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ESG

Smart Beta Equity

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2021

# State Street Multi-Factor Global ESG Equity Fund

SFDR Article 8 –

Additional Information

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## **Description of environmental or social characteristics**

The investment policy of the State Street Multi-Factor Global ESG Equity Fund is to generate a return in excess of the performance of the MSCI World Index over the medium to long term while screening out securities based on an assessment of their adherence to international norms in areas such as environmental protection, human rights, labour standards, anti-corruption and controversial weapons.

To implement this investment policy, the State Street Multi-Factor Global ESG Equity Fund's investment manager uses quantitative stock selection and multi-factor models to evaluate stocks based on their exposure to certain factors that have been evaluated to be the most persistent in driving excess returns. In addition to factor exposures, this model also considers the ESG characteristics of individual securities using ESG ratings and other ESG data metrics.

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## **Use of ESG Rating**

An ESG score for each stock in the eligible universe of the Fund is generated using R-Factor™, State Street Global Advisors' proprietary ESG scoring system and this ESG score is used in the construction of the Fund's portfolio to tilt the composition of the relevant portfolio towards securities with favourable exposures to the relevant factors, as well as ESG criteria.

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## **What is R-Factor?**

R-Factor — short for "Responsibility-Factor" — is an ESG scoring system developed by State Street Global Advisors (SSGA) that leverages multiple data sources and aligns them to widely accepted, transparent materiality frameworks to generate a unique ESG score for listed companies.

R-Factor measures the performance of a company's business operations and governance as it relates to financially material ESG challenges facing the company's industry. It is designed to provide companies a roadmap to improve ESG practices and disclosure, and to help create sustainable capital markets.

The score is powered by ESG data from four different providers (Sustainalytics, ISS-ESG (formerly Oekom Research), Vigeo-EIRIS, and ISS-Governance), in order to improve overall coverage and remove biases inherent in existing scoring methodologies.

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## **Further Information on R-Factor**

For further information on R-Factor, please refer to [www.ssga.com/esg](http://www.ssga.com/esg) or your State Street Global Advisors contact person.

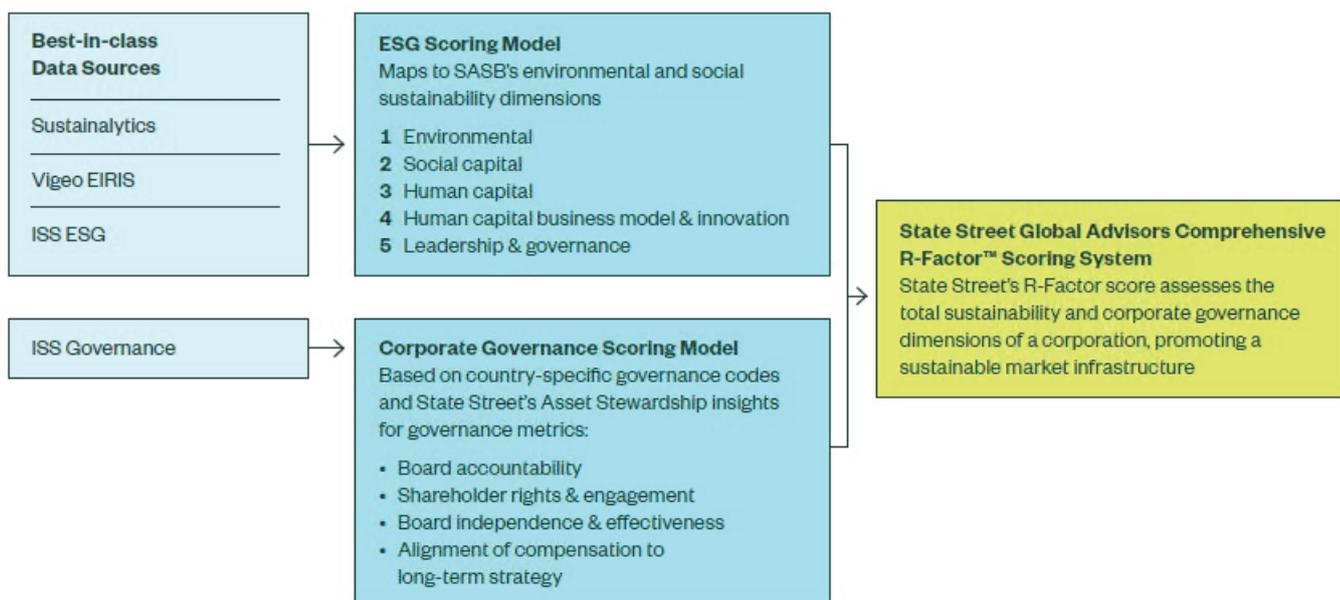
## Overview of R-Factor's Scoring Methodology

In building R-Factor, SSGA sought frameworks that could transparently address material environmental, social, governance, and corporate governance issues. In doing so, SSGA differentiates between ESG issues that are industry specific and traditional corporate governance issues that are geographic specific. For example, the importance of energy management and data security varies significantly from industry to industry but is not limited to specific geographic regions. Conversely, the importance of corporate governance accountability and shareholder rights varies significantly across geographic regions (given that regulation and legal enforcement still operate at national levels).

SSGA believes it is important to hold companies to the corporate governance standards appropriate to their headquartered region. R-Factor takes these dynamic industry and geographic nuances into account.

Through their research, SSGA determined that aggregating and weighing data on ESG factors versus corporate governance factors requires a different approach. The methodology that was designed and built to create R-Factor scores reflects this.

- R-Factor scores are powered by four different providers to achieve better global coverage and remove biases inherent in any one existing scoring methodology.
- The ESG Scoring Model is aligned with the SASB standards, framework, materiality map, and powered by three data providers — Sustainalytics, Vigeo Eiris, and ISS ESG.
- The CorpGov Scoring Model is aligned with national and regional governance standards, and powered by ISS Governance.



## Portfolio Exclusions - Scope

The below outlines the methodology used to produce the ESG Stock Exclusion List (the "Exclusion List") utilised by the Fund as part of the portfolio construction process.

### Exclusion Categories

The Exclusion List includes the following screens:

1. Controversial Weapons
2. UN Global Compact Violations
3. Swedish Ethical Council exclusions
4. Norwegian Government Pension Fund Global exclusions

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## Methodology

**Controversial Weapons** SSGA receives universe-level data from two ESG screening data providers: Sustainalytics and MSCI. A screen is then applied to the data to generate lists from each data provider of excluded securities for this category. SSGA determines the parameters that define the screen which are then approved by the firm's Investment Committee. Companies are excluded if they appear on either or both of the lists from the two data providers.

**UN Global Compact Violations** data is sourced from Sustainalytics. A screen is then applied to the data to generate a list of excluded securities for this category. SSGA determines the parameters that define the screen which are then approved by the firm's Investment Committee.

**Swedish Ethical Council** The exclusion list of the Swedish Ethical Council is determined by the Swedish Ethical Council and provided by Sustainalytics to SSGA.

**Norwegian Government Pension Fund Global** The exclusion list of the Norwegian Government Pension Fund Global is determined by Norges Bank Investment Management and provided by Sustainalytics to SSGA.

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### 1 Controversial Weapons

Companies with focused involvement in the following controversial weapons are excluded.

**Landmines** Landmines are explosives that are designed to detonate at the presence, proximity or contact of a person or vehicle. After being planted, antipersonnel mines can remain undetonated for years, posing a serious risk to civilians after a conflict has ended.

**Biological and chemical weapons** Biological or chemical weapons are munitions that utilize pathogens such as viruses, bacteria, and disease-causing biological agents, toxins, or chemical substances that have toxic properties, to inflict death or harm. Either type can be dispersed in gas, liquid, or solid forms. As these munitions are based on organisms or chemicals, civilians are often unintended victims since the impact zone is constrained only by how far the particles can disperse. For biological weapons, person-to-person transmission of the illness can further exacerbate the civilian impact.

**Cluster weapons** Cluster weapons are air-dropped explosives: bombs, missiles, rockets, or shells that carry sub munitions and disperse them over an area. The sub munitions have a wide impact zone, and often remain undetonated on the ground. These munitions can remain dangerous for years after the conflict has ended, posing a serious risk to civilians.

**Depleted Uranium** Depleted Uranium (DU) munitions are projectiles (bullets, rockets, etc.) that have been equipped with the radioactive chemical substance DU, a byproduct of the uranium enrichment process used to make nuclear weapons and nuclear-reactor fuel. Because of its high density, DU is often used as a penetrator in ammunition to help pierce armor. However, areas where depleted uranium munitions have been used are exposed to its radioactive qualities, causing people living in the area to be more prone to cancers, congenital birth defects, and other illnesses.

**Nuclear Weapons** A nuclear weapon is a device that is capable of releasing nuclear energy in an uncontrolled manner, due to fusion and/or fission reactions, making it a highly destructive explosive. The indiscriminate and disproportionate impact on civilians makes nuclear weapons a controversial weapon.

**White Phosphorus** White phosphorus (WP) is an allotrope of the chemical element phosphorus, which burns fiercely when exposed to oxygen. A WP munition is any projectile (eg flares, grenades, or mortars) that is equipped with WP, in order to act as a smoke-producing agent, or as tracer, illumination, or incendiary munition.

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Companies directly complicit in violations of core international norms and conventions, as described in the United Nations Global Compact Principles, are excluded.

The UN Global Compact is the world's largest corporate sustainability initiative with 13,000 participants from 170 countries. It consists of a set of internationally recognized principles that encompass important issues, such as human rights, labour, the environment, and anti-corruption practices. The 10 principles are as follows:

### **Human Rights**

- Principle 1*            Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2*            make sure that they are not complicit in human rights abuses.

### **Labour**

- Principle 3*            Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4*            the elimination of all forms of forced and compulsory labour;
- Principle 5*            the effective abolition of child labour; and
- Principle 6*            the elimination of discrimination in respect of employment and occupation.

### **Environment**

- Principle 7*            Businesses should support a precautionary approach to environmental challenges;
- Principle 8*            undertake initiatives to promote greater environmental responsibility; and
- Principle 9*            encourage the development and diffusion of environmentally friendly technologies.

### **Anti-Corruption**

- Principle 10*            Businesses should work against corruption in all its forms, including extortion and bribery.

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### 3 Swedish Ethical Council

All companies on the recommended exclusion list by the Council on Ethics, Swedish National Pension Funds, are excluded.

The Ethical Council is a body operated jointly by four Swedish national pension funds – AP1, AP2, AP3 and AP4 (known as the AP funds). The Council seeks to drive positive change in foreign companies implicated in violating international environmental and human rights conventions, including the Universal Declaration of Human Rights, United Nations treaties and the International Labour Organization's Core Conventions. Excluded companies from their investment universe are directly involved in the production or marketing of anti-personnel landmines and cluster munitions. Companies can also be divested if they violate the UN Global Compact and the OECD Guidelines for Multinational Enterprises and where dialogue with the companies has not led to improvements.

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### 4 Norwegian Government Pension Fund Global

All companies on the recommended exclusion list by Norges Bank Investment Management in relation to the Norwegian Government Pension Fund Global are excluded.

The Norwegian Ministry of Finance has established ethically motivated guidelines for observation and exclusion of companies. The guidelines contain criteria for exclusion based either on the companies' products or on their conduct. Companies that produce certain types of weapons, base its operations on coal, or produce tobacco are excluded as are companies that through their conduct contribute to violations of fundamental ethical norms. The Norwegian Ministry of Finance has established an independent Council on Ethics to make ethical assessments of companies. The Council on Ethics sends its recommendations to Norges Bank's Executive Board, which then makes the final decision on exclusion, observation or active ownership.

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### Update Frequency

The Exclusion List is updated once per quarter, no later than the 15th business day of the first month of the quarter. Changes will be reflected in the Fund during that quarter

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### Governance

The Exclusion List methodology (with the exception of the Swedish Ethical Council and Norwegian Government Pension Fund Global lists which, as described above, are generated by the Council on Ethics, Swedish National Pension Funds and Norges Bank Investment Management respectively) and screening criteria are approved by SSGA's Investment Committee and EMEA Product Committee respectively. A description of both the Swedish Ethical Council and Norwegian Government Pension Fund Global list can be found in the Methodology section above.

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### Further Information

For more detailed information about the research methodology, please refer to your State Street Global Advisors contact person.

Please refer to the prospectus for more information.

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## 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 rigour
- 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 27 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third-largest asset manager with US \$3.47 trillion\* under our care.

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\* AUM reflects approximately \$75.17 billion USD (as of 31 December 2020), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

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