STATE STREET GLOBAL ADVISORS

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State Street Global Advisors
Toranomon Hills, 25F
Toranomon 1-23-1
Minato-ku, Tokyo, 105-6325
Japan

ssga.com

Financial Services Agency
Corporate Accounting and Disclosure Division
Policy and Markets Bureau
3-2-1 Kasumigaseki
Chiyoda-ku, Tokyo, 100-8967
Japan

Via electronic submission: stewardship_info_19@fsa.go.jp

Re: Revisions to "Principles for Responsible Institutional Investors, Japan's Stewardship Code"

Dear Sir/Madam,

State Street Global Advisors appreciates the opportunity to comment on the drafted revisions to the *Principles for Responsible Institutional Investors, Japan's Stewardship Code* (the "Stewardship Code") in response to solicitation for public comment on behalf of the Council of Experts on the Stewardship Code (the "Council").

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a risk-aware approach built on research, analysis and market experience, we build from a breadth of active and index strategies to create cost-effective investment solutions for institutional investors. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can impact long-term performance. And, as pioneers in index, exchange traded funds, and environmental, social and governance investing, we continue to explore new ways to invest. As of December 31, 2019 we have become the world's third largest asset manager with nearly US $3.12 trillion assets under management.

Sustainability Issues: Financially Material to Long-Term Performance

We agree with the drafted revisions to the Stewardship Code (the "Revision Draft") in that environmental, social, and governance ("ESG") issues are vital to the long-term profitability and the sustainable growth of companies. We conceptualize "sustainability" as encompassing a broad range of ESG issues that include, among other factors, effective independent leadership and oversight at the board level, diversity and talent development with respect to company employees, appropriate attention to safety issues, and commitment to minimize the impacts of climate change.

Over the long term these issues can have a material impact on a company's ability to maximize returns. Financially material ESG issues must have a demonstrated link to sustainable long-term value creation and generally differ by industry. We utilize the Sustainable Accounting Standards Board's ("SASB") materiality framework to understand and assess material ESG issues.[1]

Furthermore, we agree with the Revision Draft that strategy with respect to sustainability should not only encompass risk management, but also take advantage of long-term opportunities. For example, companies that conduct comprehensive scenario analyses to inform their capital allocation decisions may be better positioned to benefit from a transition to a low carbon economy.

Asset Stewardship: Promoting Sustainable Business Practices

We fully agree that stewardship activities can promote sustainable business practices in investee companies, as articulated in the Revision Draft. At State Street Global Advisors we use our voice and vote to influence long-term governance and sustainability issues. Through strong engagement, voting and thought leadership, we have seen companies respond to our calls to action across a range of important topics, including improved disclosure on companies' sustainability practices and enhanced diversity on boards.

Emblematic of our endeavors, in 2018 we brought our "Fearless Girl" campaign to Japan to encourage the promotion of women in corporate leadership and raise awareness about the importance of gender diversity. We continuously engage with investee companies on these issues and, through our proxy voting, hold companies accountable for improving diversity practices. We identified 293 companies in the TOPIX 500 that failed to meet our gender diversity expectations and have successfully helped influence 101 of them, or 35%, to add their first female director to their boards. We also voted against directors at 163 companies that did not constructively respond to our call for action.

ESG Integration: Core to the Investment Processes

We support the Council's initiative to promote the integration of ESG factors into investment processes. State Street Global Advisors strongly believes that incorporating material ESG information into investment decisions is not a trade-off for returns, but rather an essential part of the investment process. Our Asset Stewardship and ESG Investing teams are part of our investment organization, reflecting the integral role of ESG in our investment processes.

To begin addressing ESG more comprehensively we launched R-Factor™, a transparent scoring system that measures the performance of a company's business operations and governance as it relates to financially material and sector-specific ESG issues. By sharing R-Factor™ scores with portfolio companies and

[1] https://materiality.sasb.org/

providing resources on how to improve their ESG practices and disclosures, and thus increase their score, we aim to bring financially material, consistent, and comparable ESG data into the market. We are systematically integrating R-Factor™ into our stewardship program including by using the scores to inform our engagement and proxy voting activities.

Transparency: Disclosure of Stewardship Activities

We believe transparency allows for the accountability that is critical to our stewardship activities. As outlined in our self-evaluation State Street Global Advisors adheres to the Stewardship Code and circulates a comprehensive annual asset stewardship report, quarterly newsletter, and frequent thought leadership publications on topical issues. Our reporting highlights the impact of our stewardship program and includes a list of companies engaged, the topics discussed, and examples of successful dialogue.

Furthermore, we developed engagement and voting guidelines to increase transparency around our own stewardship philosophy, approach, and processes. We designed these guidelines to articulate to our investee companies the objectives of our stewardship activities, our approach to proxy voting, and our preferred terms of engagement. We regularly review our internal procedures and guidelines to ensure that stewardship interactions with companies continue to be effective and meaningful.

All of our reports and guidelines are publicly available on our website.

Transparency: Disclosure of Voting Rationale

We communicate to companies through making our voting guidelines and voting records public, our thought leadership on issues, and during engagement. Companies have expressed that they have a clear understanding of our expectation and transparency around our voting decisions.

It is important to strike a balance between transparency and efficiency. While it would be achievable to include our voting rationales for every resolution, this would likely be a costly and overly burdensome solution to implement with limited value to clients. To quantify this, in 2018 we voted at 12,652 meetings on 128,558 resolutions globally.[2] Our 2018 Vote Summary Report, which includes our voting records across our global holdings at the resolution level, spans 10,881 pages. Including our rationale for each resolution would dramatically expand the volume of our public disclosure and likely undermine the utility of the report. Instead, our clients receive detailed reporting. Moreover, we continuously engage closely with many of our investee companies to inform them of our voting decisions and explain our rationale directly.

[2] 2018-2019 Asset Stewardship Annual Report

Furthermore, systematically disclosing voting rationales may also be confusing for companies which would be counterproductive to stewardship activities. While many of our voting decisions are directly linked to a singular topic from our voting guidelines, resolutions often require complex analysis and detailed rationale. Proxy contests are just examples of complex issues for which an asset manager must vote based on holistic analysis of numerous factors that will depend on each investor's unique priorities and strategies. Mandating disclosure could result in companies being misled by overly simplified voting rationale, or otherwise force investment managers to disclose their proprietary strategies. Such disclosure mandates could also deemphasize the need for comprehensive engagement with investee companies, and disclosure of voting rationales should not be a substitute for comprehensive dialogue with investee companies.

Conclusion

As long-term shareholders of the companies that comprise the world's primary indices, we have a fiduciary responsibility to promote sustainable returns for clients. We think of stewardship as our fiduciary duty, and have designed a stewardship program focused on long-term value creation. We embrace the Revision Draft as it appropriately identifies ESG factors as financially material drivers of long-term performance and promotes asset managers to use the tools to effectively conduct their stewardship activities.

We appreciate the efforts of the Council and its willingness to consider our perspective. Thank you again for providing the opportunity to comment on the important matters you have addressed in the Revision Draft. We hope that the Council finds our feedback useful. If you would like to discuss any of these topics in further detail please contact Benjamin Colton, Head of Asset Stewardship, Asia-Pacific via email at **Benjamin_Colton@ssga.com** or the Asset Stewardship team via email at **GovernanceTeam@ssga.com.**

Respectfully,

Benjamin Colton
Head of Asset Stewardship, APAC

Kensuke Niihara
Chief Investment Officer, Japan