2019 Investment Stewardship Annual Report

August 2019
Active stewardship: creating long-term value

The Investment Stewardship Annual Report provides an overview of BlackRock’s approach to corporate governance and stewardship in support of long-term value creation for our clients. In this report we provide practical examples of the BlackRock Investment Stewardship (BIS) team’s work over the year, distilling some of the trends and company-specific situations reported in our regional quarterly reports. We emphasize the outcome of our engagements with companies, including some which have spanned several years. We also provide examples of where we have contributed to the public discourse on corporate governance and investment stewardship.
Navigating long-term change – the year in review

The adage “change is the only constant” has never been more true than in the past year. We have seen initiatives to promote standardization in sustainability reporting, further acknowledgement of the need for companies to articulate their purpose, continuing dialogue on the importance of considering multiple stakeholders, and increasing interest from policy makers in all things stewardship.

Stewardship is how we use our voice as an investor on behalf of our clients to promote sound corporate governance and business practices. BIS focuses on board quality, effectiveness and accountability because corporate boards and management are responsible for deciding what is in the best long-term interests of a company.

One of the key global themes over the year was board accountability. In particular, ensuring that boards demonstrate diverse professional and personal characteristics, and that directors have the time to commit to their board work in order to be effective in a fast-changing business world. The board’s role in overseeing management’s implementation of long-term strategy and reinvestment in the business for future growth continued to be an area of focus. Woven through many of these discussions was how company leadership ensures that they have a sustainable business model. This includes how they are managing and reporting on the material environmental and social impacts of their operations. Over our clients’ long-term investment horizon, in our experience, companies with leading practices in these areas are more likely to deliver sustainable financial returns.

Asset owners are also increasingly interested in better understanding asset managers’ investment stewardship activities. We are committed to transparency and are pleased to have received a global leadership award from our peers. We see our communications efforts as another way to engage with a broad audience of external stakeholders. This year we updated our website with enhanced navigability and refreshed content.

Voting at shareholder meetings is the formal mechanism through which we provide feedback to companies on their corporate governance and business practices. Engagement – or direct dialogue – with companies is critical to ensuring that we vote on an informed basis to protect our clients’ economic interests. This year we participated in over 2,000 engagements with nearly 1,500 companies. Engagement on non-routine, nuanced, and often complex issues takes considerable resources. We had multiple meetings with 25% of the companies we engaged. The continued investment in our team is a reflection of the time we take to assess myriad issues. We are now 45 strong based in seven offices around the world. As a global investor, we believe it is important to build relationships with companies, clients, policy makers, and others locally. It is also critical to have direct knowledge of the cultural, legal, and commercial contexts within which companies are operating. In our experience, the long-term relationships we have built through having a local presence support more constructive dialogue with all market participants.

Technology is increasingly important in any company’s ability to operate effectively at scale. This year, we developed new tools to enable the team to better facilitate, record, monitor, and report engagements. This has enhanced our ability to collaborate with BlackRock’s internal active investment teams. Combined, these actions help to deepen and broaden our dialogue with companies and clients regarding investment stewardship.

The majority of the assets BlackRock manages are for clients looking to fulfill long-term financial goals such as retirement. We provide clients with investment choices so that they can achieve the asset allocation our clients determine is best aligned with their investment horizon, returns objectives, and values. We invest and conduct our stewardship activities to support the long-term financial returns our clients depend on to meet their financial goals. Change is the only constant and BlackRock is steering the course to achieve steady progress in governance and stewardship practices.

Barbara Novick
Vice Chairman

Michelle Edkins
Global Head of Investment Stewardship
2018–2019 Investment Stewardship highlights

Recognition of efforts
• Recipient of 2018 International Corporate Governance Network (ICGN) Global Stewardship Disclosure Award for Asset Managers
• Awarded A+ score for our stewardship and governance efforts in the most recent UN Principles for Responsible Investment (PRI) assessment

Expanding our team’s capabilities
• Expanded team to 45 members working in seven offices in six countries
• Enhanced internal record-keeping through BlackRock’s Aladdin® investment and risk management platform
• Began leveraging a new technology platform to enhance the efficiency and connectivity of our work

Engaging with asset owners and industry groups
• Partnered with BlackRock client teams as a content expert in over 300 meetings
• Active participation in more than 30 governance-oriented organizations globally

2,050
Total engagements

1,458
Companies engaged

25%
Percentage of companies with multiple engagements

50.4%
Percentage of equity assets engaged

42
Markets in which we engaged companies
Our achievements

The scope and scale of companies engaged

We held 2,050 engagements with 1,458 companies based in 42 markets from July 2018 to June 2019. This represented 50.4% by value of the equity assets BlackRock manages on behalf of clients, as of June 28, 2019. This is broadly consistent with the level engagement we did over the prior year.

BlackRock’s Mission Statement on Sustainability

In July 2018, BlackRock published its Mission Statement on Sustainability. Investment Stewardship features as one of the Mission Statement’s ‘four pillars,’ alongside environmental, social, and governance (ESG) integration investment processes across the firm, sustainable solutions offered to our clients, and BlackRock’s own business operations. In the statement, we explain that we engage companies in index and alpha-seeking portfolios alike on material sustainability-related issues — such as those identified in our team’s engagement priorities — that impact long-term performance.

Expanding the team’s capabilities

The team now consists of 45 multidisciplinary employees working from seven offices in six countries around the world. Our team has grown steadily from 16 governance experts in 2009, and 36 at the time of last year’s annual report.

The team’s continued global growth reflects the importance we place on meeting our fiduciary duty to clients and companies’ expectations of us as a significant shareholder. This responsibility goes beyond casting proxy votes at annual meetings. It also reflects the fact that it takes people to perform the research, prepare for meetings, and conduct meaningful conversations with companies. It means investing the time and resources necessary to promote long-term value. We are committed to effectively resourcing the function in order to conduct more frequent and deeper conversations within local markets, allowing us to assess a company’s approach to governance in the context of its specific circumstances.

Regional leadership update

Asia-Pacific (APAC): In early 2019, Amar Gill assumed leadership of the APAC team following the retirement of Pru Bennett. Mr. Gill brings more than 30 years of experience in capital markets, predominantly in equity research at one of the leading securities firms in Asia and has been deeply involved in corporate governance research since 2001. Over the past year the APAC Investment Stewardship team has added four members.

Europe, Middle East, and Africa (EMEA): Amra Balic is now in her eighth year leading the EMEA team. Over the past year the team added five additional team members.

Americas (AMRS): Since July 2018, the Americas team has been led by Ray Cameron. Prior to joining BlackRock, Mr. Cameron led the corporate access engagement practice at several investment banking firms. The AMRS team has expanded its local coverage to Latin America and has added six members.

Harnessing technology

We have been particularly focused on leveraging technology to enhance the efficiency and connectivity of our work. This starts with the use of CorpAxe for scheduling and tracking meetings with companies. This tool has enabled the stewardship team to enhance our process, improving collaboration with active investment teams and increasing efficiency for BlackRock and for the companies with which we engage. In addition, we are utilizing BlackRock’s Aladdin® platform for tracking engagements and voting globally, enabling us to more efficiently share information, as appropriate, with active investment teams.
Setting the standard on disclosure

In January 2019, we launched our updated Investment Stewardship website. It provides enhanced navigability and access to our annual reports, Global Corporate Governance Guidelines & Engagement Principles, regional proxy voting guidelines, as well as other public reporting including our proxy voting history, engagement priorities, regional quarterly reports highlighting key voting and engagement outcomes, and vote bulletins on high profile votes. Collectively, these materials are a resource center for clients and others who are interested in learning about investment stewardship and understanding our process.

On the BIS website, we continue to provide significant insights into our perspectives on current public policy issues around the world. Please refer to the “Investor perspectives and public policy” section of this report for a summary of recent BlackRock responses to consultations on stewardship codes, dual share class companies, proxy advisors, and other topics.

BlackRock Investment Stewardship’s leadership in the corporate governance space has been recognized by industry groups. The team was awarded the 2018 International Corporate Governance Network (ICGN) Global Stewardship Disclosure Award for Asset Managers. ICGN is a highly respected driver of global corporate governance and stewardship best practices, led by investors in 45 markets responsible for assets under management in excess of US$34 trillion. BlackRock has been member of ICGN since 1999. Additionally, SRI-Connect’s Independent Research in Responsible Investment (IRRI) Survey 2019, ranked BlackRock number one among asset managers contributing to sustainability and corporate governance.

BlackRock was also awarded an A+ score for our stewardship and governance efforts in the most recent UN PRI assessment as detailed on page 38 of this report.

Engaging with asset owners and industry groups

A significant portion of our work involves engaging with clients, prospects, consultants, and industry groups. This past year we had more than 300 such meetings. Most meetings involve the sharing of perspectives to understand expectations and areas of focus. Beyond these types of engagements, we respond to numerous client due diligence questionnaires, requests for information or requests for proposals that seek insight into aspects of our stewardship work in relation to specific products and investment mandates. The increasing scope of these interactions demonstrates the growing level of client interest in governance matters, including environmental and social issues.

Global team with a local presence

As of June 30, 2019
Our principles, guidelines, priorities and commentaries

Global corporate governance and engagement principles

BlackRock’s approach to corporate governance and stewardship is set out in our Global Corporate Governance and Engagement Principles ("Principles"). These high-level Principles provide the framework for our more detailed, market-specific voting guidelines, all of which are available on the BlackRock website. The Principles describe our stewardship philosophy, our voting policies, and the manner in which we address conflicts of interest. The 2019 updates to the Principles do not include material changes in policy or voting implementation; rather, we clarified our views on certain issues, including:

• Incorporating new language related to our position on dual class shares, which aligns with a statement BlackRock published separately on these capital structures in 2018.

• Broadening the language relating to potential impediments to director independence to “having any other interest, business, or other relationship which could, or could reasonably be perceived to, materially interfere with the director’s ability to act in the best interests of the company.”

• Emphasizing that board diversity has multiple dimensions, including “personal factors such as gender, ethnicity, and age; as well as professional characteristics, such as a director’s industry, area of expertise, and geographic location.”

• Emphasizing that the environmental and social factors on which we engage are those we consider to be material to the company’s business and long-term financial performance.

We have in place reporting and oversight structures that seek to ensure that the stewardship team is independent, focuses on voting in our clients’ long-term economic interests, and is not influenced by BlackRock’s commercial interests. Our conflicts management policies and procedures can be found within our Principles and, in June 2019, we published a stand-alone statement entitled, How BlackRock Investment Stewardship manages conflicts of interest.

Regional proxy voting guidelines updates

In January 2019, our regional stewardship teams published updated proxy voting guidelines for most markets we cover. The majority of the changes were made in an effort to clarify language and augment certain points. We have outlined these changes below.

Americas

The primary changes to our US proxy voting guidelines were to align the language with the BIS’ Global Principles. We updated our Canadian proxy voting guidelines to reflect changes in Canadian corporate governance best practices and align our view on diversity to that of our US voting guidelines.

We updated our Latin America proxy voting guidelines to align with country-specific corporate governance best practices, based on listing requirements and standards for relevant markets. We added a new section for publicly listed securities in Argentina and included a section on corporate social responsibility for both Brazil and Colombia, reflecting regional best practices and governance codes that encourage companies to consider disclosure of items related to environmental protection, labor safety, consumer rights, and gender equality.

Europe, the Middle East and Africa (EMEA)

The principal updates to our EMEA proxy voting guidelines were to align the language with BIS’ Global Principles. Some enhancements included explaining our perspective on board diversity and updating the criteria for assessing the independence of a director. For example, we increased the shareholding threshold from 10% to 20% for a director to be considered non-independent. Changes to the criteria for assessing whether a director may be overcommitted reflect feedback received via company engagements. Specifically, we reduced the number of external boards on which an executive officer may serve from two to one and increased the total number of chairmanships a board member could hold from one to two, on the condition that these are the only two board seats the person holds. We clarified expectations regarding executive pay clawback and malus mechanisms, asking for better disclosure of the circumstances in which companies could use such provisions.
Asia-Pacific (APAC)

Our updates to the APAC guidelines focused on Asia ex-Japan, Chinese & Hong Kong Securities, given significant regulatory changes in those markets. We clarified our view that boards should be comprised of at least one-third independent directors; companies should provide a clear explanation of the capacity to contribute in situations where a board candidate is serving on more than six other boards; audit committees should comprise only non-executive directors; and articulated our expectations on disclosure regarding strategy, purpose and culture. We explained our perspective on dual class shares capital structures, sharing our view that such structures be reviewed on a regular basis with periodic shareholder approval, in line with BIS’ Global Principles. For our guidelines on Hong Kong-listed companies, we addressed rights issues, open offers, and other placings that could result in cumulative dilution of over 20% as is permitted under the Hong Kong Listing Rules. Our Australian voting guidelines align views on remuneration with that of the BIS EMEA proxy voting guidelines in relation to companies that follow UK listing rules.

Engagement priorities and related supplemental commentaries

In January 2019, we updated our engagement priorities, keeping the same five priorities from 2018 but enhancing the language to better articulate our areas focus. We did so to provide clients, companies, and other industry stakeholders with visibility into the areas in which we will be particularly focused in our engagements with companies. Our priorities are determined based on our observation of market developments and emerging governance practices, aiming to promote sound corporate governance and business practices that are consistent with sustainable long-term financial returns. For each of our five priorities, we have published supplemental statements setting out key questions we may ask boards and management teams during our engagements. These priorities are summarized in the table on the following page.
2019 engagement priorities and supplemental commentaries

BIS priorities and commentaries serve as frameworks for how we will engage with boards and management around material factors that we believe affect the long-term performance of a company.

<table>
<thead>
<tr>
<th>2019 engagement priorities</th>
<th>2019 supplemental commentaries explaining how we will engage on key topics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance</strong></td>
<td>Board effectiveness and diversity</td>
</tr>
</tbody>
</table>
| We focus on board composition, effectiveness, and accountability as a top priority. In our experience, most governance issues require board leadership and oversight. We engage to better understand how boards assess their effectiveness and performance, as well as their position on director responsibilities and commitments, turnover and succession planning, crisis management, and diversity. | - Board composition and alignment with strategy  
- Board evaluation and succession planning  
- Position on board diversity and its evolution  
- Approach to phasing director tenures  
- Deepening the pool of director candidates |

| **Corporate strategy and capital allocation** | Engagement on strategy, purpose and culture |
| We expect boards to be fully engaged with management on the development and implementation of the company’s long-term strategy. Companies should succinctly explain their long-term strategic goals, the milestones that demonstrate progress, and any obstacles anticipated or incurred. | - Board’s role in shaping and monitoring  
- Clear articulation of purpose and long-term strategy  
- Milestones to assess performance  
- How culture is shaped and assessed |

| **Compensation that promotes long-termism** | Executive compensation |
| We expect executive pay policies to use performance measures that are closely linked to the company’s long-term strategy and goals to ensure executives are rewarded for delivering strong and sustainable returns over the long-term, as opposed to short-term hikes in share prices. | - Board oversight of executive pay  
- Transparency and connection with long-term shareholder value creation  
- Demonstrable alignment of pay with company performance  
- Disclosure of performance measures and selection rationale |

| **Environmental risks and opportunities** | Climate risk |
| Sound practices in relation to material environmental factors inherent to a company’s business model can be a signal of operational excellence and management quality. Environmental factors relevant to the long-term economic performance of companies are typically industry-specific, although in today’s dynamic business environment some, such as regulation and technological change, can have a broader impact. Corporate reporting should help investors and others understand the company’s approach to these factors and how risks are integrated, and opportunities realized. | - The board’s role in assessing impact and adaptation in regard to climate risk  
- How climate risk may impact long-term strategy  
- How reporting is evolving  
- Assessing potential opportunities  
- Climate risk as a factor in long-term capital expenditure plans and value creation |

| **Human capital management (HCM)** | Human capital management |
| In a talent constrained environment, we view a company’s approach to HCM as a potential competitive advantage. We expect disclosure around a company’s approach to ensuring the adoption of sound business practices that would likely create an engaged and stable workforce. | - Level of reporting to the board on HCM issues to help assess policies and their effectiveness  
- Oversight of policies meant to protect employees  
- Diversity of the board and workforce composition  
- HCM strategy for ensuring the desired culture is realized |

In addition, in 2019, we published two new commentaries. The commentary on corporate political activities details our view on why voluntary disclosure of corporate activities would be helpful to investors. The commentary on our approach to engagement with the palm oil industry explains our approach to the complex issues involved in palm oil production and monitoring.
Engagement and voting case studies

**Board quality and effectiveness remain our primary focus**

Board quality, accountability, and effectiveness remain the focal points of our engagements with companies. Companies with strong board and executive-suite leadership are better able to successfully navigate the complex and evolving range of business issues they face. This year, our engagements on board quality fell into three main categories: (1) board directors’ time commitments; (2) diversity of backgrounds, skills, and expertise in the boardroom; and (3) enhancements to governance frameworks and accountability to shareholders.

**Nearly 80% of our engagements centered on the quality and effectiveness of the board and executive management. Most of these engagements would also cover a number of other topics such as board oversight of corporate strategy, executive compensation, or management of environmental and social issues material to a company.**

We believe holding directors accountable is the most effective way to pursue changes at a company. When we do not see progress through engagement, we generally express our concern by voting against or withholding votes from directors, primarily lead independent directors and members of particular board committees with oversight over the issue. Last year we voted against directors or withheld votes nearly 4,800 times (~8%) at more than 2,700 different companies around the world.

**EMEA**

Across the EMEA region, companies with directors serving on multiple boards proved a key area of focus. We are concerned that directors who are overcommitted will not have the capacity to effectively discharge their duties, especially if there is an unanticipated development such as a hostile takeover bid. As we explain in our EMEA proxy voting guidelines, we believe that a director serving as chair of a board should have no more than two other board directorships. Furthermore, if that director serves as chair of another board then that should be his or her only other board commitment. Our guidelines state that non-CEO directors who do not hold chair positions must limit themselves to serving on at most four public company boards. We expect overcommitted directors to remedy the situation in the near-term or risk losing our support. We discussed some of our engagements on this topic in our EMEA Q1 2019 Quarterly Report, case study one.

Below we display our EMEA proxy voting record on individual directors over the past three reporting periods, which reflects our concerns about overcommitment. This year, in most markets, we voted against more directors than in the previous year, with the exception of the Netherlands and Denmark. We expect director commitments to remain a focus for BIS in the coming years.

<table>
<thead>
<tr>
<th>Reporting period</th>
<th>Total number of EMEA director votes</th>
<th>Total number of EMEA votes against individual directors on the basis of overcommitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 - 2017</td>
<td>11,310</td>
<td>103</td>
</tr>
<tr>
<td>2017 - 2018</td>
<td>11,602</td>
<td>217</td>
</tr>
<tr>
<td>2018 - 2019</td>
<td>10,980</td>
<td>316</td>
</tr>
</tbody>
</table>

Source: ISS Proxy Exchange

The vote to discharge the board is a unique governance characteristic in certain European markets. 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. At a number of companies this year, the discharge vote was more contentious than usual as a result of pending litigation, ongoing investigations into fraud and other illegal practices, or concerns about corporate leadership. In this reporting period, we voted against the discharge for one or more directors at 17 EMEA companies 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.5
Americas
We find that engagement with directors on general trends and developments in corporate governance, unrelated to a specific company situation, helps build relationships that support future engagement. As part of our focus on engaging board directors, in February 2019, the Americas team hosted its second annual Director Dialogue to share perspectives on a broad array of topical governance issues with corporate directors. More than 60 board and management representatives from more than 30 companies attended the event. The sessions focused on BlackRock’s approach to stewardship, our 2019 engagement priorities, and trends in ESG reporting. This event included a moderated conversation with BlackRock Chairman and CEO Larry Fink regarding his 2019 letter to CEOs, as well as his views on the macroeconomic trends impacting the investment landscape.

In the US, director board commitments have been a longstanding engagement topic. We believe the focus on this topic has contributed to the reduction in the average number of boards on which directors sit: today, the percentage of non-CEO directors sitting on more than four boards has decreased from 8.8% in 2008 to 6.7% in 2019.6 In addition, more than three-quarters of S&P 500 boards have established some limit on their directors’ ability to accept other corporate directorships, an increase from 56% in 2008.7 From our perspective, this trend toward fewer board seats for any individual director is positive for US governance standards, as it allows directors to spend more time on issues important to companies on whose boards they sit.

As noted in the table below, our pattern of voting against individual directors has changed over time.

<table>
<thead>
<tr>
<th>Reporting period</th>
<th>Total number of US votes against individual directors on the basis of overcommitment</th>
<th>Total number of US votes against individual CEOs on the basis of overcommitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 - 2016</td>
<td>105</td>
<td>36</td>
</tr>
<tr>
<td>2016 - 2017</td>
<td>87</td>
<td>25</td>
</tr>
<tr>
<td>2017 - 2018</td>
<td>79</td>
<td>32</td>
</tr>
<tr>
<td>2018 - 2019</td>
<td>69</td>
<td>94</td>
</tr>
</tbody>
</table>

Source: ISS Proxy Exchange

In the case of non-CEO directors, our votes against individuals for over-boarding have declined, reflecting the fact that independent directors are serving on fewer boards than in the past. On the other hand, in our US proxy voting guidelines, we explain our position that serving CEOs should commit to no more than one public company board outside their own company. Previously, we had considered two external board positions manageable.8 This update reflects the increasing expectations and responsibilities of sitting CEOs. As such, this year we voted against the re-election of more CEO-directors to external boards on which they served than last year (we did not vote against them at their own company). Increasingly, companies are limiting the participation of CEOs on outside boards. We expect these trends will lead to improved governance as both independent and CEO directors have the time to be more focused on a more limited number of companies.

Board diversity
Diversity – and the inclusion of different perspectives – is a globally relevant feature of board quality and effectiveness, although pertinent diversity characteristics may differ across markets based on the available labor pool. For example, where women and minority groups have been actively involved in the corporate world, their representation on boards and in senior executive leadership is often the main criterion for having diverse perspectives on company boards. In other markets, having directors with experience outside the company’s industry may be more appropriate for introducing diversity in the boardroom. BIS combines a global view on diversity with a local lens which enables us to engage on board diversity in a manner appropriate to each market.

Global participation in the 30% club
BlackRock has long championed inclusion and diversity. Larry Fink, BlackRock’s CEO, is a founding member of the US 30% Club – a group committed to increasing gender representation on boards and in senior management. Michelle Edkins, Global Head of Investment Stewardship for BlackRock, serves on the US Steering Committee. BlackRock actively participates in 30% Club chapters in the UK, Australia, and China, including at the steering committee level in Australia and China. The 30% Club runs a number of specific and targeted initiatives that seek to increase the number of women at all levels of organizations.
Board diversity progress in the US

We have engaged with many companies for multiple years on the relationship between board diversity and board effectiveness. Boards are responsible for making decisions that impact the long-term strategy, opportunities, and performance of companies. As we discuss in our commentary on board diversity, diverse groups make better decisions, particularly in dynamic and fast moving circumstances.

As we state in our US and Canada proxy voting guidelines, we expect boards to include a diverse array of individuals who bring their personal and professional experiences to bear, in order to foster constructive dialogue on boardroom matters. In identifying potential candidates, boards should consider the full breadth of diversity including personal factors, such as gender, ethnicity, and age; as well as professional characteristics, such as a director’s industry, area of expertise, and geographic location. BIS considers factors such as a company’s commitment to increase board diversity within the next 12-18 months, the addition of a diverse director within the previous year, board tenure, and public statements that focus on diverse recruiting efforts.

In 2018, BIS sent a letter to the companies within the Russell 1000 (approximately 30%) that had fewer than two women on their board. This year, we began voting against the re-election of directors, usually the chair or members of the nominating and governance committee, at companies that did not publish a clear policy on board diversity or that hadn’t improved diversity in the boardroom.

In the 2019 proxy season, we voted against board members at 52 companies in the Russell 1000 with boards that included fewer than two women or no other diverse directors.

As of June 2019, less than 20% (178) of companies in the Russell 1000 had fewer than two women on their boards, down from 30% in 2018. Put another way, about 122 companies added at least one woman to their boards over the past year.

In our view, the acceleration in the increase in the number of women on public company boards is, in part, attributable to the engagement undertaken by investors, including voting on director elections. Given our view that diverse boards add a valuable perspective to companies, we will continue to monitor companies’ overarching approach to board quality and composition.

Board diversity in APAC

In Australia, female board representation has been a long-standing engagement topic. In fact, within the last five years, female representation on boards has more than doubled to 30%. Other markets in the APAC region, however, have demonstrated slower uptake, even in more developed markets like Singapore and Hong Kong where female board representation remains below 15%. In Korea and Japan, female representation on boards is less than 5%, and less than 1% of CEOs are women.

We believe that the work of our APAC team, along with that of other institutional investors, is bringing attention to the issue of board diversity and has, at least indirectly, helped improve the ratio of women serving on boards in the region. We recognize that bigger improvements have been made where regulators have set higher requirements for female board representation, for instance in Malaysia and Thailand.

Female board representation across the APAC region

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<tbody>
<tr>
<td>Australia</td>
<td>13%</td>
<td>16%</td>
<td>19%</td>
<td>24%</td>
<td>24%</td>
<td>28%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>16%</td>
<td>22%</td>
<td>24%</td>
<td>24%</td>
<td>27%</td>
<td>26%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>10%</td>
<td>12%</td>
<td>14%</td>
<td>14%</td>
<td>18%</td>
<td>20%</td>
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<tr>
<td>Thailand</td>
<td>12%</td>
<td>12%</td>
<td>13%</td>
<td>13%</td>
<td>14%</td>
<td>16%</td>
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<tr>
<td>India</td>
<td>7%</td>
<td>9%</td>
<td>12%</td>
<td>13%</td>
<td>13%</td>
<td>14%</td>
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<td>Philippines</td>
<td>10%</td>
<td>12%</td>
<td>13%</td>
<td>13%</td>
<td>14%</td>
<td>14%</td>
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<tr>
<td>Indonesia</td>
<td>9%</td>
<td>11%</td>
<td>9%</td>
<td>7%</td>
<td>6%</td>
<td>13%</td>
</tr>
<tr>
<td>Singapore</td>
<td>7%</td>
<td>7%</td>
<td>8%</td>
<td>9%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>10%</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>South Korea</td>
<td>2%</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: ISS Proxy Exchange

Board quality and effectiveness in APAC

A key area of engagement in quickly-developing APAC economies is whether directors have the relevant expertise to contribute to the assessment of the evolving challenges faced by companies, and the strategies to implement them.

In Japan, companies increasingly disclose a skills matrix for their board. Historically, many Japanese companies have appointed board members with academic or legal backgrounds to meet non-executive director requirements and investors’ demands for a higher proportion of independent directors. Disclosure of the board skills matrix highlights the diversity of the board across skills, background, and areas of expertise. We note that the common skills and backgrounds of directors are shifting towards corporate leadership, legal experience, and corporate finance.

One area of expertise that BlackRock considers increasingly important is technology. Recently, our team in Japan engaged with a large bank to discuss the need for technology expertise on their board, given the rapid rise of financial technology. The engagement was constructive because the company agreed with our views and expressed a desire to seek out directors with the necessary expertise.
Given the scarcity of available talent with necessary skills (like technology expertise) in more developed APAC markets, human capital management has become a very competitive issue. Some Southeast Asian companies are emphatic that the lack of women in director roles is not an issue, given that their boards include individuals with a range of professional backgrounds. Where relevant, we have urged companies to obtain an external evaluation of their board, to consider nominees from outside the country, or seek directors with different backgrounds. We recognize these are evolving trends in the region and we intend to have further engagements on these topics.

Governance engagements with companies in emerging APAC markets often center on related party transactions and conflicts of interest with controlling shareholders. Such companies often have a controlling shareholder, although not necessarily majority ownership. In most jurisdictions, the controlling shareholder is not able to vote for related party transactions which puts more importance on the vote of other institutional shareholders. For transactions where controlling shareholders are able to vote, engagement allows us to provide a long-term perspective and share our views on the structure of the transaction(s). For example, one of the major Korean chaebols attempted a group restructuring in order to secure control for the next generation. In early 2018, BlackRock and other investors indicated reservations about the proposed terms. Days before the company’s shareholder meeting, the group called off the meeting and withdrew the proposals, acknowledging negative feedback from investors. The company announced that it would craft a new, more shareholder-friendly plan, which we presently await.

In Hong Kong, we continue to have reservations about the number of companies designating “independent” directors who have served on their board for decades. Oftentimes, these same directors are also serving on a number of other boards, which raises questions about their ability to contribute fully to any one of them. In our APAC Q2 2019 Quarterly Report, case study 4, we provide an example of our engagement on such situations.

Finally, major governance lapses, in some cases involving serious allegations of fraud, have proven distressingly common in the APAC region. In India, for example, the former promoters of a healthcare group are under investigation for allegedly funneling tens of millions of dollars from the listed company to their private investments. The promoters were ousted from the board when this was discovered yet sought to keep control by determining their successors. In our engagement with the board, we emphasized the importance of a clear and transparent bidding process to bring in new controlling shareholders. We are pleased that the company embraced these ideas.

**Corporate strategy and capital allocation**

**Engaging on corporate strategy best practices**

As described in Our Approach to Engagement on Strategy, Purpose, and Culture, during our engagements we seek to understand a company’s strategic framework, the board’s process for strategic review, and how strategy evolves over time in response to changing economic, regulatory, and social conditions.

This past year nearly 46% of our engagements included discussions about long-term corporate strategy, a third of which involved multiple meetings with the same company on this topic.

Where relevant, we inquire about the board’s role in helping management assess the company’s purpose, which can inform corporate strategy, and its link to long-term value creation. Many of this past year’s engagements featured companies that offered their own views on how a clearly articulated purpose helps deepen relationships with stakeholders, and how it serves as an organizing principle for corporate strategy.

**APAC**

As highlighted in our APAC Q2 2019 Quarterly Report, corporate strategy in family-controlled Korean chaebols remains a major focus in our South Korean engagements. We engaged with some of these family-led companies to encourage strengthened board policies and controls that promote long-term value creation. In June 2019, BIS met with the management team of a Korean petrochemical company as part of a multi-year engagement. In 2018, the company introduced various measures to overhaul internal controls, including increasing the headcount of the legal and compliance teams, increasing the number of internal audits, and strengthening the independence of both the board and audit committee, with the latter now comprised only of independent members. The following year we recommended further strengthening internal controls, including trading policies, with more robust oversight by the audit committee to prevent future insider trading issues. To ensure that capital is deployed to create long-term value, and that the board has sufficient oversight based on a longer-term view, we emphasized the importance of formulating a long-term strategy that is ratified by the board and clearly communicated to shareholders. The company’s decision to implement these policies underscores the benefit of both recurring dialogue, and the positive impact that engagement can have on improving companies’ governance practices to allow for enhancements to long-term corporate strategy.

This year, we added capital allocation to our engagement priorities. When capital management issues come to a vote we closely assess their merits from the perspective of a
long-term shareholder, in some cases, supporting management and in others voting against management. As noted in our APAC Q1 2019 Quarterly Report, BIS voted against a share buyback proposal at a Hong Kong–listed medical device developer. While we have historically supported share buyback plans in Asian markets, we were concerned about the company’s lack of transparency, and the share price for the transaction, which may have impacted minority shareholders’ long-term interests. At another company listed in Hong Kong, we voted in favor of a privatization proposal after confering with our portfolio management team. On balance, we concluded that the proposal was better than locking our clients into an underperforming stock with no positive foreseeable future performance.

EMEA
Engagements may also cover companies that need to adjust to economic, geopolitical and cultural shifts. In the UK, where Brexit dominates political discourse, a number of our engagements with UK companies focused on understanding strategy in the context of potential Brexit scenarios. We detail one set of engagements with companies in the aviation industry in our EMEA Q1 2019 Quarterly Report.

Changing economic norms were a focus of discussion during an engagement with a French electronics company, which highlighted the need for boards to respond adroitly to market factors like the emergence of the sharing economy. In order to limit their “uberization” risk — whereby a new competitor disrupts the market by using a new technology or a different business model — the company 1) established an internal start-up hub and made external acquisitions to offer new payment solutions to clients and 2) obtained new technologies. In this instance, our engagement affirmed that the board’s process and current level of expertise relating to capital allocation were appropriately focused on protecting and building long-term value.

Evolution of purpose-driven companies
Larry Fink’s 2019 letter to CEOs discussed the inextricable link between profits and purpose. This year a number of companies described the work they’ve done to align their mission, vision, and values with their day-to-day operations. We are pleased to see companies increasingly recognize that their license to operate can depend on their ability to balance sustainable financial performance with delivering value to society. A purpose-driven approach to corporate strategy represents an evolution from traditional practices that relied substantially — if not entirely — on conventional financial metrics. We believe forward-thinking boards are focused on the people who work for the company, and how they consider stakeholder perspectives in determining their business strategy.

For many executives, running a purpose-driven company is a developing challenge. Through engagements, we’ve observed that some companies are working towards embedding their purpose in all facets of the firm, whether by establishing new behavioral norms, by transforming formal systems (e.g., compensation and rewards mechanisms), or by shifting products to more renewable resources.

This past year, BIS met with the President of a Japanese specialty food company, who is taking active measures to improve work-life balance for his employees, while simultaneously aspiring to have the company recognized as a global best-in-class food company. Such a designation, however, requires the company to balance financial metrics and ESG targets that are consistent with the United Nations (UN) Sustainable Development Goals (SDGs). Interestingly, the management team aims to achieve these financial and operational targets by introducing flexible work arrangements, reducing working hours, and offering professional development such as training in artificial intelligence.

In some cases, demonstrating commitment to a company’s purpose requires that the firm pivot from one business line to another that has better long-term environmental and financial prospects. In the Americas, we engaged with a US-based containers and packaging company whose management team shifted their business to manufacture packaging from aluminum, instead of glass, because aluminum is more recyclable than glass and plastic. The company’s shift occurred more than two decades ago, which positioned them well to serve contemporary customer demands to reduce the use of plastics. Their approach has also paid off for shareholders – the company demonstrated consistent growth in sales, gross income, and other key financial figures over the past ten years.

" Profits are in no way inconsistent with purpose – in fact, profits and purpose are inextricably linked."

Larry Fink
Chairman and Chief Executive Officer

BlackRock Investment Stewardship 2019 Annual Report

14
What companies told us they are doing in relation to purpose

In our engagements it was clear that every company has its own approach to articulating and realizing its purpose. The following are some of the more common activities:

- Conducting multi-stakeholder engagement processes to solicit input into their corporate and human capital management strategies.
- Inviting specialists on corporate culture to present at board meetings; boards reportedly are becoming more engaged on the topics of culture, mission, vision and values.
- Developing techniques to assess and manage the intangibles of business, such as culture or diversity, in addition to financial metrics.
- Investing in human capital through training and work-life balance programs, with the aim of inspiring and retaining talent consistent with long-term corporate strategy.

Executive compensation

Executive compensation continues to garner attention and is a focus in many of our engagements. We expect the board to implement executive pay policies that help a company attract, reward, and retain competent directors, executives, and other staff who are fundamental to the long-term sustainable growth of the company. We believe incentive-based pay should be aligned with long-term performance. In our approach to executive compensation, we describe our expectations for executive compensation practices, our framework, and our typical approach to engagement and voting.

We expect companies to use proxy disclosures as their primary mechanism for explaining executive compensation practices. We may engage with companies, preferably independent members of the compensation committee when concerns are identified or where we seek to better understand a company’s approach to executive compensation.  

This year we engaged with nearly 600 companies on the topic of executive compensation practices and, over the last two years, 458 of these companies had Say on Pay votes. Of those 458, 211 (46%) companies saw year-over-year increases in voting support. Furthermore, 93 of the 211 (44%) companies received a 10% or greater increase in support for their Say on Pay proposal.

Overtime, we have seen companies structure incentive plans that seem more consistent with rewarding long-term performance. This evolution reflects a combination of engagement with investors and voting results. Increased support in voting validates this positive governance trend.

Alignment of equity plans in the US

The proliferation of performance-based compensation for executives underscores one of the key goals of executive compensation – to incentivize business leaders. Equity plans reward participants by enabling them to share in the long-term future success of the company. As a percentage of total equity compensation, performance-based equity grants almost doubled between 2009 and 2018. Cash and equity performance-based compensation now account for around 58% of total pay, up over 20% from since the 2008 recession.

The nature of equity plans makes them an effective tool to attract and retain talent – in essence, a human capital management tool. These plans are particularly effective when applied to a wide range of executives. They can help create an “ownership” mentality and provide a streamlined incentive structure across the employee base.

When we engage with companies that receive low shareholder support for their compensation plans, we generally discuss limiting one-off grants and disclosing more detail on the performance metrics used in the executive compensation plans.

We look for alignment of payout and company performance. Factors contributing to our decision to not support management equity plan proposals include evergreen provisions (when additional shares are automatically granted to participants every year), repricing of options, and unreasonable dilution in relation to peers or the stage of a company’s development.

In the 2018-19 reporting year, BlackRock voted against 14% of management sponsored equity plan ballot items in North America, consistent with our voting record for the prior two reporting periods. During this reporting period, BlackRock voted against nearly 7% of plans in the Russell 3000, but against approximately 24% of US equity plans in small capitalization companies. This confirms a general trend that we see in corporate governance practices, namely that smaller capitalization companies are still evolving their governance and compensation policies to meet market best practices.

<table>
<thead>
<tr>
<th>Reporting period</th>
<th>Number of equity plan votes in the Americas region</th>
<th>Votes against equity plans</th>
<th>% of votes against</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-2017</td>
<td>1,318</td>
<td>132</td>
<td>10%</td>
</tr>
<tr>
<td>2017-2018</td>
<td>1,004</td>
<td>132</td>
<td>13%</td>
</tr>
<tr>
<td>2018-2019</td>
<td>1,002</td>
<td>140</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: ISS Proxy Exchange
Observable improvements to CEO pay practices in the UK and Ireland

In countries across EMEA, shareholders appear increasingly willing to express dissatisfaction with executive pay. In the UK and Ireland, dissatisfaction is measured by the growing number of companies included in the Investment Association’s (IA) public register, which lists firms within the UK FTSE All Share Index Tracking Fund that receive 20% or greater votes against their compensation proposals. BIS observed that among the 25 companies where we voted against compensation plans during the 2017–18 reporting period, we then voted for 14 (56%) of those compensation plans in 2018–19.18 This suggests that remuneration committee members respond positively to engagement and in turn were supported by shareholder votes. Where we 1) voted against compensation in the 2017–18 reporting period and 2) engaged with their remuneration committee, we voted in favor of their compensation plans in 2018–19. These engagements and subsequent votes highlight the impact that shareholder feedback can have in shaping companies’ responses.

Nonetheless, we still observe issues at EMEA-based companies around Say on Pay voting. We voted against just over a third (36%) of Say on Pay plans during the 2017–18 reporting year, and just under a third (32%) in 2018–19, suggesting that many companies still, in our view, need better disclosure, pay policies, and performance alignment. We attribute this trend to the fact that we vote against more pay plans in non-UK EMEA companies, because the UK has maintained market-level corporate governance standards longer than other countries in the region.

Improving practices in pension contributions in the UK

As noted in our 2018 Annual Report, in the 2017–18 year we engaged extensively on executive pension plan contributions in the EMEA region.19 This year, the IA began flagging companies where pension provisions for executive directors were not aligned with those available to the workforce. The pressure to curb excessive pensions has already shown results, as one of Britain’s largest banks20 reduced executive pensions from 30% to 10% of salary in the past year, and a large insurer told its new CEO that he would receive a pension payment worth just 14% of his salary, compared with the 28% given to the former CEO.21 These are just two examples among a number of others we noted. The IA’s actions illustrate a noteworthy instance in which an industry group speaks out to amplify shareholder concerns and effects positive change.

Banking misconduct in Australia

Executive compensation is a global engagement priority. Events in Australian financial institutions highlight the importance of this engagement priority as part of corporate governance. In December 2017, after outcry from the Australian public in relation to the short-term bonuses (predominantly paid in cash) paid to the executives of three of the four major banks, the Australian government established a Royal Commission into alleged misconduct in the banking, superannuation and financial services industry (Financial Services Royal Commission, or FSRC). The FSRC identified misconduct on the part of four major banks and other financial institutions.

Our engagements with the Australian financial institutions concentrated on increasing accountability, improving disclosure, and enhancing culture and governance – all featured heavily in the FSRC’s report. We discussed the need for executives to balance appropriate risk-taking with the possibility of becoming overly risk-averse at the expense of shareholder value.

As a result of public pressure and shareholder engagement, one of the banks reduced short-term incentives for their CEO and other senior executives to zero. We engaged with the chairmen of the other banks that made only nominal adjustments, reiterating our intention to scrutinize compensation decisions in the year ahead. We will continue to monitor policies at these financial institutions and will continue to engage with companies generally in Australia on the FSRC’s recommendations.

Environmental risks and opportunities

This year, we expanded the scope of our previously titled “climate risk disclosure” engagement priority to reflect that many of our engagements encompass an increasingly broad set of environmental factors.

In the past reporting year, we engaged 256 companies globally on environmental risks and opportunities. These engagements spanned topics from the robustness of board oversight, ESG disclosure frameworks, climate risk management, environmental impact management, and operational sustainability (e.g., waste, water, energy efficiency, packaging, product life cycle management, product offerings from a business opportunities perspective). Climate specific risks were a topic of discussion in more than 80% of our environmental risks and opportunities-related engagements. For a number of companies, physical risks and changing expectations around climate change of governments, clients, and communities around climate change create investment risks, that if not appropriately managed, have the potential to impact the value of these companies over the long-term.
Persistent engagement on material ESG factors led to improved practices and disclosure

As we note in our engagement priorities, investors find it difficult to navigate inconsistent and incomplete ESG data on material factors relevant to a company’s business. Over the past few years, an increasing number of ESG-related surveys, data requests, and ratings have emerged, which underscore the need for agreed upon reporting standards. In considering the options available, we have identified the Sustainability Accounting Standards Board (SASB) and the Financial Stability Board’s (FSB) Task Force on Climate-related Financial Disclosures (TCFD) as the most useful reporting frameworks for issuers and investors alike, and we have been actively involved in efforts to broaden acceptance of these frameworks. In our engagements, we discuss SASB’s industry-specific guidance as set out in its materiality map, because we find it beneficial for helping companies identify and discuss their governance practices, risks assessments, and performance against these key performance indicators (KPIs).

A number of BlackRock employees are active participants in these initiatives. For instance, Michelle Edkins and Ray Cameron are members of the SASB Investor Advisory Group. Verity Chegar, ESG Integration Team Lead on the BlackRock Sustainable Investment team, is Vice Chair of SASB’s Standards Board. Samantha Tortora, Global Head of Investor Relations for BlackRock is a member of the SASB Standards Advisory Group. Brian Deese, Global Head of Sustainable Investing at BlackRock, is a member of the TCFD.

Improving ESG disclosure is a multi-year process, in which we have already seen, and expect to continue to see, progress. We began engaging with companies on the TCFD’s preliminary recommendations in 2017, around the same time that the SASB framework was nearing completion. In 2018, as part of our involvement with SASB’s Investor Advisory Group (IAG), we wrote to 32 US-listed companies that had a strong track record of ESG disclosure, asking them to consider following SASB’s reporting framework.

In 2019, we continued our participation with the IAG and engaged several multinational companies to discuss their sustainability disclosures. One of the companies announced that they had used SASB for their first ever ESG materiality assessment. Another company — a US multinational industrial conglomerate — announced that, starting in 2019, they would embed sustainable practices into the production of every new product. These products span several markets, so the company could tackle various challenges such as reducing greenhouse gas (GHG) emissions, improving air quality, and enhancing the health and safety of customers and employees. Moving forward, the company intends to measure and report on its progress annually.

The need for high quality and consistent ESG data is relevant to all sectors but will differ across each of them. In April 2019, BIS hosted a Biopharma Sustainability Roundtable in New York, where senior sustainability and investor relations practitioners from seven companies sought insight from BlackRock and other investors on how to improve their ESG reporting. We are encouraged by the continued dialogue we’ve had since the initial roundtable and anticipate that these engagements will lead to more decision-useful ESG disclosures from these companies.

BlackRock’s climate risk engagements

As an early participant of the 32-member, industry-led TCFD, BlackRock has supported the FSB’s efforts to improve climate-related financial disclosure. We discuss our perspective on material climate risks, as well as our views on the TCFD, in our commentary on our approach to engagement on climate risk. The document, first published in early 2017 and updated annually, has served as a guidepost for our engagements on the topic. TCFD disclosures are designed for investors, lenders, and insurers who need comparable climate-related information to make informed capital allocation and financial decisions. We believe that the TCFD is useful for investors due to its focus on material and decision-useful disclosures. TCFD recommendations are aimed at issuers, who generally have an obligation under existing law to disclose material information but lack a framework to do so for climate-related information.
Our climate risk engagements

<table>
<thead>
<tr>
<th>Companies engaged globally</th>
<th>207</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies with multiple engagements globally</td>
<td>34</td>
</tr>
</tbody>
</table>

Global Industry Classification Standard (GICS®) sectors* engaged | 11 |

Source: BlackRock

* Based on MSCI and Standard & Poor’s GICS sector classification

The aims of our climate risk engagements remain two-fold: (1) to gain a better understanding, through disclosures, of the processes that each company has in place to manage material climate risks, and (2) to understand how those risks are likely to impact the company’s business. Our climate risk engagements center on a company’s potential for alignment with the TCFD recommendations: a four-pronged approach concerning governance, strategy, risk management, and metrics and goals.

In our 2018 annual report, we noted that more than 100 of the 232 engagements we had with companies on climate risk consisted of letters we sent to the CEOs and General Counsels of the most carbon-intensive companies globally in BlackRock’s equity portfolio. This reporting year, the vast majority of our climate risk engagements were in person meetings. Whereas last year’s engagements generally focused on introducing the TCFD and SASB frameworks to the companies with whom we engaged and asking them to consider reporting in alignment with them, this year’s engagements involved in-depth preparation and analysis specific to each company.

As of July 2019, according to the TCFD, its list of supporting organizations had grown from 513 to 825. We are pleased to see continued progress on climate risk practices in various regions and sectors, and have observed improved disclosure by companies where we have engaged on the topic. Recently, two large North American energy companies improved their climate risk management practices, as discussed in our Q3 2018 Americas Quarterly Report. Additionally, in EMEA we reported on our engagements with several European financial and insurance companies to assess the evolution of their climate risk disclosure. In the EMEA Q4 2018 Quarterly Report, we discussed a Spanish bank’s plans to report on climate risk in alignment with the TCFD recommendations by 2020.

Palm oil engagements in APAC

Over the past 20 years, palm oil has become a ubiquitous commodity. It is estimated that over half of all packaged goods sold in western supermarkets contain palm oil. While its production is credited with improving living standards for many, it has also caused a number of environmental and social issues, ranging from deforestation and biodiversity loss to disputed land use and questionable labor practices. Consequently, the possibility of regulatory measures and shifts in consumer demand may present risks to the long-term sustainability of companies producing and using palm oil.

Our APAC team reported on its palm oil-related engagements in our Q3 2018 and Q1 2019 Quarterly Reports. In these reports, we discuss our constructive engagements with seven palm oil producers: three in Indonesia, two in Malaysia, one in Korea, and one in Liberia. Our engagements are part of an ongoing, multi-year effort to further our understanding of, and encourage companies to better address, the environmental and social risks associated with the palm oil industry. Following these engagements, in May 2019, we published BIS’ approach to engaging with the palm oil industry. The document provides examples of the types of questions we may ask boards and management teams, and provides a roadmap for future engagements on the topic.

Multi-stakeholder initiatives

We are a member of organizations like the 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). Together, these groups monitor the progress that companies make towards climate risk related goals.

We participate in other climate risk related initiatives as well. In June 2019, the Vatican’s Dicastery for Promoting Integral Human Development and the University of Notre Dame held the second dialogue on “The Energy Transition & Care for Our Common Home.” BlackRock actively contributed to the dialogue at the Vatican, and was among the attendees that signed both resulting statements, on climate risk disclosure and carbon pricing. And, in July 2019, we became one of eight founding members of the One Planet Asset Managers Initiative to advance the understanding of the implications of climate-related risks and opportunities within long-term investment portfolios. This will involve sharing investment practices, publishing relevant research, and engaging with other key actors, including standard setters, regulators, and the broader industry.
We engage directly with companies and are committed to working collaboratively through these initiatives using a range of engagement approaches to ensure fulfillment of the above-mentioned goals. As we explained in last year’s annual report, we are often asked to join various multi-stakeholder initiatives. This includes joining groups like Climate Action 100+ and/or signing onto letters such as the Global Investor Statement to Governments on Climate Change, both of which overlap with our own direct efforts. Of the 207 companies we engaged on climate risk this year, 43 overlapped with the Climate Action 100+ list of target companies. This is particularly important because we only join external groups when we believe that collective action can significantly augment our direct engagements. We try to avoid initiatives that duplicate our own efforts or that may cause confusion for issuers. Even when we are aligned with the objectives of collective initiatives, we recognize that certain market participants will take different approaches to advocate for common goals.

**Our voting on environmental proposals**

Each year, shareholder proposals receive a significant amount of attention, especially in the US where they are more prevalent. For some, there is a perception that asset managers’ commitment to improving companies’ practices in relation to environmental and social issues should be measured entirely by their voting record. However, the voting record does not capture the full scope of our approach to assessing and addressing environmental and social factors that are material and business-specific.

Additionally, to measure one’s stewardship efforts by voting record intrinsically implies that all shareholder proposals are worthy of support. For this reason, we recently discussed some of our key observations and votes in the Americas 2019 Q2 Quarterly Report. We address the challenges associated with supporting some of these proposals — which are often poorly constructed, largely US-centric, and encourage inconsistent reporting that impedes comparability across different sectors and markets.

### The 207 companies we engaged globally on the topic of climate risk far exceed the 36 US shareholder proposals that came to a vote in the US this reporting period.

#### Environmental and social shareholder proposals that we supported

This year, in addition to engaging companies on environmental and social issues, we supported a total of 10 shareholder proposals at 10 companies in the US. These proposals addressed a range of topics such as climate risk management, gender pay, recycling, community-environmental impacts, human rights, and governance of social risks. Broadly speaking, we supported shareholder proposals when (1) we engaged with a company and felt unsatisfied by their response to a material issue and/or (2) the proposals appropriately addressed material business risks that we considered the company to be inadequately handling.

#### Number of US environmental and social shareholder proposals supported in 2018-2019

<table>
<thead>
<tr>
<th>Topic</th>
<th>2018-2019 proposals supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate risk - two-degree scenario analysis and greenhouse gas emissions</td>
<td>4</td>
</tr>
<tr>
<td>Environmental and community impacts</td>
<td>1</td>
</tr>
<tr>
<td>Recycling</td>
<td>1</td>
</tr>
<tr>
<td>Governance measures related to opioid risks</td>
<td>2</td>
</tr>
<tr>
<td>Human rights standards and policies</td>
<td>1</td>
</tr>
<tr>
<td>Gender pay gap</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: BlackRock

#### The value of engaging – different vote outcome on oversight of opioid risks

We engaged with two drug retailers that received similar shareholder proposals asking them to report on governance measures implemented to address opioid-related risks. Though the proposals were similar, these engagements yielded two distinct outcomes. During our engagement with the first company, the board highlighted the work they had done internally to address these risks. However, they acknowledged that they have not produced robust disclosures and that they lagged both their peers and best practice standards. They committed to updating their reporting on this topic. We suggested they consider SASB’s framework.
In our engagement with the second company, we asked the board to describe their opioid-related initiatives, provide an overview of the board’s oversight role and experience in this area, and highlight current and forthcoming disclosures. The company listed their initiatives and mentioned that their forthcoming corporate responsibility report would include information about these efforts. However, the company was reticent to share more detailed information publicly and was not willing to acknowledge potential material risks associated with the opioid epidemic. They also refused to acknowledge their relationship to an organization that is currently facing significant financial and reputational risk.

Ultimately, the first company committed to improving its sustainability disclosures, so we supported management. The second company did not see a need to disclose more information on its efforts, despite the fact that several of its peers have issued or have committed to issuing detailed reports. As a result, we supported the shareholder proposal asking the company to improve its sustainability disclosures.

Since our support of management at the first company’s 2019 annual meeting, we again engaged to assess their progress. They had hired an individual to focus on sustainability reporting, engaged an external consulting firm, and — consistent with our feedback — reviewed the SASB standards relevant to their sector. The company published their inaugural sustainability report in June 2019.

### Human capital management (HCM) as an investment issue

For most companies, a key driver of success and value creation is their workforce, sometimes referred to as human capital. Ultimately, companies depend on their employees to operate at high standards and to effectively execute the company’s strategy.

### This year, we engaged 237 companies on HCM topics globally across all sectors.

When we engage with companies on HCM, we consider material factors including: ensuring employee health and safety, employee training and development programs, supply chain concerns (i.e., policies and practices covering contingent workers, contractors and subcontractors), wellness programs, and support of employee networks. Our approach to engagement on human capital management explains our thinking on this key issue and outlines the topics we regularly discuss with boards and management.

HCM is both a board and a management issue. The table below shows that the topics we cover may vary depending on which company representatives we engage. We expect a company’s board to have a sound understanding of management’s HCM strategy and how the company’s employee policies and processes align with its long-term corporate strategy, purpose, and performance.

### BlackRock Investment Stewardship engagement topics on human capital management

<table>
<thead>
<tr>
<th>When engaging boards</th>
<th>When engaging management teams</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oversight of policies meant to guide and protect employees (e.g., whistleblowing and codes of conduct) and the level of reporting the board receives from management to assess policy implementation</strong></td>
<td>Policies to encourage employee engagement outcomes (e.g., training and development programs, wellness programs, support of employee networks, and stock participation programs)</td>
</tr>
<tr>
<td><strong>Assessment of how the components of a company’s HCM strategy align to create a positive culture and prevent unwanted behaviors</strong></td>
<td>Process for ensuring employee health and safety are high and in compliance with occupational health and safety policies and regulations</td>
</tr>
<tr>
<td><strong>Reporting to the board on the integration of HCM risks into risk management processes</strong></td>
<td>Voluntary and involuntary turnover on various dimensions (e.g., seniority of roles, tenure, gender and ethnicity)</td>
</tr>
<tr>
<td><strong>How the board ensures that diversity and inclusion are considered in recruitment, advancement, training and development, pay, and engagement</strong></td>
<td>Statistics on gender and other diversity characteristics, as well as promotion rates and compensation gaps across different employee demographics</td>
</tr>
<tr>
<td><strong>Consideration of linking HCM performance to executive compensation to promote accountability in senior leadership</strong></td>
<td>Programs to engage organized labor and their representatives, where relevant</td>
</tr>
<tr>
<td><strong>Board member visits to establishments or factories to independently assess the culture and employee experience at the company</strong></td>
<td>Systems to oversee matters related to the supply chain (including contingent workers, contractors, and subcontractors)</td>
</tr>
</tbody>
</table>
**Americas**

HCM data remains a complex mix of metrics, binary indicators, and rating systems that are challenging for both companies and investors to gather and comprehend. In a continued effort to encourage improving company disclosures, we hosted a half-day HCM roundtable at our New York headquarters in May. The event brought together several institutional investors and company representatives from the software, insurance, retail, automobile, and containers and packaging sectors. We discussed key performance indicators, benchmarking, competing reporting frameworks, and challenges associated with company reporting resource constraints.

Controversies surrounding senior company leaders, who may or may not be directly related to its business, have become a prominent topic of our engagements in the past several years. In such situations, shareholders depend on the board to provide assurance that the appropriate steps have been taken to protect the company’s reputation. In our America’s Q3 2018 Quarterly Report, we discussed our engagement with a multinational US restaurant franchise where the founder, CEO, and chairman made disparaging public comments, which led to the loss of his leadership role on the board. In our engagement, we were made aware of the company’s lax corporate governance practices and tendency to give undue deference to the recently ousted CEO. In response to public and shareholder pressure, the company’s board took the unusual step of publishing a letter, denouncing the founder’s pattern of behavior and initiating an independent audit and investigation of its corporate culture. Consequently, the company’s management undertook a series of engagements with investors that detailed their new strategic framework, which highlighted investing in its people.

The board explained that it plans to incorporate HCM into its corporate strategy and to diversify its board, management, and workforce. We suggested that the company publicly disclose more on its HCM strategy, including how it affects performance. We intend to continue engaging the company on its progress.

**EMEA**

One of the more prominent engagement themes in EMEA revolved around employee representation on boards, following the January 2019 implementation of the revised UK Corporate Governance Code (“Code”). Provision 5 relates to employee representation on the board to enhance engagement with the workforce. We shared our perspective on this topic in our public response to the March 2018 consultation to review the existing UK corporate governance code. As mentioned in our answer to the consultation, we believe that directors should act in the long-term interests of all shareholders and represent their views and concerns, rather than only those of a subset of stakeholders. The unintended consequence of mandating stakeholder representation on boards is the creation of separate classes of directors, which creates special interest groups. This may undermine the effectiveness of the board as it may curtail its ability to fulfill its duty if different stakeholders’ interests are in conflict.

Based on our engagements with various companies, we learned that boards are embracing the need to engage their workforces, however the approaches vary significantly from one company to another. A small number of UK-listed companies have added employees to their boards. In one of our engagements, a company chairman expressed concerns over how one person could represent more than 50,000 company employees and shared that they have a more robust process to give employees a voice and to assess and measure company culture. Another company, with an even larger workforce, also expressed reservations about employee board representation, and similarly elaborated on their significant employee engagement efforts. They described how the chair and the CEO have annual one-on-one meetings with employee representatives, which enabled these individuals to raise issues in a private forum.

A large bank we engaged with felt that having one employee representing the entire workforce was not effective. They have instead established a panel on their subsidiary board to have employee perspectives heard at the board level. Several companies are taking the route of designating a non-executive director to operate as a link between employees and the board. One company appointed a director who was formerly the head of human resources at another firm, who would be skilled at meeting with employees. Another company we engaged with appointed an employee-director who was elected by an independently supervised ballot of employees in their respective subsidiary companies. The appointment is then recommended to the board by the company’s nominating committee, prior to confirmation by shareholders at the company’s annual meeting. Our engagements confirm that company boards are grappling with the Code’s employee engagement framework and are implementing various approaches to address its recommendations.

Another focus area is digital transformation as companies across sectors evolve their corporate strategies to advance operating models, capture new revenue pools, and cut costs through efficiencies. This year we met with a large Italian insurance company to discuss its retraining programs which are part of its ambitious 2021 corporate strategy. The company set a target of reskilling 50% of its employees in the next three years, a strategy that could have created significant anxieties across its core agent network workforce. In the engagement, however, the company’s management noted that employees have embraced
reskilling as a way to enhance their productivity and the quality of interactions with customers.

In February 2019 we engaged a large French bank around the challenges associated with job cuts due to increased competition and consumer shifts towards digital banking. The company aimed to establish a climate of cooperation by working collaboratively with employee unions by having union representatives on the board to provide direct feedback. This bank has invested heavily in the retraining of employees.

**APAC**

In the APAC region, a number of companies have recently dealt with (1) labor shortages and (2) occupational health and safety (OH&S) issues. For example, the Japanese airline industry is enjoying growth in demand for air travel but faces a shortage of ground and cabin crew members. Our **2018 Q4 APAC Quarterly Report** details what we learned from our engagement with a leading airline company that developed innovative policies for female and senior employees who need support to balance child and nursing care. Their policies have led to a notable rise in the staff’s average tenure of service. We had the unique opportunity to conduct an on-site visit to better understand how these initiatives are implemented and to reaffirm that the company is investing in its people. This particular engagement helped us understand how best-in-class companies are attracting and retaining employees as part of their long-term corporate strategy amidst Japan’s tight labor market.

Also in the APAC region, we continued to observe varying levels of commitment to OH&S by companies. For instance, in our **2018 Q4 Quarterly Report**, we discussed our engagement with a major Hong Kong-based utility, which had cut the compensation of senior executives following fatalities of some staff and contract workers. In light of these incidents, the company discussed the hiring of a new OH&S head and the implementation of a more comprehensive OH&S policy with a stronger focus on contractor management. Given assurance on these measures, we felt that the board’s new oversight and new company procedures adequately addressed our concerns. We intend to continue monitoring the company’s OH&S records to assess the long-term effectiveness of its revised safety program.

We wrote in our **2019 Q2 APAC Quarterly Report** about our engagement with a family-controlled property developer in China, which had come under scrutiny for several fatal accidents at its construction sites. Despite our request for a meeting, we were not granted time with the company’s independent directors. It was clear from our conversation with the company secretary and investor relations officers that the controlling family dominated most aspects of the business, and that few checks-and-balances were built into the governance framework. While workplace safety metrics are incorporated in the company’s executive remuneration plan, its impact is rather limited. We engaged with the company about its OH&S enhancements, which included the formation of a safety committee consisting of the CEO, COO, and the chairman of the board. After the engagement, we remained concerned that the company’s oversight processes were inadequate to address the company’s OH&S risks. We will continue to monitor and engage with other property developers, as well as other larger family-controlled companies, to share our views on best practices and encourage stronger governance systems.
Spotlight on Activism

Each year a number of high-profile voting situations arise where a shareholder, often a hedge fund, uses its equity stake in a corporation to pressure management to make changes to the company’s governance, operations, or strategy. This pressure often takes the form of proxy contests for the election of directors selected by the shareholder. Proponents of the process (known as “hedge fund activism,” or simply “activism”) claim that activists can promote enhanced focus on corporate governance practices and financial discipline, leading to improved company performance. Opponents contend that hedge fund activists impose a short-term view, negatively impacting the company, its employees, its community, and long-term shareholders.

Although each activist situation is unique, our vote decision is always determined by our assessment of which outcome best aligns with the long-term economic interests of our clients.

BlackRock’s clients, the asset owners, particularly those invested in index strategies, are primarily long-term investors who will typically hold shares in a company well after most activists have sold their positions. As part of our due diligence, we generally engage with the company and activist as often as necessary to ensure we understand the positions of each and can make an informed vote decision. Where management acknowledges the issues and sets out a clear plan to address them, our preference is to support management and the incumbent board directors. However, when a company fails to make necessary changes or effectively articulate its long-term strategic plans, we may support activists who propose constructive long-term strategies. The BIS voting statistics in the table below illustrate this case-by-case approach to activist situations.

We approach our engagements in contested situations with the objective of protecting and enhancing the value of our clients’ assets. For instance, in our Q4 2018 Americas Quarterly Report, we highlight an example of an engagement that improved the terms offered to shareholders during an unusual reverse merger transaction. The process included multiple engagements spanning the third and fourth quarters of 2018 and involved a number of conversations with management of the private company, various external advisors of the private company, and the two public companies party to the transaction.

When we engaged with the private company, we expressed our reservations with its terms, citing in particular their (1) heavily diminished tracking stock price, and relatedly, (2) our view that the company had severely undervalued its potential worth in the public market. After months of discussion and continued concerns expressed by shareholders about the price of the private company tracking stock, new terms were proposed, which BlackRock supported. The revised deal provided a US $5 billion overall value-add when compared to the original valuation. Additionally, the company agreed to appoint a new independent board member. Our engagements and the resulting value-add to this contested situation underscores BIS’ role as an investment function focused on delivering value for our clients.
Engagement and voting statistics

We annually disclose a statistical overview of our voting and engagement activity. Below are some of the engagement and voting highlights from this past year:

<table>
<thead>
<tr>
<th></th>
<th>2017 proxy season</th>
<th>2018 proxy season</th>
<th>2019 proxy season</th>
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<tr>
<td>Company engagements</td>
<td>1,273</td>
<td>2,039</td>
<td>2,050</td>
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<tr>
<td>Meetings voted</td>
<td>17,309</td>
<td>17,151</td>
<td>16,124</td>
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<tr>
<td>Proposals voted</td>
<td>163,461</td>
<td>159,429</td>
<td>155,131</td>
</tr>
<tr>
<td>Markets voted in*</td>
<td>88</td>
<td>89</td>
<td>85</td>
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</table>

*The number of markets voted in can vary from year to year. In certain markets, some companies do not hold annual shareholder meetings.

Our 2019 engagements

Engagements by region: 2,050 total

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of meetings voted</th>
<th>Number of proposals</th>
<th>% of meetings voted against management recommendations</th>
<th>% of proposals voted against management recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>3,896</td>
<td>31,570</td>
<td>34%</td>
<td>7%</td>
</tr>
<tr>
<td>Americas (ex-USA)</td>
<td>1,070</td>
<td>10,147</td>
<td>49%</td>
<td>10%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>840</td>
<td>11,672</td>
<td>30%</td>
<td>5%</td>
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<tr>
<td>Europe, the Middle East and Africa (ex-UK)</td>
<td>2,507</td>
<td>34,926</td>
<td>53%</td>
<td>11%</td>
</tr>
<tr>
<td>Japan</td>
<td>2,164</td>
<td>22,465</td>
<td>37%</td>
<td>5%</td>
</tr>
<tr>
<td>Asia-Pacific (ex-Japan)</td>
<td>5,647</td>
<td>44,351</td>
<td>36%</td>
<td>9%</td>
</tr>
<tr>
<td>Totals</td>
<td>16,124</td>
<td>155,131</td>
<td>39%</td>
<td>8%</td>
</tr>
</tbody>
</table>

*Source: ISS Proxy Exchange on July 15, 2019
†The 12-month period represents the SEC reporting period for U.S. mutual funds, including iShares.
Global policies and governance codes

BlackRock believes in promoting sound corporate governance practices on behalf of our clients, acknowledging the regional variations due to corporate law, market practice, and culture. We provide commentaries on industry developments that have the potential to impact our clients’ long-term assets and the functioning of global capital markets. As the objectives of investment stewardship and public policy often intersect, in 2018 we brought BIS and BlackRock’s Global Public Policy Group (GPPG) closer together under the leadership of Vice Chairman Barbara Novick.

Clarifying the role of asset management

We continue to encounter misperceptions about asset managers – and, in particular, index managers – and their stewardship related work. One of the most persistent misunderstandings is that large index managers follow proxy advisory firms’ – like Institutional Shareholder Services (ISS) and Glass Lewis – recommendations too closely. In our 2018 ViewPoint, The Investment Stewardship Ecosystem, we explain that of the total votes cast in the US, the vast majority were routine management proposals with robust support from all shareholders. In 2019, uncontentious management proposals accounted for over 98% of all shareholder votes. Of the total votes cast in 2019, only 650 shareholder proposals (1.57%) were submitted. These proposals typically relate to more nuanced topics like governance structure, climate risk disclosure, diversity disclosure, and financial reporting.27 Our analysis shows that managers of varying sizes tend to differ in their voting patterns. In sum: BlackRock’s vote is correlated with ISS and Glass Lewis only on routine management proposals. When focusing on shareholder proposals, the correlation is close to zero.

Furthermore, in April 2019, GPPG, in collaboration with BIS, published a series of policy spotlights to further clarify misconceptions about shareholders, proxy voting, and investment stewardship. These papers include the following:

1. Shareholders are Dispersed and Diverse. There is a misconception that index investors are the predominant shareholders in public corporations and that they effectively control those corporations. In this piece, we show that index fund managers are a relatively small portion of global equity assets and that equity ownership is dispersed across a wide range of investors. The largest three index fund managers represent between 2% and 5% of global equity markets each, and in aggregate manage just over 10% of total global equity market capitalization. The other 90% of equity assets are dispersed across a diverse range of investors, including in-house asset managers, independent asset managers, activist investors, and individuals. These investors have different investment objectives and strategies.

Equity Market Investors

<table>
<thead>
<tr>
<th>Total Equity Market Capitalization</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Asset Managers</td>
<td>35%</td>
</tr>
<tr>
<td>Top 20 Managers</td>
<td>22%</td>
</tr>
<tr>
<td>Top 10 Managers</td>
<td>17%</td>
</tr>
<tr>
<td>VGD</td>
<td>4.24%</td>
</tr>
<tr>
<td>BLK</td>
<td>4.06%</td>
</tr>
<tr>
<td>SSgA</td>
<td>2.22%</td>
</tr>
</tbody>
</table>

Source: The World Bank as of January 30, 2019

2. Proxy Voting Outcomes: By the Numbers. Some commentators have suggested that asset managers are increasingly ‘deciding’ the outcome of proxy votes because their shareholdings are sufficiently sizeable to ‘swing’ the outcome. This view is simply not supported by the data. The vast majority of ballot items (including director elections, Say on Pay, and M&A-related votes) are won or lost by margins greater than 30%, meaning that even the three largest asset managers combined could not change the vote outcome. While the small subset of votes on shareholder proposals tend to be closer, the considerable variation in voting records among asset managers negates the concept of a multi-firm voting bloc as the ‘swing vote’.
By our count, more than 28,000 individuals oversee public companies in the US alone. This includes: 3,948 CEOs and 24,259 board directors.

3. The Role of Shareholders in Public Companies. Some commentators claim that the growth of indexing will lead to a small handful of individuals effectively controlling all public companies in the near future. We counted how many unique individuals are currently running corporations in the US alone and found that more than 28,000 individuals have significant influence over US companies. The paper highlights that CEOs run public companies and boards of directors oversee CEOs. Shareholders provide a check on boards of directors through engagement and proxy voting.

Public companies and their boards have multiple advisors to help them make decisions including:

• 10+ compensation consultants
• Countless law firms and other corporate advisors
• 2 dominant proxy advisory firms
• Thousands of public company shareholders

4. Executive Compensation: The Role of Public Company Shareholders. Executive compensation is often cited as an example of how index fund managers can wield outsized control over corporations because as public company shareholders, they can participate in Say on Pay votes on behalf of their clients. This misperception reflects a lack of understanding of how executive compensation is determined and what Say on Pay votes actually entail. Say on Pay votes permit shareholders to express their views on executive compensation, but they do not dictate how much executives will be paid. Boards of directors, their compensation committees, and compensation consultants design, structure, and approve compensation plans. While shareholders do engage with companies to encourage good governance practices and alignment with company performance, compensation consultants and proxy advisors have a greater influence over the structure of executive compensation packages. Ultimately, the decision on executive compensation is the Board’s.

Dual share class companies

BIS engages with companies to better understand their approach to issues or developments that, in our assessment, have the potential to impact long-term value creation. One such issue that is increasingly scrutinized by market regulators, index providers, media, academics, and practitioners, is dual share class structures.

In the past few years, several index providers have grappled with whether or not to include or exclude companies with dual class shares or unequal voting rights structures in their otherwise broad-based indexes. These structures give shares owned by company insiders greater voting power than those owned by the public. This preserves a level of control for management, thereby mitigating some of the challenges from management’s perspective of existing in the public market.

We recognize that when companies are establishing themselves in the public market, unequal voting rights may allow founders to focus on long-term strategy and performance without being exposed to outside pressures. In early 2018, we published an Open Letter Regarding Consultation on the Treatment of Unequal Voting Structures in the MSCI Equity Indexes examining the impact of removing dual share class companies from these indexes. We were encouraged that in October 2018 MSCI decided not to change its methodology.

Separately, in October 2018, a group of investors, including BlackRock, petitioned the New York Stock Exchange and Nasdaq to amend their listing standards regarding unequal voting right structures. The petition recommends that public companies listing with multiple share classes should convert their share structure within seven years of the initial public offering to a ‘one share, one vote’ structure. Year-to-date, 19 US companies have gone public with multiple share classes with unequal voting rights. Of these, three included sunset provisions.28

The issue of dual share class structures is part of a broader set of issues related to capital formation. We will continue to engage the marketplace on these issues.

Americas

In November 2018, the U.S. Securities and Exchange Commission (SEC) hosted a Staff Roundtable on the Proxy Process with various stakeholders. The goal was to provide the SEC with perspectives on existing regulations and processes related to shareholder engagement. The roundtable explored various topics within the proxy ecosystem, encompassing the voting process, shareholder proposals, and the role of proxy advisory firms. Ray Cameron, Americas Head of BIS was a panelist at this public event and used this platform to underscore BlackRock’s support for increased transparency in the proxy voting process. In addition, BlackRock published a ViewPoint entitled The Investment Stewardship Ecosystem and submitted a letter to the SEC outlining our perspective on the issues.
Europe, the Middle East, and Africa

The EU adopted a revised Shareholder Rights Directive (“SRD II”) in December 2016 with the dual objectives of 1) reinforcing the alignment of the long-term interests of institutional investors, asset managers, and listed companies, and 2) fostering shareholder engagement in the EU. In order to explain how the work of BIS meets the requirements in SRD II, the team published a statement on SRD II in June 2019, the same month SRD II was implemented.

The first Dutch Stewardship Code was developed in 2018 and entered into force in January 2019. The Code will complement national, international, and global stewardship principles to which BlackRock is a signatory or has endorsed. We published our statement on compliance with the new Code in January 2019.

In March and April 2019, BlackRock responded to consultations launched by the UK Financial Reporting Council on proposed revisions to the UK Stewardship Code and, jointly, by the UK Financial Conduct Authority and the Financial Reporting Council on building a regulatory framework for effective stewardship. Taken together, the consultations sought investors’ views on how to enhance the regulatory environment in the UK (including that shaped by industry codes like the UK Stewardship Code) to encourage more effective investor engagement across the industry. BlackRock welcomed these initiatives, which we saw as raising important questions about the ways in which investors can exercise meaningful stewardship.

Asia–Pacific

Our APAC team has been involved in a variety of industry initiatives relating to stewardship. In Japan, we have engaged representatives from the Financial Services Agency to share perspectives on governance and reporting in advance of a forthcoming public comment period on the proposed revisions to the Japan Corporate Governance and Stewardship Code. Additionally, the BIS Tokyo team is also actively involved in Japan’s Ministry of Economy, Trade and Industry (METI) study group on implementing TCFD recommendations. Our industry engagements also included meeting with representatives from the Tokyo Stock Exchange to discuss various topics ranging from market structures and improving governance standards, to the importance of standardizing reporting, and the evolution of ESG disclosures.

In India, the Securities and Exchange Board of India (SEBI) issued a consultation paper on differential voting rights (in essence, dual class shares). BIS responded to the SEBI consultation in April 2019, underscoring that such rights offered to founders undermine the legitimate voting entitlement of shareholders, generally; and, if such capital structures are permitted, there should be robust protections for investors. SEBI proposed that shareholders should be able to vote on a one-share one-vote basis if the capital structure is to be extended beyond five years and similar periods thereafter. Our response recommended additional protective measures as well, including that such companies should have only independent directors on their Corporate Governance and Remuneration and Nominating Committee, and that a lead independent director should be identified as a point of contact for shareholders to discuss governance issues.

We responded to the China Securities Regulatory Commission (CSRC)’s consultation on a revised version of the Chinese Code of Corporate Governance for Listed Companies (the Code), which concluded in mid-July 2018. We recognized and affirmed CSRC’s focus on further enhancing the protection of retail investors, strengthening the role of audit committees, and mandating the disclosure of ESG issues. We also expressed our views for enhancing disclosure requirements on critical corporate governance matters, further strengthening the structure and effectiveness of the board, tightening oversight of rules on controlling shareholders’ share pledging activities, and encouraging better alignment between a company’s social responsibility activities and its long-term growth strategy.
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. We presented at conferences and panel discussions over the past year to share our views on a wide range of topics, including shareholder activism, stewardship in emerging markets, engagement on environmental and social factors, executive compensation, and investor expectations of boards of directors. Some of these events were small, private roundtables where we were able to have detailed discussions with board members about themes relating to governance and board performance. Others were large, annual conferences of practitioners including investor relations professionals and institutional investors. For more information, please see the Responsible Leadership section in any of our publicly available Investment Stewardship quarterly reports.

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 on the next page, 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.
## Industry affiliations and memberships

<table>
<thead>
<tr>
<th>Americas</th>
<th>Europe, Middle East and Africa</th>
<th>Asia-Pacific</th>
<th>Global</th>
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</thead>
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<tr>
<td>American Council on Renewable Energy</td>
<td>British Property Federation (BPF)</td>
<td>Asian Corporate Governance Association (ACGA)</td>
<td>30% Club Investor Group</td>
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<td>American Wind Energy Association</td>
<td>Business in the Community</td>
<td>Asian Investor Group on Climate Change (AIGCC)</td>
<td>Catalyst</td>
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<td>Anita Borg Institute for Computing</td>
<td>Commission for Sustainable Finance (of the union of German investment professionals DVFA)</td>
<td>Financial Services Council (FSC)</td>
<td>CDP (formerly Carbon Disclosure Project)</td>
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<td>Corporate Governance and Engagement Committee of the UK Investment Association</td>
<td>Hong Kong Green Finance Association (HKGFA)</td>
<td>CECP’s Strategic Investor Initiative</td>
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<td>Association of Latino Professionals for America (ALPFA)</td>
<td>Corporate Governance Working Group of the Asset Management and Investors Council</td>
<td>Investor Group on Climate Change (IGCC) Australia/New Zealand</td>
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<td>Diversity Project</td>
<td>Kospi Market Advisory Committee</td>
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<td>International Integrated Reporting Council (IIRC)</td>
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<td>Principles for Responsible Investment (PRI)</td>
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<td>Sustainability and Responsible Investment Committee of the UK Investment Association</td>
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<td>Sustainable Investing Platform of DNB (Dutch Central Bank)</td>
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<td>Sustainable Pension Investments Lab (SPIL)</td>
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<td>indCoalition</td>
<td>The FRC Investor Advisory Group</td>
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<td>Women in Technology International</td>
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</tbody>
</table>

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1. Includes in person meetings, calls, and letters sent to companies.
2. We engaged with companies that represented 50.4% by value of the equity assets BlackRock manages on behalf of clients, as of June 28, 2019.
3. See appendix II on page 38 of this report for a detailed summary of PRI’s 2019 assessment of BlackRock.
4. The Chinese Securities voting guidelines are also publicly available in simplified Chinese.
5. Includes voting on the following ISS codes: Approve Discharge of Management Board, Approve Discharge of Supervisory Board, Approve Discharge of Management and Supervisory Board, or Approve Discharge of Board and President.
8. We updated our policy prior to the 2018 proxy season but did not begin to vote against directors in 2017-2018 in order to allow time for companies to consider our policy.
9. The Korean market is dominated by chaebols whose founding families often retain group control through a complex web of holdings in various affiliate companies that themselves often have interlocking ownership.
10. A corporate promoter is a firm or person, usually the founder, who remains a dominant shareholder after bringing the company to the market.
12. The PRI categorizes investments managers (IMs) is synonymous with asset managers, but it does not include asset owners (AOs).
14. The terminology can vary depending on markets but “Say on Pay” is the generic expression referring to the ability of shareholders to vote on the compensation of executives. The vote can be advisory or binding, as well as prospective or retrospective.
15. In this analysis we include all voting results where 2017-18 and 2018-19 data exists for a company. We have excluded from this analysis companies that had triennial say on pay or did not have a vote for other reasons in the year over year period.
16. Source: Proxy Insight. A year-over-year comparison on Say on Pay votes at the companies we engaged on executive compensation. Of the 593 companies specified in the analysis, 458 held Say on Pay votes in 2018 & 2019. Due to differing Say on Pay regulations globally, a mixture of Advisory and Binding proposals on the remuneration report were used for this analysis.
18. For example, in 2019, we voted in favor of the compensation plan at a building materials company that had faced substantial shareholder opposition the previous year. A British housebuilding company recognized the need to more closely align compensation with performance. And, a British satellite telecommunications company that received a nearly 60% vote against compensation the prior year, implemented a simplified pay structure, a single annual bonus plan, and a balance between short- and long-term performance metrics. Collectively, these factors gave us reason to vote in favor of their proposal the following year.
19. In January 2017, we sent letters to the chairmen of the board of the top 300+ listed companies in the UK to inform companies of these updates to our voting guidelines. One of the points highlighted in our UK compensation letter and policy was that, “we expect pension contributions for executives to be in line with the rest of the workforce for new contracts.”
20. https://uk.reuters.com/article/uk-london-investors-agm-fund-managers-turn-up-heat-on-uk-companies-over-diversity-pensions-audit-idUKKCN1R128T.
22. According to the TCFD, the list reflects all current supporters in time for the 2019 Status Report launch on June 5, 2019 at https://www.tcfdbc.org/tcfd-supporters/.
25. Settlements include contests that are resolved before proceeding to a shareholder vote.
26. When we do vote for dissident candidates proposed by activists, we seldom vote in a way that would give the activists control of the board.
27. BlackRock 2019 N-PX Filings. The percentage of shareholder proposals to total votes is consistent with previous years.
29. The PRI categorizes investment managers (IMs) is synonymous with asset managers, but it does not include asset owners (AOs).
### Appendix I: Engagements

BIS had substantive dialogue with the companies listed on the following pages. This list does not include companies where we engaged solely via letter. Our team engages companies for various reasons including 1) to ensure that we can make well-informed voting decisions, 2) to explain our voting and governance guidelines, and 3) to convey our thinking on long-term value creation and sound governance practices.

#### Americas Engagements

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Occidental Petroleum
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Olin
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Ottani Financial
Ormat Technologies
Overstock.com
Owens Corning
Owens Realty Mortgage
PACCAR
PacWest Bancorp
Papa John’s International
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PDC Energy
Pebblebrook Hotel Trust
PepsiCo
PetMed Express
Pfizer
PG&E
Pilgrim’s Pride
Pinnacle West Capital Corporation
Pitney Bowes
Plantronics
PNM Resources
PNMAC Holdings
Post Holdings
PPG Industries
Preferred Bank
Premiertouch Resources
PriceSmart, Inc.
Primo Water
Progenics Pharmaceuticals
Proofpoint
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Prudential Financial
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Qualys
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Quanta Services
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Raytheon
Regeneron Pharmaceuticals
Regions Financial Corporation
Regal Entertainment Group
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Rockwell Automation
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Ruth’s Hospitality Group
Ryder System
S&P Global
S&T Bancorp
Sachem Capital
Safety Insurance
Saleem Media Group
Sally Beauty
Sanderson Farms
Sandy Spring Bancorp
Sanmina Corporation
Sarepta Therapeutics
Schlumberger
Scientific Games
Seacoast Holdings
Seattle Genetics
SeaWorld Entertainment
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Sempra Energy
Semtech
Senior Housing Properties Trust
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Simply Good Foods Company
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Six Flags Entertainment
SJW Group
Skechers U.S.A.
Skyworks Solutions
SL Green Realty
SM Energy
Sonata Automotive
Southern Company, The
SpartanNash
SPX Corporation
Stag Industrial
Stanley Black & Decker
Starbucks
Stars Group
State Street
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Sterling Construction
Steven Madden
Stewart Information Services
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Sunstone Hotel Investors
SunTrust Banks
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Sysco
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Tanger Factory Outlet Centers
Taubman Centers
TCF Financial
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Tenet Healthcare
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TETRA Technologies
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TRI Pointe Group
Tribune Media Company
Trinseo
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Tutor Perini
Twitter
Tyson Foods
U.S. Bancorp
U.S. Physical Therapy
Ultralife Participacoes
UMH Properties
Uni-Select Inc.
Unisys
United Parcel Service
United Rentals
United States Steel
United Technologies
United Therapeutics
Universal Display Corporation
Universal Insurance Holdings
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Valero Energy
Valley National Bancorp
Varian Medical Systems
Varonis Systems
Vector Group
Vechte
Verastem
Veritiv
Verso
Versum Materials
Vertex Pharmaceuticals
VOCI Properties
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WisdomTree Investments
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World Acceptance Corporation
Wynn Resorts
Xenia Hotels & Resorts
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Xilinx
XPO Logistics
Xylem
Yelp
Yum! Brands
Zimmer Biomet Holdings
### Asia-Pacific Engagements

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Asia-Pacific Engagements

77 LG Display
Link Real Estate Investment Trust
Livzon Pharmaceutical Group
Lixil Group
Maanshan Iron & Steel Company
Maccanique Group Limited
Maeda Corporation
Maeda Road Construction
Mahindra & Mahindra
Mandom Corporation
MARUI GROUP
Maruti Suzuki India
Maxell Holdings
Media Tek
MediBank Private
Mega Financial Holding
Meiji Holdings
Metcash
MinebeaMitumi
MINTH Group
Miraca Holdings
Mitsubishi Chemical
Mitsubishi Corporation
Mitsubishi Estate
Mitsubishi Logistics
Mitsubishi Materials
Mitsubishi UFJ Financial Group
Mitsui & Co.
Mitsui Chemicals
Mitsui E&S Holdings
Mitsui Mining and Smelting
Mitsui
Mizuho Financial Group
Miyako Group
Mizuho Trust & Banking
Monem Group
Monarch International
MORINAGA Milk Industries
MTR Corporation
Musashino Bank, The
National Australia Bank
NEC Corporation
NEC Networks & System Integration
Nestle India
New World Development
NH Foods
Nihon Unisys
Nihon Yamamura Glass
Nikkon Holdings
Nine Entertainment Co. Holdings
Nintendo
Nippon Chemi-Con
Nippon Electric Glass
Nippon Paint Holdings
Nippon Paper Industries
Nippon Sheet Glass
Nippon Shokubi
Nippon Steel & Sumitomo Metal
Nippon Television Holdings
Nippon Thomspson
Nippon Yusen
Nishinamatsu Construction
Nissan Motor
Nissha

Nissin Group
Nisso
Nitto Holdings
Nitto Denko
Nomura Holdings
Nomura Real Estate
Northern Star Resources
NSK
NTT Corporation
NTT Data
NTT DoCoMo
NTT Urban Development
Obayashi
Oki Electric Industry
Olympus
Ono
Onward Holdings
Orica Limited
Origin Energy
Oversea-Chinese Banking Corporation
Panasonic
PCCW
Persol Holdings
Phison Electronics
Pigeon Corporation
Ping An Insurance Company of China
Pioneer
POS CO
POS CO International
Premium Group
Qantas Airways
QBE Insurance Group
Rakuten
Ramsay Health Care
Recruit Holdings
Resona Holdings
Ricoh
Riken
Rio Tinto
Robinsons Retail Holdings
Rurakko Holdings
Ryohin Keikaku
Ryosan
Sa International
Samsung C&T Corporation
Samsung Electronics
Sankei Electric
Sanrio
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Saniten Pharmaceutical
Sanyo Shokai
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Sato Holdings
SECOM Co., Ltd.
Sega Sammy Holdings
Seikikokyukogyo
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Sekisui Chemical
Sekisui House
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Seven & I Holdings
Shanghai Electric
Shanghai Industrial Holdings
Shenzhen International Group
Shiga Bank
Shikoku Electric Power
Shimadzu
Shimizu Corporation
Shinkawa
Shinsei Bank
Shionogi & Company
Shiseido
Shizuoka Bank
Showa Shell Sekiyu
Sime Darby Plantation Berhad
Singapore Telecommunications
Sino-Ocean Group
Sinopac Financial Holdings
SK Holdings
SK Telecom
SoftBank
Sojitz
SoGold
Sompo Holdings
Soncian Healthcare
Sony Financial
South32
Stanley Electric
Star Entertainment Group
Subaru
Sumitomo Heavy Industries
Sumitomo Metal Mining
Sumitomo Mitsui Financial Group
Sumitomo Realty & Development
Sumitomo Rubber Industries
Suncorp Group
Suruga Bank
Suzuki
Suzuki Motor
T&D Holdings
Tabcorp Holdings
Tadano
Taisei Corporation
Taishin Financial Holding
Taiwan Business Bank
Taiwan Semiconductor Manufacturing
Taiyo Holdings
Takara Holdings
Takeda Pharmaceutical
Tata Consultancy Services
Tatung
TDK Corporation
Tech Mahindra
Teijin Limited
Teikoku Sen-I Company
Telstra Corporation
Tencent Holdings
Terumo Corporation
THK Company
Toda Corporation
Tohoku Electric Power Company
Tokyo Broadcasting System Holdings
Tokyo Electric Power Company Holdings
Tokyo Gas
Top Glove Corporation Bhd
Toppan Printing
Toray Industries
Toshiba
Toshiba Machine
TOTO
Tourism Holdings
Towngas China Company
Toyo Suisan Kaisha
Toyo Tanso
Toyo Tire Corporation
Toyota Motor
TPK Holding
TPR
Travelsky Technology
Treasury Wine Estates
Trend Micro
Tronox
Trusco Nakayama
UBE Industries
Uchida Yoko
UKC Holdings
Uni-President Enterprises Corporation
Unipress Corporation
Unizo Holdings
Ushio
Wesfarmers
West Japan Railway Company
Westpac Banking
WH Group
Wharf Holdings
Whitehaven Coal
Wilmar International
WIN Semiconductors
Woodside Petroleum
WorleyParsons
Xinyi Solar Holdings
Yahoo! Japan
Yamaha
Yamaha Motor
Yamato Holdings
Yes Bank
YiChang HEC Changjiang Pharmaceutical
Yokogawa Electric
Yokohama Rubber Finance
Yuanta Financial Holdings
Yuexiu Property
Yungtay Engineering
Zhejiang Expressway
Zhejiang Sanhua
ZTE Corporation
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77 4imprint Group
ABB
Absa Group Limited
Acacia Mining
Accenture
AccorHotels
ACS, Actividades de Construcción y Servicios
Adidas
Admiral Group
Advanced Medical Solutions
Aena SME
Air Liquide
Airbus
AkzoNobel
Alkermes
Allergan
Allergy Therapeutics
Allianz
Alstom
Amundi
Angling Direct
Anglo American
Anheuser-Busch InBev
Antofagasta
Aon
Argo Group Ltd.
Arkema
Arysta
Ashmore Group
ASML Holding
ASR Nederland
Assicurazioni Generali S.p.A.
Aston Martin Lagonda Global Holdings
Atos
Audi
AXA
Azimut Holding
Bacanora Lithium
BAE Systems
Banca Piccolo Credito Valtellinese
Banco Bilbao Vizcaya Argentaria
Banco BPM
Banco de Sabadell
Banco Santander
Bank of Ireland Group
Barclays
BASF
Bayer
Bayerische Motoren Werke
BE Semiconductor Industries
Berkeley Group Holdings
BHP Group plc
Bid Corporation
BNP Paribas
Bodycote
Bolden
Bovis Homes Group
BP
Breedon Group
British American Tobacco
British Land Company
BT Group
Burberry Group
Caim Energy
Cairn Homes
CaixaBank
Capgemini
Capita
Carrefour
Casino Guichard Perrachon
Centamin
Central Asia Metals
Centrica
CEZ
Chemring Group
Chubb
City Of London Investment Group
Clariant
Clarkson
Close Brothers Group
Com Hem Holding
Comet Holding
Commerzbank
Compagnie de Saint-Gobain
Compagnie Financière Richemont
Compass Group
Connect Group
Consort Medical
Continental
Credit Agricole
Credit Suisse Group
Crest Nicholson Holdings
CRH plc
Croda International
CYBG
Daimler
Dairy Crest Group
Danone
Danske Bank
DDC
De La Rue
Debenhams
Delivery Hero
Derwent London
Deutsche Bank
Deutsche Boerse
Deutsche Lufthansa
Deutsche Telekom
Diageo
Dailight
Direct Line Insurance Group
Domino's Pizza Group
Domakaba Holding
Drax Group
Dufry
E.ON
easyJet
Edenred
EDP - Energias de Portugal
El Group
Electrocomponents
Enagas
Enel
Engie
Eni S.p.A.
EssilorLuxottica
Experian
Ferguson
Ferrexpo
Fincantieri
FirstGroup
Fuller Smith & Turner
Future Plc
GAM Holding
Games Workshop Group
GB Group
GC Investment
GEA Group
Gear4music Holdings
Genmab
Georg Fischer
Getlink
Givaudan
GlaxoSmithKline
Glencore
Greencore Group
Greene King
Greggs
Gulf Marine Services
GVC Holdings
Hammersen
Hargreaves Lansdown
Hastings Group Holdings
HeidelbergCement
Heineken
Helical
Henkel AG & Company
Hibernia REIT
Hill & Smith Holdings
Hollywood Bowl Group
Horizon Pharma
HSBC Holdings
Hunting
Hyprop Investments
IG Group
Imperial Brands
Infineon Technologies
Informa
ING Groep
Ingenico Group
Inmarsat
InterContinental Hotels
International Consolidated Airlines Group
Intertek Group
Intesa Sanpaolo
InvesTech
ITE Group
J D Wetherspoon
John Laing Group
Johnson Controls International
Johnson Matthey
Julius Baer Gruppe
Jupiter Fund Management
Just Group
Keller Group
Kering
Kingfisher
Koninklijke DSM
Koninklijke Philips
LafargeHolcim
Lagardere
Land Secs Group
Legal & General Group
Liontrust Asset Management
Lloyds Banking Group
London Stock Exchange Group
Lonz Group
L’Oreal
Lundin Petroleum
LVMH Moet Hennessy Louis Vuitton
Mallinckrodt Pharmaceuticals
Marston’s
Mattioli Woods
McCarty & Stone
Mears Group
Melrose Industries
Merck KGAA
Merlin Entertainments
Metro Bank
Micro Focus International
Mite Group
Milton Group
M.J Gleeson
Moncler
Morgan Advanced Materials
Mr Price Group
Muenchener Rueckversicherungs-Gesellschaft AG in Muenchen
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Naspers
National Grid
Nestle
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Next
Noble Corporation
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Novartis
Novocure
nVent Electric
Ocado Group
Österreichische Post
Old Mutual
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<th>Company Name</th>
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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 upholding all six principles, including Principle 6: We will each report on our activities and progress towards implementing the principles. To that end, BlackRock submitted a 2019 PRI Transparency Report and received PRI’s assessment of that report.

In 2019, as in 2018, PRI assessed BlackRock’s ESG integration capabilities to be at or above median scores in each of the reporting segments.

In 2019, 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 B 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.

Our overall “Strategy and Governance” score of A+ placed us above the 2019 median in the top 24% of all 1,343 investment managers (76th percentile). For our direct active ownership score for listed equity, we also well exceed other institutional manager respondents placing in the:

- Top 15% of 678 investment managers (85th percentile) for individual engagements
- Top 17% of 512 investment managers (83rd percentile) for collaborative engagement
- Top 8% of 702 investment managers (92nd percentile) for proxy voting

### Summary PRI assessment scores for BlackRock

<table>
<thead>
<tr>
<th>Section</th>
<th>Module</th>
<th>BlackRock 2019</th>
<th>2019 Median</th>
<th>BlackRock 2018</th>
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Source: PRI Data Portal, as of 7/23/2019

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 working to enhance our existing programs.