

State Street Global Advisors CEO's Letter on our 2020 Proxy Voting Agenda

Cyrus Taraporevala
Chief Executive Officer
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Dear Board Member,

As one of the world's largest investment managers, each year State Street Global Advisors engages in dialogue with companies about a variety of issues critical to long-term performance – from business strategy to independent board leadership to sustainability. This year we will continue our active engagement with boards on sustainability, but also use our proxy vote to press companies that are falling behind and failing to engage.

ESG: No Longer an Option for Long-Term Strategy

Three years ago, we first called on boards to consider sustainability across the environmental, social and governance (ESG) spectrum. Having already engaged with companies on a number of governance matters for many years, we see that shareholder value is increasingly being driven by issues such as climate change, labor practices, and consumer product safety. We believe that addressing material ESG issues is good business practice and essential to a company's long-term financial performance – *a matter of value, not values*.

Sustainability Report Card: Mixed Results for Companies

Over the course of thousands of engagements we have seen some progress. Many directors now acknowledge the importance of ESG issues and understand how it will impact the flow of capital to their companies. Boards more clearly appreciate that issues such as climate change pose risks to their businesses. Directors see that intangible issues such as corporate culture are long-term value drivers – and are aware that shareholders, employees, customers, suppliers, and communities alike are factoring these issues into their decision-making. We have also seen companies respond to our call. For example, our Fearless Girl campaign in which we used our voice and vote to encourage companies to increase gender diversity on their boards resulted in 583 companies adding women to their boards or committing to doing so.

Unfortunately, fewer than 25% of the companies we've evaluated have meaningfully identified, incorporated and disclosed material ESG issues into their strategies. Meanwhile, some shareholder activists continue to focus on specific or narrow ESG issues in piecemeal fashion – often creating confusion for investors, boards and company leadership *without fundamentally tackling the ESG issues material to long-term shareholder performance*.

R-Factor™: A New Lens into Company Performance

To begin addressing ESG in a more comprehensive way, this past year we launched R-Factor (the 'R' stands for Responsibility), a transparent scoring system that measures the performance of a company's business operations and governance as it relates to *financially material and sector-specific ESG issues*. Drawing on data from four leading providers and leveraging the Sustainability Accounting Standards Board (SASB) materiality framework, R-Factor generates

unique ESG scores for over 6,000 listed companies globally and allows us to evaluate a company's performance against both regional and global industry peers. Indeed, following our endorsement of SASB's materiality framework as the foundation for R-Factor, a growing number of companies and investors are now using it to guide their ESG public reporting. This is an important development, as the industry seeks to coalesce around common metrics and reporting conventions.

We now use R-Factor to help clients understand their portfolio exposures, as well as inform our own asset stewardship engagements and investment decisions. Key influencers like Bloomberg and SASB have also been using R-Factor to develop industry-specific ESG indices. We believe *a company's ESG score will soon effectively be as important as its credit rating.*

Voting Against ESG Laggards & Putting Underperformers on Notice

With R-Factor informing our decision-making, this year we are prepared to use our proxy voting power to ensure companies are identifying material ESG issues and incorporating the implications into their long-term strategy.

Beginning this proxy season, we will take appropriate voting 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. Beginning in 2022, we will expand our voting action to include those companies who have been consistently underperforming their peers on their R-Factor scores for multiple years, unless we see meaningful change. We believe doing so is in the best interests of investors and companies alike.

For those companies struggling but wanting to take action, we are sharing the attached framework that removes some of the ambivalence directors have about overseeing ESG, providing a roadmap to incorporating sustainability into the company's long-term strategy. As part of our engagement, we are also making R-Factor scores available to company management.

Making Better Decisions with ESG

Ultimately, we have a fiduciary responsibility to our clients to maximize the probability of attractive long-term returns – and will never hesitate to use our voice and vote to deliver better performance. This is why we are so focused on financially material ESG issues.

I hope you find our perspective and framework helpful. I encourage your company leadership to get your R-Factor score, and I look forward to engaging with you throughout the year.

Sincerely,



Cyrus Taraporevala
President and CEO of State Street Global Advisors