THE ADVISOR

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STATE STREET GLOBAL ADVISORS 2022 POLICY UPDATES

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Overview

In his annual letter to portfolio companies, State Street Global Advisors (SSGA) CEO Cyrus Taraporevala outlined SSGA's stewardship and proxy voting agenda for 2022 which will primarily focus on climate change and board and workforce diversity.

The CEO's letter can be found here.

SSGA's disclosure expectations for companies on climate change, diversity, overboarding, human capital management (HCM) and human rights can be found here.

A summary of the changes follows:

Overboarding[1]

SSGA is moving away from its bright-line approach towards over-committed directors. Currently, it votes against public company NEOs who serve on more than two public company boards, board chairs and lead directors who serve on more than three public company boards, and other directors who serve on more than four public company boards.

Beginning in 2022, SSGA may waive its withhold policy, other than for NEOs, if the company discloses a director commitment policy, which must include:

- A numerical limit on public company boards, which cannot exceed SSGA's policy by more than one board seat,
- Consideration of public company board leadership positions,
- Affirmation that all directors are compliant with the policy, and
- An annual policy review process by the nominating committee to evaluate outside director time commitments.

It may also waive its withhold vote if the company discloses that a director is imminently leaving a board. SSGA additionally clarified that service on mutual fund and SPAC boards will not be counted in SSGA's evaluation of director commitments.

Gender Diversity

SSGA is enhancing its existing board gender diversity policy in the following ways:

- Beginning in the 2022 proxy season, SSGA will vote against the nominating committee chair or board leader at any portfolio companies globally that do not have at least one woman on the board.
- Beginning in 2023, SSGA will vote against the nominating committee chair or board leader at Russell 3000, TSX, FTSE 350, STOXX 600 and ASX 300 companies if they do not have at least 30% female representation on their boards. SSGA will escalate its against vote to all nominating committee members (or those responsible for the nomination process) if the company fails to meet this expectation for three consecutive years. It may waive the policy if, following engagement, the company provides a specific, time bound plan for reaching 30% gender diversity on the board.

[1] See "Guidance on Managing Director Time Commitments" (January 2022).

Racial/Ethnic Diversity

In 2021, SSGA began voting against the nominating committee chair at S&P 500 and FTSE 100 companies that did not disclose the racial and ethnic composition of their boards. The disclosure could be at the aggregate board level or individual director level.

In 2022, SSGA is implementing the following voting policies:

- SSGA will vote against the nominating committee chair at S&P 500 and FTSE 100 companies that do not have at least one director from an underrepresented racial or ethnic community.

- SSGA will vote against the compensation committee chair at S&P 500 firms that do not disclose their EEO-1 data. Acceptable disclosures include the original EEO-1 report responses or the exact content of the report translated into custom graphics.

In the coming years, SSGA intends to shift its diversity focus to the workforce and executive levels.

Diversity-Related Shareholder Proposals[2]

Diversity, Equity and Inclusion (DEI) reporting: SSGA will vote against the proposal if the company meets at least four of its five expectations:

- **Board oversight** of DEI efforts, including the potential impacts of products and services on diverse communities.

- **Strategy:** Time bound and specific diversity goals, policies and programs to meet those goals, and progress in achieving them.

- **Goals:** Time bound and specific diversity goals, policies and programs to meet those goals, and progress in achieving them.

- **Metrics:** Workforce diversity metrics (EEO-1) and board diversity characteristics

- **Board diversity:** Efforts to achieve diverse representation on the board including how diverse candidates are considered in director recruitment.

If the company meets three or fewer of its expectations, SSGA will likely engage with the company to seek further alignment. It may abstain on the proposal if the company commits to improve its practices.

Racial/gender pay gap disclosure: SSGA will vote against the proposal if the company meets or commits to meeting within a specific timeframe the following expectations:

- Confirms that individuals in the same position, regardless of race or gender, are compensated equally,

- Discloses workforce diversity statistics at each level of management,

- Discloses long-term, diversity-specific goals for each level of management, and

- Describes the strategy or practices in place to achieve these goals.

Racial equity or civil rights audits: SSGA will vote against the proposal if the company discloses the following:

- The board's process for overseeing risks related to racial equity and/or civil rights,

- The specific risks the board oversees related to the impact of the company's products, practices and services on underrepresented communities inside and outside the organization, and

- Plans and processes to mitigate these risks.

SSGA will abstain if the company commits to improving board oversight of racial equity and/or civil rights risks, including identifying and managing relevant risks.

[2] See "Guidance on Diversity Disclosures and Practices" (January 2022).

Climate Change[3]

For the year ahead, SSGA's focus will be to drive both broad climate action in the market across sectors as well as more targeted action for companies with significant emissions.

Climate-Related Disclosures

Beginning in the 2022 proxy season, SSGA will vote against the independent board leader at companies in the S&P 500, S&P/TSX Composite, FTSE 350, STOXX 600 and ASX 100 indices if they fail to provide sufficient disclosure in accordance with the Task Force for Climate-Related Financial Disclosures (TCFD) framework, including:

- Board oversight of climate-related risks and opportunities,
- Scope 1 and 2 greenhouse gas (GHG) emissions, and
- Targets for reducing GHG emissions.

Climate Transition Plan Disclosures for Significant Emitters

In 2022, SSGA will launch targeted engagements with the most significant emitters in carbon-intensive sectors (oil and gas, utilities and mining). Beginning in 2023, it will hold directors accountable at companies that fail to show adequate progress in meeting SSGA's disclosure expectations for net-zero climate transition plans. These expectations include:

- Long-term climate-related ambition
- Interim GHG emission reduction targets and alignment with Paris temperature goals
- TCFD disclosure
- Decarbonization strategy across the value chain
- Capital allocation alignment
- Disclosure of climate policies and positions and trade association review
- Climate governance (board and management oversight)
- Just transition
- Physical risk assessment and management
- Stakeholder engagement (internal, investors, climate experts, industry collaborators)

Climate-Related Shareholder Proposals

SSGA evaluates climate-related shareholder proposals case by case, taking into account:

- The reasonableness of the proposal,
- Alignment with the TCFD framework and the Sustainability Accounting Standards Board (SASB) standards where relevant,
- Emergent market and industry trends,
- Peer performance, and
- Dialogues with company management, boards and other stakeholders.

At companies in carbon-intensive sectors, SSGA will consider alignment with its disclosure expectations cited above.

Climate-Related Lobbying Proposals

SSGA takes a case-by-case approach to shareholder proposals requesting reports on how the company's lobbying activities—including through trade association memberships—align with the goals of the Paris Agreement. It will consider the following factors:

- Board oversight of the company's participation in the political process, including trade association memberships,

[3] See "Guidance on Climate-Related Disclosures" (January 2022). See "Disclosure Expectations for Effective Climate Transition Plans" (January 2022).

- If the company performed a gap analysis of its stated position on climate change versus those of its trade associations, and

- If the company discloses a list of its trade association memberships.

HCM and Human Rights

SSGA has additionally published guidance for effective disclosures and practices related to HCM and human rights. Per its standard practice, SSGA will first address these issues with companies through engagement. If SSGA identifies companies that are laggards in adequately managing risks related to these matters, it will vote against directors or support relevant shareholder proposals.

HCM[4]

SSGA expects companies to disclose the following:

- How the board oversees HCM-related risks and opportunities,

- How the company's approach to HCM advances its long-term business strategy,

- How pay strategies throughout the organization help attract and retain employees and incentivize contributions,

- How employee feedback is solicited, and

- How the company advances DEI.

Human rights[5]

SSGA expects all companies to disclose their processes for identifying human rights risks that are material to the company's operations and supply chain. If material, SSGA expects the following disclosures:

- How the board oversees human rights risks,

- Which human rights-related risks are most material,

- How the company manages and mitigates these risks, and

- How the company assesses the effectiveness of its human rights risk management program.

Alliance Advisors will continue to provide summaries on institutional proxy voting guidelines and other corporate governance and ESG matters as newsworthy items are released. Contact us today if you would like to examine how these policy changes will impact your company.

[4] See "Guidance on Human Capital Management Disclosure and Practices" (January 2022).

[5] See "Guidance on Human Rights Disclosures and Practices" (January 2022).