

Fixed Income Stewardship Program Updates

This publication provides an overview of State Street Global Advisors' fixed income stewardship activities.

Our Approach to Fixed Income Stewardship

Fixed Income stewardship provides the opportunity for asset managers to better understand the risks and opportunities inherent in their clients' investments. According to The Investment Association's report "Improving Fixed Income Stewardship", Fixed Income stewardship can meet Fixed Income investor needs by improving engagement activities, articulating a coherent debt strategy, and improving disclosures, amongst others.¹ We believe engagement promotes dialogue and transparency between bondholders and issuers, which can be mutually beneficial to both parties. Improved transparency via public disclosure may lead to more efficient financial market intermediation in our view.

In response to the changing Fixed Income stewardship landscape and interest of our clients, State Street Global Advisors has formalized a Fixed Income Stewardship ("FIS") program. Our FIS program aims to protect the objectives of our clients. Our FIS program may engage with portfolio companies in three scenarios: (i) engagements held in connection with an election event that impacts bondholder rights; (ii) reactive engagements at the request of an issuer; and (iii) proactive engagements requested by State Street Global Advisors in connection with an identified engagement priority.

State Street Global Advisors focuses our FIS proactive engagement activities on corporate issuers, centered on our engagement priorities, as outlined in our Global Proxy Voting and Engagement Policy.² Our proactive engagement campaigns may be specific to the Fixed Income asset class, but may also be carried out on a joint basis alongside our Equity Asset Stewardship Team, where the interests of both asset classes on the topic for engagement are aligned. We also carry out reactive portfolio management engagements with all issuer types. By partnering with our Fixed Income Investment Teams, we are able to provide Investment Teams with a stewardship lens to assess the risks and opportunities inherent in our Fixed Income investments.

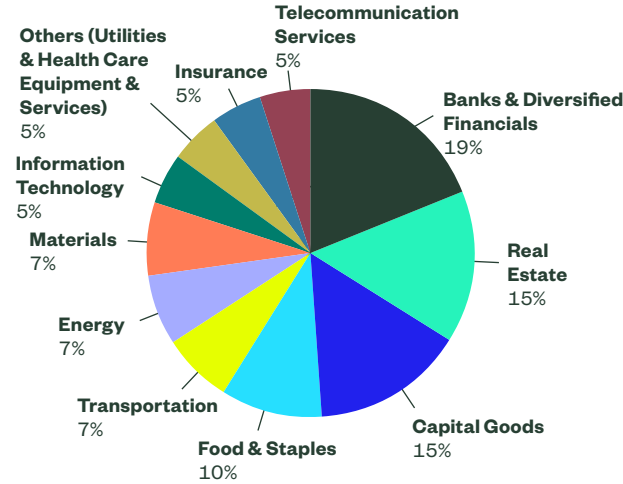
The FIS Team has been carrying out reactive portfolio management engagements with our Fixed Income Investment Teams since 2023. These engagements have been in response to direct issuer requests, new issuance road shows, investment reclassifications, and changes to terms of an indenture through corporate actions that impact bondholder rights, namely bondholder meetings and consent solicitations. In 2023, we held 41 such reactive portfolio management engagements with 38 unique issuers where FIS participated in the engagement.³ During the first half of 2024, we held 19 such engagements.⁴ Each of these engagements took the form of meetings held directly with the issuer.

Figure 1
Engagement Participants

Executive Management	10%
Executive Management,IR/Corporate Secretary/General Counsel/Other	10%
IR/Corporate Secretary/General Counsel/Other	80%
Total	100%

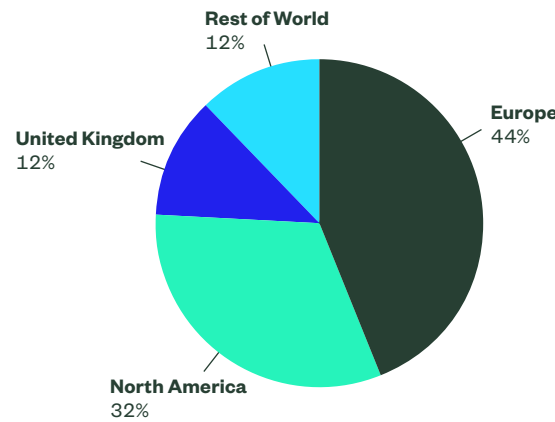
Source: State Street Global Advisors, 2023.

Figure 2
Corporate Issuers Across Major Industries



Source: State Street Global Advisors, 2023.

Figure 3
Regional Breakdown



Source: State Street Global Advisors, 2023.

Full Year 2023 Fixed Income Engagements

Our FIS engagement activities have been very useful in understanding developments at issuers and sharing perspectives on a two-way basis, from which issuers may also benefit. For example, during new issuance road shows, we have been able to inform issuers about considerations that may impact asset managers' ability to invest in such bonds, including considerations related to minimum issuance size for index eligibility, liquidity considerations for issuance management, use of proceeds restrictions, and relevant certifications for certain labeled bonds — such as Green bonds, for example.

During engagements that have been initiated in response to an investment reclassification or bondholder meeting/consent solicitation, engagement has provided an avenue for dialogue, which enables a better understanding of developments at the issuer and how they are being addressed. For reclassifications, engagement has been useful to understand relevant circumstances leading to the event as well as the issuer's plans to address these developments in the context of long-term issuer viability. For corporate action events impacting bondholder rights, engagement has provided the opportunity to understand the related ask from the issuer's perspective. Moreover, engagement has provided us with an understanding as to whether the corporate action event would be one-off in nature or if we should expect similar events in the future.

In July 2024, FIS began joining conversations regarding Climate Transition Plans Disclosure alongside our Equity Asset Stewardship colleagues where appropriate.⁵ The long-term viability of corporate issuers, particularly in carbon-intensive industries, may be dependent upon their ability to effectively manage climate-related risks and opportunities. During these joint engagements, FIS has benefited from the Equity Asset Stewardship team's dialogue with the issuer, while also having the opportunity to understand how Climate Transition Plans may impact funding plans at these corporate issuers.

Company	Diebold Nixdorf, Inc.
Geography	United States
SICS Industry	Hardware
Asset Class	Fixed Income
Background	The corporate action election event leading to this reactive engagement was centered on converting debt to equity as part of a bankruptcy proceeding. Diebold utilized debt to acquire Nixdorf in 2016, and related debt servicing became unsustainable in the context of the pandemic, leading to a restructuring in 2023.
Activity	We engaged with Diebold Nixdorf in June 2023 in response to the corporate action election event to better understand the context of the consent solicitation and to inform our election decision. Diebold Nixdorf highlighted that as part of the restructuring, there had been many governance-related changes at both the senior management and board levels and that further board refreshment was expected going forward. While the bankruptcy process aims to treat all debtors fairly, we noted that in the context of investor protection and good governance, bondholder rights should be considered throughout the entire restructuring process. In addition, we noted that not all debt investors are permitted to hold equity securities, depending on their mandates.
Outcome	The engagement discussion was useful in better understanding the consent solicitation. We also gained an appreciation of the corporate governance changes at the issuer and were able to express our interest in due consideration of bondholder rights protection in such situations going forward. Diebold Nixdorf emerged from bankruptcy in August 2023.

Company	Greenko Group
Geography	India
SICS Industry	Solar Technology & Project Developers and Wind Technology & Project Developers
Asset Class	Fixed Income
Background	The corporate action election event leading to this engagement related to amending select bond terms associated with energy storage.
Activity	We engaged with Greenko Group in March 2024 in response to a corporate election event to better understand the context of the consent solicitation and to inform our election decision. The event is related to a \$750 million project to finance wind and energy storage services. With the cost to produce solar energy declining, Greenko aimed to shift production in-house, which would result in favorable cost reductions and better returns. Greenko sought to construct 1500 MW of solar power storage to comply with its contract with the Solar Energy Corporation of India. The current terms of the indenture only allow pumped hydropower storage, so the amendment would expand the scope of Greenko's renewable energy output and related storage capabilities. Bondholders could also benefit, as earnings before interest, taxes, depreciation, and amortization (EBITDA) was expected to increase after the proposed change.
Outcome	The engagement discussion was useful in informing our position prior to electing on this event. The consent solicitation was approved in March 2024.

Company	Adler Real Estate AG
Geography	Germany
SICS Industry	Real Estate Services
Asset Class	Fixed Income
Background	The corporate action election event leading to this engagement was focused on amending terms of bond issuances associated with Adler Real Estate's deleveraging efforts in the context of a company-wide restructuring.
Activity	We engaged with Adler Real Estate in February 2023 in response to a corporate action election event to better understand the context of the bondholder consent solicitation and to inform our election decision. There were various amendments to the terms of bond indentures, including extending maturities, as the company sought to sell off assets and reduce debt levels. As part of the restructuring, there had also been significant changes to corporate governance at the issuer, including a new chairman.
Outcome	The engagement discussion was useful in informing our position prior to electing on this event. While the proposed amendments to indenture terms were rejected by bondholders of select tranches, the issuer's restructuring plan was sanctioned by a court under UK law in May 2023. However, in January 2024, this ruling was overturned as part of an appeal, putting the restructuring into jeopardy. Given the breadth of governance-related changes at the issuer as part of the restructuring efforts, we followed-up with another engagement to assess progress with restructuring efforts and related governance considerations.

Follow-up 2024

Background	After the January 2024 court ruling, Adler returned to the market with another, updated consent solicitation in June 2024.
Activity	We engaged in June 2024 to understand the ask associated with the new, updated consent solicitation. Adler articulated their position for seeking the consent. Representatives also noted that this second consent solicitation has a more balanced plan for the distribution of maturities under the proposed restructuring. In terms of governance-related developments, the chairperson had resigned and the role was assumed by an individual who had been on the board for over a year.
Outcome	The engagement discussion was useful in informing our position prior to electing on this event. The updated consent solicitation was approved in June 2024.

Fixed Income Stewardship Case Studies

Through experiences with our FIS program, we have observed several challenges and opportunities around Fixed Income stewardship in general. For example, issuers that also issue equity tend to prioritize equity holders for engagement. In this context, larger asset managers and investors, with notable holdings in Fixed Income instruments, may be better placed to access issuers for engagement. Corporate action election events, which are the Fixed Income version of proxy voting on the equity side, can occur with little transparency and are often announced via third parties through the distribution of legal documents to existing bondholders. These announcements are not always disclosed on issuer websites. Moreover, deadlines for electing on such events can be very short, which creates logistical challenges. Specifically, the dissemination of relevant information may be delayed before it reaches the appropriate audience, often resulting in very short windows of opportunity for evaluating the ask and engaging in advance of the deadline for making these important investment decisions. Such challenges also create opportunities for bondholders to more effectively manage stewardship efforts centered on engagement and transparency with issuers.

We have observed several best practices around Fixed Income stewardship that enable stewardship teams to enhance their ability to respond to requests from issuers. Issuers that are responsive and open to direct engagement, without the assistance of third-party participants, have tended to provide notably transparent public information. In addition, with respect to corporate action events that impact bondholder rights, we have observed a variety of practices. For asset managers, those issuers that disclose clear information on their websites through presentations or similar materials that coherently outline the proposed changes, in addition to the relevant legal documents, have offered the strongest transparency around such activities in our view. Moreover, given the nature of the changes proposed in bondholder meetings and consent solicitations, we have experienced that it is useful, to provide bondholders with an extended deadline for making an appropriate election decision on the event. We believe an extended deadline affords asset managers and other investors with the opportunity to fully understand the ask at hand and potentially engage with issuers to ensure full transparency on the situation, helping enable bondholders to make an informed election decision for the event.

Fixed Income stewardship continues to evolve. In this context, asset managers and other investors, working together with issuers, have the opportunity to shape the Fixed Income Investment landscape going forward. We believe this could enable further improvement in disclosure efforts; heightened transparency could, in turn, result in more efficient financial market intermediation. In the future, investor clients may have elevated expectations around the outcomes and results of Fixed Income stewardship. Market participants have the opportunity to duly evaluate and potentially embrace these important developments, which may require adapting and tailoring related activities accordingly.

Endnotes

- 1 <https://theia.org/sites/default/files/2022-11/IA%20Report%20-%20Improving%20Fixed%20Income%20Stewardship.pdf>.
- 2 <https://ssga.com/library-content/assets/pdf/global/asset-stewardship/proxy-voting-and-engagement-policy.pdf>.
- 3 Source: State Street Global Advisors, November 2024.
- 4 <https://ssga.com/library-content/assets/pdf/global/asset-stewardship/inst-asset-stewardship-quarterly-activity-report-q2-2024.pdf>.
- 5 These joint engagements on Climate Transition Plans Disclosure are not included in the aforementioned engagement figures, because they started in the second half of 2024.

About State Street Global Advisors

For over four decades, State Street Global Advisors has served the world's governments, institutions, and financial advisors. With a rigorous, risk-aware approach built on research, analysis, and market-tested experience, and as pioneers in index and ETF investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US \$4.73 trillion[†] under our care.

* Pensions & Investments Research Center, as of December 31, 2023.

[†]This figure is presented as of September 30, 2024 and includes ETF AUM of \$1,515.67 billion USD of which approximately \$82.59 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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