



# BlackRock's Approach to Sustainability

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BLACKROCK®

# BlackRock Mission Statement on Sustainability

*We are an asset manager whose objective is to create better financial futures for our clients and the people they serve. We aspire to be an industry leader in how we incorporate sustainability into:*

- our **investment processes** and learning across the firm,
- our **stewardship** of our clients' assets,
- our sustainable investment **solutions** offered to our clients, and
- the **operations** of our own business

*Our expertise in sustainable investing seeks to help clients achieve better investment outcomes*

- We believe sustainability-related issues – ranging from governance to social to environment – have real financial impacts
- We are committed to providing clients a clear picture of how sustainability-related issues affect risk and long-term financial performance, and then delivering ESG solutions that improve their investment outcomes

# Four Pillars of Sustainability at BlackRock

“ A company’s ability to manage **environmental, social, and governance** matters demonstrates the leadership and good governance that is so **essential to sustainable growth**, which is why we are increasingly integrating these issues into our investment process”

– Larry Fink, 2018 Letter to CEOs



## Integration

Integrating sustainability-related insights and data into BlackRock’s investment processes across asset classes and investment styles

## Stewardship

Engaging companies in index and alpha-seeking portfolios alike on sustainability-related issues that impact long-term performance

## Solutions

Delivering sustainable investment solutions that help empower clients to achieve their financial objectives

## Operations

Ensuring the long-term sustainability of our own firm in order to deliver the best outcomes for clients and shareholders

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# We define ESG integration as the practice of incorporating material ESG information into investment decisions to enhance risk-adjusted returns

## ESG integration is:



## ESG integration is NOT:

✗ A values-based exercise

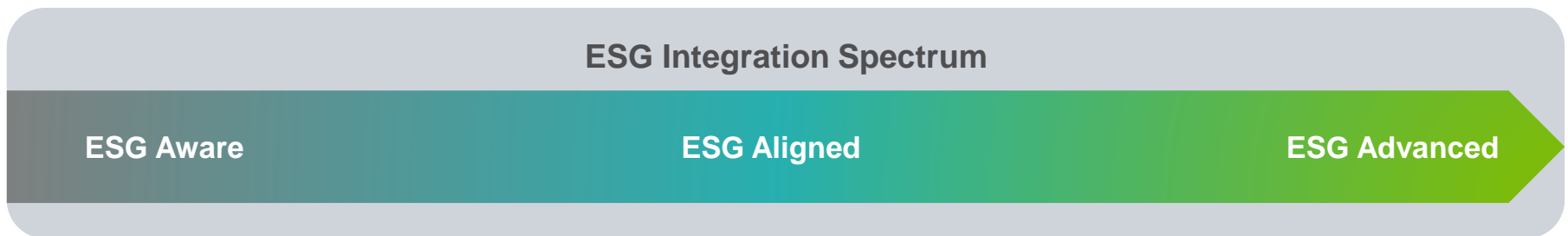
Source: BlackRock Sustainable Investing, April 2018. There is no guarantee that a positive investment outcome will be achieved

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# We view ESG integration as an evolution rather than an end point

## BlackRock is undergoing a firm-wide effort to deepen the integration of sustainability-related insights and data into investment processes globally

- ESG considerations that are material will vary by investment styles, sector/industry, market trends, and client objectives.
- BlackRock has a consistent yet flexible framework for ESG integration into the investment process that allows for a diversity of approaches across different investment teams.
- BlackRock Sustainable Investing facilitates investment process enhancements owned by investment teams.
- In actively managed portfolios, ESG information is considered during research or due diligence as well as in ongoing monitoring.
- In index-investment portfolios, ESG information is typically considered in engagement with portfolio companies. The BlackRock Investment Stewardship team conducts engagement and voting on behalf of clients invested in index funds.



Source: BlackRock Sustainable Investing, April 2018. There is no guarantee that a positive investment outcome will be achieved

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## II. Investment Stewardship as a fiduciary for clients

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# BlackRock's approach to Investment Stewardship

*“As a large investor, we are able – and feel a responsibility – to monitor the companies in which we invest and to engage with them constructively and privately where we believe that would help protect clients’ interests. As a fiduciary investor, BlackRock evaluates how companies manage the material sustainability-related risks and opportunities within their businesses.”*

*– Michelle Edkins, Global Head of BlackRock Investment Stewardship*



## **Direct engagement with companies**

Protect and enhance the value of clients’ assets through engagement with companies



## **Proxy voting, guidelines & reports**

Encourage governance practices that support sustainable financial performance over the long-term



## **Engagement on policy issues**

Thought leadership on policy issues, comment letters and position papers on variety of topics

# The Investment Stewardship Ecosystem

We believe a clear picture of the entire stewardship ecosystem is key to understanding the role asset managers play in investment stewardship

## Asset Owners

**Asset owners are the economic owners of assets. They make critical decisions about how their money is invested, including:**

- Establishing investment policies (e.g., investment objectives, asset allocation policies, and approach to sustainability, or ESG matters)
- Whether to manage their assets internally or outsource to an external asset manager
- How to handle their responsibilities as public company shareholders (e.g., proxy voting policies, reliance on proxy advisors, and/or insourcing versus outsourcing of investment stewardship activities)

## Asset Managers

**Asset managers are fiduciary agents, required to act in the best interest of their clients, the asset owners**

- There are many different business models of asset management, with companies offering a wide range of products to meet the needs of various clients
- Likewise, there is a wide range of approaches to investment stewardship across the asset management industry
- Asset managers do not participate directly in the economic results of companies in which they invest on behalf of clients
- Traditional asset managers (e.g., mutual fund managers) generally do not take seats on public company boards

## Index Providers

**Index providers develop index construction rules that drive the inclusion of securities in indexes**

- Index providers offer both broad market and specialized indexes
- Index providers have developed indexes that exclude certain exposures (e.g., tobacco, controversial weapons) as well as suites of ESG-oriented indexes in response to demand from asset owners
- ESG indexes have their own specific index inclusion (or exclusion) rules

## Proxy Advisors

**Proxy advisory firms such as Institutional Shareholder Services (ISS) and Glass Lewis provide data, voting recommendations, and vote submission technology to their clients, who may use all of just some of the available services**



# BlackRock takes an “Engagement-First” approach to investment stewardship

We emphasize direct dialogues with companies on issues that we believe have a material impact on financial performance

- **Engagement is the core of our stewardship program** as it helps us assess a company’s approach to governance in the context of its specific circumstances: we do not consider this a box-ticking exercise
- We look to engage constructively with company management to **maximize the value** of our clients’ investments in each individual company
- Our Investment Stewardship team **engages extensively** with companies around the world on issues that we have identified as material to companies’ long-term financial sustainability, and **votes on behalf of our clients** and funds that have delegated voting authority to BlackRock
- Our engagements are **not limited to just companies** — between July 1, 2016 to June 30, 2017 we presented at approximately 170 industry conferences and panel discussions and participated in over 300 client meetings, providing us the opportunity to share our perspective with a wide audience of clients, public company representatives, market participants and other professionals dedicated to advancing governance and stewardship practices

Breakdown of Engagement Meeting Topics\* (July 1, 2017 to June 30, 2018†)

Region	Environmental	Social	Governance
Americas	129	157	728
Europe, Middle East, Africa	84	157	562
Asia-Pacific Region	88	88	567
<b>Total</b>	<b>301</b>	<b>402</b>	<b>1,857</b>

Source: ISS Proxy Exchange on July 15, 2018

\* Our regional quarterly reporting on our engagement program can be found on our website.

† The 12-month period represents the SEC reporting period for U.S. mutual funds, including iShares.

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# Investment Stewardship engagement priorities for 2017-2018\*

## Governance

Board composition, effectiveness, diversity, and accountability remain a top priority

## Corporate strategy for the long term

Board review of corporate strategy is key in light of shifting assumptions

## Compensation that promotes long-termism

Executive pay policies should link closely to long-term strategy and goals

## Disclosure of climate risks

Consistent disclosure of standards would enhance understanding of the impact of climate change on individual companies, sectors and investment strategies

## Human capital management

In a talent constrained environment, human capital management is a competitive advantage

\*Reporting cycle from July 2017 to July 2018.

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# BlackRock is committed to transparency

## Numerous documents are available on BlackRock's website

- ✓ Voting priorities, guidelines, records, and vote bulletins
- ✓ Company-specific case studies
- ✓ Commentaries on emerging issues
- ✓ Public policy position papers and letters
- ✓ Quarterly activity reports by region (Americas, EMEA, and APAC)

**BlackRock Voting Statistics\*** (July 1, 2017 to June 30, 2018)†

Region	Total Number of Meetings Voted	Total Number of Proposals Voted	% of Meetings Voted Against One or More Management Recommendations	% of Proposals Voted Against Management Recommendation
United States	3,904	31,265	29%	5%
Americas (ex-US)	1,108	9,993	50%	10%
United Kingdom	861	11,718	30%	5%
EMEA (ex-UK)	2,593	35,420	55%	12%
Japan	2,142	21,202	37%	5%
Asia-Pacific (ex-Japan)	6,543	49,344	35%	10%
<b>Total</b>	<b>17,151</b>	<b>158,942</b>	<b>38%</b>	<b>8%</b>

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