Investment Stewardship at BlackRock
A primer

Why Stewardship matters to our clients.

At BlackRock, Stewardship supports the long-term value creation that clients depend on to achieve their financial goals. We do this by using our voice as an investor on behalf of clients to encourage sound corporate governance and resilient business models. This is an enormous responsibility and we take it very seriously; it is integral to our fiduciary approach as an asset manager. BlackRock Investment Stewardship’s (BIS) policies and engagement priorities form the foundation of this work.

Stewardship serves as a link between our clients and the companies we invest in on their behalf. The team works closely with BlackRock’s active portfolio managers. We are solely focused on long-term value creation for clients – it is their money, not ours. The balanced approach we endeavor to take across environmental, social, and governance (ESG) factors is always driven by our goal of creating value for our clients, not by politics.

We do this in three ways:

1. Engaging with companies to encourage sound corporate governance and resilient business models. We engage to understand – not dictate – companies’ purpose, strategy and actions, and how those drive performance over time. BIS believes that engagement is integral to our role as a supportive long-term shareholder and leads to constructive outcomes for investee companies and clients alike.

2. Voting at shareholder meetings on management and shareholder proposals on behalf of clients who have delegated voting authority to BlackRock. Voting is the formal mechanism through which we provide feedback to companies on their corporate governance and management of material sustainability risks.

3. Shaping industry standards for corporate governance policies and sustainability disclosures, by participating in market-level dialogue with policy makers and other investors and by publishing our own thought leadership.

1 In this primer we use Stewardship and BIS interchangeably to refer to the team at BlackRock responsible for investment stewardship.
2 The 2021–22 proxy year covers the period from July 1, 2021 to June 30, 2022, representing the U.S. Securities and Exchange Commission’s (SEC) 12-month reporting period for U.S. mutual funds, including iShares.

What makes BIS unique?

BIS stands out for a number of key reasons:

Commitment to engagement

- BIS conducted 3,690+ engagements with 2,460+ public companies in 55 markets in the 2021 – 22 proxy year. Those companies represent 69% of the value of BlackRock’s clients’ equity assets under management (AUM) as of June 30, 2022.
- BIS is one of the largest stewardship teams in the industry, operating across ten offices around the world.
- The team’s globally-coordinated, local presence and breadth of experience enables more frequent and better-informed dialogue with companies.

Voting platform and client choice

- BIS voted on 170,000+ proposals at more than 14,000 companies globally in the 2021 – 22 proxy year.
- Our voting is largely supportive of management: for example, BIS voted for the (re)election of 90% of directors globally in the 2021–22 proxy year.
- BIS voting analysts are responsible for voting the majority of BlackRock equity index strategies ($3.8T of AUM as of September 30, 2022).
- New in 2022, BlackRock offers certain institutional clients in separate account and institutional pooled vehicles more choice in how their shares are voted.

Trusted investment partner

- BIS’ analysis of how companies manage ESG issues are available to BlackRock investment teams through Aladdin® Research and may be used by active portfolio managers to inform investment decisions.
- BIS’ analysis of climate risk disclosures and management in our 1,000+ company Climate Focus Universe is an integral input to BlackRock’s framework for managing securities that pose significant climate risk, known as the Heightened Scrutiny Framework (see page 7).

Commitment to transparency

- BIS publishes policies and commentaries to share our views with clients and other stakeholders.
- BIS publishes an annual report and, on a quarterly basis, a full record of engagements and voting.
- Since January 2020, BIS has published more than 130 vote bulletins that describe our rationale for high profile vote decisions.
**Stewardship policies: solely focused on advancing BlackRock clients’ long-term financial interests**

Our Stewardship policies are grounded in the issues we consider likely to impact companies’ ability to deliver durable long—term shareholder returns. BIS has always put governance at the heart of our stewardship approach. Our clients, as long-term shareholders, rely on companies having a strong, independent board to advise and oversee management. We look to boards to make sure a company effectively manages business-relevant, material risks and makes the most of potential opportunities.

<table>
<thead>
<tr>
<th>Engagement Priority</th>
<th>Focus Issues for 2022</th>
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<tbody>
<tr>
<td><strong>Board quality &amp; effectiveness</strong>&lt;br&gt;Quality leadership is essential to performance. Board composition, effectiveness, diversity, and accountability remain top priorities</td>
<td><strong>Board effectiveness</strong> – A core component of BIS’ work to advance our clients’ financial interests is direct engagement with board members. For those companies with which we wish to engage to understand their board’s role, we seek dialogue with the most appropriate non-executive, and preferably independent, director who has been identified by the company as having a responsibility to meet with shareholders. &lt;br&gt;&lt;br&gt;<strong>Board quality</strong> – We look to companies to disclose their approach to ensuring meaningful board diversity and encourage the board to set out the self-identified demographic profiles of the directors in aggregate, consistent with local law, and how this aligns with the company’s strategy and business model.</td>
</tr>
<tr>
<td><strong>Long-term strategy</strong>&lt;br&gt;A purpose driven long-term strategy, underpinned by sound capital management, supports financial resilience</td>
<td>In discussing their corporate strategy and financial resilience, we encourage companies to set out how they have integrated business relevant sustainability risks and opportunities. To aid investor understanding, companies can demonstrate in their disclosures how they are aligning their strategy with their purpose to address these risks and opportunities and create long-term value, evidenced by metrics relevant to their business model. BIS encourages companies to disclose industry- or company-specific metrics to support their narrative on how they have considered key stakeholders’ interests in their business decision-making.</td>
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<tr>
<td><strong>Executive incentives</strong>&lt;br&gt;Appropriate incentives reward executives for delivering sustainable long-term value creation</td>
<td>BIS looks to companies to disclose incentives that are aligned with long-term value creation and sustained financial performance, underpinned by material and rigorous metrics that align with the company’s long-term strategic goals. If companies choose to include sustainability metrics in incentive plans, they should be as rigorous as other financial or operational targets.</td>
</tr>
<tr>
<td><strong>Environmental</strong>&lt;br&gt;Business plans with targets to advance the transition to a low-carbon economy. Managing natural capital dependencies and impacts through sustainable business practices</td>
<td><strong>Climate risk</strong> – We encourage companies to discuss in their reporting how their business model is aligned to a scenario in which global warming is limited to well below 2°C, moving towards global net zero emissions by 2050. Companies help investors understand their approach when they provide disclosures aligned with the four pillars of the Task Force on Climate-related Financial Disclosures (TCFD) — including scope 1 and 2 emissions, along with short-, medium-, and long-term science-based reduction targets, where available for their sector. &lt;br&gt;&lt;br&gt;<strong>Natural capital</strong> – We look to companies to disclose detailed information on their approach to managing material natural capital-related business risks and opportunities, including how their business models are consistent with the sustainable use and management of natural resources such as air, water, land, minerals and forests.</td>
</tr>
<tr>
<td><strong>Social</strong>&lt;br&gt;Sound business practices create enduring value for key stakeholders – employees, customers, suppliers, and communities</td>
<td>We look to companies to demonstrate a robust approach to human capital management and provide shareholders with the necessary information to understand how their approach aligns with their stated strategy and business model. &lt;br&gt;We look to companies to disclose the actions they are taking to support a diverse and engaged workforce, and how that aligns with their strategy and business model. &lt;br&gt;We look to companies to discuss in their disclosures how the board oversees management’s approach to due diligence and remediation of adverse impacts to people arising from their business practices.</td>
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Stewardship policy

Stewardship policy serves as the foundation for BIS’ voting and engagement decisions. It is comprised of published Global Principles, market-specific voting guidelines, and engagement priorities. BIS publishes the stewardship policies to give external stakeholders visibility into our priorities and the factors considered in engagement and voting. These policies align with our commitment to pursue long-term financial returns for our clients as shareholders.

How we determine Stewardship policy

Stewardship policy is reviewed annually by a broad group of stakeholders within the firm:

- Each year, through a globally coordinated process, the regional Stewardship teams review the proxy voting guidelines implemented in their region and propose amendments to reflect changes in market standards, evolving governance practices and insights gained from engagements with companies and clients.
- The BIS team also reviews and amends as necessary the Global Principles, which are the overarching framework for BIS’ engagement and voting work and reflect common themes in stewardship across regions.
- The proposed policies are reviewed at this initial stage in the process, and again subsequently as necessary, by internal partners in Legal & Compliance (L&C), the Global Public Policy Group (GPPG), and others as necessary.
- BIS benefits from input from three regional Stewardship Advisory Committees covering the Americas (AMRS), Europe, the Middle East and Africa (EMEA), and Asia-Pacific (APAC). These committees are composed of senior BlackRock investment professionals and subject matter experts, who review the proposed changes and help ensure that the voting guidelines are consistent with our aim to support companies that deliver long-term shareholder returns.
- The updated regional voting guidelines are then submitted, along with the Global Principles, to the Global Investment Stewardship Oversight Committee, for review and approval. This step is intended to promote global consistency, while allowing for regional nuance.
- The Vote Issues Advisory Committee (VIAC), an advisory committee composed of some of the firm’s senior-most investment professionals and governance and stewardship experts, may also be asked to review the proposed changes if new policies are being considered.

Figure 1: How Stewardship policy is determined

Note: BIS regularly publishes thought leadership pieces which undergo a similar review process.
How BlackRock Investment Stewardship makes voting decisions

BIS votes for those clients who have authorized us to do so on their behalf. The vast majority of Stewardship’s voting decisions are straightforward applications of the regional voting guidelines and are determined by the relevant voting analyst, in consultation with team members or the regional BIS head, as necessary.

BIS’ vote decisions reflect our **reasonable judgment of what is in the best long-term financial interests of clients**. This is informed by analysis of company disclosures, third-party research, comparisons against a company’s industry peers, as well as engagement with companies and BlackRock active portfolio managers.

BIS recently introduced decision trees to support analysts in their decision-making on certain, more complex issues to facilitate consistency when applying voting guidelines within industries and markets.

BIS is, for the most part, a supportive shareholder but we may determine not to support management in our voting on behalf of clients when we believe a board is not acting in the best long-term financial interests of BlackRock’s clients and when companies do not take our feedback into consideration.

**Figure 2: How BIS voting decisions are made**

1. **Research and issue spotting**
   - BIS analyst alerted to a meeting allocated to them entering system
   - Analyst reviews proxy research, company materials, broker research, and other publicly available information as necessary
   - Analyst applies internally developed guidelines to determine how to vote
   - Straightforward meetings proceed to vote execution
   - Remainder are flagged for additional research

2. **Review and engagement**
   - In depth research and review of particularly complicated or controversial matters
   - Discuss issues and vote options with BIS colleagues and BIS advisory committees, as necessary
   - Leverage expertise of investment colleagues, as necessary
   - Engage with the company’s executives or board members to discuss key questions or concerns, as necessary

3. **Vote execution**
   - Execute votes through external provider’s electronic platform
   - Reconcile vote positions against holdings to ensure clean operating environment
   - Per BIS policy, votes may be cast by independent fiduciary
   - Regional advisory committees meet several times a year and review reports of votes cast and key engagements

**Stewardship has a vote escalation process** that allows analysts and regional heads to raise high-profile and certain non-routine voting matters for further review by committees of senior BIS leaders and the BIS advisory committees. Examples of high-profile votes include certain environmental- and social-focused shareholder proposals, votes at companies within the BIS Climate Focus Universe, mergers, and shareholder activist situations.

**Pre-population of ballots**: given the large universe Stewardship covers, it employs a vendor to streamline the voting process by applying regional voting guidelines to votes where we hold a relatively low percentage of the company and/or the items on the meeting agenda are routine. Agenda items that are not routine are referred back to the relevant BIS analyst to vote. This process ensures Stewardship focuses on votes where we hold a larger percentage of the company and/or voting is more nuanced, and thus detailed analyst input is required.
Stewardship engagement with companies

BIS regularly engages to understand a company’s approach to governance and long-term shareholder value creation. Many people ask about the nature of “engagement” and what exactly it entails. Simply put, it consists of constructive, on-going – sometimes frank – discussions with company boards and management. Engagement helps inform our voting decisions, when our clients authorize us to vote proxies on their behalf. However, these conversations extend well beyond proxy season and form the bedrock of open communication, better understanding, and clarity that are essential to making informed decisions on our clients’ behalf.

The topics we discuss, the questions we ask, and the guidelines under which we operate reflect the issues we believe are essential to the long-term financial performance of our clients’ investments. They reflect the extensive research and analysis of our stewardship specialists covering companies across 55 markets, who take into consideration company disclosures, BlackRock proprietary research, our active portfolio managers’ perspectives, and third-party analysis to understand the risks companies are managing and the opportunities they intend to pursue. BIS determines which companies to engage, and on which issues, based on our engagement priorities, company disclosures, and the agenda for the forthcoming shareholder meeting, amongst other considerations (see Figure 3).

We do not do client-directed engagement. Nearly all of Stewardship’s engagements are done individually, rather than alongside other asset managers, or asset owners, which we have determined allows us to best advocate for our clients’ long-term financial interests.

Our team is careful to bring an informed perspective to every engagement and to focus on issues we assess to be important to long-term shareholder value. We are interested in hearing from companies about their approach to material governance and sustainability risks and opportunities and in understanding how these can support or undermine long-term performance. Just as importantly, we seek to listen to companies to better understand how their strategic objectives and business decisions take into account the interests and concerns of various stakeholders, particularly their shareholders.

BIS analysts regularly engage alongside BlackRock’s active portfolio managers, deepening expertise in the companies they cover while evaluating them from a governance and sustainability perspective.

We generally engage with representatives of a company’s executive and management team, depending on the issues we or the company wish to discuss. Sometimes, when we are interested to understand how the board is considering issues for which it is responsible, such as director appointments, we may engage with relevant members of the board.

Figure 3

Identifying companies for engagement

- Engagement and voting history/pre-vote clarification
- Assessment of a company’s financial & governance performance relative to peers
- Events that have impacted or may impact long-term shareholder value
- Management of sector-specific concerns material to long-term shareholder value
- Thematic issues
- A company seeks a meeting and has a substantive agenda

Prioritizing companies for engagement

- Level of concern
- Aggregate client exposure
- Engagement would be productive for the company and BIS
- Engagement focus issues relevant to company

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The governance of Stewardship at BlackRock

Stewardship’s promise to clients

Stewardship is an independent function within BlackRock. As an asset manager, our fiduciary role is to act in the best interests of our clients. This role extends to when clients authorize us to vote on their behalf. As most clients have authorized us to vote their shares, we have determined that the best way to satisfy our fiduciary responsibilities is to have a robust stewardship function that engages with companies.

BlackRock has established policies and procedures to help ensure that the firm is satisfying its fiduciary responsibilities to clients and, for those who have authorized us to do so, voting proxies in their best long-term financial interests. BlackRock provides transparency on BIS’ approach and related policies and procedures via a variety of channels (e.g., product disclosures, investment management agreements (IMAs), Form ADV filed with the Securities and Exchange Commission (SEC), as well as BIS voluntary disclosures).

Stewardship within BlackRock

While Stewardship engages with a broad range of internal groups, the team’s responsibilities are separate from sales and distribution activity to mitigate conflicts of interest and to preserve voting integrity and clients’ trust.

BIS votes at the shareholder meetings of many clients, business partners and vendors. It is vital that all issuers are treated equally, regardless of whether they are clients or business partners; no issuers are given special treatment in voting or differentiated access to the BIS team.

Just as our commercial interests would never affect a portfolio manager’s buy/sell decisions, so too these interests can never influence a voting decision or engagement activity.

Managing conflicts of interest

Conflicts of interest are managed in accordance with BIS’ policies and procedures. BlackRock maintains robust structures and processes to monitor for and manage potential conflicts of interest and to ensure that proxy voting is insulated from impact.

As set out in Figure 4, BlackRock has identified five primary sources of potential conflicts of interest relevant to Stewardship when we vote and/or engage with portfolio companies as a fiduciary on behalf of clients. BlackRock L&C applies the criteria in Figure 4 to develop a list of companies where potential or perceived conflicts of interest could arise.

When companies fall within certain categories identified in Figure 4, and for other reasons as deemed necessary by L&C, BlackRock uses an independent fiduciary to vote at those shareholder meetings on behalf of clients who have authorized us to vote.

The list of the companies is sent to the vendor managing BlackRock’s voting platform (i.e. ISS) and the independent fiduciary. The independent fiduciary makes voting decisions based on BIS’ publicly available Global Principles and market-specific voting guidelines, which aim to advance clients’ long-term financial interests, and information disclosed publicly by the relevant companies. The independent fiduciary may engage with companies in its own name to ask clarifying questions or in response to a company’s request for engagement on voting matters, though it is not authorized to engage with companies on BlackRock’s behalf or represent BlackRock’s views.

For the companies on the list, votes on the items of business at their shareholder meetings are implemented by ISS based on the instructions sent directly to them by the independent fiduciary.

Figure 4: Five areas where potential or perceived conflicts of interest could arise and how we address them

<table>
<thead>
<tr>
<th>Separation of Stewardship from commercial responsibilities to ensure independent decisions¹</th>
<th>Use of an independent fiduciary</th>
</tr>
</thead>
</table>
| **Clients**  
BlackRock clients may be either issuers of securities held in BlackRock portfolios or shareholders actively interested in certain ballot items | **Employees & BlackRock Board Directors**  
BlackRock employees may serve on the boards of, or BlackRock board members may be senior executives or board members of, companies held in BlackRock portfolios |
| **Business Partners and Vendors**  
Our business partners and vendors may also be issuers of securities held in BlackRock portfolios | **BlackRock Entities**  
BlackRock securities, securities of BlackRock investment funds, or securities of companies with whom we have a joint venture, may be held in BlackRock portfolios |
| **Public Company Transactions**  
Certain BlackRock investment teams may be engaged in transactions involving public companies; investment teams outside of and unrelated to the transaction may also hold positions in these companies. |

Stewardship collaboration with BlackRock’s active investors

BIS’ purpose is to engage with the companies we invest in on behalf of clients to encourage sound corporate governance and resilient business models that support long-term value creation. Stewardship serves as a link between BlackRock’s clients and the companies we invest in on their behalf. The team plays an integral role by engaging with companies on behalf of BlackRock’s index portfolios and coordinating with portfolio managers with active positions in a company.

Voting

As an asset manager, BlackRock has a fiduciary responsibility to vote shares for clients who choose to delegate voting authority to us. Most of this voting is conducted by BIS, as approximately 90% of the equity investments BlackRock manages on behalf of clients are in index strategies. However, active portfolio managers retain voting authority for the shares of companies held within their portfolios.

BIS collaborates closely with active investment teams to share views and insights. BIS analysts and active investors often participate in joint engagements with companies on ESG matters. Stewardship routinely escalates vote recommendations to active portfolio managers, based on pre-determined criteria for voting matters of particular interest to active investors.

Active portfolio managers with positions in a company can vote their shares independently of BIS or in agreement. For routine governance and other non-controversial matters, active portfolio managers typically look to Stewardship for insights and vote recommendations. For routine, straight-forward governance matters, BIS will vote active equity shares.

From time to time, active portfolio managers and BIS may reach different voting conclusions on proposals made by management or shareholders. These instances are infrequent and occurred at 18 of the more than 18,000 shareholder meetings voted in 2021-22 proxy year.

Reasons for a difference of opinion on voting vary. Both BIS and active portfolio managers base their vote decision on the outcome they believe to be most consistent with the long-term financial interests of clients invested in the company under consideration. BIS determines how to vote on behalf of index investors, who are locked-in, long-term shareholders of companies. An active portfolio manager may vote differently based on their views of what is best for clients invested in their fund in line with the fund’s or clients’ investment mandates.

Research

Stewardship’s company analysis can help inform active portfolio managers’ investment decisions. The governance and sustainability insights Stewardship develops through engaging with companies can be unique. BIS research into companies’ E, S, and G profiles can provide investors with an up to date fundamental perspective, with insights not captured by ESG rating agencies, which often lag. Stewardship’s notes on companies are stored in BlackRock’s investment and risk management platform, Aladdin®, for the firm’s active portfolio managers to access and consider in their investment decision making.

In 2021, BIS published its Climate Focus Universe, a list of over 1,000 companies globally that will receive additional Stewardship analysis related to the risks and opportunities stemming from the energy transition. These companies represent more than 90% of the global scope 1 and 2 emissions of the companies BlackRock invests in on behalf of listed equity clients. BIS’ analysis of these carbon-intensive companies can be valuable for portfolio managers seeking to gain a better understanding of how companies compare to their peer group and their preparedness for the energy transition.

Additionally, Stewardship’s research contributes to the Heightened Scrutiny Framework for Climate (HSF) for embedding sustainability risk assessments into BlackRock’s active investment process. The HSF establishes a focus universe of holdings that currently present a particularly significant climate-related risk due to three factors:

- High carbon intensity today
- Insufficient preparation for the energy transition
- Low reception to our investment stewardship engagement

BIS’ 2021 Climate Focus Universe is used as a starting point for HSF analysis, and BIS engagement and analysis further contribute to the HSF model. Portfolio managers using the HSF framework may leverage Stewardship insights and partner with BIS to engage companies on our approach to climate risk with a unified voice. The HSF serves as a global internal platform for collaboration and sharing of fundamental research insights for stewardship and investment purposes.
Appendix
BlackRock Investment Stewardship: By the numbers

BlackRock is a long-term investor and, as an asset manager, is a fiduciary to our clients. BlackRock Investment Stewardship advocates for sound corporate governance and business models that can help drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

BlackRock Investment Stewardship team overview

<table>
<thead>
<tr>
<th>Our global team</th>
<th>Leveraging the global expertise of our:</th>
</tr>
</thead>
<tbody>
<tr>
<td>70+ member team *</td>
<td>• Investment analysts</td>
</tr>
<tr>
<td>71 voting markets **</td>
<td>• Specialists</td>
</tr>
<tr>
<td>10 offices globally *</td>
<td>• Researchers</td>
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<tr>
<td>25 professional certifications *</td>
<td>• Active Investors</td>
</tr>
<tr>
<td>50+ organizational affiliations *</td>
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* Source: BlackRock. As of November 7, 2022
** Source: BlackRock. Reflects data from July 1, 2021 to June 30, 2022

BlackRock Investment Stewardship highlights

Engaging across our five engagement priorities

In the 2021-22 proxy year, BIS had 3,690+ engagements with 2,460+ companies.

<table>
<thead>
<tr>
<th>Engagement priority</th>
<th># of engagements</th>
</tr>
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<tbody>
<tr>
<td>Board quality and effectiveness</td>
<td>2,326</td>
</tr>
<tr>
<td>Strategy, purpose, and financial resilience</td>
<td>2,115</td>
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<tr>
<td>Incentives aligned with value creation</td>
<td>1,352</td>
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<tr>
<td>Climate and natural capital</td>
<td>2,058</td>
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<tr>
<td>Company impacts on people</td>
<td>1,283</td>
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Voting for impact

In the 2021-22 proxy year, BIS voted at over 18,000 shareholder meetings.

<table>
<thead>
<tr>
<th>Proposals voted at a glance²</th>
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<tbody>
<tr>
<td>Management proposals³</td>
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<tr>
<td>Shareholder proposals</td>
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<tr>
<td>Director elections</td>
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<td>Director-related elections</td>
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<tr>
<td>Capitalization</td>
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<td>Other³</td>
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<tr>
<td>Environmental</td>
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<tr>
<td>Social</td>
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<tr>
<td>Governance</td>
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<tr>
<td>Other⁵</td>
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</table>

* Source: BlackRock, sourced on July 11, 2022, reflecting data from July 1, 2021 through June 30, 2022.
** Source: BlackRock. Reflects data from July 1, 2021 to June 30, 2022.

Want to know more? blackrock.com/stewardship | contactstewardship@blackrock.com

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