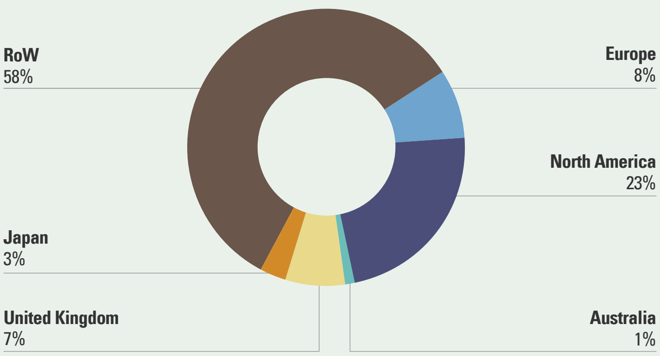
Stewardship Activity Report

Q3 2018

Figure 1: Vote Summary Q3 2018

Number of Meetings	**2,282**
Number of Countries	**58**
Management Proposals	**16,474**
Votes For (%)	83.85
Votes Against (%)	16.15[1]
Shareholder Proposals	**365**
Votes With Management (%)	77.26
Votes Against Management (%)	22.74[1]

Figure 2: Breakdown of Voting by Region Q3 2018

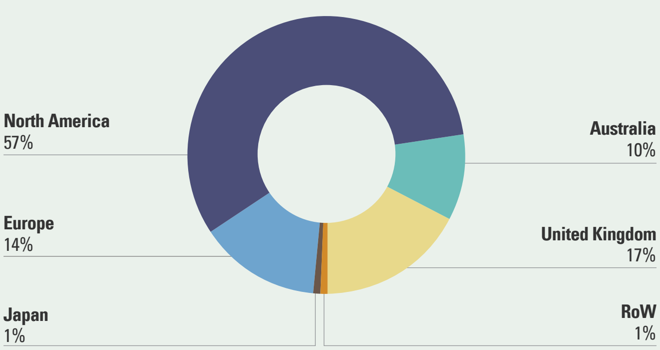


Source: State Street Global Advisors. As of September 30, 2018.
Data are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Figure 3: Engagement Summary

Q3 Engagement Meetings	YTD Engagement Meetings
83	513

Figure 4: Breakdown of Engagements by Region Q3 2018



Source: State Street Global Advisors. As of September 30, 2018.
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Stewardship Highlights

This report provides a preview of the Australia proxy season, highlights State Street Global Advisors' response to the ASX Corporate Governance Council's consultation, and offers insights from high profile engagements conducted within Europe and the US.

Preview of the Australia Season

Based on our early engagements with companies in the market we will be focusing on the following themes during the Australian proxy season:

Remuneration Remains a Key Focus Area

Australian companies continue to move away from the traditional long-term incentive schemes that utilize a three-year relative Total Shareholder Return (TSR) metric in favor of more short-term performance goals. This growing trend of companies shifting their pay towards short-term priorities, frequently at the same moment when TSR is lagging, is alarming. As we have communicated in the past, we actively screen out companies who have made this change for additional scrutiny and potentially vote against the remuneration advisory vote.

When setting long-term performance targets, we look for boards to identify the key metrics associated with the company's long-term strategy and incorporate those metrics into the long-term remuneration program.

Board Accountability and Director Election Practices

As highlighted in our Q2 newsletter, we find that shareholders are limited in their ability to hold individual directors accountable in a timely manner given the staggered director elections cycles which are endemic across Australian companies. We believe that annual director elections would improve board accountability and encourage board members to be more responsive to shareholder interests. We published **a review of director election practices in Australia** outlining our views and encouraging a discussion around annual director elections.

Director election practices in Australia will be a focus area for our Asset Stewardship efforts in 2019. In our view, this issue is best addressed at the market level. We are encouraging peer investors, companies and regulators to work together to promote positive market-wide progress towards adopting annual director elections.

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Climate-related Risks and Disclosure

We expect companies to provide sufficient disclosure on the robustness of their climate-related risk evaluation and to describe how such risks are integrated into long-term strategy. We also expect companies to provide long-term GHG intensity goals and clearly outline the board's responsibility for monitoring and overseeing progress towards such targets. We find that many Australian companies have continually enhanced their climate-related disclosure. Nevertheless, we believe that many companies could better articulate how climate-related risks and opportunities are being integrated into their long-term strategy through mitigation and adaptation efforts. Furthermore, we believe that some companies can improve disclosure on the board's role in oversight on climate-related risks. We evaluate shareholder proposals on a case-by-case basis, which are frequently informed by any thought leadership we have published on the topic being addressed. For instance, we utilize our **Perspectives on Effective Climate Change Disclosure** as one reference point for proposals on climate risk. We will continue to engage with Australian companies, particularly those in high impact sectors such as energy, utility, and mining, on the importance of the evaluation, oversight, and disclosure of climate-related risks.

Regulatory Update

As a global investor, State Street Global Advisors monitors and participates in regulatory developments worldwide. During the third quarter we responded to a significant regulatory development in Australia.

Australia: ASX Corporate Governance Council consultation

In July 2018, **State Street Global Advisors responded** to the ASX Corporate Governance Council's consultation on updating its governance principles and recommendations. Within our response we raised concerns that the prevalence of staggered boards in Australia means that no matter how dissatisfied shareholders are with director performance, they have to wait several years to hold appropriate board members accountable or take action against the directors standing for election in a given year, which may have unintended consequences in the long term.

Within our response we acknowledged the Council's focus in proposing revisions to strengthen board effectiveness and improve board quality. However, we strongly urged the Council to address the current limitations on investors seeking to hold directors accountable by recommending that Australian companies move to annual board election cycles.

Engagement Highlights: Europe

During 2018, State Street Global Advisors engaged with European companies on thematic topics that we believe have a material impact on the long-term value of our portfolio companies. These topics include integration of climate change into corporate strategy, board independence, board diversity, and executive compensation.

Integration of Climate Change Risk within the Banking Sector

In Europe, the Bank of England (BoE) and the European Central Bank (ECB) have stepped up their calls for financial institutions to take action on climate change.

In October, the BoE's Prudential Regulation Authority published a draft supervisory statement instructing companies on managing climate change-related risks through a number of measures such as having a senior manager in place who can report to the board on financial risks from climate change, undergoing appropriate risk management, and conducting scenario analysis.

The ECB, in its Risk Assessment 2019, identifies climate change as a long-term risk that can impact banks indirectly, but nonetheless, materially. Furthermore, the ECB calls banks to take adequate action to manage their exposure to sectors that could be impacted by the transition to a low-carbon economy (e.g. fossil fuel companies, energy-intensive sectors, utilities, transport and building companies).

In Q3 2018, we engaged with **Standard Chartered** to understand and assess how their environmental and sustainability goals are integrated into their corporate strategy. We found that Standard Chartered is fully committed to the transition to a low-carbon economy through their commitment to fund and facilitate at least US$4bn toward clean technology between 2016 and 2020. The company is already at the halfway point towards meeting this commitment. In addition, Standard Chartered recently announced that they will become the first Asia-focused bank to stop financing new coal-fired power plants, which reflects their commitment to support the Paris Agreement on climate change and demonstrates leadership in this area.

Board Quality and Diversity

During an engagement with the Executive Management of **Sports Direct plc** we expressed our concerns that the board was not majority independent and that there were no female directors. We also encouraged the Company to be more responsive to ongoing shareholder concerns, many of which have been aired publicly. Based on our concerns, we voted against the re-election of the Chairman of the Board who was also Chairman of the Nomination Committee. We also voted against the re-election of the CEO, who is also the Company's controlling shareholder, due to ongoing issues around related party transactions between the Company and the CEO's close family members.

Shortly before the Annual General Meeting (AGM) began on 12th September, both the Chairman of the Board and the Senior Independent Director, who was not considered independent under the UK Corporate Governance Code due to his long tenure with the Company, resigned from the board.

Following the AGM, the Company appointed two new independent directors to the Board, including one female. As a result of the company's actions, the Board now has a majority of independent directors.

Engagement Highlights: US

In 2017, the media sector was one of three focus sectors to be prioritized and reported on. Consequently, in the sector review published in our 2017 **Annual Stewardship Report** we identified a number of key trends that would impact the strategy and governance of media companies in the coming years, including:

1. Companies in the media sector are in the midst of transitioning their businesses to remain relevant in the digital economy,
2. Media companies are battling falling subscriptions and consumer sensitivity to prices due to consumers choosing to access content through different platforms, and
3. Consolidation in the industry especially with regards to combining distribution and production/content companies

During Q3 2018, several high profile and contested transactions highlighted these dynamics at play as two major US firms, **The Walt Disney Company** and **Comcast Corporation**, competed for an advantage in digital distribution and global subscribers. Our engagements with both companies focused on the strategic rationale for the transactions in light of industry trends and how they would contribute to long-term, sustainable returns for shareholders.

Early in 2018, Disney announced that it would acquire **Twenty-First Century Fox, Inc**. to expand its international footprint and enhance its intellectual properties. The deal would also allow it to gain a controlling share of Hulu LLC, as a digital distribution platform. However, as the shareholder approval vote neared, Comcast made a competing offer. After several increases in valuation by both sides, Twenty-First Century Fox shareholders approved Disney's acquisition at a 36% higher valuation than the original offer, highlighting the premium being put on content and multi-channel delivery.

At the same time Disney and Comcast were competing over Twenty-First Century Fox, Comcast and Twenty-First Century Fox were competing for **Sky Plc's** broad European customer base and premium sports content, among other assets. The flow of competing bids resulted in the UK Takeover Panel stepping in to hold a rare auction to determine the winning offer and bring certainty to shareholders. Following a tense weekend that ended in sealed bids, Comcast emerged the winner at a per share valuation 60% above Twenty-First Century Fox's initial offer.

[1] Against votes are calculated as Against + Abstain votes. All Do Not Vote instructions were removed from total proposal numbers and all calculations.

Figure 4: Companies Engaged

Company Name	Market
BioCryst Pharmaceuticals, Inc.	USA
Accenture plc	EU-Ireland
Ahold Delhaize	EU-Others
American Outdoor Brands Corp.	USA
AusNet Services Limited	Australia
Aviva Plc	UK
Barnes & Noble Education, Inc	USA
Barnes & Noble Inc.	USA
Bayer AG	EU-Germany
Berkeley Group	UK
Bluerock Residential Growth REIT Inc.	USA
Bluescope Steel Ltd.	Australia
Bristow Group Inc.	USA
Burberry	UK
Cadence Design Systems, Inc.	USA
Check Point Software Technologies Ltd.	EM-Others
Cigna Corp.	USA
Citigroup, Inc.	USA
Clearwater Paper Corporation	USA
Compagnie Financiere Richemont SA	Switzerland
Cullen/Frost Bankers, Inc.	USA
CYBG plc	UK
Darden Restaurants, Inc.	USA
Darden Restaurants, Inc. (Dissident: Green Century Equity Fund)	USA
Deutsche Telecom	EU-Germany
Direct Line plc	UK
DXC Technology Company	USA
Eastman Chemical Company	USA
Ellaktor	EU-Others
Ellaktor (dissidents)	EU-Others
Exterran Corporation	USA
FedEx Corp.	USA
General Mills, Inc.	USA
Georg Fischer AG	Switzerland
GGP Inc.	USA
Goodman Group	Australia
Hilltop Holdings Inc.	USA
Honda Motor Co. Ltd.	Japan
Incyte Corporation	USA
JetBlue Airways Corporation	USA
Kaiser Aluminum Corporation	USA

Company Name	Market
Kemper Corporation	USA
Macquarie Group Limited	Australia
Magellan Financial Group Ltd.	Australia
McKesson Corporation	USA
MDU Resources Group, Inc.	USA
Monro, Inc.	USA
National Bank of Greece SA	EU-Others
NIKE Inc.	USA
Occidental Petroleum Corporation	USA
Orthofix International NV	USA
Owens Realty Mortgage Inc.	USA
Persimmon plc	UK
Plantronics Inc.	USA
Premier Food	UK
Premier Food (Dissident: Oasis Management)	UK
Ralph Lauren Corporation	USA
Ramsay Health Care Ltd	Australia
Rite Aid Corp	USA
Rite Aid Corp	USA
Royal Mail	UK
Sainsbury's	UK
Sleep Number Corporation	USA
Sorrento Therapeutics, Inc.	USA
South32 Ltd	Australia
Sports Direct International plc	UK
Standard Chartered	UK
Stanley Black & Decker, Inc.	USA
Swiss Reinsurance (Schweizerische Rueckversicherungs)	Switzerland
Telefonica	EU-Spain
Tesco plc	UK
The Clorox Co.	USA
The Sherwin-Williams Co.	USA
The Walt Disney Company	USA
Tractor Supply Co.	USA
Unilever	UK
Universal Corporation	USA
ViaSat Inc.	USA
Vista Outdoor Inc.	USA
Vonovia SE	EU-France
WestRock Co.	USA
Woodside Petroleum Ltd.	Australia

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State Street Global Advisors Worldwide Entities

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