Q3 2019

Investment Stewardship Report: Europe, Middle East, and Africa (EMEA)

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BlackRock®

Contents

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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.

Engagement and Voting Highlights

1 Chair succession in challenged industries

Managing an orderly board transition during a potentially turbulent event like chairman succession is a key role of a board's nomination committee. For this reason, we frequently discuss succession planning with members of that committee to understand their approach. This quarter, we engaged with several UK-domiciled companies in the gaming and tobacco industries that are seeking successors for their soon-to-retire board chairmen. In some of these engagements, we focused on the director recruitment process and associated challenges for these industries.

Chair succession planning was a major topic in our engagements with two UK tobacco companies this quarter, an industry that faces scrutiny from the public and regulators because of its products, and that, in recent years, has had trouble attracting suitable candidates. In both engagements, the respective board members noted that many prospective appointees were uninterested in the role, even those with a background in adjacent businesses.

We encountered similar reputational or other concerns for potential directors in the gaming and betting sectors. In an engagement with one such company, the Senior Independent Director who is leading the search for a new chairman estimated that around three-quarters of potential candidates were put off by concerns related to the sector. The director also noted that, because the industry is often viewed negatively, the process for joining the board is generally time consuming; yet another factor that discourages possible applicants.

In all of these engagements we discussed how the companies overcome these challenges to director recruitment. The directors at both tobacco companies believe that investments in "next generation products" helps showcase innovation in the companies' businesses. We discussed the value of demonstrating strong performance on environmental, social, and governance (ESG) factors as a potential factor in attracting high quality talent, both at board and management level. But the nature of candidates' perceived concerns in this area means that it often comes down to the personal preferences of the individual in question, making it difficult for companies to mitigate the issue entirely.

A clear positive nonetheless emerged from these discussions. One of the tobacco companies shared that their smaller pool of chair candidates tend to be more solutions-oriented about the challenges facing their industry. In the boardroom, this constructive approach to such industry challenges was expected to translate into an ability to see strategic and operational issues from various perspectives. As we highlighted in our 2019 EMEA Q1 quarterly report, companies are often accused of relying on an unduly small network of existing directors for new board appointments, to the detriment of their overall effectiveness. The need to tap into different ways of thinking that comes with being in a challenged sector may now result in companies widening their net, and by doing so bringing ever greater diversity of thought into the board member community.

2 Engaging a Nordic financial firm to understand leadership succession in the wake of a crisis

Succession planning can also escalate into a critical board governance situation in instances where there is sudden leadership turnover due to a company facing a crisis. These situations can vary, stemming from poor financial performance, negative media coverage, cyber events, or concerns relating to ongoing investigations. In these instances, our engagement around succession planning will centre on how the board is approaching the crisis, who is overseeing the recruitment process, criteria for new candidate(s) and timelines, interim arrangements, and the effects of business disruptions as a result of sudden leadership changes.

One of the Nordic financial services companies we engaged with has been subject to ongoing anti-money laundering investigations from several enforcement agencies. The events led to the exit of its CEO and chairman. Further compounding the issue, some board members have left voluntarily, and many other employees have been let go due to compliance oversight shortcomings. The company's share price has suffered, and the damage to the firm's reputation has added to the challenge of finding new board members.

Our Q3 engagement with the chairman and interim CEO was aimed at understanding and assessing the company's plan to address the board and management upheaval. We recognized that a delicate balance had to be struck: the situation required a speedy response, but one that avoided knee-jerk reactions that might hurt the company in the long-term. We discussed priority actions amongst the broader set of items that the company needed to execute on and exchanged perspectives on the desirable skill-set for the next chairman. We focused on the importance of the board's risk oversight responsibility and the process by which the board oversees enterprise risk management practices. We discussed the new chairman's ability to communicate effectively with a diverse group of stakeholders (from regulators and shareholder to employees and the media) in its home market and abroad. The company acknowledged that they could have done a better job communicating with stakeholders and recognised that better managing its messaging would be a key feature to restore trust and rebuild its reputation.

Our ongoing dialogue with the company has led to a mutual understanding of the company's prioritisation process and provided insight to assess that the company was on track to address its leadership issues, and also helped us to understand the criteria and process around CEO and board member refreshment.

3 Directors' increasing recognition of their capacity limits

We continue to engage with companies to better understand director responsibilities and the time commitments required of them. We regularly hear from directors that there are increasing demands on their time due to the fast-changing business world related to shifting economic, regulatory, and social conditions. We have seen examples this quarter of some directors responding directly to our concerns that they should not take on too many board commitments, either by taking pro-active steps to reduce their mandates or by committing to do so.

We recently engaged with the incoming board chairman of a UK engineering firm that had recently reduced her external board commitments. Our engagement focused on the new chairman's priorities and her views on the strategic direction of the company, as the firm has faced some share performance pressure for several years. We discussed her onboarding process as well as the demands on her time given her external board commitments.

We learned that the chairman had reduced the number of her additional board mandates from three to two boards. She explained that doing so would allow her to focus on her role as chairman of a challenged company. This decision aligns with our own expectations of the number of board positions that a director should hold, as articulated in our EMEA proxy voting guidelines. Notwithstanding, she did share her perspective that the total number of boards a director sits on may not be the most effective barometer for evaluating their capacity. We continue to believe, however, that limiting the number of mandates they take on is a credible way in which directors can tangibly demonstrate the extent of their capacity.

We had another engagement this quarter with a different director with multiple mandates. We withheld support for the director earlier this year on account of his holding two chairman roles and an additional non-executive mandate at a third company. The director understood that it was important to focus not only on his contracted hours but also budget time for unforeseen circumstances or crises. In fact, he described a recent situation at one of the companies where he serves as chairman in which he had to lead a strategic review of the company that required significantly more time than his contracted hours. During the engagement, the director committed to addressing our concerns, saying he would seek to reduce his commitments within a timeframe that allowed for a proper handover of responsibilities.

4 Pay for performance: the difference between variable grants and variable outcomes

In Q3 2019, we participated in a number of remuneration consultations in several markets, including the UK. One of these engagements involved speaking to the chair of the remuneration committee and management of a UK oil and gas exploration and production company, where there had been some shareholder opposition to the company's remuneration report at the previous annual general meeting (AGM). The company wanted to understand BlackRock's general expectations regarding remuneration. We wanted to understand the remuneration committee's thinking and approach, in light of the scrutiny they had faced on this front.

We recognize that some shareholders were concerned that, because the monetary value on grant of the long-term incentive plan (LTIP) for the CEO is set as a percentage of base salary (which is market practice in the UK), the number of shares granted in 2019 increased after a decline in the share price in 2018. The perception among concerned shareholders was that this could lead to unjustified "windfall gains".

We explained to the board that we did not share these concerns, as we believe that remuneration policies should generally provide a stable monetary value on grant. However, over the long term we would expect past shareholder value creation (or lack thereof) to be reflected in the value of awards made under ongoing and past remuneration plans. Any concern over the misalignment between the performance of the management and short-term movements in the share price should ideally be addressed through the choice of appropriate performance measures within the plan. Reducing the potential monetary value of future awards, assuming steps are taken by management to remedy under-performance, can simply reduce the incentive to (out)perform in difficult times.

It can be helpful to look at the issue a different way to set the debate in context. We do not, by way of example, see investors calling for remuneration committees to increase LTIP grants (in percentage of salary terms) after a sharp increase in the share price in order to keep the number of shares awarded stable. Yet, the reality is that some executives could feasibly argue that a recently inflated share price does not provide for a fair starting point for the LTIP's assessment period. Overall, we would rather avoid this type of argument by maintaining a stable grant size and ensuring that performance is appropriately assessed through suitable measures and (where needed) the exercise of discretion upon vesting – which is what we encouraged this company's remuneration committee to focus on.

Separately, we engaged with a UK energy services company to discuss a related remuneration issue. Its remuneration committee had substantially increased the maximum opportunity for the award that the CEO and CFO could receive under the LTIP. They made this decision to compensate for the fact that previous schemes had not vested. The committee acknowledged this had been the result of a failure to set relevant targets in the context of the sector going through a longer than expected downturn.

We appreciated the committee's explanation and recognized that the size of the package - including the exceptional grant - was not necessarily excessive in comparison to their peer group. However, for the reasons discussed above, we do not believe that the size of grants made to executives should be the means through which past events, share price developments, or structural issues in the remuneration policy are mitigated. Shortly after the release of the remuneration report, it became obvious to the remuneration committee that this exceptional grant and its rationale did not meet the expectations of the company's shareholders, including BlackRock. In response, the company cancelled the exceptional 2019 awards and re-issued them at a lower percentage of base salaries before the AGM.

5 Identifying governance concerns at an airline company

This quarter, we voted against several management recommendations at the AGM of a European commercial airline company. We identified a number of governance concerns, ranging from insufficient independence of certain board members, overcommitted directors, and issues with their remuneration plans.

Despite having raised these concerns in previous engagements with the company, we continue to find that their governance practices fall short of our expectations. At the AGM, we withheld support from two pay-related items and, as a result, also withheld support from remuneration committee members, holding them to account for the concerns we found with the pay. We also withheld support for the re-election of two overcommitted directors.

Separately, the company has continued to undergo a number of employee relations issues, including strikes relating to employee pay concerns. As we have noted in our commentary on human capital management engagements, the topic is both a board and management issue. To better understand the workforce challenges, BIS attended a meeting this quarter hosted by an industry body, where we gained better insight into the differences between the management and employees of the company. We will continue to monitor the situation and meet with the board in the coming months to assess progress in this area, as well as in relation to the other governance concerns that continue to affect this company.

6 Using purpose to drive strategy

We noted in our recent BIS annual report that a number of companies have wanted to describe in our engagements the work they have done to align their mission, vision and values with their day-to-day operations. This was a key focus of our engagement this quarter with the chairman of a French services and facilities management company. The engagement left us with the view that, by focusing on a mission that speaks to all its stakeholders, the company has developed a strong sense of purpose, which, aligned with its strategy, has influenced its culture.

The chairman was quick to note that the company's mission – to improve the quality of life of its own people and the people it serves – was, in her view, what would drive future success within the company. We discussed how important a role it played for the company, given its multiple, disparate business lines – including, but not limited to, services ranging from catering, employee benefits services, and operation of prison facilities. The chairman explained that a strong, purpose-driven culture could provide the firm with a unifying concept for employees. This is viewed as particularly important in a company where each business area is especially reliant on its workforce.

The chairman provided an example of how the mission statement tied to a recent strategic decision. She shared the example of a new digital platform that was being integrated into the company's Asian business. Its value lay in customers having easier access to the broad range of company services, allowing consumers to draw on a variety of business offerings that could help to improve their quality of life. The company's ambition is to use these connections to develop its reach from its current 100 million consumers per year to 1 billion in the future.

This year, several French companies have been reviewing whether to include in their constitutional documents a stated "raison d'etre", prompted by the introduction of a new law in France (the so-called loi PACTE, which stands for "Action Plan for Business Growth and Transformation"). The chairman of the company indicated that they were considering doing so, but felt that it would not necessarily have much impact given how embedded the company's mission was within the organisation. She was of the view that where French companies were already taking a purpose-driven approach to business before the law was introduced, the articulation of a "raison d'etre" may be considered unnecessary. She shared that successful uptake of the voluntary initiative on a wide scale ultimately depends on whether it helps companies articulate a purpose-driven approach, rather than simply leading to a marketing or branding exercise.

We agree that, to realise its purpose, a company needs to go beyond using such statements as marketing tag-lines and must develop processes for embedding their purpose in all aspects of its operations.

Responsible Leadership

Speaking Events:

Members of the BIS EMEA team will on occasion host, speak at, or participate in events. As a large asset manager and leading voice on corporate governance, 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.

Aladdin® Senior Leadership Forum – Australia

A member of BIS' EMEA team participated in an environmental, social, and governance (ESG) panel discussion with external representatives at BlackRock's Aladdin® Senior Leadership Forum in Australia. In an interactive session, the panel discussed the current state of ESG integration, the implementation of ESG data and technology, as well as potential future trends. It was an opportunity to compare and contrast developments between Europe and Australia. This client event also provided an opportunity to hear about the specific areas of interest from our clients.

SwissRe Sustainability Leadership Series: Responsible Investing in Practice – Switzerland

A member of BIS' EMEA team participated in a panel discussion on latest trends in shareholder engagements. Some of the topics discussed included how to measure the success and impact of engagement and various perspectives on key ESG themes. The panel was part of a broader sustainability event organized by a Swiss corporate.

Swedish Corporate Governance Board Event – Sweden

A member of BIS EMEA team participated in a panel on foreign institutional investors' views of corporate governance practices in Sweden and, more broadly, governance norms across the Nordic region. The panel also discussed how these models differ from that of other European markets. The panel was part of a larger seminar, arranged by the Swedish Corporate Governance Board. The goal of the seminar was to review recent and emerging corporate trends, particularly around regulations and evolving board practices.

Engagement and Voting Statistics

EMEA Q3 2019 Engagement and Voting Statistics

123 Total engagements[4]

11% Multiple engagements[5]

485 Meetings voted[6]

5,662 Proposals voted

4 The EMEA engagement statistics are sourced from BlackRock on October 5, 2019 and are a reflection of 3rd Quarter 2019.
5 Multiple engagements represents the number of multiple meetings during the quarter with the same company.
6 The EMEA voting statistics are sourced from ISS Proxy Exchange on October 5, 2019 and are a reflection of 3rd Quarter 2019.

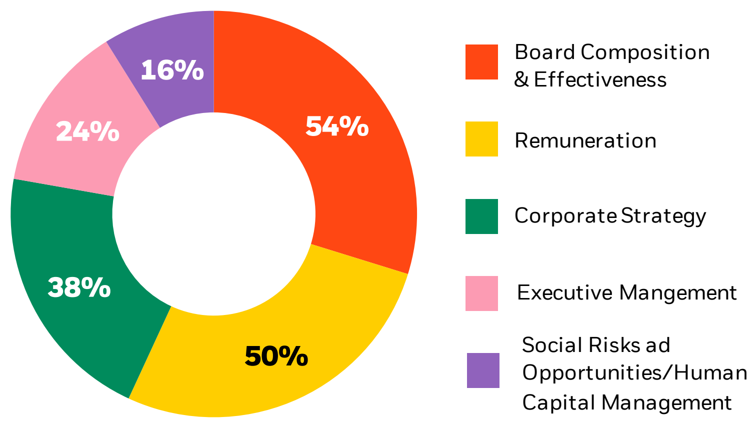
Engagement Topics

117 Governance

20 Environmental

20 Social

Top Engagement Themes*



* Most engagement conversations cover multiple topics

Region	Period covered	Engagements	Multiple engagements*	Meetings voted	Proposals voted
EMEA	October 1, 2018 to September 30, 2019	605	11%	3,377	47,015
Global	October 1, 2018 to September 30, 2019	2,241	9%	15,946	154,624

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

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Engagement and Voting Statistics

EMEA Q3 2019 Voting Statistics

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
UK	195	2,606	23%	4%
EMEA ex UK	290	3,056	44%	9%
EMEA including UK Totals	485	5,662	36%	7%

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	total number of proposals voted	105	5	110	204
	% of proposals voted against management	0%	20%	1%	5%
Capitalization	total number of proposals voted	560	323	883	2,238
	% of proposals voted against management	1%	9%	4%	7%
Election of directors and related proposals	total number of proposals voted	1,020	1,303	2,323	7,553
	% of proposals voted against management	8%	9%	9%	9%
Non-salary compensation	total number of proposals voted	213	244	457	1,346
	% of proposals voted against management	9%	26%	18%	17%
Mergers, acquisitions and reorganizations	total number of proposals voted	42	92	134	770
	% of proposals voted against management	0%	8%	5%	12%
Routine business	total number of proposals voted	656	907	1,563	3,432
	% of proposals voted against management	.30%	6%	4%	4%
Shareholder Proposals					
Compensation	total number of proposals voted	0	0	0	7
	% of proposals voted against management	0%	0%	0%	43%
Corporate Governance	total number of proposals voted	0	0	0	32
	% of proposals voted against management	0%	0%	0%	6%
Election of directors and related proposals	total number of proposals voted	0	0	0	287
	% of proposals voted against management	0%	0%	0%	1%
Miscellaneous business	total number of proposals voted	0	9	9	101
	% of proposals voted against management	0%	0%	0%	2%

Engagement and Voting Statistics

Proposal Terminology Explained

Management Proposals

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

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

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

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

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

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

Shareholder Proposals

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.

Miscellaneous Proposals — 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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