exercise we identified issues with the timeliness of some of the services offered to us by ISS. We formally escalated these issues to our service provider, and ISS committed to us that they will improve the timeliness of their service. We will continue to review this in 2021 to ensure that the quality and timeliness of the service remains high.

In addition, we also have access to Glass Lewis and region-specific meeting analysis provided by the Institutional Voting Information Service. Research and data provided by these third parties complement our in-house analysis of companies and individual ballot items.

We do not automatically follow vote recommendations of ISS or any other proxy advisor and have put in place a 'custom' voting policy with specific voting instructions. All final voting decisions are based on our proxy voting policies and in-house operational guidelines.

In 2020, our voting stance differed from ISS recommendations in around 12% of votes. When our stance differs, the majority of our votes cast are usually against management — particularly around issues of board elections, as we have specific custom policies on gender diversity, board refreshment and independence. We have also integrated R-Factor and R-Factor CorpGov into vote decisions.

Figure 23
Proportion of Companies Voted Against in 2020

State Street Global Advisors
63%

ISS
51%

Includes votes against resolutions submitted by management.
Source: State Street Global Advisors as of 31 December 2020

Performance and Incentives

Each year our Global Human Resource team participates in compensation surveys in order to provide State Street Global Advisors with critical, market-based compensation information that helps support our compensation designs, structure and pay decisions. Subject to State Street and SSGA business results, State Street allocates an incentive pool to State Street Global Advisors to reward its employees. Since the size of the incentive pool is based on the firm's overall profitability and performance against risk-related goals, each staff member is motivated to contribute both as an individual and as a team member.

The incentive pool is allocated to the various functions within SSGA. The discretionary determination of the allocation amounts to business units is influenced by market-based compensation data, as well as by the overall performance of the group. Individual compensation decisions are made by the employee's manager, in conjunction with the senior management of the employee's business unit. These decisions are based on the performance of the employee and, as mentioned above, on the performance of the firm and business unit. While investment performance is an important component of individual compensation awards, it is not the only factor. Performance against risk-related goals is an important component of the overall funding of the Incentive Compensation (IC) pool and an important consideration of the discretionary compensation decisions at the individual level.

For SSGA Investment Teams, we recognize and reward performance by linking annual incentive decisions for investment professionals to investment performance over a multi-year period; this includes ESG strategies where they support the strategies' risk profile, alpha achievement of mandates or investment outcomes. For most Active Investment teams, a material portion of incentive compensation for senior staff is deferred over a four-year period into the State Street Global Advisors Long-Term Incentive ("SSGA LTI") program. For these teams, the SSGA LTI program indexes the performance of these deferred awards against the investment performance of funds managed by the team. This ensures that our investment team's compensation is client-aligned both through annual incentive compensation awards and through the long-term value of deferred awards in the SSGA LTI program.

The CEO and Executive Vice Presidents receive incentive compensation awards that may be impacted based on behaviours that includes serving as an ethical role model, and ensuring that management practices, such as diversity, inclusion and employee engagement initiatives, are in place to deliver the required talent pipeline. These goals and behaviours are tracked and measured using targeted scorecards.

Those in Senior Management Functions (SMFs), including our Chief Risk Officer and Chief Finance Officer, have included climate change objectives in their statements of responsibilities that may impact incentive compensation should those objectives not be met.

State Street's performance management process involves a collaborative planning process and ongoing assessments, enabling flexibility to account for evolving business priorities, more opportunities for professional challenge and discussions on risk excellence and better performance differentiation across the workforce. In terms of our performance management system, we focus on individual performance priorities as well as demonstrated behaviours, so the core part of our evaluation focuses on how goals are achieved and not just what is achieved. Risk excellence and leadership qualities are also evaluated. Additionally, for all managers our Performance Management system requires each to list a specific goal related to D&I. This goal is reviewed and measured throughout the year and has an impact on performance assessments and incentive compensation outcomes.

Assurance of Our Stewardship Program

The Asset Stewardship Team publishes both a set of global principles and six market-specific guidelines. We have also published Voting and Engagement Guidelines for Environmental and Social Issues, to offer further information to portfolio companies. All of these principles and guidelines are reviewed annually by our Proxy Review Committee.

Our Stewardship programme is subject to internal independent assurances conducted by State Street's Internal Audit department. Internal Audit's scope encompasses, but is not limited to, the monitoring and evaluation of the adequacy and effectiveness of the organisation's governance, risk management and internal controls.

During the first half of the year, the Asset Stewardship team performs a real-time audit on a daily basis of voting decisions by our proxy voting agent. As a result of this, when a company under review is identified as an audit company, through a random process, it is assigned to an analyst on the Asset Stewardship team. The analyst reviews the votes inputted by the proxy agent for each item on the ballot to ensure that our voting guidelines are implemented accurately.

Each stewardship analyst has access to a desktop procedure document which outlines our stewardship practices. This documents serves as a reference point for analysts on stewardship procedures, including proxy voting procedures, advisor oversight, conflicts of interest, share recalls and guidelines for engagement and information sharing. Our desktop procedures document is signed off annually by the co-heads of the Asset Stewardship Team.

In addition, our Proxy Operations team conducts vote audits on firm-wide accounts to look for anything out of the ordinary. For example, when unusually large numbers of ballots are rejected due to being voted after cut-off, we then investigate to understand the reason for ballot rejection.

We conduct internal audit on our Stewardship annually; the most recent review recommended three changes to our existing process, which have been fully addressed and implemented:

- The creation of formal training material for initial training and annual re-certification, and requiring each Stewardship analyst to acknowledge in writing (e-mail) that he/she understands and will comply with said procedure. The Co-Heads of Stewardship maintain a record of this acknowledgement.

- Implementation of a record of senior management approval for all exception votes (e-mail) into a common directory.

- Re-organisation of the stewardship team's internal "Policies and Procedures" document into two documents: the public facing policy for State Street Global Advisors' conflicts of interest with affiliates and "Platinum" clients, and the override process based on facts and circumstances criteria connected to the "agenda item codes".

Currently, external assurances are not used to evaluate our Asset Stewardship programme. However, we do utilise internal assurance processes, as we believe they allow us to use resources intelligently and leverage existing teams and processes to ensure that our ESG activities are robust. Examples of these processes include:

- R-Factor: Both the Model Risk Committee and the Technical Committee have reviewed, validated and approved our R-Factor methodology and scoring system. The Model Risk committee, in particular, is responsible for validating R-Factor models, specifically data governance and controls.

- Stress-testing client portfolios against climate change scenarios: Our Investment Risk Team and Liquidity Risk Teams have designed and implemented dozens of stress tests and scenario analyses, which have been performed across our client portfolios. Stress tests have most recently been focused on climate scenarios to validate an investment approach.

- Investment and Liquidity Risk teams consider ESG factors in their risk reviews with portfolio managers.

While we are early in our journey, our internal assurance process has proven effective, however we recognise that, going forward, we may need to develop external assurance over our stewardship activities and other ESG disclosures, such as TCFD.

We also employ a consistent approach to ensure that our stewardship reporting is fair, balanced and understandable. All thought leadership and stewardship activity reports are reviewed by senior leaders within the Stewardship team (including the Global Co-Heads) and senior executives.

Our comprehensive review ensures that the reporting is fair and factual. When we publish company engagement case studies, we select examples that are balanced among different sectors and regions, and based on a wide range of topics, challenges and successes. Finally, our Annual Stewardship Report is reviewed by our senior executive leaders — CIO Rick Lacaille and Lori Heinel.

Conflicts of Interest

State Street Corporation has a comprehensive, standalone Conflicts of Interest Policy that addresses a range of potential conflicts of interest. Other specific policies for situations related to our work and industry have been created and implemented as required.

In addition, State Street Global Advisors, the asset management business of State Street Corporation, maintains a conflicts register that identifies key conflicts and describes systems in place to mitigate the conflicts. This guidance[15] is designed to act in conjunction with related policies and practices employed by other groups within the organisation. Further, they complement those policies and practices by providing specific guidance on managing the conflicts of interests that may arise through State Street Global Advisors' proxy voting and engagement activities.

A conflict of interest, either actual or potential, may be present when, for example:

- Voting decisions are based on our voting policy, which is developed by the stewardship team and reviewed by the PRC on an annual basis. In addition any reporting of Guidelines overrides, if any, are reported to the PRC on a quarterly basis.

- Assigning sole responsibility for the implementation of proxy voting guidelines to members of State Street Global Advisors' Stewardship Team.

- Prohibiting members of State Street Global Advisors' Stewardship Team from disclosing State Street Global Advisors' voting decision to any individual not affiliated with the proxy voting process prior to the meeting or date of written consent, as the case may be.

- Mandatory disclosure of any personal conflict of interest is required by members of the State Street Global Advisors' Stewardship team, and ESG team, to include but not limited to familial relationship with company management or service as a director on the board of a listed company. Disclosure must be provided to the Co-Heads of the Stewardship Team, and team members are required to recuse themselves from any engagement or proxy voting activities related to the conflict. In 2020, a member of the AST recused themselves from engaging/voting with a US financial services group as they had a relative on the board of directors.

- The AST outsources any voting decision related to the State Street (STT) shareholder meeting to an independent fiduciary other than the primary proxy advisor ISS. When engaging the independent fiduciary, the Stewardship team confirms that they have published proxy voting guidelines that describe how they will vote in the clients' best interests and are appropriately resourced to do so.

- We have a securities lending proxy voting policy to mitigate potential conflict.

Appendices (Principles 2, 5)

Appendix A: UK Stewardship Code Principles Checklist

Stewardship Code Principles	Section of the Report	Most Relevant Pages
Principle 1 — Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society	Introduction and Background	1–9
	Who We Are and Who We Serve	10–15
	Responsible Investing at State Street Global Advisors	56–65
Principle 2 — Signatories' governance, resources and incentives support stewardship	Stewardship Enablement	68–72
	Appendices	77–78
Principle 3 — Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	Introduction and Background	8
	Stewardship Enablement	74
Principle 4 — Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Introduction and Background	5–6, 7–15
	Making an Impact in the Real Economy	16–17, 20–23
	Identifying and Managing Systemic Risks	27–32
Principle 5 — Signatories review their policies, assure their processes and assess the effectiveness of their activities	Introduction and Background	8
	Identifying and Managing Systemic Risks	30–32
	Stewardship Enablement	72–73
	Appendices	76–78
Principle 6 — Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	Introduction and Background	5–9
	Who We Are and Who We Serve	10–15
	Making an Impact in the Real Economy	18–23
	Engagement and Escalation	35
	Responsible Investing at State Street Global Advisors	60–66
	Stewardship Enablement	69
Principle 7 — Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities	Introduction and Background	5–9
	Responsible Investing at State Street Global Advisors	56–67
Principle 8 — Signatories monitor and hold to account managers and/or service providers	Responsible Investing at State Street Global Advisors	63–65
	Stewardship Enablement	70–71
Principle 9 — Signatories engage with issuers to maintain or enhance the value of assets	Introduction and Background	6
	Making an Impact in the Real Economy	20
	Engagement and Escalation	33–50
Principle 10 — Signatories, where necessary, participate in collaborative engagement to influence issuers	Making an Impact in the Real Economy	18–23
	Engagement and Escalation	36
Principle 11 — Signatories, where necessary, escalate stewardship activities to influence issuers	Engagement and Escalation	33–50
Principle 12 — Signatories actively exercise their rights and responsibilities	Engagement and Escalation	50–52
	Responsible Investing at State Street Global Advisors	65–66

Appendix B: SSGA Global Policy and Voting Links

Asia Pacific

- 2021 Proxy Voting and Engagement Guidelines: Australia and New Zealand
- 2021 Proxy Voting and Engagement Guidelines: Japan

Europe

- 2021 Proxy Voting and Engagement Guidelines: Europe
- 2021 Proxy Voting and Engagement Guidelines: UK and Ireland

North America

- 2021 Proxy Voting and Engagement Guidelines North America (United States & Canada)

Global

- 2021 Proxy Contest: Exxon Mobil Corporation (XOM) Client Note
- CEO's Letter on Our 2020 Proxy Voting Agenda
- 2021 Global Proxy Voting and Engagement Principles
- 2021 Global Proxy Voting and Engagement Guidelines for Environmental and Social Issues
- 2021 Proxy Voting and Engagement Guidelines: Rest of the World
- 2021 State Street Global Advisors Conflict Mitigation Guidelines
- State Street Global Advisors Issuer Engagement Protocol
- Summary of Material Changes to State Street Global Advisors' 2021 Proxy Voting and Engagement Guidelines
- Protecting Long-Term Shareholder Interests In Activist Engagements

Appendix C: Public Speaking Examples

In addition to responding to consultations and white papers, we also participate in industry and stakeholder gathering as panellists or keynote speakers. We use the speaking opportunities to amplify our message on stewardship or share our views on developing ESG issues.

Sponsor Organization	Discussion Topic
Covid-19 and ESG Implications	
Focusing Capital on the Long Term Global	Investor & corporate engagement post Covid-19
State Street Global Advisors – Client Event	Engagement guidance in response to Covid-19
State Street Global Advisors – Fall Summit	Executive compensation in light of Covid-19
CSR Europe	Materiality & ESG metrics post Covid-19
International Corporate Governance Network	Voting guidelines in light of global pandemic
Harvard Law School Corporate Governance Forum	2020 Proxy Season review in light of Covid-19
Investor Advisory Committee – SEC	2021 Proxy Season preview – impact of Covid-19
Deloitte	Role of audit committee and virtual audits
Institutional Shareholder Services	Executive compensation in light of Covid-19
Racial & Ethnic Diversity	
National Investor Relations Institute	Company commitments to diversity & inclusion
Consortium of Endowed Episcopal Parishes	Racial diversity on corporate boards, best practices

Sponsor Organization	Discussion Topic
Stewardship and Corporate Governance Best Practices	
Sustainability Accounting Standards Board Symposium	Sustainability and financial performance
Jefferies Group	Shareholder activism trends & landscape
Columbia University	Climate stewardship and shareholder proposals
The Conference Board	Role of investors and companies in social change
Spencer Stuart Governance Chair Network	Institutional investor engagement expectations
Harvard Law School	Role of asset managers in ESG investing landscape
The Deal	Corporate path to ESG Success & KPI monitoring
Corporate Secretary	2020 Proxy season review, 2021 season preview
Morgan Stanley	Stewardship priorities and company best practices
The Conference Board	Investor & Company role in driving social change
Sustainalytics	Governance of SDGs, disclosure & board priorities
Morrow Sodali	2020 Proxy season review, board accountability
PricewaterhouseCoopers	ESG Disclosure & reporting, Russell 100 focus
Ernst & Young	Audit Committee's role in ESG oversight
Harvard Law School	Corporate law & policy, asset stewardship
Gender Diversity	
Women Corporate Directors Global Institute	Best practices for gender diversity at companies
London Business School	Fearless Girl Campaign insights & outcomes
Responsible Asset Owners Global Symposium	Investors' role in promoting gender diversity

Appendix D: Stewardship Team Senior Leader Biographies

Benjamin Colton
Managing Director and Global Co-Head of the Asset Stewardship Team
State Street Global Advisors

Benjamin and his colleagues on the Stewardship Team are responsible for developing and implementing State Street Global Advisors' global proxy voting policies and guidelines across all investment strategies, and managing State Street Global Advisors' proxy voting activities and issuer engagement on environmental, social and governance (ESG) issues.

Mr. Colton was previously the Stewardship team's Head of Asia-Pacific based in Tokyo, Japan. Prior to joining the company in 2018, Mr. Colton served as a member of the Active Ownership Team at Norges Bank Investment Management (NBIM) based in Oslo, Norway and later in New York City, USA.

Mr. Colton earned an Executive Global Master of Science in Management (Distinction) from the London School of Economics & Political Science (LSE), a Master of Science in Economics from the University of Nevada and a Bachelor of Science (Distinction) in Economics from The University of Nevada.

Robert Walker
Managing Director and Global Co-Head of Asset Stewardship Team
State Street Global Advisors

Robert is responsible for developing and implementing State Street Global Advisors' global proxy voting policies and guidelines across all investment strategies, and managing State Street Global Advisor's proxy voting activities and issuer engagement on ESG issues.

Prior to joining the company in 2017, Robert was a Director for Social and Governance Research at HSBC Bank plc, where he led coverage on ESG issues. Previous financial service roles also include Head of Governance Research for equity broker Kepler Cheuvreux, and Stewardship Services Manager Europe for GO Investment Partners. During his career, Robert has been ranked in the Extel survey, ranking #1 in 2017, 2015, 2014 & 2013 for governance equity research.

Philip Vernardis
Vice President of the Stewardship Team
State Street Global Advisors

Philip is responsible for State Street Global Advisors' proxy voting activities, engagement with investee companies and analysis of corporate governance, strategic and sustainability related issues in the EMEA region. Philip sits on the UK Investment Association's Sustainability and Responsible Investment Committee and is also a member of the UK Corporate Governance Forum.

Before joining State Street Global Advisors, Philip worked as a Corporate Governance Analyst at Fidelity International responsible for the company's proxy voting activities in a number of European countries and North America. He was also responsible for engaging with directors and executives of portfolio companies, advising active fund managers on corporate governance and for contributing to the company's proxy voting policy development. Prior to his position at Fidelity, Philip was Deputy Head of Research at Manifest, the proxy voting agency, leading a team of analysts and being responsible for the editing and publication of corporate governance research reports covering Europe, US and Asia.

Philip holds a Master's in Corporate Strategy and Governance from the University of Nottingham Business School and a Bachelor's in Business Management from Manchester Metropolitan University. He also holds the Investment Management Certificate (IMC) and has passed Level I of the CFA program.

Michael Younis
Vice President of the Stewardship Team
State Street Global Advisors

Prior to joining the company, Michael worked in various capacities in the environmental non-governmental organisation domain. Michael has experience working for international organisations, solid waste management advocates and social lenders.

Michael earned his Master of Environmental Management (MEM '15) from Duke University's Nicholas School of the Environment and his Bachelor of Science in Business Administration Degree (BSBA '09) from the Boston University School of Management. Michael also holds a Certificate of Inclusion and Diversity from Duke University.

Endnotes

1 We also believe that good active management does exist and can make sense in certain areas and assets classes with a sophisticated investment manager who has demonstrated superior analysis and/or decision making over time.

2 State Street Global Advisors is one of the world's largest asset managers, responsible for $3.5tn assets under management and the third-largest providers of exchange-traded funds globally (as at 31 December 2020).

3 This figure is presented as of December 31, 2020 and includes approximately $75.17 billion 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.

4 As of December 31, 2020.

5 As of December 31, 2020.

6 As of December 31, 2020.

7 During regional market hours.

8 Official Institutions is a client type that includes all plan type assets including DB and DC.

9 Hunt, V., Layton, D., & Prince, S. (2020, February 14). Why diversity matters. Retrieved from https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters

10 "Women on Boards: Global Trends in Gender Diversity on Corporate Boards," MSCI, November 2015.

11 "Women on Boards: Global Trends in Gender Diversity on Corporate Boards," MSCI, November 2015.

12 As of June 1st 2021, Cuan transitioned from his role as Head of State Street Global Advisors EMEA to focus solely on his new role of State Street UK Country Head.

13 The blocking period may spread over days to up to a few weeks. During the period, any portfolio holdings in these markets cannot be sold without a formal recall. The recall process can take time, and in some cases, cannot be accomplished at all. This makes a client's portfolio vulnerable to a scenario where a stock experiences negative market sentiment but cannot be traded because it has been blocked. When a share blocking situation occurs, shareholders who do not vote are not subject to the blocking procedure.

14 Corporate Bonds: Spotlight on ESG Risks, December 2013 and Sovereign Bonds: Spotlight on ESG Risks, September 2013 https://unpri.org/fixedincome/corporate-bonds-spotlight-on-esg-risks/41.article

15 These Managing Conflicts of Interest Arising from State Street Global Advisors' Proxy Voting and Engagement Activity Guidelines are also applicable to STATE STREET GLOBAL ADVISORS Funds Management, Inc. STATE STREET GLOBAL ADVISORS Funds Management, Inc. is an SEC-registered investment adviser. STATE STREET GLOBAL ADVISORS Funds Management, Inc., State Street Global Advisors Trust Company, and other advisory affiliates of State Street make up State Street Global Advisors, the investment management arm of State Street Corporation.

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 30 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 $3.86 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2020.
† This figure is presented as of September 30, 2021 and includes approximately $59.84 billion 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.

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State Street Global Advisors Worldwide Entities

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