

Q2 2020

# **BlackRock Investment Stewardship**

**Global Quarterly Stewardship Report**

July 2020

**BlackRock**<sup>®</sup>

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The BlackRock Investment Stewardship (BIS) team publishes quarterly reports to provide transparency on BlackRock's approach to corporate governance engagement and how we support long-term value creation for our clients. The examples reported across our three regional teams – Americas, Europe, Middle East, and Africa (EMEA), and Asia-Pacific (APAC) – offer a global perspective of the wide range of issues our engagements and voting analyses address. We aim to provide examples that highlight particular environmental, social and governance (ESG) considerations, emerging practices or issues and notable company-specific developments. We also provide examples of our engagement in the public domain, such as in responses to formal policy consultations and presentations or informal discussions at conferences.

[blackrock.com/investmentstewardship](https://www.blackrock.com/investmentstewardship)

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# BIS Q2 review

During the second quarter, the busiest proxy voting quarter of the year, the BlackRock Investment Stewardship (“BIS”) team continued to engage with companies across our [five engagement priorities](#).

The historic events that occurred during the quarter have put focus on the “S” within ESG.

As Larry Fink set out in his [2020 letter to CEOs](#): “...a company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders...a strong sense of purpose and a commitment to stakeholders helps a company connect more deeply to its customers and adjust to the changing demands of society.”

We have learned from our engagements that companies are finding it challenging to balance the short-term actions needed to mitigate the professional and personal effects of COVID-19 on their employees, customers, and other stakeholders. Companies are having to transition their business models to allow employees to work from home or in a safe, socially distanced environment. This transition also includes companies re-designing their supply chains and operations due to impacts caused by COVID-19.

BIS remains focused on companies’ progress with respect to diversity. The movement for racial equity and justice underscores the need for companies to do better to ensure representation at all levels of the workforce, alongside an inclusive culture in which a diverse workforce can employ skills and expertise to full effect in driving a company’s strategic objectives and long-term shareholder value.

A number of companies made public statements of intent regarding diversity targets and racial equality. We will continue to monitor and engage to understand how companies are improving diversity in key leadership positions and throughout their workforces.

We continue to believe that clear and consistent reporting is critical to effective stewardship on these matters. In light of the proliferation of overlapping corporate disclosure frameworks, there must be greater alignment and convergence to coalesce around core commonalities and drive toward more common global standards. For our part, BIS is committed to contributing to efforts to help improve industry standards and is an active participant in several consultations on stewardship-related regulatory frameworks.

The Sustainable Accounting Standards Board (SASB) reporting framework is one which we believe sets out a clear set of industry-specific standards for companies to disclose material sustainability information across a wide range of issues, including human capital management and climate risk. BIS is currently participating in [SASB’s consultation to enhance its human capital reporting standard](#).

As part of our engagements over the last few years, we have been encouraging companies to adopt reporting aligned with SASB and the Task Force on Climate-related Financial Disclosures (TCFD), which we view as complementary. We are already seeing the impact of this engagement. SASB reported a 180% increase in companies reporting over 2018 levels and a significant increase in the number of companies downloading their standards following calls from investors, including BlackRock. In February 2020, the TCFD announced that more than 1,000 companies with a total market capitalization of nearly \$12 trillion had endorsed its recommendations. This represents a significant increase versus the more than 275 companies with a combined market capitalization of more than \$6.6 trillion that endorsed its recommendations in April 2018. Moving forward, we will continue to focus on encouraging companies to publish SASB- and TCFD-aligned reporting across a range of business relevant metrics.

## Stewardship outlook

As highlighted in a recent [memo](#) to BlackRock employees, this fall BIS will take time to assess the impact of companies' response to COVID-19 and associated issues of racial equality. We will take a fresh look at our expectations of companies as it relates to human capital management and how companies pursue sustainable social practices more broadly. As per our [recent BIS report on our approach to sustainability](#) (page 22), we will be increasingly disposed to vote against management should companies fail to appropriately balance the needs of stakeholders. We will also continue to emphasize the importance of race and gender diversity in the composition of a diverse board.

Finally, as we look ahead, we expect many of our engagements in the second half of the year to focus on financial and operational resilience in the face of the global pandemic. In engagements to date, we have sought to learn more about how companies are responding to COVID-19, how it has impacted their business models and risk assessments, altered long term capital allocation decisions and influenced strategic decision making. For example, many companies are now looking at how to shorten their supply chains or at least bring them closer to demand. In these situations, BIS wants to understand how that is likely to impact supplier relationships, due diligence, product provenance, resiliency versus efficiency, and overall long-term sustainability. As we see business models across sectors transitioning in the face of a changing economic landscape (and planning for a recovery phase), we are looking carefully at which are being built back more resilient.

### Q2 2020 - Summary of engagement and voting

Over the quarter, we saw a 22% increase in total company engagements compared to Q2 2019. We engaged in direct dialogue with 812 companies, interacting multiple times with 13% of them.

Conversations on human capital management rose three-fold and were held with companies globally.

During the second quarter, BIS voted at more than 9,200 shareholder meetings on over 100,000 proposals, numbers in line with the prior year. This quarter, we voted against at least one management proposal at 43% of shareholder meetings globally and against management's recommendation on 9% of all proposals.

In our [recent BIS report on our approach to sustainability](#), we outlined our approach to voting on climate-related issues during the 2020 proxy season. We identified 244 companies that are making insufficient progress integrating climate risk into their business models or disclosures. Of these companies, we took voting action against 53, or 22% and we put the remaining 191 companies 'on watch.' Those companies that do not make significant progress risk voting action against management in 2021.

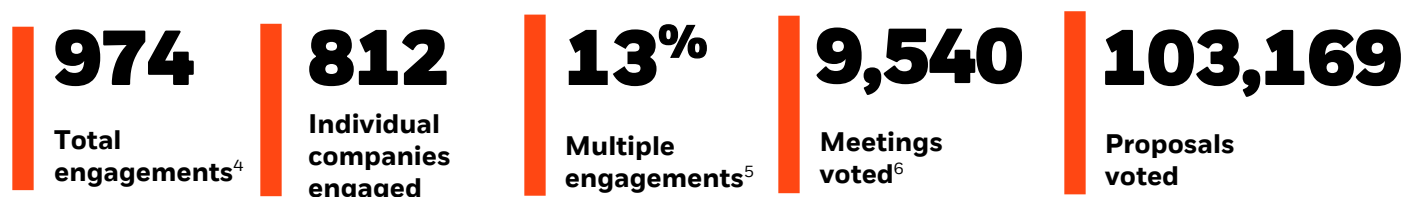
### A continued focus on voting transparency

In January we [committed](#) to providing our clients and other stakeholders more insight into our investment stewardship practices. Since then, we've taken action to deliver on these commitments, including new [quarterly disclosures](#) of our voting record and engagement history. We also enhanced reporting on our engagement and voting actions in our [recent BIS report on our approach to sustainability](#).

During the second quarter, we published 29 [voting bulletins](#) to inform clients and other stakeholders about our voting decision and rationale on key high-profile votes. This brings the total number of published bulletins to 35 for the year to June 30, 2020. The issues covered in these bulletins range from long-standing governance issues, such as enhancing alignment between executive pay and company performance to climate-risk management and related disclosures.

# Engagement Statistics

## Global Q2 2020 Engagement Statistics



<sup>4</sup> The global engagement statistics are sourced from BlackRock on July 5, 2020 and are a reflection of 2<sup>nd</sup> Quarter 2020.

<sup>5</sup> Multiple engagements represent the number of multiple meetings during the quarter with the same company.

<sup>6</sup> The global engagement statistics are sourced from BlackRock on July 5, 2020 and are a reflection of 2<sup>nd</sup> Quarter 2020.

### Engagement Themes

**920** Governance

**370** Environmental

**308** Social

### Top Engagement Topics\*

#### Governance

- Board Composition and Effectiveness discussed **504** times
- Corporate Strategy\*\* discussed **383** times
- Executive Compensation discussed **379** times

#### Environmental

- Climate Risk Management discussed **272** times
- Operational Sustainability\*\*\* discussed **245** times

#### Social

- Human Capital Management discussed **236** times

\* Most engagement conversations cover multiple topics.

\*\* Corporate strategy conversations focus on long-term strategic direction, how strategy, purpose and culture are aligned, and corporate milestones against which to assess management.

\*\*\* Operational sustainability engagements focus on topics like waste and water management, packaging, product life cycle management, product offerings, and energy efficiency.

Region	Total company engagements	Individual companies engaged	Multiple engagements*	Meetings voted	Proposals Voted
Americas	461	394	12%	3,404	30,211
EMEA	223	189	15%	1,763	27,410
APAC	290	229	14%	4,373	45,548
<b>Global</b>	<b>974</b>	<b>812</b>	<b>13%</b>	<b>9,540</b>	<b>103,169</b>

Source: BlackRock and ISS for period April 1, 2020 to June 30, 2020.

\*Multiple engagements represent multiple meetings with the same company over this period

[www.blackrock.com/corporate/about-us/investment-stewardship](http://www.blackrock.com/corporate/about-us/investment-stewardship)

# Voting Statistics

Voting at shareholder meetings enables investors to provide feedback to the company and, where relevant, encourage the board and management team to consider and address investor concerns. We make our voting decisions on a case-by-case basis in the context of our published voting guidelines for each region. We engage with companies to build our understanding of a company's approach to governance and sustainable business practices. We will also engage companies where we have concerns that the board or management might not be acting in the best long-term economic interests of shareholders such as our clients. We will vote against a company's proposals if we believe that the issue under consideration is clearly not in our clients' economic interests, the company does not wish to engage with us or engagement fails to resolve our concerns.

## Global Q2 2020 Voting Statistics

Region	Total number of meetings voted	Total number of proposals voted	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendations
North America	3,085	27,126	30%	7%
Latin and South America (LATAM)	319	3,085	69%	13%
United Kingdom	349	5,655	42%	6%
EMEA (ex-UK)	1,414	21,755	36%	15%
Japan	1,681	17,553	36%	6%
Asia-Pacific (ex-Japan)	2,692	27,995	45%	10%
<b>Total</b>	<b>9,540</b>	<b>103,169</b>	<b>43%</b>	<b>9%</b>

## Global Q2 2020 Votes Against Management by Proposal Type for the Quarter

Region		Global	North America	LATAM	United Kingdom	EMEA (ex-UK)	Japan	Asia-Pacific (ex-Japan)
<b>Management Proposals</b>								
<b>Anti-takeover and related proposals</b>	total number of proposals voted	617	230	2	225	76	75	9
	% of proposals voted against management	20%	10%	0%	0%	37%	95%	0%
<b>Capitalization</b>	total number of proposals voted	8,669	250	129	1,173	2,240	19	4,858
	% of proposals voted against management	17%	4%	8%	2%	15%	11%	23%
<b>Election of directors and related proposals</b>	total number of proposals voted	54,268	19,459	1,503	2,365	8,062	15,042	7,837
	% of proposals voted against management	8%	9%	4%	9%	13%	6%	10%
<b>Compensation</b>	total number of proposals voted	8,541	3,550	131	586	2,966	700	608
	% of proposals voted against management	17%	5%	18%	7%	33%	11%	20%

<b>Mergers, acquisitions and reorganizations</b>	total number of proposals voted	4,238	85	30	17	575	334	3,197
	% of proposals voted against management	14%	2%	3%	6%	12%	4%	16%
<b>Routine business</b>	total number of proposals voted	24,302	3,086	1,247	1,274	7,226	1,160	10,309
	% of proposals voted against management	5%	1%	24%	4%	9%	0%	2%
<b>Shareholder Proposals</b>								
<b>Governance</b>	total number of proposals voted	639	328	0	11	168	125	7
	% of proposals voted against management	6%	9%	0%	0%	3%	3%	14 %
<b>Environmental</b>	total number of proposals voted	99	30	0	2	12	49	6
	% of proposals voted against management	7%	20%	0%	0%	8%	0%	0%
<b>Social</b>	total number of proposals voted	91	87	0	0	2	0	2
	% of proposals voted against management	6%	5%	0%	0%	0%	0%	0%
<b>Other</b>	total number of proposals voted	1,705	21	43	2	428	49	1,162
	% of proposals voted against management	4%	33%	0%	0%	2%	14%	4%

Note: see Appendix for “Proposal Terminology Explained”

# Regional Engagement and Voting Highlights

The following regional case studies – organized geographically across our three regional teams (Americas, EMEA, and APAC) – provide insight into the wide range of issues our engagements and voting analyses cover globally. Each case study aims to demonstrate outcomes of these stewardship activities. We typically have anonymized these case studies unless we have published a Voting Bulletin explaining our analysis, engagement, and vote, or if the company has agreed to disclose their name within the report. We do this because engagement, which aims to promote long-term shareholder value, is conducted in confidence order to encourage frank, open discussions. We may name the companies in select case studies where we believe it promotes the long-term interests of the companies' shareholders or where the details of our engagement are public. For a full record of our vote and engagements with specific companies, we have published [our voting record and engagement summary for Q2 2020 on the Engagement and Voting History segment of our website](#). For more case studies, please visit the BlackRock Investment Stewardship website.

Case Study Number	Case Study	BlackRock Investment Stewardship Engagement Priority(ies)
<b>Americas</b>		
1	<a href="#">US: Board quality improves at US health care equipment company since our 2019 vote against directors</a>	Board quality
2	<a href="#">Canada: Voting in support of a climate risk report at an insurance firm</a>	Environmental risk and opportunities
3	<a href="#">US: Signaling concerns regarding discretionary pay decisions at two healthcare service companies</a>	Executive compensation
4	<a href="#">US: Construction company garners year-over-year votes against management for concern relating to executive compensation, board diversity, lack of responsiveness to shareholders</a>	<ul style="list-style-type: none"> <li>• Board quality</li> <li>• Executive compensation</li> </ul>
5	<a href="#">US: Encouraging standardized reporting on human capital risks in the consumer discretionary sector</a>	Human capital management
<b>Europe, Middle East, and Africa (EMEA)</b>		
6	<a href="#">The Netherlands: The board of a large Dutch consumer staples company gets a vote against discharge due to governance concerns</a>	<ul style="list-style-type: none"> <li>• Board quality</li> <li>• Executive compensation</li> </ul>
7	<a href="#">UK: Recalling shares to vote our full position in an airline proxy contest</a>	<ul style="list-style-type: none"> <li>• Board quality</li> <li>• Corporate strategy and capital allocation</li> </ul>
8	<a href="#">UK: Engagements at two companies yield differentiated voted outcomes on executive remuneration</a>	Executive compensation
9	<a href="#">UK: Engagement with chairman sheds insight on human capital management enhancements at a consumer and professional services company</a>	Human capital management
<b>Asia- Pacific (APAC)</b>		
10	<a href="#">Hong Kong and India: Wave of privatizations deals in Hong Kong and India requires careful deliberations prior to our votes</a>	Corporate strategy and capital allocation
11	<a href="#">South Korea: Engaging a chemical company over a gas leak to ensure appropriate sustainability-related oversights and reporting</a>	<ul style="list-style-type: none"> <li>• Environmental risks &amp; opportunities</li> <li>• Human capital management</li> </ul>



12	<a href="#">China: Electronic device manufacturer seeks to improve labor processes and disclosures</a>	Human capital management
13	<a href="#">Australia: Problematic features in a remuneration report yields a significant vote against management at a large insurance and wealth management firm</a>	Executive compensation

## 1 US: Board quality improves at US health care equipment company since our 2019 vote against directors

Region	Americas
Engagement Priorities	Board quality
Annual Meeting Date	May 2020
Outcome	BIS voted against all four members of the nominating and governance committee in 2019, after which the company put a director with shorter tenure into the role of Lead Independent Director (LID) and added two diverse candidates who bring fresh experience and perspective to a long-tenured board.

BIS engaged with a large medical company ahead of its 2020 annual general meeting (AGM). It designs, manufactures, and markets professional, medical, industrial, and commercial products and services. During our engagement, we discussed several positive changes the company has made to the board's composition and governance structure over the course of the year following BIS' engagement and vote against several directors in 2019.

Despite a strong platform and strategy, BIS was concerned about the long service of the majority of the directors and the board's lack of diversity. We noted that of the 11 directors on the board (excluding the CEO), two were founders and have been on the board for 36 years. Of the remaining eight independent directors, six had tenures ranging from 14 to 35 years. The LID had been on the board for 34 years alongside the founders of the company. With an average director tenure of 20 years, we questioned the board's succession planning process. We believe it is important that boards periodically bring on directors with fresh perspectives and current business experience to ensure the board is well placed to oversee and advise management.

Management shared that directors with longer tenure served as an important store of knowledge to a company that had experienced four CEO transitions over the lifetime of the company. The company believed that, with its acquisitive nature, its ability to navigate transactions smoothly was a result of the experience of the board. While management believed that long and overlapping tenures had not impacted the LID and other board members from exercising independent judgment, BIS believed the company needed to think more deliberately about succession planning and ensuring diversity of thought amongst its directors. We voted against all four members of the nominating and governance committee in 2019 for failure to establish and execute a robust director succession plan and for the resultant lack of diversity of thought and, potentially, independence. We concluded that voting against the committee with primary responsibility for board composition would send a meaningful signal to the board.

We discussed our voting decision with the company subsequent to the 2019 meeting and were pleased that in 2020, the company made several changes to its governance structure consistent with BIS' feedback. In November 2019, the board increased its size from 11 to 13 and appointed two new female directors to the board, bringing gender diversity from 18 to 33 percent and further deepening the company's life sciences and diagnostic experience, as well as increasing the company's gender and age diversity. During our engagement, the company emphasized the board's focus on ensuring that its skillset is reflective of the company's portfolio and direction of travel. Additionally, in February 2020, the company announced the retirement of the long-standing LID, and the company moved an incumbent female director with significant experience but a shorter tenure than her predecessor into the LID role. The company informed us that instead of director succession and board composition being a once-a-year topic for review, it is now an ongoing topic of discussion.

We welcome these positive governance changes and the current trajectory the company is on from a strategic and financial perspective. We believe that strong board oversight and a continuing robust director succession process will stand the company in good stead for continued improved financial performance over time.

## 2 | **Canada: Voting in support of a climate risk report shareholder proposal at an insurance firm**

Region	Americas
Engagement Priorities	Environmental risk and opportunities
Annual Meeting Date	May 2020
Outcome	BIS voted for a shareholder proposal seeking enhanced climate risk disclosure.

Following an engagement with members of a Canadian insurance company's management team, we voted for a non-binding shareholder proposal requesting that the company analyze climate risk and report the results of its analysis in the Risk Management section of its 2020 annual report.

The company's proxy statement and sustainability report each explain that risks related to climate change are taken into consideration during the company's annual assessment of strategic and emerging risks. According to management, this is a business-line discussion which ultimately identifies enterprise-wide risks to be integrated into the company's annual enterprise-wide strategic planning process. As of our most recent engagement, climate change risk disclosure was limited to a single business-line: property and casualty insurance.<sup>1</sup>

The company has adopted a Sustainable Development Policy and formed a Sustainable Development Committee of executives to advance its sustainability initiatives. Additionally, the company discloses its greenhouse gas (GHG) emissions in its sustainability report and 2019 annual report. It announced its commitment to offset its GHG emissions through the purchase of carbon credits, thereby becoming carbon neutral as of 2020. The company participates in the Carbon Disclosure Project (CDP) reporting initiative, but its most recent submission was not available on its website, nor is such disclosure cross-referenced in the 2018

<sup>1</sup> See: [https://ia.ca/-/media/files/ia/apropos/dev-durable/82-108A\\_SustainabilityReport2018.pdf](https://ia.ca/-/media/files/ia/apropos/dev-durable/82-108A_SustainabilityReport2018.pdf). Since our vote and subsequent to the 2020 annual meeting, the company's new 2019 sustainability report continues to support this position.

sustainability report. The 2019 sustainability report notes that the company will define measurable sustainable development objectives, including environmental objectives, to help it further its contribution to the mitigation of climate change during 2020.

In our view, these disclosures do not align with the company’s view that climate change is not an enterprise-wide material risk. We shared that we expect the company to publish enhanced disclosure regarding why climate change is not a material risk, including greater clarity on its governance of climate change risks and the annual assessment process used to determine whether a risk is at the business-line versus the enterprise-wide.

As explained in a note on [our approach to engagement on climate risk](#), we consider the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the standards developed by the Sustainability Accounting Standards Board (SASB) useful voluntary frameworks for a company to disclose their approach to climate-related risks and the transition to a lower carbon economy. These frameworks consider the physical, liability, and transition risks associated with climate change and provide guidance to companies for disclosing material, decision-useful information to investors that is comparable within each industry.

### 3 US: Signaling concerns regarding discretionary pay decisions at two healthcare service companies

Region	Americas
Engagement Priorities	Executive compensation
Annual Meeting Date	April / May 2020
Topic	Advisory vote to approve named executive officer compensation (“Say-on-Pay”).
Outcome	BIS voted against the Say-on-Pay proposal at two healthcare service companies due to our inability to evaluate discretionary pay decisions. We also signaled our concerns by voting against the re-election of relevant compensation committee members.

This year, we maintained our focus on assessing the structure and rigor of executive compensation programs in the healthcare industry. We engaged with companies across market cap and revenue stages to discern the underlying factors driving the structure of short- and long-term incentive programs, as well as how discretionary pay decisions were aligned with the interests of long-term shareholders.

As we explain in [our commentary on our approach to executive compensation](#), we believe that compensation committees should have discretion to make adjustments to executive compensation plans. However, we expect robust disclosure to explain why these decisions were made, and sound rationale linking the compensation committee’s decision making and the promotion of shareholder value. Where that disclosure and rationale is lacking, we will vote against Say-on-Pay as well as compensation committee members.

Specifically, we have had ongoing compensation-related discussions with two healthcare service companies that recently engaged in transformative acquisitions. In advance of their 2020 annual shareholder meetings,

we engaged with management representatives to discuss various aspects of the companies' pay programs, including the structure, quantum, and rigor of such programs in the context of the corporate transactions that had taken place, as well as each company's performance relative to its peers.

During our engagement with the first company, we sought to understand the performance measures that were tied to the above-target payouts granted to the CEO under both the short- and long-term incentive plans. While the company maintained strong shareholder returns, the CEO's target compensation for 2019 was 20% higher than the significant majority of the industry peer group. The company's disclosed peers also include some of the largest publicly traded healthcare providers in the US. Additionally, the company had not clearly disclosed performance goals under its short-term incentive plan or the vesting conditions for performance-based awards granted under the long-term incentive plan. Absent such disclosures, BIS was unable to determine the rigor of the program.

Moreover, the CEO was awarded a discretionary option grant in 2019 that was not supported with a robust rationale in the company's disclosures. BIS is skeptical of one-off awards given outside of the normal pay program as it suggests that the company's existing compensation practices are not appropriately designed to reward management performance. As a result of these events, we voted against the two compensation committee members up for election, as well as the company's Say-on-Pay proposal. In our engagement, we encouraged the compensation committee to re-evaluate the structure of the CEO's total compensation package, as well as its peer group selection, given the company's rapid revenue growth as it continues to complete new acquisitions.

During our engagement with the second company, we sought to understand the rationale for the compensation committee's decision to accelerate the timing and payout of certain performance share units (PSUs) to the CEO. In lieu of an annual PSU award that otherwise would have been granted in 2020, the committee decided to accelerate those awards to August 2019 to recognize the completion of the integration of an acquired business and "the first phase of the company's initiatives to transform health care". While the committee did not change the structure of the grant, BIS did not agree that the acceleration of the award was warranted or that it incentivized the CEO more effectively than if the award had been granted on the original schedule. In fact, BIS concluded that frontloading the award in this way provided less incentive to the CEO, and that in accelerating the grant, the compensation committee was losing its ability to tie future performance tied to that payout. In our view, the rationale for the change in timing of the award was similar to the rationale the company had provided in its 2018 pay disclosure, when it made generous awards related to the same transaction. We did not believe that the CEO required a double incentive for achieving the strategy backing the transaction.

BIS' concerns were compounded by the fact that the company had underperformed its index and industry on a 1-, 3- and 5- year basis when CEO compensation increased 80% from 2018 to 2019. As a result of these factors, BIS determined that a vote against the company's Say-on-Pay proposal was warranted. In addition, we voted against the re-election of the two longest tenured directors serving on the compensation committee, including the committee chair.

As an investor on behalf of our clients, we expect companies to provide strong justifications for discretionary pay decisions so we can ensure that pay is aligned with performance. We will continue to engage with both companies to advocate for enhanced pay practices and related disclosure.

## **4 US: Construction company garners year-over-year votes against management for concern relating to executive compensation, board diversity, lack of responsiveness to shareholders**

Region	Americas
Engagement Priorities	Board quality / Executive compensation
Annual Meeting Date	May 2020
Outcome	BIS voted against the company's Say-on-Pay proposal, as well as all members of the compensation committee, representing the directors responsible for pay and performance misalignment. We also voted against directors on the corporate governance and nominating committee for insufficient diversity on the board. In addition, we voted against the chair of the corporate governance and nominating committee for failure to take action with regard to several directors who received low shareholder support, including two below 50% support.

Since 2015, BIS has voted against a US construction company's Say-on-Pay proposal, as well as the members of the compensation committee who are responsible for the oversight of the executive compensation program. Our vote against management's Say-on-Pay proposal again in May 2020 contributed to the proposal receiving only 34% support, down from 37% support last year. With this year's vote, the company has now failed to garner majority support for its Say-on-Pay proposal for 10 consecutive years<sup>2</sup>, representing the entire duration of the Dodd-Frank Act's mandate on advisory votes on executive compensation.<sup>3</sup>

We voted against the re-election of all the directors serving on the corporate governance and nominating committee for the lack of diversity on the board and, additionally, the chair of the committee for the lack of responsiveness to shareholder concerns. Two of the directors we voted against over the last two years continue to receive less than majority shareholder support, which in our view should result in their resignation from the board.

Our engagements with the company in 2018 and 2019 provided an opportunity to discuss a range of ongoing corporate governance concerns. Our conversations have centered on problematic provisions in the executive compensation program, a number of which resurfaced in 2020. In prior engagements we have expressed concerns relating to sizable CEO perquisites (e.g., personal use of corporate aircraft, automobile expenses, and life insurance premiums), above-median pay benchmarking, excessive CEO base salary and excessive short-term incentive award opportunities, as well as sizable long-term incentive awards to the CEO. Additionally, last year, the compensation committee continued to target named executive officers (including the CEO's) total pay in the upper quartile of peers, despite sustained financial underperformance relative to its sector.

We did not engage with the company this year as it has become clear that its leadership is unwilling to be responsive to shareholder concerns. The company's 2020 proxy indicates the board only engaged shareholders on concerns relating to low shareholder votes prior to its 2019 annual meeting.

Ongoing problematic executive pay practices not properly aligned with financial performance, a lack of diversity on the board, and persistent lack of responsiveness to shareholders' governance concerns are – in

<sup>2</sup> Source: Institutional Shareholder Services (ISS)

<sup>3</sup> <https://www.sec.gov/news/press/2011/2011-25.htm>

our view – signals of a board that lacks strong, independent perspectives. We believe this may be attributable to the founder, chairman, and CEO – who controls 16% of the vote – having outsized influence on this board. In this instance, we believe that such influence likely limits robust and independent dialogue on this board, which we believe is critical for a board to operate effectively.

Absent a demonstrable commitment to enhance its governance practices in response to our vote, we anticipate continuing to escalate our concerns by voting against management and director nominees in the future.

## 5 | US: Encouraging standardized reporting on human capital risks in the consumer discretionary sector

Region	Americas
Engagement Priorities	Human capital management
Annual Meeting Date	April / May 2020
Topic	Promoting Sustainability Accounting Standards Board (SASB)-aligned disclosures on material human capital risks and opportunities.
Outcome	BIS advocated for SASB-aligned disclosures on material human capital risks and opportunities at two multiline and specialty retailers & distributors. This resulted in two different outcomes: at one company, we supported a shareholder proposal requesting enhanced reporting, while at the second company, we supported management due to their commitment to expand the company’s reporting.

BIS engaged with two multiline and specialty retailers & distributors that received the same shareholder proposal requesting more SASB-aligned disclosures on human capital risks and opportunities. Though the proposals were the same, our engagements resulted in two distinct voting outcomes.

In our engagement with management representatives from the first company, we inquired about their current process for identifying material sustainability risks and plans to determine relevant goals and targets. Although its existing disclosures on metrics such as inclusion and diversity (I&D) and labor practices are limited, the company highlighted its intent to incorporate more information in its upcoming sustainability report. Management noted investors’ focus on the SASB’s recommended standards but emphasized their preference for continuing to follow a custom reporting framework.

During our engagement with management representatives from the second company, they provided an overview of efforts to engage with investors regarding the company’s existing disclosures on material sustainability risks. The company acknowledged that its initial sustainability report did not contain business-relevant human capital metrics but confirmed that it is in the process of expanding its upcoming report to include goals and targets, and committed to producing SASB-aligned reporting over time.

Ultimately, our engagements yielded distinct insights with respect to board oversight, reporting, and responsiveness to shareholders’ concerns on material human capital risks and opportunities:

- **Board Oversight:** Despite our queries, the first company did not provide more information regarding the board’s role overseeing human capital management. On the other hand, the second company highlighted that the board’s nominating & governance committee’s charter was recently revised to formalize responsibilities for overseeing sustainability risks. They also described the type and frequency of information reviewed.
- **Reporting:** Although both companies currently publish limited information on material human capital risks, the second company committed to enhancing its disclosures in alignment with our expectations relating to SASB alignment while the first company did not.
- **Responsiveness to Shareholders’ Concerns:** During our engagement, the first company was not receptive to shareholder feedback on SASB-aligned reporting because they are still determining investors’ consensus about the framework. Conversely, the second company engaged extensively with its investors, including the shareholder proponent, to understand their concerns and expectations.

Due to these factors, we determined to support the shareholder proposal at the first company and vote against the same proposal at the second company. BlackRock assesses voting decisions on a case-by-case basis, taking into account each company’s unique circumstances, including its progress in addressing shareholder concerns. We will continue to engage with both companies to discuss their governance of and reporting on material human capital risks and opportunities and intend to hold relevant directors accountable by voting against their re-election where we do not see progress.

## 6 The Netherlands: The board of a large consumer staples company gets a vote against due to governance concerns

Region	EMEA
Engagement Priorities	Board quality / Executive compensation
Annual Meeting Date	April 2020
Topic	Corporate governance concerns including board access, director succession planning, and executive compensation.
Outcome	Given our ongoing governance and executive compensation concerns, which we were unable to satisfactorily address because of a lack of board access (despite multiple requests to engage over the last few years), we voted against approving the discharge of supervisory board at this year’s annual meeting. <sup>4</sup>

Over the past two years, we have been unsuccessful in our attempts to engage with the supervisory board of a Dutch consumer staples company on a range of board quality and executive compensation concerns. We note that this company’s founding family retains control of the company through its majority control of a parent

<sup>4</sup> 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.

holding company, which the company has cited in defense of not making supervisory board members available to engage with its unaffiliated shareholders.

In 2018, in view of our concerns around the sizeable time commitments of a proposed new supervisory board member, we asked for an engagement with the supervisory board chair to discuss this director’s multiple board mandates. Then in early 2019, ahead of the company’s annual meeting, we sought to engage on the potential retirement of members coming up for re-election. One incumbent nominee, whose tenure on the board has spanned 23 years and who is a representative of the founding family, was coming up to the end of his term. For a number of reasons, we felt the renewal of his mandate had the potential to perpetuate poor governance practices. We wanted to understand if he would be proposed for re-election and if the supervisory board had decided he should, why they believed this was appropriate.

In late 2019, the company consulted with investors on its proposed new remuneration policy, which was to be put to vote by shareholders at the 2020 AGM. We asked to discuss the proposals with at least one member of the remuneration committee but were denied this request. We were not contacted again in relation to the company’s consultation on the compensation proposals.

While we recognize the founding family’s controlling interest, BIS expects the company to adhere in most respects to prevailing corporate governance standards applicable to companies in the Dutch market and those of a similar size within Europe. This includes enabling investors to understand how effectively the non-executive directors oversee and counsel management. In the Netherlands, most large listed companies have a dual-board system; in this case, we wanted to meet with a member of the supervisory board. As we have made clear in our [EMEA voting guidelines](#) and our [BIS Engagement Priorities](#), we expect to have access to one or more non-executive (and preferably independent) directors who have been identified as being accessible to shareholders in appropriate circumstances.

Given the lack of board access granted to BIS despite multiple requests over the last few years, we held the board accountable at this year’s annual meeting by voting against the discharge (or approval of the actions) of the supervisory board. This decision also reflected an on-going concern we have about a potential misalignment between the company’s financial performance in recent years and executive pay, which is high relative to market practice and industry peers. In these circumstances, we expect the company’s compensation report to provide sufficient information on the performance measures used and, in particular, the targets that executives are expected to meet in order to receive different levels of variable pay. The level of disclosure provided in this year’s compensation report, which we again did not support, did not meet that expectation.

We will continue our efforts to engage the company on these governance matters. However, absent access to independent board members and efforts to improve key practices around board quality and executive compensation, we will continue hold directors accountable.

## **7** **UK: Recalling shares to vote the full position in an airline proxy contest**

Region	EMEA
Engagement Priorities	Board quality / Corporate strategy and capital allocation



Extraordinary General Meeting	May 2020
Topic	Shareholder activism situation where the founder, who has a significant shareholding, sought to remove four incumbent directors, including the CEO, chairman and CFO in order to force the company to cancel key contracts.
Outcome	Given the major destabilization that the founder's proposed removal of these directors would cause at a time when the company is facing significant challenges as a result of the COVID-19 pandemic, BIS decided to recall shares of the company that were on loan, to provide our full support to management.

This quarter, a budget airline provider that operates primarily across Europe and northern Africa faced a proxy contest led by the company's founder. Along with his family, the founder controls 34% of the company, and has publicly disagreed with the company's expansion strategy since 2008. He resigned from the board as a non-executive director in 2010 in order to more freely pursue a change in corporate strategy as a shareholder. Since we strongly opposed the founder's objective to bring about a change in corporate strategy, BIS decided to recall shares on loan in order to vote our clients' full shareholding. The decision to recall shares on loan to vote is based on a formal analysis by BlackRock of the anticipated revenue to clients from the shares on loan compared to the assessed economic benefit of casting votes. Generally, we expect that the likely long-term economic benefit to clients of casting votes would be less than the income they would earn from leaving the shares on loan.<sup>5</sup> However due to the importance of the issue at this shareholder meeting, we believed that it was in our clients' long-term economic interest to vote the total shareholding for which BlackRock has voting authority.

The founder called an extraordinary shareholder meeting with the goal of removing four sitting directors: the chairman of the board, a non-executive director, the CEO, and the CFO. The founder's objective was to force the company to cancel its long-standing contract with a multinational aircraft manufacturer.

The board, however, maintained that the contract was critical to the company's strategic and commercial prospects. Not only would cancelling the contract result in significant termination costs, including the requirement to repay the discount achieved on the purchase price of the planes, the board believed that preserving the contract better-positioned the company for when the COVID-19 crisis ends. The company managed to renegotiate this contract in light of the COVID-19 pandemic to allow for the deferral of delivery of planes over the next several years, and secured the option to defer or cancel a number of operating leases as they come due.

Along with our Fundamental Active Equity investment colleagues, BIS engaged with the chairman to better understand how the company was responding to the COVID-19 pandemic, including its options regarding its contract with the airline manufacturer. We also sought to understand how the board planned to address their long-standing conflict with the founder should the shareholder proposals fail and the board remain intact. In line with our process in shareholder activism situations, BIS also spoke with the founder to understand his plans should his campaign be successful and, alternatively, should it fail.

<sup>5</sup> <https://www.blackrock.com/corporate/literature/publication/securities-lending-viewed-through-the-sustainability-lens.pdf>.

After careful analysis, we concluded that the founder had not provided sufficient evidence that removing four directors, including the two most senior members of the executive management team, would better position the company to navigate the current crisis. For BIS, depriving the board of valuable experience seemed imprudent under the circumstances.

Given the major destabilization that the removal of these directors would bring at this critical juncture, BIS decided to recall shares of the company that were on loan. Considering the founder’s 34% voting stake and average voter turnout for United Kingdom annual meetings being approximately 70%, the proposals to remove these directors could feasibly achieve the required simple majority support (50%+1) to pass.

With over 99% of votes cast by independent shareholders supporting the current board, the proposals were defeated. Nevertheless, the founder’s proposals garnered 42% support of share capital that turned out to vote. Our decision to recall our clients’ shares was based on our focus on long-term shareholder value, and our desire to see the company have stable leadership able to focus on the company’s recovery from the impacts of the COVID-19 crisis.

## 8 UK: Engagements at two companies yield differentiated voted outcomes on executive remuneration

Region	EMEA
Engagement Priorities	Executive compensation
Topic	Engagement yields two different vote decisions on executive pay in the UK.
Outcome	Engagement helps inform our vote. A clear articulation of the rationale for a pay increase for a CFO with expanded responsibilities gets our support at a UK housebuilder. Conversely, we voted against a new CEO’s salary increase at a UK consumer goods company when management does not fully clarify why a pay increase was necessary during engagement.

The COVID-19 crisis has led to considerable uncertainty for companies and their employees, with many having to furlough staff and take other steps to cut costs. The corresponding impact of the crisis on employees’ wages has led to increased scrutiny of executive pay during the 2020 AGM season. The increased scrutiny was not limited, however, to companies that furloughed employees or otherwise sought to cut staff costs, as the crisis brought into focus the need for prudent and sensitive decision-making across the market. Across our investee companies, we saw a wide range of actions being taken in this respect, including a number of firms proactively reducing management-level salaries in line with wider workforce cuts.

We found that companies’ approaches to significant base salary increases for executives were particularly under the spotlight. In the case of two UK-listed companies, questions were raised about an outsized increase for the CEO of a consumer goods company and for the CFO at a housebuilder, which contributed to a substantial vote against each company’s compensation report of about 40%.

Following our review of the companies’ public disclosures and engagement with the chair of the remuneration committees of both boards, BIS determined to vote in favor of the housebuilder’s reports, but not the consumer goods’ report. In accordance with [our voting guidelines](#), our focus in each case was on how the company had

sought to justify such a significant increase. In the case of the housebuilder’s report which we supported, we concluded that the company had made a compelling case that the boost appropriately reflected the increased responsibilities of the CFO resulting from the company’s recent expansion. Our engagement with the company reassured us that the board had considered the size of the salary increase thoroughly, and that it represented the culmination of a series of incremental raises over a number of years from a starting point that was substantially below the market rate.

In the case of the consumer goods company, the company had decided to increase the base salary of the CEO – who was appointed in 2019 – to a level only marginally below the salary received by his predecessor when he retired after eight years in the role. During our engagement with the company, we asked if it would have been more appropriate to implement an increase of this nature in a phased way. From our engagement, it was clear that the board felt a single increase was justified by what they considered had been an excellent start to the new CEO’s tenure and would be consistent with the company’s intention to proceed with all planned salary increases across the company. Ultimately, we did not feel this assessment sufficiently recognized the already competitive positioning of the CEO’s existing salary in the market.

These cases demonstrate that engagement can help inform a vote. The sizeable votes by shareholders against both companies’ compensation reports indicates a need for them to communicate their respective positions more effectively to investors, and we will look to engage further with them as they respond to these votes.

## 9 UK: Engagement with chairman sheds insight on human rights enhancements at a consumer and professional services company

Region	EMEA
Engagement Priorities	Human capital management
Topic	Conversation with chairman to discuss legacy human rights controversies, board oversight, and how the company is evolving its health and safety strategy during the COVID-19 pandemic.
Outcome	The engagement shed light on the company’s evolution of its board and management’s oversight of human rights and its efforts to adapt its health and safety practices during the pandemic to improve the company’s performance on these material aspects of its business operations.

Following prior engagements in 2017 and 2018 with a UK consumer and professional services company covering a range of ESG topics, in April, BIS again engaged with the board chair to discuss concerns we had with their risk oversight framework due to a series of legacy human rights controversies. The engagement also provided an opportunity to expand our dialogue on how the company was managing workforce challenges associated with the COVID-19 pandemic. The company operates essential public services such as immigration control and prisons, which bring a higher than normal degree of human rights risks.

In our conversation with the board chair, we were encouraged to learn that the company, has over the past several years, invested heavily in enhancing their risk and oversight framework to identify and manage human rights controversies. Among several strategic initiatives, the company established a board-level risk oversight and sustainability committee that has oversight of human rights policies. Additionally, the company described

in detail its ongoing review of its risk management processes. The company has incorporated human rights within this risk management process. This ensures that management appropriately assesses the human rights related risks associated with their business model.

We discussed the company’s health and safety procedures in their facilities since detainees have been disproportionately impacted by the COVID-19 pandemic. This is because the company has traditionally allowed for free movement of detained people within the prisons and immigration centers they operate. This previously included little to no restrictions to the outdoors and full access to educational classes. These policies required significant adaptation in order to apply local governmental COVID-19 guidelines on social distancing. Specifically, for its prison management services, the company was required to cancel all in-person prison visits. In response, the company revised its approach to allow for an increase in virtual interactions between detainees and visitors via phone, email, and video calls. Additionally, we were encouraged to learn that the company has substantially increased the number of dedicated support staff for its clinical support services during these months of crisis.

Taken collectively, we viewed the company’s evolution of board and management oversight of human rights and its efforts to adapt its human capital management practices to address the pandemic as meaningful measures to improve the company’s practices on these material aspects of its business.

## 10 | Hong Kong and India: Wave of privatizations deals requires careful deliberations prior to our votes

Region	APAC
Engagement Priorities	Corporate strategy and capital allocation
Topic	Q2 2020
Outcome	Following careful analysis and deliberation relating to the alternatives to a transaction, BIS voted in support of two privatization proposals in Hong Kong as the offers were preferable to the other options from the perspective of long-term minority investors. Conversely, we voted against the privatization of an Indian mining company since we expect the probable exit price to be below the potential market value when there is a recovery in commodities.

In this quarter, Hong Kong saw the privatization of two family-controlled companies – a trading and logistics company, and a real estate conglomerate. The proposals were announced in the first quarter of 2020 at a time of uncertainty over the city’s future, strained global trade relations, and the fallout from the COVID-19 pandemic, which collectively resulted in significant downward pressure on equity markets. While the timing of such proposals calls into question whether the controlling shareholders were taking advantage of depressed valuations, after careful analysis and engaging with the companies, we concluded that an orderly delisting of the two entities would present a preferable outcome for long-term minority investors such as BlackRock’s clients.

Our analysis in such situations factors in the premium presented by the delisting price over the pre-announcement share price compared to the historical discount the stock has traded against the company’s net

asset value. For each vote decision, we examined the benefits to minority shareholders of accepting the offer versus the potential consequences of rejecting the offer.

As we discussed in [our voting bulletin for Wheelock & Co. Ltd](#) - the Hong Kong real estate conglomerate - offered minority shareholders a combination of cash and shares in affiliated listed companies in its privatization proposal. This presented an opportunity for minority shareholders essentially to swap the stock of the holding company that trades at a discount and to receive more direct exposure to the property assets through the listed subsidiaries. Valued at a lower discount by the market, the listed subsidiaries offer greater trading liquidity and significantly higher dividend income. As noted in the bulletin, we voted for the proposal on the view that any recovery in business and equity market conditions over the medium to long term would likely provide as much, if not greater returns to investors.

In the case of the Hong Kong trading and logistics company, the controlling shareholder partnered with a strategic investor proposing cash to minority shareholders for its privatization. Formerly considered favourably by the market in the 1990s, the company has seen its stock fall nearly 90% in the last ten years. We engaged with senior management extensively on the prospects of the group as a listed entity and the potential restructuring it may go through post-privatization. Despite the company's thriving logistics business, its overall financials are likely to continue to feel downward pressure from its trading business. A challenging global retail environment and a structural shift towards online sourcing are now compounded by the abrupt deceleration of the business with the impact of COVID-19 and disruption in supply chain networks. With a deep and protracted restructuring required to transform the business, the delisting offer price, at an over 100% premium to the pre-announcement share price, appeared to be preferable for minority shareholders.

India is another market in the APAC region that has seen several high-profile privatisation proposals this quarter. However, these appear to be much more opportunistic manoeuvres to take minority investors out at large discounts to fundamental value. Following a share price that has fallen approximately 70% over the last two years, the stock of a large mining company was trading at just half of book value when its controlling shareholders announced the delisting proposal. The process to delist in India involves a reverse bookbuild where shareholders tender their stock at the prices at which they are willing to offer them. The exit price is the level at which the controlling shareholders reach 90% ownership, or an alternative price that the controlling shareholders may counter-offer to minorities. The risk is that investors with a shorter time horizon may be disposed to exit for a small premium rather than face further losses in the coming quarters against a share price that has bounced with the delisting announcement but where the business conditions remain dire. Taking a longer-term view, we expected the probable exit price to be below the potential market value when there is a recovery in commodities. We thus voted against this proposal although it did get the necessary support from other shareholders looking to exit and the company will move to the next stage, a book-building exercise to determine the potential de-listing price. BIS will recommend a suitable premium to tender the shares in the BlackRock client portfolios in this next step.

Meanwhile, another Indian company, a power utility with a fairly steady business, announced a delisting plan in June. Following the recent fall in its share price, it presently trades at 60% below its IPO price from ten years ago. We will monitor the likely terms and prospects for longer term investors if this proposal goes to a shareholder vote. As in other privatisation proposals across the region, each vote requires careful deliberation of the interests of long-term shareholders based on the premium offered to delist versus the likely prospects over the longer-term if the company remains listed.

# 11

## **South Korea: Engaging a chemical company over a gas leak to ensure appropriate sustainability-related oversights and reporting**

Region	APAC
Engagement Priorities	Environmental risks and opportunities / Human capital management
Engagement Date	June 2020
Outcome	Our engagement increased our understanding of the company's efforts to enhance its operational health and safety protocols and ensure proper board and management oversight.

In June, BIS engaged with a large South Korean chemicals company regarding a significant gas leak accident at one of its Indian factories. The incident resulted in several deaths and the displacement of residents. We wanted to better understand the cause of the accident, the board and management's responses, remediation efforts, and the policies and practices adopted or planned by the company to prevent future accidents.

The company stated that since its internal investigation is still ongoing, it was not able to provide conclusive detail on the cause of the accident at the time. However, it explained that the gas leak occurred due to "extraordinary polymerization" in a gas tank when the factory was reopened after more than a month's closure following a mandatory government shutdown due to COVID-19. Efforts to cool down the overheating tank that was building too much pressure were unsuccessful, and as a result the deadly gas continued to leak.

The company advised that its top management immediately flew to India to investigate and provide support and assistance. In response to our queries on the likelihood of a similar accident occurring at other production facilities, the company responded that it promptly initiated an assessment of all facilities worldwide to ensure that internal safety standards were being followed. Furthermore, it has engaged external specialists to enhance existing processes and standards to create a new management system to prevent similar accidents from occurring. As of end-June, the company has conducted an internal assessment of all 40 facilities globally and will complete any required repairs by the end of the year. The company is also assembling a taskforce with external experts for the development of the new standards; they will conduct detailed facilities assessments by the end of 2020.

We also sought insight into the status and implications of the subsequent investigation by the local government. The company stated that it is complying with the government's guidelines and orders, but continued delays to the investigation are expected due to the COVID-19 pandemic. The company anticipates the need to compensate both the residents affected by the incident and the local government. However, the compensation amount has yet to be determined. Furthermore, the company outlined a range of potential scenarios as a result of the accident, specifically that the facility might be moved, upgraded, or discontinue operations.

We highlighted the importance of robust governance structures and management oversight of operational health and safety issues, especially given the company's industry. The company advised that its CEO receives monthly updates from a relevant management committee on all health and safety issues, including the developments relating to this accident. Based on this explanation, there does not appear to be a framework in place whereby this committee reports to the board on a regular basis. The company did confirm, however, that findings from the internal investigation related to the case will be reported to the board at its upcoming meeting.

The company highlighted its commitment to enhancing its sustainability disclosures, stating that it will aim to align its forthcoming 2020 sustainability report with both the Task Force on Climate-related Financial Disclosures (TCDF) and the Sustainability Accounting Standards Board (SASB) recommendations. The company is considering a target of zero carbon emissions by 2050, as well as a range of other sustainability efforts from responsible sourcing to recycling.

We welcomed the company’s commitment to enhanced management systems, as well as improved sustainable business practices and related disclosures. We will continue to monitor these efforts to evaluate the company’s progress on these fronts, as well as updates from the company on the progress of its internal investigation. We will actively engage the company to ensure the company maintains a commitment to robust operational health and safety procedures and formalizes a relevant board oversight framework.

## 12 | China: Electronic device manufacturer seeks to improve labor processes and disclosures

Region	APAC
Engagement Priorities	Human capital management
Meeting Date	May 2020
Outcome	The company was receptive to our recommendations to consider improving their labor oversight and reporting.

In May, BIS engaged with a Chinese electronics device manufacturer following allegations that the company was in violation of labor practices. According to a third-party report, the company has been limiting the mobility and faith practices of its workers since 2017. BIS engaged the board secretary to discuss these concerns.

The company advised BIS it was starting to engage with investors on the topic. The company confirmed that it hires employees from different ethnic groups, partially to support people from different ethnic backgrounds. However, the board secretary disagreed with concerns regarding coerced labor, indicating that employees sign contracts out of free will and are compensated fairly based on skill sets and job experience, regardless of race or ethnicity. The company took the view that faith-based practices were permitted and respected in the workplace, reflected by dedicated facilities to accommodate workers of all faiths within the production plants.

BIS explained to the company that such issues are increasingly considered as a material operational issue on which companies need to demonstrate sound business practices and risk management. Adverse impacts resulting from poor business conduct can expose companies to legal, regulatory, operational, and reputational risks. These risks can materialize in a variety of ways, from fines and litigation in cases where companies are found to have breached applicable standards to workforce and supply chain disruptions that damage a company’s standing with business partners and consumers.

The company acknowledged these views, adding that a number of global clients have been conducting annual on-site audits and certification on workplace safety and employee welfare. BIS noted the company’s efforts on key stakeholder collaborations and urged the company to enhance transparency on its labor practices and consider third-party due diligence reviews. The company was receptive to the suggestions and expressed willingness to continue engaging on the topic.

# 13

## Australia: Problematic features in a remuneration report yield a vote against management at a large insurance and wealth management firm

Region	APAC
Engagement Priorities	Executive compensation
Meeting Date	May 2020
Topic	Problematic executive compensation structure
Outcome	We voted against the remuneration report due to a number of problematic provisions, as did other shareholders, resulting in the company receiving a significant vote against management.

In May, BIS voted against the compensation report at an Australian holding company that provides insurance, pensions, fund management, banking, and personal financial services. Our vote decision centered on recent changes to the compensation structure which we determined were not in alignment with shareholder interests.

For 2019, the company's remuneration committee refreshed its executive incentive structures to support a new corporate strategy which would be achieved through financial outcomes linked to set of key priorities. The company believes this affords the board flexibility to react to rapidly shifting strategic priorities. In our view, this new structure deviates from market best practices and was not clearly explained. Specifically, it was difficult to understand exactly what strategic company objectives needed to be met and whether the goals are sufficiently challenging for key management personnel to receive their incentive payouts.

Additionally, we deemed some aspects of the long-term incentives problematic. This includes rights to shares vesting within three years; our main concern is that these awards could commence vesting below the index return, (e.g., 25% of the awards vests if the company's performance is at the 75% mark of the benchmark index return). We determined that this threshold represents too low a hurdle to grant even one-quarter of the payout, and thus was not well aligned with shareholder interests.

This year, the proposal to approve the compensation report lost substantial support and it failed to pass; it garnered approximately 33% support. We anticipate that the strong signal we and other investors sent the company will yield future engagements with the board on improvements to the compensation structure and other material governance topics.



# Responsible Leadership

## Speaking Events:

Members of the BIS team participated in several events over the past quarter, with the goal of furthering discussion on matters deemed important to investors and/or promoting an increased understanding of BlackRock's approach to investment stewardship. We prioritize events that enable us to connect with key constituents and thought leaders, including corporate directors, senior members of management teams, policy makers and other shareholders, including clients.

## Global

### BlackRock Sustainability Summit

In June, BlackRock held a two-day virtual global summit titled: *Can sustainability accelerate recovery?* There were more than 3,600 clients registered globally and the summit features both global and local content. BIS [spoke at the event](#) on the evolution of the conversations we are having with company representatives and industry practitioners on corporate governance and sustainability.

## Americas

### International Finance Corporation Latin America webinar – New York, NY

In May, BIS participated in a webinar, “Corporate Governance in Latin America: Experiences and Best Practices,” moderated by the International Finance Corporation (IFC). The discussion was convened in partnership with the Institutos de Gobierno Corporativo de Latinoamérica to cultivate a network of institutions encouraging sound corporate governance practices across the region. During the event, corporate representatives presented how their respective companies are considering ESG factors, particularly in light of the COVID-19 pandemic. We provided our perspective on ESG risk and opportunity as an institutional investor and gave an overview of BIS' engagement approach. Participants included members from the institutional network, which consists of board directors, CEOs, and general counsels in various Latin American markets.

### Skadden executive compensation webinar – New York, NY

In June, BIS participate in a webinar, “A Conversation with Investors: Expectations for Executive Compensation During Uncertain Times,” hosted by the law firm Skadden, Arps, Meagher and Flom. Other panelists included representatives from Institutional Shareholder Services and Glass Lewis; we discussed appropriate and timely responses for addressing current compensation challenges, as well as best practices and market trends for addressing the COVID-19 crisis. Over 400 practitioners dialed into the event.

### Biopharma investor ESG communications initiative

Over the past year, BIS has contributed to the Biopharma Investor ESG Communications Initiative. Spearheaded by the High Meadows Institute and the Biopharma Sustainability Roundtable. The initiative was established to improve ESG-related communication between biopharma corporates and investors. In April 2019, we [hosted](#) a Biopharma Sustainability Roundtable Investor Day to discuss industry challenges and best practices when developing decision useful ESG disclosures. After contributing to several workshops throughout the course of the year, the “Biopharma Investor ESG Communications Guidance 2.0” was released

in April 2020. Throughout the engagement process, we provided our view on the benefits of the SASB industry-specific guidance as well as our perspective on key topics such as access to medicines, business ethics, product quality and human capital management. As a next step, participants aim to develop a best practices approach to sector-specific metrics. We look forward to our continued involvement in the initiative.

## **Europe, Middle East, and Africa (EMEA)**

### **UK Institute of Directors Centre for Corporate Governance**

In June, BIS participated in a panel discussion at the launch event for the UK Institute of Directors Centre for Corporate Governance. The Centre has been established to commission and steer research on key governance issues, which will initially include sustainability and stakeholder-oriented governance models. The panel was made up of leading industry figures and policymakers, who discussed how governance might evolve in response to the COVID-19 pandemic and how it can help to underpin companies' recovery efforts. We highlighted our belief that the sustainable business practices that will be essential to the recovery need to be based in sound governance practices, and also how diversity within an increasingly professionalized pool of directors can ensure boards have the skills and experience necessary for their evolving role. As a member of its advisory board, BIS will continue to support the Centre's work going forward.

### **Supporting the development of stewardship reporting across the industry**

As noted in our 2019 EMEA [Q2](#) and [Q4](#) Quarterly Reports, BIS has been an active participant in consultations on the regulatory framework for stewardship in Europe, and support the resulting focus on transparency. With a view to supporting the development of enhanced disclosures under the revised Shareholder Rights Directive (SRD II) and the new UK Stewardship Code, we have been participating in a working group convened by the UK Investment Association that aims to provide guidance to the industry on enhanced reporting on engagement activities. The group has discussed and developed the industry's thinking on important topics such as how investors might identify their most significant votes to report on (in accordance with SRD II), and formed a useful conduit between the various regulators overseeing stewardship reporting to facilitate the setting of coherent and consistent expectations. We expect the work of this group to continue throughout 2020 as investors prepare and start to publish relevant reporting.

## **Asia-Pacific (APAC)**

### **Taiwan Depository & Clearing Corporation**

BlackRock was invited to speak at a webinar organized by the Taiwan Depository & Clearing Corporation ahead of the annual general meeting season in Taiwan. The webinar focused on the implications of active ownership and the importance of ESG topics for investors. The event was attended by approximately 600 representatives from roughly 300 listed companies, as well as other institutional investors.

### **Webinar on stewardship and governance – India**

In April, BIS participated in a webinar organised by a corporate law firm, Cyril, Amarchand & Mangaldas of Mumbai on the topic of Stewardship, Governance and the COVID-19 crisis. Approximately 300 participants joined the call from India. We discussed governance priorities as companies manage through the crisis and the lockdown conditions faced by companies, as well as the issues that BlackRock focuses on in our engagements given these business conditions.

# Market Development and Trends

## Americas

### **BIS review and contribution to Ceres' report, "Investor Guide to Deforestation and Climate Change"**

On June 29<sup>th</sup>, the sustainability-focused non-profit organization, Ceres, published a guide focused on providing investors a comprehensive framework to understand, analyze, and engage on deforestation-driven climate change risks across global portfolios. Along with several other investors, BIS contributed to brainstorming and reviewing the report prior to publication. The guide aims to help inform engagements with portfolio companies on deforestation risk. It describes key drivers of these risks and provides an engagement framework. It suggests engagement questions to effectively assess company commitments related to deforestation and climate change risks. In addition to reviewing the report, Michelle Edkins, Managing Director on BIS, participated in a webinar as part of the report's launch, where she discussed how BIS engages with portfolio companies to address deforestation risk, climate risk and related environmental factors consistent with sustainable business practices. [The full report can be accessed here](#); to request a full recording of the webinar, please contact: [foodwebinar1@ceres.org](mailto:foodwebinar1@ceres.org).

## Europe, Middle East, and Africa (EMEA)

### **EU: Shareholder Rights Directive annual reporting**

BIS has played an integral role in developing BlackRock's first annual reporting under SRD II to its institutional investor clients (as defined in the Directive). In these disclosures, BlackRock explains numerous aspects of its implementation of clients' equity investment strategy, including how it contributes to the medium-to-long-term performance of the assets of the fund, and how BlackRock makes investment decisions by evaluating the medium to long-term performance of the investee company (which includes non-financial performance). Additionally, stewardship-specific reporting provides information on the [use of proxy advisors](#), BlackRock's [policy on securities lending and how it is applied to in the context of voting and engagement](#), and an explanation of [how BIS deals with conflicts of interests](#) that arise in connection with engagement activities. We see such reporting as further enhancing the transparency of our stewardship activities, and that they demonstrate the strong policies and processes that underpin our activities.

## Asia-Pacific (APAC)

### **China**

In June, the State Council called on China's financial industry to forego RMB 1.5 trillion (USD 212 billion) in profit this year to help bolster the economy. The government aims to achieve this target by lowering lending costs, cutting non-interest income, and introducing dedicated monetary policy tools. There has been no official announcement or guidance on the specificities of the profit transfer just yet. This is against a backdrop where, according to the China Banking and Insurance Regulatory Commission, China's commercial sector reported a total profit of RMB 2 trillion in 2019. BIS will be engaging with relevant financial institutions in our coverage to determine how this will be administered and the impact on value-creation for the companies as well as risks over the longer term.

China also accelerated its capital market reform by officially launching registration-based IPO on ChiNext, a board for innovative and fast-growing enterprises under Shenzhen Stock Exchange. Under the new market-

based IPO system, the China Securities Regulatory Commission (CSRC) will no longer be the regulatory body to review and approve listing applications. The regulator will nevertheless strengthen its supervisory role and hold issuers or financial intermediaries accountable for any violation of relevant laws and regulations. Listing companies are also required to abide by stricter regulations for information disclosure and legal compliance. In engaging with companies that are both recently listed as well as those that have been listed for a number of years, BIS will be seeking companies provide relevant disclosures, comparable with international peers in their respective sectors, in particular on sustainability related matters.

Key highlights of the revised listing rule for ChiNext Board include:

- Listing of red-chip companies, or Chinese firms that register overseas, is permitted
- Follow-on investment of 2-5% of IPO shares by securities underwriters is required if the listing applicant is unprofitable, red-chip, having weighted voting rights structure, or priced its IPO shares above certain thresholds
- The maximum dilution for equity incentive scheme increases to 20% from 10% of total issued capital; participation from significant shareholders or ultimate controller is no longer prohibited

## Hong Kong

### HKEX Consultation on Corporate Weighted Voting Rights (WVR)

In May, we responded to the Consultation Paper on Corporate WVR Beneficiaries (Consultation Paper), issued by the Hong Kong Exchanges and Clearing Limited (Exchange) on 31st January 2020.<sup>6</sup> We summarize that the proposal for corporate WVR is a complex one, especially when potentially combined with individual WVR for a given issuer. While we agree that less established and smaller market capitalization companies should not be eligible for such rights, the larger companies would not in general need them and thus should not be granted this privilege either. The advantages for the Exchange are questionable, while the disenfranchisement risks for independent shareholders are clear. The proposal violates the “one-share, one-vote” principle, the bedrock for equitable voting power for all shareholders. We are thus fundamentally against such an arrangement to be allowed by the Exchange’s Listing Rules. [Please refer to our full response for more details.](#)

### India: Various regulations eased to accommodate business conditions caused by COVID-19 pandemic

In the second quarter, regulators in India were active in amending regulations to help companies adapt to the comprehensive lockdown imposed due to the COVID-19 pandemic. Initially there had been no provisions for AGMs to be held by audio or visual means. The Ministry of Corporate Affairs announced in May that all AGMs in calendar 2020 will be by video or audio. Companies with December year-ends had been required to hold their AGMs by June which has been deferred to September. Any extraordinary general meetings would also be video/audio at least to September. BIS will be engaging with the companies and seek to ensure that some of the governance safeguards that have been suspended will be re-introduced without unwarranted delays.

The Securities and Exchanges Board of India (SEBI) has allowed companies to defer announcement of full year results by a month; for March year-end companies these will now be due by end of June instead of May. The top 100 listed companies previously had to have their AGMs by August for year-end March; they have now been given an extra month to September to have their meeting.

The regulations for capital raisings have also been relaxed. The requirement to undertake a rights issue had been that a company had to be listed for 3 years; this was reduced to 18 months. SEBI’s regulation prevented a

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<sup>6</sup> [https://www.hkex.com.hk/News/News-Release/2020/200131news?sc\\_lang=en](https://www.hkex.com.hk/News/News-Release/2020/200131news?sc_lang=en)

company from raising any new capital for one year after the expiry of a buyback program; this was shortened to a six-month gap before these companies can raise new capital.

Some governance safeguards were, however, also suspended. Companies are required to have a separate meeting of independent directors at least annually; this has been deferred for the FY2019-20 year. Listed companies have also been exempted from complying with the maximum gap of 120 days between board meetings as well as audit committee meetings for the first half of calendar 2020. Other board committees required to have their annual meetings by March have been allowed a three-month extension to June, including the nomination, remuneration, and risk management committees of listed companies. Listed banks and insurance companies have been given discretion whether to provide their June quarter results.

The pandemic in India has been severe, and the government imposed one of the strictest lockdowns globally. We hope for an improvement in the health situation and the exemptions that have been provided, all of which were announced with set time limits, eventually to be lifted.

### **Indonesia: OJK introduces new regulation on Material Transaction and Change of Business Activity**

On April 20, 2020, the Indonesian regulator, Otoritas Jasa Keuangan (OJK), issued a new regulation on Material Transactions and Changes of Business Activity (No. 17/POJK.04/2020) that will replace Bapepam-LK Regulation No. IX.E.2. Almost two years in the making, the new regulation will come into effect in October. Material transactions are where a listed company acquires or disposes an asset that is 20% or greater relative to its shareholders equity. We view these regulations positively and will provide feedback to OJK and seek that companies undertaking major related party transactions in the interim to consider adopting these proposals in the best interest of all shareholders.

Aimed at increasing shareholder protection and improving the quality of company disclosures, the new regulation includes provisions that significantly broaden the definition of what constitutes a material transaction, as well as clarifies the thresholds to calculate such transactions. For instance, the scope of material transactions is expanded to include, among others: the acquisition, disposal, or utilization of services by a public company; transactions carried out by financial service institutions under certain conditions; as well as the material dilution of the percentage ownership in a controlled company by a public company that results in the exit of the controlled company from the public company's consolidated financial statements.

In light of a high-profile related-party acquisition deal announced last quarter that involves the acquisition by a listed Indonesian company from its controlling shareholder, investors are especially interested in a new provision which requires independent shareholders' approval over certain material transactions during the company's General Meeting of Shareholders (GMS). Once the new regulation takes effect, independent shareholders' approval is required for all material transactions with value limits that necessitate GMS approval containing affiliated transactions; for all material transactions containing conflicts of interest; and/or material transactions that have the potential to cause disruption to business continuity. However, given that this new regulation will only come into effect in mid-October, there has been many investor queries and concerns about material transactions occurring prior to its implementation, that were promptly reflected to the regulator.

### **Australia: regulatory deadlines extended**

The Australian Securities and Investments Commission extended the deadline for listed entities, whose reporting processes take additional time, due to current remote work arrangements, travel restrictions and other impacts of COVID-19. Companies have an additional month to complete financial reports up to and including July 7, 2020 balance dates.

It further updated its “no action” where public companies do not hold their AGMs within five months after the end financial years that end from December 31, 2019 to July 7, 2020, but do so up to seven months after year end. For public companies with June 1, 2020 to July 7, 2020 year end, the “no action” position also applies where holding an AGM in January or February 2021 results in the requirement to hold an AGM in the 2020 calendar year not being met.

It further advised companies who choose to delay their AGM to refrain from holding their AGMs in the peak holiday period in late December 2020 and early January 2021.

# Appendix

## Proposal Terminology Explained:

### Management Proposals

**Anti-takeover and Related Proposals** — proposals concerning shareholder rights, the adoption of “poison pills,” and thresholds for approval, among others.

**Capitalization** — generally involves authorizations for stock issuances, private placements, stock splits, and conversions of securities.

**Election of Directors and Related Proposals** — a broad category which includes the election of directors, supervisory board matters, declassification of boards, implementation of majority voting, among others.

**Non-salary Compensation** — covers shareholder approvals of compensation related matters like advisory or binding votes on remuneration, omnibus stock plans, vote frequency, and special compensation situations.

**Mergers, Acquisitions, and Reorganizations** — involves significant transactions requiring shareholder approval like spin-offs and asset sales, as well as changes to company jurisdiction or structure.

**Routine Business** — covers formal approvals of reports, name changes, and technical bylaws, among many others.

### Shareholder Proposals

**Governance** — generally involves key corporate governance matters affecting shareholder rights including governance mechanisms and related article/bylaw amendments, as well as proposals on compensation, political spending, and lobbying policies.

**Environmental** — covers shareholder proposals relating to reports on climate risk, energy efficiency, recycling, community environmental impacts, and environmental policies.

**Social** — includes shareholder proposals relating to a range of social issues such as reports on pay disparity, requests for enhanced anti-bias policies, or reports on human rights policies.

**Other** — includes a number of shareholder proposals that fall outside the categories that most shareholders would view as ESG proposals. These resolutions include (but are not limited to) electing directors in contested situations, appointing internal statutory auditor(s) nominated by shareholders, amending articles/bylaws/charters, and approving the allocation of income/income distribution policy. Additionally, there are a substantial number of shareholder proposals in Greater China relative to other markets. This is due to the China Securities Regulatory Commission (CSRC) requiring companies that have a foreign listing to submit their proposals 45 days prior to the meeting (which applies to all Chinese companies that have an A-share listing in China together with H-shares listed in Hong Kong). However, the CSRC allows shareholder proposals for these companies to be included up to 10 days prior to the meeting. The result is that many shareholder proposals are submitted by controlling shareholders and are, in effect, late agenda items from management.

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