BlackRock®

INVESTMENT STEWARDSHIP REPORT: AMERICAS

Q2 2019

JUNE 30, 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

In most markets, including in the AMRS, the majority of shareholder meetings are held during the second quarter. The majority of our stewardship activities in this quarter are therefore focused on voting, including engagement with companies to ensure we are taking informed voting decisions on complex and non-routine matters. Another feature of the US market is that shareholders can table proposals on issues that they consider important. Although shareholder proposals are a small proportion of the voting the BlackRock Investment Stewardship (BIS) AMRS team does, they attract considerable attention, particularly during peak proxy season. To help clients understand our approach, in this quarterly report we have focused on a number of the more high profile or complex shareholder proposals on which we engaged and voted during the quarter.

Shareholder proposals: A BlackRock Investment Stewardship perspective

1 Every year, particularly during the peak shareholder meeting season in the second quarter, there are a spate of shareholder proposals that are put to a shareholder vote in the US. Some proposals raise issues that warrant careful consideration by investors, including engagement with the company in order to assess its approach to the issue raised. Others are less appropriate to support because they cover matters that are primarily the purview of the board or management, are not material to the company's long-term sustainable financial performance, or the issues raised have already been addressed or the company has plans to address them. Further, some shareholder proposals are poorly constructed or conflate multiple issues including ones that a company may not have the ability to act upon. In our view, given that shareholder proposals represent less than 2% of the ballot items in the US, there is disproportionate attention paid to them by commentators, many of whom make a simplistic assessment of an investor's position on the issue raised by the proposal.

BIS' approach is to assess the company's current disclosures and management of the issue that the shareholder proposal raises. Particularly in relation to proposals environmental and social (E&S) issues, we seek to understand how the issue might impact the company's long-term business operations and potential to deliver sustainable financial returns. If we determine that the issue is material and don't have a clear sense that it is being managed appropriately, we will engage the company to discuss its approach to the issue and how the board and management see the situation evolving over time. The importance of engagement is to explain to the company BIS' views on the issue and provide feedback on the company's approach from our perspective as a long-term investor on behalf of clients. In the past year, we engaged with over 1400 individual companies on a wide range of ESG issues. In many cases, we have seen companies improve on 'E' and 'S', as well as 'G' (or governance), issues through engagement(s) over time. In a meaningful number of situations, shareholders who table proposals at companies determine that the company's approach or planned actions are sufficient to address the issue and withdraw the proposal. Similarly, BIS may determine that there is no need to support a shareholder proposal that does go to a vote based on our assessment that management's approach broadly addresses the issue.

As explained above, BIS assesses each management and shareholder proposal – through engagement and internal analysis – that comes to a vote. We vote to achieve the outcome that we believe is most aligned with our clients' long-term economic interests. We have been surprised to see some asset managers have a perfect record of voting in favor of shareholder proposals even when numerous proposals are not advantageous to shareholders or when the company is making demonstrable progress on an issue.

This phenomenon indicates the importance of asset managers developing an informed opinion to support their voting and commentators taking a more nuanced approach to assessing vote outcomes. Following are a few examples of where we voted against an E or S proposal with the rationale for our vote.

Voting against a climate resolution when a company meaningfully addressed the issue:

A US consumer staples company received a shareholder proposal asking the company to report on “how the company is curtailing the impact on the Earth’s climate caused by deforestation in [its] cocoa supply chain.” We learned through our engagement with the company that it has committed meaningful oversight and resources to these issues, and the company has established a goal of 100% sustainable cocoa volume in its chocolate brands by 2025. Given what we learned through our engagement with the company and subsequent analysis, we decided to vote against the resolution. It is worth noting that both proxy advisory firms, Institutional Shareholder Services (ISS) and Glass Lewis came to a similar conclusion, recommending a vote against the proposal. *This example highlights the complexity of issues covered in shareholder proposals such as deforestation and climate risk and the value of engaging to understand the company’s existing efforts.*

Political spending resolution despite robust company disclosure

Over the past decade, numerous shareholder proposals have been submitted regarding corporate political activities. Often the same company has received shareholder proposals on this topic multiple times. Given the level of attention on these resolutions, and the misunderstandings about what information is already publicly available, we recently published a commentary on the topic where we set out the disclosures BIS finds helpful and sufficient to understand a company’s approach. Briefly, BIS expects the board to monitor and assure itself that management’s political activities policies and practices are appropriately and effectively overseen. In the 2019 proxy season, a company that received a political activities proposal this year had previously gotten a political spending resolution at its 2018 annual meeting. The company took action to enhance its disclosure, even though the proposal garnered only 25% shareholder support. Most investors, including BlackRock determined that the company’s oversight and disclosure on the topic had progressed, and this year’s resolution received approximately 8% support. *This example highlights that simply rubber-stamping a vote for political activities proposals may fail to recognize existing efforts companies are making or address the scope of a particular request. It also demonstrates that shareholder proposals can initiate a constructive engagement by investors such as BlackRock and that, between those investors that voted for the resolution without engaging and engagement by investors who opt to engage first, the company decides to enhance its disclosures.*

Poorly structured shareholder proposals can result in a vote against

An American multinational oil and gas company with whom BIS has engaged regularly on ESG issues, received a shareholder proposal this season requesting that the board of directors report “on the company’s due diligence process to identify and address risks related to the Human Right to Water throughout its operations." At first glance, a proposal requesting further information about water that is aimed at a company in the extractive industries would seem well-placed. Additionally, a discussion of human rights at a company whose operations necessarily entails coordination and impact on local communities also seems relevant. However, by conflating the two topics, the proponent would require the company to develop another E&S reporting framework which can be expensive and may not be relevant over time. *We did not support the proposal for two distinct reasons. First, the resolution conflates the issue of the establishment of a corporate human rights policy with that of meaningful water management policies and practices. Secondly, it ignores the work the company is doing to address its water management practices and its commitment to sign the United Nations Guiding Principles on Business and Human Rights.*

This steady progress by the company reflects, in our view, the constructive engagements BIS and other investors have had with the company for a number of years on a variety of ESG topics.

Similarly, this year a US utility company received a shareholder proposal requesting that the company "publish a report assessing how it will mitigate the public health risks" from its coal operations in light of the company's vulnerability to climate change. The proponent requested that the report provide "a financial analysis of the cost to the company of coal-related public health harms, including: how the company's burning of coal exacerbates public health harms; and how its coal ash disposal impacts the public health of low-income communities and communities of color." This proposal conflates several issues, some of which are relevant to investors, and some which are not financially material. In addition, through our engagements we noted that the company appears to be meaningfully managing the material financial risks, including physical and reputational risks, associated with their coal operations. *Our vote against this proposal reflected that the scope of the request exceeded the company's ability to report, and that the company is taking an appropriate approach to environmental issues under their control.*

As each of these examples illustrate, not all shareholder proposals merit an automatic vote in support. Evaluating the merits and materiality of shareholder proposals requires time, careful analysis, and - where necessary – substantial resources to engage with the company and other stakeholders. Although we emphasize 'engagement first', when we determine that a shareholder proposal is 1) well-structured and material to the company, and 2) that the company has not made progress to address the issues raised, we may opt to support the shareholder resolution. Our voting record demonstrates that we have supported an average of approximately 18% of the shareholder resolutions that went to a vote in the US over the past three years.[1]

Engaging and using our vote to enhance sustainability best practices

2 We recently engaged with the senior management of a large capitalization U.S.-domiciled beverage corporation to better understand how the company's board oversees sustainability practices, particularly related to plastics use. The company's representatives explained that over the past 30 years sustainability has been a core focus of the board. In fact, they felt that their efforts had given them an edge relative to peers. They highlighted their board's oversight processes as well as recent initiatives including: (1) committing to exploring recyclable and compostable cup solutions in certain markets; (2) launching an initiative to double the recycled content in paper packaging by the end of 2022[2] ; and (3) phasing out plastic straws globally by the end of 2020.

While these steps underscored the board's attention to environmental risks and opportunities, the limited scale of its recycling initiatives seemed inconsistent with the company's perspective that its sustainability practices are leading edge and continue to represent a competitive advantage.

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[1] Source: Proxy Insight. Based on Russell 3000 company shareholder proposals between July 1, 2015 and June 30, 2018.
[2] As part of their green initiative, the company stated in its 2016 sustainability report that they intend to double their recycled content, and general recyclability / reusability of their cups by 2022. Their 2016 report stated that their paper cups contained only 10% post-consumer, and just 1.4% of their beverages are sold using a reusable cup.

For instance, more than 50% of the drinks the company sells are cold beverages, which are served in plastic cups. This may pose material business risks, as the company operates in markets that may restrict the use of plastics in the food and beverage industry. While the company continues to measure and provide progress against key sustainability initiatives, it has not yet disclosed metrics and goals for reducing plastic use, which is crucial to understanding the company's progress on this issue against its own targets.

In 2018 we had the opportunity to engage with the company to better understand how the board was considering sustainability, particularly as it relates to single-use plastics, in its business strategy and to share our perspective. This year, the company received a proposal requesting that the company:

- Increase the number of recycled cups in its operations, worldwide
- Assess the environmental impacts of business expansion in markets lacking recycling and waste management capacity
- Quantify the portion of cups collected that are recycled
- Progress towards a significantly increased reusable container goal, and
- Quantify the extent to which it is using recycled content in plastic cups

We viewed the resolution as material given direct sales and revenue component tied to serving beverages in plastic cups, as well as changing global regulations around plastic production and usage. While the company has implemented a number of related initiatives over the past few years, the urgency and scale of its practices seems inadequate to maintain a competitive advantage as a sustainable company. As such, we supported the shareholder proposal which garnered approximately 45% support from all shareholders.

Considering long-term investors in compensation

3 Beyond assessing the Compensation Discussion & Analysis (CD&A) disclosures provided in the company's proxy statement, we may engage with a company's compensation committee where we have concerns or to better understand how a company ties executive compensation to long-term value creation. In particular, we look to see if and how compensation plans incentivize executives and align pay and performance.

In 2018, we identified a technology company that had introduced several compensation metrics we were concerned with, especially in light of the multi-year decline in the company's financial performance. As a result of shareholder concern, the company received only 64.3% support for its advisory vote on executive compensation. We engaged with the company multiple times throughout 2018 and opted to support management given a pending merger transaction that was subsequently terminated.

Despite the company's shareholder outreach following its low say-on-pay vote in 2018, problematic pay practices persisted in 2019, such as an increase in CEO total compensation following a large sign-on equity award upon his appointment in 2018. One such practice, the inclusion of a single-trigger severance provision in the new CEO's contract – which would permit a CEO to receive a large windfall payout after a change of control event (such as a merger) without a termination of employment - had been implemented in a period when the 2018 merger remained a real possibility. We believe that double trigger change of control provisions – which require both a change of control and termination - are aligned with generally accepted governance best practices. We evaluate the implications of single trigger change of control provisions on a case-by-case basis, and are particularly sensitive during a time when the company is likely to "trigger" that change such as during the consideration of a merger.

To better understand how the board considered plan structure, we engaged with the chair of the board's compensation committee as well as members of senior management. During our engagement, the company provided useful context around the aforementioned failed merger, and the associated leadership changes, legal actions and press attention, which they described had led to significant uncertainty and thus influenced their compensation practices. We shared our concerns, recognizing that while their compensation structure in a period of heightened uncertainty may very well support retention, it could also disincentivize managerial behavior consistent with the interest of long-term shareholders.

Ultimately, several factors led to our decision to vote against the company's executive compensation plan at their 2019 annual meeting. There was a misalignment between performance and pay and the company did not sufficiently demonstrate a connection between pay and long-term shareholder value. The board's lack of responsiveness to a significant investor concern was an additional consideration.

Engaging on content management and risk oversight

4 Ahead of a large capitalization social media company's annual meeting and after a wave of increasingly high profile issues regarding the company's management of user-generated content, BIS engaged with their board around content management and general risk oversight. We sought to understand the company's process for overseeing content risk and how it plans to improve that process.

BIS spoke with a long-tenured company executive, who, over the past decade, had been directly responsible for developing the company's community standards, content management procedures, and technical capabilities. The executive provided insight into the origins of the company's content management needs as the platform expanded from a small community forum into a global consumer technology offering. He noted that over time, due to changing expectations and changing social norms, the company had shifted from a reactive to proactive approach for managing content that violated its community standards. The company, he explained, is focused on assessing potential risk as it develops new products and consults with vendors about potential abuse of its platform. However, the executive acknowledged that predicting and thus preventing the various types of questionable content that could be uploaded to its platform is extremely challenging, and has proven a difficult task for all social media companies during the decade.

As part of our analysis of the company's efforts to improve content management procedures, BIS discussed the recent expansion of the board's Audit Committee's remit to become the Audit & Risk Oversight Committee, and came away encouraged with their efforts. The committee has increased accountability and has moved from publishing an annual Transparency Report to a semi-annual one. It aims to publish quarterly updates so that users and investors can have a regular view into the company's content management and risk mitigations procedures.

As a result of our engagement and the company's willingness to increase their disclosures around content governance, we did not support a shareholder proposal that the company had received related to this issue.

Despite the expanded audit committee oversight of risk and content governance, we determined it appropriate to signal our governance concerns by supporting governance-related shareholder proposals (i.e. eliminating their dual class voting structure and requiring an independent board chairman) to increase shareholder rights, improve the company's governance structure, and to enhance board quality and to ensure that the board is less deferential to the CEO. We will continue to engage with the company on these topics.

Seeking a commitment to enhanced climate risk disclosure

5 We recently engaged with the senior management of a large apparel and home fashion chain on environmental and climate risk disclosure. The company had recently received a shareholder proposal requesting that it prepare a climate risk report that describes how the company is aligning its long-term business strategy with the projected long-term constraints posed by climate change. Specifically, the proponents asked that the company describe its medium- and long-term goals for greenhouse gas (GHG) omissions.

The company stated that they had already conducted internal research on GHG reduction and had completed a peer group assessment, compiling most of the information requested by the proponent over the last twelve to eighteen months. They also explained that they were developing a report announcing a multi-year plan that would address GHG emissions and waste reduction.[3] They had assessed their stores' GHG footprint on a square footage and revenue basis, in conjunction with expanding their sustainability team. In general, they felt that their reporting plan was largely consistent with the proposal lodged by the proponents.

The company's current CSR report simply states that they have reduced energy consumption by 15-20% over the last 15 years. They haven't provided any future goals or targets.

However, the company was unable to commit to a timeframe in which the report would be available, or when further steps to reduce their emissions footprint would be available to shareholders. As the company had told us that they had completed most of the data gathering requested by the shareholder proposal, we decided to vote in favor of the proposal with the expectation that the company could expedite disclosure of this information in a way that would prove beneficial to shareholders.

We intend to continue our engagement with the company regarding the progress of their climate risk report and additional transparency with respect to their GHG reduction and waste management goals later this year.

Multi-stakeholder human capital management (HCM) engagements

6 BIS hosted a half-day human capital management (HCM) roundtable that brought together institutional investors and company representatives from an array of industries including software, insurance, retail, automobile, and containers & packaging. The event represents a continuation of the conversations we have been having with companies on HCM for a number of years. Companies have in the past highlighted various challenges relating to providing HCM disclosures, some of which were echoed during the roundtable. Corporate participants in the roundtable underscored key barriers to reporting on HCM such as:

- Data is inconsistent and under-reported, partly due to the fact that the market lacks benchmarking
- Competing reporting frameworks and complex metrics cloud the landscape
- Resource constraints and a lack of internal champions/leadership inhibit progress

During the event, our team shared its perspective on how companies can utilize existing reporting frameworks like the Task Force on Climate-related Financial Disclosures (TCFD) – which provides a four-pillar framework of governance, strategy, risk management, and metrics and targets – to assess HCM-related risks and opportunities. Through such flexible, decision-useful frameworks, companies can identify both qualitative and quantitative indicators and put forth a more holistic narrative of how they are managing a critical driver of value in their business.

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[3] The company's current CSR report simply states that they have reduced energy consumption by 15-20% over the last 15 years. They haven't provided any future goals or targets.

Responsible Leadership

BlackRock Investment Stewardship website updates

In the past quarter, we published several new statements on key topics. In June 2019, to help clients understand how we manage conflicts of interest we published, "How BlackRock Investment Stewardship manages conflicts of interest," which explains how we mitigate perceived or potential conflicts of interest.

Broadening our engagement around climate risk and deforestation, in May 2019, we published a commentary on our approach to engagement with the palm oil industry.

Speaking Events:

Members of the BIS Americas team hosted, spoke at or participated in a number of events in the second quarter. As a large asset manager and leading voice in the corporate governance space, we believe that we can be valuable contributors to the evolving corporate governance landscape, and believe that by participating in industry events we can help further the discussion on matters that are important to investors and promote 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 management, clients, and other shareholders.

High Meadows Institute and the Biopharma Sustainability Roundtable – New York, NY

Over the past several months BIS has partnered with the High Meadows Institute and the Biopharma Sustainability Roundtable to explore ways to improve environmental, social, and governance (ESG) related communication between biopharma corporates and investors. The on-going collaborative engagements look at ways to develop industry-level guidance to improve material ESG disclosures.

As part of this work, in April 2019, BlackRock hosted a Biopharma Sustainability Roundtable Investor Day that included institutional investors and senior sustainability and investor relations practitioners from a number of large publicly traded multi-national biopharma firms. The participants discussed industry best practices and the challenges they face in developing meaningful, decision-useful ESG disclosures. Participants in this Biopharma Sustainability Roundtable Investor Day also discussed the merits and challenges associated with various ESG key performance indicators and the value of ratings and reporting frameworks ranging from the Access to Medicine Index, the Global Reporting Initiative, and the Sustainability Accounting Standards Board (SASB). The event provided another opportunity for us to share our view – detailed in our engagement priorities – that SASB's industry-specific guidance may be beneficial in helping companies identify and discuss their governance, risk assessments, and performance against these KPIs.

Barclay's Mergers and Acquisitions Summit — New York, NY

Barclay's invited us to participate in their inaugural Mergers and Acquisitions (M&A) Summit to discuss our approach to corporate governance and ESG. The full-day event included representatives from various sectors and thought leaders from the legal, investment, media, and governance communities to discuss opportunities and challenges facing the M&A market. In addition to sharing our perspective on various topics ranging from shareholder activism and the regulatory environment, we emphasized the importance of integrating relevant ESG considerations into a company's business strategy consistent with long-term economic performance.

Towers Watson Investors Panel on ESG Issues and the Compensation Committee — New York, NY

In June, we participated in a panel that highlighted investor perspectives on issues related to diversity and inclusion, pay transparency, and the gender pay gap. Specifically, the event focused on why human capital management is an investment issue, what short- and long-term human capital metrics companies should identify and report against, and how compensation committees might include these metrics in executive incentive plans. During the discussion, we shared our expectations on how companies – specifically, boards of directors and compensation committees might consider these issues as part of their work to support management to create long-term value. We also reflected on Larry Fink's 2019 Letter to CEOs, and how boards can align their company's purpose and culture with corporate strategy. Participants included C-suite executives, corporate counsel, board members, and human resource representatives.

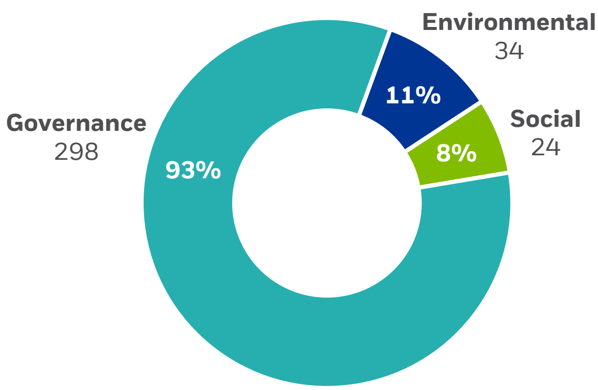
Engagement and Voting Statistics

Americas Q2 2019 Engagement Statistics

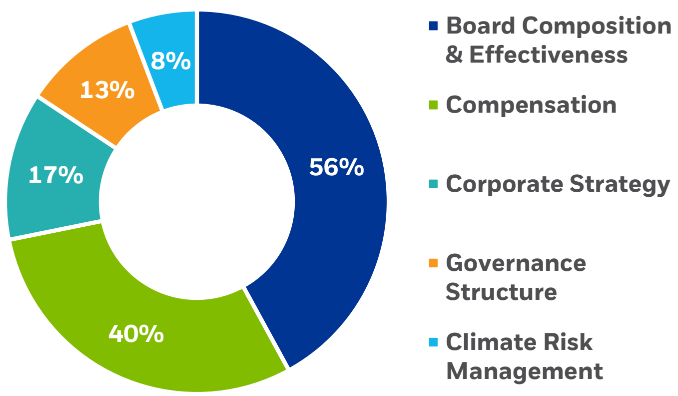
Engagements[4]	Multiple engagements[5]	Meetings voted	Proposals voted
319	9%	3,568	31,837

[4] The Americas engagement statistics are sourced from BlackRock on July 5, 2019 and are a reflection of 2nd Quarter 2019.
[5] Multiple 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.

Americas statistical overview twelve months from July 1, 2018 to June 30, 2019

Engagements	Multiple engagements*	Meetings voted	Proposals voted
852	25%	4,965	41,689

Global statistical overview twelve months from April 1, 2018 to March 31, 2019

Engagements	Multiple engagements*	Meetings voted	Proposals voted
2,051	27%	16,125	155,144

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

Engagement and Voting Statistics

Q2 2019 Americas Voting Statistics[6]

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
North America	3,193	28,004	37%	7%
Latin and South America (LATAM)	375	3,833	62%	13%
Americas Region Total	3,568	31,837	40%	8%

Votes against management by proposal type for the quarter

Region		North America	LATAM	Americas Total	Global
Management Proposals					
Anti-takeover and related proposals	proposals voted	218	0	218	620
	% voted against management	7%	0%	7%	18%
Capitalization	proposals voted	219	139	358	7,931
	% voted against management	4%	4%	4%	15%
Election of directors and related proposals	proposals voted	20,106	1,999	22,105	56,872
	% voted against management	9%	6%	8%	8%
Non-salary compensation	proposals voted	3,652	170	3,822	8,510
	% voted against management	5%	23$	6%	15%
Mergers, acquisitions and reorganizations	proposals voted	68	33	101	3,614
	% voted against management	2%	0%	1%	11%
Routine business	proposals voted	3,171	1,403	4,574	23,194
	% voted against management	1%	24%	8%	5%
Shareholder Proposals					
Compensation	proposals voted	47	0	47	115
	% voted against management	2%	0%	2%	1%
Corporate Governance	proposals voted	47	0	47	160
	% voted against management	2%	0%	43%	14%
Election of directors and related proposals	proposals voted	230	89	319	1,420
	% voted against management	12%	0%	9%	4%
Miscellaneous business	proposals voted	185	0	185	510
	% voted against management	4%	0%	4%	5%

[6] The Americas voting statistics are sourced from ISS Proxy Exchange on July 5, 2019 and both are a reflection of 2nd 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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