

Voting Bulletin: TransDigm Group Inc.

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our [engagement priorities](#) based on our observation of market developments and emerging governance themes and evolve them year over year as necessary. The BIS team’s key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

Our approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management’s approach to key business issues. When effective corporate governance is lacking, we believe that voting against the re-election of the responsible directors is often the most impactful action a shareholder can take.

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	TransDigm Group Inc.
Market	United States
Meeting Date	29 th June 2020
Key Resolutions ¹	Item 1.6: Re-elect Director W. Nicholas Howley Item 4: Adopt Quantitative Company-wide GHG Emission Goals
Board Recommendation	The company recommends shareholders vote FOR management items and vote AGAINST the shareholder proposal.

¹ Full meeting information can be accessed at: <https://transdigmgroupinc.gcs-web.com/static-files/ad3c0c3f-1fa9-4280-b961-c86729c0470d>

BlackRock Vote

We voted AGAINST the reelection of W. Nicholas Howley (item 1.6) as director and Chair of the Board to hold the most senior director to account given our assessment of a lack of climate-risk oversight and insufficient progress with respect to climate-related reporting. The company has no lead director or committee designated as responsible for climate risk.

We voted FOR the shareholder resolution (item 4) on climate risk disclosure as we believe it is in the best interest of shareholders to have enhanced disclosure on this issue.

BIS believes that as companies face material climate risks, they must demonstrate that management has assessed how climate change may impact operations and determined an appropriate business strategy. As we describe in our commentaries on [our Approach to Engagement on Climate Risk](#) and [Emissions, Engagement, and Transition to a Low-Carbon Economy](#), we expect robust disclosures of climate-related risks and opportunities in line with the recommendations of the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). Greater transparency will contribute to improved market-level data, better engagements with shareholders, and more informed voting decisions aligned with long-term value creation.

Overview

TransDigm Group Inc. (TransDigm) designs, produces, and supplies aircraft components in the United States and internationally. The company is increasingly under scrutiny for its greenhouse gas (GHG) emissions, as is the broader industrials sector. Based on its own environmental footprint, business focus, and airline client base, the company is exposed to material climate risk in a variety of ways. BIS engaged with the company in 2019, prior to their annual general meeting (AGM), and again in 2020, to discuss the GHG shareholder proposal that appeared on the ballot for the second year in a row.

Engagement Background

In our engagement with TransDigm on the issue of GHG emissions targets ahead of its 2019 AGM, the company stated that it would collect data that year to effectively establish a baseline to measure current emissions and set future reduction targets. With that understanding, we ultimately decided to vote against the shareholder proposal on GHG emissions. As of the end of 2019, the company had not provided disclosure on the risk oversight or strategy considerations for climate-related risk.

In its 2020 proxy statement, the company included language to stipulate that it is “considering whether sustainability and climate issues are likely to present any material risk and/or opportunity for the Company and, in conjunction therewith, the Board of Directors will consider the role of the Board in overseeing climate-related issues and the scope of that oversight.”² The company said it will use 2021 as its baseline reporting year, and provided no further information on metrics or material focus areas.

This response is, in our view, inadequate given the expectation set at the 2019 AGM and our assessment of the material impact (physical, structural and/or regulatory) that climate risk is likely to have on the company’s long-term strategy and ability to deliver sustainable shareholder returns.

Rationale for BlackRock Vote

Items 1.6 Election Director W. Nicholas Howley (AGAINST)

² See page 14 of TransDigm’s proxy, available at: <https://transdigmgroupinc.gcs-web.com/static-files/fd730cb2-7e38-49a0-8be2-57f55ccb8f7>

As we stated in January, given the groundwork that BIS has already laid engaging on sustainability-related risks, opportunities, and disclosures, we are increasingly disposed to vote against management and board directors when a company has not made sufficient progress to address material environmental risks.³

We were not satisfied with the company's climate risk oversight and believe there has been insufficient progress with regards to climate-related reporting, despite laying out our clear expectations a year ago. Per our policy, BIS will hold members of the relevant committee, or the most senior non-executive director, accountable for inadequate disclosures and the business practices underlying them. As the company has no lead director or committee designated as responsible for climate risk, we are holding the Chairman (W. Nicholas Howley) to account by voting against his reelection. Howley was the CEO until 2018 and is the founder of the company.

Item 4 Adopt Quantitative Company-wide GHG Goals (FOR)

The company has received a shareholder proposal requesting GHG emissions reductions targets for the second year in a row.

"Resolved: Shareholders request that TransDigm Group, Inc. adopt a policy with time-bound, quantitative, company-wide goals for managing greenhouse gas (GHG) emissions, taking into account the objectives of the Paris Climate Agreement, and report, at reasonable cost and omitting proprietary information on its plans to achieve these targets."

Based on the lack of progress, including the company's failure to implement climate risk considerations in strategy and to sufficiently produce climate-related, TCFD-aligned reporting, BIS voted in favor of the shareholder proposal.

We will continue to engage with the company on its governance practices and reporting. Absent progress on public climate-related disclosures in alignment with the TCFD framework, we will continue to signal our concerns by taking voting action, including voting against relevant board members who are responsible for ensuring appropriate climate-related risk oversight and reporting that articulates integration into the company's strategy.

³ See BlackRock CEO Larry Fink's annual letter to CEOs, <https://blackrock.com/ceoletter>