BLACKROCK®

MARCH
2018

BlackRock Investment Stewardship's approach to engagement on climate risk

We have received a number of inquiries from clients and others about how BlackRock Investment Stewardship analyzes and engages companies on climate risk. The following is intended to explain our approach to a broader audience.

As part of its investment process on behalf of its clients, BlackRock assesses a range of factors that might affect the long-term financial sustainability of the companies in which we invest. We have determined that climate change presents significant investment risks and opportunities that have the potential to impact the long-term value of many companies[i]. For this reason, we included climate risk as one of our engagement priorities[ii].

We have over the past several years contributed to external initiatives, such as the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB), that enhance our understanding of climate risk and help guide our approach. Each of these initiatives focuses on developing market-level and systemic standards that would advance reporting on environmental, social, and governance (ESG) factors such as climate risk, amongst others. We believe that the TCFD framework, and SASB's sector-specific disclosure standards, provide useful guidance to companies on identifying, managing, and reporting climate-related risks and opportunities. BlackRock's CEO, Larry Fink, has in his annual letters to CEOs over the past several years, highlighted the need for companies to help investors understand the ESG factors most relevant to their business, long-term strategy and ability to generate value over time. In 2018, the letter[iii] noted that in order to sustain corporate performance, companies must understand the ways that broad, structural trends – such climate change – affect a company's potential for growth.

Our Investment Stewardship team – which is responsible for engagement with companies, including voting at shareholder meetings – continues to contribute to these initiatives. The team draws on the insights gained through engagement with companies, other shareholders and experts over the past few years and we believe that companies are also increasingly aware of the business relevance of climate risk.

The team participates in 1,600 company engagements each year on average and engages certain companies over a number of years. Multi-year engagements reflect BlackRock's long-term approach to investment and stewardship. Engagements are undertaken in the context of our principles-based policies, which are applied pragmatically and evolve over time as practices and issues change. While we are patient with companies, our patience is not infinite. In the first instance, we will raise an issue with a company and explain our perspective on it; unless we believe management's approach is likely to cause significant financial harm to shareholders in the near term, we will support management as changes are made to address our concerns. If we do not see progress on the issue and we remain concerned, we will escalate our dialogue, usually to board directors, and in time, may vote against the re-election of directors and, potentially, for shareholder proposals that address the issues.

For companies most directly impacted by climate change, we expect the whole board to have demonstrable fluency in how climate risk affects the business. The company should explain the board's oversight of management's approach to managing and mitigating the risk. Over the next few years, we expect that companies will enhance their disclosure related to climate change as awareness and understanding of the TCFD's recommendations spreads.

The TCFD's recommendations were finalized in June of 2017. The goal of the recommendations is to "promote more informed investment, credit, and insurance underwriting decisions" and, to "enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks."[iv] BlackRock's Investment Stewardship team believes that the TCFD is particularly relevant to the investment community due to its focus on disclosures designed to improve access to information from: *issuers* who generally have an obligation under existing law to disclose material information, but lack a coherent framework to do so for climate-related information, and; *investors*, *lenders, and insurers* who need decision-useful, climate-related information to make informed capital allocation and financial decisions.

The TCFD recommendations are organized into four specific categories, and encourage corporate disclosures related to a company's:

- **Governance -** The organization's governance around climate-related risks and opportunities
- **Strategy -** The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning
- **Risk Management -** The processes used by the organization to identify, assess, and manage climate-related risks
- **Metrics and Targets -** The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Over the course of 2017, we engaged companies most exposed to climate-related risk through direct meetings and conferences to discuss current climate-related reporting and the TCFD framework. We also wrote to the CEOs and General Counsels of approximately 120 of the most carbon-intensive companies globally in BlackRock's aggregate equity portfolio. We sought to better understand corporate views on the recommendations from the TCFD and to encourage companies to consider using the framework in their reporting in due course. During the course of our engagements, we have asked management and corporate boards to speak to, among other topics, its board oversight of climate-related risks, how the company assesses potential opportunities that the changing market may present, how climate risk might influence future long-term capital expenditure plans, and whether the company has done any scenario analysis in relation to its climate risks and business strategy. Our aim is not to micromanage companies, but to assess management effectiveness and thus, a company's prospects for future growth and financial performance.

Consistent with our long-term value focus and "engagement first" process, where shareholder proposals on climate risk clearly address a gap in investment-decision and stewardship relevant disclosure that we believe will lead to material economic disadvantage to the company and its shareholders if not addressed, and management's response to our prior engagement has been inadequate, we will consider voting in favor of proposals that would address our concern. Assessments will be based on the robustness of corporate disclosures and our direct engagement with company management and, if necessary, independent board members. Ultimately the board is responsible for protecting the long-term economic interests of shareholders and we may vote against the re-election of certain directors where we believe they have not fulfilled that duty, particularly in markets where shareholder proposals are not common.

Our engagement around climate-related risks and opportunities will continue in 2018. Our approach will evolve, along with that of the companies with whom we engage, as research and data expands.

Contact BlackRock Investment Stewardship at contactstewardship@blackrock.com

---

[i] See e.g. https://www.blackrock.com/corporate/en-us/literature/whitepaper/bii-climate-change-2016-us.pdf
[ii] https://www.blackrock.com/corporate/en-gb/about-us/investment-stewardship/voting-guidelines-reports-position-papers#2017-2018-priorities
[iii] https://www.blackrock.com/corporate/en-gb/investor-relations/larry-fink-ceo-letter
[iv] Available at https://www.fsb-tcfd.org/wp-content/uploads/2016/12/TCFD-Report-Overview-Dec.-2016.pptx