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INVESTMENT STEWARDSHIP REPORT: AMERICAS

Q2 2017

JUNE 30, 2017

Contents

Engagement and Voting Highlights

Climate Risk

1 Climate risk has been be one of the key engagement themes that the BlackRock Investment Stewardship (BIS) team has prioritized for 2017-2018. The team's recent work on this issue and involvement with external initiatives, such as the Task Force on Climate-related Financial Disclosures (TCFD), has helped inform our engagements as well as our assessment of shareholder proposals on the topic. To that end, over the past quarter, we proactively engaged with nearly 30 companies on carbon related risks — 21 of these companies had shareholder proposals requesting that the target companies publish an annual assessment of their portfolio risks under a two degree climate scenario or report on the potential financial risks of stranded assets. Included in these engagements were major US-based oil and gas companies and electricity providers.

Regardless of whether a shareholder proposal appears on the ballot, the aim of our climate risk engagements are twofold — 1) gain a better understanding, through disclosures, of the processes that each company has in place to manage climate risks, and 2) understand how those risks are likely to impact the business. We believe that the TCFD's preliminary disclosure recommendations around four thematic areas — governance, strategy, risk management, and metrics and targets — offers a useful framework for company reporting. We provide more detail on how we will engage on climate risk on our Stewardship website.

Our engagements revealed a wide range of awareness amongst companies on elements of the TCFD's climate framework. Several of the more forward-looking companies are taking steps to model their operations around various emission reduction scenarios (including a two degree scenario). Others are incorporating climate risks into corporate strategy, maintaining board oversight of climate related risks and opportunities, and building climate risks into its capital expenditures in order to safeguard assets. We also observed that some companies, while demonstrating a willingness to improve, had done little to incorporate climate related risks into their planning. On the far end of the spectrum, we spoke with several companies who did not yet recognize how climate risks related to their corporate strategy.

Of the 27 companies that we engaged with on climate risk, 25 demonstrated a willingness to continue to improve their disclosures (in some cases along the lines of the TCFD). This, in our view, presented the possibility for a more organic and comprehensive disclosure process than that sought by the shareholder proposals. However, where we did not see meaningful progress despite past engagement, or where companies appeared insufficiently willing to respond to our concerns, we voted against management recommendations and supported shareholder proposals calling for greater disclosure.

This was the case at Exxon Mobil and Occidental Petroleum, where our history of engagement, coupled with prior strong shareholder support for greater climate disclosure, left us concerned that the companies' reporting failed to sufficiently address the impact that material economic risks could have on the performance of the business. By contrast, BIS had more successful engagements at Chevron, Royal Dutch Shell, and Santos. These engagements are detailed in individual vote bulletins on the Reporting segment of the BIS website. We will continue to engage with companies exposed to material climate risk to ensure that the long term value of our clients' assets are adequately safeguarded.

Board Composition — Diversity & Refreshment

2 BlackRock has had hundreds of conversations in the past few years with company directors and management on increasing board diversity to improve board effectiveness. We've been particularly focused on increasing the number of women on US boards because progress in the US has been slower than in many other markets[1]. Women held 16% of S&P 500 board seats in 2011 and 21% in 2016[2]. At companies outside the S&P 500 the number of women in board seats is even lower[3].

Board diversity, particularly in terms of gender, is important from a sustainable investment perspective given that diverse groups have been demonstrated to make better decisions. In the board context, this appears to be because they are better able to consider, where appropriate, alternatives to current strategies — a proposition that can ultimately lead to sustained value creation over the long term. This quarter, the Americas Investment Stewardship team continued its efforts to improve gender balance in the boardroom.

In the second quarter, we voted on nine shareholder proposals that focused on this topic in the US and Canada. The majority of the companies that received the shareholder proposal lacked women on their boards. Investment Stewardship reached out to most of these companies; approximately half responded to our request for an engagement. Ultimately, we supported eight shareholder proposals that requested the adoption of a policy on board diversity or disclosure around plans to increase board diversity. At five of these companies, we also voted against the nominating committee members for failure to address investor concerns on board diversity.

We hear a range of perspectives from companies on this issue. During an engagement with an oil and gas company, we were told that it has been difficult to find a diverse slate of candidates. Such a perspective demonstrates a limited willingness to explore alternatives to the current status quo. When we discussed the topic with a real estate company, we found that efforts were being made to address the issue; however, we supported the shareholder proposal due to the company not committing to a concrete timeline.

It is important to point out that we are not trying to micromanage the nominating process or to tell companies what to do—we are attempting to build mutual understanding on these issues. Ultimately, we seek to grasp the company's philosophy, policies, and performance on gender diversity at the board level.

3 Over the course of several years, we've engaged with a family of real estate companies around what we have identified as growing governance concerns and a deteriorating relationship with shareholders. The real estate space is often characterized by close affiliations between both firms and key individuals, which raises shareholder concerns about conflicts of interest.

> We believe in protecting long term value for our clients and expect management and boards to develop governance structures that promote the long term financial sustainability of the business.

To achieve these goals, we also believe in the importance of maintaining an ongoing, constructive relationship with shareholders; at times, this includes expressing governance concerns with boards.

Our main concern surrounded the conflicts of interest in the entity structure, where the CEO effectively controls the external manager. Our concerns were exacerbated by the absence of strong, independent oversight by the board. We believe that this had led to an unclear corporate strategy, poor governance-risk-

[1] http://www.mckinsey.com/global-themes/leadership/how-to-accelerate-gender-diversity-on-boards
[2] Ibid
[3] Ibid

mitigating features, and prior unresponsiveness to shareholder concerns. We expressed our views on these topics by voting against management on several occasions in prior years.

In the last year, after extensive private dialogue and our public votes, the companies took steps to begin addressing these concerns and implemented a number of changes.

At one company in particular, we observed the following changes — the board separated the roles of Chairman and CEO and also appointed a new company CEO. Since this change in leadership, the new CEO has clarified the capital allocation strategy and worked to improve the terms and structure of a large advisory agreement. In addition, the board has undergone a significant refreshment process, bringing on several new directors (including a second female director), adopting staple governance features like majority voting and proxy access, and implementing equity retention requirements.

We believe this case clearly demonstrates effective investment stewardship and our commitment to board accountability through our use of both voice and our vote. We are encouraged by the responses this year and will continue to work with both this and the other companies on the changes they are implementing to maintain governance best practices and understand risks to the value of our clients' investments.

GOVERNANCE — BOARD ACCOUNTABILITY

4 Just as the prior case study demonstrates our focus on governance structure and best practices, we had other examples this quarter of our team promoting governance standards best practices. For instance, we engaged with several technology and media companies to discuss their use of multi-class share structures. While we have seen recent initial public offerings (IPOs) with dual-class shares, we expect companies to continually assess the implications of this ownership structure and roll back or sunset these provisions over a reasonable time period. Oftentimes when we engage with companies with this structure, we hear that the rationale for continuing with the dual-class structure is so that the founders and/or management can continue to execute on their vision without being at the whims of quarterly reporting and activist investors. Where companies were unwilling to implement one-share-one-vote within a specified timeframe or were unresponsive to change over time, we supported shareholder proposals to recapitalize stock into a single voting class.

A recent Council of Institutional Investors study cited that approximately 7.5 percent of publicly-listed companies (across industries such as technology, media, financial services, consumer products, transportation and industrials) have multi-class structures.

The recommendation to roll back or sunset dual-class shares is one supported within the recently launched Investor Stewardship Group's (ISG) Corporate Governance Principles. We discuss our participation in the ISG in our prior Q1 2017 Quarterly Report.

5 Separately, we engaged with a streaming video company on a binding shareholder proposal which would have required the company to amend its bylaws to institute a majority-vote standard in uncontested director elections. In 2016, one of the company's directors failed to receive majority support and the company has also failed to implement 17 majority supported proposals in prior years. Collectively, we did not believe the board had been responsive to shareholders and voted for the proposal. We also voted against the three directors up for election for failure to adopt shareholder proposals that had received majority approval at the prior year's meeting. Although the shareholder proposal did not pass, we believe that our vote has sent the company a signal of our desire for greater board accountability, and we hope to engage with its board members over the next year to encourage appropriate reforms.

Shareholder Activism

6 In another of our governance engagements we spoke with members of the board of a semiconductor company to discuss

apparent conflicts of interest between the company and one of its independent directors due to another business relationship. The situation was brought to light publicly as the company's founder and ex-CEO filed a lawsuit against the board for false and misleading proxy materials and nominated two director candidates. We explored the timing of the board's internal processes the response in light of the allegations, and potential implications of dissident-nominated directors on the board. We were particularly concerned by the reactive nature of the board's responses as the situation unfolded. After our meeting, the executive chairman stepped down and the lead independent director relinquished his role due to the release of unfavorable court-compelled disclosure. Ultimately, we withheld support for the former lead director due to what we believed were distinct failures in governance. Although our vote was not an endorsement of the ex-CEO's ongoing involvement in the company, we believe that the election of both dissident nominees was a positive outcome for shareholders. We are encouraged by the changes to the board; however, we anticipate ongoing engagement as the company moves forward.

7 Leading up to the annual meeting in June, the team had the opportunity to engage extensively with a railroad company that had become involved with an activist investor with a unique set of demands. In particular, the activist raised funds for the sole purpose of recruiting an esteemed railroading veteran as CEO. Given the proven track record and industry gravitas of this individual, the market reacted with an overwhelmingly positive response, resulting in approximately $12 billion dollars in stock appreciation since the campaign announcement.

In the progressive months, the company settled with the activist, landing a deal that ended in a new CEO and 5 total board seats to the activist and his affiliates. While the market reacted positively to the news, shareholders were faced with an interesting situation—the opportunity to vote on a reimbursement payment to the new CEO, representing benefits that were forfeited upon departure from his previous company, comprised of income and tax liability.

The notion of promised repayment for forfeited benefits required careful evaluation. On one hand, the reimbursement payment to a new CEO is effectively a "make whole" payment that is fairly common practice when an experienced, proven, and highly qualified individual is recruited. On the other, the newly-appointed CEO indicated that he would resign if the payment wasn't approved. Additionally, the board refrained from making a "for" or "against" recommendation regarding the arrangement—they detailed available pros and cons of the situation, but left the vote up to shareholders.

> The action (or inaction) of the board, market concerns about the newly-appointed CEO's health, and potential share price decline if the new CEO resigned, left shareholders in a dilemma.

Our engagements with both the company and the activist were key elements of the decision to ultimately support the reimbursement payment. Consistent with our 2017 - 2018 BIS engagement priorities, we focused on ensuring long term shareholder value via appropriate governance structures and human capital management. To this extent, the company discussed a succession plan, as well as highlighted learning opportunities for internal candidates from the newly appointed CEO — an industry titan who has had a successful career in enhancing efficiency and creating value within the railroad industry. We will continue to monitor the progress of transformation at the company and engage on succession planning in the years to come.

Executive Compensation

8 Consistent with our 2017 - 2018 priorities, BIS continues to have numerous engagements on executive compensation to ensure that executives are rewarded for delivering strong and sustainable returns over the long-term. This quarter in the Americas region, we engaged with approximately 98 companies on executive pay, including advisory votes on executive compensation (also known as "Say on Pay") and equity stock plans.

In some instances, following extensive executive compensation engagements, we determined to vote against management's recommendation.

We explained in our vote bulletin that voted against the compensation plan for a second consecutive year at global pharmaceutical company Mylan N.V. which is headquartered in the United States and incorporated in the Netherlands.

In this instance, we also voted against the Compensation Committee members for establishing executive-level compensation that is out of line with shareholder sentiment expressed through a significant 35 percent vote against in 2016.

In addition to ongoing compensation concerns at Mylan, we also raised questions with the company regarding its leadership structure, succession planning, and board responsiveness to shareholder feedback. Over the course of the past year, we met with the board and senior management twice in person (alongside our fundamental investors) to address these concerns and to hear from independent directors regarding their thought processes. Ultimately, despite implementing some changes, we felt the board was insufficiently responsive to shareholder concerns about governance and compensation. As a result, we also voted against members of the Nominating and Governance Committee as well as one of the company's longest tenured directors.

9

We also engaged with three financial companies to better understand how pay and performance are adequately aligned within their unique markets—a New York bank, a Florida insurance company, and a California lender. These discussions highlight the importance of the engagement process and its ability to clarify company-specific circumstances to ensure that we execute the appropriate votes on behalf of our clients.

The New York bank, for instance, had recently hired a senior executive from a competitor, to whom they had offered a significant pay package. Discussions with the company revealed three elements that were key in assessing pay and performance alignment, and ultimately led to our support for the compensation plan. Firstly, the company had a proven multi-year track record for both internal growth and external hires. Secondly, the incoming executive had a similarly strong multi-year track record and would likely bring unrivalled experience and relationships. Thirdly, the pay package was structured with a strong link to performance over multiple years, and the majority of the awards were granted in equity rather than cash.

The Florida insurer had low say-on-pay support in 2016 and a disappointing year financially, mainly attributed to its exposure to weather related events. Contrary to this poor performance, in 2016, the CEO received a salary increase and a moderate bonus. Our engagement with the company shed light on the fact that the company has been working towards implementing standardized best practices and affirmed the company's commitment to long term alignment of pay and performance. While CEO pay and company performance appeared misaligned for the year in review, the total compensation was in line with peers and the structure is poised for success going forward. In addition, the company has adequately implemented shareholder feedback, recently making changes to the board structure and management personnel.

The California lender made large scale management changes after material control issues were brought to light, which later led to the resignation of the CEO. Despite disappointing financial and share performance, executive compensation remained elevated. However, through engagement, we understood the nature of the competitive marketplace for talent and the need for management consistency in the short-medium term.

Twelve months after these changes, the company's financial performance has improved. Also during this time, the company made significant structural changes to the board, such as separating the roles of CEO/Chair, creating an independent board sub-committee, and implementing policies around hedging and pledging.

Engagement and Voting Statistics

Americas Engagement Statistics[4]

	Level of Engagement[5]			Topics Discussed*		
Number of engagements	Basic	Moderate	Extensive	Environmental	Social	Governance
283	194	61	28	37	24	257

*Most engagement conversations cover multiple topics. Our engagement statistics reflect the primary engagement topic for which the meeting was called.

Americas Region Voting Statistics[4]

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
USA	2,876	25,824	26%	9%
Canada	385	4,101	34%	5%
Latin and South America	380	2,805	67%	20%
Americas Region Total	3,641	32,730	32%	10%

[4]The Americas engagement statistics are sourced from BlackRock and the voting statistics are sourced from ISS Proxy Exchange on July 5, 2017 and both are a reflection of 2nd Quarter 2017.

[5]Basic engagement is generally a single conversation on a routine matter; Moderate engagement is technically more complex and generally involves more than one meeting; Extensive engagement is technically complex, high profile and involves numerous meetings over a longer time frame.

Active Ownership and Responsible Leadership

Speaking Events

Members of the Investment Stewardship Americas team spoke at or participated in a number of events over the past quarter, with the objectives of furthering the debate on matters deemed important to investors and/or promoting an increased understanding of BlackRock's approach to Investment Stewardship. We target events that enable us to connect with key stakeholders and thought leaders, including corporate directors, senior members of management teams, and other shareholders.

Below is a list of select speaking events from the quarter, and subject matter covered:

- **16th Annual International Mergers & Acquisitions Conference, International Bar Association – New York**

We presented on the "Governance, Stewardship and Activism" panel at the conference in June 2017 alongside speakers from investment banking, proxy solicitation, and law firms. The audience included several hundred lawyers from around the world. The panel covered a range of topics, including the evolution of shareholder engagement with boards and senior management, the motivation for activist campaigns, the role of proxy advisors, differences in approach to activism in Europe and the US, and recent developments around activists targeting change in CEOs as part of their campaigns. We discussed BlackRock's approach to engagement and decision-making in activist situations and proxy fights, which is ultimately driven by our assessment of outcomes most likely to lead to long-term value creation for shareholders.

- **Ceres 2017 Conference – San Francisco**

We attended the annual Ceres conference in April 2017. Ceres is a non-profit organization that brings together investors and companies to work toward solving sustainability challenges. BlackRock is a member of the Ceres Investor Network, and we also attended the Investor Network members' meeting, where we discussed, among other topics, BlackRock's approach to engaging on climate risk disclosure. The annual conference drew more than 600 investors and company leaders to discuss topics encompassing sustainable business and investing. We presented on one of the key themes of the conference: reporting on decision-useful information related to climate risk, which is a theme aligned with BlackRock's 2017-2018 Engagement Priorities. We noted 60% of S&P 500 companies mention climate risk in their annual reports, but 40% of this disclosure is boilerplate, which lacks the metrics or company-specificity financial analysts' desire. BlackRock encourages disclosure that is standardized, material to the company and industry-relative. We discussed how climate risk disclosure is linked to governance and long-term corporate strategy, and mentioned BlackRock's membership on the Financial Stability Board's Task TCFD.

- **CDP event "The Future of Reimagining Disclosure: A Roundtable Discussion with Companies and Investors" – New York**

We attended a roundtable discussion with a number of investment advisors, pension funds, and companies to discuss the CDP's integration of the TCFD recommendations into the CDP's annual questionnaires and framework. Despite concerns regarding possible duplication of data, the majority of respondents and meeting attendants felt that integration of the TCFD would move the ball forward on achieving a standardized climate disclosure framework, reduce survey fatigue, and provide material financial-driven metrics geared towards investors. Other topics discussed included the incorporation of scenario analyses into climate risk planning. Participants concluded that even though evolution will take place, scenario analysis is a crucial element to understanding a company's preparedness and its appreciation of climate risk. The CDP will undergo a second consultation period in July 2017.

- **Corporate Counsel "Women's 100 Conference" – New York**

We participated on an investor panel which explored how companies can establish a successful investor outreach program. In particular, we shared our view on the importance of companies establishing an ongoing rapport with their shareholders in order to ensure an effective engagement program. We explained that, from our perspective, the end-to-end process of meeting with a portfolio company requires significant preparation time and resource allocation. We shared that, for meetings to be mutually beneficial, we expect companies to come prepared, particularly in instances where the topics of conversation have been ongoing over the course of several years. During a subsequent roundtable which focused on board diversity, we discussed boards limiting their board diversity initiatives to nominating only one woman. Ideally, we believe boards should commit to adding at least two women directors. Views were shared on how investors can continue to highlight to these boards their belief that diverse groups deliver better decisions and that, ultimately, the corporate board is a decision-making body that act as fiduciaries on behalf of investors and board diversity is a performance imperative.

Prepared by BlackRock, Inc.