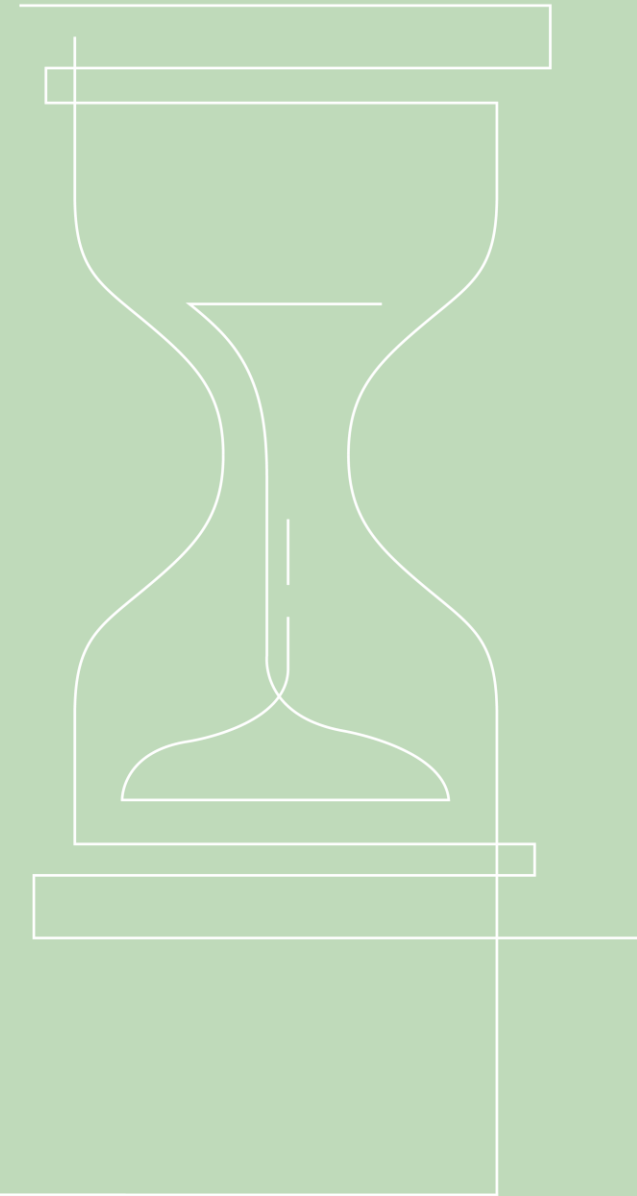


# Employees' Retirement System of Rhode Island

## Stewardship at SSGA

June 24, 2015  
Rakhi Kumar  
Gregory Balewicz



This material is solely for the private use of Employees Retirement System of Rhode Island and is not intended for public dissemination.  
All the information contained in this presentation is as of date Indicated unless otherwise noted

**STATE STREET**  
**GLOBAL ADVISORS**

# Stewardship Approach & Highlights

# SSGA's Approach to Stewardship

- **Value Driven Philosophy** — Companies that adopt robust governance and sustainability practices, should be better positioned to generate long-term value and manage risk
- **Long-Term Holder** — Passive investment mandates account for a majority of holdings making us a near perpetual holder of listed companies. Therefore, we have a multi-year approach to proxy voting and engagement — we are willing to work with companies to effect change.
- **Significant Shareholder** — Due to size of AUM, SSGA has a significant ownership position in most companies, which provides easy access to senior management and board members
- **Unified Voice** — All voting and engagement activities are centralised irrespective of investment strategy or geographic region. Consolidating and harmonising our stewardship activities, allows us to maximise influence with companies.
- **Global Focus** — Overarching proxy voting and engagement principles with six market specific guidelines
- **Dedicated Governance Specialists** — SSGA has a team of governance specialists, based in Boston and London, responsible for executing proxy voting and engagement activities on a global basis.
- **Integrated with Investment Teams** — Governance team reports into head of passive equities and works closely with the active team in Dublin. SSGA's Investment Committee (IC), with a dedicated IC sub-committee provides day-to-day oversight of the Team.
- **Risk-Based Screening** — In-house ESG screening models to help focus engagement efforts

# 2014 Stewardship Activity Highlights

## Transformative Year

- **Built new governance team** in Boston & London...expanding to Sydney in 2015
- **Enhanced client reporting** including publication of annual and quarterly stewardship reports
- **Published thought-leadership pieces** on banks, sustainability governance, engagement protocol
- **Increased engagement** by > 60% and rebalanced towards active engagements based on portfolio risk assessment
- **Strengthened integration** between investment and governance team
- **Enhanced collaboration** with global and regional investor groups
- **Structured annual stewardship** programs

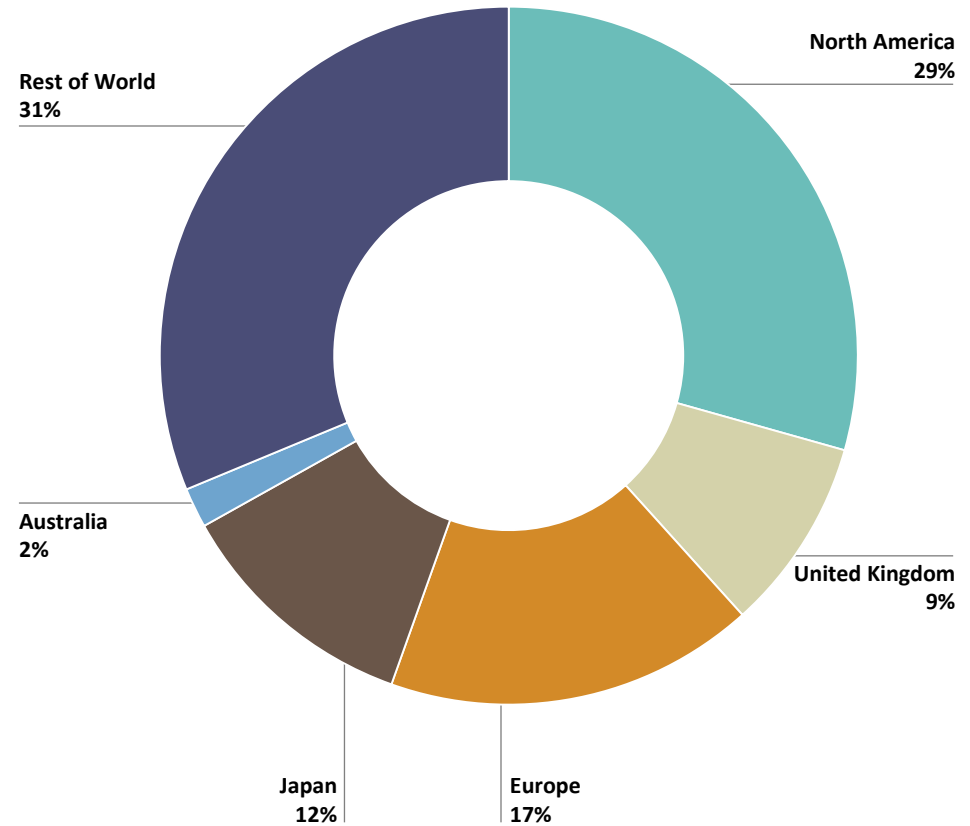
## 2014 – Stewardship Program Highlights

- **Voted 14,000 meetings** across 68 Countries
- **> 600 company engagements**
- **Launched market shaping director tenure policy in the US**
- **Developed new ESG risk-based screening tool**
- **Signatory to Japan Stewardship Code and participated in Investor Delegation**
- **Published new Australia voting guidelines**
- **Contributed towards furthering the ESG agenda through public speaking engagements and responses to regulatory consultations**

# Proxy Voting Analysis

SSGA Voting Trends	2013	2014
<b>Number of Meetings Voted</b>	14,022	14,284
<b>Management Proposals</b>	122,199	127,621
Against Management (%)	10.6	10.97
<b>Shareholder Proposals</b>	3,078	3,219
Against Management (%)	10.4	11.3
<b>Number of Countries</b>	68	68

**Voting by Region 2014**



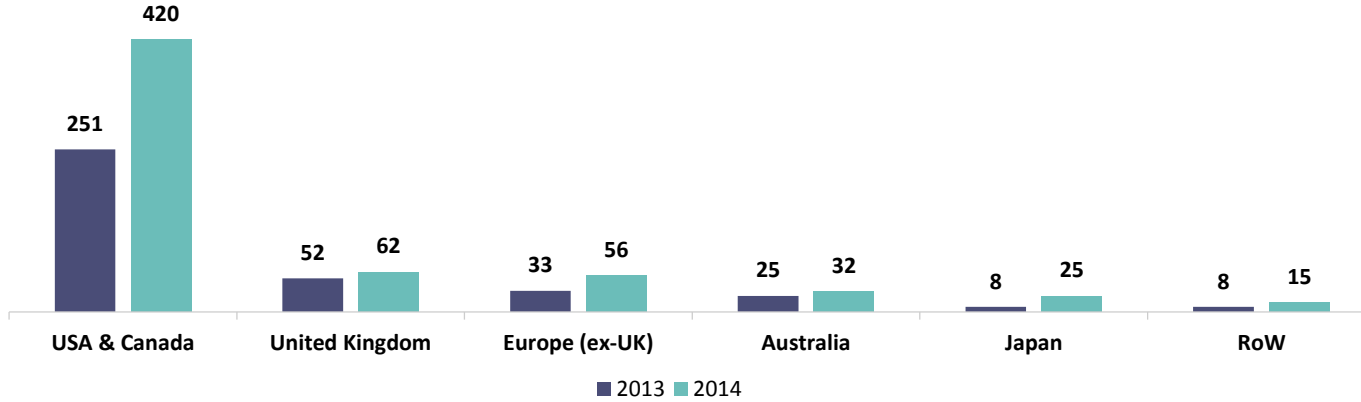
Source: SSGA voting statistics provided by Institutional Shareholder Services (ISS).

As of 31 December 2014. Updated Annually

NB: Management and Shareholder proposals do not add up exactly to overall total due to categorization of certain proposals by ISS.

# Corporate Engagement Analysis

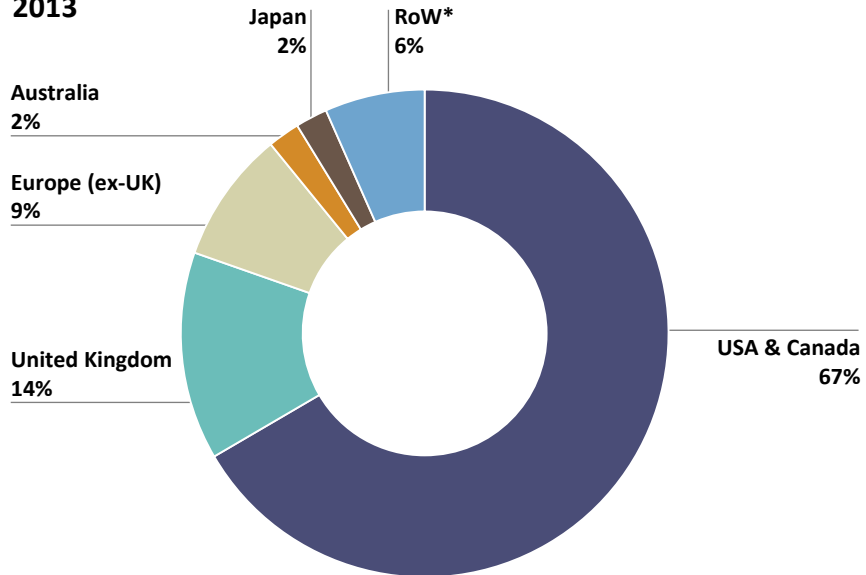
## Number of Engagements



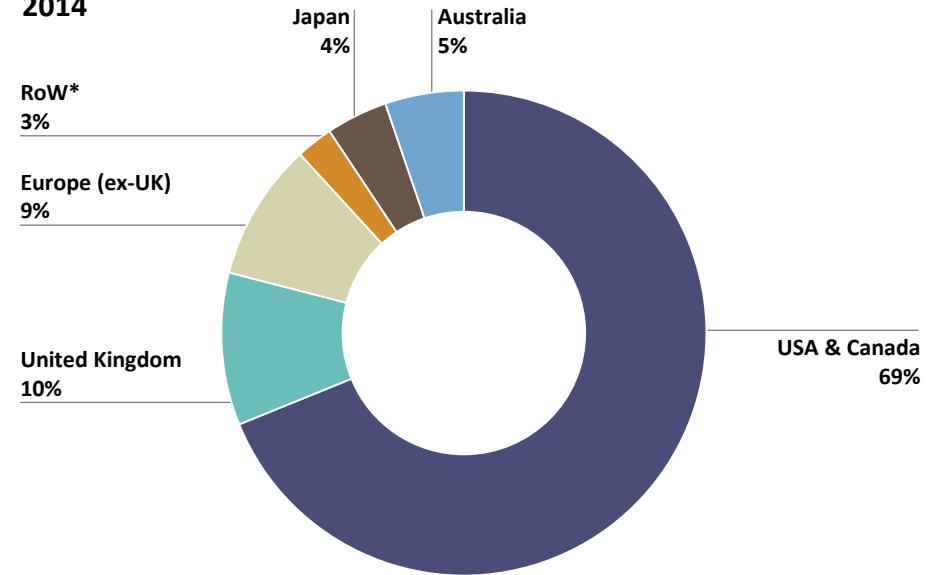
## Total Company Engagements

2013	2014
377	610

## 2013

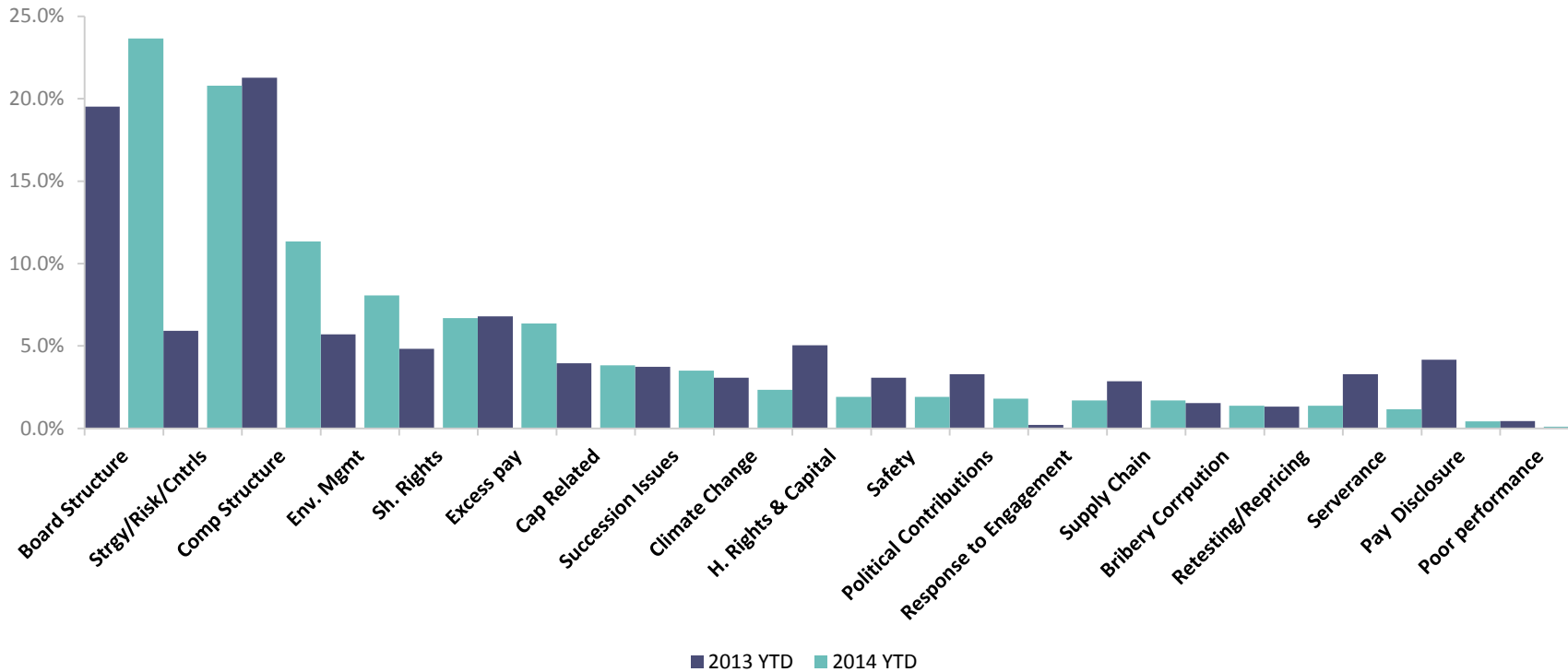


## 2014



\* RoW= Rest of World. Source: SSGA Engagement Spreadsheets 2013 and 2014.

# Engagement Topics (2013 versus 2014)

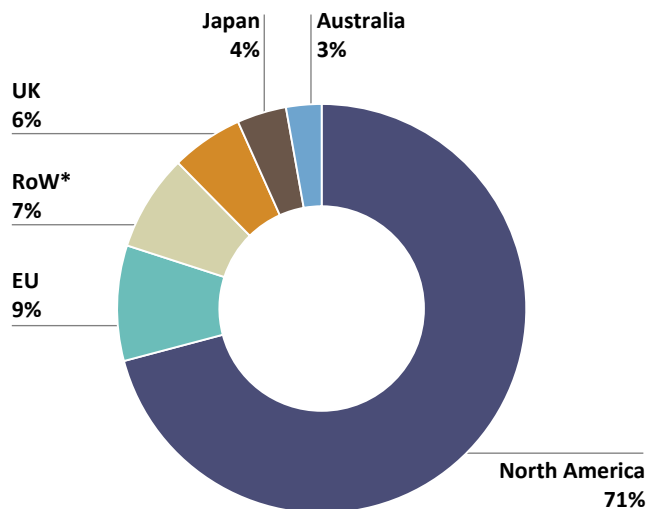


- Concerted effort by governance team to engage on strategy, risk and internal controls in response to Stewardship code directives led to increase in discussions on those topics
- Engagement on board refreshment & director succession led to an increase in discussion on board structure with issuer companies
- Increased engagement on environmental issues

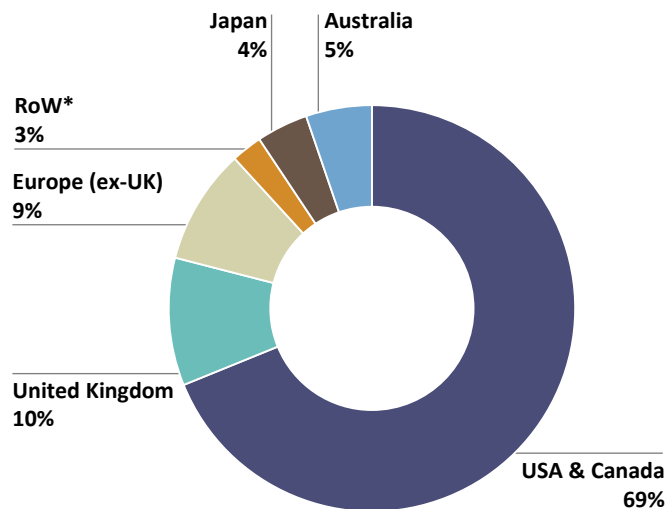
Source: SSGA Engagement Database 2013 and 2014.

# Engagement Activities versus AUM and Voting by Region

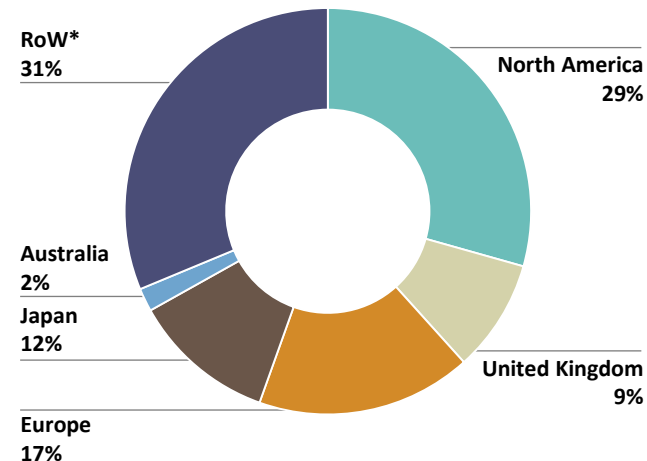
Approximate AUM by Region 2014



Engagement by Region 2014



Voting by Region 2014



- Geographically balanced engagement activities
- Strong alignment between AUM and Engagement Focus
- Geographic engagement prioritisation also impacted by engagement culture in market and stewardship demand by clients (e.g., UK and Australia)

\* RoW= Rest of World; Source: SSGA Database 2014.



# Sector Focus: Banking and Finance (50 Engagements)

## Engagement Context:

Understand how the changing regulatory landscape impacted individual banks' business strategies, capital structures, operations, risk management, and global footprint.

## Engagement Topics:

- Global regulatory and political environment
- Capital adequacy
- Talent retention
- Internal controls
- Cultural change
- Litigation risk

## SSGA Views:

- Fragmented regulatory regimes governing capital, risk appetite and controls environment have fundamentally impacted the sector's ability to deliver returns to investors
- Two speed regulation had the most pronounced impact on the compensation structures of banks
- Global banks fell into two broad groups:
  - Banks that consider the current environment is part of a cyclical trend and focused efforts on protecting the franchise during the downturn and ; and
  - Banks that consider that the industry is undergoing structural change, which requires a reassessment of overall strategy and significant structural changes to their business operations and scope.
- Banks that fall in the first category focused their strategy on cost cutting, margin expansion, and retention or growth of market share or the strengthening of their position in certain market segments
- Banks that fall in the second category were more focused on restructuring their overall business by divesting certain business divisions and strengthening their product offering in core business areas

# Sector Focus: Oil & Gas (30 Engagements)

## Engagement Context:

Understand how companies were navigating the challenges of falling crude oil prices, the geopolitical risk emerging from Russia and Africa and the on-going debate around climate change, stranded assets and emission reductions.

## Engagement Topics:

- Macroeconomic conditions
- Return on capital employed
- Political risks
- Climate change and stranded assets
- Health & safety
- Human Rights

## SSGA Views

- Global oil and gas majors responded to falling oil prices by reducing capex commitments and reviewing the long-term viability of high-cost assets within their portfolios
- Global operators have also had to balance the pursuit of lower cost assets with the increased political risk associated with doing business with African and Russian affiliated ventures
- Companies begun shifting their strategic priority from growing reserves to a greater focus on capital and shareholder returns
- Shift in focus reflected in some management incentive plans by replacing hydrocarbon growth targets with return on capital employed measures
- Board challenges include:
  - Managing the pressure of meeting elevated medium-term returns and cash flow expectations while ensuring the long-term health of the business
  - Ensuring that environmental, health and safety objectives are ring-fenced from cost cutting and capex reduction programmes
  - Reassessing and developing long-term strategy, capital investment plans, and de-risk asset portfolio mix within the backdrop of evolving climate negotiations and regulation

# Thematic Focus: Board Refreshment (75 Engagements + 400 letters sent)

## Engagement Context:

Understand how the boards were ensuring refreshment of skills and expertise among directors to provide oversight needed in a changing economic environment.

## Engagement Topics:

- Independent oversight of board and key committees
- Board effectiveness and skills and experience
- Board refreshment and succession planning

## SSGA Views

- US is lagging behind other developed markets in board refreshment and director succession practices
- SSGA first large investor in the US market to vote against the re-election of long-tenured directors and bring attention to the issue
- Policy designed to initial target outliers (very long-tenured directors) and start debate in market on the need for refreshing skills and expertise on board in a thoughtful and timely manner
- We found a greater preponderance of tenure concerns at small -and-mid-cap companies and at companies with classified board structures
- Companies largely responsive, however, some want us to focus on company performance. SSGA views lack of timely refreshment as a forward looking risk.

# Thematic Focus: Climate Change (22 Engagements)

## Engagement Context:

To assess company preparedness in responding to challenges resulting from climate change. This included understanding how companies monitor, manage and reduce greenhouse gas emissions.

## Engagement Topics:

- Climate change strategy
- Emission Management & reporting
- Carbon capture technology
- Stranded assets and carbon bubble
- Climate related business opportunities

## SSGA Views

- Companies have been improving disclosure regarding their emissions management practices but have demonstrated a limited appetite to fundamentally review their business operations
- Wide disparity in the quality of disclosure on a regional basis, with European companies tending to set higher disclosure standards
- Some of the common mechanisms employed to reduce emission include:
  - Setting long-term emissions reduction targets and monitoring of material KPIs;
  - Quantifying the financial cost of emissions generated from operations and making investment decisions based on the potential long-term financial benefits generated from reduced emissions;
  - Engaging customers to understand their sensitivity to climate change matters
- Commodity companies do not consider the '2 degree target' as viable and are assuming that any future carbon regulation will likely allow for a 3–4 degree rise
- Companies are increasing investment in Carbon Capture and Storage (CCS) technology, despite it being cost prohibitive at existing carbon price
- National regulation proving to be strongest driver of changes in corporate behaviour

# Global SIFI Banks: An Insight into SSGA's Engagement on Pay at Global SIFI Banks

Rank by Quantum of Pay	Company	Country	Chair/CEO Roles	Total Comp (CEO) US\$M	Total Comp (Chair) US\$M	1-yr TSR	3-yrs TSR	5-yrs TSR	ROE	Revenues (US\$M)
1	JPMorgan	USA	Combined	27.7		9.95 (8)	26.92 (8)	10.84 (4)	10% (4)	102,102 (1)
2	Morgan Stanley	USA	Combined	23.2		25.08 (1)	38.3 (2)	6.56 (7)	5% (9)	37,661 (12)
3	Goldman Sachs	USA	Combined	22.2		10.78 (7)	30.77 (3)	4.10 (8)	11% (3)	39,796 (9)
4	Wells Fargo	USA	Combined	21.4		23.99 (2)	29.24 (5)	17.71 (1)	13% (2)	88,372 (4)
5	US Bancorp	USA	Combined	19.4		13.77 (6)	21.25 (10)	17.11 (2)	15% (1)	21,392 (13)
6	Deutsche Bank	Germany	Split	16.7	0.9	(22.56) (15)	(1.43) (15)	(8.36) (14)	2% (12)	48,139 (7)
7	Bank of America	USA	Combined	15.3	0.5	15.73 (5)	48.35 (1)	3.96 (9)	2% (12)	95,181 (2)
8	Citigroup	USA	Split	14.5	0.5	3.92 (10)	27.3 (6)	10.41 (5)	3% (11)	90,572 (3)
9	State Street	USA	Combined	14.1		8.7 (9)	27.12 (7)	14.15 (3)	10% (4)	10,687 (15)
10	Bank of New York Mellon	USA	Combined	11.7		18.27 (4)	29.39 (4)	9.74 (6)	7% (6)	15,210 (14)
11	HSBC	UK	Split	11.4	3.8	(9.28) (13)	12.54 (12)	0.51 (13)	7% (6)	79,910 (5)
12	UBS	Switzerland	Split	11.2	5.9	19.63 (3)	3.91 (14)	3.02 (10)	7% (6)	38,500 (10)
13	Credit Suisse	Switzerland	Split	10.0	3.6	(5.58) (11)	7.61 (13)	(10.34) (15)	4% (10)	37,826 (11)
14	Barclays	UK	Split	8.2	1.2	(8.07) (12)	17.3 (11)	1.35 (11)	0% (14)	45,400 (8)
15	BNP Paribas	France	Split	3.1	1.1	(10.52) (14)	21.83 (9)	1.06 (12)	0% (14)	54,051 (6)

Source: SSGA Governance Team Analysis

Note: TSR, ROE and Revenues are sourced from ISS Research Analysis as of Dec 31, 2014, Pay information sourced from company filings

Past performance is not a guarantee of future results.

# 2015 Stewardship Priorities

On an annual basis SSGA develops a series of strategic priorities based on several factors including an assessment of emerging ESG trends and developing macroeconomic conditions and specific client feedback.

Sector Focus	Thematic Focus	Voting Policy Focus	Project Focus	Asset Class Focus
<p><b>Global Pharmaceuticals:</b></p> <p>To understand strategy for navigating the structural changes taking place in the industry, monitor the board's effectiveness in overseeing capital allocation and investment decisions, and ensure adequate systems are in place to maintain high standards of business conduct when pursuing growth opportunities in emerging markets.</p> <p><b>Fast Moving Consumer Goods (FMCG)</b></p> <p>To understand how the latest economic challenges are impacting overall business strategy and their ability to deliver long-term shareholder value</p>	<p><b>Board Refreshment &amp; Gender Diversity:</b></p> <p>To understand the various refreshment practices and mechanism employed by boards to update the skills and expertise needed to develop and oversee strategy, make capital allocation decisions and mitigate risk.</p> <p><b>Cyber Security:</b></p> <p>To better understand how companies manage the risk of a potential cyber-attack or data breach; and review enhancements to risk mapping frameworks, investments in defence systems, and strategies for managing events post an attack.</p> <p><b>Climate Change:</b></p> <p>To understand company emissions management programs, the potential impact on budgets and capital programmes to carbon price</p>	<p><b>Proxy Access:</b></p> <p>Proxy access is a shareholder right and accountability mechanism that gives long-term shareholders the right to nominate directors on a company's proxy card</p> <p>In 2015, a group of pension funds have submitted over 100 proxy access shareholder proposals in US companies making it a contentious voting issue in the upcoming proxy season.</p> <p>To inform our voting decisions on this matter, SSGA will engage with US companies to understand their position on granting proxy access rights to long-term shareholder</p>	<p><b>Targeting Underperforming Companies:</b></p> <p>SSGA will engage with companies that have consistently underperformed their peers to discuss reasons for the below par performance</p> <p>We will work with managements and boards to develop multi-year engagement objectives and monitor performance milestones</p> <p>This approach to stewardship helps us further align our engagement efforts with our investment strategies</p>	<p><b>Fixed Income:</b></p> <p>SSGA will explore options for expanding the scope of its stewardship activities beyond listed equities to include fixed income assets</p> <p>We will establish a working committee to identify ESG factors that may have a material impact on the credit quality of issuers.</p>

# 2015 Proxy Season Review

## Proxy Access:

- Results to Date:
  - 47 of 80 proposals voted in 2015 have received majority support.
  - Average support is 54.7%
  - Average support for passing proposals is 64.2%
  - Average support for proposals that did not pass is 41%
- SSGA has a case-by-case approach to proxy access proposals. Starting baseline is SEC proposed rule of 3% of owners with a 3-yrs holding period can elect up to 25% of board.
- Voting decisions based on review of by-laws (fine print) in management and shareholder proxy access proposals.
- By-laws that may help protect the interest of long-term shareholders:
  - Anti-creeping control by-laws.
  - Exclusion of derivatives from ownership threshold.
- By-laws that are considered restrictive for SSGA:
  - Intention to hold position for one-year after annual meetings.
  - Treatment of mutual funds as separate entities.
  - Restricting securities lending.
  - 13D filing requirements.
  - Nominees excluded based on restrictive third-party director compensation.

Source: SSGA  
As of June 22, 2015

# 2015 Proxy Season Review

## Increased Engagement with Independent Non-Executive Directors:

- Marked increase in engagement requests with independent directors.
- Reasons for engagement and directors taking the lead on engagements are:
  - Say-on-Pay vote: Chair of the Compensation Committee
  - Independent chair proposals: Lead or Presiding Director; Record number of shareholder proposals this proxy season
  - Non-responsiveness to past vote or broader governance concerns: Chair of the Nominating and Governance Committee

## DuPont Proxy Contest:

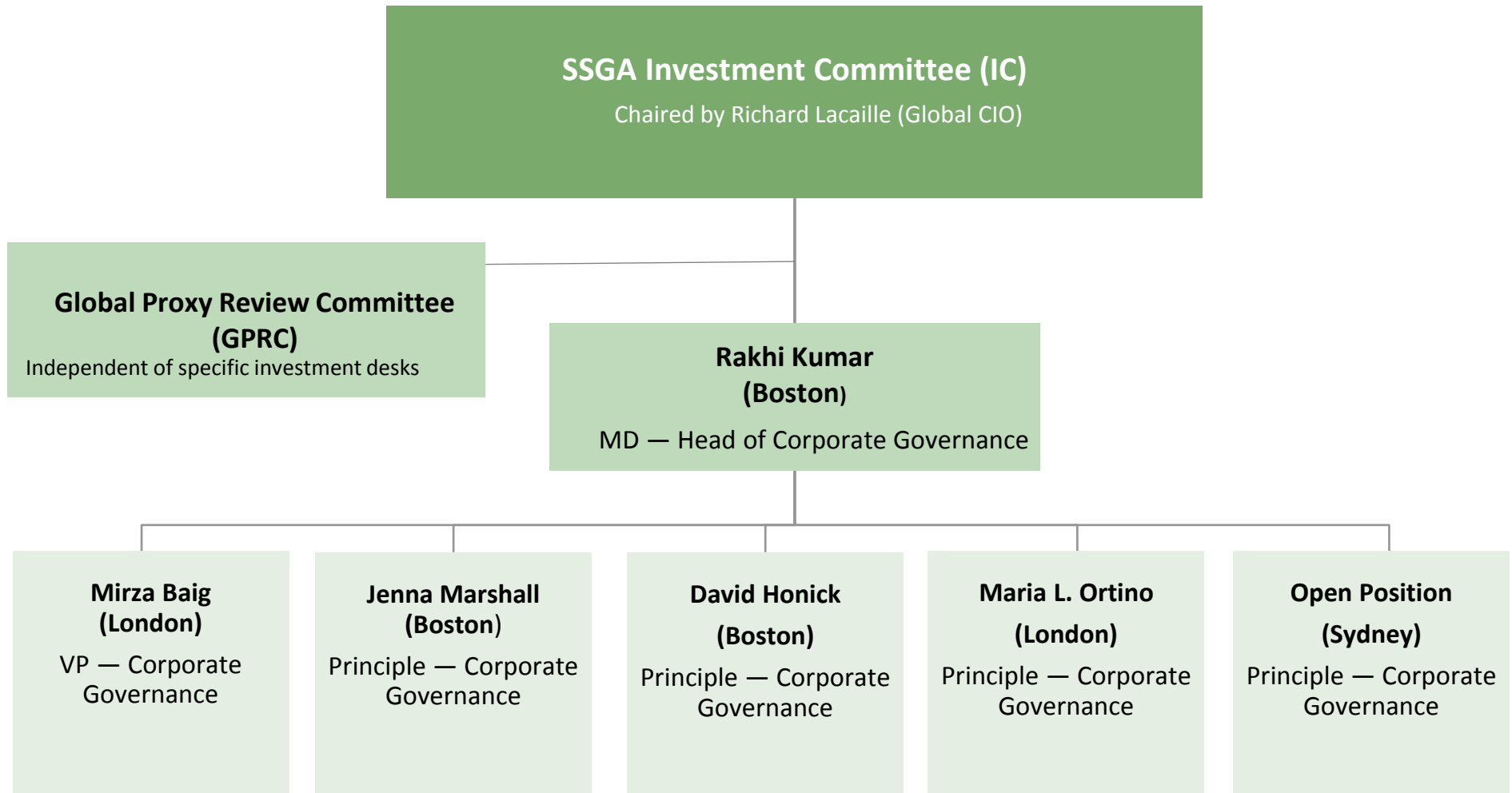
- SSGA supported DuPont's management team due to the following reasons:
  - The company was in the midst of implement a multi-year strategic plan that appeared to be paying off - the company had out performed its peers on a long-term basis.
  - Trian did not have a clear strategy for the company and SSGA had concerns with the activists much publicized strategy of creating a shadow management system that second guesses current management once they get board representation.
  - SSGA had robust discussions with DuPont's board and management about ensuring that the strategic plan is implemented in a timely manner.

Source: SSGA  
As of June 22, 2015



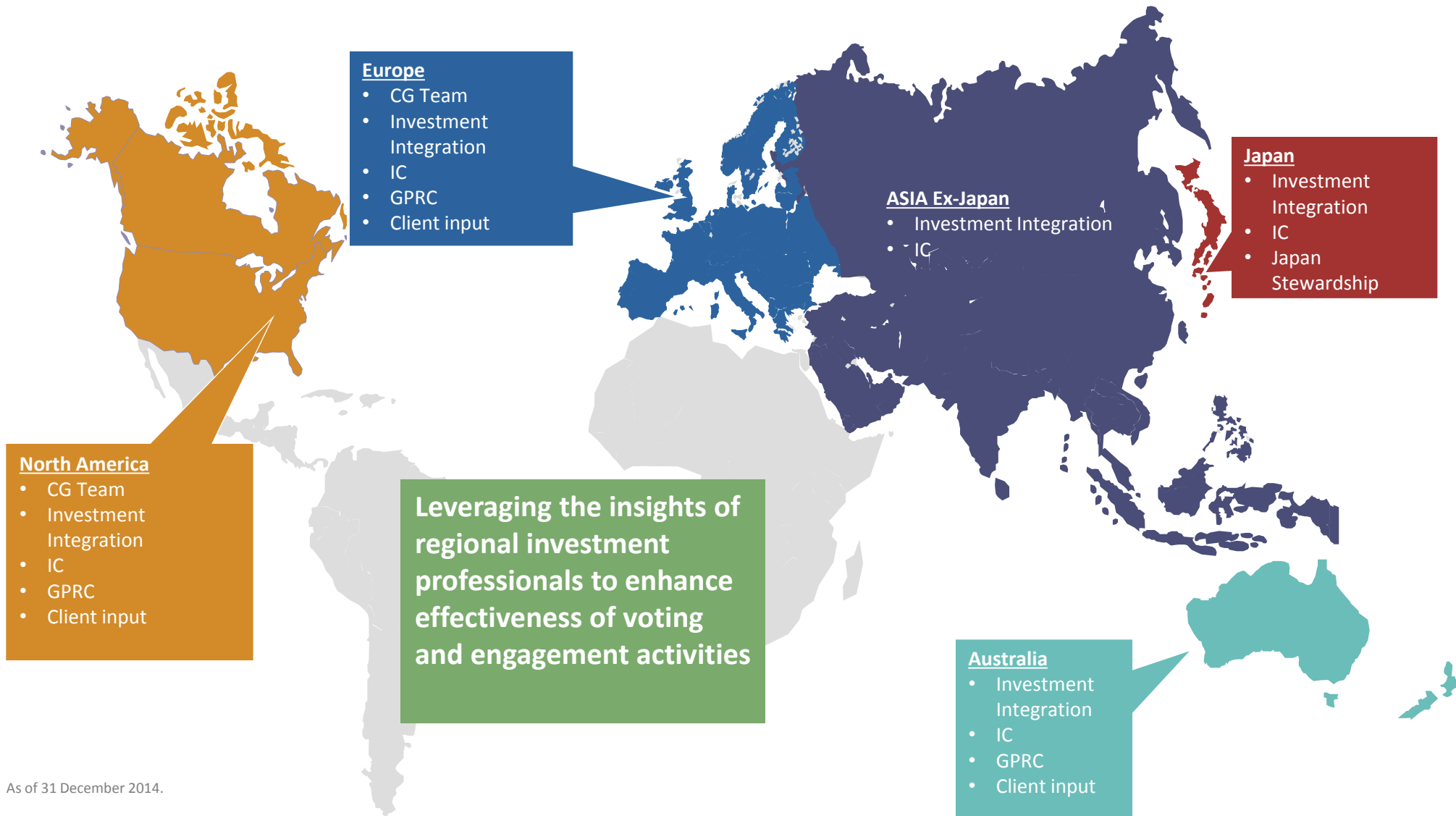
# Internal Governance

# Governance Framework and Organizational Structure



As of 30 April 2015.

# Leveraging our Global Footprint to Enhance Effectiveness



As of 31 December 2014.

# Appendix A: Biographies

# Biographies



**Rakhi Kumar**

Rakhi Kumar is Managing Director and Head of Corporate Governance at State Street Global Advisors (SSGA). Her responsibilities include developing and implementing SSGA's global proxy voting policies and guidelines across all investment strategies, and managing SSGA's proxy voting activities and issuer engagement on environmental, social and governance (ESG) issues. Rakhi is a member of SSGA's Senior Leadership Team, SSGA's Proxy Review Committee, co-chair of SSGA's ESG Working Group, and is a member of the State Street Corporate Responsibility Working Group.

Prior to joining SSGA, Rakhi was Senior Research Analyst at Proxy Governance, Inc. She has also worked at the Institute of International Finance, Moody's Investors Service and Booz Allen Hamilton, among other organisations.

Rakhi earned her MBA('02) from Yale University and her Bachelors of Commerce('95) from Bombay University. She is a member of the Institute of Chartered Accountants of India since 1997. In 2014, Rakhi was named as one of the ten people who had the most impact on corporate governance in the previous year by the Global Proxy Watch, a newsletter of international corporate governance and shareowner value.



**Gregory Balewicz**

Greg is a Vice President and Senior Relationship Manager for State Street Global Advisors. He is responsible for managing Institutional client relationships located in the Northeastern United States.

Prior to his current role, Greg was a Relationship Manager in SSgA's Private Wealth Management Group where he was responsible for managing relationships for SSgA's RIA and Family Office customers and the consultant community that services them. Before that, Greg held positions in our Client Reporting group and in our New Business Installation Unit. He has been involved in the investment services field since 1996.

Greg holds a Bachelor of Arts degree from Framingham State University and holds the FINRA series 7 and 63 licenses. Greg also holds the NFA Series 3 and is an Associated Person of SSgA Funds Management, Inc. ('SSgA FM') SSgA FM is a Commodity Trading Advisor registered with the Commodity Futures Trading Commission.

# Appendix B: Important Disclosures

# Important Disclosures

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