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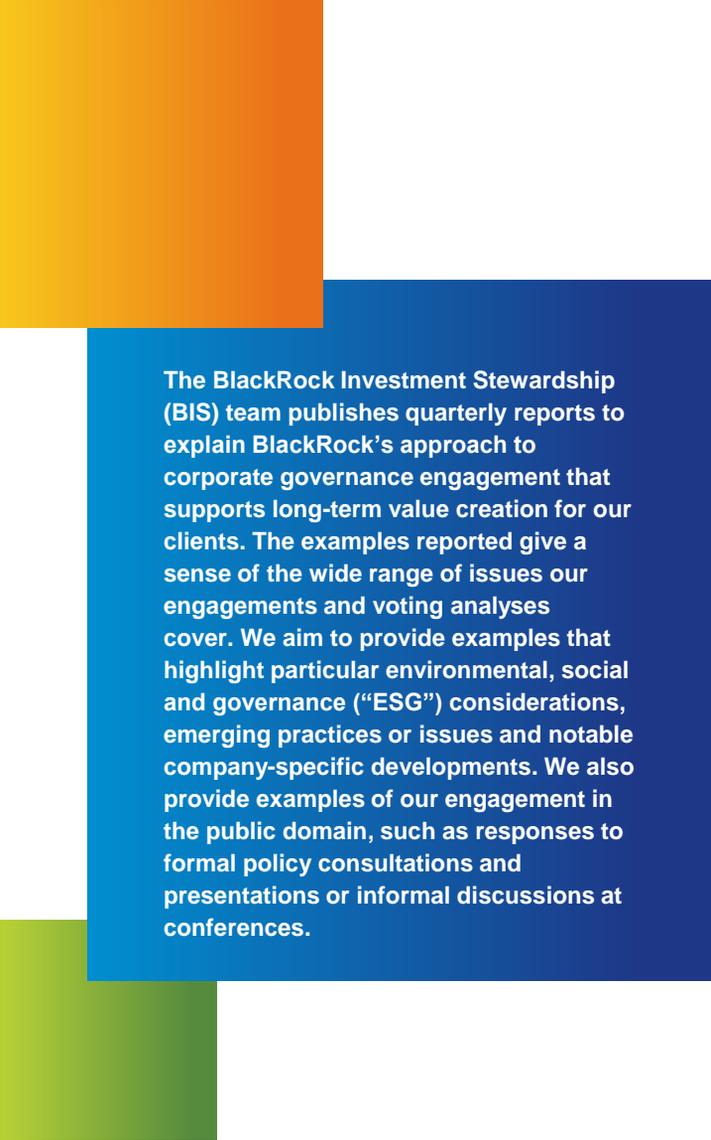
INVESTMENT STEWARDSHIP REPORT: EMEA

Q1 2019

MARCH 31, 2019



FOR PROFESSIONAL CLIENTS / QUALIFIED INVESTORS ONLY



The BlackRock Investment Stewardship (BIS) team publishes quarterly reports to explain BlackRock’s approach to corporate governance engagement that supports long-term value creation for our clients. The examples reported give a sense of the wide range of issues our engagements and voting analyses cover. 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 responses to formal policy consultations and presentations or informal discussions at conferences.

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Engagement and Voting Highlights

Engaging on expanding the pool of quality chairman candidates

1 As the role of a company director is increasingly demanding, directors must consider whether they are able to commit an appropriate amount of time to board and committee matters. Given the nature of the role, it is equally important that a director has the flexibility to attend to unforeseen events. Industry bodies appear to recognize the need for increased focus on time commitments and, in some markets, are poised to introduce principles aimed at limiting board over-commitments. For example, the current proposals for [revising the German Corporate Governance Code](#) (see “Market Development and Trends” below) would for the first time include a recommended maximum number of Supervisory Board mandates (namely, five). Additionally, the proposal calls for executives sitting on the Management Board of a German-listed company not to have more than two Supervisory Board mandates in listed companies outside their own company’s group, and not to accept the Chairmanship of any external Supervisory Board.

During the course of this quarter, we engaged with a number of companies in relation to the time commitments of their respective chairman, usually in connection with the director’s proposed re-election. For some time, companies have shared with us that the position of chairman is becoming a full-time role. Additionally, the chairman is among the most likely board members to assume increased responsibilities in the event of a crisis or unforeseen material event. As noted in our [EMEA proxy voting guidelines](#), in the absence of a clear explanation, we expect a chairman to have no more than one additional mandate where this is also a chairman role, or two additional mandates where neither of these are chairman roles (see “Market Development and Trends”).

Our engagements have focused on cases – notably in the UK and Ireland, but also in South Africa and Sweden – where the chairman’s external board mandates exceed the expectations set out in our EMEA proxy voting guidelines. In each instance, we sought to understand the nature of the chairman’s commitments and explored whether they are taking active steps to reduce those external board commitments. Where a chairman demonstrates a willingness to reduce these commitments, we ordinarily support the chairman’s re-election on the understanding that the necessary changes will be made in the short term.

There is often no willingness to change, however, and companies frequently assert that exceptions to our view of an excessive number of external board mandates should be made to accommodate a particular re-election. Some companies have indicated to us that the number of mandates held by the individual director should be interpreted as a sign of his / her quality and the contribution that they can make to the company. Concerns have also been raised with us that expecting quality candidates to limit their number of mandates in this way will reduce the ability of companies to appoint the best people to what is a very important role within the company.

While we acknowledge these concerns, we believe they underestimate the contribution that could be made to a company’s success by individuals who may have equally valuable skills and experience but, importantly, fewer commitments. We believe that companies should work towards striking the right balance between a director’s capacity (i.e. limiting the number of board mandates they have) and the experience they bring from serving on a number of different boards.

We are particularly aware there have been [suggestions by certain market participants](#) that companies may not be casting their net widely enough to identify and appoint a sufficiently diverse set of candidates, and one consequence of this may be that companies are unduly relying on too small a pool of incumbents. We see real value in this pool of director candidates being widened such that a greater number, and more diverse set, of individuals can be recognised as the quality candidates who can contribute to the ongoing effectiveness of the board.

Engaging on the topic of director tenure in the UK

2 Since the update of the UK Corporate Governance Code in July 2018 (discussed in our [2018 Q3 EMEA Quarterly Report](#)), some companies have used our engagements as a forum to raise some of their concerns about newly introduced principles. This trend continued through this quarter.

A key concern emerging from our conversations relates to the new provision that chairmen should not remain in their post beyond nine years from the date of their first appointment to the board. One company was particularly uneasy that this would lead to forced changes at an arbitrary point in time. We have also heard the view from more than one company that this provision could have unintended consequences, such as disincentivising internal board moves from a non-executive director role to chairman of the same company (as the individual's existing tenure as non-executive director would limit the length of time over which he / she would be able to serve as chairman). Such an arbitrary tenure could lead to a loss of institutional knowledge and require the company to look externally for new candidates.

We understand some of these concerns. Ultimately, however, the Code stipulates that a company's response to this and other provisions be applied on a 'comply or explain' basis. In our engagements, we have explained that our approach is based on our engagement priorities and guidelines, rather than being a strict compliance-driven exercise. As we explained in [our 2018 consultation response to the Code](#), we view the nine year threshold as guidance rather than a hard limit. As a consequence, we would not necessarily expect chairmen to step off the board as soon as they surpass this threshold, particularly where there is a risk that doing so would have a disrupting effect on the business. We favour a pragmatic, case-by-case approach to this issue where we seek to understand the different factors at play, including the rationale for a chairman remaining in role and the extent to which the proposed appointment is transitional in nature.

In our engagements we will aim to ensure the board is properly anticipating and managing succession planning issues, which we see as one of its key responsibilities. Where this process is done successfully, we would expect it to result in clearly independent, senior non-executive directors leading the boards of our investee companies in the UK, which (as we have stated for many years) will always be our preference.

Deal or no-deal – Brexit implications for the aviation industry

3 BlackRock regularly engages with companies on a wide range of governance matters, particularly when companies may need to adapt to a changing business environment. These were among the considerations for having engaged in late 2017 and again in 2018 with airline companies to hear about how they were evaluating the potential impacts of Brexit.

This quarter we continued our engagement on the topic with several airlines across the UK and Europe. Over this period, the airline sector and global investors faced the increasing prospect of a hard Brexit or no-deal Brexit. Unlike other sectors in Europe, the aviation industry has certain European Union (EU) rule-driven ownership and control restrictions. Notably, airlines who are holders of EU Operating Licenses must be majority owned and controlled at all times by EU Member States and / or Member State nationals (except as provided for in EU-wide agreements). The industry continues to face the question whether any airline's Operating License would be challenged by Brexit, in the event that no applicable agreement was reached between the UK and the remaining EU Member States.

Our primary goal in our most recent engagements with airline companies was to enhance our understanding of how boards are overseeing contingency plans to ensure continued operations across Europe and the UK under the different Brexit outcomes. We also sought to understand how each company was defining a Member State national, as this could have implications for institutional investors and their voting rights if companies failed to meet the minimum ownership rules. Our engagements also allowed us to learn about considerations related to European safety standards.

Not surprisingly, we heard that the topic has been a consistently discussed item at board meetings since the UK referendum. On the subject of the ownership rules, we heard in numerous engagements that, despite certain complexities, companies were seeking to determine shareholder nationality either on a look-through basis to identify the underlying beneficial owner or by identifying where a particular fund is domiciled.

In a conversation with one UK airline company, we learned that Brexit is a topic on every board meeting agenda and that the board delves into strategic plans in the context of the EU ownership and control rules. We learned about the process for potentially making changes to the company's operating model and licenses in order to protect the business in the UK and Europe regardless of the Brexit outcome. In terms of determining Member State shareholders for the purposes of the EU ownership rules, the company explained the implications of the company being 49% owned by qualifying nationals from EU Member States in early 2019. Our engagement gave us good insight into the board's process for developing contingency plans with respect to human capital management, safety protocols, and voting rights to comply with ownership and control rules.

A mainland European airline we engaged also explained their board's role in the development of the company's Brexit contingency plans. This notwithstanding, we found the company's perspective perhaps overly optimistic in terms of their view that all sides would resolve matters to ensure continued EU / UK connectivity. Our concern was that this optimism could limit the board's contingency planning. We learned how differently airlines with dispersed shareholders were placed to meet EU ownership and control rules versus airlines with large government holdings and dual-share voting rights.

The chairman also explained provisions within the company's articles that could allow the company to take measures to ensure compliance with the EU ownership and control rules. We also heard about the application of local legal requirements versus EU law under different company group structures.

An engagement with another European airline confirmed the board has consistently incorporated the Brexit issue into its risk map since the UK referendum. The company outlined the reasons why it felt that it was well positioned for different Brexit outcomes. The company explained that it believes its business has limited exposure to the consequences of Brexit given its strong European customer base. Despite this limited concern, the company has also evaluated its shareholder base in the context of EU ownership and control rules and determined it has a strong European shareholder base with the majority of shares held by EU Member State nationals.

Broadly speaking, company disclosures on this material political risk were also a potential cause for concern. Whilst we observed an improved level of disclosure around Brexit plans at one company, we found lower levels of disclosures at other companies – although we acknowledge that the timing of companies' 2019 annual general meeting and published annual report may be a contributing factor.

Notwithstanding the tremendous uncertainty surrounding Brexit, we repeatedly heard there is willingness on all sides to ensure continued connectivity across the UK and EU, irrespective of the outcome. Given the issues at stake, we will continue to engage on governance issues related to this topic with investee companies. An initial agreement between the EU and UK on Brexit simply signals agreement on terms of the UK's withdrawal. The ensuing transition period, during which both sides still have to try to agree the longer-term arrangements for a future in which the EU rules no longer apply to the UK, or the implications a no-deal scenario will require significant additional planning within companies.

Improvements in governance advance culture in the pharmaceutical sector

4 We engaged with a European pharmaceutical company as they face a number of conduct controversies over the past recent years, particularly with regards to allegations of bribery and corruption. The controversies include: allegations of price-fixing of generic drugs in various US states; kickback payments to doctors under the company's Speakers Program; allegations of bribery of healthcare professionals in South Korea; and, bribery of senior public officials and healthcare professionals in Greece, to name a few.

The scale and nature of these incidents led us to believe that there was likely fundamental issues with the company's culture, as some of the controversial events were the responsibility of members of senior management. In our engagements we sought insight into the robustness of the company's compliance and risk management and oversight mechanisms. We also sought assurance that the company's ethical standards and corporate culture were not compromised at the expense of achieving financial and strategic objectives, as had been the case in recent years when the company had been the subject of several allegations of bribery and corruption.

Following initial engagements the company acknowledged our concerns but made limited progress. However, we began to see notable changes in 2018. The company began refreshing various senior executive roles which resulted in an improved tone from management with respect to conduct and ethical standards. Rebuilding trust and reputation is one of the company's five strategic priorities to drive growth. These strategic priorities are now linked to management's remuneration and are measured and assessed regularly.

Other important changes by the company include creating a new integrated risk function and establishing a Chief Ethics, Compliance and Risk officer role. This risk officer has now been elevated to the company's executive committee. Also, the global roll-out of a Professional Practices policy is taking place along with an overhaul of the company's data analytics system to monitor compliance. Additionally, a new Independent Ethics Board is in place for managed access and patient issues.

Our meeting with the new CEO and the Chairman of the board provided assurance that, through these policies and processes, the company is committed to delivering performance without compromising its ethical standards.

We will continue engaging with the company moving forward to monitor further progress against the strategic objectives of rebuilding trust and reputation. We will assess how this progress is reflected in the company's proposed executive remuneration arrangements. Lastly, we will monitor the evolution of the outstanding investigations and intend to engage on these, as necessary.

Responsible Leadership

Larry Fink's Annual Letter to CEOs

Each year BlackRock's Chairman and CEO Larry Fink sends a letter to the CEOs of leading companies in which our clients are shareholders. In the letter Mr. Fink generally reflects on issues related to corporate governance and long-termism. In these letters he has for several years explained our expectations of companies in relation to long-term thinking:

"We are asking that every CEO lay out for shareholders each year a strategic framework for long-term value creation. Additionally, because boards have a critical role to play in strategic planning, we believe CEOs should explicitly affirm that their boards have reviewed those plans. BlackRock's corporate governance team, in their engagement with companies, will be looking for this framework and board review."

[This year's letter](#) expands on the previous year's discussion of purpose, reinforcing the need for companies to have a clear mission in order to maintain and enhance long-term value and profitability.

Over the past year, BlackRock Investment Stewardship has been engaging with companies about how their stated purpose is reflected in their long-term strategy and culture. More information about our approach to engaging on this issue can be found in our publicly available [commentary](#). As mentioned in this year's letter, we are encouraged by the commitment of companies to engaging with us on this issue, and we will continue to report on our conversations as they evolve.

BlackRock Investment Stewardship website updates

We view transparency as a key component of our investment stewardship activities. As part of this commitment, in January BIS revamped its [website](#) to refresh content and improve navigation. While much of the core content remains the same, we have evolved it to reflect our latest thinking on market trends and feedback from our clients and the companies with whom we interact.

Key changes include:

Engagement Priorities: We have modified our [engagement priorities for 2019](#), keeping the same five priorities from 2018 but enhancing the wording to fine-tune our focus:

- Expansion of "Climate Risk" priority to "Environmental Risks and Opportunities"
- Expansion of "Corporate Strategy" priority to "Corporate Strategy and Capital Allocation."
- Within the "Governance" priority, we have broadened the discussion on diversity
- Changing "Compensation" to "Compensation that Promotes Long-Termism"

Global Corporate Governance and Engagement Principles: Our [Global Principles](#) outline our general philosophy to global governance structures. The updates do not constitute material changes in policy or voting implementation; rather, we clarify our view on certain issues and align language on a number of topics, namely director independence, board diversity and material environmental and social factors across regional voting guidelines.

Speaking Events:

Members of the EMEA BIS team spoke at or participated in a number of 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.

City of London Corporation – Roundtable on building an effective regulatory framework for stewardship – London, UK

We participated in a roundtable convened by the City of London Corporation, and attended by representatives of the Financial Conduct Authority (FCA) and the Financial Reporting Council (FRC) to discuss what effective stewardship looks like and how this can be supported through appropriate regulation and industry codes in the UK. The discussion was intended to facilitate the on-going initiatives by the FRC [to revise the UK Stewardship Code](#) and by the FCA to seek industry feedback on its [Discussion Paper](#) on building an effective regulatory framework for stewardship. Our participation in the event provided an opportunity to contribute to an important evolving debate in the UK around increasing expectations for investment stewardship and to discuss expected implementation of [the amended Shareholders Rights Directive](#) (SRD II) under the FCA's regulatory powers.

French Institute of Directors – Club of Chairs of Remunerations Committees – Paris, France

In January 2019 we participated in a roundtable organised by the club of Chairs of remuneration committees of French companies along with representatives of proxy advisory firms and other asset managers. It was an opportunity to engage directly with many board members of large French listed companies. We discussed our observations from the last annual general meeting season and shared concerns BIS has identified in regard to executive remuneration in the French market.

We are still voting against a high number of executive remuneration-related management proposals due to recurring concerns relating to a lack of disclosure. Year-over-year salary increases for executives had also driven some of our votes against management. Another issue we observed is the insufficiently challenging performance targets that remuneration committees have set for their management team. We emphasised that executive remuneration must be used as an incentive mechanism and should not be used strictly as a retention tool.

Abu Dhabi Sustainable Finance Forum – Abu Dhabi, United Arab Emirates (UAE)

The EMEA Investment Stewardship team presented on the panel entitled “Integrating Sustainability into Regulatory Frameworks”. The panel, which took place during Abu Dhabi Sustainable Finance Forum week focused on various regulatory frameworks and taxonomies that exist globally in relation to corporate sustainability. The participants discussed how taxonomies should be shaped to support the necessary investment into sustainable projects and what the role of disclosure is in the furthering sustainability. Lessons learned from China and Europe were shared with the audience, with panellists providing their views on the way forward for Abu Dhabi and UAE markets in sustainable investing.

Market Developments and Trends

2019 EMEA Proxy Voting Guidelines update

In January 2019, the EMEA Investment Stewardship team published updated [Proxy voting guidelines for European, Middle Eastern, and African securities](#). The guidelines are reviewed each year and updated as necessary. The most significant update relate to board composition and how we vote on director elections. We have notably updated our definition of the independent director shareholding threshold from 10% to 20% of the capital for a shareholder to be considered non-independent. Regarding gender diversity on the board, we recognize that diversity has multiple dimensions. In identifying potential candidates, boards should take into consideration the full breadth of diversity including, personal factors such as gender, ethnicity, and age; as well as professional characteristics, such as a director's industry, area of expertise, and geographic location. In addition to other elements of diversity, we now specifically encourage companies to have at least two women members on their board. When companies have not been able to reach this threshold, it is important for BlackRock to understand a board's process and what actions it is taking to continue to identify diverse candidates.

Another important topic where our thinking has evolved concerns over-boarded directors (a topic we cover in the first case study of this quarterly report). In order to clarify BlackRock's expectations, we have chosen this year to lay out an illustration of the maximum number of boards on which a board member may serve, before he / she may be considered to be over-boarded. This is included for information below.

	Public Company Executive Officer	Chairman	# of Outside Public Boards*
Board Member A	✓		1
Board Member B		✓	2 (or 1 chairmanship)
Board Member C			3

*In addition to the company under review

We believe the role of lead independent director (LID) requires significant time commitment. Therefore, we expect a LID to not hold any executive positions in external listed companies. We will engage with companies who do not meet these expectations. Finally, we have clarified our expectations regarding clawbacks and maluses mechanisms. We are asking for better disclosure on the circumstances in which companies could use such provisions.

Consultation on proposed changes to the German Corporate Governance Code

In late 2018, the Commission responsible for oversight of the German Corporate Governance Code (the Regierungskommission Deutscher Corporate Governance Kodex) launched a [consultation](#) on changes that it was proposing to the Code. Notable proposed changes included:

- (i) a re-structuring of the format of the Code – introducing principles which companies would be required to implement, recommendations where companies would have to ‘comply or explain’, and suggestions for where companies could provide voluntary disclosure;
- (ii) increasing recommendations around appropriate board composition – amending the director mandate from five years to three years was a move to three year director terms; and
- (iii) adding a new section dedicated to principles and recommendations relating to remuneration of Management Board and Supervisory Board members. This section would go hand-in-hand with the forthcoming introduction of say-on-pay rules in Germany, as part of the state’s [implementation](#) of SRD II.

[Our open letter response to this consultation](#) shares our view that the proposed changes would on the whole represent positive steps in the evolution of corporate governance standards in Germany. Governance practices develop over time, in line with policy and market developments. We believe regular reviews like this initiative by the Regierungskommission ensure that the codes reflect evolving best practice. In particular, we welcomed amendments to the Code that clarify the approach companies should take to their disclosures.

Statement of Compliance with Dutch Stewardship Code

The first [Dutch Stewardship Code](#) published in June 2018 has come into force on 1 January 2019. The code is a timely advance of the Eumedion Best Practices for Engaged Share-Ownership of 2011. It was drafted after a public consultation period where BlackRock provided its feedback.

We are generally supportive of the Dutch Stewardship Code, and believe the Code will complement national, international and global stewardship principles to which BlackRock is a signatory or has endorsed. The Code will be an important component of ongoing obligations on pension funds, insurance companies, and asset managers that will arise from SRD II upon implementation by EU Member States in June 2019. Notable principles of the new Code include:

- Asset owners and asset managers should have a stewardship policy that aims to promote long-term value creation at Dutch-listed investee companies
- Disclosure of full equity holding when entering into dialogue with an investee company
- Disclosure of full voting records (at an individual company level and per voting item)
- Stricter policies with respect to stock lending

While the Dutch Stewardship Code and SRD II both take into account transparency requirements on engagement and voting policies and monitoring of investee companies on non-financial risks, in some instances, the Dutch Stewardship Code is more ‘progressive’ compared to the minimum requirements of the revised SRD.

BlackRock published its [Statement on Compliance with the Dutch Stewardship Code](#) in early February 2019, outlining our approach to the recommendations of the Code and explaining our reasons for taking a different approach where relevant.

Engagement and Voting Statistics

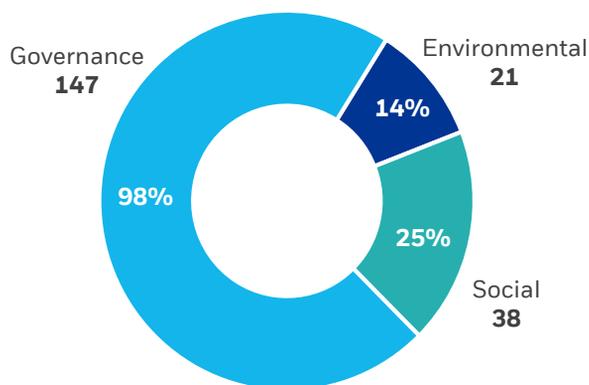
EMEA Q1 2019 Engagement Statistics

Region				
	Engagements ¹	Multiple engagements ²	Meetings voted	Proposals voted
United Kingdom (UK)	56	9%	127	1,455
EMEA ex UK	94	9%	409	5,885
EMEA including UK	150	9%	536	7,340

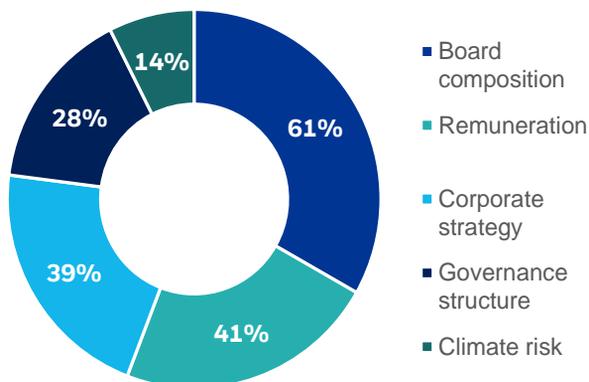
¹The EMEA engagement statistics are sourced from BlackRock on April 5, 2019 and are a reflection of 1st Quarter 2019.

²Multiple engagements represents the number of multiple meetings during the quarter with the same company.

Engagement topics*



Top engagement themes*



*Most engagement conversations cover multiple topics.

EMEA statistical overview twelve months from April 1, 2018 to March 30, 2019

			
Engagements	Multiple engagements*	Meetings voted	Proposals voted
576	22%	3,477	47,873

Global statistical overview twelve months from April 1, 2018 to March 30, 2019

Engagements	Multiple engagements*	Meetings voted	Proposals voted
2,091	19%	16,686	157,869

*Multiple engagements represents multiple meetings with the same company over this period.

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Engagement and Voting Statistics

Q1 2019 EMEA Voting Statistics³

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
UK	127	1,455	26%	6%
EMEA ex UK	409	5,885	48%	9%
EMEA including UK Totals	536	7,340	43%	9%

Votes against management by proposal type for the quarter:

Region		United Kingdom	EMEA ex United Kingdom	EMEA Totals	Global
Management Proposals					
Anti-takeover and related proposals	proposals voted	60	3	63	158
	% voted against management	0%	67%	3%	7%
Capitalization	proposals voted	328	432	760	1,694
	% voted against management	1%	6%	3%	3%
Election of directors and related proposals	proposals voted	529	2,202	2,731	8,850
	% voted against management	13%	10%	11%	7%
Non-salary compensation	proposals voted	124	377	501	1,695
	% voted against management	11%	33%	27%	19%
Mergers, acquisitions and reorganizations	proposals voted	16	156	172	1,014
	% voted against management	0%	17%	15%	16%
Routine business	proposals voted	383	2,534	2,917	5,562
	% voted against management	0%	6%	5%	7%
Shareholder Proposals					
Compensation	proposals voted	0	6	6	16
	% voted against management	0%	0%	0%	6%
Corporate Governance	proposals voted	0	10	10	72
	% voted against management	0%	0%	0%	6%
Election of directors and related proposals	proposals voted	5	29	34	218
	% voted against management	0%	0%	0%	1%
Miscellaneous business	proposals voted	0	48	48	97
	% voted against management	0%	0%	0%	5%

³The EMEA voting statistics are sourced from ISS Proxy Exchange on April 5, 2019 and both are a reflection of 1st Quarter 2019.

Engagement and Voting Statistics

Proposal Terminology Explained:

Management Proposals

Anti-takeover Related – 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 – 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

Compensation – compensation, perquisites, and other executive compensation policies.

Corporate Governance – key corporate governance matters affecting shareholders rights including governance mechanisms and related article/bylaw amendments.

Election of Directors and Related Proposals – elections to the board of directors, and other governance provisions related to the board.

Routine Business / miscellaneous – resolutions regarding social and environmental matters that may have an impact on company operations, including shareholder proposals relating to procedural matters.

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