

## **R-Factor™**

# Reinventing Sustainable Investing Through a Transparent Scoring System

- **The universe of sustainability data coverage is expanding, but the lack of transparency into sustainability materiality considerations, as well as opaque scoring systems, highlight the potential limitations of relying on any one sustainability data provider.**
- **R-Factor™ is a sustainability score developed by State Street Global Advisors that leverages multiple data sources and aligns them to the widely accepted, transparent Sustainability Accounting Standards Board Materiality Framework for over 12,000 publicly listed companies. SSGA uses R-Factor™ as a quantitative input to a variety of investment solutions and as a metric in relevant reports and factsheets. Additionally, a company may request its R-Factor™ score (instructions are posted on [ssga.com](https://www.ssga.com)) and may also request a related engagement with the SSGA Asset Stewardship team. Finally, R-Factor™ scores are among the many inputs the SSGA Asset Stewardship team may review when performing analysis on portfolio companies before engagements.**

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### **Why We Built R-Factor™**

We believe availability of high-quality, financially material, and consistently reported sustainability data represents one of the biggest challenges facing asset managers as they work to meet the growing demand for sustainability-focused investing from their clients.

Investors commonly face two key data challenges: the lack of a consistent and commonly accepted materiality framework, and opaque sustainability scoring methodologies of existing data providers.

While firms providing valuable sustainability data have proliferated in recent years, in our view, they provide limited transparency into how they consider materiality.

Lack of transparency into how data providers determine which sustainability issues are material to their scoring system poses a challenge for investors. It is difficult for users of this data to understand and explain which sustainability factors have been considered in the investment process. This has led to a broader debate in the market among companies, investors, and regulators on whether there is a tension between sustainable investing and fiduciary responsibility.

## R-Factor™ A Transparent Sustainability Scoring System

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These scores will power our investment and client reporting capabilities.

## Defining Characteristics of R-Factor™

We designed R-Factor™ around four core pillars. These pillars define our approach to sustainability data and scoring:

1 Focus on Materiality	2 Commonly Accepted, Transparent Frameworks	3 Multiple Data Sources	4 Stewardship
For investors to be able to fully trust and integrate sustainability scoring into their investment process, they must have confidence that the sustainability considerations are material and have a demonstrated link to sustainable long-term value creation. SSGA relies on the Sustainability Accounting Standards Board to identify financially material issues for companies in specific industries and sectors.	We selected the SASB materiality map (See page 3 for more on SASB), because it is a transparent framework supported by large numbers of investors. We support this framework as it sends a unified message to companies about which sustainability factors are material to a company's performance and are therefore important to disclose and address.	R-Factor™ is powered by the raw metrics from three different datasets. This approach increases the overall coverage of our dataset, seeking to fill in the gaps that exist with any one data provider. Using the inputs from multiple providers also reduces the potential biases that may be built into a provider's methodology.	R-Factor™ scores are among the many inputs the SSGA Asset Stewardship team may review when performing analysis on portfolio companies before engagements.

## Materiality Framework and Methodology

We selected the SASB materiality framework as the sustainable investing framework for R-Factor™. Unlike SASB, other sustainability reporting frameworks that pre-date SASB provide disclosure guidance on a broad set of sustainability topics and do not provide guidance as to which topics are financially material by sector. This leaves the difficult decision of defining materiality by sector to companies. This has caused the current inconsistencies in company reporting related to sustainable investing. With its laser focus on financial materiality defined by industry, SASB gives specific and standardized guidance to companies, removing guesswork for all users of the framework.

Given the recent codification of the SASB standards as well as the voluntary nature of the framework, companies have yet to fully align their disclosure practices to it. To access appropriate data, we leverage raw metrics from three different sustainability data providers, and identify which metrics are material to an industry according to the SASB framework.

Here, we provide two examples of how we leverage that data with precision. We illustrate applications in two industries: Asset Management and Custody, and Household and Personal Products.

- Starting point: roughly 200 metrics provided by a data provider
- Of these, 143 metrics are considered material according to the SASB framework

- Of the 143 material metrics:
  - 45 metrics power the R-Factor™ score for companies in the Asset Management and Custody industry
  - 39 metrics power the R-Factor™ score for companies in the Household and Personal Products industry

This mapping approach helps ensure that the R-Factor™ score is only informed by material sustainability metrics and not all of the roughly 200 metrics provided by the data provider.

Since materiality of the metrics differs by industry, companies in the Household and Personal Products industry are asked to report on only four general issues: water and waste management, product quality and safety, product design and lifecycle management, and supply chain management.

In contrast, there are five general issue items that apply to companies in the asset management industry. These include selling practices and product labeling, employee engagement/diversity and inclusion, product design and lifecycle management, business ethics, and systemic risk management. Within each general topic, SASB's accounting standards provide guidance to companies by industry on specific metrics to be disclosed. While many of these metrics are not currently reported in financial statements, they obviously contain investor-relevant information.

**Who is SASB?** The Sustainability Accounting Standards Board (SASB) is a non-profit organization with a mission to help businesses around the world identify, manage, and report on the sustainability topics that matter most to investors.

Established in 2011, SASB has developed two key pieces of market infrastructure: a commonly accepted materiality map identifying financially material sustainability issues for 11 sectors and 77 industries, as well as a set of sustainability accounting standards that companies can use as a guide to report on material topics and related metrics.

SASB's standards were developed over six years, with consultation and public comment from investors, companies and other stakeholders. SASB's standards are supported by investors representing over \$80 trillion in AUM, per SASB, as of 2024.

In 2020, SASB merged with the IIRC (International Integrated Reporting Council) to create the VRF (Value Reporting Foundation). A year later, the new organization became part of the IFRS (International Financial Reporting Standards). The IFRS established the ISSB (International Sustainability Standards Board) immediately thereafter, and the ISSB is currently working on collecting information and evidence to update the SASB Standards. The updated framework should be released in the coming two years, and the SASB standards are currently still relevant and up to date.

To learn more about SASB's materiality framework, visit [materiality.sasb.org](https://materiality.sasb.org).

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## Conclusion

For **companies**, R-Factor™ offers clear guidance on which sustainability topics to focus on and disclose to investors, while utilizing the SASB Materiality Framework as a prism to identify industry-specific, relevant sustainability issues.

By investing in sustainable investing solutions powered by R-Factor™, **investors** have the opportunity to potentially assess how their capital is being allocated to companies that are focusing on managing and mitigating financially material sustainability risks as defined by the SASB Materiality Framework.

For more information about R-Factor™ and our sustainable investment capabilities, please contact your State Street Relationship Manager.

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## Endnotes

1 State Street Global Advisors is a founding member of the Investor Stewardship Group.

2 See <https://isgframework.org/corporate-governance-principles>.

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

<sup>†</sup> This figure is presented as of June 30, 2024 and includes ETF AUM of \$1,393.92 billion USD of which approximately \$69.35 billion USD is 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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