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State Street Global Advisors Sharpens Voting Push on Financially Material ESG Matters

In a letter to directors of public companies, State Street Global Advisors' President and CEO, Cyrus Taraporevala, reiterated SSgA's focus on "financially material" ESG issues as "a matter of value, not values." He also confirmed that SSgA will go beyond engagement and deploy its voting power in director elections to accelerate corporate action on ESG. In SSgA's view, "fewer than 25% of the companies we've evaluated have meaningfully identified, incorporated and disclosed material ESG issues into their strategies."

As shareholder proposals touching on ESG and sustainability matters proliferate, SSgA has also sounded a cautionary note, flagging that "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."

Leveraging SSgA's endorsement of the Sustainability Accounting Standards Board (SASB) standards, SSgA uses its proprietary "R-Factor" ESG scoring methodology to benchmark companies against peers and will make these scores and associated drivers available to companies. As to the specific voting plans (which could include abstain as well as "withhold" or "against" votes against directors):

"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."

In connection with the SSgA's CEO letter to directors, its stewardship team, led by Rakhi Kumar, published an <u>ESG Oversight Framework for Directors – Demystifying</u> <u>ESG for Board Members</u>, which informs engagements with companies. This update affirms SSgA's desire to have directors "acknowledge the importance of environmental, social and governance (ESG) issues to the business" and assess ESG materiality through strategic and operational lenses.

SSgA has previously pressed boards and management teams on a range of emerging and nuanced issues, including focusing on the long-term, resisting shorttermism, corporate culture as a driver of long-term value, incorporating sustainability considerations into business strategies, structuring effective independent board leadership

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approaches without defaulting to who does or does not have the title of "chair," board gender diversity, climate change, protecting long-term shareholder interests in activist engagements and the Investor Stewardship Group's corporate governance principles. SSgA has also published various industry sector-specific insights informed by stewardship engagements with lead directors and management teams.

While it remains to be seen when and whether SSgA's prediction that "a company's ESG score will soon effectively be as important as its credit rating" will come to pass, SSgA's push on these issues will likely foster expanded corporate dialogue and disclosure, <u>board focus</u> and company-specific approaches on ESG-related matters.

SSgA's latest announcement underscores the growing global focus on ESG performance across companies and industries and <u>BlackRock's own push</u> for expanded disclosure. In what will also prove a significant development, the World Economic Forum ("WEF") recently released a consultation draft proposing a core set of <u>ESG-related disclosure metrics</u> aligned with the UN Sustainable Development Goals, drawing from existing frameworks. The draft WEF framework was prepared under the leadership of Brian Moynihan in collaboration with the four largest accounting firms—Deloitte, EY, KPMG and PwC—and members of the WEF's International Business Council. It marks a notable step towards achieving more universal disclosure standards on ESG matters that may be acceptable to companies.

The upcoming year will see continued efforts to consolidate the many different metric- and framework-related initiatives. If an agreed-upon set of ESG and sustainability-related long-term value metrics were to be widely adopted and embraced by public companies and institutional investors alike, that could have a profound impact on company business strategies and approaches to sustainable investment and growth.

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