BLACKROCK®

INVESTMENT STEWARDSHIP REPORT: EMEA

Q2 2019

JUNE 30, 2019

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.

Contents

Quarterly Report

Engagement and Voting Highlights

Risk oversight concerns in the financial services sector

1 In the 2019 we have found that companies in the financial services sector continue to face challenges on the operating and regulatory fronts. Disruption from innovative new technologies and legacy issues affecting their current businesses are behind many of these challenges. In EMEA, we have seen a number of these legacy issues come to a head – notably, an increase in anti-money laundering and compliance control lapses, with investigations underway and fines imposed on a number of companies.

This quarter, we engaged in some atypical situations, including one where a company admitted to misstatements of financial metrics, one where senior employees admitted to breaches of duty, and another that had clear shortcomings in compliance programs and culture. At each company, these lapses have contributed to a significant downturn in total shareholder value. In fact, in the case of one of them, a UK bank, the share price has fallen by over 70% and the company has had to raise equity to ensure it maintains an adequate capital position.

In our engagements with all of these companies, we assessed the board and management teams' role in bringing about, and then handling, their respective situations, asking for details about their governance structures and processes. Additionally, we sought to understand each company's plan to rectify and monitor the issues. One of the companies had unveiled comprehensive measures to address the identified shortcomings, including an enhancement of its know your customer (KYC) program globally. In light of the acknowledged lapses in management oversight, the board decided to hold back variable remuneration for senior executives and is regularly monitoring progress of these measures.

We recognise that rebuilding stakeholder trust and changing culture cannot be achieved overnight. In general, we try to give companies time to implement changes, and if we support their plans, we may refrain from voting against the board and/or management. In cases where we do not see evidence of a strong plan, or retain concerns about board oversight, we will take the step of voting against the re-election of the relevant directors. We reviewed each of these situations on a case by case basis and in some supported management to implement their plans, while in others we voted against directors responsible for the issue under consideration. Given the long-term nature of any remediation process, we expect to continue monitoring the sector's continuing efforts on this front for many years.

Creating the platform for a successful merger

2 Any merger or acquisitions brings with it a number of challenges that have the potential to impact shareholder value—for better or for worse. This quarter, we engaged with an apparel and accessories company – the product of a merger between a French company and an Italian company – that has grappled with implementing a long-term governance structure that can support each original company's distinct operations as a combined enterprise.

We first engaged with the companies regarding the merger in April 2017, soon after it was announced. At that point, a three year transition period was already anticipated, during which time the two constituent parts would effectively operate side-by-side while gradually integrating. As the merger was rolled out, a plan was established to balance representation from both sides during transition period, with executives from each side taking on co-Chair and co-CEO roles.

We made it clear to both companies that at management and board level they would have to work collaboratively during the transition period to facilitate a successful integration, which we felt could set the combined company up for a successful future. Unfortunately, it became clear that the two sides were struggling to resolve material differences about the combined company's future organisational structure. Our engagement this quarter with its largest shareholder (which represents the interests of the Italian company's founder) reinforced our view that the transitional governance arrangements were unlikely to facilitate these differences being resolved.

This perception of deadlock prompted some shareholders to propose three new independent board members at the company's May annual general meeting (AGM) — notably, none of them affiliated with either pre-existing company. Having engaged directly with all three nominees, we were convinced that their backgrounds and previous experiences – in one case as a corporate governance expert, and in the other two cases as seasoned board members with a track record of forging consensus – could be the key to unlocking the combined company's paralysed decision-making. We therefore voted in favour of all of the nominees.

Support for the nominees from BlackRock and other minority shareholders through proxy votes cast ahead the AGM appeared to spur the company to action. While none of the nominees ended up being elected, just before the AGM the company announced that a settlement agreement had been reached between the two sides. All ongoing legal disputes were halted, and the combined company announced that it was committed to accelerating the integration and simplification process. Importantly, the search for a new CEO – someone from outside the current parallel management teams – was re-launched, having previously become a key sticking point between the two sides.

While challenges related to the merger process remain, we now believe that there will be a stronger focus at board and management level on governance. We intend to spend the remainder of the transition period (ending in May 2021) holding the company to account in the pursuit of a successful integration, and seek to ensure that the key governance decisions are made in the best interests of long-term shareholders.

Reinforcing the pay for performance link through early consultations

3 During the 2019 proxy season we received a number of remuneration consultation requests from UK-based companies. When considered sufficiently ahead of the general meeting, these consultations provide an opportunity for shareholders to share with the board any concerns regarding the proposed changes to executive remuneration. We supported several remuneration-related proposals this year, in part due to modifications made by company boards that were consistent with our feedback.

One consulting company we engaged with proposed reducing the performance targets for the next long-term incentive plan (LTIP) grant. After BlackRock and other investors, indicated to the company that the new targets may not prove sufficiently challenging, the board changed the maximum target for earnings per share (EPS) from 6% to 9%.

In addition, at a large telecommunication company, we were concerned that a departing CEO would receive a large portion of his bonus despite the company's disappointing performance. We highlighted our concerns to the chair of the remuneration committee. Ultimately, the board decided to use its discretionary power to decrease the bonus to ensure better alignment with shareholders' returns.

Each of these examples display the benefits of pre-AGM engagements. Such early consultations are no guarantee of a positive outcome, however—particularly when shareholder feedback is only marginally accounted for by issuers. This was the case with a real estate company where we spent considerable time engaging with the chair of the board's remuneration committee regarding their proposed extraordinary salary increases for executives, as well as on increases to variable pay opportunity. We listened to their rationale for the proposed increases and whether they addressed any of our issues with their remuneration plans. We were also keen to assess whether they were accompanied by commensurate increases in performance requirements.

In the absence of any convincing rationale for the increases, and given the lack of additional performance requirements, we pushed back against the company's proposals. After a number of additional engagements, the company presented a final modified proposal which still failed to address our two main concerns – on this basis, we decided to vote against the proposal itself and against the members of the remuneration committee. Ultimately, the proposal barely passed with 53% of the votes, signaling a lack of alignment with shareholders' expectations and raising questions about responsiveness to engagement. We will continue engaging with the company and seek to encourage the implementation of a remuneration framework that more effectively incentivises sustainable performance aligned with long-term value creation.

Reviewing executive compensation packages – timing is of the essence

4 This quarter we engaged with a German company about their CEO's high single digit year-on-year increase in base salary. Our objective was to get some insights into the supervisory board's thinking and lay out our expectations around executive pay.

As stated in our voting guidelines, when companies provide executives with significant one-off pay increases, we expect a clear and strong supporting rationale for the decision. We were particularly keen to discuss this with the company in question since the CEO's target package was already above the median CEO pay at large listed German companies.

Following engagement with the company and additional analysis, it became apparent that whilst significant year-on-year, the annualised growth of the CEO's base salary over the last 8 years was actually in the low single digits. Looked at this way, the trend was consistent with the compensation increase received by the rest of the workforce. Furthermore, the company indicated that they did not intend to increase the pay package further in the short to medium term.

Overall, we were comfortable enough with their rationale to vote in favour of the proposal at the company's AGM; still it raised broader questions about how frequently companies should be looking to re-assess, and potentially adjust, their executives' base salaries. From our perspective, the decision not to re-evaluate base salaries annually has limited benefits, and sometimes draws unnecessary attention to the issue when the review does occur – as happened in this instance. For the external observer trying to assess what is factored into each adjustment, it also makes the entire process less transparent.

We had a similar experience with an English company whose long-term variable pay structure led to the build-up of an award that, when it paid out, seemed particularly excessive. When we engaged with the company regarding the issues that the pay-out caused, the board was clearly frustrated that, in its own estimation, little analysis had been done by external observers related to what the executives had received on an annualised basis, which it felt was broadly similar to the executives its peers.

These examples highlight the uniqueness of each remuneration case, and the care required when evaluating each situation. These situations also suggest that boards need to consider how investors and the public at large will view their decisions. Generally, we expect that executives' salaries be based on a calculated assessment of what needs to be paid to get the job done, and that any proposed increases be reviewed in the context of increases awarded to the rest of the workforce. More often than not, the scope of an executive's role and the remuneration of the wider workforce is looked at annually – so, in our view, it probably pays to adopt a similar routine when it comes to reviewing executive remuneration.

Increasing disclosure on pay practices resulting in rising support

5 Executive pay remains a sensitive topic, particularly when 1) many companies are experiencing weak share price performance amidst a challenging year for markets, and 2) compensation committees have to balance awarding executives for achievements while staying sensitive to the shareholder experience throughout the year. BIS expects a company's board of directors to institute compensation structures that incentivise and reward executives appropriately and that are aligned with long-term strategy and shareholder interests. Equally important is the board's ability to communicate that alignment to investors, and it was the company's explanations that we focused on in our engagement efforts in this case.

BlackRock Investment Stewardship aims to build trust that supports a continuous, effective dialogue. An example of the impact of recurring dialogue can be seen in our conversations in recent years with a Swiss financial services company on their remuneration practices. The positive trend we have seen can also be tracked in rising support over the same period for remuneration proposals at the company's AGM.

The company had received lukewarm support on its compensation report two years ago, with slightly less than 60% of votes cast in favour. In response, the board undertook several rounds of consultation with shareholders, including BlackRock. Our team engaged extensively with the board and senior members of the company's human resources and compensation team, providing feedback on how executive pay arrangements could be improved. Changes were made to the compensation design for the following year, including simplified plans and the introduction of new metrics to better reflect the current strategic priorities. After these notable changes, 80% of shareholder votes cast were in favour of the compensation report.

Our discussions gave us assurance that the company had established a clear narrative on its strategic targets and their connection to pay decisions. When we met with the company prior to the publication of their report this quarter, we reiterated the need to provide detailed explanation of its decisions in its disclosures to investors.

The upward trend of votes cast in favour of the compensation report subsequently continued this year—now at just over 80%. We believe a combination of constructive engagement, a willingness on the company's part to be responsive, and increasing clarity of strategy and practices has contributed to the rising levels of support the company is receiving from investors. We will continue to engage with the board to encourage more detailed disclosures that help us to maintain our understanding of their approach.

First ever climate-related shareholder proposal in South Africa

6 Through May 2019, 17 companies globally received one or more climate-related shareholder proposals at their AGM for the first time ever. This quarter was the first time such a proposal had been tabled at a meeting in South Africa.

The proposal asked the financial services company in question for greater disclosure of environmental, social, and governance (ESG) practices, drawing upon the Task Force on Climate-related Financial Disclosures' (TCFD) specific recommendations for banks. Specifically requested details included the amount and percentage of carbon-related assets relative to total assets and the company's policy on lending to coal-fired power projects and coal mining operations.

In line with our own engagement priorities for 2019, we engaged with the company to better understand its environmental efforts and approach to climate risk. This led us to conclude that the company is already providing comprehensive disclosure of its plans and practices, and is currently working on enhancing its reporting for next year to have clearer statements on climate risk and how they are managing it. Development of these strategies has been done by identifying areas where the company could have the most impact. In developing its metrics and reporting the company is having to balance external developments. This includes the implementation of sustainable finance regulation in South Africa – an element of which involves reporting – and also international initiatives such as the United Nations Environment Programme Finance Initiative pilot project on implementing the TCFD recommendations for banks and the Principles for Responsible Banking.

We see that companies across the industry are working through the practical aspects of enhancing their climate-related disclosures, and we are supportive of the company's desire to learn from the experiences of its peers. We did not support the shareholder proposal and will continue to monitor developments in this space.

The power of purpose

7 As stated in our engagement priorities a successful business strategy begins with a clearly articulated purpose – what the company does every day to create value for its stakeholders. We therefore focus in our conversations with companies on understanding how a company's purpose aligns with its strategy and influences corporate culture.

This quarter, we met with the supervisory board chairman of a European lighting company to engage on a broad range of governance topics including strategy, purpose and culture. Based on our own assessment and our discussions with the company, we determined that the company provides robust disclosures and actively champions its purpose: "to unlock the extraordinary potential of light for brighter lives and a better world". With nearly 30,000 employees across 70 countries, however, we sought to better understand how the company ensures its purpose and strategy are understood at all levels.

The chairman believes that the company has a natural purpose that is easy to explain to shareholders and the broader public. Improving peoples' livelihoods is seen as an ambitious but realistic goal, given that the company's core operations allow it to clearly link the business with its purpose. We learned how the board is encouraged by the company's improving ranking in the employee net promoter score; the chairman explained that, in his view, this score reflects the high level of employee engagement in helping to shape the company. By way of example, innovation and change lie at the heart of the company's approach – as seen in the recently appointment of a Head of Innovation – in part due to them being identified as key values by the employees themselves. Interviews of 9,000 employees were conducted after the company's initial public offering to help define these values.

As noted in BlackRock's CEO Larry Fink 2018 letter to company CEOs, purpose is a "rallying concept". We believe the board plays an important role in amplifying it. We are therefore keen to learn how the directors contribute to the refining and articulation of the company's purpose, and how they assess the compatibility of strategy, purpose and culture. At the company in question, we learned that, due to the relatively small board size, matters of strategy, purpose and culture are considered by the full board through dedicated strategy sessions. The board also monitors progress on strategic decisions throughout the year.

This engagement gave us insight into the proactive steps that certain companies are taking to embed leading practices in relation to strategy, purpose and culture. Other engagements this quarter have shown how regulatory developments can be the impetus for boards leading the development of purpose within their companies. For example, one French retailer explained how it had taken the introduction of the 'loi Pacte' in its country as an opportunity to propose the adoption of a 'rasion d'etre' in its articles, thus articulating a purpose on which the launch of a new strategic plan could be based. We will use these emerging discussions to inform our engagements with others in the region and continue to encourage them to drive sustainable business practices through a focus on their purpose.

Sustainable leadership – where ethics, oversight, and planning intersect

8 When an individual in a leadership role faces allegations of misconduct, it raises several questions for a company board's oversight functions, the robustness of risk management practices, and effective succession planning. These questions are especially pronounced when the alleged misconduct involves a company's most senior leaders.

Since late last year we have monitored an ongoing situation involving a French automobile manufacturer where the CEO and Chairman roles have been separated, and the succession planning process remains under discussion. In our engagement this quarter we met with the new CEO and Chairman together to discuss strategy, the response to an ongoing misconduct investigation, and board composition going forward. In particular, the engagement provided an opportunity to understand in more detail how the board is managing the delicate situation.

We were informed about the Chairman's plans to rationalise board committees, maintain a lead independent director, and foster an open and lively discussion within the board, all of which strengthens board oversight. We also discussed the board's large size, which, they explained, is due to the presence of shareholder and union representation – thus presenting the question of what the optimal board size might be in the future.

We were also keen to understand how the board was supporting the ongoing investigation – in particular, how it was careful not to make statements about individuals before the investigation had completed yet recognising it has a duty to also protect the company. Given the nature of the allegations, we asked the Chairman and the CEO how they planned to rebuild trust with their stakeholders. The Chairman acknowledged that trust had been eroded by recent events and that the leadership team was trying to address this through more open and frank discussions with stakeholders.

This engagement helped us to better understand the actions the company has taken to date, but also the work that is still ahead. It reiterated the importance of clear and deliberate succession planning. This engagement will help inform future discussions regarding concerns around trust and effective oversight at companies. We will continue to monitor the progress the new leadership team is making in delivering on its plans.

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 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.

HSBC/BlackRock Masterclass – The ABC of ESG Investing – London, UK

HSBC and BlackRock co-organise a series of masterclasses for junior portfolio managers and analysts at buy-side firms. As part of this series, a panel on sustainable investing was organised that we were invited to join. While the panel discussed sustainable investing in the different asset classes, we explained how BlackRock integrates ESG in its index-tracking investments on behalf of clients, including through stewardship. This was an opportunity to explain the role of stewardship and what engaging with companies means to a group of approximately 100 analysts. The event was one of the most attended of the masterclasses which confirms the strong interest from younger generations in this topic.

Norwegian State's Ownership Conference – Oslo, Norway

BlackRock participated in the Norwegian State Ownership Conference in Oslo, Norway. The title of the event was "How to succeed? - Innovation, efficiency and competitiveness in a world of rapid change and increasing demands". BlackRock Investment Stewardship's head of EMEA spoke about changing trends in corporate governance, discussing how we engage with investee companies with the long-term investment horizons of our clients in mind.

Market Developments and Trends

2019 EMEA Proxy Voting Guidelines update EU Shareholder Rights Directive II

Ahead of the June 10, 2019 implementation date for the EU Shareholder Rights Directive II, BlackRock developed and published an SRD II-specific engagement policy which is applied by all its asset manager entities within the scope of the Directive.

The policy explains how BlackRock, principally through the work of the BlackRock Investment Stewardship team, meet the Directive's requirements relating to engagement with public companies and other parties in the investment ecosystem. It references extensively materials that were already available on BlackRock's website detailing our approach to engagement and stewardship. We do not expect our approach to change in any material way following the implementation of the Directive.

UK Financial Reporting Council consultation on the UK Stewardship Code and UK Financial Conduct Authority/Financial Reporting Council Discussion Paper on building a regulatory framework for effective stewardship

In March and April 2019, BlackRock responded to consultations launched by the UK Financial Reporting Council on proposed revisions to the UK Stewardship Code and jointly by the UK Financial Conduct Authority and the Financial Reporting Council on building a regulatory framework for effective stewardship.

Taken together, the consultations sought investors' views on how to enhance the regulatory environment in the UK (including that shaped by industry codes like the UK Stewardship Code) to encourage more effective investor engagement across the industry. BlackRock welcomed these initiatives, which we saw as raising important questions about the ways in which investors can exercise meaningful stewardship.

We emphasised the importance of stewardship at different points in the investment process across a variety of investment strategies, but cautioned against being too prescriptive in setting expectations for the industry. A wide spectrum of strategies is set by asset owners and executed by asset managers, and we gave the view that any regulatory framework needed to speak to all these different investment strategies to encourage the whole industry towards the goal of effective stewardship. We also recognised the desire amongst beneficiaries of investments to understand, through greater transparency, asset owners' and asset managers' approaches to stewardship. Our perspective here is that, in requiring increased public disclosures, regulators should be mindful of whether their expectations could erode the trust on which meaningful engagement is based.

Spanish Ministry of Economy and Business consultation on introducing loyalty shares for Spanish listed companies

We responded to a consultation from the Spanish government related to the planned transposition of the EU Shareholder Rights Directive, with particular focus on the introduction of loyalty shares. The proposal considers affording double-voting rights to shareholders holding stock for two years. Consistent with our view on this topic and with our responses to similar past consultations in other markets, we highlighted in our commentary to the Spanish regulator the importance of the proportionality principle of "one share, one vote", stressing that voting power should match economic exposure. We also rebutted the concept that enhanced voting rights might increase the appeal of the market and instead noted that greater market appeal can be achieved by encouraging improved transparency by market participants, by improving the companies' communications of their long-term strategies, and by fostering the dialogue between shareholders and board directors of listed companies.

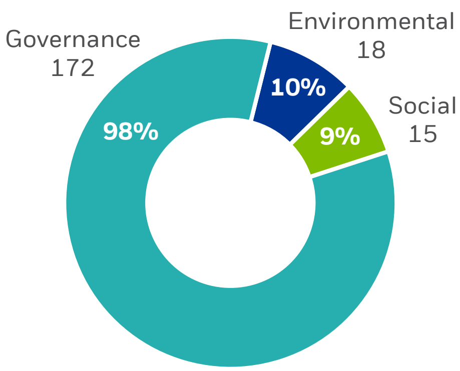
Engagement and Voting Statistics

EMEA Q2 2019 Engagement Statistics

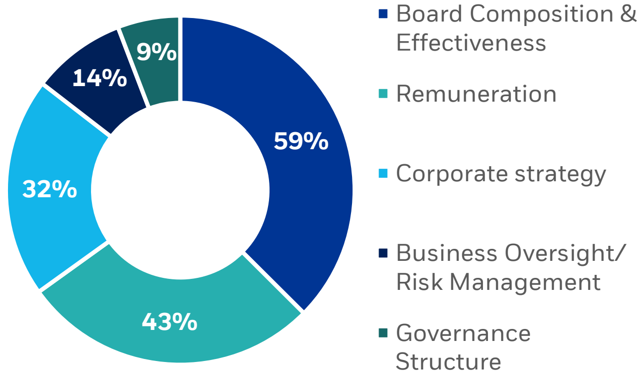
Region	Engagements[1]	Multiple engagements[2]	Meetings voted	Proposals voted
United Kingdom (UK)	77	14%	409	6,396
EMEA ex UK	98	24%	1,496	23,197
EMEA including UK	175	16%	1,905	29,593

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

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

Engagements	Multiple engagements*	Meetings voted	Proposals voted
563	34%	3,352	46,655

Global statistical overview twelve months from July 1, 2018 to June 30, 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.

www.blackrock.com/corporate/about-us/investment-stewardship

Engagement and Voting Statistics

Q2 2019 EMEA Voting Statistics[3]

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
UK	409	6,396	34%	5%
EMEA ex UK	1,496	23,197	60%	12%
EMEA including UK Totals	1,905	29,593	55%	11%

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	249	74	323	620
	% voted against management	0%	53%	13%	18%
Capitalization	proposals voted	1.339	2,430	3,769	7,931
	% voted against management	1%	12%	8%	15%
Election of directors and related proposals	proposals voted	2,690	9,382	12,072	56,872
	% voted against management	9%	11%	11%	8%
Non-salary compensation	proposals voted	513	2,798	3,311	8,510
	% voted against management	11%	30%	27%	15%
Mergers, acquisitions and reorganizations	proposals voted	35	248	283	3,614
	% voted against management	3%	13%	12%	11%
Routine business	proposals voted	1.533	7,617	9150	23,194
	% voted against management	0%	7%	6%	5%
Shareholder Proposals					
Compensation	proposals voted	2	23	25	115
	% voted against management	0%	0%	0%	1%
Corporate Governance	proposals voted	0	6	6	160
	% voted against management	0%	17%	17%	14%
Election of directors and related proposals	proposals voted	20	366	386	1,420
	% voted against management	0%	1%	1%	4%
Miscellaneous business	proposals voted	7	83	90	510
	% voted against management	0%	6%	6%	5%

[3] The EMEA 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.

Prepared by BlackRock, Inc.