STATE STREET GLOBAL ADVISORS

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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 sparse[7] 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

STATE STREET GLOBAL ADVISORS

[1] Janis, I. (1972). "Groupthink: Psychological studies of Policy Decisions and Fiascoes." Boston: Houghton Mifflin.

[2] McKinsey & Company. (2018). "Delivering through Diversity." Retrieved from https://www.mckinsey.com/~/media/mckinsey/business%20functions/organization/our%20insights/delivering%20through%20diversity/delivering-through-diversity_full-report.ashx

[3] Garnero, A, Kampelmann, S. and Rycx, F. (2013, September). The Heterogeneous Effects of Workforce Diversity on Productivity, Wages, and Profits. Centre Pour La Recherche Economique et Ses Applications Document de travail no 1304, pp. 4-5.

[4] Global Diversity and Inclusion: Fostering Innovation Through a Diverse Workforce. Retrieved from https://www.forbes.com/forbesinsights/innovation_diversity/index.html

[5] Kelly Services: Diversity must help bottom line to be sustainable. (2013, November 03). Retrieved from https://www.crainsdetroit.com/article/20131103/NEWS/311039959/kelly-services-diversity-must-help-bottom-line-to-be-sustainable

[6] Janis, I. (1972). "Groupthink: Psychological studies of Policy Decisions and Fiascoes." Boston: Houghton Mifflin.

[7] Smith, J. (2019, July 23). Five takeaways from the 2019 proxy season. Retrieved from https://www.ey.com/en_us/board-matters/five-takeaways-from-the-2019-proxy-season

[8] A Small Fraction of Corporations Share Diversity Data, but Disclosure is Rapidly on the Rise. Retrieved from https://justcapital.com/news/a-small-fraction-of-corporations-share-diversity-data-but-disclosure-is-rapidly-on-the-rise/

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Insights
Asset Stewardship

January 2021

Guidance on Enhancing Racial & Ethnic Diversity Disclosures

At State Street Global Advisors, we believe that companies have a responsibility to effectively manage and disclose risks and opportunities related to racial and ethnic diversity. A growing body of research[1] suggests that diversity can drive returns, and that boards that neglect this topic face risks to their reputation, productivity, and overall performance. We have expanded our firm's longstanding focus on gender diversity to include race and ethnicity, and this essential dimension of ESG risk management will be a priority for our Asset Stewardship team in 2021. What follows is an overview of what to expect from us on this topic.

Our Expectations For Enhanced Racial & Ethnic Diversity Disclosures

Investors would benefit from increased publicly-available data on diversity and inclusion at portfolio companies. As such, we are focused on increasing the availability of relevant information in the market. 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:

   a. **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.

   b. **Board** Diversity characteristics, including gender and racial and ethnic makeup, of the board of directors.

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.

Engagements: Incorporating Our Racial & Ethnic Diversity Expectations into Conversations with Companies

Since outlining our expectations to the market, the Asset Stewardship team has had over 70 engagements with issuers on racial and ethnic diversity, offering feedback to companies on how they can improve their alignment with our expectations for effective disclosures. The following are some of the general insights we have gleaned thus far:

- Companies are on a journey toward greater racial and ethnic diversity. We appreciate this, and are focused on where companies are headed.

- Issuers have been largely supportive of our expectations. Some companies have questioned whether the EEO-1 report is an accurate representation of a company's workforce, but we ask companies to disclose this as a baseline and we encourage them to share additional context to help investors understand the fuller picture.

- Based on our engagements and developments in the field, we anticipate that many companies will offer disclosures generally in line with our expectations in the coming months.

- While many companies share diversity and inclusion materials that are oriented toward prospective employees, there is less content about how diversity and inclusion helps to advance a firm's long-term strategy, or the goals that help them measure progress along the way.

- The strongest disclosures overall are in the Technology and Financial Services sectors, which is logical since diversity and inclusion is considered financially-material for these sectors according to the Sustainability Accounting Standards Board.

- Out of all our expectations, we saw the least alignment with regards to public disclosure of workforce and board diversity metrics. The data corroborates this observation.

2021 Engagement Campaign: Racial & Ethnic Diversity at Largest US and UK Employers

In an effort to better understand the state of racial and ethnic diversity disclosures and practices in the US and UK, and to encourage greater alignment with our expectations across these markets, we will engage the largest employers in the US and UK on human capital management topics including racial and ethnic diversity in 2021. We will analyze their diversity disclosures at the beginning of the year, request an engagement during the year, and generally report on their progress at the end of 2021.

Voting: Incorporating Our Expectations into Our Proxy Voting Policies

In order to achieve alignment with our aforementioned expectations and advance transparency in the public markets, State Street Global Advisors will implement the following voting guidelines, in addition to our existing guidelines regarding gender diversity:

- Starting in the 2021 proxy season, if a company in the S&P 500 or FTSE 100 does not disclose the racial and ethnic diversity of its Board, we will vote against the Chair of the Nominating & Governance Committee. Acceptable disclosures include:
  - Aggregate-level (e.g., "5% of our Directors are Black," "Seven of our Directors are people of color," "30% chose not to self-identify")
  - Individual-level (e.g., "Jane Doe is African-American, John Smith is Caucasian," etc.)
- Starting in the 2022 proxy season, if a company in the S&P 500 does not disclose its EEO-1 report, we will vote against the Chair of the Compensation Committee. Acceptable disclosures include:
  - The original EEO-1 report response.
  - The **exact** content of the report translated into custom graphics.
- Starting in the 2022 proxy season, if a company in the S&P 500 or FTSE 100 does not have at least one director from an underrepresented community, we will vote against the Chair of the Nominating & Governance Committee.

We will continue to engage companies and provide guidance on this important topic. Absent substantive engagements resulting in a formal commitment to comply with our expectations outlined above, we will taking voting action against the appropriate directors.

Additionally, we have created a framework for analyzing diversity-related shareholder proposals which is grounded in our disclosure expectations outlined above. This framework can be reviewed in our Q3 2020 Stewardship Activity Report and has already been incorporated into our voting practices.

Thought Leadership: Identifying Best Practices for Board Oversight of Racial & Ethnic Diversity-Related Risks and Opportunities

Our Asset Stewardship team has long been focused on the "G of E," or the governance of environmental risks. We are expanding our focus to include the "G of S," or social risks, and will be partnering with Russell Reynolds Associates and the Ford Foundation to identify potential best practices for board oversight of racial diversity and inclusion. This effort is part of State Street Corporation's racial equity initiative.

Conclusion

We remain focused on our fiduciary duty to seek the long-term value of our clients' investments. It is our conviction that teams with a diversity of perspectives generate a diversity of ideas that can drive the long-term success of a firm. Please reach out to our Asset Stewardship team at GovernanceTeam@ssga.com, and we look forward to engaging with you on this important topic.

Endnote

1 https://ssga.com/insights/diversity-strategy-goals-disclosure-our-expectations-for-public-companies.

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's third-largest asset manager with US $3.15 trillion* under our care.

* This figure is presented as of September 30, 2020 and includes approximately $80.51 billion USD 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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