Anthony Quintano, Fearless Girl Statue Charging Bull Wall Street New York City, Flickr.com

CWC committee on workers' capital

SPOTLIGHT ON STATE STREET GLOBAL ADVISORS

The Role of Fundamental Labour Rights in Investment Stewardship

April, 2021

Contents

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About the Global Unions' Committee on Workers' Capital (CWC) Asset Manager Report Series

The Global Unions' Committee on Workers' Capital (CWC) Asset Manager Report Series examines the performance of large global asset managers on workers' rights and global trade union priorities. The asset managers profiled rely on a client base that includes pension funds across the globe. Many of the trustees who sit on these pension fund boards are CWC network participants.

The CWC reports evaluate the strength of the asset managers' stewardship frameworks, the impact of their stewardship practices on workers' rights, as well as their alignment with the ILO Fundamental Principles and Rights at Work and rights-based frameworks such as the OECD Guidelines for MNEs and the UN Guiding Principles on Business and Human Rights. They also assess the consistency of the asset managers' investment stewardship practices with the CWC Secretariat's Baseline Expectations around fundamental labour rights. This report on State Street Global Advisors is current up to April 2021.

I. CWC Baseline Expectations of Asset Managers

The CWC Asset Manager Report Series reviews the stewardship policies and practices in public equities (i.e., engagement and proxy voting), real assets and policy advocacy of large global asset managers. It assesses the consistency of these practices with the CWC Secretariat's Baseline Expectations on Fundamental Labour Rights:

- Adopt the promotion of fundamental labour rights and responsible business conduct as an engagement priority and a proxy voting guideline;
- Commit to engaging companies when trade unions provide evidence of adverse human rights impacts and reporting back publicly on the outcome of these engagements;
- Adopt a position of "non-opposition" when workers exercise their right to associate and to bargain collectively in public equities and private market investments;
- Commit to a dialogue with the CWC and its asset owner participants once a year to discuss trade union priorities that are relevant to investment stewardship; and
- Recognize publicly that companies have an immediate responsibility to protect the health and safety of their workforce, supply chain workers and independent contractors.

II. Recommendations for SSGA

State Street Global Advisors' (SSGA) stewardship framework strongly emphasizes financial materiality and does not refer to fundamental labour rights. As a result, SSGA may not be using its stewardship toolbox effectively to drive companies to uphold the UN Guiding Principles for Business and Human Rights (UNGPs), the OECD Guidelines for MNEs and the ILO Fundamental Principles and Rights at Work. SSGA's engagement, proxy voting and policy advocacy reflect the limitations of its stewardship framework in effectively addressing issues related to fundamental labour rights.

The following recommendations were formulated based on the analysis of SSGA's public disclosures, its PRI transparency report and documents relevant to fundamental labour rights provided by trade unions. The recommendations fall into three overarching categories: (1) stewardship framework; (2) engagement and proxy voting; and (3) policy advocacy.

Stewardship framework

The CWC Secretariat recommends that SSGA

- Align its stewardship framework with a rights-based framework that is conducive to pressing companies to uphold fundamental workers' rights; and
- Codify its process to support remediation as an element of effective due diligence under the OECD Guidelines for MNEs.

Engagement and Proxy Voting

The CWC Secretariat recommends that SSGA

- Orient its engagement and proxy principles to a rights-based framework that considers whether companies are upholding their obligations under international norms and frameworks;
- Include workers' rights and labour standards among engagement issues and voting screens, distinct from human capital management;
- Formulate a progressive engagement and voting policy that is responsive to notification of issues related to workers' rights and labour standards; and
- Develop and implement an escalation policy that includes (1) joining joint investor initiatives when individual engagements fail to provide the desired outcome and (2) addressing cases where a company has refused to participate in mediation when offered by a national contact point (NCP) under the OECD Guidelines for MNEs.

Policy Advocacy

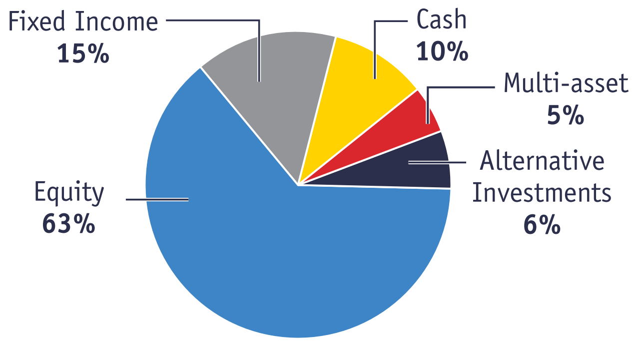
The CWC Secretariat recommends that SSGA

- Endorse the development of sustainability reporting standards based on the concept of double materiality; and
- Acknowledge its own responsibilities to uphold the OECD Guidelines for MNEs as one of the tenets that shapes its responses to policy consultations.

Glossary

Environmental, Social and Governance – **ESG**
European Commission's Non-Financial Reporting Directive - **NFRD**
Exchange-traded fund – **ETF**
Global Reporting Initiative – **GRI**
International Financial Reporting Standards Foundation – **IFRS**
International Labour Organization – **ILO**
Key Performance Indicators – **KPIs**
OECD Guidelines for Multinational Enterprises – **OECD Guidelines for MNEs**
OECD National Contact Point – **OECD NCP**
Responsible business conduct – **RBC**
Sustainability Accounting Standards Board – **SASB**
Sustainability Standards Board – **SSB**
Task Force on Climate-related Financial Disclosures – **TCFD**
UN Guiding Principles for Business and Human Rights – **UNGPs**
US Department of Labor – **DOL**

III. SSGA at a Glance

Assets Under Management	USD 3.47 trillion (2021)[1]
Ranking among global asset managers	3rd largest[2]
Asset base composition[3]	 60% of total AUM is passively managed equity[4]
Company structure	SSGA is the investment management arm of the publicly-listed State Street Corporation
Responsible investment (RI) staff/total employees	20 employees in the ESG and Asset Stewardship teams and 18 employees within individual investment, marketing and reporting teams that dedicate 30% of their time to ESG[5]/2,259 employees in total[6]
Headquarters	Boston, USA

SSGA launched the first US-listed exchange-traded fund (ETF) in 1993 and has been at the forefront of the rise of passive management ever since.[7] Now the world's third largest asset manager, SSGA forms – alongside BlackRock and Vanguard – what is known as the "Big Three" of global asset managers. With 64% of its assets under management in public equities, and 96% of its listed equities managed passively, index funds dominate SSGA's offerings.[8]

The expansion of index funds over the past decade has been accompanied by a growing ownership concentration in publicly listed companies, giving rise to new concerns related to the influence of asset managers in the corporate governance of their holdings.[9] SSGA has disputed some of these concerns, pointing to its incorporation of Environmental, Social and Governance (ESG) issues into its company engagements as a positive dimension of its expansive portfolio.[10] What is clear is that SSGA, by virtue of its scale and influence, can play a substantial role in driving responsible business conduct across global markets.

IV. Fundamental Labour Rights in SSGA's Stewardship Framework

SSGA's mission statement states, "we believe investing responsibly enables economic prosperity and social progress."[11] The company approaches its mission by committing to integrate financially-material ESG considerations into its investment processes.[12]

In 2019, SSGA indicated a commitment to stakeholder capitalism, which holds that companies are best able to create long-term value for shareholders when they create long-term value for multiple stakeholders, citing its participation in industry initiatives such as Focusing Capital on the Long Term, the Coalition for Inclusive Capitalism and the Investor Stewardship Group.[13] As the coronavirus pandemic unfolded in 2020, SSGA articulated some of the principles of stakeholder capitalism – and a commitment to focus more attention on social issues – in a series of public statements that set a tone for its investment stewardship framework.

In March 2020, for example, SSGA President and CEO Cyrus Taraporevala issued a "Stewardship Engagement Guidance to Companies in Response to COVID-19," stating that "our engagement conversations will shift to more immediate ESG issues such as employee health, serving and protecting customers and ensuring the overall safety of supply chains."[14] During the Black Lives Matter protests in 2020, SSGA sent a letter to board chairs of companies across its global portfolio asking them to describe their risks, goals and human capital management strategy with regards to racial and ethnic diversity.[15] Then, in January 2021, SSGA announced that it would tie its expectations on board diversity to its voting on select board positions for companies listed on the S&P 500 and FTSE 100 indices by 2022, as well as workforce disclosure for S&P 500 companies.[16]

> "Though SSGA's public statements and stewardship documents suggest a commitment to raising the bar on social issues, its ESG stewardship framework is confined to an analysis of the financial materiality of sustainability issues."

Does SSGA's stewardship framework uphold fundamental labour rights?

In his "CEO's Annual Letter on SSGA's Proxy Voting Agenda" for 2021, Taraporevala noted that "investors cannot ignore the social issues — the "S" in ESG — that have taken center stage over the past year."[17] Though SSGA's public statements and stewardship documents suggest a commitment to raising the bar on social issues, its ESG stewardship framework is confined to an analysis of the financial materiality of sustainability issues. This approach is limiting with regards to evaluating how portfolio companies uphold fundamental labour rights.

SSGA bases its ESG analysis, priorities and screens on company scores generated by its R-Factor ESG data tool, which it discloses to companies but not the wider public. The R-Factor data tool leverages the Sustainability Accounting Standards Board (SASB) Materiality Map using data from Sustainalytics, Vigeo EIRIS, ISS ESG, and ISS Governance.

A shortcoming of the SASB focus on financially material sustainability key performance indicators (KPIs) is that it discounts the responsibilities of companies (and investors) to uphold fundamental labour rights. SASB calls for companies to disclose an industry-specific set of financially material issues, or "the issues that are reasonably likely to impact the financial condition or operating performance of a company and therefore are most important to investors."[18] SASB identifies labour practices as a "material issue" in just 16% of industries rather than as a universal consideration.

In line with comments submitted by the Expert Group on SASB's Human Capital Management Preliminary Framework, the CWC Secretariat believes that this industry-specific assessment underestimates the extent to which labour rights generate regulatory, reputational and operational risks for a company – in the short and the long term.[19] We echo concerns voiced in the Expert Group's comments, which include the lack of metrics related to collective bargaining across industries and in supply chains, and the development of indicators that assess the extent and quality of human rights due diligence.[20]

Sustainability disclosures aligned with the concept of "double materiality" edge out frameworks that are solely focused on financial materiality when it comes to incorporating fundamental labour rights. Introduced as part of the European Commission's Non-Financial Reporting Directive (NFRD), double materiality calls for companies to provide disclosures on sustainability issues that impact (1) their own activities (financial materiality), and to disclose (2) the company's impact on its key stakeholders, including workers.[21] This concept is aligned with the definition used in the Global Reporting Initiative (GRI) Standards.[22]

STATE STREET ASSOCIATES RESEARCH ON THE STRATEGIC IMPORTANCE OF STAKEHOLDER RELATIONSHIPS DURING COVID-19[23]

In June 2020, State Street Associates researchers and State Street Associates academic George Serafeim at Harvard Business School published a study on corporate resilience and response during COVID-19.

The authors noted significant emphasis during the pandemic on labour practices. The study examined whether companies that invested in their stakeholder relations – including with employees – demonstrated stronger relative stock market performance during the COVID-19 market collapse. The evidence in the study suggests that companies that received positive media attention regarding their labour practices, supply chain and operational response to the crisis demonstrated stronger relative stock market performance. According to the authors, "the evidence suggests that investments in stakeholder relations could be valued as strategic resources especially in a business context where those investments represent a credible and costly commitment to those stakeholders."[24]

The rights-based framework embedded in double materiality is the basis of the OECD Guidelines for MNEs, which outline the responsibilities for companies to uphold fundamental labour rights, including those defined in the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work. Investors, in turn, are expected to consider responsible business conduct (RBC) risks throughout their investment process and use their "leverage" with companies they invest in to influence these entities to prevent or mitigate adverse impacts. This guidance applies to minority shareholders such as passive index providers. In cases where an investor's position in a company that has caused or contributed to labour rights violations does not constitute managerial control, the investor should seek to encourage the investee company to provide remedy.[25] This remedy may include articulating an expectation that portfolio companies participate in mediation when offered by an OECD National Contact Point (NCP).

SSGA does not refer to the OECD Guidelines for MNEs – or any other international frameworks that outline company responsibilities to uphold fundamental labour rights – in its stewardship framework. The only mention of the workers' rights enshrined in international instruments across SSGA's documentation is a reference to a specialized ESG offering that generates restricted lists based on the UN Global Compact.[26] This contrasts with SSGA's peer, BlackRock, which is "prioritizing engagement with companies whose business practices have breached international norms set forth by the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for MNEs."[27]

> "The only mention of the workers' rights enshrined in international instruments across SSGA's documentation is a reference to a specialized ESG offering that generates restricted lists based on the UN Global Compact."

Laura Hoffmann, State Street Bank München, flickr.com

INTERNATIONAL STANDARDS AND FRAMEWORKS: WORKERS' HUMAN RIGHTS AND LABOUR STANDARDS

The ILO Declaration on Fundamental Principles and Rights at Work commits member states to respect and promote principles and rights in four categories: freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation.

The OECD Guidelines for MNEs are a comprehensive code of responsible business conduct that governments in adhering countries have committed to promoting. Companies based in adhering countries are expected to uphold the Guidelines wherever they operate. Chapter V of the Guidelines echoes all four principles contained in the ILO Declaration on Fundamental Principles and Rights at Work.

In 2017, the OECD clarified the responsibilities of institutional investors – including asset owners and managers –in situations of minority shareholding. Minority shareholders are expected to (1) carry out due diligence to identify actual and potential adverse impacts, (2) seek to prevent or mitigate adverse impacts, (3) track and communicate results, and (4) support remediation where adverse impacts occur. Complaints may be filed in front of National Contact Points in cases where multinational enterprises (including investors) cause or contribute to adverse impacts to rights-holders, such as workers.

The UN Guiding Principles on Business and Human Rights (UNGPs) set a global standard of expected conduct for all businesses wherever they operate and provide the internationally accepted framework for enhancing standards and practice regarding business and human rights.

The UN Global Compact is a voluntary initiative based on CEO commitments to implement universal sustainability principles and implement UN goals. The UN Global Compact consists of Ten Principles, which are derived from frameworks that include the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

CWC SECRETARIAT RECOMMENDATIONS:

A clear set of expectations for portfolio companies drawn from a rights-based framework would contribute greatly to SSGA's ability to follow through on the commitments it has made on social issues within a lens of stakeholder capitalism.

In the case of both COVID-19 and racial equity, upholding the ILO Declaration on Fundamental Principles and Rights at Work is especially relevant because the ability of workers to express concerns through the exercise of collective voice without fear of retribution could improve outcomes. In the long-term care sector, for instance, research uncovered a relationship between unionized workforces and better comparative COVID-19 outcomes in several jurisdictions. There, unions were a vehicle for workers to advocate for safer conditions and standards such as paid sick days and personal protective equipment (PPE) access.[28] Given the inextricable links between systemic racism, low wage work and poor working conditions, incorporating fundamental labour rights into its approach to systemic racism could also improve SSGA's engagement outcomes on racial and ethnic diversity.[29]

It is important to note that large asset managers are responding to shifting expectations, informed by concepts such as double materiality and stakeholder capitalism, by revising their stewardship frameworks to encompass human rights due diligence. BlackRock, for instance, updated its 2021 "Global Principles and Market-Level Voting Guidelines" with the following language:[30]

> **"We ask that companies report on how they have determined their key stakeholders and considered their interests in business decision-making. We also ask that companies effectively address adverse impacts that could arise from their business practices and mitigate material risks with appropriate due diligence processes and board oversight."**[31]

In addition to incorporating human rights due diligence into its stewardship framework, an investment portfolio focused grievance mechanism that enables workers who suffer adverse impacts to raise concerns with SSGA when it may be causing or contributing to the adverse impact would represent a significant improvement in bringing the company's stewardship commitments to life.

The CWC Secretariat recommends that SSGA:

- Align its stewardship framework with a rights-based framework that is conducive to pressing companies to uphold fundamental workers' rights; and
- Codify its process to support remediation as an element of effective due diligence under the OECD Guidelines for MNEs.

V. Engagement and Voting on Fundamental Labour Rights and CWC-Supported Initiatives

The SSGA Stewardship Team is responsible for all voting and engagement activities across its portfolio of 12,000 listed equities, with support from members of an ESG team and under the direction of the Investment Committee. The Investment Committee, Global Chief Investment Officer and Chief Executive Officer hold ultimate responsibility for ESG and stewardship oversight. SSGA states that it carries out stewardship "with a single voice and objective" across its portfolios.[32]

SSGA integrates its engagement and voting activities in a centralized process, supporting engagements with vote action. This stewardship is conducted in alignment with either its Global Proxy Voting and Engagement Principles or region-specific proxy voting and engagement principles where applicable.[33] SSGA maintains distinct proxy voting and engagement guidelines for Australia and New Zealand,[34] Europe,[35] Japan,[36] North America (Canada and the US),[37] the UK and Ireland,[38] and "the rest of the world."[39] On ESG matters, SSGA's voting and engagements principles refer to its 2020 Global Proxy Voting and Engagement Guidelines for Environmental and Social Issues.[40]

> "None of SSGA's sets of engagement and proxy voting guidelines – including the ESG-specific guidelines – refer to fundamental labour rights."

SSGA produces annual asset stewardship reports, with its most recent covering asset stewardship in 2020,[41] in addition to quarterly stewardship reports that provide a rough overview of proxy voting and company engagements.[42] In March 2021, SSGA released a list of engagements with companies by broad topic, divided into "E", "S", and "G", marking a significant improvement in its disclosure.[43]

None of SSGA's sets of engagement and proxy voting guidelines – including the ESG-specific guidelines – refer to fundamental labour rights.

A. Engagement

SSGA identifies target companies for engagement through ESG-screens and in relation to thematic priorities. Engagements are classified as either letter-writing or "comprehensive" meetings. In 2020, SSGA engaged with over 2,400 companies, of which 672 (approximately 28%) were "comprehensive." Its engagements may be "active" and initiated by SSGA following a screening process or "reactive" and initiated by the company.[44]

The SSGA stewardship program contains two core long-term campaigns: The Fearless Girl campaign for gender diversity on boards and a campaign on climate risk and reporting. The company "CEO's Annual Letter on SSGA's Proxy Voting Agenda" for 2021 identifies the systemic risks associated with climate change and racial and ethnic diversity as its annual stewardship priorities, listing an additional set of sectoral and thematic engagement priorities.[45]

SSGA refers to a comprehensive review and monitoring process for its engagements, which it escalates to the board level if the dialogue does not yield results. It uses an "Issuer Engagement Protocol" to guide interactions and regularly reviews its screening model indicators to capture emerging ESG issues and trends.[46] SSGA may leverage its voting rights if engagements are unsatisfactory.[47]

Joint investor letters to specific issuers on labour-related issues are a particularly important escalation strategy for minority shareholders with positions in large cap companies. We note that SSGA did not sign an investor letter organized by Swedish asset managers Öhman and Folksam to Amazon.com, Inc. asking the company to demonstrate how it upholds its stated commitment to freedom of association. This letter was signed by investors representing more than USD 7 trillion in assets under management, including large European asset managers.[48] SSGA also could have added its signature on an investor statement of expectations for the nursing home sector released in March 2021, which was an opportunity to contribute to a collective response to the human rights and material risks to the sector.[49]

Are fundamental labour rights reflected in any engagement priorities?

In its 2020 Stewardship Report, SSGA lists "Labor Standards and Human Rights" as a potential company engagement topic but provides no further details.[50] In general, workforce issues are folded into "human capital management," which is a thematic focus for 2020-21 and a topic for engagements with some companies in the information technology and consumer staples sectors. SSGA has also incorporated human capital management into engagements on COVID-19, citing labour practices and employee health and safety as material ESG issues specific to the pandemic.[51] SSGA held 244 engagements on human capital management in 2020.[52]

Within its human capital management thematic, SSGA has engaged companies on "creating channels for employee voice. Many companies instituted regular meetings, town halls, and surveys to surface sentiment from their workforce, some in response to protests and petitions from workers."[53]

It is encouraging to see the inclusion of human capital management and workers' voice specifically as engagement priorities. Unions are an effective vehicle for workers' collective voice. SSGA could strengthen its stewardship by clarifying that it expects portfolio companies to uphold fundamental labour rights to freedom of association and collective bargaining. The recent example of Amazon, which was urged to take a neutral stance following its anti-union behavior during a union election at a facility in Bessemer, USA by a group of investors – as well as US President Biden[54] – illustrates the importance of anchoring human capital management engagements in fundamental labour rights.

> "Joint investor letters to specific issuers on labour-related issues are a particularly important escalation strategy for minority shareholders with positions in large cap companies."

Has the asset manager publicly reported on any engagements on fundamental labour rights?

SSGA provides a list of all the companies it engaged with in 2020 by "E", "S", or "G" engagement topic.[55] In contrast, BlackRock lists 11 categories of engagements and provides a more detailed description of engagement topics discussed.[56] SSGA's 2020 Stewardship Report includes a short description on one engagement described as "Human Rights-Related", where it engaged the Alphabet board on its role in the oversight of human rights-related risks.[57]

These disclosures are an improvement on SSGA's 2018-2019 stewardship reporting. That said, asset owner clients of SSGA do not have a sufficient basis to conclude whether the manager is upholding its own fiduciary responsibilities to carry out due diligence and use its "leverage" as a shareholder to avoid adverse human rights impacts as per the OECD Guidelines for MNEs.

Did the asset manager engage with any companies on fundamental labour rights issues raised by trade unions?

The following companies recently have been the subject of reports on labour rights concerns issued by the CWC Secretariat and/or its participating trade unions. As SSGA does not disclose substantive information on company engagements, we consider these examples to be broadly indicative of whether SSGA's screens pick up trade union priorities:

Company (country HQ)	Impacts to workers' rights raised by CWC participants	SSGA social engagement reported[58]
Amazon.com Inc. (USA)	The CWC has highlighted employee concerns regarding workplace health and safety at the beginning of the COVID pandemic,[59] labour disputes in US, UK and European warehouses,[60] and an anti-union campaign in the US.[61] The latter is summarized in a CWC Statement for Investors on the Union Election at Amazon's Facility in Bessemer, Alabama.[62]	Yes
Grupo Mexico (Mexico)	The CWC and the AFL-CIO have published an investor brief on ESG risks including workers' rights risks resulting from the company's refusal to reinstate former strikers at the company's US subsidiary ASARCO.[63]	No
XPO Logistics Inc. (USA)	The ITF, ETF and IBT have published a report on concerns regarding labour standards, employee misclassification and freedom of association.[64]	Yes

The following cases of alleged labour rights violations involve OECD NCPs, which are established by adhering governments to promote implementation of the OECD Guidelines for MNEs and to address issues of non-observance when they are raised. They are included as indicators of whether SSGA's engagement screens capture allegations of fundamental labour rights violations:

Company (country HQ)	Impacts to workers' rights raised by CWC participants	SSGA social engagement reported[65]
Vale (Brazil) and BHP (Australia/UK)	OECD NCP complaint was filed against Vale and BHP by BWI, IndustriALL and CUT Brazil for lack of adequate health and safety due diligence in mining activities related to the 2015 Fundão dam collapse in Brazil.[66]	Yes (BHP Group Limited only)
Teleperformance (France)	OECD NCP complaint filed by UNI regarding unsafe practices linked to Covid-19 in call centers in various countries.[67]	No
Lafarge/Holcim (Switzerland)	OECD NCP complaint filed by BWI on replacement of employees with subcontractors in the Philippines.[68]	No

B. Proxy Voting

SSGA voted on 19,000 proposals in 2020, siding with management on 84.5% of the management proposals and on 88.6% of the shareholder proposals that appeared on its ballots.[69]

SSGA escalates engagements through voting action when company responsiveness is limited. Beginning in 2020, SSGA implemented a policy to vote against board members at companies listed in specific exchanges, including the S&P 500, with low R-Factor scores and poor plans to improve their scores. In 2020, it voted against 14 directors and pledged to expand its screen in 2022 to vote against board members at companies that have been consistently underperforming their peers on their R-Factor scores for multiple years.[70] It is unclear whether and how a failure to uphold workers' rights is incorporated into SSGA's voting action screens.

As mentioned, SSGA has committed to voting against directors based on racial, ethnic and gender composition disclosures of its board and, in the case of S&P 500 listed companies, its workforce by 2022.[71]

Do SSGA's proxy voting guidelines uphold fundamental labour rights?

SSGA's voting on ESG-related resolutions is based on "whether the adoption of a shareholder proposal addressing a material sustainability issue would promote long-term shareholder value in the context of the company's existing practices and disclosures as well as existing market practice."[72] The global, regional, and ESG-specific guidelines make no mention of fundamental labour rights.

Did the asset manager vote FOR the following shareholder resolutions that were filed by CWC participants?

Company (country HQ)	Ownership stake[73]	CWC-supported recommendation	Proposal subject	Item #	Meeting date	SSGA vote result
Brookfield Asset Management (Canada)	-	Available	Assign an Oversight Responsibility for Human Capital Management to a Board Committee	4	6/12/2020	Against
Delta Airlines (USA)	3.38%	Available	Report on Sexual Harassment Policy	7	6/18/2020	Against
GEO Group (USA)	3.13%	Available	Disclosure of lobbying activities and expenditures	4	19/5/2020	Against
XPO Logistics Inc. (USA)	3.31%	Available	Require Independent Board Chair	6	5/14/2020	For

Did the asset manager vote according to CWC participant recommendations (AGAINST) on the following management proposals?

Company (country HQ)	Ownership stake[73]	CWC-supported recommendation	Proposal subject	Item #	Meeting date	SSGA vote result
Teleperformance (France)	-	Available (against)	Approve Allocation of Income and Dividends of EUR 2.40 per Share	3	6/26/2020	For
Teleperformance (France)	-	Available (against)	Approve Compensation of Daniel Julien, Chairman and CEO	6	6/26/2020	For
Amazon.com (USA)	3.26%	Available (against)	Election of Judith McGrath, chair of the leadership development and compensation committee	1.e.	27/5/2020	For
Grupo ACS (Spain)		Available (against)	Approve Non-Financial Information Statement	2	5/7/2020	For

Out of the eight votes tracked in this year's report, SSGA voted against every CWC-supported voting recommendation except in one instance at XPO Logistics. In all other cases, SSGA either voted against shareholder proposals supported by CWC participants or voted for management resolutions where CWC participants recommended opposing management. This suggests that SSGA screens are not responsive to important opportunities to vote in support of fundamental labour rights.

CWC SECRETARIAT RECOMMENDATIONS:

SSGA dedicated more attention to social issues in general and workforce issues in particular in 2020, and its disclosure on engagement topics has improved since its 2018-2019 stewardship report. Its engagement and proxy voting guidelines, however, do not set out clear expectations for companies to uphold the fundamental labour rights. This shortcoming permeates SSGA's treatment of workforce issues in its engagement reporting. SSGA commits, for example, to "engage with companies to understand how they measure, monitor and manage their workforce and how they align their incentives with the company's long term strategy and invest in creating a workforce for the future."[74] BlackRock frames its work more strongly:

> "we advocate for improved disclosures on a company's key human capital priorities—referring to SASB's industry-specific human capital metrics, regional frameworks like the US Equal Employment Opportunity Commission's EEO-1 Survey, and international guidance on responsible business conduct from organizations such as the United Nations and the Organization for Economic Cooperation and Development (OECD)."[75]

"Out of the eight votes tracked in this year's report, SSGA voted against every CWC-supported voting recommendation except in one instance at XPO Logistics."

The absence of any reference to international frameworks in SSGA's policies, combined with its improved yet still limited disclosure, render it difficult to assess whether its engagement screens capture cases where workers' rights are undermined. SSGA's voting record would suggest that labour rights violations do not translate into support on the ballot. SSGA's would further improve its stewardship performance by signing joint investor statements on labour rights issues and encouraging companies to participate in NCP mediation when offered.

The CWC Secretariat recommends that SSGA:

- Orient its engagement and proxy principles to a rights-based framework that considers whether companies are upholding their obligations under international norms and frameworks, such as the ILO Fundamental Principles and Rights at Work, the UNGPs and the OECD Guidelines for MNEs;
- Include workers' rights and labour standards among engagement issues and voting screens, distinct from human capital management;
- Formulate a progressive engagement and voting policy that is responsive to notification of issues related to workers' rights and labour standards; and
- Develop and implement an escalation policy that includes (1) joining joint investor initiatives when individual engagements fail to provide the desired outcome and (2) addressing cases where a company has refused to participate in mediation when assistance is offered by an NCP under the OECD Guidelines for MNEs.

VI. Policy Advocacy

SSGA regularly responds to financial regulation policy consultations around the world. As the world's third largest asset manager, its views carry significant weight when it responds to key consultations. Over the course of 2020, there were three key consultations to which SSGA responded that were particularly relevant to CWC participants: (1) the US Department of Labor (DOL)'s Proposed Regulation on Financial Factors in Selecting Plan Investment, (2) the International Financial Reporting Standards Foundation (IFRS) Consultation on Sustainability Reporting, and (3) the EC's review of the Non-Financial Reporting Directive (NFRD).

In June 2020, the US DOL opened a comment period on a Proposed Regulation on Financial Factors in Selecting Plan Investment.[76] The rule would have imposed higher scrutiny for pension plans (and fiduciaries) regulated under the Employee Retirement Income Security Act of 1974 that wish to integrate ESG factors in their investments. The AFL-CIO, a CWC participant, requested that the DOL withdraw the proposed rule.[77] Similarly, SSGA opposed the DOL's proposal and urged that it be withdrawn.[78] SSGA's position was generally consistent with the position of the AFL-CIO.

In its submission to the IFRS, SSGA backed an initial focus on climate risk and referenced a set of standards that are based on the financial materiality of a narrow set of sustainability issues. SSGA held that a new IFRS Sustainability Standards Board (SSB) should adopt a "climate-first" approach. Furthermore, SSGA cited SASB and the Task Force on Climate-related Financial Disclosures (TCFD) as the two standards that an SSB should "leverage and defer to."[79] The SASB and TCFD frameworks recommend that companies report on sustainability issues that may have an impact on the company's performance. As discussed, the SASB framework discounts the disclosure of KPIs that assess a company's environmental and social impacts on its stakeholders, such as a company's approach to due diligence on adverse human rights impacts.

In its submission to the EC 2020 review of the Non-Financial Reporting Directive, SSGA articulated support for standardizing non-financial reporting by drawing on SASB, the TCFD and GRI, and including sector specific elements. SSGA argues that compared to financial materiality, "more guidance is needed in defining environmental and social materiality under the EU's double materiality concept."[80]

CWC participant trade unions that responded to the consultation argued that the current NFRD fails to give an adequate standing to the importance of workers and that it gives too much flexibility to companies. In its submission, the European Trade Union Confederation argues that companies should report how they adhere to ILO Principles and the OECD Guidelines for MNEs.[81] The OECD has published sectoral due diligence guides and the GRI is developing sector-based standards. Taken together, these resources provide ample guidance for companies to define E&S materiality. It would be desirable for SSGA to cite those resources in its public policy submissions.

CWC SECRETARIAT RECOMMENDATIONS:

- Endorse the development of sustainability reporting standards based on the concept of double materiality; and
- Acknowledge its own responsibilities to uphold the OECD Guidelines for MNEs as one of the tenets that shapes its responses to policy consultations.

VII. Conclusion

Large asset managers are increasingly expected to manage systemic risks in their portfolios. Doing so effectively entails challenging narrow concepts of financial materiality.

SSGA has articulated, in its public statements and through its collaborative engagements, a commitment to principles of stakeholder capitalism. It has demonstrated its resolve on important issues such as gender, systemic racism and climate. The issue of fundamental labour rights is inextricably linked to this set of interconnected issues. Marginalized communities and women are overrepresented in low-wage jobs with poor working conditions – this is a fact in SSGA's home country of the US and across the world.[82] Embedding SSGA's responsibilities under the OECD Guidelines for MNEs into its stewardship framework and practices is an essential step in making progress on social issues.

Looking ahead in 2021

There is ample opportunity for SSGA to demonstrate leadership and approach social issues with rigor in 2021. These include:

SECTORAL ENGAGMENTS

LONG-TERM CARE

COVID-19 has highlighted the fundamental flaws in the long-term care system of low pay, poor contracts and lack of worker voice across jurisdictions. Lax health and safety standards, under-staffing, low wages and temporary contracts have contributed to surging COVID-19 deaths in nursing homes.[83] **SSGA can identify this sector as an engagement priority sector for 2021 and conduct engagements with portfolio companies on labour rights and workforce issues.**

STRANDED AT SEA

Over 400,000 seafarers have been stranded at sea, prevented by national COVID-19 restrictions from disembarking from commercial vessels to be relieved by replacement crews.[84] Some seafarers have been at sea for over 18 months. The International Transport Workers' Federation highlighted in 2020 how crews made to work long after their legal contracts have ended effectively face a situation of forced labour. The International Chamber of Shipping has recognized the need for companies within global supply chains to act. **SSGA can take action now by signing the Fidelity International investor letter to advocate for policy change and engaging immediately with relevant portfolio companies, including charterers, to ask that they follow the internationally-agreed crew change protocols in their operations and contracts.**

MYANMAR

SSGA portfolio companies such as Chevron and Total are facing demands to suspend operations in Myanmar following the military coup.[85] Australian company Woodside has responded by suspending its operations, citing the need to foster a business environment that supports human rights.[86] SSGA can urge portfolio companies with operations in Myanmar to disclose how they will press for human rights and democracy following the recent military coup.

COMPANY ENGAGEMENTS

AMAZON.COM, INC.

SSGA should press Amazon to uphold fundamental workers' rights in its global operations. As other investors have done, it can do so by asking the company to detail concrete measures to implement its stated commitment to ILO Core Conventions and the ILO Declaration on Fundamental Principles and Rights at Work.[87]

MCDONALD'S CORP.

SSGA should hold McDonald's directors accountable for their oversight failures in the initial investigation into former CEO Easterbrook's violation of the company's Standards of Business Conduct by allegedly having a sexual relationship with a subordinate, as well as the decision not to terminate him for cause and to award him a substantial severance package.[88] The board should also be held accountable for their oversight of workforce well-being at company-owned and franchise store locations. Several McDonald's restaurant workers have sued the company alleging sexual harassment of female employees.[89]

Appendix 1:
A Comparison of SSGA and BlackRock's Stewardship Frameworks on Key Issues

SSGA	BlackRock
Stewardship expectations for portfolio companies	
"We expect companies to disclose information regarding their approach to identifying material sustainability-related risks and the management policies and practices in place to address such issues. We support efforts by companies to demonstrate the ways in which sustainability is incorporated into operations, business activities, and most importantly, long-term business strategy."[90]	"We ask that companies report on how they have determined their key stakeholders and considered their interests in business decision-making. We also ask that companies effectively address adverse impacts that could arise from their business practices and mitigate material risks with appropriate due diligence processes and board oversight."[91]
References to fundamental labour rights	
"Common topics for sustainability-related shareholder proposals include: […] Labor and human rights"[92]	"We are prioritizing engagement with companies whose business practices have breached international norms set forth by the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for MNEs. In particular, we are engaging with companies that have experienced severe social controversies to assess their board oversight, due diligence, and remediation efforts."[93]
Stewardship on labour issues	
"We believe that a company's workforce is a core asset and driver of long-term sustainable performance. We will engage with companies to understand how they measure, monitor and manage their workforce and how they align their incentives with the company's long term strategy and invest in creating a workforce for the future."[94]	"we advocate for improved disclosures on a company's key human capital priorities—referring to […] international guidance on responsible business conduct from organizations such as the United Nations and the Organization for Economic Cooperation and Development (OECD)."[95]
Human rights due diligence	
No references	"Unmanaged potential or actual adverse human rights issues can not only harm the people directly affected, but also expose companies to significant legal, regulatory, operational, and reputational risks. These risks can materialize in a variety of ways, from fines and litigation to workforce and supply chain disruptions that may damage a company's standing with business partners, customers, and communities. Furthermore, these risks may call into question a company's social license to operate – the ability to maintain operations in a certain location and benefit from the labor, raw material, or regulatory structures in place – particularly if they significantly undermine its corporate reputation and purpose."[96]

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About the Global Unions' Committee on Workers' Capital (CWC)

The Global Unions' Committee on Workers' Capital (CWC) is an international labour union network for dialogue and action on the responsible investment of workers' retirement savings. A joint initiative of the International Trade Union Confederation (ITUC), the Global Union Federations (GUFs), and the Trade Union Advisory Committee to the OECD (TUAC), the CWC has brought trade union representatives and worker-nominated trustees from across the world together since 1999. The pension fund board members who participate in the CWC network oversee the retirement savings of millions of workers.

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