CEO’s Letter on Our 2021 Proxy Voting Agenda

Cyrus Taraporevala  
President and Chief Executive Officer

January 11, 2021

Dear Board Member,

I hope this letter finds you and your colleagues safe and healthy. Each year, State Street Global Advisors engages with investee companies such as yours about issues of importance to investors that we will be focusing on in the coming months. We do so for a simple reason: as one of the world’s largest investment managers, we have a fiduciary responsibility to our clients to maximize the probability of attractive long-term returns.

Of course, 2020 was no ordinary year. From a global health crisis that has taken the lives of nearly 2 million people, to a global conversation about racial justice, to continued long-term risks around the threat of 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.
As such, **our main stewardship priorities for 2021 will be the systemic risks associated with climate change and a lack of racial and ethnic diversity.** In particular, I want to explain how we intend to use our voice — and our vote — to hold boards and management accountable for progress on providing enhanced transparency and reporting on these two critical topics.

**Continuing to Raise the Standard for Progress on ESG Issues**

Certainly, we have all come a long way since we first wrote to investee companies several years ago about the need to understand better how environmental, social, and governance (ESG) issues impact long-term value. From the need for periodic board refreshment to ensure effective, independent and diverse board leadership, to being among the first large investment managers to support climate-related shareholder proposals, to aligning culture with corporate strategy, our stewardship has helped companies make measurable progress on key issues.

Engagements with companies such as yours have provided investors with the enhanced data and disclosure needed to make informed investment decisions. Last year, we wrote you about R-Factor™ — our transparent scoring system based on the Sustainability Accounting Standards Board (SASB) framework, which focuses on financially-material, industry-specific ESG risks. We also 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. We will also be communicating with companies with underperforming scores that have not shown improvement in the coming year.

**The Resilience of ESG-Aware Companies**

This past year demonstrated the value of this work to investors. As Harvard Business School professor and State Street Associates research partner George Serafeim found “companies with strong ESG characteristics experienced less negative stock returns during the market collapse, relative to competitors ... [including industries] most affected by COVID-19.” Indeed, companies which proactively managed other systemic risks were often better prepared to face the uncertainty of the pandemic. Companies which invested in employee safety, reinforced technology infrastructure, or studied climate impact were often more resilient as the pandemic threatened frontline workers, forced millions of people to work remotely, and disrupted global supply chains.
Elevating Our Focus on Climate Risk

As such, we will continue to engage with companies to understand their approaches to mitigating and managing the physical and transitional impacts of climate change. Since 2014, we have engaged with more than 600 companies across multiple industries on climate-related issues. Ahead of the United Nations Climate Change Conference (COP26) in Glasgow in November, policymakers are assessing progress on climate change action since the Paris meeting in 2015. Additionally, many jurisdictions are signaling their intentions to make climate risk disclosure mandatory, using the reporting framework launched in 2017 by the Taskforce on Climate-related Financial Disclosures (TCFD). A growing number of investors are also focused on net-zero carbon emissions goals and want to understand how companies are managing their transition risks. Since 2018, we have asked all of our portfolio companies to use the TCFD framework and have engaged with boards on climate risk oversight, including their plans for the transition to a lower carbon world.

As a signatory to Climate Action 100+, we look forward to sharing our experience and insights on climate stewardship with other members. In 2021 we will focus on specific companies especially vulnerable to the transition risks of climate change. Further, we will continue our ongoing engagement with companies in other sectors that, while not as carbon intensive, also face risks such as the physical impacts of climate change.

Proactively Addressing Racial and Ethnic Diversity

As we continue to learn more about climate transition plans and monitor how the market reacts, investors cannot ignore the social issues — the “S” in ESG — that have taken center stage over the past year. Last spring, we shared guidance that the focus of our engagements would shift to issues such as employee health, serving and protecting customers, and ensuring the overall safety of supply chains. Further, while Fearless Girl elevated the issue of gender diversity on boards and in senior leadership, in the wake of protests against racial injustice last spring, it was clear we needed to expand our focus to consider financial risks related to racial and ethnic diversity as well.

Research has shown the positive impacts diverse groups can have on improved decision making, risk oversight, and innovation,¹ as well as how management teams with a critical mass of racial, ethnic, and gender diversity are more likely to generate above-average
profitability.²
Likewise, companies that promote workforce diversity and inclusion through transparent hiring, promotion, and wage practices have seen improved productivity,³ revenues,⁴ and market share,⁵ while homogenous boards and workforces tend to refrain from challenging prevailing views.⁶

The preponderance of evidence demonstrates clearly and unequivocally that racial and ethnic inequity is a systemic risk that threatens lives, companies, communities, and our economy — and is material to long-term sustainable returns. This is why in August we shared with you an update on how our diversity engagements had expanded to include discussions of race and ethnicity.

As we indicated in this guidance, our primary challenge as investors is the lack of publicly available racial and ethnic diversity data. While most companies in the United States are required by regulators to track racial and ethnic diversity, disclosure at the board level is sparse⁷ and only 6% of Russell 1000 companies actually share detailed data publicly on their employees’ gender and ethnic identities.⁸

To build on our previous guidance — and to ensure companies are forthcoming about the racial and ethnic composition of their boards and workforces — we are instituting the following proxy voting practices, which are outlined in our new Guidance on Enhancing Racial and Ethnic Diversity Disclosure:

- In 2021, we will vote against the Chair of the Nominating & Governance Committee at companies in the S&P 500 and FTSE 100 that do not disclose the racial and ethnic composition of their boards;
- In 2022, we will vote against the Chair of the Compensation Committee at companies in the S&P 500 that do not disclose their EEO-1 Survey responses; and
- In 2022, we will vote against the Chair of the Nominating & Governance Committee at companies in the S&P 500 and FTSE 100 that do not have at least 1 director from an underrepresented community on their boards.

Of course, disclosure is just a starting point. Building on the more than 70 engagements we have held with companies on racial and ethnic diversity since August, our
investee companies should be prepared for thorough engagements on these and related subjects in the coming year, and we will analyze shareholder proposals accordingly.

When it comes to racial and ethnic diversity, every company is on a journey, and we all have work to do. That includes us at State Street. To that end, we are committed to elevating our own commitment to racial and ethnic diversity. In addition to disclosing the racial and ethnic composition of our board and our EEO-1 data this year, we are also advancing 10 actions to eliminate racial inequity in our organization, including tripling our Black and Latinx leadership and increasing our spend with minority businesses over the next three years. Our board will hold our senior management accountable for our progress.

**Toward a More Sustainable and Inclusive Future**

As long-term investors, we will always take a broad view of sustainability as it relates to better business outcomes. While none of us knows with certainty how the new year will unfold, we continue to believe that working with boards such as yours on a range of environmental, social, and governance best practices will help create a more resilient, sustainable, and inclusive future for companies, economies, and societies. We wish you the very best and look forward to speaking to you in the coming year.

Sincerely,

Cyrus Taraporevala
President and CEO of State Street Global Advisors

---

**Footnotes**

Disclosures

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. Investing involves risk including the risk of loss of principal. It does not take into account any investor’s particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.
All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without State Street Global Advisors’ express written consent.

State Street Global Advisors Global Entities

© 2021 State Street Corporation - All Rights Reserved

3383170.2 GBL.RTL

Exp. Date: 1/31/2022

Quick Links

Guidance on Enhancing Racial and Ethnic Diversity Disclosure

CEO's Letter on Our 2021 Proxy Voting Agenda

Learn More About Our Asset Stewardship Program

Questions? Feel free to Contact Us  

Twitter  
LinkedIn  
YouTube

© 2021 State Street Corporation. All rights reserved.

Global Privacy Notice

Cookie & Online Tracking Disclosure