

BlackRock.

Investment Stewardship Annual Report

January 1 – December 31, 2020



We advocate for sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

As part of our commitment to transparency, BlackRock Investment Stewardship (BIS) is constantly enhancing our own reporting around our stewardship activities on behalf of our clients. Our 2020 Annual Report covers BIS' work from January 1, 2020 to December 31, 2020. This report complements our July 2020 report, [Our approach to sustainability](#), and our September 2020 BIS [Annual Report](#), which covered our stewardship activities from July 1, 2019 to June 30, 2020, representing the Securities and Exchange Commission's (SEC) 12-month reporting period for U.S. mutual funds, including iShares®.

We believe a calendar-year report will provide further clarity and insight to our clients, the companies they are invested in, and our other stakeholders about our approach to investment stewardship and the environmental, social, and governance (ESG) factors that are critical to long-term value creation. The publication of this report also coincides with the timeline set by the Financial Reporting Council (FRC) to comply with the UK Stewardship Code 2020. ^{1,2}

¹ The Financial Reporting Council sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work, monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. See "[About the FRC](#)." ² The UK Stewardship Code 2020 sets high stewardship standards for asset owners and asset managers and for service providers that support them.

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Foreword



Sandy Boss

Global Head of Investment Stewardship,
Global Executive Committee Member

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Our 2020 Annual Report demonstrates how BlackRock Investment Stewardship (BIS) advocates for sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.”

Purpose, sound governance, and strong leadership

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals. Clients that encompass universities, endowments, charities, individuals and families, pension plans, governments, and insurance companies.

More engagement with company leadership than ever

We are long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

We use our voice as shareholders to encourage companies to focus on material issues, like climate change, the fair treatment of workers, and racial and gender equity, as well as financial performance. In 2020, we held over 3,500 engagements, an increase of 35% against 2019, covering nearly 65% of our clients' equity assets under management (AUM). Environmental engagements increased 212% from 2019 to 2020, and engagements on social issues increased 142% during the year.

Our stewardship journey continued over 2020

In January 2020, [Larry Fink's letter to CEOs](#) stated that climate change has become a defining factor in companies' long-term prospects. This highlighted an investment conviction that sustainability risk, and most specifically climate risk, is investment risk. BIS' priorities for 2020, therefore, reflected the importance we place on company boards effectively shaping and overseeing sound governance and sustainable business practices to support a company's ability to generate long-term financial returns.

For the first time, in 2020, we mapped our Engagement Priorities to specific United Nations Sustainable Development Goals and incorporated key performance indicators in our engagement priorities to make clear how we would hold boards accountable.

Where we believe a company is not adequately addressing a key business risk or opportunity, or is not responsive to shareholders, our most frequent course of action is to hold the responsible directors accountable by voting against their re-election.

From 1 July 2020, we also implemented a new approach to shareholder proposals. Supporting shareholder proposals now plays an increasingly important role in our stewardship efforts around sustainability.

In 2020, we voted against or withheld votes from proposals to re-elect individual directors 5,450 times – more than ever before – sending a strong signal of concern when companies did not make sufficient progress on issues central to long-term value creation. We raised questions on board quality, taking voting action against directors for lack of independence on the board, insufficient board diversity, and overcommitment. We also held directors to account for executive compensation policies and business practices inconsistent with sustainable long-term financial performance.

Our intensified focus on climate saw BIS vote against 64 directors and 69 companies, and we put 191 companies “on watch.” These companies risk voting action in 2021 unless they demonstrate significant progress on the management and reporting of climate-related risk, including their transition plans to a net zero economy.

Reflecting on a year like no other

In our 936 engagements on the impact of COVID-19, we found many companies to be keenly aware of the greater role they were expected to play in meeting the needs of key stakeholders. We have also witnessed escalating racial tensions and the rising importance of corporate action on diversity, equity and inclusion to contribute to addressing these issues, particularly in the U.S.

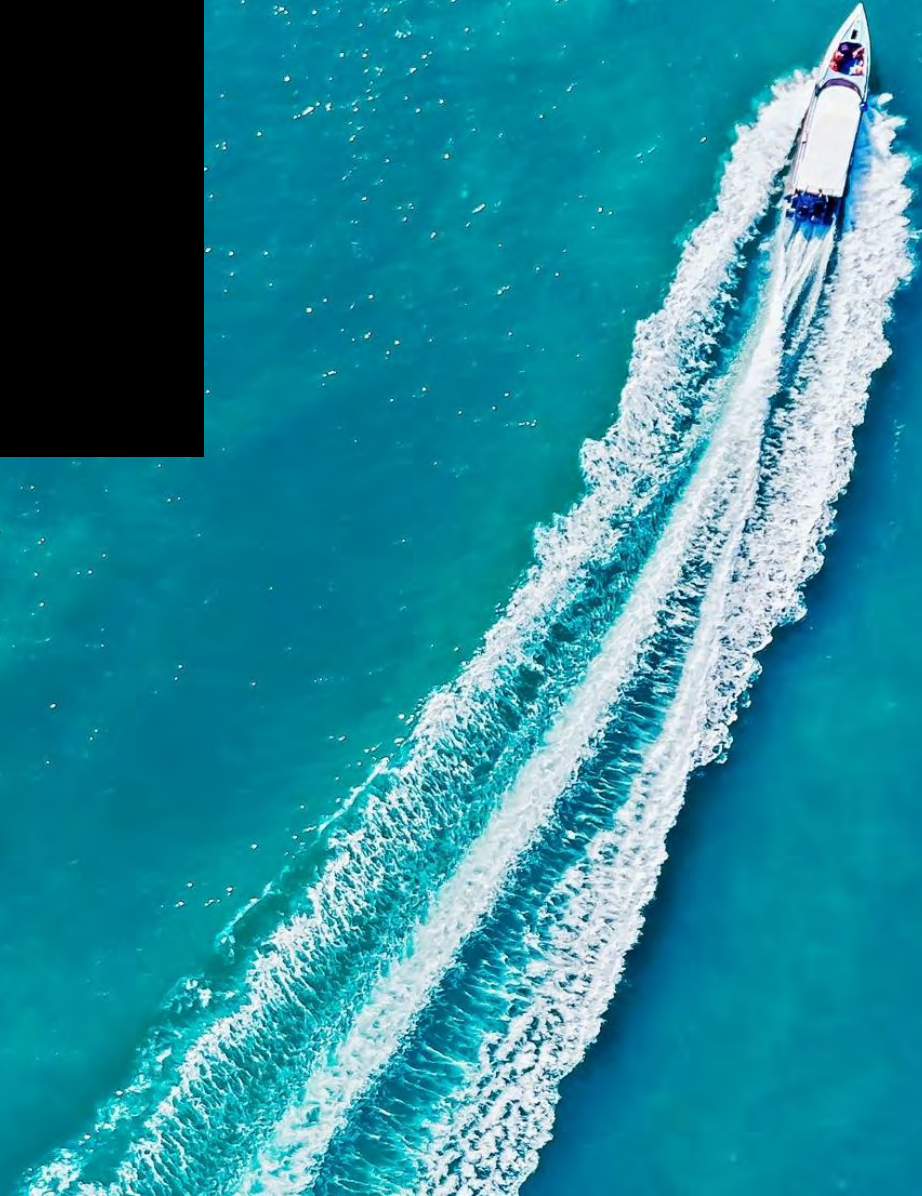
We are therefore asking companies to demonstrate board and workforce ethnic and gender diversity consistent with local market best practice.

The COVID-19 pandemic has amplified the importance of purpose, strategy, and culture to a company's long-term success. Given the current environment, we recognize that companies face tough choices in order to balance the needs of their stakeholders. We expect, in the year ahead, these actions will likely be scrutinized intensely. We intend to assess companies in the context of other decisions management teams have made in relation to employees, suppliers, customers, and communities, and continue to advocate for sustainable business practices that foster operational resilience.

Our expectations continue to rise

As we do every year, we have reviewed and updated our investment stewardship policies for 2021. These include updates to our [Global Principles](#), [market-level voting guidelines](#), and [Engagement Priorities](#). Changes we have made were informed by the need to manage material ESG risks on behalf of our clients, the developments we saw in 2020, and how they impacted the operating environment and global markets. Our 2021 policies advance our stewardship journey, reinforcing our expectations of boards in their oversight and support of management.

Executive summary





Our fiduciary approach

At BlackRock we are motivated by a single purpose: to help more and more people experience financial well-being.¹

As a fiduciary, we are relentless in pursuing the outcomes that will bring our clients closer to their long-term investment goals.

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. BIS is one of the largest stewardship teams in the industry.² As stewards of our clients assets we have a responsibility to make sure companies are adequately managing and disclosing ESG risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not.

Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations.

Voting in our clients' interest is how we hold companies accountable when they fall short of our expectations.

A focus on leadership

We believe high-quality leadership and business management is essential to delivering sustainable long-term returns.

We focus on **board quality, effectiveness, and accountability** across the broad universe of companies our clients are invested in globally.

¹ BlackRock. "Where we stand: On the journey to prosperity for more and more people." 2020. ² Financial Times. "Jobs bonanza in stewardship and sustainable investing teams." 8 March 2020.

A commitment to transparency

It is important to us that our clients understand how the work we do on their behalf aligns with their expectations. Our policies are reviewed annually and updated as necessary to reflect changes in market standards, evolving governance practices, and insights gained from year over year engagements with companies and clients. In 2020, BIS held more than 200 meetings with clients to get their perspectives on stewardship and better understand the issues that are important to them.

We publish every year our Global Principles and market-level voting guidelines for the benefit of clients and the companies with which we engage on their behalf.

[GLOBAL PRINCIPLES](#) →

[VOTING GUIDELINES](#) →

BIS published 57 Vote Bulletins in 2020, five times more than in the previous three years combined, to explain our voting decisions at select shareholder meetings.

[VOTE BULLETINS](#) →

2020 Engagement Priorities

For 2020, BIS articulated five Engagement Priorities. Each priority included accompanying key performance indicators that aligned with our expectations for measurable disclosure and action toward creating long-term value.



Board quality

Board composition, effectiveness, diversity, and accountability is a top priority. We believe that high-quality leadership and business management is essential to delivering sustainable financial performance.



Environmental risks and opportunities

Sound practices in relation to the material environmental factors inherent to a company's business model can be a signal of operational excellence and management quality.



Corporate strategy and capital allocation

We expect boards to be fully engaged with management on the development and implementation of the company's strategy.



Human capital management

We view a company's approach to human capital management as a potential competitive advantage.



Compensation that promotes long-termism

We expect executive pay policies to use performance measures that are closely linked to the company's long-term strategy and goals.

More
engagements
with more
companies

In 2020 we had more engagements with more companies than ever before. Where companies fell short of our expectations and were not responsive to our feedback, BIS voted against key items of business on the shareholder meeting ballot. We held companies accountable for not acting in the interests of long-term shareholders by voting against at least one management proposal at 38% of the approximately 17,000 shareholder meetings at which we voted.

BIS had over 3,500 engagements – an increase of 35% against 2019 – with 2,110 unique companies, covering nearly 65% by value of our clients' equity investments.

Maximizing long-term value for shareholders

When we vote against a company, we do so with a singular purpose: maximizing long-term value for shareholders. BIS has made clear through engagement that we will hold companies accountable. Voting for or against the election of directors is the most broadly applicable voting tool available to BIS and other shareholders. In BIS' experience, votes against directors send a clear signal of concern to boards and management. Shareholder proposals also play an increasingly important role in our stewardship efforts around sustainability. Where we agree with the intent of a shareholder proposal addressing a material business risk, and if we determine that management could do better in managing and disclosing that risk, we are likely to support the proposal. We may also support a proposal if management is on track, but we believe that voting in favor might accelerate their progress.

Expectations of boards and executive leadership

We voted against or withheld votes from proposals to re-elect individual directors 5,450 times due to concerns that these characteristics were lacking or that the actions taken by the board were not aligned with the interests of long-term shareholders.

Our investment stewardship efforts have always started with the board and executive leadership. It is their role to look after the interests of investors and we look to them to meet the expectations we set out.

Boards are expected to show



Independence

Boards should have a sufficient degree of director independence to look after the interests of all shareholders and have at least one independent non-executive director accessible to shareholders



Diversity

Including directors' personal characteristics and professional experience, as beneficial to good governance and effective decision-making



Capacity

We encourage directors to avoid overcommitment and ensure that they have the capacity to fulfill their duties



Performance-based executive pay

A meaningful portion of executive pay should be tied to the long-term performance of the company, as opposed to short-term increases in the stock price



Responsibility to shareholders

Boards and management are expected to protect the rights of minority shareholders, such as our clients

Advancing our sustainability efforts

While BIS has been engaging with companies for several years on sustainability issues, in January 2020, BlackRock wrote to clients about the clearer link between sustainability factors and investment risk and returns. We also signaled our intention to engage more deeply and more often with companies in carbon-intensive sectors on climate-related business risks and opportunities as the world addresses the transition to a lower carbon economy.

In mid-2020, BlackRock surveyed clients around the world to deepen our understanding of this shift.¹ We learned that environmental issues are a priority concern for our clients.² We also learned that our clients plan to double their sustainable AUM in the next five years.³ Consistent with society's shifting attitudes towards sustainability, sustainable investing and climate risk are increasingly important factors in our clients' investment decisions and stewardship expectations.

In the year to June 30, 2020, BIS focused on a universe of 440 carbon-intensive companies, representing approximately 60% of the global scope 1 and 2 greenhouse gas (GHG) emissions of the companies in which our clients invest. Of these 440 companies, in addition to voting against 55 director-related items, we put 191 "on watch", meaning they risk votes against directors in 2021 unless they demonstrate significant progress on the management and reporting of climate-related risk. Beginning in 2021, our expanded focus universe will cover more than 1,000 companies that represent 90% of the global scope 1 and 2 GHG emissions of the companies in which our clients invest.

¹ BlackRock surveyed 425 investors in 27 countries between July and September 2020. Respondents included corporate and public pension plans, sovereign wealth funds, insurers, asset managers, endowments, foundations, and global wealth managers. See "[Sustainability goes mainstream: 2020 Global Sustainable Investing Survey](#)." ² When comparing focus on ESG factors, 88% of global respondents ranked the Environment as the priority most in focus today, reflecting the urgency that is presented by climate change. See "[Sustainability goes mainstream: 2020 Global Sustainable Investing Survey](#)." ³ See footnote #2.

Enhanced disclosure builds understanding

We asked in January 2020 that companies publish reports aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the Sustainability Accounting Standards Board (SASB) standards. By December 2020, there had been a 363% increase in SASB disclosures and more than 1,700 organizations expressing support for the TCFD.^{1,2} We acknowledge that these are improvements off a relatively low base but are encouraged by the momentum building behind these two reporting tools.

Progress remains our priority. When engaging on this issue with directors and executive leadership teams we often hear that the various frameworks or standards create confusion. The lack of clarity is an obstacle to enhanced reporting. In response, in October 2020 BlackRock called for convergence of the different private sector reporting frameworks and standards to establish a globally recognized and adopted approach to sustainability reporting.

BlackRock believes the optimal outcome and the one most likely to succeed is the one proposed by the International Financial Reporting Standards (IFRS) Foundation that would establish a sustainability standards board working with the existing initiatives and building upon their work. BIS submitted a response to the IFRS Foundation's Consultation Paper on Sustainability Reporting in December 2020. BIS will continue to advocate for TCFD and SASB-aligned reporting until a global standard is established.

¹ Guillot, J. "Investors Fuel Market Movement for Comparable ESG Data." SASB. 26 January 2021. ² Task Force on Climate-related Financial Disclosures (TCFD). "TCFD supporters around the world." 2021.

Promoting sound corporate governance

BIS advocates for market-level corporate governance standards and best practices that help make the financial system more resilient, sustainable, and equitable – such as advancing common standards for how companies publicly report their ESG risks and opportunities. In addition to direct dialogue with the companies in which our clients invest, we help shape norms in corporate governance, sustainability, and stewardship. BIS engages the global investment and corporate community through a number of coalitions and shareholder groups. In addition to these affiliations, we work informally with other shareholders (where such activities are permitted by law) to engage companies on specific issues or to promote market-wide enhancements to current practice.

BlackRock joined Climate Action 100+ (CA100+), now the largest ever investor-led engagement initiative on climate change, in January 2020. BIS already engages independently with most companies in CA100+'s focus universe, but we seek to contribute to this initiative's efforts to ensure global economies are more resilient to climate change.

230+

events BIS team members spoke at in 2020 to advance sound governance and sustainable practices across the Americas, APAC, and EMEA

7

official policy consultations we responded to formally in 2020 – four of which were in APAC¹

¹ In addition, BIS also issued a [response](#) to the International Financial Reporting Standards (IFRS) Foundation's Consultation Paper on Sustainability Reporting in December 2020.

The importance of leadership in unprecedented times

The fundamental reshaping of finance that Larry Fink wrote about in his [letter](#) to CEOs in January 2020 has been brought front and center by the COVID-19 pandemic. Both climate change and the pandemic have enormous implications for society and the global economy. For many companies, COVID-19 has created near-term existential challenges. Companies were plunged into an unprecedented test of their operational resilience. Financial resilience was, and remains, a pressing issue for many companies.

In the immediate response period, companies sought flexibility from investors to weather the initial storm. Given the unprecedented circumstances, we aimed to be constructive and support companies on proposals outside our normal governance policies, such as virtual shareholder meetings, supporting poison pills, dividend cuts, off-cycle revision of executive pay, and authorization for additional financing without shareholder approval. Companies will have to justify these difficult choices in their 2020 reporting and explain how they weighed their decisions in relation to balancing the interests of investors, employees, customers, suppliers, and communities.

936

engagements where we discussed the impact of COVID-19

Stewardship in 2020 and beyond

Companies are responding to an acceleration of strategic trends like digitalization and reshaping of global supply chains with a reallocation of capital, often toward more sustainable business practices. We find increasing recognition among companies of our conviction that those with a credible long-term strategy, founded on a clearly articulated purpose, will generate long-term value and be rewarded by patient, long-term capital. We believe that companies that fail to get this right will face increasing market skepticism, and as a result, a higher cost of capital.

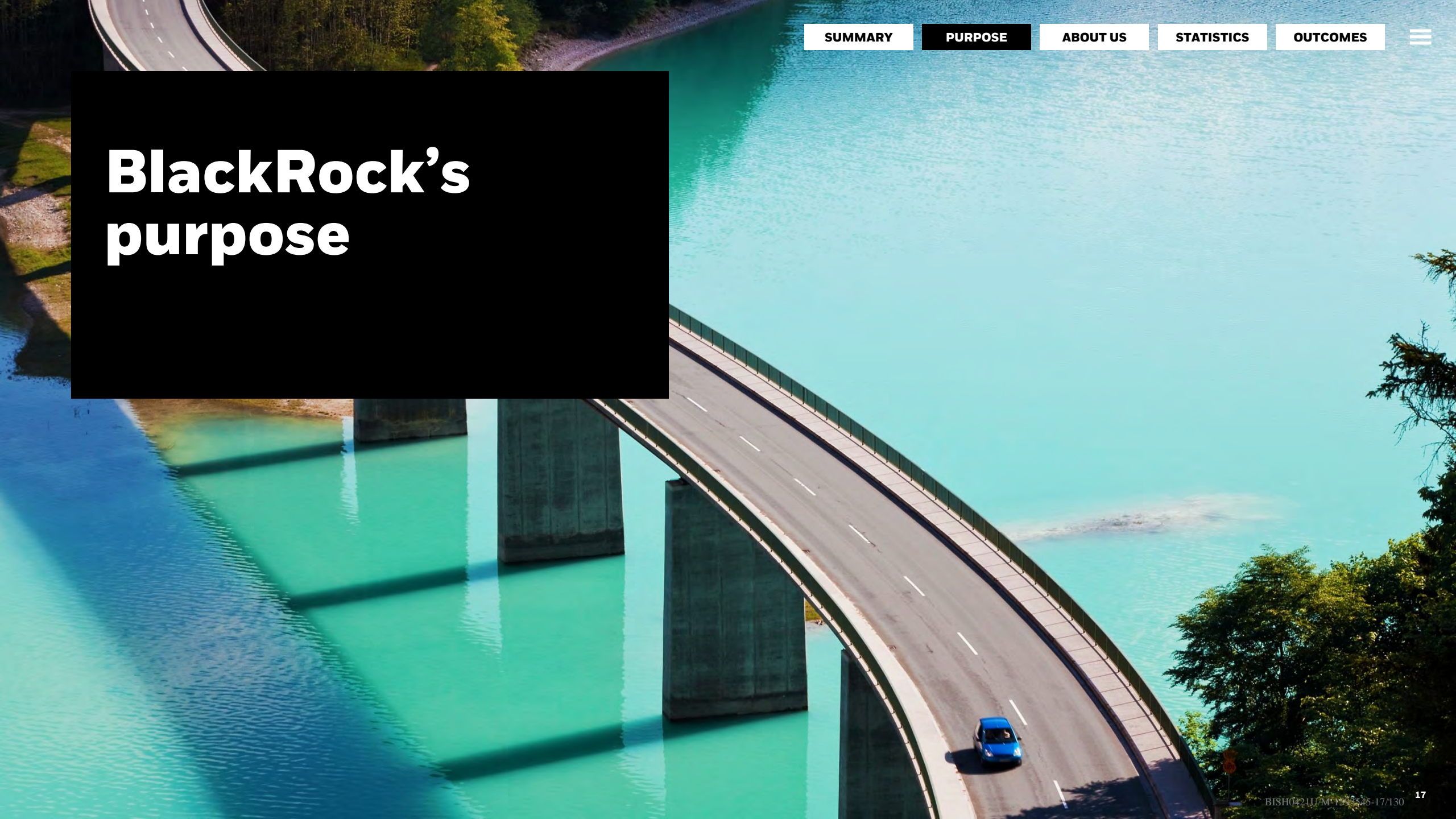
We are observing a shift in awareness of the role companies must play in society in order to demonstrate they have earned their social license to operate. We expect scrutiny of companies on their societal impact and commitment to stakeholders to remain high in the coming year. We find companies are increasingly attuned to the need to invest in their workforces, and to provide their employees with opportunities for secure and rewarding employment.

This interest is extending to the fair treatment by companies of workforces in their supply chains, where sourcing companies increasingly expect standards that may be higher than legal requirements in some countries.

Similarly, attention to the health and safety of customers has never been stronger, whether it is dealing with re-opening of retailing in the context of COVID-19 or fundamental issues of product safety. We expect these trends to continue in the coming year as companies and societies recover from the pandemic and rebuild.

BIS is committed to advocating for robust corporate governance and business practices that contribute to the ability of companies to deliver the sustainable long-term returns on which our clients depend to meet their investing goals.

BlackRock's purpose



BlackRock's purpose is to help more and more people experience financial well-being.

At BlackRock we are motivated by one single purpose: to help more and more people experience financial well-being.¹ Investing on behalf of our clients and helping them navigate the sustainability risks and opportunities that, in our view, can affect their paths towards building better financial futures is crucial to fulfilling our purpose. As a firm, we are relentless in pursuing the outcomes that will bring our clients closer to their long-term investing goals.

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. Investment stewardship is how we use our voice as an investor to advocate for sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals. For this reason, the stewardship team is strategically positioned as an investment function at BlackRock and confers regularly with investment professionals across the firm in identifying and assessing significant sustainability issues impacting companies. BIS exchanges engagement insights with investment teams globally on our assessment of how companies are performing in relation to financially material, ESG factors relevant to investment decisions.

BlackRock's commitment to sustainability

At BlackRock, we believe that sustainability-integrated portfolios can produce better long-term, risk-adjusted returns for our clients. Consistent with our investment conviction that sustainability risk — and in particular climate risk — is investment risk, in January 2020, BlackRock announced three core initiatives to help our clients invest sustainably.^{2,3}

BlackRock integrates sustainability related insights and data into its investment processes across asset classes and investment styles through a process described as [ESG integration](#).⁴ BIS provides its views on public companies to investment teams via the Aladdin® platform. Aladdin enables us to share these governance insights with BlackRock's investment teams globally and enhance our client reporting.

BIS engages companies on behalf of BlackRock's index funds and accounts and coordinates with portfolio managers with active positions in a company periodically. When BIS engages a company, we are focused on the long-term governance and business operational matters — including environmental and social considerations — that we believe contribute to sustained financial performance. Encouraging responsible business practices serves the interests of long-term investors in both equity and fixed income securities issued by public companies.

Three core initiatives to help our clients invest sustainably:^{2,3}

- ✓ Building sustainable, resilient, and transparent portfolios
- ✓ Increasing access to sustainable investing
- ✓ Enhancing engagement, voting, and transparency in stewardship

¹ BlackRock. "Where we stand: On the journey to prosperity for more and more people." 2020. ² Larry Fink's 2020 letter to CEOs. "A Fundamental Reshaping of Finance." January 2020. ³ BlackRock's 2020 letter to clients. "Sustainability as BlackRock's New Standard for Investing." January 2020. ⁴ ESG integration is the practice of incorporating material ESG information into investment decisions with the objective of improving the long-term financial outcomes of our clients' portfolios, consistent with our clients' objectives. To learn more see "[BlackRock ESG Integration Statement](#)" revised on 8 December 2020.

Sustainable investing is increasingly important for our clients

As our CEO Larry Fink notes in his 2021 [letter](#) to CEOs, we see markets are starting to price climate risk into the value of securities as a result of increasing awareness of climate change as a defining factor in companies' long-term prospects, and in the resiliency of the entire economy. This, in turn, accelerated the reallocation of capital into sustainable investing strategies we were already following closely, even amid the COVID-19 pandemic.

Sustainable investing is an increasingly important factor in our clients' investment decisions. In mid-2020, BlackRock surveyed clients around the world to deepen our understanding of this shift.¹

We learned that environmental issues are a priority concern for our clients.² We also learned that our clients plan to double their sustainable AUM in the next five years.³

By year-end 2020, BlackRock delivered on its commitment to make sustainability our new standard of investing. We achieved our goal of having 100% of our active and advisory strategies fully ESG integrated.⁴ We expanded significantly our sustainable product offerings across asset classes, and we intensified our approach to sustainability in stewardship, reaching record-level engagement on sustainability matters in more markets and across more of our clients' AUM than in 2019.⁵

As stewards of our clients assets, we have a responsibility to make sure companies are adequately managing and disclosing ESG risks and opportunities that can impact their ability to generate long-term financial performance – and to hold them accountable if they are not.

More information on how BlackRock delivered on our sustainability commitments can be found in our December 2020 report, Our 2020 sustainability actions.

SUSTAINABILITY ACTIONS →

¹ BlackRock surveyed 425 investors in 27 countries between July and September 2020. Respondents included corporate and public pension plans, sovereign wealth funds, insurers, asset managers, endowments, foundations, and global wealth managers. See "[Sustainability goes mainstream: 2020 Global Sustainable Investing Survey](#)." ² When comparing focus on ESG factors, 88% of global respondents ranked the Environment as the priority most in focus today, reflecting the urgency that is presented by climate change. See "[Sustainability goes mainstream: 2020 Global Sustainable Investing Survey](#)." ³ See footnote #2. ⁴ As of September 2020, BlackRock delivered on its goal of having 100% of our approximately 5,600 active and advisory BlackRock strategies ESG integrated – covering US\$2.7 trillion in assets. To learn more, see "[Our 2020 sustainability actions](#)." ⁵ BlackRock. "[Our 2020 sustainability actions](#)." 2020.

Straight A's from the PRI in 2020

In 2020, as in 2019, the Principles for Responsible Investment (PRI) [assessed](#) BlackRock's ESG integration capabilities to be at or above median scores in each of the reporting segments. In 2020, our Investment Stewardship function received A+ scores in Strategy & Governance and Listed Equity Active Ownership. Notably, our score in Listed Equity Incorporation improved year-over-year from A to A+. We are pleased to see these continuing [strong results](#) against a backdrop of rising median peer group scores, most notably across fixed income sectors.

BlackRock has been a signatory to the United Nations supported PRI since 2008. The six aspirational statements of PRI provide a framework in which ESG issues can be taken into account in investment decision-making and engagement with investee companies, clients and other stakeholders. As a signatory, BlackRock commits to uphold all six principles. To that end, BlackRock submitted a [2020 PRI Transparency Report](#).

Our clients

BlackRock is a global and diversified asset manager with a range of investment objectives and strategies. As of December 31, 2020, BlackRock's AUM stood at U.S. \$8.68 trillion.¹

BlackRock makes investing easier, more affordable, and advances sustainable investing

With \$40.8 billion in sustainable ETF AUM and 140 Sustainable ETF products, iShares is an established leader in the sustainable investing space.² To continue innovating, we are partnering with index providers to expand and improve the universe of sustainable indexes, including engagement with them about providing sustainable versions of flagship indexes.³

59%

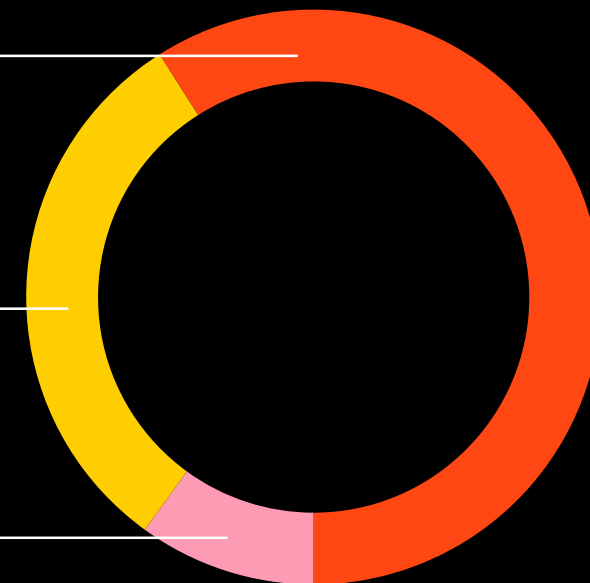
of AUM was managed on behalf of institutional clients

31%

of AUM was held in iShares exchange traded funds (iShares ETFs)⁴

10%

of AUM was managed on behalf of retail investors

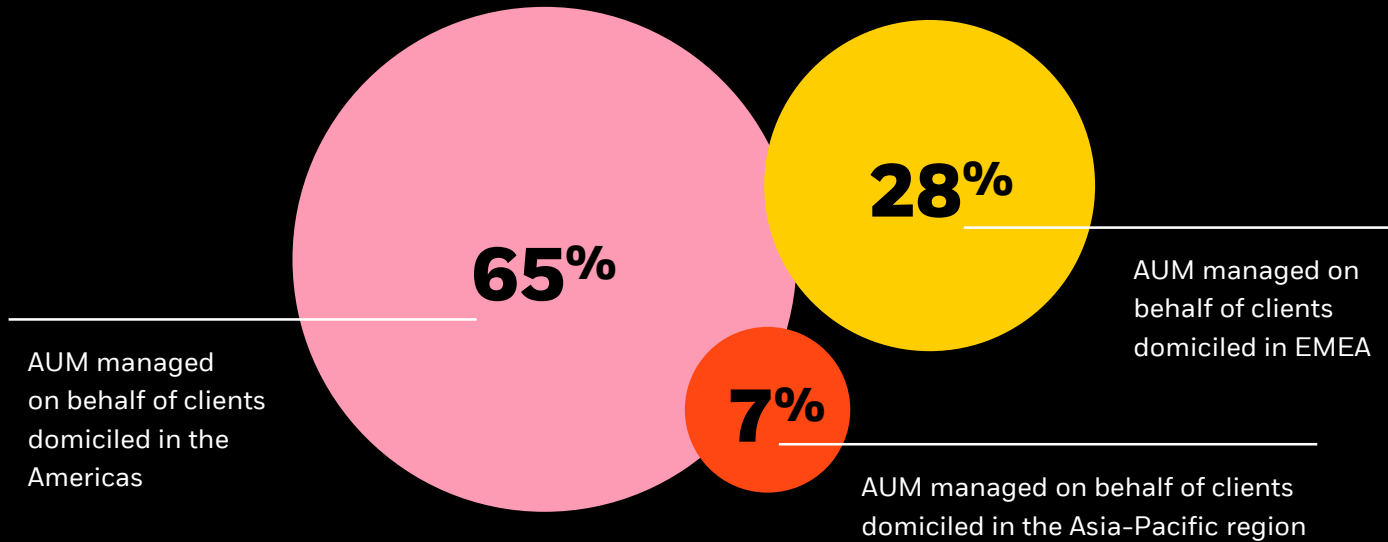


2020 year-end data as indicated in BlackRock's [Q4 2020 Earnings Release Supplement](#) published on 14 January 2021. Amounts in U.S. dollars unless otherwise noted.

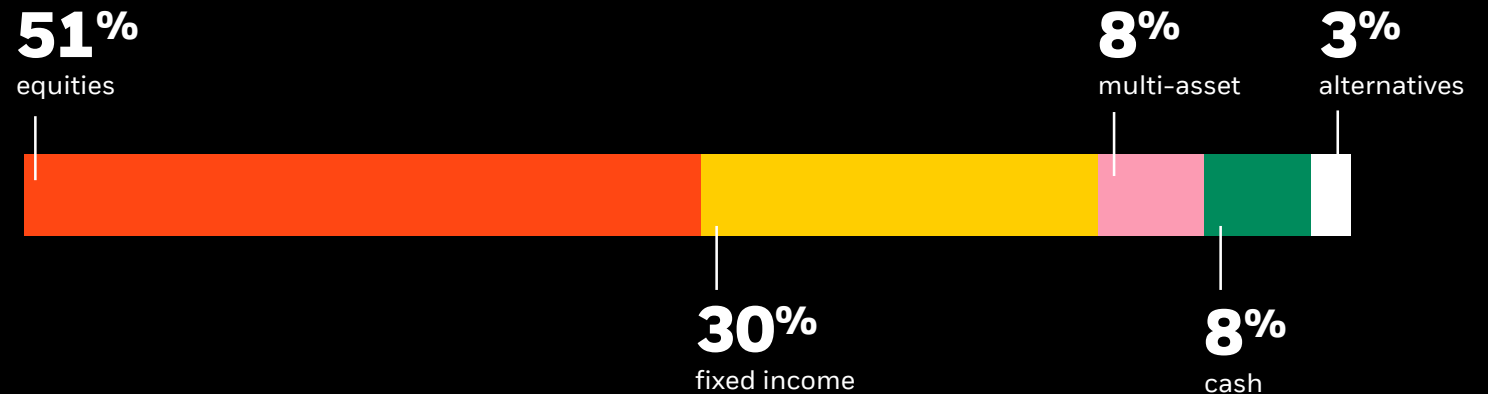
¹ BlackRock. "Q4 2020 Earnings – Earnings Release Supplement," 14 January 2021. ² BlackRock as of 31 December 2020. The US sustainable ETF market has US\$69.6bn in assets, US\$40.8bn of which is in iShares sustainable ETFs. See more at "[Think Sustainable First](#)" – iShares by BlackRock.

³ BlackRock. "[Reshaping sustainable investing](#)," 22 April 2020. ⁴ An ETF is a diversified collection of assets (like a mutual fund) that trades on an exchange (like a stock). For more information on iShares ETFs, please refer to [iShares.com](#).

BlackRock serves clients across the globe



BlackRock's AUM is held in multiple asset classes

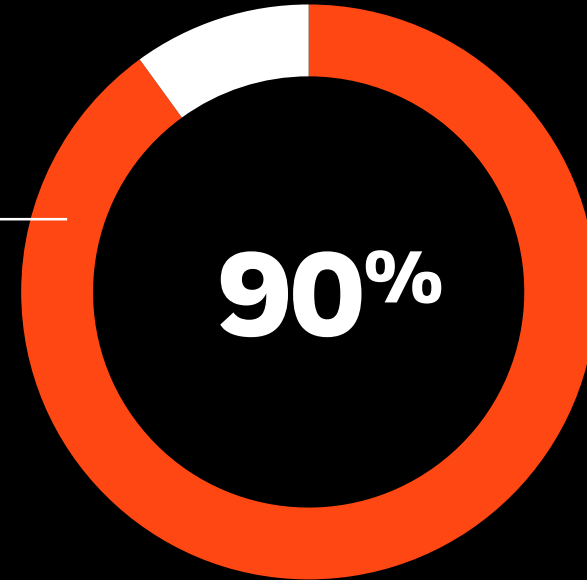


The majority of equity AUM is invested through index portfolios

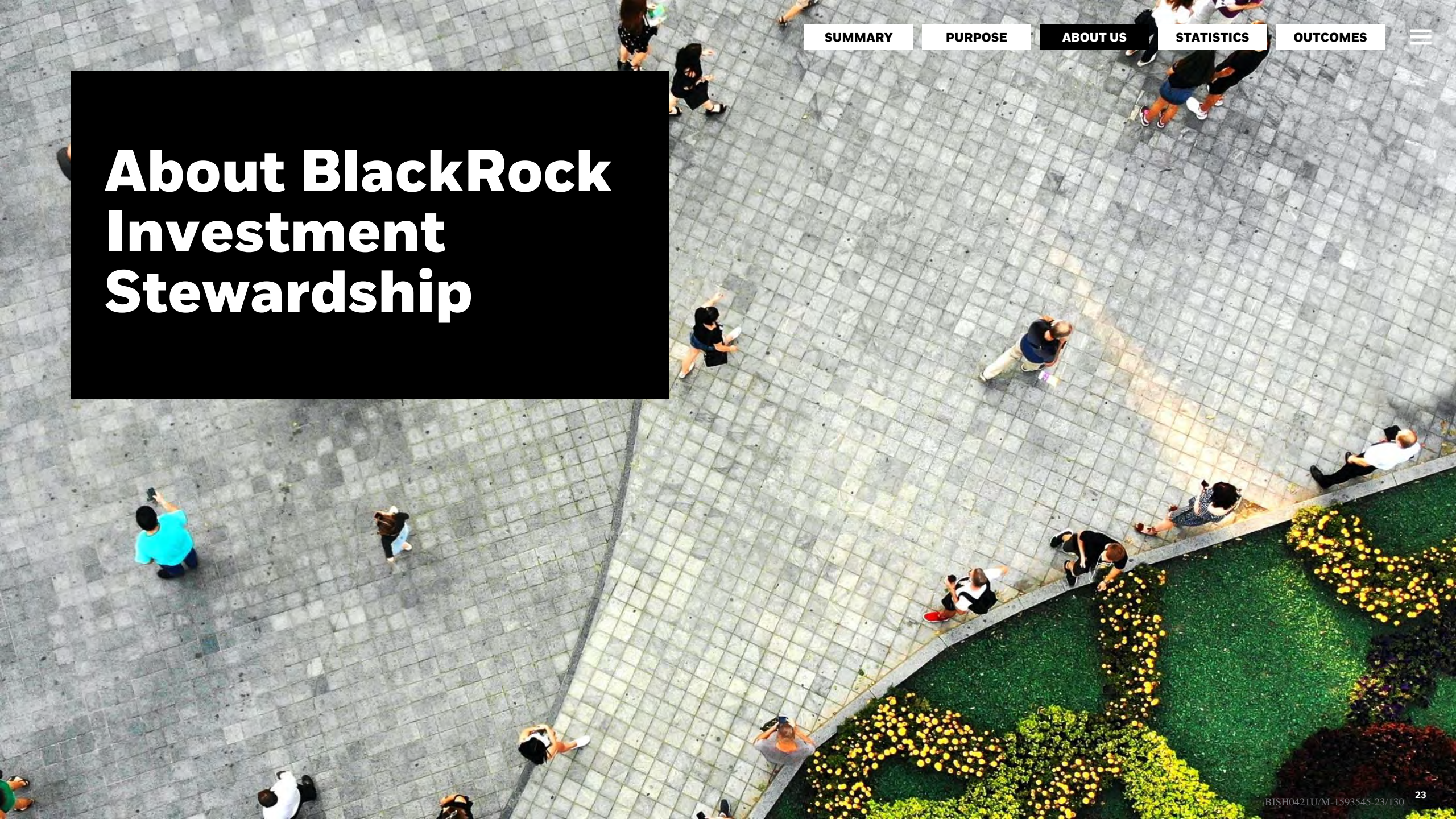
Our clients who invest in these products are, by definition, long-term shareholders.

¹ Estimate based on figures reported in BlackRock's 2019 Annual Report, which indicated that nearly 43% of total equity AUM was held in iShares ETFs, and a further 47% of total equity AUM was invested in index strategies on behalf of institutional clients.

Percent of equity AUM was held in iShares ETFs or BlackRock's non-ETF index products¹



About BlackRock Investment Stewardship





Our stewardship approach

BlackRock's approach to investment stewardship is outlined in the BIS [Global Principles](#) and market-level [voting guidelines](#). Our Global Principles set out our stewardship philosophy and our views on corporate governance and sustainable business practices that support long-term value creation by companies. Our market-level voting guidelines provide detail on how we implement the Global Principles, taking into consideration local market standards and norms. Together they form the basis for our stewardship activities.

Promoting sound corporate governance is at the heart of our stewardship program. We believe that high-quality leadership and business management is essential to delivering sustainable financial performance. That is why we focus on board quality, effectiveness, and accountability across the broad universe of companies globally that our clients are invested in. We do this through engagement, voting, and promoting thought leadership.

¹ BlackRock counts only direct interaction as an engagement. We also write letters to raise companies' awareness of thematic issues on which we are focused or changes in policy, but this outreach is considered distinct from engagement as it is difficult to monitor the effectiveness of letter writing without direct interaction.

We advocate for sound corporate governance and sustainable business practices by:

Engaging with companies

How we build our understanding of a company's approach to governance and sustainable business practices, and how we communicate our views and ensure companies understand our expectations.¹

Voting in our clients' interest

How we hold companies accountable if they fall short of our expectations. Our voting takes two forms: we might vote against directors or other management proposals, or we might vote to support a shareholder proposal. We employ votes against directors more frequently since that is a globally available signal of concern.

Promoting thought leadership

How we help shape norms in corporate governance, sustainability, and stewardship through active participation in private sector initiatives and the public policy debate.

More engagements with more companies to support informed voting

In 2020, we enhanced sustainability through our stewardship activities and intensified our engagement on behalf of our clients. We had over 3,500 engagements – an increase of 35% against 2019 – with 2,110 unique companies, covering nearly 65% by value of our clients' equity investments.

Where companies fell short of our expectations and were not responsive to feedback, we voted against relevant items of business at the shareholder meeting. BIS held companies accountable for not acting in the interests of long-term shareholders by voting against at least one management proposal at 38% of the approximately 17,000 shareholder meetings at which we voted.

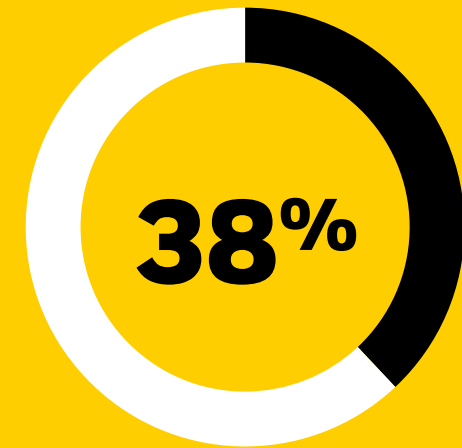
3,500
engagements

65%
of the value of our clients' equity assets engaged ¹

17,000
total meetings voted

160,700
total proposals voted

55
markets covered in our engagements



Percent of shareholder meetings we voted against one or more management recommendations

Source: BlackRock Investment Stewardship as of 31 December 2020. Numbers rounded to the nearest ten/ hundred.

¹ BIS identifies companies for engagement through internal processes that are based on 1) our prior history of engagement with the company; 2) our engagement priorities; and 3) our assessment of a company's financial and governance performance relative to its peers. We prioritize engagements based on our level of concern and the likelihood that engagement can lead to positive change. See "Protecting our clients' assets for the long-term" to learn more about how we identify and define companies for engagement.

Our stewardship team



We are one of the largest stewardship teams in the industry.¹

Our team members bring diverse skills and life experiences to their work, with professional expertise developed in legal, financial, advisory, corporate, and governance roles. BIS operates across eight offices globally and engages locally with companies, enabling more frequent and better-informed dialogue, often in the local language. These diverse perspectives enhance the team's effectiveness as a trusted partner to clients and a constructive investor on their behalf.

¹ Financial Times. "[Jobs bonanza in stewardship and sustainable investing teams.](#)" 8 March 2020.



We are strategically positioned as an investment function at BlackRock.

We are a long-term shareholder in the companies in which our clients are invested. To meet our clients' expectations, our investment stewardship processes encourage the companies in which our clients are invested to manage and disclose material sustainability risks effectively. The Global Head of Investment Stewardship is also a member of BlackRock's Global Executive Committee and has primary oversight of BIS' activities.



We combine the benefits of BlackRock's worldwide reach with local expertise.

BIS leverages the global expertise of BlackRock's investment analysts, specialists, researchers, and active investors. This allows us to share ESG insights, engage with clients to build understanding of our work and how it aligns with their objectives, and gain further understanding of regulatory requirements in different jurisdictions.



We evolve to respond to our clients' interests and needs.

Our team has grown from 16 in 2009 to 36 in 2018, to more than 45 as of December 2020. The continued global growth of the BIS team reflects our commitment to building a strong and talented pool of professionals equipped with the relevant skills and experience to engage more frequently and make better informed voting decisions on behalf of our clients.

Global reach and local presence



45+
member team

85
voting markets

17
languages

25
professional certifications

31
academic disciplines

40+
organizational affiliations

Leveraging the global expertise of our:

Investment analysts Specialists
 Researchers Active investors

Source: BlackRock Investment Stewardship as of 31 December 2020.

BlackRock's pay for performance [approach](#) means total compensation reflects individual, business, and company performance. Each BIS team member sets, with their manager, performance objectives tied to BIS' annual and longer-term strategy for advancing stewardship practices. The BIS team's objectives align with the objectives in the firm's corporate strategy.

Governance and oversight of our stewardship activities

Effective corporate governance is critical to BlackRock.

The Global Executive Committee is BlackRock's leadership team and sets the strategic vision and priorities of the firm and drives accountability at all levels.^{1,2} Sandy Boss, Global Head of Investment Stewardship and member of the Global Executive Committee, has primary oversight of BIS' activities. Further, the Nominating, Governance and Sustainability Committee of BlackRock's Board of Directors periodically reviews investment stewardship-related policies, programs, and significant publications.³

As described in our [Global Principles](#), BIS maintains three regional Stewardship Advisory Committees for the Americas, Europe, the Middle East and Africa (EMEA), and Asia-Pacific (APAC), whose members are senior BlackRock investment professionals and/or senior employees with practical boardroom experience. In addition to the regional Stewardship Advisory Committees, the BIS Global Oversight Committee is a risk-focused committee, comprised of senior representatives from various BlackRock investment teams, a senior legal representative, the Global Head of Investment Stewardship, and other senior executives with relevant experience and team oversight. The committee is chaired by the Global Head of Investment Stewardship, although the majority of its members are independent from the investment stewardship function.

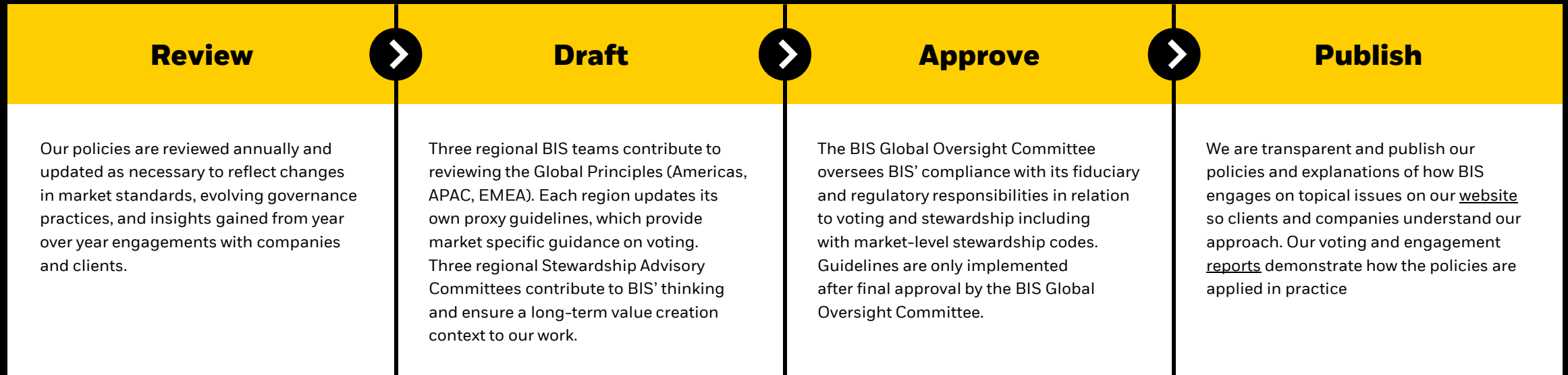
¹ BlackRock. "Our leadership: members of BlackRock's Global Executive Committee." ² BlackRock Corporate Sustainability. "We are committed to transparency." 2020. ³ BlackRock Nominating, Governance and Sustainability Committee Charter.

Policy review and development process

Each year, BIS reviews and updates our Global Principles and market-level voting guidelines. The rationale for any change is to ensure that our policies are aligned with our commitment to pursuing long-term financial returns for our clients as shareholders.

The regional Stewardship Advisory Committees review and advise on amendments to the voting guidelines covering markets within each respective region. The BIS Global Oversight Committee reviews and approves amendments to the Global Principles. It also reviews and approves amendments to the market-level voting guidelines, as proposed by the regional Committees.¹

¹ BlackRock Investment Stewardship Global Oversight Committee Charter as of November 2020.



Ongoing assessment and review of policies and processes

As described in the [Global Principles](#), the BIS Global Oversight Committee receives and reviews periodic reports regarding the votes cast by BIS, as well as updates on material process issues, procedural changes, and other risk oversight considerations. The BIS Global Oversight Committee reviews these reports in an oversight capacity as informed by the BIS corporate governance engagement program and the market-level voting guidelines. The BIS Global Oversight Committee also confirms annually the reappointment of the independent fiduciary.

From the perspective of external assurance, BIS contracts with third-party specialists to undertake specific vote reviews. These service providers review a sample of proxy votes cast by BIS and its voting agent to ensure that they accurately reflect BlackRock's voting policy guidelines.

To learn more about BlackRock's oversight of its investment stewardship activities, please refer to the BIS Global Principles.

GLOBAL PRINCIPLES



Client feedback helps shape our reporting and policies

BIS is committed to transparency. Transparency helps our clients understand how the work we do on their behalf aligns with their expectations. We use our voice as an investor on their behalf to promote the governance and business practices that support long-term sustainable value creation. We inform clients about our engagement and voting policies and activities through regular reporting sent directly to them and through disclosure on our [website](#). Further details are provided below under the '[Enhanced transparency](#)' section.

In 2020, BIS held more than 200 meetings with clients to get their perspectives on stewardship and better understand the issues that are important to them. Common discussion topics included the quality and accessibility of our reporting, as well as the priorities that guide our stewardship activities. We also engage informally with clients, as peers in the stewardship ecosystem, and keep informed about emerging thinking through active involvement in industry groups and conferences. For a detailed list of BIS' industry affiliations and memberships, please refer to the [Appendix](#) section.

Bringing our stewardship activities closer to clients

In addition to the information provided for clients and other stakeholders on the BlackRock [website](#), we provide those clients who have requested stewardship reporting a voting and engagement report directly.

In 2020, we enhanced our client reporting capabilities by implementing a new function through Aladdin to deliver portfolio-specific company engagement reports for our clients. We also established a global product strategy and client engagement function within BIS to better serve our clients and further enhance their understanding of our stewardship activities.

Statements of adherence

Consistent with our fiduciary approach, BIS adheres to multiple stewardship codes and other market-level stewardship related requirements. We publish statements of adherence and update them regularly to provide clarity and transparency on how we fulfill our stewardship responsibilities and explain our reasons for taking a different approach where relevant. A full list of our [statements of adherence](#) is available in the [Appendix](#) section and on our website.

200+

client meetings BIS held in 2020

Enhanced transparency

In line with the sustainability commitments made to our clients in January 2020, a priority for us throughout the year was to increase transparency around our stewardship work. BIS believes this helps inform our clients about the work we do on their behalf in promoting the governance and business practices that support long-term sustainable value creation. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure of our stewardship activities on our [website](#).



This public transparency extends to various aspects of our work in BIS:

- We make public our [Global Principles](#) and market-level [voting guidelines](#) for the benefit of clients and companies with whom we engage on their behalf.
- We prioritize our work around engagement themes — our [Engagement Priorities](#) — that we believe will encourage sound governance practices and deliver sustainable long-term financial performance for our clients. These priorities are disclosed to help company boards and management prepare for engagement with the BIS team and provide clients with insight into how we are conducting engagement and voting activities on their behalf.
- We publish [commentaries](#) to share our approach on market developments and emerging ESG themes, such as board diversity, human capital management, climate risk and the transition to a low-carbon economy, natural capital, and sustainability reporting, among others.
- We publish an annual report,¹ as well [global quarterly stewardship reports](#), to provide a global overview of our investment stewardship activities during the year — engagement, voting, and promoting thought leadership — and case studies that illustrate our engagements and voting analyses on behalf of clients across the Americas, EMEA, and APAC. We also publish [quarterly engagement summaries](#) naming all companies we engaged with during each quarter across a range of E, S, and G topics.
- We release special reports that provide an additional level of detail into our engagement and voting analyses on sustainability throughout the year, such as [Our approach to sustainability](#), released in July 2020.
- We disclose [responses](#) to public policy consultations to share our views on a variety of corporate governance topics and promote a sustainable financial system.

¹ BIS has historically published annual reports representing the Securities and Exchange Commission's (SEC) 12-month reporting period for U.S. mutual funds (i.e. a July to June reporting period). Starting in 2021, BIS will publish annual reports representing a calendar-year reporting period.

Global vote disclosures

On a quarterly basis, BIS publishes our voting record for each of the shareholder meetings that have taken place globally, detailing our vote rationales for key items on the ballot. This record reflects votes at meetings held since July 1 of each year and until June 30 of the next year. Once the reporting cycle is completed, our quarterly voting record is superseded by BlackRock's annual Form N-PX filing with the U.S. SEC.

Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our Global Principles, market-level voting guidelines, and engagement priorities, material to a company's sustainable long-term financial performance.

We publish vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders on our approach to the votes that we consider to be most significant and thus require more detailed explanation. We publish details of other significant votes (including vote rationales, where applicable) quarterly on the BlackRock website.

Proxy vote information disclosed on the BlackRock website reflects the position of BIS. Portfolio managers have full discretion to vote the shares in the funds they manage based on their analysis of the economic impact of a particular ballot item. While ballots are frequently cast in a uniform manner reflecting the position of BIS, portfolio managers may, and sometimes do, vote shares in the funds under their management differently from the BIS position.

57


vote bulletins published
in 2020

5x

more vote bulletins published than
in the previous three years combined

97.6%

of shareholder meetings BIS voted at during 2020¹



Exercise of rights and responsibilities

When investing as a fiduciary, we must act in the best long-term interests of our clients. Most of our clients have also delegated voting authority to us to vote at the annual and special shareholder meetings of the public companies in which we invest on their behalf. For these clients, we see this as one of our core stewardship responsibilities. Voting is how we hold companies accountable if they fall short of our expectations.

BIS voted at 97.6% of shareholder meetings during 2020.¹ As noted in the Global Principles, when exercising voting rights, BlackRock will normally vote on specific proxy issues in accordance with the guidelines for the relevant market. In certain markets, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies.²

As a consequence, BlackRock votes proxies on a "best-efforts" basis. In addition, BIS may determine that it is generally in the best interests of BlackRock's clients not to vote proxies if the costs associated with exercising a vote are expected to outweigh the benefit the client would derive by voting on the proposal.

We recognize that some of our clients may want to express their views on how the companies they are invested in are responding to pressing ESG issues.

BlackRock offers to all institutional clients who invest with us through a segregated mandate the choice to exercise proxy voting themselves using their own custom policies or to entrust this responsibility to BlackRock. Currently, BlackRock does not broadly offer voting choice to clients in our pooled funds.

We are fully engaged with the ongoing market-level discussions in relation to client-directed voting in pooled funds, and support efforts to address the barriers that have been identified. However, doing so will require overcoming the technological, operational, and legal complexities that are embedded across the proxy ecosystem. Over time, we hope to provide more of our clients, including investors in many of our pooled funds (where we have direct insight into unit holders and their pro rata ownership interests), with the ability to instruct their own votes.

When so authorized, BlackRock acts as a securities lending agent on behalf of its clients. With regard to the relationship between securities lending and proxy voting, BlackRock's approach is driven by our clients' economic interests. The decision whether to recall securities on loan to vote those securities is based on a formal analysis of the revenue producing value to clients of loans, against the assessed economic value of casting votes. Periodically, BlackRock reviews our process for that analysis and may modify it as necessary.

¹ Percentage estimated with ISS and BlackRock Investment Stewardship data as of 31 December 2020. The meetings where BIS did not vote are due to market impediments such as share-blocking, sanctions, and other logistical challenges that limit BIS' ability to vote such proxies. Please refer to the BIS [Global Principles](#) for a list of considerations which can affect BlackRock's exercise of voting rights. ² See footnote #1.

**Further information can be found in
BlackRock's PRI 2020 RI Transparency Report.**

TRANSPARENCY REPORT →

Engagement bridges BlackRock's portfolios

While the exercise of voting rights is usually limited to shareholders in public companies, BIS engages companies across active and indexed investment strategies to promote the governance and business practices that support sustainable long-term performance, which advances the interests of both equity and fixed income investors.

The BIS team deepens connectivity by sharing the insights from its more than 3,500 engagements, through our Aladdin Platform, across BlackRock's various investment functions, including BlackRock's Sustainable Investing (BSI) team and fundamental investment teams, for both equity and fixed income strategies. Meaningful concerns are channelled as feedback to companies – either directly by the fundamental research analysts or through BIS.

Credit investment teams and BIS also engage in active dialogue and engagement with borrowers and sponsors should ESG issues occur.

Separately to BIS, for investments made in the private markets, the BlackRock Alternative Investors (BAI) team conducts its own reviews and engagement with its portfolio companies through investment sourcing, screening, investment due diligence, and ongoing monitoring stages of the investment process. The team establishes, where appropriate, mechanisms to frequently monitor and manage ESG considerations in addition to potentially adverse impacts associated with its investments. Further information on this, and other investment teams' approach to engagement across various asset classes, can be found in BlackRock's [PRI 2020 RI Transparency Report](#).



Conflicts of interest

BIS maintains policies and procedures that are designed to prevent undue influence on BlackRock's proxy voting activity. Such influence might stem from any relationship between the investee company (or any shareholder proponent or dissident shareholder) and BlackRock, BlackRock's affiliates, a BlackRock advised fund or its affiliate, or BlackRock employees.

There may be a number of situations where BlackRock may determine not to vote itself due to regulatory restrictions or a perceived or actual conflict of interest. In such cases, BlackRock uses an independent third party, referred to as an independent fiduciary, to instruct the votes on our clients' holdings.

Proxy research firms: one of many tools

Third-party proxy research firms are a critical component of the proxy voting system, providing research and recommendations on proxy votes. Proxy research firms also provide voting infrastructure, and some provide consulting services to public companies.¹

A company's disclosures, BIS' record of past engagements and voting, and ESG insights shared across multiple teams at BlackRock are the primary tools to inform our voting decisions.

Proxy research firms represent an additional tool that supports the BIS team in assessing a company's approach to multiple ESG risks and opportunities. As such, BIS subscribes to two global research providers, and several market-specific providers, as an input to support our research capabilities. Where BlackRock has been directed by its clients to vote proxies, BIS votes in accordance with our voting guidelines and does not follow any single proxy research firm's voting recommendations.²

¹ BlackRock Investment Stewardship. "Protecting our clients' assets for the long-term." ² For a detailed overview of our voting process and how a BIS team analyst decides to vote please see "Protecting our clients' assets for the long-term."

Best practices when using an independent fiduciary

BIS appointed Sustainalytics — a global leader in ESG and corporate governance research and ratings — to act as an independent fiduciary. In selecting Sustainalytics, BIS reviewed its suitability against the characteristics outlined in our statement on [conflicts of interest](#) and proxy voting best practices. Sustainalytics has made voting decisions based solely on BlackRock's publicly available proxy voting guidelines, which aim to advance clients' long-term economic interests, and information disclosed publicly by the relevant companies. BIS cannot influence Sustainalytics' voting determination and does not know the voting decision prior to Sustainalytics providing our proxy voting agent with vote instructions.

As detailed in our statement on [conflicts of interest](#), BIS' oversight process in relation to Sustainalytics' role is to review annually, after peak shareholder meeting season, the votes it casts to ensure that they reflect BIS' published [voting guidelines](#). We report the findings of the review to BIS' Global Oversight Committee, which is responsible for confirming the reappointment of the independent fiduciary. The process also involves discussing with Sustainalytics any votes that appeared to be inconsistent with BIS' guidelines and to explain any changes to voting guidelines planned for the following year. The list of companies for which BIS appoints an independent fiduciary is managed by BlackRock's Legal and Compliance team.

We also published [best practices](#) when using an independent fiduciary, which provides guidance on the situations when we consider it prudent to use an independent fiduciary.



Responsible leadership

BIS advocates for market-level corporate governance standards and best practices that help make the financial system more resilient, sustainable, and equitable – such as advancing common standards for how companies publicly report their ESG risks and opportunities.

Increase in sustainability disclosure

Enabling investors to better identify, assess, measure and monitor sustainability-related risks is crucial to our role as stewards of our clients' capital. We believe company valuations can be significantly influenced by these risks. As such, better quality reporting and data would support more accurate asset pricing and enhance understanding of the drivers of risk and value in companies' business models as well as our ability to advocate for sound governance and business practices.

As noted by Janine Guillot, SASB CEO, "BlackRock has been a leading force in the global investor push for improved ESG disclosure."¹

In January 2020, we asked that companies publish reports that aligned with the recommendations of the TCFD framework and the SASB standards. By December 2020, we observed a dramatic increase in companies filing disclosures aligned to these standards – a 363% increase in SASB disclosures² and more than 1,700 organizations expressing support for the TCFD.^{3,4} We acknowledge that these are improvements off a relatively low base but we are encouraged by the momentum we observed in our engagements, which we believe will result in continued and accelerated adoption in 2021.

¹ Guillot, J. "Investors Fuel Market Movement for Comparable ESG Data." SASB. 26 January 2021. ² Per SASB data, by year end, of the total of unique companies reporting SASB metrics, 60% were domiciled in the U.S. and 40% domiciled abroad. ³ See footnote #1. ⁴ Task Force on Climate-related Financial Disclosures (TCFD). "TCFD supporters around the world." 2021.

BIS endorses convergence of reporting standards

While the uptick in support for TCFD and SASB is encouraging, one of the significant observations we hear from the directors and leadership teams we meet with on this issue is the confusion caused by the various frameworks or standards. The lack of clarity is an obstacle to enhanced reporting. That is why in October 2020, BlackRock called for convergence of the different private sector reporting frameworks and standards to establish a globally recognized and adopted approach to sustainability reporting.

BlackRock believes the optimal outcome and the one most likely to succeed is the one proposed by the IFRS Foundation that would establish a sustainability standards board working with the existing initiatives and building upon their work. BIS submitted a response to the IFRS Foundation's Consultation Paper on Sustainability Reporting in December 2020. BIS will continue to advocate for TCFD and SASB-aligned reporting until a global standard is established.

Accelerated adoption of SASB-aligned disclosures in South Korea

2020 was a year of significant progress in the Asia-Pacific region with companies accelerating disclosure efforts in alignment with TCFD and SASB. According to SASB data, after the U.S. and Canada, the Asia-Pacific region recorded the highest number of unique SASB reporting companies for 2020. South Korea topped the list with 16 public companies publishing SASB-aligned disclosures, 14 of them for the first time. A number of these companies informed BIS that they had decided to disclose SASB-aligned material risks and opportunities as a result, in part, of our continued engagement and feedback.

2020 was a year of significant progress in the Asia-Pacific region with companies accelerating disclosure efforts in alignment with TCFD and SASB.

Consultation responses

As markets across the world look to enhance their governance frameworks, stewardship codes, and shareholder rights policies, we saw a wave of consultations, particularly in Asia-Pacific (APAC). In our responses to global and regional public policy consultations, which are publicly available, we aim to provide thoughtful and constructive feedback reflecting the global perspective and the local expertise of the BIS team.

In addition to our response to the IFRS' Foundation consultation on sustainability reporting, in 2020 we provided responses to seven official policy consultations at the regional level – four of them in the APAC region.

A full list of our [consultation responses](#) is available in the [Appendix](#) section and on our website.

BIS is also frequently invited to participate in various informal discussions with regulators and policy makers to provide market feedback and raise issues that regulatory standards could address. These are generally before public consultations are launched and help shape the evolution of the regulatory environment.

230+

events BIS team members spoke at in 2020 to advance und governance and sustainable practices across the Americas, APAC, and EMEA

Industry affiliations and memberships to advance best practices

Industry affiliations and public speaking events provide important forums in which to share our views on a variety of corporate governance topics, as well as listen to the views of our peers. In 2020, BIS team members spoke at more than 230 events to advance sound governance and sustainable practices across the Americas, APAC, and EMEA.

BIS also engages the global investment and corporate community to promote a sustainable financial system through a number of coalitions and shareholder groups. In addition to BIS' affiliations, we work informally with other shareholders (where such activities are permitted by law) to engage companies on specific issues or to promote market-wide enhancements to current practice.

BIS leads Climate Action 100+ engagement in Asia

BlackRock joined Climate Action 100+ (CA 100+) in January 2020, a natural progression in our work to advance corporate reporting aligned with the TCFD framework. CA 100+ is a group of investors that engages with companies to improve climate disclosure and align business strategy with the goals of the Paris Agreement. In the majority of cases, BIS engages independently with the companies in CA100+'s focus universe – in 2020 BIS met with 81% of these companies.¹ Prior to joining, BlackRock was a member of the group's five partner organizations.² CA 100+ members benefit from the group's collective insights, but each investor determines how to vote their holdings independently of other members.³

As a member of CA 100+'s Asia Advisory Group,⁴ and the Asia-region sponsoring organizations, we seek to provide the group with strategic insight into the characteristics of local Asian markets to help inform engagements. BIS was the lead investor in the engagements with China Steel – a Taiwanese mining and metal company in CA100+'s focus universe – and undertook certain meetings together with a local CA100+ member, Cathay Life, to encourage the company to enhance its climate disclosures and to pursue more ambitious targets and investment plans to transition its business in line with a lower than 2°C scenario.

After multiple engagements to have a better understanding of the company's sustainability discussions at the executive and board level, China Steel committed to publish a TCFD-aligned report in 2021. The company also established a Task Force on Energy Saving & Carbon Reduction and Carbon Neutrality, led by the Chairman.⁵

BIS engages independently with the companies in CA100+'s focus universe – in 2020 BIS met with 81% of these companies.¹

¹ Considering a focus universe of 167 companies. Full list available at "[Climate Action 100+ - Companies involved](#)." ² Asia Investor Group on Climate Change (AIGCC); Ceres; Investor Group on Climate Change (IGCC); Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI). ³ All signatories to Climate Action 100+ are independent fiduciaries and vote in accordance with their own voting principles and independent internal investment analysis. Climate Action 100+ as an initiative will not file shareholder resolutions, nor require that investors support specific shareholder resolutions. To learn more see "Shareholder Resolutions" under Climate Action 100+'s "[How We Work](#)" website. ⁴ Climate Action 100+. "[2020 Progress Report](#)." AIGCC-PRI Asia Working Group Update. Page 67. ⁵ February 2021.

Advancing governance practices in Latin America

In addition to our company engagement and voting activities, BIS has been actively involved in the Latin American governance ecosystem. We see that in emerging markets in particular, market-level engagement is effective in improving corporate governance practices.

In 2020, BIS spoke at more than 75 industry events, client meetings, and roundtables with local regulators and investors in Latin America – including the four largest pension funds in Chile, Colombia, and Mexico – to discuss the importance of adopting sound corporate governance and business practices to create long-term, sustainable growth.

75

industry events, client meetings, and roundtables with local regulators and investors in Latin America

To maximize outreach, BIS partnered with BlackRock local offices, regulators, management consulting firms, proxy solicitors, international development organizations, and issuers. For example:

Investment Stewardship Webinar co-organized with **BlackRock Mexico** and the **Mexican Stock Exchange (BMV)**, attended by more than 140 corporate leaders from the largest public companies in Mexico.

Stewardship and governance best practices webinar co-organized with **BlackRock Colombia**, the **International Finance Corporation (IFC)** and the **Colombian Institute of Corporate Governance (ICGC)**, attended by nearly 250 directors, clients, local regulators and thought leaders.

Key milestones



In 2020, we enhanced sustainability in our stewardship activities by:

Raising expectations and setting priorities on sustainability

Intensifying our approach to engagement and voting

Enhancing the transparency of our stewardship work

Actively participating in private sector initiatives and the public policy debate

2020 milestones

January

Larry Fink's 2020 letter to CEOs and BlackRock's Global Executive Committee's letter to clients

These letters highlighted how BlackRock is making sustainability central to the way we invest, manage risk, and execute our stewardship responsibilities. This commitment is based on our conviction that sustainability risk – and in particular climate risk – is investment risk. Sustainability-integrated portfolios can produce better long-term, risk-adjusted returns. Both letters called for improved disclosures for shareholders, promoting both the SASB and the TCFD frameworks.

[Read the letter to CEOs >](#)

[Read the letter to clients >](#)

January

BlackRock joined Climate Action 100+

Outcome

BlackRock delivered on its commitment to building sustainable portfolios, increasing access to sustainable investing, and enhancing sustainability in stewardship. BlackRock achieved 100% ESG integration and BIS intensified engagement and transparency in our stewardship activities, among other sustainability milestones.

We also saw a dramatic increase of TCFD and SASB-aligned reporting globally: a 363% increase in SASB disclosures and more than 1,700 organizations expressing support for the TCFD. BlackRock issued our own inaugural TCFD and SASB reports in 2020.

Climate Action 100+ is an investor-led corporate engagement initiative encouraging companies to improve climate risk disclosure and align business strategies with the goals of the Paris Agreement.

Outcome

BIS is a lead investor on engagement at China Steel Corporation in Taiwan, and an active member of the Asia Advisory Group focused on the engagement strategy for APAC companies. We participate in regional meetings and initiatives of the partner organizations in CA100+.

February

BIS published 2020 Global Principles, market-specific voting guidelines and five engagement priorities

[Read the guidelines](#) >

[Read the vote disclosure](#) >

[Read the engagement summary](#) >

Our Global Principles and market-specific voting guidelines further integrated sustainability into the heart of our stewardship activities.

Outcome

We set key performance indicators (KPIs) for each engagement priority, and we mapped the United Nations' Sustainable Development Goals (SDGs) to each priority. We also committed to enhancing our transparency throughout the year

We **moved from annual to quarterly voting disclosure** and provided rationales for key votes.

We initiated a global quarterly engagement summary listing every company engaged and topics discussed.

July

BIS published inaugural Sustainability Report

[Read the report](#) >

Our approach to sustainability, a new report on our engagement and voting on climate-related issues and other sustainability topics during the 2020 proxy season.

Outcome

We published this special report as part of our commitment to greater transparency in our investment stewardship activities. In it, we disclosed that in the 6-months to June 2020 we had identified 244 companies that were making insufficient progress integrating climate risk into their business models or disclosures. Of these companies, we took voting action against 53, or 22%.

September

BIS published 2020 Annual Report

[Read the annual report >](#)

We put the remaining 191 companies 'on watch.' Those that do not make significant progress risk voting action against management in 2021. For the 2020-21 proxy year we have expanded our focus universe to more than 1,000 companies that represent 90% of the global scope 1 and 2 GHG emissions of the companies in which our clients invest.

Our annual report, provides a yearly overview of BIS' voting and engagement activities for each year.

Outcome

The report demonstrated our sustainability journey in action, showing record level engagement, voting and thought leadership activities globally for the period between July 1, 2019 and June 30, 2020.

October

BIS published "Sustainability Reporting: Convergence to Accelerate Progress"

[Read the commentary >](#)

In this special report, we called for convergence of the different private sector reporting frameworks and standards to establish a globally recognized and adopted approach to sustainability reporting.

Outcome

Rapid industry adoption as well as progress toward global convergence in sustainability standards. We welcome recent moves by policy makers and regulators in countries like the UK, New Zealand that recently mandated TCFD reporting, and in others that recommend disclosure aligned with the TCFD and SASB.

BIS reviewed its policies and published the 2021 Stewardship Expectations report, Global Principles and market-specific voting guidelines

[Read the report](#) >

[Read the principles](#) >

[Read the guidelines](#) >

December

BIS published 57 Vote Bulletins by year-end 2020

[Read the bulletins](#) >

Each year, BIS reviews and updates our Global Principles and market-specific voting guidelines. During the second half of 2021, the BIS team conducted a thorough policy review to further embed sustainability in BIS' policies and procedures, specifically related to voting and engagement.

Outcome

Report outlining our expectations for 2021, as well as updated Global Principles and market-specific voting guidelines covering the Americas, APAC and EMEA. Our policies build on the firm's commitments to sustainability and net-zero. Key changes address board quality; the transition to a low-carbon economy; key stakeholder interests; diversity, equity and inclusion; alignment of political activities with stated policy positions; and shareholder proposals.

Where we believe it will be beneficial to various stakeholders to articulate our voting decisions at certain shareholder meetings, we publish a Vote Bulletin explaining the rationale for how we have voted on select proposals, and (where relevant) provide information around our engagement with the issuer.

Outcome

BIS delivered on our commitment to increase transparency around stewardship activities through our vote bulletins. In 2020, BIS published 57 bulletins, five times more than in the previous three years combined.

January to December

BIS continued to enhance the team's human talent, capabilities and connectivity across the company

BlackRock is committed to ensuring BIS has the resources it needs to effectively execute our stewardship capabilities with the highest standards on behalf of our clients.

Outcome

The BIS team grew throughout the year to reach more than 45 employees across eight offices who have a regional presence and local expertise across 85 voting markets. We enhanced the way we use in-house data analytics tools. Aladdin Research, and third-party data and research. We also leveraged the global expertise of BlackRock's active portfolio managers, investment analysts, and ESG specialists and researchers.



Voting and engagement statistics

Engaging across our five priorities

● 2019 ● 2020

Board quality

▲ 23% YoY

1,377

1,695

Environmental risks and opportunities

▲ 212% YoY

621

1,939

Corporate strategy and capital allocation

▲ 40% YoY

1,178

1,644

Human capital management

▲ 136% YoY

456

1,077

Compensation that promotes long-termism

▲ 35% YoY

941

1,269

Expanding the reach of our engagements

● 2019 ● 2020

Total engagements

▲ 35% YoY

2,585

3,501

Total companies engaged

▲ 18% YoY

1,785

2,110

Companies with multiple engagements

▲ 45% YoY

524

758

Markets where we engaged

▲ 22% YoY

45

55

Clients' equity assets engaged

▲ 21% YoY

53.3%

64.7%

Engagements with companies in Emerging and Frontier markets¹

▲ 159% YoY

224

580

¹ MSCI's definition of Emerging and Frontier markets.

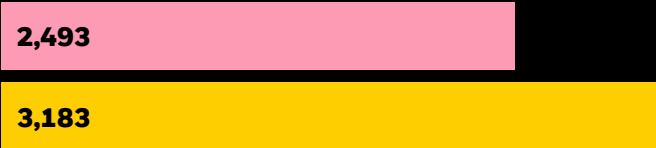
Topics engaged

● 2019 ● 2020

Environmental ▲ **212%** YoY

Social ▲ **142%** YoY

Governance ▲ **28%** YoY



Holding companies accountable

	2019	2020	YoY
Total meetings voted	16,374	17,008	▲ 3.8%
Total proposal voted	153,554	160,769	▲ 4.6%
Votes withheld from proposals to elect individual directors ¹	5,175	5,450	▲ 5.3%
Votes withheld from other director-related proposals ²	2,480	2,643	▲ 6.6%
Percent of shareholder meetings where we voted against management	37.4%	38.0%	▲ 1.8%

¹ Includes votes against directors and abstentions. ² Includes discharge, bundled elections, committee, member elections etc. Please refer to the [Appendix](#) for more information and definitions of proposal types. Percentages rounded to the nearest tenth.

Management proposal votes

	2019	2020	YoY
Total number of proposals voted	150,122	156,891	▲ 4.5%
Percentage voted against management	8.6%	9.2%	▲ 7.0%

Shareholder proposal votes

	Environmental	Social	Governance	Total
Total number of proposals voted	113	113	881	1,107
Percent supported (or abstained)	15.0%	7.1%	17.6%	16.3%

Please refer to the [Appendix](#) for more information and definitions of proposal types.
Percentages rounded to the nearest tenth.

Engagement priorities and case studies



In our experience, financial performance and value creation are enhanced by sound corporate governance and sustainable business practices, including risk management, oversight, and board accountability.

Each year we prioritize our work around engagement themes – our Engagement Priorities – that we believe will encourage these sound governance practices and deliver sustainable long-term financial performance for our clients.

Our 2020 [Engagement Priorities](#) represented a continuation and evolution of themes identified over the past several years. Some governance issues, like board quality and performance, have long been core components of the BIS team’s work. Others evolve over time and are informed by regulatory and market developments. In 2020, we put an increased focus on sustainability-related issues and relevant disclosures, given the growing impact of these issues on long-term value creation. For the first time, we mapped our Engagement Priorities to specific United Nations Sustainable Development Goals (SDGs) – such as Gender Equality and Clean and Affordable Energy – and provided high-level, globally relevant key performance indicator for each priority so companies are aware of our expectations.

Our 2020 Engagement Priorities

Board quality >

Environmental risks and opportunities >

Corporate strategy and capital allocation >

Human capital management >

Compensation that promotes long-termism >

Advancing our sustainability commitment in 2021

While BIS has been engaging with companies for several years on sustainability issues, in January 2020, BlackRock wrote to clients about our investment conviction regarding the link between sustainability factors and investment risk and returns. We signaled our intention to engage more deeply and more often with companies in carbon-intensive sectors on climate-related business risks and opportunities as the world addresses the transition to a lower carbon economy.

We communicated our position throughout the past year and expect companies to demonstrate how climate and sustainability-related risks are considered and integrated into their strategy. If a company does not provide adequate public disclosures for us to assess how material risks are addressed, we will conclude that those issues are not appropriately managed and mitigated.

Shareholder proposals

Our most frequent course of action is to hold the responsible directors accountable by voting against their re-election. From 1 July 2020, we also implemented a new approach to shareholder proposals. We published in [Our 2021 Stewardship Expectations](#) report that we see voting on shareholder proposals playing an increasingly important role in our stewardship efforts around sustainability. Where we agree with the intent of a shareholder proposal addressing a material business risk, and if we determine that management could do better in managing and disclosing that risk, we will support the proposal. We may also support a proposal if management is on track, but we believe that voting in favor might accelerate their progress. As a long-term investor, BIS has historically engaged to explain our views on an issue and given management ample time to address it. However, given the need for urgent action on many business relevant sustainability issues, we will be more likely to support a shareholder proposal without waiting to assess the effectiveness of engagement. Accordingly, during the second half of 2020, we voted for 91% of environmental shareholder proposals (10 out of 11 proposals), reflecting our new approach in action (see table).

From July 1–December 31, 2020 we supported more E and S shareholder proposals

91% of E proposals supported



54% of E and S proposals supported




Director accountability in the second half of 2020

We voted against 1,438 directors on a range of governance and sustainability-related issues.

Shareholder proposals

From July to December, there were 24 environmental and social proposals on issues like climate, deforestation, and diversity, equity, and inclusion put to a vote at shareholder meetings. Our new approach meant we supported 13 of these proposals, or 54%, which we believed were aligned with long-term value. We also supported 40 G proposals out of 151 (26%).

Board quality



High-performing boards help ensure strong management, which in turn supports sustainable financial performance.

That is why board quality – effectiveness, composition, diversity, and accountability – is a top engagement priority.

BIS considers board quality a top engagement priority. The performance of the board is critical to the success of the company and to the protection of shareholders' interests. Companies with committed, diverse, effective and experienced board directors who actively advise and oversee management are best able to take into consideration the expectations of all key stakeholders and have a competitive advantage in delivering sustainable long-term financial returns.¹

When a company has sound governance practices, the board provides effective oversight of management such that management is aware of and mitigating both idiosyncratic and systemic risks and capitalizing on strategic opportunities to better position the company for the future.

We aim to be a constructive and supportive long-term shareholder. We look to boards and executive leadership to demonstrate that they have taken into consideration the interests of long-term shareholders – such as our clients – and other stakeholders as they make the decisions that shape their companies. In our engagements we seek to understand how boards work with management on corporate governance issues, how board effectiveness and director performance are assessed, and how director succession is managed. In 2020, we had 1,695 engagements with 1,269 companies on board governance, performance, composition, and succession, a 23% increase in engagements compared to 2019.

We take each engagement as an opportunity to share with companies our expectations of directors and boards and make clear that we will hold directors accountable if company practices or disclosures fall short. These expectations are detailed in our [Global Principles](#) and in each of our [market-level voting guidelines](#).

Board effectiveness, composition, diversity, and accountability are focus areas when we engage with companies on behalf of our clients. At a global level, we expect there to be a sufficient number of independent directors on the board to ensure the interests of all shareholders are protected. Independence is of paramount importance to a well-functioning board, and has been linked to long-term value creation.² Given the increasing expectations of boards, we ask that directors limit the number of boards on which they serve to ensure that they have the capacity to fulfill their responsibilities on each board.

In addition, we have a long-standing expectation that board composition reflects diversity of personal characteristics, including ethnicity and gender, as well as professional experience. As a result, we ask boards to be deliberate about appointing directors who bring a range of personal characteristics and professional experiences to bear in fostering constructive dialogue on boardroom matters.

BIS had over 3,500 engagements – an increase of 35% against 2019 – with 2,110 unique companies, covering nearly 65% by value of our clients' equity investments.

¹ FCLTGlobal. (2019). [Data Shows That Diverse Boards Create More Value](https://www.fcltglobal.org/resource/data-shows-that-diverse-boards-create-more-value/#0). Available at: <https://www.fcltglobal.org/resource/data-shows-that-diverse-boards-create-more-value/#0> ² Numerous academic studies have established a link between sound corporate governance practices and superior operational and financial performance over time. See: Appel, Ian, Todd Gormley, and Donald Keim (2016): 'Passive Investors, Not Passive Owners', Journal of Financial Economics. Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2475150; Correa, Ricardo and Ugur Lel (2016): 'Say on Pay Laws, Executive Compensation, Pay Slice, and Firm Valuation Around the World', Journal of Financial Economics. Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2430465; Cuñat, Vicente, Mireia Gine, and Maria Guadalupe (2012): 'The Vote is Cast: The Effect of Corporate Governance on Shareholder Value', Journal of Finance. Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=155596 or <https://www.nber.org/papers/w16574>; Flammer, Caroline and Pratima Bansal (2017): 'Does a Long-Term Orientation Create Value? Evidence From a Regression Discontinuity', Strategic Management Journal. Available at: <https://onlinelibrary.wiley.com/doi/abs/10.1002/smj.2629>

Holding directors accountable

Director accountability to shareholders is a core feature of sound governance practice and we advocate strongly for the annual election of directors. Because investors depend on directors to protect their long-term economic interests, BIS asks companies to provide sufficient information for us to assess how the skills and experiences of the directors are complementary and aligned with the company's long-term strategy and business model. We engage with board members, usually the lead independent director or a committee chair, where we have concerns about how the board is fulfilling its duties. We consider voting on directors one of our most important responsibilities as leadership from the boardroom is critical to a company's long-term success.

The re-election of directors to the board is a near-universal right of shareholders and an important signal of support for or concern about the performance of the board in overseeing and advising management.

When a board does not act in the interests of long-term shareholders, our most common course of action is to vote against the re-election of the directors we consider most responsible for an issue. In our experience, votes against directors send a clear signal of concern to boards and management. Such votes — accompanied by a well-articulated rationale explained through engagement — hold directors accountable and generally leads companies to address the governance and sustainability risk management concerns that we and other investors are raising.

This past year, we voted against or withheld votes from proposals to re-elect individual directors 5,450 times. We also voted against or withheld votes from 2,643 bundled board elections proposals, proposals to discharge the board, and other director-related proposals¹. That this is a higher number of votes against director re-elections than in prior years is an indication of our commitment to holding directors to account for ensuring companies have sound governance and sustainable business practices.

¹ Votes against directors or withheld votes include votes where we abstained.

Voting on directors is, in our view, one of our most important responsibilities as the board's leadership is critical to a company's long-term success.

Top five rationale categories for votes against directors and director related proposals

Lack of independence

2,725 votes against

Lack of diversity

1,787 votes

Executive compensation misalignment

942 votes

Over-committed directors

893 votes

Poor attendance

238 votes

In 2020, we withheld support from director-related items at 3,685 companies globally.

Governance concerns drove most of these votes, for reasons of:

- ✓ Lack of director independence, a particular problem in controlled companies outside the U.S. and the UK
- ✓ Lack of board diversity, where we expect gender diversity in the U.S., EMEA, and elsewhere as a proxy for diversity of characteristics and perspective
- ✓ Executive compensation, where we assessed it to be misaligned with long-term performance
- ✓ Director over-commitment, a concern heightened in light of the COVID-19 pandemic that forced most companies into crisis mode simultaneously

The effectiveness of voting against directors is well documented in independent research. For example, a recent working paper demonstrates that voting against directors has advanced gender diversity on boards. Researchers found that advocacy by BlackRock, State Street, and Vanguard led firms to add at least 2.5 times as many women directors in 2019 as they had in 2016 and increased a woman director's likelihood of holding a key position on the board.¹

Board quality issues manifest differently across regions. As a result, our regional teams apply our global and market-specific policies to these issues, taking the local context into consideration. For example, diversity expectations continue to evolve in various markets, as explained in more detail in the following section. Similarly, in markets like the U.S. and UK where director independence has been a focus for investors for many years, most boards have a sufficient balance of independence.

In Asia, where ownership structures often result in controlling shareholders largely determining the appointment of most of the directors, we are more likely to vote against directors over independence concerns as many directors may meet the letter but not the spirit of our independence criteria. In Europe, director overcommitment is a key reason for our voting against directors. This is particularly the case in those European markets without specified limits on the number of boards on which a director may serve.

¹ The Big Three and Board Gender Diversity: The Effectiveness of Shareholder Voice; Todd A. Gormley, Vishal K. Gupta, David A. Amtsa, Sandra C. Mortal and Lukai Yang; November 6, 2020.

Case study

Holding directors accountable for lack of independence at a controlled company

Issue

Volkswagen Aktiengesellschaft (VW) is an automobile manufacturer based in Germany. VW's Supervisory Board is subject to the Mitbestimmung (co-determination) model within the German corporate governance framework, which requires an equal number of Supervisory Board members representing the workers' unions and shareholders respectively. Separately, VW is a controlled company with 90.1% of voting rights controlled by three shareholders. In addition to their control over voting rights, these shareholders are represented on the Supervisory Board.

When analyzing the independence level of the Supervisory Board, BIS only considers members who are elected by shareholders, and excludes government or employee representatives whose presence might be legally required.

At the time of the 2020 annual general meeting (AGM), the level of independence on VW's Supervisory Board did not meet BIS' expectations for controlled companies as it had only two independent members. We would normally expect at least one-third independence within the shareholder-elected directors on the boards of controlled companies.

The insufficient level of independence on VW's Supervisory Board means its sub-committees do not meet BIS' expectation of having a majority of independent directors and an independent chair. Additionally, VW's Supervisory Board members are appointed for five-year terms.

BIS' concern with multi-year terms is that the opportunity to progressively improve the level of independence on the Supervisory Board becomes limited to the years where a member's term is expiring, assuming all Supervisory Board members serve their entire terms. Based on the expected timeline for the expiration of existing Supervisory Board terms, coupled with the company's lack of response to date to investors' concerns, we expect the level of independence to further decline within the next five years.

BIS response

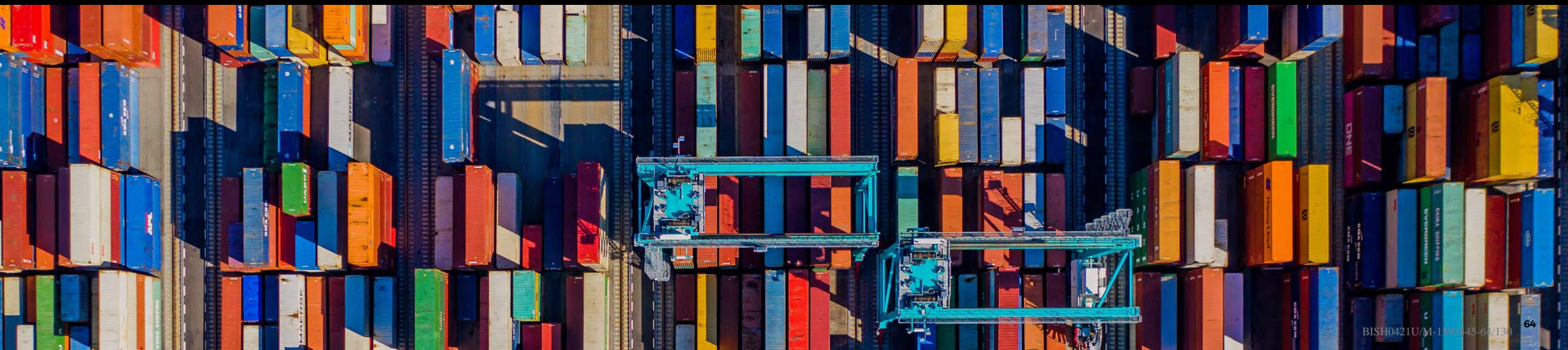
BIS regularly reviews VW's governance structure and risk profile. We have engaged regularly with VW's Supervisory Board chair since 2016 on a range of ESG topics, and have had frequent dialogue with VW's Investor Relations and Sustainability teams. We have on numerous occasions encouraged the company to improve the number of independent directors on the Supervisory Board to enhance the level of independent oversight of management. We have frequently discussed board composition, minority shareholder interests and Supervisory Board transparency.

In our assessment, the insufficient independent oversight provided by VW's Supervisory Board played a major role in the events which led to the company employing what has become known as a 'defeat device' in some of its diesel engine cars, as uncovered in 2015, whereby the company misled regulators. VW faces ongoing investigations and legal proceedings in relation to the 2015 incident, which continues to impact shareholder value.

Outcome

At VW's 2020 AGM BIS voted against the discharge of nomination committee members H.D. Pötsch, W. Porsche and S. Weil for the insufficient level of independence on the Supervisory Board, and of Supervisory Board chair H.D. Pötsch for the insufficient level of independence on the sub-committees. We also voted against the discharge of members of the Board of Management who were serving at the time of the emissions incident. In doing so, we signaled our continuing concern about the board and its ability to oversee management of its material risks. This is consistent with our approach since VW's 2016 AGM.

While we will continue to monitor the level of independence and the management of material risks at VW, we also acknowledge progress the company has made in relation to climate risk, particularly as it relates to commitments on emissions reduction and electric vehicles production. Last year, VW's disclosures were consistent with our expectations of large carbon emitters with a previous history of engagement with BIS on the topic. We will continue to engage with the company on this issue and will closely monitor the delivery against the targets it is has set out to date.





Board diversity

Directors who bring a range of different perspectives and experiences to the board's work contribute to better decision-making and outcomes.¹ We recognize that diversity has multiple dimensions² and that diversity considerations are different around the world. We look to boards to explain their approach to ensure they have sufficient diversity amongst their directors. We will vote against the re-election of members of the committee responsible for nominating directors when a board lacks diversity and credible diversity policies.

In 2020, we voted against 1,787 director-related items at 977 companies globally on diversity-related concerns. To date, our focus in our voting has been on gender diversity as this is widely disclosed by companies. However, in our engagement for the past several years we have been advocating for diversity in its fuller definition and encouraged companies to voluntarily disclose more information about the diversity characteristics represented amongst board members. We are increasingly looking to companies to consider the ethnic diversity of their boards as we are convinced tone from the top matters as companies seek to become more diverse and inclusive.

In the U.S., insufficient board diversity is the predominant reason for our nearly 1,300 votes against directors at over 730 companies.

In EMEA, market level initiatives and policies in many countries have achieved significant progress on board gender diversity and thus it is less of a voting issue.³ Last year, we voted against 239 director-related proposals at 120 companies in the region. In most countries in APAC, board diversity has been an engagement priority over the past years. More specifically, female representation on boards has now entered our voting guidelines for 2021, with voting action in the year ahead targeted in the more developed markets in the region.

Gender diversity continues to improve on boards in the S&P 500 in recent years, with the percentage of seats held by women directors increasing to 29.1% in early 2021 from 18.3% in 2015.⁴

¹ Russell Reynolds Associates. Different Is Better: Why Diversity Matters in the Boardroom. ² Directors' industry experience, areas of specialist expertise, and market knowledge, as well as personal characteristics such as gender, race, ethnicity, and age, contribute to their ability to make a distinctive contribution to board discussions and decision-making. ³ The Hampton-Alexander Review announced that by February 2020, the FTSE 100 met the target of 33% women on boards. To learn more, access the Hampton-Alexander 2020 Review available at: <https://ftswomenleaders.com/wpcontent/uploads/2020/02/HA-Review-PN-Final-1.pdf>. In February 2021, the Hampton-Alexander Review announced updated data showing that the number of women on FTSE 350 boards has risen from 682 to 1026 in five years. The FTSE 100, 250 and 350 all reached target of women making up 33% of boards by the end of 2020. The 2021 report is available at: <https://ftswomenleaders.com/>. ⁴ Russel Reynolds Associates, Ethnic & Gender Diversity on US Public Company Boards, Updated Data February 2021, per ISS data: "ISS ESG Enhances Data Offering to Include Director, NEO Race/Ethnicity." ISS, Sept. 2020; ISS February 2021.

Board independence

A core component of our evaluation of a company's board quality is the proportion of board members who are independent of the company or any significant shareholders. We expect there to be a sufficient number of independent directors on the board to ensure the protection of the interests of all shareholders. We expect independent directors to be free from conflicts of interest that could impair their ability to act in the interests of the company and its shareholders.

Our [market-level voting guidelines](#) include specific criteria that we use as a benchmark in each key market to assess the likelihood that a director is independent. These reflect local norms and standards so differ slightly across regions. For instance, the U.S. does not have market level restrictions on how long a director can serve on a board and still be considered independent. BIS' guidelines for the U.S. currently reflect an expectation that new directors are regularly brought on board but do not specify term limits in determining independence. We will also look more closely at average director tenure, as we seek a balance between the knowledge and experience of seasoned directors and the fresh perspective of newer directors.

An appropriate level of board independence can also be an important factor in establishing meaningful engagement between companies and their investors. We find that shareholder dialogue with independent board members can be effective in encouraging the adoption of corporate governance best practices. Therefore, we expect at least one independent non-executive director to be accessible to shareholders. Where appropriate, we will hold the most senior non-executive director (e.g., the chair or the lead independent director), accountable for ensuring such a role is identified.

Many publicly traded companies in Asia have a controlling shareholder or block of shareholders who act together. Control is often effective at a declared shareholding of 30% or more of issued share capital, as the largest shareholder will often have aligned but undeclared shareholders that can be counted on to act collectively with it. Although required by listing rules, the real independence of these directors in controlled companies is generally unclear, with the approach to independence being compliance driven. Given ownership structures, independent directors tend to be more aligned with the controlling shareholders than with the wider shareholder base. As a result, we often have concerns with the balance of independence on boards in many Asian markets.

As BlackRock is a minority shareholder in the companies we invest in on behalf of our clients, BIS is concerned when a board may not be focused on serving the interests of all shareholders. We engage with controlled companies to provide our feedback and to encourage governance mechanisms that afford additional protections for minority shareholders in certain circumstances, such as related party transactions and director elections. We also engage with policy makers and industry associations at the market level to advocate for enhanced governance standards that protect minority shareholders.

We expect there to be a sufficient number of independent directors on the board to ensure the protection of the interests of all shareholders.

Case study

Engagement to drive improvements at a UK online clothing retailer

In the fourth quarter of 2020, we actively participated in a collective engagement with other investors to discuss multiple recent issues at Boohoo Group, a UK online clothing retailer. The most visible of these issues had been allegations of worker exploitation in the company's UK supply chain, which prompted the board to commission an independent third-party review of the company's practices.

We had engaged bilaterally with the Senior Independent Director earlier in the year to discuss other concerns we had with governance and related issues including board independence and effectiveness, and during the collective engagement we emphasised the need for the company to do more to demonstrate a commitment to strong governance. In particular, we were seeking visibility on a program of improvements to business practices that the company was embarking on following the independent review. The collective nature of the engagement was, in our view, important for escalating the concerns raised by shareholders on expectations of change.

We have since seen the company take some important steps in response to this feedback, including the appointment of a new independent director to chair the audit committee and a senior retired judge to oversee the implementation of the improvement program.

The extent to which the company will voluntarily adopt more rigorous corporate governance standards in general remains uncertain, though, so we will continue to engage on this and on the progress the company is making on implementing other improvements. In this instance, as in all cases when BlackRock participates in collective engagement, BlackRock will make an independent assessment of the company's progress and will make our voting decision independent of any other participant in the engagement.



Overcommitments

As expectations of directors continue to increase, the time directors have to commit to their board duties is a major component of our engagements on board effectiveness. A director needs to have sufficient capacity to dedicate the necessary time and effort to meet their responsibilities to each board on which they serve. This has proven particularly important in times of crisis, such as the COVID-19 pandemic, where company directors are frequently pulled into extraordinary meetings to address existential issues.

Our proxy voting guidelines provide market-specific limits to the number of boards on which non-CEO directors (who do not hold any chair positions) should serve. We expect sitting CEOs to serve on no more than two boards in total – one board in addition to that of the company they lead. We voted against 979 overcommitted directors in 2020, both non-CEOs and CEO directors, an increase of 7.5% over 2019 votes.

Our engagements with board directors – and particularly those with whom we have discussed the important role the board plays in supporting a company’s response to COVID-19 suggest that directors are becoming more cognizant of the significant time commitment they need to make to each board on which they serve. Most are reducing the number of boards on which they serve to a level in line with our expectations. This is particularly true for directors who are also CEOs.

We have been focused on board service by CEOs for several years. In 2017 we put directors, who were also sitting CEOs, on notice, and encouraged them to reduce their commitments if they served on more than two boards. If they did not, we explained that we would vote against their re-election at the companies where they were not CEOs in subsequent years.

We recognize that it may take time for companies and individual directors to make the necessary adjustments, so we will monitor their progress towards orderly transitions. Where this is the case, we would expect our votes against directors due to overcommitment to come down in the future.

979

votes against directors, both non-CEOs and CEOs, for being overcommitted, in 2020

Annual election of directors enhances accountability to shareholders

Directors on staggered or classified boards stand for re-election on a rotating basis, with each class of usually three to five directors standing for re-election every three years, on average. This undermines investors' ability to hold boards accountable by voting against the relevant directors when policies or outcomes do not align with the investor's expectations. BIS believes that directors should be re-elected annually on an individual basis so that shareholders can confirm their support for each director's continued service on the board.

While BIS accepts this as common practice in several markets, the hindrance of this model to shareholders being able to optimally reflect their views. Staggered director elections are also a feature in some European and nearly all APAC markets.

In the U.S., many small capitalization companies have staggered boards. This can be problematic because U.S. small capitalization companies often have less robust governance practices than their larger peers. In these cases, we may vote against those directors who happen to stand for re-election in a given year, rather than those who should ideally be held accountable.

Faced with a situation where the most relevant directors are not standing for re-election means we often signal our concern with a vote against one or more other directors on the basis that the board is jointly responsible for key decisions and outcomes. There are a few markets in which shareholders may vote on the discharge of the board (see sidebar). This provides an alternative way for us to express our concerns when the most relevant directors are not standing for election.

Board discharge in EMEA

The vote to discharge the board is a unique governance feature in some European markets, most notably Denmark, Germany, the Netherlands, Sweden, and Switzerland. Depending on each market's legal framework, the discharge can either be a vote to release the directors from liability to the company, or a vote of confidence on the management and/or the board's actions over the fiscal year. In 2020 we voted against (or abstained) on 75 proposals to discharge the board or individual directors in EMEA where we deemed that management had not addressed issues that were likely to impair the company's ability to deliver long-term sustainable financial returns.

Voting in action on a staggered board

Deutsche Lufthansa (Lufthansa) is a German aviation group which operates Lufthansa German Airlines, SWISS, Austrian Airlines and Eurowings. In 2017 BIS wrote to the CEO and Chairman of the Lufthansa Executive Board, along with senior executives of other companies that we considered as facing material climate risk inherent in their business operations. We asked them to closely review the TCFD's recommendations and to consider reporting in alignment with them.

In 2020 we voted against the discharge of the supervisory board at Deutsche Lufthansa, which has a staggered board, given our concerns about the company's inadequate reporting on climate-related risks. In particular, the lack of explicit and structured TCFD-aligned reporting fell short of our expectation of large carbon emitters. We intended to not support the re-election of the most senior supervisory board member as the director most accountable for the issues. However, that board member was not standing for re-election because of the staggered board structure. We held the company to account by voting against the discharge of the entire supervisory board.



Environmental risks and opportunities



Management of environmental-related risks and opportunities is increasingly a defining factor in many companies' ability to generate sustainable value. For this reason, we ask companies to disclose how environmental risks are assessed and mitigated, and opportunities realized.

We advocate for reporting aligned with the TCFD framework and the SASB standards to help us make more informed engagement and voting decisions in support of companies delivering sustainable long-term shareholder value.

As explained in [Our approach to sustainability](#), the environmental risks and opportunities companies face, particularly those associated with climate change, remain a key focus for BIS. We believe that sound practices in relation to the material environmental factors inherent to a company's business model can be a signal of operational excellence and management quality. Where companies have failed to consider and manage material environmental risks, they may also have failed to recognize other key business risks.

Moreover, companies that do not adequately manage these risks may impair their social license to operate, undermining their ability to deliver better risk-adjusted returns for shareholders over the long-term.

In 2020, we had 1,939 engagements with companies on environmental topics (including climate risk), an increase of 21.2% compared to 2019. These engagements spanned topics including board oversight of climate risk management, adaptation strategies for the transition to a low-carbon economy, climate-related disclosure frameworks, environmental impact management, and operational sustainability (e.g., waste, water, energy use and efficiency, packaging, product life-cycle management, supply chain-related environmental impacts, and deforestation risks).

BlackRock believes that climate risk is an investment risk.

Climate risks and opportunities

A key component of our focus on environmental risks and opportunities is the impact of climate change on companies' business models and strategies over time. The events of 2020 have intensified our conviction that sustainability risk – and climate risk in particular – is investment risk.

In 2020, we focused our efforts on sectors and companies where climate change poses the most material risk to our clients' investments. Climate risk may include a company's ability to compete in a world that has transitioned to a low-carbon economy (transition risk) consistent with the 2015 Paris Agreement to limit global warming to well below 2° Celsius. It may also include the way climate change could impact its physical assets or the areas where it operates (physical climate risk).

Increasing evidence shows that climate change is a material risk for most economic sectors, impacting all companies to some degree.¹ These risks are creating challenges that can fundamentally shape the outlook of companies, their operations, and the potential for long-term, sustainable value creation. Companies that are not measuring, managing, and considering necessary investment to reduce their GHG emissions and environmental footprint are not, in our view, critically evaluating their long-term business risks and opportunities.



¹ McKinsey and Company. Climate risk and response: Physical hazards and socioeconomic impacts. Available at: <https://www.mckinsey.com/business-functions/sustainability/our-insights/climate-risk-and-response-physical-hazards-and-socioeconomic-impacts#> and The United Nations Intergovernmental Panel on Climate Change Global Warming of 1.5 degrees C. Available at: <https://www.ipcc.ch/sr15/>.

Case study

Engaging with a large public sector bank in India on climate risk

Issue

In the fourth quarter of 2020, concerns were raised about a large Indian public sector bank's role and lending exposure relating to a proposed ~\$600 million loan to a multi-sector conglomerate for the development of the controversial coal mine in Australia. Construction on the greenfield coal project began in June 2019 following final regulatory permitting approvals. Upon completion, the project is expected to be one of the largest coal mines in Australia.

BIS' lead analysts for both Australia and India have continuously engaged on this topic for several years given the high degree of concern relating to environmental and social risks.

BIS response

Upon learning of the bank's plans, BIS together with BlackRock's Fixed Income team engaged multiple times in late 2020 to discuss our serious concerns regarding climate and sustainability-related risks that could result from credit and other financing exposure for the project.

Discussions were held with senior management of the unit within the bank directly responsible for financing arrangements provided to the mining subsidiary as well as to the parent company of the group undertaking this project.

Several weeks later, BIS along with BlackRock's Fixed Income and Fundamental Active Equities teams escalated our concerns through a follow-up engagement with a senior executive on the executive committee of the bank's parent entity. The senior executive advised that the bank will appoint a third-party to ensure that the mining company will meet all environmental and social conditions set out by Australian authorities for the development of the coal project. If the third-party monitor finds violations, the bank would take actions, although it was unclear if that would include rescinding the relevant loans.

In terms of its broader exposures, the bank does not have explicit restrictions on financing coal and coal-related projects; however, it has announced public targets for green loans to reach up to \$10 billion, approximately 3% of the bank's total advances. The bank raised \$800 million in green bonds in fiscal years 2019 and 2020. In addition, the bank plans to decrease scope 2 emissions by 40% by 2025 from the baseline emissions in FY20, while also achieving "carbon neutral" status by 2030.

The senior executive highlighted the bank's large exposure to green-related financing in India and argued that this lending outweighs the Australian coal-project financing from an emissions standpoint.

Outcome

Following our engagements, BIS subsequently learned that the Australian government's environmental agency identified violations by the mining company in October 2020. BIS made the bank aware of this development and asked it to disclose actions it would take as a result of these violations, as well as the data regarding how green-related financing outweighs the emission generated from the coal project. We will monitor the bank's actions and disclosures relating to this controversial project, the broader issues around green-related financing calculations, as well as progress made on TCFD and SASB aligned reporting, which senior managers indicated was under review.

Climate disclosures aligned with globally recognized frameworks and standards

BIS believes that companies must demonstrate in their reporting that they have assessed how climate change may impact operations over time and have an appropriate business strategy in light of that assessment.¹ As we describe in our [commentary](#) on our approach to engagement on climate risk, we expect comprehensive disclosures of climate-related risks and opportunities, so investors can assess how companies are positioned to manage those risks and transition to a low-carbon economy. Disclosures should include a clear narrative about a company's approach to risk assessment and mitigation, supported by data and financially material and business-relevant metrics. In the absence of such disclosures, investors are likely to conclude that companies are not adequately managing risk nor planning for possible future scenarios in line with a global transition to a low-carbon economy.

¹ SASB, Climate Risk-Technical Bulletin, available at: <https://www.sasb.org/knowledge-hub/climate-risk-technical-bulletin/>, as of October 2016.



Case study

Improving climate disclosure at Volvo AB

Issue

Volvo AB (Volvo) manufactures and sells trucks, buses, construction equipment, and marine and industrial engines globally. Given the material climate risks for Volvo based on its business lines, we expect robust reporting on the governance framework around these risks and how they are incorporated into the company's strategy and risk management process. Volvo has acknowledged the impact of climate change on its business and set energy efficiency and greenhouse gas emissions reduction targets to 2020. We engaged with the company to discuss climate risk and learned it is considered a strategic risk and is built into decision-making across the organization, from product planning to research and development (R&D) spending.

However, as of the time of its 2020 shareholder meeting in June, there was limited disclosure in Volvo's public reporting, and no detail on board oversight of, or the strategy to mitigate, the impact of climate risk on its business.

Given its business model, we would have expected the company to already have made fulsome disclosures, including more explicit alignment with the TCFD framework.

BIS response

The company's climate-related risk disclosures did not meet our expectations of a company exposed to material climate risks. When we consider disclosure is inadequate, BIS' policy is to withhold support from the re-election of those board members who are most responsible based on their membership of relevant board sub-committees. In the absence of such committees, we would vote against the most senior board member. As a result, we voted against the re-election of Mr. Carl-Henric Svanberg as Board Chair, as the most senior board member. In particular, we held Mr. Svanberg to account for the current lack of adequate disclosures regarding climate-related risks and made clear we expected more fulsome disclosure regarding the company's long-term adaptation strategies in line with the TCFD by the 2021 shareholder meeting.

Outcome

Following the shareholder meeting, Volvo's CEO Martin Lundstedt acknowledged BlackRock's vote, and agreed that the company should improve its communication and sustainability disclosure. The company committed to enhancing its reporting as well as its climate goals. In March 2021, Volvo published its 2020 Annual and Sustainability Report which includes disclosures aligned with the TCFD framework. It also published to its website a SASB index mapping its current disclosures to the relevant SASB metrics for the industrial machinery sector. We will continue to engage with the company and monitor its progress on strategy and the implementation of its climate goals.

Promoting TCFD and SASB-aligned reporting

We have focused on engaging companies regarding the need to enhance disclosures on climate risk.

For the past few years, we have focused on engaging with companies, particularly those in carbon intensive industries, regarding the need to enhance disclosures on climate risk and the business practices underlying them. In January 2020, we publicly requested that companies report in line with the recommendations of the TCFD and SASB. Both TCFD and SASB consider the physical, liability, and transition risks associated with climate change and provide guidance to companies for disclosing material, decision-useful information that is comparable within each industry.

We note increased attention from policy makers in many markets and growing support for sustainability reporting aligned with a globally recognized framework and set of standards.

We engaged with 971 companies on TCFD and 934 on SASB in 2020. Following our engagements, a number of companies informed us that they had conducted materiality assessments and decided to provide more information on their sustainability efforts, the governance associated with these efforts, and their impact on society.

971

companies engaged on TCFD

934

companies engaged on SASB

TCFD disclosure recommendations

The TCFD provides an overarching four-part framework applicable regardless of sector, to help investors understand a firm's governance and business practices related to the specific topic of climate risk.

Source: TCFD, Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures.

Available at: <https://www.fsb-tcfid.org/wp-content/uploads/2017/12/FINAL-TCFD-Annex-Amended-121517.pdf>, as of June 2017.

Governance Disclose the organization's governance around climate-related risks and opportunities.	Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Risk management Disclose how the organization identifies, assesses, and manages climate-related risks.	Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
<p>Describe the board's oversight of climate-related risks and opportunities.</p> <p>Describe management's role in assessing and managing climate-related risks and opportunities.</p>	<p>Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long-term.</p> <p>Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.</p> <p>Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>Describe the organization's processes for identifying and assessing climate-related risks.</p> <p>Describe the organization's process for managing climate-related risks.</p> <p>Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.</p>	<p>Describe the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</p> <p>Disclose scope 1, scope 2, and if appropriate, scope 3 greenhouse gas (GHG) emissions, and the related risks.</p> <p>Describe the targets used by the organization to manage climate-related risks and opportunities to perform against targets.</p>

Case study

Enhanced ESG disclosure and an inaugural TCFD report following engagement at American Airlines

Issue

American Airlines is a major U.S. airline headquartered in Fort Worth, Texas. American Airlines, and the aviation industry more broadly, is in focus for having a carbon intensive business model. In addition to the heightened focus on the sector's environmental impact, airlines have been severely impacted by COVID-19 given dramatically reduced travel.

BIS response

BIS has engaged with American Airlines on numerous occasions to discuss issues that are material to the company's business model and that are consistent with our clients' long-term economic interests. This has included encouraging more meaningful disclosure on climate risk management and reporting in line with the recommendations of the TCFD, political contributions disclosure, board composition and effectiveness, executive compensation and the company's response to the global pandemic.

Outcome

Following engagement, the company enhanced its ESG disclosures and produced their first TCFD report. The company mentioned to us that progress on these disclosures was helped by our feedback, as well as other investors' public support for disclosures in line with SASB and TCFD reporting.

In addition, American Airlines' board created a new corporate governance committee, expanding the mandate of the previous committee to focus on climate risks and opportunities, among other ESG topics. We believe our engagements and constructive dialogue over time played a role in encouraging the company to enhance its disclosure.



Climate risk voting in 2020

During the 2019-2020 proxy season,¹ we took voting action against 53 companies for their failure to make sufficient progress regarding climate risk disclosure or management.²

We held directors accountable through our vote by voting against director-related items 55 times at 49 companies for insufficient progress on climate disclosures.³ We also voted against management by supporting five climate-related shareholder proposals at [Chevron Corporation](#), [ExxonMobil Corporation](#), [iA Financial Corporation Inc.](#), [Ovintiv Inc.](#), [TransDigm Group Inc.](#), and abstaining from one at [Fortum Oyj](#). We discuss this voting action in [Our approach to sustainability](#).

In the year to June 30, 2020, we focused on a universe of 440 carbon-intensive companies, representing approximately 60% of the global scope 1 and 2 GHG emissions of the companies in which our clients invest. Of these 440 companies, in addition to voting against 55 directors, we put 191 “on watch”, meaning they risk votes against directors in 2021 unless they demonstrate significant progress on the management and reporting of climate-related risk. Beginning in 2021, we will expand our focus universe to cover more than 1,000 companies that represent 90% of the global scope 1 and 2 GHG emissions of the companies in which our clients invest.

We communicated our position throughout 2020 and expect companies to demonstrate how climate and sustainability-related risks are considered and integrated into their strategy. If a company does not provide adequate public disclosures for us to assess how material risks are addressed, we will conclude that those issues are not appropriately managed and mitigated. As discussed earlier, this new perspective applied to our voting on management and shareholder proposals from July 1, 2020.

As a result, in the second half of 2020, we voted for 91% of environmental shareholder proposals, reflecting our new approach in action. For example, we supported four shareholder proposals at three companies – [AGL](#), [Aena](#), and [Chr. Hansen](#) – asking companies to produce climate transition plans consistent with the Paris Agreement and our expectations of TCFD-aligned disclosure.

Our refreshed approach to shareholder proposals is consistent with, and informed by, analysis we have done into their effectiveness as a tool for advancing the desired business practices by companies, as discussed in Our [2021 Stewardship Expectations](#). As always, we continue to follow a case-by-case approach in assessing each proposal on its merits.

In 2020, we voted against 64 director-related items and 69 companies for climate concerns.

¹ Most companies globally hold their shareholder meetings in the second quarter of the year. The SEC requires certain regulated funds to file an annual record of voting for the year July 1 to June 30. This is the reporting year for BIS. ² Voting action includes votes against director-related items (such as director elections and board discharge proposals) as well as supporting certain climate-related shareholder proposals. ³ Director-related items includes management proposals to elect directors or supervisors, as well as discharge and election of board chairman proposals.

Voting for shareholder proposals that address material climate business risks

Supporting a shareholder proposal for a plan for retiring coal-fired power by 2035

AGL is Australia's largest power company and is also its largest single producer of CO2 emissions. AGL has committed to achieve net zero carbon emissions by 2050 and is a market leading investor in renewable energy, including solar, wind, and hydro. We supported a shareholder proposal asking the company to produce a plan for retiring its coal-fired power plants by 2035 in line with a 1.5-degree global warming scenario. While the company has been responsive to investor feedback and has steadily improved its disclosures, including updating its most recent TCFD reporting to include a 1.5-degree scenario framework, we believe there is room for improvement. Moreover, we support the management's efforts to transition the company's energy mix toward sustainable sources, but we are concerned that its coal plant risks becoming a stranded asset if left open until 2048 under current plans.¹ The proposal was supported by 20% of those voting at the shareholder meeting.

Supporting two shareholder proposals for an annual 'Say on Climate'

Aena, a large Spanish airport operator that is 51% owned by the Spanish Government, had two climate-related shareholder proposals, which management ultimately supported, on the agenda at its shareholder meeting. As explained in our vote bulletin, we supported the proposal requesting an annual 'say on climate', as this is consistent with our expectations for annual disclosures of climate plans using the TCFD framework. We also voted for the proposal to embed an annual vote on the climate plan into the company's bylaws, as the company is state-controlled, and this offers additional assurance to minority investors that they will have an opportunity to evaluate the company's climate plan going forward. Both proposals received over 95% support, in line with proposals that management recommend shareholders support.

¹ Stranded assets are those that at some time prior to their anticipated useful life are no longer able to earn an economic return as a result of changes associated with the transition to a low-carbon economy. These assets are worth less than expected as result of changes associated with the energy transition. Stranded assets can include construction costs that may not be recouped; capital that has to be retired before being amortized; loss of premiums or loss of insurance coverage; unanticipated or premature write-downs; and, oil and gas resources that are owned but are no longer profitable to extract.

Voting and engaging on coal-related risks at South Korea's largest electric utilities service provider

Issue

State-owned Korea Electric Power Corporation (KEPCO) is South Korea's largest electric utilities service provider, primarily engaging in the generation, transmission and distribution of electricity. It is also involved in the development of electric power projects overseas. The Korean government owns a controlling stake in the company (approximately 51.1% in aggregate) through the Korea Development Bank which holds 32.9% and the Ministry of Trade, Industry and Energy (MOTIE) which holds 18.2%.

Over the past few years BIS has regularly engaged with KEPCO's management on a range of material environmental, social and governance issues. This year, we significantly increased our engagements with the company given KEPCO's development plans to invest in controversial overseas coal projects, including four projects in Southeast Asia and South Africa. These projects represent a significant misalignment with KEPCO's stated climate strategy.

BIS response

We communicated our concerns to KEPCO regarding the environmental, financial and reputational risks the company faced as well as the health and safety risks that these coal projects would present to local communities. In April 2020, we formally escalated our concerns to KEPCO's CEO via a letter requesting enhanced disclosure that included a clear strategic rationale justifying the company's development plans as well as more information on the analysis addressing the risks and opportunities of these controversial projects. We were surprised when KEPCO's board approved the company's investment in a coal-fired power plant project in Indonesia, as this type of investment runs counter to the strategy articulated in the company's climate disclosures. To reflect this, BIS voted against the re-election of three incumbent inside directors at the company's September 2020 Extraordinary General Meeting (EGM), holding them to account for this decision and the fact that it directly contradicts the company's existing climate strategy.

Despite mounting investor concerns and our continued engagement to advocate for enhanced disclosures, in early October 2020 KEPCO's board approved the investment in a coal-fired power plant project in Vietnam (Vung Ang 2) – demonstrating once again a fundamental misalignment between the company's actions and climate strategy.

However, on 28th October, just two weeks ahead of the EGM, KEPCO formally announced a "shift in overseas business development" stating that it would put a stop to any "further overseas coal-fired plant projects in the future", and that "all overseas coal-fired power plant projects of KEPCO will be terminated by 2050." The company also stated that it would terminate or convert to Liquefied Natural Gas (LNG) the two remaining projects in the pipeline – the Saul 2 project in the Philippines and the Thabametsi plant in South Africa.

Outcome

While we see the company's announcement to stop all future coal projects as a positive outcome, we remain very concerned with the coal-fired power plant projects KEPCO continues to pursue in Indonesia and Vietnam and the contradiction these projects present with the company's stated climate strategy. We will continue to engage with the company on the financial and environmental risks associated with both and seek adequate disclosure regarding the plans and anticipated timeline for the conversion and /or termination of the Saul 2 project in the Philippines and the Thabametsi plant in South Africa.

Key environmental themes in 2020

We are firmly convinced that climate risk — physical and transition risk — presents one of the most significant systemic risk to the long-term value of our clients' investments. But we are also aware that other environmental risks can be material for many companies. For this reason, we continue to engage on a wide range of environmental topics.

Environmental factors can vary across sectors and regions, though the risks for companies, including reputational, regulatory, and legal risks, are becoming increasingly universal. This is in large part due to the fast movement of information, higher awareness amongst consumers of the impact of companies' activities on the environment, and rising expectations that corporate leaders will minimize the negative impacts of their business operations, which all must be adequately managed in order to maintain the company's license to operate.

The most common environmental factors that may be material to a company's operational resilience and long-term financial performance include access to and management of natural resources, energy use or production, supply-chain related environmental risks, water, and waste management.



Theme 1

Focusing in on sustainable agriculture and deforestation risks

Several prominent themes related to environmental issues emerged in our engagements in 2020. One was sustainable agribusiness and the environmental, ecological, and social pressures stemming from the industrial agricultural system.



In particular, poor practices in the agricultural sector can lead to environmental degradation from improper land use and management, including deforestation, climate risks, water stress, and negative biodiversity impacts. Companies with agribusiness interests – either through direct operations or significant supply chain connectivity – are increasingly scrutinized for their practices as they relate to land management, biodiversity and human rights, among others. Shifts in consumer demand also factor into the long-term sustainability of these companies and the returns that they provide to their shareholders. Expectations for the sector are likely to increase as more, and more efficient, agricultural production and land and water use is needed to provide for a growing global population and improving standards of living.

BIS' assessment of companies and sustainable agricultural business practices begins with board oversight of management policies and practices, operational resilience, and disclosures that help investors understand the risks and opportunities for the business that impact long-term sustainable performance.

Agribusiness companies with a footprint in regions such as Southeast Asia and the Amazon Basin have been under intensifying scrutiny in recent years. Global focus on these regions have been increasing in the wake of historic deforestation-driven fires. We believe companies with business interests in these regions – either through direct operations or significant supply chain connectivity – could face increased regulatory, operational or reputational risk unless they can demonstrate the highest standards of operating practices and risk management.

We may support proposals that address material environmental risks as they relate to deforestation that a company could be managing to greater effect. This was the case at the Procter & Gamble Company (P&G), one of the largest global branded consumer packaged goods companies.

Case study

Supporting a proposal that addresses material environmental risks at Procter & Gamble

Issue

As a long-term investor, we are concerned about the reputational and operational risks faced by companies being implicated in deforestation. Improper land use or management that contributes to deforestation, through either direct operations or supply chains, is an inherent business risk for companies in certain sectors in which we invest on behalf of our clients. BIS believes that companies with material environmental and social (E&S) dependencies and impacts need to demonstrate high standards of operating practices. We expect companies to disclose, preferably on an annual cycle, how the material E&S risks and opportunities in their business model might affect their long-term strategy, capital expenditure, operations, and thus financial performance. It is helpful to investors if companies also explain how relevant risks are assessed, mitigated and managed.

In line with our approach to engagement on climate risk, BIS looks to the framework developed by the TCFD and the standards put forward by the SASB as for corporate disclosures on all material and business relevant E&S factors, including deforestation prevention and the physical risks related to land-use practices.

BIS response

BIS regularly reviews P&G's governance structure and risk profile. BIS has held multiple engagements with the company's board and management in recent years, in which we have discussed a range of material issues that, in our view, drive long-term shareholder value. In our assessment, P&G's Citizenship Report would be more useful to investors, and other stakeholders, if it provided detailed TCFD- and SASB-aligned metrics. Amongst other things, this would help stakeholders understand how the company is identifying, assessing, and managing potential material weaknesses in their palm oil supply chain management, including in relation to the forestry management and harvesting practices of their local suppliers.

Regarding palm oil, P&G aimed to reach 100% Roundtable on Sustainable Palm Oil (RSPO) certification for both Palm Kernel Oil (PKO) and Palm Kernel Oil Derivatives (PKOD) used in P&G brands by the end of 2020. P&G reached 60% RSPO certification by FY 2019-20 (P&G's primary PKO supplier lacked RSPO certification in 2016) and now aims to achieve 100% RSPO certification by the end of 2022. It is disappointing that the company missed its PKO/PKOD targets to date, however, we believe P&G is taking appropriate steps and we will continue to monitor their progress towards achieving the renewed 2022 target.

Outcome

At the 2020 shareholder meeting, we supported a shareholder proposal asking the company to report on whether and how it could increase the scale, pace, and rigor of its efforts to eliminate deforestation and the degradation of intact forests in its supply chains. The proposal received nearly 68% support.



Theme 2

Focusing in on natural resources, water, waste management, and the circular economy

The sustainable use of natural resources and management of waste by companies signals both effective management of a systemic business risk and operational excellence. There is growing consensus that higher waste efficiency and recycling rates can mitigate risks and lead to cost savings through operational gains and reduced disposal fees, among other savings. In addition, when companies improve the efficiency of existing operations through water use, or waste output, invest in new technologies, or signal management's willingness to commit to low-carbon pathways, investors gain confidence in their ability to mitigate risk in certain transition scenarios. As such, another prominent environmental theme this year during our engagements was the management of natural resources, water, and waste.

Some companies have begun to address the impact of their operations on the environment and society by integrating circularity into their business models, largely through enhanced product design and processing to reduce waste, byproducts, or to repurpose a product at the end of its useful life via recycling.¹ In doing so, companies can potentially improve operational efficiencies, reduce costs, better manage environmental risk and opportunities, and enhance their long-term sustainability.

¹ For more information about the circular economy concept, please see: https://www.ellenmacarthurfoundation.org/circular-economy/what-is-the-circular-economy?gclid=EAlalQobChMIpp_Y2bDP6glVGed3Ch0NwQOIEAAYAiAAEgLiRPD_BwE.

Our approach to engagement with carbon-intensive sectors: 2020 Australian voting spotlight

BlackRock believes that a tectonic shift in finance is underway, where the reallocation of capital driven by the global energy transition will be a defining factor for companies' long-term prospects. In early 2020, as we announced our conviction that climate risk is investment risk, events in Australia sadly underscored our view – devastating bushfires resulting from severe drought and record-breaking temperatures raged across the country. In many ways, Australia encapsulates the myriad of complex dynamics, risks, and opportunities inherent to the challenge of climate change and the transition to a net zero economy.

The Australian shareholder meeting season, which peaks in November, offers a unique opportunity to see how different stakeholders are working to address this challenge – with a broad range of views, voices, and approaches intersecting at a range of AGMs. As expected, in 2020 many carbon-intensive companies faced growing pressure from shareholders, NGOs, regulators, and the general public to enhance their management of climate-related risks, as well as to better address company impacts on local communities and First Nations peoples' rights.

BIS first called for greater climate disclosures in 2017 and has been continuously engaging with carbon-intensive companies in Australia for years on range of corporate governance factors driving long-term shareholder value, including climate-related risks, environmental risks and opportunities, and human capital management. We prioritize engagement and voting to encourage effective management of material risks at the companies in which we invest on behalf of our clients.

In Australia, our advancing expectations of companies as they relate to the management of climate-related risks and opportunities was demonstrated through our voting action at numerous companies operating in carbon-intensive sectors. In a deliberate effort to bring more transparency to our votes and rationales, we wrote detailed vote bulletins describing our considerations for the majority of these cases, including on AGL Energy, BHP Group, Origin Energy, Whitehaven Coal Ltd., Beach Energy, New Hope Group, and Cooper Energy, as well as National Australia Bank (NAB), and Australia & New Zealand Banking Group Ltd. (ANZ). Voting goes beyond shareholder proposals to include directors up for re-election, and this past season we voted against two directors, one director at Whitehaven and one at New Hope, due to climate-related concerns.

Support for shareholder proposals is playing an increasingly important role in our stewardship efforts around sustainability. Accordingly, where we agree with the intent of a shareholder proposal addressing a material business risk, and if we determine that management could do better in managing and disclosing that risk, we will support the proposal. We may also support a proposal if management is on track, but we believe that voting in favor might accelerate their progress. At AGL and NAB, we supported shareholder proposals asking those companies to more proactively manage climate risk and to disclose climate transition plans. We expected that doing so would help offset the potential financial risks, and capture some of the opportunities of the global energy transition, thus protecting the long-term economic interest of shareholders.

Although ANZ was voted by an independent fiduciary as per our global policy, the independent fiduciary supported the proposal based on our Australia proxy voting guidelines, and concluded that the proposal enhances long-term shareholder value by requiring ANZ to disclose a timeline detailing its strategies to phase out certain fossil fuel exposures by 2030.

At BHP and Origin, we supported proposals seeking enhanced disclosure on political activities, specifically industry association memberships. We recognize that for many carbon-intensive companies the credibility of their commitments to manage climate and other sustainability risks may be undermined by their involvement in or affiliations with efforts that seek contradictory public policy aims. We evaluate whether there is alignment between a company's public statements on policy issues that are material to its strategy and its corporate political activities, including those of the trade associations where they are active members, and hold companies accountable when there are material contradictions in positions.

There were also instances in which, while we agreed with the spirit of the proposals put forward and the urgency of the underlying concerns, we were unable to support the resolutions due to the structure of the proposal itself, often when it is overly prescriptive or restricted the basic decision-making discretion of management. For example, we were unable to support four proposals in Australia that asked management to produce plans to simply wind down entire business operations at Whitehaven Coal Ltd, Beach Energy, Cooper Energy, and New Hope Group.

Along with being overly prescriptive, we did not support the proposals given the contradiction between their requests and the long-term economic interest of shareholders via closure of all of the company's operations. Support for the proposals averaged 5%.

In certain cases, if we believe there is an issue that the company needs to address, we may choose to signal that by voting against directors rather than by supporting a shareholder proposal. At both Whitehaven and New Hope, we took the decision to vote against the re-election of the longest-standing director up for election to signal concern about the quality of disclosure on plans to transition to a low-carbon economy and to encourage the companies to proactively and ambitiously manage the climate risk inherent in their business models. We also encouraged these companies to continue to develop their strategy to transition their business model and position to respond to the continued evolution of the energy sector and long-term policy environment in Australia and globally.

Along with the urgent matter of how companies respond to climate-related risks, another vital subject for many companies in Australia, and energy and extractive companies in particular, is First Nations peoples' rights. BIS asks that companies demonstrate the steps they are taking to manage human rights impacts inherent in their businesses. This includes whether they obtain (and maintain) the Free, Prior, and Informed Consent (FPIC) of First Nations peoples for business decisions that affect their rights; protect cultural heritage sites; and provide access to resources and/or compensation in the event of displacement or destruction.

In our engagements with companies, we highlight the importance of robust community engagement whenever business strategies necessitate they request access to traditional lands.¹ In some circumstances, companies may determine that additional measures beyond complying with legal requirements are warranted to obtain FPIC and ensure maximum engagement with and understanding of the local community's needs prior to any action, as well as on a continuing basis.

The question of adequate consent was evident in a shareholder proposal put forward to Origin requesting the company commission a review of the process used to obtain consent from First Nations owners who may be affected by the company's hydraulic fracturing (fracking) activities in the Northern Territory. In our analysis of the issue and proposal based on the company's disclosures and our engagement, Origin had made appropriate efforts to procure consent from the Native Titleholders for its exploration projects in the Beetaloo Sub-Basin. Origin had previously engaged and obtained consent from the Northern Land Council (NLC) in acquiring the permits for the Beetaloo project. Under its Exploration Agreements for exploration and appraisal work, Origin provided work program plans to the NLC and Native Titleholders a year in advance, holding regular meetings as part of wider process of consultation, engagement and information sharing about activity and locations for planned work. Importantly, the host traditional owners whose land on which Origin operates on had publicly stated their support for the project.²

Furthermore, in BIS' view the nature of the proposal was overly prescriptive and risked restricting management's discretion to operate the business, particularly given the short timeframe within which it requested Origin to publish a report (by June 30, 2021). We were therefore unable to support this particular proposal and laid this out in a detailed [vote bulletin](#). The proposal received 12% support.

Matters of First Nations peoples' rights, historical preservation, consent, and adequate management oversight of operations on sacred land are extremely important for a host of reasons, including long-term shareholder value. We believe that failing to address these issues may affect critical relationships with key stakeholders and impact shareholder value. [We recognize](#) and respect the broad range of strongly held views on these matters and believe in a thoughtful, methodical, and unrelenting approach to continuously improve not only best practices, but also how businesses, communities, and other stakeholders can work constructively and collaboratively to define and implement best practices. We recognize these matters take time to address and are determined to contribute to the process.³

¹ Through our analysis of company disclosures and engagement with management, we have found that is helpful to understand whether a company engages with affected stakeholders and provides access to remedy to address actual human rights impacts. This includes whether companies obtain (and maintain) the free, prior, and informed consent of First Nations peoples for business decisions that affect their rights; protect cultural heritage sites; and provide access to resources and/or compensation in the event of displacement or destruction.

² See <https://originbeetaloo.com.au/engaging-with-traditional-owners/>. ³ See "Our approach to engagement on natural capital", and "Our approach to engagement with companies on their human rights impacts."



Corporate strategy and capital allocation

We expect boards to be fully engaged with management on the development and implementation of the company's strategy.

A clear articulation of corporate strategy — founded on purpose — helps investors assess a company's long-term strategic goals, the milestones that demonstrate progress, and steps taken in response to challenges. Companies should also demonstrate that capital allocation decisions support the delivery of the long-term strategy. In light of evolving circumstances, having a clear sense of the direction a company is taking informs investors about potential long-term value creation.

BIS believes that aligning purpose, strategy, and culture is key to a company's ability to create value for all its stakeholders. A strong sense of purpose builds business confidence, aligns employees with management's strategy, creates loyal customers, and informs other stakeholders.¹

Culture is also critical, because how a company operates clearly has a strong influence on what it achieves. Indeed, the COVID-19 pandemic has amplified the importance of these three factors — purpose, strategy, and culture — to a company's long-term success. Even before the pandemic, we observed an evolution from traditional practices that relied substantially — if not entirely — on conventional financial metrics to a purpose-driven approach to corporate strategy. Notable examples of this shift include the Business Roundtable's Statement on the Purpose of a Corporation² and studies that report the rising importance of companies' participation in finding solutions to issues such as training for the jobs of the future, automation, income inequality, diversity, and climate change, among others.³

Our engagements confirm this transition, as more and more companies have conveyed that they see themselves playing a role in solving these issues and have accelerated their efforts as a result. Nonetheless, there are commentators who question the legitimacy of the private sector addressing issues traditionally the responsibility of government, and others who doubt corporate leaders' conviction to balance the interests of their stakeholders. That is why we believe the onus is on companies to report on how they are adapting in response to changing economic, regulatory, and societal conditions, and how the decisions they take as they adapt align to the company's purpose and strategic framework to serve their stakeholders and deliver long-term value creation. To that end, in our engagements, we encourage companies to report publicly how material risks and opportunities are integrated into their long-term business strategy. Enhanced reporting should provide investors with a good understanding of the direction in which management intends to take the company and the milestones against which performance can be assessed. This, in turn, can provide investors a foundation to potentially support management even when events, such as the COVID-19 pandemic and evolving megatrends,⁴ result in a company missing projected targets and having to deviate or modify implementation plans. How companies adapt to these accelerating trends and to new ones that will persist after COVID-19 remains an important consideration.

¹ According to McKinsey and Company, purpose can generate topline growth (or serve as an insurance policy against revenue slippage) by creating more loyal customers, fostering trust, and preserving a company's customer base at a time when 47 percent of consumers disappointed with a brand's stance on a social issue stop buying its products — and 17 percent will never return. See Purpose: Shifting from Why to How to learn more. Available at: <https://www.mckinsey.com/business-functions/organization/our-insights/purpose-shifting-from-why-to-how>. ² In August 2019, the Business Roundtable (BRT) published an updated Statement on the Purpose of a Corporation. 181 CEOs signed the Statement and committed to leading their companies for the benefit of all stakeholders — customers, employees, suppliers, communities and shareholders. The full statement is available at <https://opportunity.businessroundtable.org/wp-content/uploads/2019/08/BRT-Statement-on-the-Purpose-of-a-Corporation-with-Signatures.pdf>. ³ 92% of respondents to the Edelman Trust Barometer 2020 Global Report said that it is important that their employer's CEO speak out on one or more of these issues. 74% said that CEOs should take the lead on change rather than waiting for government to impose it. ⁴ BlackRock, as of November 2019. Megatrends are powerful, transformative forces that can change the trajectory of the global economy by shifting the priorities of societies, driving innovation and redefining business models. To learn more, consult BlackRock's report Megatrends: The forces shaping our future. Available at: <https://www.ishares.com/us/literature/brochure/megatrends-shaping-our-future.pdf>.

Additionally, because boards have a critical role in strategic planning, we expect them to be fully engaged with and to assess how effective management is at aligning purpose, strategy, and culture in practice. Investors rely on boards to ensure that reporting reflects reality. Given the current environment, we recognize that companies must face tough choices in order to balance shareholder returns with business and human capital investments. Looking ahead, these actions will likely be scrutinized intensely.

That is why we intend to assess companies in the context of other decisions management teams have made in relation to employees, suppliers, customers, and communities, and continue to advocate for sustainable business practices that foster operational resilience.



Engaging on the response to COVID-19

The coronavirus pandemic that took hold globally in early 2020 had a significant impact on societies and economies, requiring companies to navigate uncharted territories in meeting the needs of their businesses, investors, employees, customers, and communities. In our engagements with companies, BIS took each conversation as an opportunity to understand how they are balancing the near-term challenges of responding to various lock-down measures in specific regions, while restarting operations in others, managing supply chain disruptions, and keeping their employees and customers safe.

In 2020, BIS held 936 engagements related to COVID-19 with 752 unique companies globally on a range of ESG topics. Although it may take several years to determine the full impact of the pandemic on businesses as well as society more broadly, we remain convinced that companies focused on their purpose, with a credible strategy to deliver for all their stakeholders, will be well-positioned to create sustainable, long-term value for our clients.

Supporting a refreshed Supervisory Board that drives long-term value creation for a large French media company

Issue

In 2020, a French media company faced an ongoing activist situation led by a UK-based activist investor, who put forward a series of shareholder proposals to elect new Board Members at a French media company.

Leading up to its 2020 AGM, the company received widespread criticism for its complex legal structure as a partnership limited by shares, expensive holding structure, poor capital allocation, and the Supervisory Board's oversight on the prolonged share underperformance. The concerns mentioned above were strongly echoed by the activist, the company's largest shareholder, who sought board control having nominated eight members to the 12-seat Supervisory Board.

When conducting our analysis in advance of voting at the AGM, we found several of the dissident's proposals to be sound. For example, converting the company from a limited partnership to a standard French corporation would be beneficial, as it would make management more accountable to shareholders and would provide increased transparency on the different intra-group delegations arrangements.

We also believed that the cancellation of the agreement providing for the outsourcing of the executive committee to the personal holding of the company's General Partner was a reasonable demand from the dissident.

Furthermore, we questioned whether the General and Managing Partners' compensation and the service agreement with the company controlled by the General Partner had gone through a comprehensive review that considered the Managing Partners' track record in creating shareholder value. Lastly, although recent board changes may offer an opportunity to improve the firm's corporate strategy, in our view these were not enough, and additional refreshment appears necessary to address the continuous poor performance and lack of management accountability.

Overall, we questioned the current governance structure and believe that a standard legal form (S.A. or Corporation) is likely to address those governance weaknesses, which in our view contributed to the prolonged period of underperformance. In addition, we believed a refreshed Supervisory Board was needed to appropriately challenge management and drive positive change, whilst at the same time maintaining some existing Board members providing business knowledge continuity.

We questioned the current governance structure at a French media company, which in our view contributed to the company's prolonged period of underperformance. We believe a refreshed Supervisory Board was needed to appropriately challenge management and drive positive change.

BIS response

Based on our analysis and engagement with both the company and the dissident, we decided to support the election of seven directors advanced by the dissident and to re-elect five directors advanced by the Company. We also voted against the four compensation proposals advanced by the Company and voted in favor of the dissident's proposal to dismiss three Supervisory Board members. These voting decisions were taken to reflect the need for a refreshed Supervisory Board equipped with the necessary skills to challenge the status quo, by simplifying the company's complex legal structure to a standard legal form which we believe is likely to make management more accountable to shareholders, addressing the continuous share price underperformance and ensuring that the company's strategy is focused on long-term value creation for all shareholders.

Outcome

Following the AGM, a large French media group became a major shareholder in the company and signed a five-year agreement with the dissident (20%) which gives each the right of first refusal if the other sells its shares. By uniting forces, they demanded the appointment of four directors to the Supervisory Board, three for the dissident and one for the French media group. This partnership will likely have significant implications for the company, as the pair now collectively own 43.5% of ownership. We will continue monitoring this partnership as well as engaging with the company's Supervisory Board in order to better understand the ongoing alignment with the company's long-term strategy, purpose and culture.

Engaging with large Chinese oil and natural gas company on non-compete undertaking proposal

Issue

BIS engaged with a large listed crude oil and natural gas company based in China on several occasions in 2020. Specifically, BIS focused on understanding the listed company's proposal to amend a non-compete undertaking with its parent company in order to reach a well-informed voting decision on this proposal ahead of the November 2020 EGM.

The listed company explained to BIS that the amendment would mitigate negative impacts from potential geopolitical risks. When geopolitical risks warrant asset disposal and the parent company emerges as the only buyer, the amended non-compete undertaking may allow for the parent company to enter the same oil and gas exploration and production business as the listed company and assume such projects that may present material geopolitical and legal risks going forward.

In each case, the asset disposal transaction must be reviewed and approved by the independent non-executive director (INED) committee which will determine the severity of each case and decide whether the non-compete undertaking could be exempted. While we recognized the listed company's intention with the amendment was to minimize any escalation of geopolitical and/or legal risks that could negatively impact shareholder value, we expressed concerns that granting sole decision rights to independent directors may not be the best safeguard measure, given the majority of the independent directors were over-tenured and do not meet our expectations of board independence.

We urged the listed company to commit to further refreshing its board and that we be able to engage with an independent director directly on the topic. The listed company further assured BIS that there would be safeguards in place to ensure the transactions in question would be publicly disclosed.

BIS response

Based on our analysis and detailed engagements with the listed company, we decided to support the amended non-compete undertaking proposal. This decision was largely influenced by the company's willingness to engage and incorporate investor feedback throughout the process as we believe this shows clear signs that the firm is moving in the right direction.

Outcome

During our engagements, BIS shared our expectation that the listed company sufficiently disclose its general ESG practices. Since the November 2020 EGM, we believe that the company's management has demonstrated progress in aligning purpose, strategy, and culture. The company recently announced its 2021 strategy preview which addressed BIS' feedback including detailed milestones in their low-carbon development plan. For example, the plan details how the company will increase the supply of clean energy (including a target on the percentage of natural gas production), how it will steadily explore renewable projects, and how much annual capex will be dedicated to the new energy sector. We believe this capital allocation decision supports the delivery of the firm's goals to reach carbon neutrality by 2060. BIS plans to continue engaging with the listed company on behalf of our clients on the implementation of the amended non-compete undertaking while also monitoring the firm's implementation of its low-carbon corporate strategy.



Human capital management



BIS has long held the conviction that a company’s approach to human capital management (HCM) is a critical factor in long-term value creation.

A company’s approach to HCM will vary across sectors, but it is a factor in business continuity and success. As discussed in our approach to engagement on HCM issues, BIS believes HCM is both a board and a management issue, and as such would expect a company’s board to be engaged with management on the company’s strategy and the purpose – to help ensure the effective strategic implementation of HCM throughout the organization.

BIS encourages HCM-related disclosures in alignment with SASB’s materiality framework, as this is a helpful tool for companies considering enhancing their disclosures on industry-specific human capital metrics to describe a company’s culture, long-term operational risk management practices and, more broadly, the quality of the board’s oversight.

This was of particular importance in 2020 as companies managed their response to COVID-19, looked to ensure their employees’ health and safety, and in many cases, contributed to support the communities in which they operate.

In our engagements, BIS seeks to understand how companies are making prudent decisions and how they are considering the experiences of the key stakeholders on which they depend.

Research has consistently shown the importance of considering stakeholders’ needs and interests to company performance. For example, “employees make decisions and take actions every day that can affect the success of their organizations,”¹ and so a more engaged workforce can help improve customer relationships, and in turn, generate positive business outcomes. How a company balances the needs of its stakeholders in relation to issues such as inclusion and diversity, health and safety, labor relations, customer satisfaction, and community relations, can either support or jeopardize its ability to deliver sustainable long-term risk adjusted returns.

¹ Gallup. “The Relationship Between Engagement at Work and Organizational Outcomes.” 2020 Q1.2^o Meta-Analysis: 10th Edition. October 2020.



In 2020, BIS held 1,077 engagements with companies on topics related to HCM — an increase of 136% from 2019. BIS asked companies to explain how they plan to establish themselves as the employer of choice for the workers on whom they depend. We learned that companies continue to re-examine their roles in society, with many announcing increased commitments on diversity, equity and inclusion (DEI) targets, childcare or mental health support, and work from home facilitation, among other programs to support their employees. In other cases, companies looked into human rights-related risks in their supply chains and are working to improve their policies and procedures. It is clear from our engagements that we are observing a greater awareness of the role that companies should play in society and the increased expectations of and scrutiny from their stakeholders.

As companies managed their response to COVID-19, some were forced to reorganize and reduce their workforces as a result of temporary shutdowns or definitive closures. In such cases, we asked boards and management teams to explain if they did so in a responsible way.

We paid particular attention to the terms offered to redundant employees and any adjustments to executive compensation programs.

In 2021 we will continue engaging with companies to understand their approach to HCM in a post-COVID environment. We are interested in learning how they are enhancing their operational and financial resilience, while supporting their employees' health and safety and balancing their stakeholders' interests. As we highlight in [Our 2021 Stewardship Expectations](#), we will ask companies to disclose how they are monitoring and managing their impacts on people, including their employees, suppliers, customers, communities, indigenous peoples, and other key stakeholders.

1,077

engagements held on topics related to HCM

Responsible leadership

In 2020, BIS participated in SASB's Human Capital project. The objective of the project is "to assess the scope and prevalence of various human capital management themes across SASB's sectors and within its 77 industries to develop a solid evidenced-based view on this cross-cutting theme."¹ BIS was invited to participate in an "early hypothesis tester" group, along with other market players, including asset managers and regulators. In July 2020, BIS provided feedback on the project's preliminary framework and contributed with insights from our own qualitative research, as well as quantitative analysis performed by BlackRock's Sustainable Investing (BSI) team. SASB is now in the process of finalizing the stakeholder consultation stage. As an active member of SASB's Investor Advisory Group, BIS remains committed to contributing to efforts to improve industry standards and incorporate evolving market views.

¹ SASB. "Human Capital: Project Overview." 2021.



COVID-19 and the shifting nature of work shed light on employees' mental health and well-being

In 2020, BIS held 936 engagements on the impact of COVID-19 globally. During these discussions, a number of companies highlighted that the pandemic uncovered an emerging business risk: the intangible impact the changing nature of work will have on employees' mental health and well-being.

Across sectors and regions, we found that companies adopted the following measures most commonly. In some cases, companies turned these into permanent employee wellness and support programs:

- Conducted more frequent pulse surveys to understand employees' needs and concerns
- Addressed employee burnout by providing mental health telemedicine benefits, virtual "care concierges," and stress management workshops

- Implemented initiatives to improve work-life balance, such as ending meetings early, offering additional time-off, or support to care for family and loved ones at home
- Launched campaigns to raise awareness about mental health, and in some cases, facilitated CEO-led conversations so employees would become more comfortable talking about mental health

Our engagement approach in action

As BIS continues to engage companies on how they are responding to the COVID-19 pandemic and adapting their human capital management practices, we are encouraged to see the increased attention on supporting employees' mental health and well-being. We will continue to raise topics of the changing workplace in our engagement conversations and are committed to gathering insights and contributing to efforts that shape market views on the future of work.



Raising our expectations on companies' disclosure on diversity, equity and inclusion (DEI) in the workplace

Our approach to HCM focuses on the board and management's effectiveness in overseeing how a company meets the expectations of its workforce. As such, we have been evaluating companies' efforts to create a diverse and inclusive workforce for many years.

The demonstrations against racial inequality that took place in the U.S. during the summer of 2020 – and quickly replicated across Europe and other regions – underscored the shift in awareness of the role that companies should play in society and the increased expectations and scrutiny of their stakeholders. In response, many companies pledged to accelerate their efforts in contributing to a more just and equal society. In the U.S., BIS engaged with 859 unique companies on HCM issues. Many of our discussions touched on how these companies plan to attract, retain, and promote employees from underrepresented communities, how they are addressing the gender pay gap, and how they are advancing LGBTQ+ rights, among other DEI matters, and HCM issues overall.

We continue to believe that clear and consistent reporting on these matters is critical.

Disclosures provide investors, and other stakeholders, a clear understanding of how companies are “walking the talk” on their public commitments.

Our voting policy in action

For the past four years, Oracle Corporation – a U.S.-based cloud technology company – has received a shareholder proposal seeking disclosure on a potential gender and ethnicity pay gap. In November 2020, we supported the proposal, as we have in prior years, given the company's inadequate disclosure, which lags its peers. Additionally, the company faces ongoing legal risks from a recent lawsuit pertaining to allegations of gender discrimination in the workplace. This year, we also voted against the chair of the Nomination and Governance committee due to the company's failure to address this risk and shareholders' feedback. This represented an escalation in signaling our concern to Oracle on this material business issue and is in line with our policy to hold directors accountable when we do not believe a material risk is being adequately managed or disclosed. The proposal received 46% support.

We are committed to advocating for more robust disclosures to better understand how companies are working deliberately to deliver an inclusive and diverse work environment and look to boards to assess a company's progress on this goal. BIS will continue to hold companies accountable if they fall short in supporting the needs and meeting the expectations of their employees.

Engaging with Asian shipping companies on seafarers' labor conditions

Issue

In 2020, organizations such as the International Labor Organization (ILO), multinational companies, and multiple media outlets called for attention to and urgent action on the challenging labor conditions facing seafarers trapped at sea because of country restrictions during COVID-19.¹ Recognizing the crucial role that shipping companies and seafarers play in maintaining global supply chains, in December 2020, the Governing Body of the ILO escalated action and adopted a Resolution to address the situation of thousands of seafarers working “well beyond usual periods of service at sea,” with some for as many as 17 months or longer.²

BIS response

As part of our approach to engagement on HCM, BIS has long engaged with companies to understand how they are overseeing the working conditions – and mitigating and remediating potential labor and human rights violations – of people they employ directly or through their supply chains. In Asia, we engaged with three large shipping companies, that operate both owned and chartered vessels, to learn how they are managing health and safety issues impacting indirectly employed seafarers when faced with entry restrictions at foreign ports.

The companies resorted to a range of measures to address the issue. One company was able to re-route some of the vessels back to the country of origin. Another company assisted affected seafarers with monetary compensation and prompt information on COVID-19 on-site. The third company arranged chartered flights so seafarers could fly back home when commercial flights were unavailable.

Outcome

The companies' business continuity plans proved successful, yet the companies recognize that cooperation between local governments and privately-owned vessels is necessary to assist seafarers that have not been able to disembark at various ports of entry. The companies also acknowledge the labor challenges that foreign seafarers, many times indirectly employed by local shipping companies, may continue to face even when the pandemic eases. BIS will continue to engage with these companies to monitor their progress in bringing greater attention to and implementing additional measures to address this issue. BIS will also continue encouraging shipping companies – across the multiple markets we engage in on behalf of clients – to disclose how they are managing and mitigating potential labor and human rights violations in their supply chains.

¹ International Labour Organization (ILO). “ILO Governing Body calls for urgent action on seafarer COVID-19 crisis.” 8 December 2020. ² International Labour Organization (ILO). “Resolution concerning maritime labour issues and the COVID-19 pandemic.” Adopted on 8 December 2020.

French automaker balances employee health and safety with the need to restart operations

Issue

Companies with a flexible operating model were better able to embrace a 'work from home' setting, support safe on-site working conditions for essential employees, and manage supply chain disruptions. By observing how their peers reacted, particularly in the APAC region that was affected by COVID-19 earlier than the rest of the world, some companies were able to replicate best practices locally.

BIS response

BIS engaged with a French automaker to understand how the company managed the impact of COVID-19 on its operations as well as its employees. Given that the automaker operates manufacturing facilities in Wuhan, China, it was in a good position to adapt lessons learned from reopening these operations to the local culture and conditions in other locations which were subsequently reopening. When re-opening its European production sites, the company found that 20-25% of its employee population was not comfortable returning to work, despite the respective country having officially lifted the 'lockdown.' The company shared with BIS its approach to addressing this unease, making clear that the needs of employees with legitimate health concerns or care responsibilities would be accommodated.

We further discussed a return to operations for the company as a whole, beyond the production teams.

The company shared how it shifted non-production work to a remote setting during the crisis and has now determined to adopt new remote working practices more permanently. Employees whose activity does not require them to be physically on-site can now work remotely two-thirds of the time.

Outcome

BIS considers the company to have demonstrated understanding and empathy in balancing the physical and mental impact of the crisis on its employees, with the need for the business to restart operations. By June 2020, the automaker had safely restarted operations and all production sites had reopened. In addition, the company has received final approval to merge with another automaker. BIS has continued to engage with the company to understand how the combined group will support employee health and safety as the two automakers expand their global operations. BIS will also engage with the combined group to understand its approach to HCM as the two companies finalize the merger.

By observing how their peers reacted, particularly in the APAC region that was affected by COVID-19 earlier than the rest of the world, some companies were able to replicate best practices locally.

A building materials company in Colombia enhances its HCM-related disclosures after engaging with BIS

Issue

In 2020, governments and companies accelerated efforts to expand sustainable investing opportunities in Latin America.¹ However, the region is in early stages of producing robust disclosures that provide investors with the key information we need to assess companies' approach to multiple ESG risks and opportunities, and in turn, companies' ability to deliver sustainable long-term risk adjusted returns.

BIS response

BIS engaged with 113 companies – a 290% increase against 2019 – in six different markets in Latin America, including a leading building materials company in Colombia. During our multiple engagements we explained our engagement priorities in detail and stressed the importance of sustainability reporting in alignment with the TCFD framework and SASB standards. The company had made some progress on its ESG disclosures but still did not meet our reporting expectations.

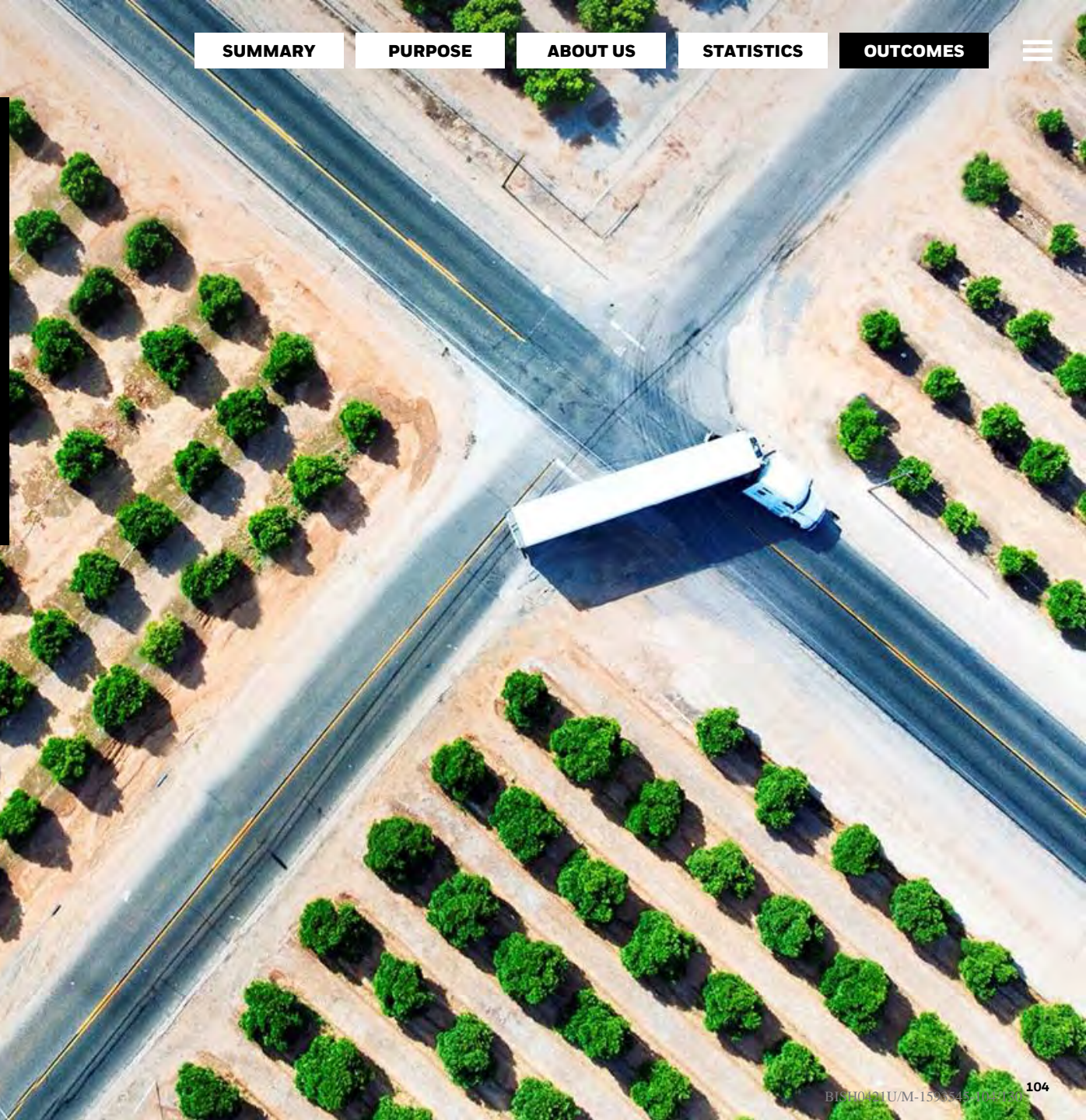
For example, the company's sustainability report provided some milestones in reference to its HCM program but lacked a clear articulation of its approach to HCM and did not disclose specific goals nor metrics to assess performance.

Outcome

During our engagements, the company demonstrated receptiveness to our feedback and a commitment to enhance its reporting. By year end, the company published an ESG portal, concentrating scattered information in one 'easy to access' platform. In addition, the company significantly enhanced its HCM-related disclosures, providing a detailed breakdown of metrics and progress in relation to its talent attraction and retention program, employee engagement, work related illnesses, gender diversity, and employee engagement, among other HCM dimensions. The company also published its human rights policy and indicated it had been approved by the Board of Directors. In BIS' view the company has made great progress, but there is still room for improvement. The company has yet to align its ESG disclosures to TCFD and SASB. BIS will remain engaged with the company to follow up on its commitment to produce TCFD-aligned disclosures in 2021.

¹ Sacristan, G. "How the Way Was Paved for Sustainable Investment in Latin America and the Caribbean." IDB Invest. 15 January 2021.

Compensation that promotes long-termism

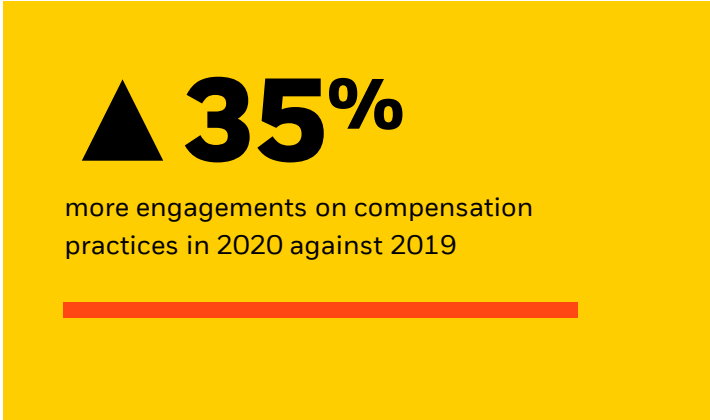




Executive compensation plans are central to how companies attract, reward, and retain key personnel. In developing executive compensation plans, companies must balance pay and performance while ensuring that rewards to executives are not disconnected from the returns to shareholders and compensation for employees.

Company executive pay proposals range from non-binding Say on Pay proposals in the U.S., to compensation reports and compensation policy proposals in EMEA¹ and Australia,² as well as new share plans or revisions to existing ones. BIS explains in our [approach](#) to executive compensation our expectations and approach to engagement and voting on this complex board issue. In general, we expect a meaningful portion of executive pay to be tied to the long-term performance of the company, as opposed to short-term increases in the stock price. The metrics used to trigger payments under incentive plans should be explained and justified in the context of a company’s business model and long-term strategy.

In 2020, BIS had 1,269 engagements on compensation practices, 35% more than 2019. In these engagements, we seek to understand how a specific pay program appropriately incentivizes executives to deliver on strategic and operational objectives, consistent with sustainable financial performance. These conversations also help us better understand any unique challenges companies face, how management responded, and how compensation committees incorporate such developments into their decisions on pay policies and outcomes.



¹ Many of these EMEA compensation proposals may be binding. ² For consistency, in this report we refer to all EMEA and Australia agenda items relating to ‘remuneration’ as ‘compensation’.

Director accountability for poor pay practices

Where we believe a company's compensation structures are misaligned with long-term performance, BIS will use our vote to hold the members of the compensation committee, or equivalent board members, accountable for poor compensation practices or structures. In 2020, we voted against the re-election of over 690 compensation committee directors responsible for setting executive pay at 350 companies across 29 markets globally. That is similar to last year when we voted against 739 compensation committee directors at 347 companies across 26 markets. These votes against compensation committee members are attributable to concerns that executive pay policies or outcomes are not aligned with the interests of long-term shareholders.


Our votes against compensation committee members were highest at U.S. companies. In calendar year 2020, we held directors accountable for poor pay practices at 87 different companies. This figure is up from the prior two years when we voted against committee members at 73 U.S. companies each year. Other markets where companies received relatively high votes against directors due to pay concerns were the UK (54), France (40), and South Africa (34).

The impacts of votes against directors in the FTSE 350

Where we believe companies are not moving with sufficient speed and urgency, our most frequent course of action will be to hold directors accountable by voting against their re-election. Our data tells us that voting against directors is effective. We assessed the year-on-year changes to our votes taken against directors of companies in the FTSE 350 over concerns about remuneration in the three years from July 2017 to June 2020. We only voted against a company's directors over remuneration concerns in consecutive years in 17% of cases. The remuneration concerns we raised were substantively addressed by 83% of companies when we held a director accountable the prior year.¹

83%

of companies substantively addressed the remuneration concerns we raised when we held a director accountable the prior year



¹ BlackRock. "Our 2021 Stewardship Expectations." Global Principles and Market-level Voting Guidelines. Page 11.

Case study

U.S.: Voting to promote clear disclosure on compensation decisions

Issue

The current development of multiple therapeutic, vaccine, and diagnostic product candidates related to COVID-19 has enabled the growth potential at Sorrento Therapeutics, Inc., a U.S. based biotechnology company. The Compensation Committee sought to create a powerful incentive for the CEO to drive the company's long-term growth and profitability through the grant of a significant, front-loaded equity award. The award consisted of an option to purchase approximately 24.9 million shares, which represented about 10% of the company's then outstanding shares, at an exercise price set at a 20% premium to the closing price of the company's common stock on the grant date. The option, which carries a ten-year term, may vest in ten separate tranches if certain pre-established market capitalization milestones are achieved before the expiration of the award. BIS had concerns with the structure of the front-loaded equity award, which only utilized a single performance metric. In addition, the company's proxy disclosures did not provide a clear explanation regarding how the approach taken was in shareholders' best interests.

BIS response

BIS engaged with members of the management team and Compensation Committee to better understand the company's approach to executive compensation and the business justification for approving the special CEO equity award. The Compensation Committee confirmed that it did not envision any additional equity grants to the CEO during the multi-year term of the award, but the company's proxy statement did not foreclose that possibility.

Outcome

Upon engagement, BIS determined to vote against approving the CEO equity award at the 2020 AGM. The special CEO equity award was approved with support from over 77% of shareholders.¹ We also voted against a related proposal to amend the equity compensation plan and against the Compensation Committee members on the ballot. While we recognized the board's desire to strengthen the CEO's incentives and ensure continued leadership of the company over the long-term, we remained concerned with the magnitude and design of the special CEO equity award. We also were concerned after learning that the company had not engaged with shareholders to receive their feedback. BIS will maintain an ongoing dialogue with the company in 2021 to share our feedback and approach to executive compensation.

¹ The proposal passed with 78.6% of the votes cast and 77.5% of the votes cast by holders of shares of common stock that are not beneficially owned by the CEO. Estimates are based on Sorrento Therapeutics' Current Report on [Form 8-K](#) dated 20 October 2020.

Lens into executive compensation voting

As noted in our Global Principles, companies should put in place compensation structures that incentivizes and rewards executive appropriately and is linked with performance that aligns with shareholders' interests, particularly the generation of sustainable, long-term value.

BIS expects full disclosure of the performance measures selected – which should be rigorous and appropriate in the context of a company's stated strategy – and the rationale for their selection. We will typically vote against both the proposals on pay policies or specific plans and against the directors on the compensation committee responsible for them when we have such concerns.¹

Globally, in 2020 we voted against management recommendations on 16.6% of executive pay proposals (includes Say on Pay – also known as remuneration reports – and remuneration policy proposals) compared with 14.6% in 2019. Our votes reflect the substantial disparities in the quality of disclosure across markets in which Say on Pay is a regular agenda item at the shareholder meeting. For example, in the U.S., Australia, and the UK, companies tend to have a stronger track record in linking pay to performance or explaining and justifying any apparent misalignments.

¹ In some markets, shareholders may also be asked to vote on a proposal seeking approval of a company's compensation policies or new or amended share-based incentive plans.

We aim to be a constructive and supportive long-term shareholder. At the same time, our expectations of boards and management are higher than ever before. Further to our ask that companies consider shareholders' interests as they make the decisions that shape their companies, in 2021 we will look more closely at how boards and management are considering other stakeholders' experiences.

Companies that fail to properly disclose how their executive compensation structures align with their long-term strategy and purpose, including shareholder interests and key stakeholder considerations, may face reputational risks and impair their social license to operate.

Common drivers for a BIS vote against management on executive compensation

- ✓ Poor disclosure or the lack of rigor of performance measures compared to industry standards that can lead to the above-target payouts under either short-and long-term incentive plans
- ✓ Above-median pay benchmarking and significantly larger companies in peer group
- ✓ Poor disclosure of goals under its incentive plans or of the vesting conditions for performance-based awards granted under the long-term incentive plans
- ✓ Awarding discretionary awards not linked to performance and without robust rationale
- ✓ Accelerated timing and payout of certain performance share units
- ✓ Sizable and unjustified perquisites

Case studies

Supporting a shareholder proposal in response to poor corporate disclosures

Issue

In recent years, we have expressed our concerns relating to Swedish retailer H&M Hennes & Mauritz's board governance and executive compensation by voting against management.

Outcome

In our subsequent engagement with the company, the board recognized that then was a good time – particularly, as we noted to them, following the implementation of the Shareholder Rights Directive (SRD II) – to seek investor feedback and consider where additional transparency could be provided.

BIS response

In May 2020, we supported a shareholder proposal seeking sustainability targets in pay. We did so because the company's own compensation guidelines indicated that it uses sustainability targets in setting executive pay, yet little was disclosed. In this case, having clarity into how H&M incorporates sustainability into executive pay plans helps shareholders understand how management is incentivized to deliver this aspect of the company's strategy.



Voting against a media company for failing to meet 2018 UK Corporate Governance Code's compensation best practices

Issue

Given the unprecedented circumstances posed by COVID-19, we aimed to be constructive and supportive as companies sought flexibility from investors to weather the storm. At the same time, our expectations of boards of directors and executive management are higher than ever. This very difficult year provided the clearest demonstration yet that strong, purposeful leadership is essential to a company's resilience and ability to recover from shocks and disruptions.

As companies managed their response to COVID-19, we paid particular attention to any adjustments to executive compensation programs. We look to compensation committees to explain companies' executive pay decisions, and where we have concerns, we will ask them to explain how their plans align with the interests of shareholders and other key stakeholders.

This was the case at a UK media company. In early 2020, BIS supported the non-pre-emptive placing of new ordinary shares to ensure liquidity during COVID-19.

However, BIS had concerns over the company's executive compensation plan, given the outsized amount of the target bonus against market practice and a clear misalignment between the executive pension plan and that of the workforce.

BIS also communicated its concern over the company's failure to align its remuneration policy with the compensation best practices set out in the 2018 UK Corporate Governance Code.

BIS response

BIS voted against the company's remuneration proposal at the 2020 AGM. In BIS' view, the company had ample time to adopt the Code's best practices and respond to investor feedback well before COVID-19. As a result of a 35% vote against the compensation plan, the company held an EGM later in the year to request approval of a revised plan which featured a new restricted share plan. Prior to the meeting, BIS provided extensive feedback on the company's renewed remuneration proposal specifically around the importance of having robust performance conditions underlying the restricted share plan and the use of Remuneration Committee discretion. Specifically, we were skeptical with the share price underpins introduced by the company.

Typically, we are cautious in embracing such underpins given they are closely linked to market movements and their respective uncertainty, and the impact of the COVID-19 pandemic on the company's events business was a proof of that. The proposal incorporated a number of the Code's best practices yet failed to demonstrate alignment with long-term financial performance.

Outcome

BIS voted against the company's remuneration proposal one more time as the Remuneration Committee has not addressed our original concerns about grant levels in light of the company's depressed share price, nor provided any reassurances that they will utilize discretion with regards to the grant of awards. In light of our continued concern over the company's failure to determine appropriate executive pay in alignment with shareholders' interests – even more so at the height of the pandemic – BIS will continue to share our increased expectations over corporate governance best practices, and if applicable, we will take further voting action. The company's remuneration policy obtained majority approval, but post vote analysis revealed that it received a 40% vote against from the wider shareholder community.

Votes against equity plans over the past three years

We voted against 19% of management proposals to introduce new equity pay plans or amend existing ones at companies globally in 2020. In the Americas region, our votes against equity compensation plans have averaged 15% over the past three calendar years. We noted in our 2019 annual report¹ that in the Americas, we tend to vote against such plans more frequently at smaller capitalization companies. This confirms a general trend that we see in corporate governance practices, namely that smaller capitalization companies tend to still be developing their governance and compensation policies in pursuit of best practices.

As the table below shows, on a global basis, we have supported more equity pay plans year-over-year. This increase is largely attributable to supporting more equity plans in the APAC region. We voted against 43% of equity plans in APAC in 2018, 20% in 2019, and 19% in 2020.

The single biggest driver of this downward trend was improved disclosures by companies in China, particularly on the alignment between the awards to management and company performance. In EMEA, we observed an overall decline in votes against equity plans from 37% in 2018, to 32% and 31% in 2019 and 2020, respectively. We find that we are voting against equity plans at a higher rate in France, Italy, Denmark, and the Netherlands – which reflects a similar voting outcome to executive compensation. By contrast, in the Americas region, our votes against equity plans remained steady, at an average 15% votes against between 2018 and 2020.

Reporting period (calendar year)	Number of equity plan votes globally	Votes against equity plans	% of votes against
2018	2,438	729	30%
2019	2,348	464	20%
2020	2,665	516	19%

¹ The prior year refers to the reporting period between July 1, 2018 to June 30, 2019, representing the SEC's 12-month reporting period for U.S. mutual funds, including iShares.

2020 annual engagement and voting statistics



These data tables provide summary statistics of BlackRock Investment Stewardship's (BIS) engagements with companies and voting at shareholder meetings.

Annual engagement statistics

Engagement for current year: 2020

Region	Total	Focus of engagement ¹		
		Environmental	Social	Governance
Americas	1,740	1,119	821	1,556
United Kingdom	317	115	103	298
EMEA (ex-UK)	484	238	127	427
Japan	446	156	90	434
Asia-Pacific (ex-Japan)	514	311	217	468
Total	3,501	1,939	1,358	3,183

Engagement for past year: 2019

Region	Total	Focus of engagement ¹		
		Environmental	Social	Governance
Americas	1,175	356	267	1,110
United Kingdom	286	36	31	276
EMEA (ex-UK)	337	64	55	330
Japan	455	51	98	455
Asia-Pacific (ex-Japan)	332	114	111	322
Total	2,585	621	562	2,493

¹ Most engagement conversations cover multiple topics and therefore the ESG columns may not add up to the total column. Our engagement statistics reflect the primary topics discussed during the meeting.

We organize the proposals on which shareholders are asked to vote into key categories. The vast majority of proposals are routine and relate to the election of directors and board governance matters, reflective of the important role played by directors in representing and protecting shareholder interests.

The proposals on which BlackRock votes against management vary from market-to-market but tend to be related to executive pay, director elections, takeover protections, and capitalization. We may also support certain shareholder proposals seeking improvements in corporate governance and business practices.

Annual voting statistics

Voting for current year: 2020

Region	Total number of meetings voted	Total number of proposals voted	% of proposals voted against management recommendation ¹	% of meetings voted against one or more management recommendations
United States	3,837	31,079	8%	31%
Americas (ex-U.S.)	1,034	9,527	10%	49%
United Kingdom	791	11,171	5%	33%
EMEA (ex-UK)	2,633	34,898	13%	57%
Japan	2,357	23,520	6%	35%
Asia-Pacific (ex-Japan)	6,356	50,574	10%	34%
Total	17,008	160,769	9%	38%

Voting for past year: 2019

Region	Total number of meetings voted	Total number of proposals voted	% of proposals voted against management recommendation ¹	% of meetings voted against one or more management recommendations
United States	3,830	30,705	7%	31%
Americas (ex-U.S.)	1,023	9,481	10%	44%
United Kingdom	824	11,321	5%	28%
EMEA (ex-UK)	2,563	32,701	12%	55%
Japan	2,594	26,572	6%	37%
Asia-Pacific (ex-Japan)	5,540	42,744	9%	34%
Total	16,374	153,554	9%	37%

¹ This includes proposals voted against one or more management recommendations.

Proposals by type

Votes against management items and votes in support of shareholder proposals by type for the current year: 2020

Region		United States	Americas (ex-U.S.)	United Kingdom	EMEA (ex-UK)	Japan	Asia-Pacific (ex-Japan)	Grand total
Management proposals (with percentage of votes against management)								
Anti-takeover and related proposals	Total number of proposals	421	40	435	118	94	57	1,165
	% voted against management	11.6%	2.5%	0.0%	39.0%	91.5%	3.5%	15.8%
Capitalization	Total number of proposals	482	284	2,410	3,403	41	9,857	16,477
	% voted against management	6.4%	6.7%	1.9%	13.8%	4.9%	15.2%	12.5%
Compensation	Total number of proposals	4,359	610	1,190	4,072	954	2,943	14,128
	% voted against management	6.2%	9%	8.5%	32.3%	13.1%	20.4%	17.4%
Director related	Total number of proposals	21,455	5,745	4,378	13,723	20,048	14,835	80,184
	% voted against management	8.8%	7.0%	9.1%	12.3%	5.9%	9.2%	8.6%
Mergers, acquisitions, and reorganization	Total number of proposals	223	171	99	997	546	6,363	8,399
	% voted against management	2.2%	4.1%	5.1%	10.0%	3.3%	13.1%	11.5%
Routine business	Total number of proposals	3,579	2,534	2,612	11,802	1,576	14,435	36,538
	% voted against management	1.4%	19.3%	2%	7.9%	0.2%	3.5%	5.6%
Shareholder proposals (with percentage of proposals supported including abstentions)								
Environmental	Total number of proposals	28	6	3	15	49	12	113
	% votes against management	21.4%	16.7%	33.3%	26.7%	0%	41.7%	15%
Governance	Total number of proposals	405	23	25	233	143	52	881
	% votes against management	14.6%	13%	4%	3%	4.2%	25%	10.1%
Social	Total number of proposals	81	21	0	4	0	7	113
	% votes against management	7.4%	0%	0%	0%	0%	0%	5.5%
Other	Total number of proposals	46	93	19	531	69	2,013	2,771

Percentages are rounded to the nearest tenth.

"Other" proposals include management items and procedural shareholder proposals. Please refer to the [Appendix](#) for proposal terminology.

Votes against management items and votes in support of shareholder proposals by type for past year: 2019

Region		United States	Americas (ex-U.S.)	United Kingdom	EMEA (ex-UK)	Japan	Asia-Pacific (ex-Japan)	Grand total
Management proposals (with percentage of votes against management)								
Anti-takeover and related proposals	Total number of proposals	433	44	439	89	82	61	1,148
	% voted against management	6.9%	2.3%	0%	49.4%	92.7%	1.6%	13.2%
Capitalization	Total number of proposals	379	257	2,432	3,260	46	6,862	13,236
	% voted against management	4.2%	5.4%	0.9%	11.0%	4.3%	15.8%	11.3%
Compensation	Total number of proposals	4,362	568	940	3,445	1,118	2,664	13,097
	% voted against management	6.1%	10.6%	10.3%	31.1%	14%	16.7%	16%
Directors related	Total number of proposals	21,237	5,900	4,530	12,899	22,642	13,859	81,067
	% voted against management	8.7%	6.2%	9.9%	11.9%	5.6%	8.1%	8.1%
Mergers, acquisitions, and reorganization	Total number of proposals	257	150	124	951	695	5,074	7,251
	% voted against management	0.8%	2%	0.8%	8.6%	5.2%	14.8%	12.1%
Routine business/Misc.	Total number of proposals	3,533	2,410	2,825	11,503	1,793	12,259	34,323
	% voted against management	1.5%	19.1%	0.2%	7.4%	0.6%	3.7%	5.3%
Shareholder proposals (with percentage of proposals supported including abstentions)								
Environmental	Total number of proposals	22	10	3	13	43	9	100
	% votes against management	23%	0%	0%	0%	0%	0%	5%
Governance	Total number of proposals	354	42	11	226	98	56	787
	% votes against management	14.7%	9.5%	0%	2.7%	6.1%	19.6%	10%
Social	Total number of proposals	83	7	1	4	1	8	104
	% votes against management	4.8%	0%	0%	0%	0%	0%	3.8%
Other	Total number of proposals	45	93	16	311	54	1,922	2,441

Percentages are rounded to the nearest tenth.

Other proposals include management items and procedural shareholder proposals. Please refer to the [Appendix](#) for proposal terminology.

Appendix

Appendix I

Proposal terminology explained

Management proposals

Capitalization – generally involves authorizations for stock issuances, private placements, stock splits, and conversions of securities.

Election of directors and related proposals – a broad category which includes the election of directors, supervisory board matters, declassification of boards, implementation of majority voting, among others.

Mergers, acquisitions, and reorganizations – involves significant transactions requiring shareholder approval like spin-offs and asset sales, as well as changes to company jurisdiction or structure.

Shareholder proposals

Governance – generally involves key corporate governance matters affecting shareholder rights including governance mechanisms and related article/bylaw amendments, as well as proposals on compensation, political spending, and lobbying policies.

Environmental – covers shareholder proposals relating to reports on climate risk, energy efficiency, recycling, community environmental impacts, and environmental policies.

Social – includes shareholder proposals relating to a range of social issues such as reports on pay disparity, requests for enhanced anti-bias policies, or reports on human rights policies.

Other – includes a number of shareholder proposals that fall outside the categories that most shareholders would view as ESG proposals. These resolutions include (but are not limited to) electing directors in contested situations, appointing internal statutory auditor(s) nominated by shareholders, amending articles/bylaws/charters, and approving the allocation of income/income distribution policy. Additionally, there are a substantial number of shareholder proposals in Greater China relative to other markets. This is due to the China Securities Regulatory Commission (CSRC) requiring companies that have a foreign listing to submit their proposals 45 days prior to the meeting (which applies to all Chinese companies that have an A share listing in China together with H-shares listed in Hong Kong). However, the CSRC allows shareholder proposals for these companies to be included up to 10 days prior to the meeting. The result is that many shareholder proposals are submitted by controlling shareholders and are, in effect, late agenda items from management.

Appendix II

Overview of key publications

Given the growing interest in our stewardship efforts from clients and broader society we have significantly increased investment stewardship disclosure in 2020, including:

Global principles and market-level voting guidelines

BIS' approach to corporate governance and stewardship is outlined in our [Global Principles](#) and market-level [voting guidelines](#). Key changes to our policies for 2021 are summarized in the BIS special report, [Our 2021 stewardship expectations](#), released December 2020.

Engagement priorities

Each year, we prioritize our work around [Engagement Priorities](#) that we believe will encourage sound governance practices and deliver sustainable long-term financial performance for our clients.

Our approach to sustainability

In July 2020 we published this [special report](#) on our approach to voting on climate risk and other sustainability topics.

Global quarterly stewardship reports and engagement summaries

BIS publishes [global quarterly stewardship reports](#) which contain case studies that illustrate our engagements and voting analyses across the Americas, APAC, and EMEA in a given quarter. Our [quarterly engagement summaries](#) name all companies we engaged with during each quarter across a range of E, S, and G topics.

Global vote disclosure

BIS' vote instructions for individual meetings globally. This [record](#) reflects votes at meetings held from July 1 through June 30 of the following year. It is updated quarterly until June 30 each year, when it is superseded by BlackRock's annual Form N-PX filing.

Vote bulletins

Vote bulletins describe our votes and rationales for key complex or high-profile votes. In 2020, BIS published 57 vote bulletins, five times more than in the previous three years combined.

Position papers, commentaries, and policy consultations

BIS' [library](#) of position papers, commentaries, and responses to policy consultations explain our perspective on a number of sustainability issues and reflect our commitment to enhanced transparency in our stewardship activities.

Topics covered include:

- Our [approach](#) to engagement on climate risk and the transition to a low-carbon economy
- [ViewPoint](#): Asset managers of scale give voice to investors and support the economy

Enhanced client reporting

We implemented a new capability through Aladdin® to deliver portfolio-specific company engagement reports for our clients.

Appendix III

BlackRock's 2020 PRI assessment report and score

BlackRock has been a signatory to the United Nations supported Principles for Responsible Investment (PRI) since 2008. The six aspirational statements of PRI provide a framework in which ESG issues can be taken into account in investment decision-making and engagement with investee companies, clients and other stakeholders. As a signatory, BlackRock commits to uphold all six principles, including Principle 6: We will each report on our activities and progress towards implementing the principles. To that end, BlackRock has submitted a 2020 PRI Transparency Report and has received PRI's Assessment of that report. A copy of our [2020 PRI Transparency Report](#) can be found on BlackRock's corporate website.

In 2020, as in 2019, PRI assessed BlackRock's ESG integration capabilities to be at or above median scores in each of the reporting segments.

In 2020, our Investment Stewardship function received A+ scores in Strategy & Governance and Listed Equity Active Ownership. Notably, our score in Listed Equity Incorporation improved year-over-year from A to A+. We are pleased to see these continuing strong results against a backdrop of rising median peer group scores, most notably across fixed income sectors.

PRI's assessment methodology can be found [here](#) and a companion document explaining the assessment of each indicator can be found [here](#). Whether we receive strong or improving scores, we are committed to developing our ESG integration capabilities, and we work continuously to enhance our existing programs.

Summary PRI assessment scores for BlackRock

		2019 BLK score	2020 BLK score	2020 median
	Strategy & Governance	A+	A+	A
Managed by BlackRock	Listed Equity Incorporation	A	A+	A
	Listed Equity Active Ownership	A+	A+	B
	Fixed Income SSA	A	A+	B
	Fixed Income Corporate Financial	A	A+	B
	Fixed Income Corporate Non-Financial	A	A+	B
	Fixed Income Securitized	B	A	B
	Private Equity	A	A+	A
	Property	A	A+	B
	Infrastructure	A	A+	A
Advisory	Listed Equity Incorporation	A	A	A
	Fixed Income SSA	A	A	B
	Fixed Income Corporate Financial	A	A	A
	Fixed Income Corporate Non-Financial	A	A	A
	Fixed Income Securitized	A	A	A
	Private Equity	A	A+	A
	Infrastructure		A+	A

Source: PRI Data Portal, as of 7/31/2020.

Appendix IV

Industry affiliations and memberships

Industry affiliations and public speaking events provide important forums in which to advocate for our views on a variety of corporate governance topics, as well as listen to the views of our peers. BlackRock also engages the global investment and corporate community to promote a sustainable financial system through a number of coalitions and shareholder groups. In addition to those listed, we work informally with other shareholders (where such activities are permitted by law) to engage companies on specific issues or to promote market-wide enhancements to current practice.

Global

Broad-based initiatives	Environmental	Governance
<ul style="list-style-type: none"> • 30% Investor Club Group (2011 in the UK / 2014 in the U.S. / 2015 in Australia / 2019 in Brazil / 2020 in Japan) • CECP's Strategic Investor Initiative (2017) • Financial Stability Board (FSB) (2013) • International Integrated Reporting Council (IIRC) (2011) • International Capital Markets Association –AMIC Sustainable Finance Working Group and Green Subcommittee of the Board (2019) • Sustainability Accounting Standards Board (SASB), SASB Investor Advisory Group, SASB Standards Advisory Group, SASB Alliance (2011) • UN Principles for Responsible Investing (PRI) (2008) • IFC Operating Principles for Impact Management (2020) • The Global Impact Investing Network (2020) 	<ul style="list-style-type: none"> • CDP (formerly Carbon Disclosure Project) (2007) • CICERO Climate Finance (2016) • Climate Action 100+ (2020) • Climate Bonds Initiative (2015) • Ellen MacArthur Foundation (2019) • Green Bond Principles (2015) • GRESB (2011) • One Planet Asset Managers Initiative (2019) • Task Force on Climate-related Financial Disclosures (TCFD) (2017) • Taskforce on Scaling Voluntary Carbon Markets (TSVCM) (2020) • The Terrawatt Initiative (2017) • Vatican Energy Transition and Care for Our Common Home (2019) • World Economic Forum's Future of Energy Council (2016) 	<ul style="list-style-type: none"> • International Corporate Governance Network (ICGN) (2008) • UN Global Compact (2020)

Americas region

Broad-based initiatives	Environmental	Governance
<ul style="list-style-type: none"> • Defined Contribution Institutional Investment Association – ESG Subcommittee (2018) • Harvard Law School Institutional Investor Forum (2013) • Intentional Endowments Network (IEN) (2016) 	<ul style="list-style-type: none"> • American Council on Renewable Energy (2013) • American Wind Energy Association (2016) • Ceres Investor Network on Climate Risk and Sustainability (2008) • Consejo Consultivo de Finanzas Verdes (2020) 	<ul style="list-style-type: none"> • Associação de Investidores no Mercado de Capitais (AMEC) (2009) • Broadridge Independent Steering Committee (1999) • Commonsense Principles of Corporate Governance (2016) • Council of Institutional Investors (2006) • Canadian Coalition for Good Governance (2005) • Investor Stewardship Group (2017)

Asia-Pacific region

Broad-based initiatives	Environmental	Governance
<ul style="list-style-type: none"> • Responsible Investment Association Australia (2011) • Financial Services Council Australia (FSC) (2009) • The Investment Trusts Association of Japan (1998) • Japan Investment Advisers Association (1988) • Keidanren, Japan Business Federation (2010) • Public Shareholders Group (SFC) (2015) 	<ul style="list-style-type: none"> • Asian Investor Group on Climate Change (2016) • Association (HKGFA) –ESG Disclosure and Integration Working Group (2018) • Investor Group on Climate Change (IGCC): Australia / New Zealand (2009) 	<ul style="list-style-type: none"> • Asian Corporate Governance Association (2011)

Europe, Middle East and Africa region

Broad-based initiatives	Environmental	Governance
<ul style="list-style-type: none"> • Association for Financial Markets in Europe – Sustainable Finance Policy Working Group (2017) • Dutch Association of Investors for Sustainable Development (2018) • European Fund and Asset Management Association – Responsible Investment and Stewardship Committee (2015) • The FRC Investor Advisory Group (2018) • Institut du Capitalisme Responsable (2017) • Impact Investing Institute (2019) • Pensions for Purpose (2019) • UK HMT Asset Management Taskforce (2017) • UK Investment Association – Stewardship Committee (2011) • UK Investment Association – Sustainability and Responsible Investment Committee (2018) • UK Investor Forum – Governance and Engagement Committee (2015) 	<ul style="list-style-type: none"> • Dutch Fund and Asset Management Association: National Climate Agreement (2019) • Institutional Investors Group on Climate Change (IIGCC) (2004) • IIGCC Phase II Workstreams: Net Zero Voting working group, Net Zero Technical working group, Banking Sector working group (2020) 	<ul style="list-style-type: none"> • Eumedion Corporate Governance Forum (2010) • Corporate Governance Forum (1992) • Pensions and Lifetime Savings Association (PLSA – previously NAPF) Stewardship Advisory Group (2015)

Appendix V

Statements of adherence and consultation responses

Statements of adherence

Asia-Pacific region

- Japanese Stewardship Code – available in English and Japanese ([Link](#))
- Taiwan Stewardship Code ([Link](#))

Europe, Middle East, and Africa

- Dutch Stewardship Code ([Link](#))
- Shareholder Rights Directive II – Engagement Policy ([Link](#))
- Shareholder Rights Directive II – Implementation of Engagement Policy ([Link](#))
- UK Stewardship Code ([Link](#))

Consultation responses

Organization	Response
Securities and Exchange Commission (SEC)	Comment letter on the Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice (File No. S7-22-19) and Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8 (File No. S7-23-19) (February 2020)
Japanese Financial Services Agency (FSA)	Consultation Response to Stewardship Code (March 2020)
Taiwan Stock Exchange Corporation (TWSE) Corporate Governance Department	Consultation paper on the Revision of Stewardship Principles for Institutional Investors (April 2020)
Hong Kong Exchanges and Clearing Limited (HKEX) Corporate and Investor Communications Department	Consultation response to Corporate Weighted Voting Rights (May 2020)
Securities and Exchange Board of India (SEBI)	Consultation paper on the format for Business Responsibility and Sustainability Reporting (September 2020)
Financial Conduct Authority	Consultation paper on proposals to enhance climate-related disclosures by listed issuers and clarifications of existing disclosure obligations (October 2020)
U.S. Department of Labor (DOL) Employee Benefits Security Administration, Office of Regulations and Interpretations	Fiduciary Duties Regarding Proxy Voting and Shareholder Rights: RIN 1210-AB91 (October 2020)
International Financial Reporting Standards (IFRS) Foundation	Consultation paper on sustainability reporting (December 2020)

Appendix VI

Evidence of adherence to the UK Stewardship Code 2020

Principle	Evidence of adherence in this report (Section and/or 'subtitle')	Evidence of adherence across the firm
<p>Principle 1 Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.</p>	<ul style="list-style-type: none"> • <i>Foreword</i> under 'Purpose, sound governance, and strong leadership' (page 4) • <i>Executive summary</i> under 'Our fiduciary approach' (page 7) • BlackRock's Purpose is to help more and more people experience financial well-being (pages 17–22) 	<p>BlackRock:</p> <ul style="list-style-type: none"> • Larry Fink's letters to CEOs (2020, 2021) • BlackRock Global Executive Committee's letter to clients (2020, 2021) • Where we stand: On the journey to prosperity for more and more people (2020) • Sustainability goes mainstream: 2020 Global Sustainable Investing Survey • BlackRock ESG Integration Statement • Sustainability at BlackRock: Our 2020 sustainability actions <p>BIS:</p> <ul style="list-style-type: none"> • BIS Annual Report (published September 2020) • Our approach to sustainability
<p>Principle 2 Signatories' governance, resources and incentives support stewardship.</p>	<ul style="list-style-type: none"> • <i>Foreword</i> under 'Our expectations continue to rise' (page 5) • <i>Executive summary</i> under 'A commitment to transparency' (page 8) • <i>BlackRock's Purpose is to help more and more people experience financial well-being</i> (pages 17–22) • <i>About BlackRock Investment Stewardship</i> under 'Our stewardship team' (pages 26–28), 'Governance and oversight of our stewardship activities' (pages 29–31), 'Engagement bridges BlackRock's portfolios' (page 36), and 'Proxy research firms: one of many tools' (page 36) 	<p>BlackRock:</p> <ul style="list-style-type: none"> • BlackRock's 2020 PRI assessment • BlackRock 2020 TCFD report: BlackRock's climate-related disclosures • BlackRock SASB disclosure (2019) • ViewPoint: Asset managers of scale give voice to investors and support the economy • Sustainability goes mainstream: 2020 Global Sustainable Investing Survey • Sustainability at BlackRock: Our 2020 sustainability actions <p>BIS:</p> <ul style="list-style-type: none"> • Our 2021 Stewardship Expectations • BIS Global Principles • BIS Market-level voting guidelines • BIS Annual Report (published September 2020) • Our approach to sustainability • Protecting our clients' assets for the long-term

Principle	Evidence of adherence in this report	Evidence of adherence across the firm
<p>Principle 3 Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.</p>	<ul style="list-style-type: none"> • <i>About BlackRock Investment Stewardship</i> under 'Conflicts of interest' (page 36) and 'Best practices when using an independent fiduciary' (page 37) 	<p>BIS:</p> <ul style="list-style-type: none"> • Protecting our clients' assets for the long-term • How BlackRock Investment Stewardship manages conflicts of interest • Spotlight: Best practices when using an independent fiduciary in proxy voting
<p>Principle 4 Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.</p>	<ul style="list-style-type: none"> • <i>Foreword</i> under 'Reflecting on a year like no other' (page 5) • <i>Executive summary</i> under 'Enhanced disclosure builds understanding,' 'Promoting sound corporate governance,' and 'The importance of leadership in unprecedented times' (pages 13–15) • <i>About BlackRock Investment Stewardship</i> under 'Responsible leadership' and 'Industry affiliations and memberships to advance best practices' (pages 38–40) • <i>2020 Engagement priorities and case studies</i> (pages 56–111) • <i>Human capital management</i> under 'Responsible leadership' (pages 97–98) • <i>Appendix IV – Industry affiliations and memberships</i> (pages 121–122). • <i>Appendix V – Statements of adherence and consultation responses</i> (page 123) 	<p>BlackRock:</p> <ul style="list-style-type: none"> • Larry Fink's letters to CEOs (2020, 2021) • BlackRock Global Executive Committee's letter to clients (2020, 2021) • Where we stand: On the journey to prosperity for more and more people (2020) • BlackRock ESG Integration Statement • Sustainability goes mainstream: 2020 Global Sustainable Investing Survey • Sustainability at BlackRock: Our 2020 sustainability actions • ViewPoint: Asset managers of scale give voice to investors and support the economy <p>BIS:</p> <ul style="list-style-type: none"> • Our approach to sustainability • BIS Engagement Priorities and supporting commentaries on our approach to multiple ESG risks and opportunities • BIS positions and perspectives

Principle	Evidence of adherence in this report	Evidence of adherence across the firm
<p>Principle 5 Signatories review their policies, assure their processes and assess the effectiveness of their activities.</p>	<ul style="list-style-type: none"> • <i>About BlackRock Investment Stewardship</i> under ‘Governance and oversight of our stewardship activities’ (pages 29-31), ‘Policy review and development process’ (page 30), ‘Ongoing assessment and review of policies and processes’ (page 31), and ‘Enhanced transparency’ (pages 32–37) 	<p>BlackRock:</p> <ul style="list-style-type: none"> • BlackRock’s 2020 PRI assessment • BlackRock ESG Integration Statement • Sustainability at BlackRock: Our 2020 sustainability actions • BlackRock 2020 TCFD report: BlackRock’s climate-related disclosures • BlackRock SASB disclosure (2019) <p>BIS:</p> <ul style="list-style-type: none"> • Our 2021 Stewardship Expectations • BIS Global Principles • BIS Market-level voting guidelines • BIS Engagement Priorities and supporting commentaries on our approach to multiple ESG risks and opportunities • BIS Global quarterly stewardship reports and engagement summaries • BIS Vote Bulletins • BIS Global vote disclosure • BIS Proxy voting history • BIS Proxy Voting and Shareholder Engagement FAQ • BIS best practices when using an independent fiduciary in proxy voting
<p>Principle 6 Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.</p>	<ul style="list-style-type: none"> • <i>BlackRock’s Purpose is to help more and more people experience financial well-being</i> (pages 17–22) • <i>About BlackRock Investment Stewardship</i> under ‘Client feedback helps shape our reporting and policies,’ ‘Bringing our stewardship activities closer to our clients’ (page 31), and ‘Enhanced Transparency’ (pages 32–37) • <i>Appendix II – Overview of key publications</i> (page 119) 	<p>BlackRock:</p> <ul style="list-style-type: none"> • BlackRock ESG Integration Statement • Sustainability at BlackRock: Our 2020 sustainability actions • Sustainability goes mainstream: 2020 Global Sustainable Investing Survey • BlackRock Awards and Recognition (2020)

Principle	Evidence of adherence in this report	Evidence of adherence across the firm
<p>Principle 7 Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change to fulfil their responsibilities.</p>	<ul style="list-style-type: none"> Entire report ‘BlackRock’s commitment to sustainability’ (page 18) ‘Sustainable investing is increasingly important for our clients’ (page 19) ‘Straight A’s from the PRI in 2020’ (page 19) <i>2020 Engagement priorities and case studies</i> (pages 56–111) <i>Appendix III – BlackRock’s 2020 PRI assessment report and score</i> (page 120) 	<p>BlackRock:</p> <ul style="list-style-type: none"> Larry Fink’s letters to CEOs (2020, 2021) BlackRock Global Executive Committee’s letter to clients (2020, 2021) BlackRock ESG Integration Statement Where we stand: On the journey to prosperity for more and more people (2020) Sustainability at BlackRock: Our 2020 sustainability actions Sustainability goes mainstream: 2020 Global Sustainable Investing Survey Sustainability at BlackRock: BlackRock’s 2020 PRI assessment BlackRock 2020 TCFD report: BlackRock’s climate-related disclosures BlackRock SASB disclosure (2019) <i>ViewPoint</i>: Asset managers of scale give voice to investors and support the economy
<p>Principle 8 Signatories monitor and hold to account managers and/or service providers.</p>	<ul style="list-style-type: none"> <i>About BlackRock Investment Stewardship</i> under ‘Governance and oversight of our stewardship activities’ (page 29), ‘Ongoing assessment and review of policies and processes’ (page 31) and ‘Proxy research firms: one of many tools’ (page 36) 	<p>BlackRock:</p> <ul style="list-style-type: none"> BlackRock’s 2020 PRI assessment <p>BIS:</p> <ul style="list-style-type: none"> Protecting our clients’ assets for the long-term BIS Proxy Voting and Shareholder Engagement FAQ BIS best practices when using an independent fiduciary in proxy voting
<p>Principle 9 Signatories engage with issuers to maintain or enhance the value of assets.</p>	<ul style="list-style-type: none"> Entire report <i>2020 Engagement priorities and case studies</i> (pages 56–111) <i>Appendix IV – Industry affiliations and memberships</i> (pages 121–122) 	<p>BlackRock:</p> <ul style="list-style-type: none"> Larry Fink’s letters to CEOs (2020, 2021) BlackRock Global Executive Committee’s letter to clients (2020, 2021) BlackRock ESG Integration Statement Where we stand: On the journey to prosperity for more and more people (2020) Sustainability at BlackRock: Our 2020 sustainability actions Sustainability goes mainstream: 2020 Global Sustainable Investing Survey <i>ViewPoint</i>: Asset managers of scale give voice to investors and support the economy

Principle	Evidence of adherence in this report	Evidence of adherence across the firm
<p>Principle 10 Signatories, where necessary, participate in collaborative engagement to influence issuers.</p>	<ul style="list-style-type: none"> • <i>About BlackRock Investment Stewardship</i> under ‘Responsible leadership’ (page 38), ‘Industry affiliations and memberships to advance best practices’ (page 40), spotlight on ‘BIS leads Climate Action 100+ engagement in Asia’ (page 41), and ‘Advancing best governance practices in Latin America’ (page 47) • <i>Board quality</i> under ‘Engagement to drive improvements at a UK online clothing retailer’ (page 67) • ‘<i>Human capital management</i>’ under ‘Responsible leadership’ (pages 97–98) • <i>Appendix IV – Industry affiliations and memberships</i> (pages 121–122) 	<p>External:</p> <ul style="list-style-type: none"> • Climate Action 100+ 2020 Progress Report
<p>Principle 11 Signatories, where necessary, escalate stewardship activities to influence issuers.</p>	<ul style="list-style-type: none"> • Entire report • <i>About BlackRock Investment Stewardship</i> under ‘Governance and oversight of our stewardship activities’ (pages 29–31) • <i>2020 Voting and engagement statistics</i> (pages 50–55, 112–116) • <i>2020 Engagement priorities and case studies</i> (pages 56–111) 	<p>BIS:</p> <ul style="list-style-type: none"> • Our 2021 Stewardship Expectations • BIS Global Principles • BIS Market-level voting guidelines • BIS Engagement Priorities and supporting commentaries on our approach to multiple ESG risks and opportunities • Our approach to sustainability • BIS Global quarterly stewardship reports and engagement summaries • BIS Vote Bulletins • BIS Global vote disclosure • BIS Proxy voting history • BIS positions and perspectives

Principle	Evidence of adherence in this report	Evidence of adherence across the firm
<p>Principle 12 Signatories actively exercise their rights and responsibilities.</p>	<ul style="list-style-type: none"> • <i>About BlackRock Investment Stewardship</i> under ‘Governance and oversight of our stewardship activities’ (pages 29–31), ‘Enhanced transparency’ (pages 32–33), and ‘Exercise of rights and responsibilities’ (page 34), ‘Engagement bridges BlackRock’s portfolios’ (page 35), and ‘Proxy research firms: one of many tools’ (page 36) 	<p>BIS:</p> <ul style="list-style-type: none"> • Our 2021 Stewardship Expectations • BIS Global Principles • BIS Market-level voting guidelines • BIS Engagement Priorities and supporting commentaries on our approach to multiple ESG risks and opportunities • Our approach to sustainability • BIS Global quarterly stewardship reports and engagement summaries • BIS Vote Bulletins • BIS Global vote disclosure • BIS Proxy voting history • BIS positions and perspectives • BIS Proxy Voting and Shareholder Engagement FAQ • BIS best practices when using an independent fiduciary in proxy voting

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ContactStewardship@blackrock.com

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