Q4 2019

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

January 2020

BlackRock®

Contents

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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Disclosure Update

With the increased interest in asset managers' stewardship activities, BlackRock is committed to continually improve the transparency of its stewardship practices. BIS publishes on its website Global Corporate Governance & Engagement Principles, regional proxy voting guidelines, engagement priorities, quarterly and annual reports, stewardship code adherence and compliance statements, proxy voting history, and numerous commentaries on a range of stewardship topics.

In January 2020, BlackRock Investment Stewardship initiated quarterly publication of its voting record on the BlackRock website. This voluntary disclosure augments our current approach of providing interested clients quarterly vote reports specific to their portfolios and filing our voting record annually with the U.S. Securities and Exchange Commission, at which time we also publish it on the BlackRock website. The new disclosure is searchable by individual company and will provide details of each shareholder meeting at which we cast votes globally. This voting record reflects votes at meetings held since July 1. It is updated quarterly until June 30 each year, when it is superseded by BlackRock's annual Form N-PX filing. Our vote disclosure will be refreshed within a couple weeks of the end of each quarter and will include the vote instruction by proposal and a high-level, standardized explanation of any votes cast against management. We believe that the additional proxy voting disclosure meets anticipated regulatory measures on enhanced transparency driven by the Shareholder Rights Directive in Europe and similar developments in other markets. We hope that more frequent disclosure of our voting will enhance client understanding of our investment stewardship efforts and underline the importance of informed voting to encourage governance and business practices that support long-term value creation.

In addition to these new global proxy voting disclosures, we recently published commentaries on our engagement approaches to:

- Climate risk
- Reporting aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB)
- Agribusiness companies on sustainable business practices

Our commentary on climate risk outlines three specific outcomes in our engagements with companies regarding climate risk and the transition to a lower carbon economy; better disclosures that will contribute to improved market-level data; substantive action by companies in addressing climate risk; and more informed voting decisions aligned with long-term value creation. Our commentary on TCFD and SASB aligned reporting details our views on comprehensive and consistent disclosures, that in our view, can best help investors better understand whether companies are properly managing and overseeing material risks and adequately planning for the long-term. Our commentary on sustainable business practices for agribusinesses describes our engagement approach on the issue of sustainable agriculture, including how we assess and engage agribusiness companies to encourage corporate governance and business practices consistent with sustainable operations that benefit shareholders and other stakeholders over time.

Collectively, these voting disclosures and commentaries further demonstrate our commitment to transparency and help inform clients and stakeholders about our stewardship activities, which we perform on behalf of our clients.

Engagement and Voting Highlights

1 Initial reactions to the Shareholders Rights Directive II (SRD II)

It is too early to assess fully the impact of the revised the Shareholders' Rights Directive (SRD II) for European issuers which went into effect on June 10, 2019. Yet, recent engagements are providing insight into how companies are grappling with and responding to the Directive's disclosure framework.

Two of the most notable changes proposed by SRD II are 1) an expectation for enhanced engagement between issuers and investors, and 2) greater scrutiny – and, therefore, improved disclosures - around proposed executive remuneration arrangements. Unsurprisingly, both topics featured prominently in our engagements with European companies over the past quarter.

We welcome both changes and we are particularly encouraged by the proactive approach some companies are taking to enhance their shareholder outreach, with the aim of building better relationships with their shareholders. This is particularly relevant in certain markets where engagements between issuers and investors have traditionally only taken place at the time of quarterly results and shareholder meetings. In our conversations with companies, we have stressed that we do not see engagement as a compliance exercise and, therefore, expect our dialogue to take place throughout the year following a clear agenda, on topics highlighted in our engagement priorities or that are a priority for a company. We are encouraged by the pattern we have seen in companies being more prepared for and structured in our engagements over the past few quarters and and we look forward to this trend continuing as companies further develop their shareholder engagement programmes.

On remuneration, however, the engagement outcomes have been mixed. In some of our initial conversations, some companies explained that they have decided to delay enhancing their disclosures of remuneration arrangements, in part because of the delayed implementation of the directive in numerous Member States. Other companies have shared remuneration proposals which meet the baseline reporting requirements under SRD II. In our view, some of these proposals fall short of best practices.

There are examples of efforts by companies that go beyond the minimum disclosure requirements, as was the case in our engagement with a large German healthcare company. Firstly, the company intends to simplify the overall structure of its remuneration plan by consolidating different variable incentive plans and is using this as a tool to encourage greater alignment and collaboration across a traditionally decentralised organisation. This is in line with the company's strategic objectives. Under the new arrangements, the company also plans to eliminate discretionary awards, introduce caps to variable plans, and enhance disclosures regarding metrics. Importantly, the new plan will also include specific sustainability targets that the company has identified as strategic, which is consistent with feedback we have shared with the company on this topic.

We also had a constructive engagement with a Dutch retailer that already provided effective disclosure on its remuneration plan and aligned performance-related pay with the company's strategy. It explained that in response to SRD II's push for enhanced pay transparency, the company was considering supplementing its existing published remuneration policy with a new document setting out the principles and procedures underpinning its policy. This new document would respond directly to the expectation in SRD II that companies explain how remuneration contributes to business strategy and long-term performance, and what decision-making process companies have followed to determine, review and implement their remuneration policies. We often find that these explanations are limited or appear to be an after-thought. We welcomed the fact that this company was seeking to provide more comprehensive disclosure on the topic.

These, and other, engagements demonstrate that SRD II has prompted companies to think thoroughly about shareholder engagement and transparency on remuneration policies. We see this as an evolution and are encouraged by some of the what we have learned from our engagements. We see that leading companies are evolving their reporting practices more swiftly, which should encourage others to follow suite.

SRD II applies also to BlackRock as an asset manager, and we have developed and published an SRD II-specific engagement policy which is applied by all BlackRock's asset manager entities within the scope of the directive (available here). The directive also requires asset managers – on a comply-or-explain basis – to disclose annually how their engagement policy has been implemented, including through the disclosure of voting records. Through our current quarterly and annual reporting, we already provide transparency on how we are implementing our engagement policy, and we plan to continue reviewing and enhancing our disclosures to meet the expectations of both the directive and our clients.

2 The good and the bad of remuneration policy reviews

In preparation for the 2020 proxy season in the UK, we have engaged extensively with many FTSE 350 companies that are in the process of revising their remuneration policies. We have been struck by the extent to which most companies are proposing changes – in some instances, significant changes – to ensure their pay plans are well structured.

In many cases, the proposed changes are intended simply to respond to evolving market practice – for example, expectations set by the 2018 UK Corporate Governance Code in relation to, amongst other things, shareholding requirements for executives and pension contributions. On this latter point, there is a long-standing concern where executive pension contributions are much higher than those of the rest of the company's workforce. We have engaged extensively on the issue of pension contributions over the past several years and are encouraged that these improvements are now coming through in companies' remuneration policies.

In some of our other engagements, the remuneration proposals discussed appear to reflect the challenging business environment in which many companies now find themselves. Specifically, companies are re-evaluating whether the performance measures that have been used during the most recent policy cycle are appropriate for their remuneration structure in the future. We engaged this quarter with a UK hospitality company that has decided to replace its traditional long-term incentive plan (LTIP) with a restricted share plan (RSP), primarily because of the volatility it believes will continue to affect its industry over the coming years. The main difference between an LTIP and an RSP is the lack of performance conditions within an RSP – in other words, executives are granted shares at the beginning of a reward cycle that will vest in the future without specific and stretching company performance targets (e.g. profitability) having been met, subject only to a basic minimum performance standard (referred to as "performance underpins").

We take the view that an RSP may be suitable for some companies, for instance those in cyclical or volatile industries. In such instances, we expect the size of awards to be lower than those that would be made available under an LTIP to reflect the greater likelihood of it paying out. In our engagement with the UK hospitality company, we raised our concern that the proposed size of the awards under its planned RSP did not properly strike this balance between quantum and likelihood. We were pleased that the company took our perspective into consideration - the proposal was amended to limit the annual award size throughout the policy cycle to what we felt was an appropriate level. The company also addressed questions we raised about the underpin it was proposing and ultimately strengthened this aspect of the structure. Given these enhancements to the remuneration plan, we supported the RSP proposal. This engagement demonstrates our ability to provide constructive feedback to companies and gave us the insight needed to cast an informed vote.

There are other examples of companies with whom we have engaged where we expressed reservations about proposed significant structural changes to their pay arrangements. This was the case with a UK specialty chemical company that announced a plan to introduce a large one-off performance share plan award designed to incentivise and reward the delivery of synergies resulting from a recent acquisition – the intention being to share around 20% of the upside of the envisaged synergies with management. This was also the case with a UK online gaming company that put forward for shareholder approval a value creation plan which would lead to a significant pay-out for the CEO if the share price reached certain defined levels (between twice and three times the current share price) at some point during the next three to five years. This value creation plan was intended to supplement an existing LTIP that was itself based on a shareholder return metric.

In both engagements, we shared our concerns about the need for the one-off awards, particularly as they appeared to be designed to "top up" existing awards if executives delivered performance that was already expected of them. A few weeks after our engagement, the chemical company announced that, based on the feedback received from shareholders, they would not introduce the plan we had discussed. In the case of the gaming company, we voted against the plan, which received approximately 55% support from the company's wider shareholder base.

3 Financial firms' board oversight of compliance function evolving

Financial services companies globally have invested significant resources in strengthening compliance functions and improving conduct and culture at their organisation. While these actions have not eliminated the incidence of non-compliance, as evidenced by ongoing investigations and fines at a number of institutions, they have led to enhanced processes and governance structures. We engaged extensively with representatives of the boards of two European financial services companies that were subject to investigations and fines relating to significant compliance breaches. While the materiality and nature of the issues were different for each company, they were both related to business conduct practices. Through our engagement with each company, we focused on the board's approach to ascertaining the relevant facts surrounding these incidents, their engagement with relevant stakeholders, and the board's assessment of and responsiveness to financial and reputational impacts. In particular, we asked the board members how they had reassured themselves that these issues were isolated. While the outcomes in relation to potential fines or long-term reputational damage remain to be seen, the board members we engaged were able to demonstrate a thorough understanding of the process to establish accountability, respond in a timely fashion, ensure transparency, and outline concrete steps to deal with their findings. We will continue to engage these companies and others in the industry to affirm the quality of the boards' approach to oversight of compliance with company policies.

4 Slow commitment to board independence yields a vote against management

As detailed in our EMEA proxy voting guidelines, we expect company board to have a sufficient number of independent directors. In our view, greater board independence can help minimize conflicts and helps to ensure the protection of the interests of all shareholders. We recognise that the appropriate level of independence may be guided by local market norms and the holding structure of a company, but in the UK we are clear that boards of companies without a controlling shareholder should be majority independent – a position that accords with the expectations of the UK Corporate Governance Code.

During the course of 2019, we had multiple engagements with a UK hotel and pub company that has a board that we do not consider to be independent. The company itself acknowledges that half of the board is not independent, meaning that the remaining members all need to be classified as independent to meet BlackRock and market expectations. For a number of years, we determined that several of these remaining members were not independent on the basis of tenure exceeding nine years (during which time both the company's chair and its CEO also occupied their current roles). The UK Corporate Governance Code shares this perspective on tenure and board independence. This year, we were encouraged to hear from the company that they planned to refresh the board by replacing the long-tenured members with new independent directors.

Despite the commitment, the company was not prepared to establish a majority independent board until November 2022. From our perspective, the lack of urgency by the board to address a long-standing governance concern was a sign of unresponsiveness to shareholder feedback and led us to oppose the re-election of the members of the nomination committee at the company's annual general meeting this quarter, mirroring our vote from 2018. We will evaluate the board's response to the shareholder vote and continue our engagement with the company on the importance of board independence.

5 Large food producers responding to consumer demands for sustainable practices

Over the past three months we have engaged with two of the world's largest consumer goods companies to understand how they are responding to consumer demand for a more sustainable approach to production. We see both companies as being leaders in this area, focusing their core business strategies around a purpose to create shared value for their customers, employees, and relevant stakeholders. Their sustainability practices are particularly important given their scale and global footprint.

As part of this drive, both companies recognised the challenges they face in relation to developing more sustainable packaging for their products. The chair of one of the companies highlighted that it saw an increasing sense of urgency from the company's consumers to accelerate its work on this front. This year, the company launched initiatives that included building a research institute to drive progress at a scientific and technological level. The chief research and development officer of the second company we engaged with discussed the importance of establishing internal sustainability targets, which, for it, include halving the amount of virgin plastic used in its packaging and helping to collect and process the plastic packaging once its products are sold in order to improve recycling rates (both by 2025). To achieve these goals, the company is developing technology to break down collected plastic to the molecular level to allow it effectively to be re-made like virgin plastic. The company is also working to ensure these methods can be used at scale to benefit not just its smaller, niche brands, but also its world-leading mainstream brands.

The extent of the effort and resource that these companies are putting into a single initiative like packaging demonstrates to us how fundamental they view such issues to their long-term success. We will continue our long-standing engagement with these companies in 2020 to encourage further progress in addressing the environmental risks and opportunities that are material to their business, and will challenge their peers to demonstrate how they are responding to growing expectations from the marketplace.

6 Climate risk: BHP's review of industry associations

Following certain high-profile votes, BIS will publish statements on our analysis, engagement, and rationale for our vote(s) at company shareholder meetings. We recently published on BlackRock's website a vote bulletin for BHP Group's recent meetings (the company has two annual shareholder meetings as it is dual-listed in UK and Australia).

In it, we explained our assessment of a shareholder resolution related to BHP's membership of certain industry associations and whether the lobbying on climate change undertaken by those groups aligned with the company's position. The resolution recommended that the company suspend memberships in industry associations where:

- a major function of the industry association is to undertake lobbying, advertising and/or advocacy relating to climate and/or energy policy; and
- the industry association's record of advocacy since January 2018 demonstrates, on balance, inconsistency with the Paris Agreement's goals.

BlackRock voted against the shareholder resolution because:

- BHP is an industry leader on climate-related issues;
- BHP's track record, and our engagements with its management and board, give us confidence in its judgment on these issues;
- The ultimate goal of this resolution appears to be more targeted at the industry associations than at driving positive outcomes at BHP.

During the engagement process with investors and other stakeholders in September, BHP committed to publish the outcome of its 2019 review of industry associations which hold an active position on climate and energy policy before the end of the year. This review was eventually released on December 12, 2019.

In this review, BHP examined the climate and energy policy positions of 30 organisations the company is affiliated with and compared these policies with those of the company. BHP did not announce the suspension of any of these memberships as they will engage the associations identified as having materially different positions on climate policy compared to BHP. However, BHP clearly indicated that suspension remained a possibility and that those memberships will be reviewed again.

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.

BlackRock wins ICSA Chartered Governance Institute Best Investor Engagement Award – UK

BIS was recognized by ICSA, the Chartered Governance Institute in the UK, for conducting the most constructive stewardship engagements in 2019. The Best Investor Engagement award is presented to the investor, from a field of the 20 leading UK asset managers, that FTSE350 company secretaries consider was responsible for the best stewardship engagement during the year. This recognition is an affirmation of our view that engagement is key to enhancing corporate governance policies and management practices in support of long-term value creation for our clients.

Sharing insights with German corporates going into 2020 – Germany

Members of BIS' EMEA team were invited to speak to the heads of investor relations of Germany's thirty largest companies (DAX30). It was an opportunity to discuss investors' priorities in preparation for the 2020 shareholder season as well as expectations following the recent changes to the German Corporate Governance Code (Kodex) and the transposition of the updated SRD II.

The company representatives shared insights on how they are changing their practices and disclosures to adapt to new requirements and investors' evolving expectations. Some of the key topics we discussed included shareholder engagement at board level, executive remuneration best practices, and sustainability disclosures. The event allowed us to provide participating company representatives with our view on key governance areas where our expectations are higher than some of the baseline requirements from the updated Kodex and SRD II.

Taking Greek corporate governance to the next level – Greece

A member of the BIS EMEA team participated in a panel to discuss investor expectations of Greek issuers following the transposition of the updated SRD II into Greek law. The panel debated first impressions following the updated governance requirements. The conversation pivoted to how Greek companies have demonstrated progress in important areas such as enhanced disclosures regarding related party transactions. The discussion highlighted areas where significant progress is still needed, notably around individual director information, board composition, and executive remuneration.

Lessons learned through a decade of corporate governance – Spain

A member of BIS' EMEA team participated in a panel of institutional investors to discuss developments in corporate governance following the 2008 financial crisis, with particular focus in Spain. The panel discussed the impact of the introduction of corporate governance codes, new regulation, and increased company-shareholder engagement. The increasing importance of environmental and social topics as part of governance discussions and company performance was also addressed, as well as the focus on further professionalisation of boards and expanded discussions on corporate culture and purpose.

French Institute of Directors – Club of Chairs of Remunerations Committees - France

In November 2019 BIS participated in a roundtable organised by the French Institute of Directors where participants included chairs of remuneration committees of French companies, as well as representatives from proxy advisory firms and other asset management firms. The roundtable provided an opportunity to engage directly with board members of French listed companies, as well as other industry practitioners. We discussed our observations from the past year and shared concerns BIS has identified in regard to executive remuneration in the French market. While there has been a slight decline in the proportion of proposals where we voted against management, we are still voting against a high number of executive remuneration-related management proposals (around 35% of remuneration policies and reports). We shared that some of the key triggers for votes against management relate to poor disclosure, concerns over the structure of the pay plan (e.g., the dominance of qualitative factors or a skew towards the short-term metrics), and insufficiently challenging performance criteria. We emphasised that early engagement and the board's ability to effectively articulate its remuneration plan helps investors understand how incentives for company executives align with the company’s long-term strategy and shareholder interests.

Italy Corporate Governance Conference – Italy

The Italy Corporate Governance Conference has been an annual event since 2014, convening national and international industry practitioners, academia, companies, and institutional investors to promote an open dialogue on the most pressing corporate governance issues. This year’s event covered topics like the evolution of board structures, the governance of sustainability, the role institutional investors, and the costs and benefits of various models of ownership and control. BIS participated in a panel on the inclusion of sustainability issues in the strategy and risk management practices of listed companies, along with a number of chairs from Italian companies. This was an opportunity to share our views on how we engage on corporate sustainability, our expectations of boards in overseeing management’s approach to material sustainability factors in the business and our emphasis on the link with a company's long-term strategy.

Market Development and Trends

UK: Evolving regulatory framework for ensuring effective stewardship

Our 2019 Q2 quarterly report highlighted our responses to two UK consultations relating to enhancing the regulatory environment to encourage more effective investor engagement. The results of these consultations culminated in late October when the UK Financial Reporting Council (FRC) published its revised UK Stewardship Code 2020, and the UK Financial Conduct Authority (FCA) published its Feedback Statement to the Discussion Paper.

We were pleased to see that the final Stewardship Code reflected our feedback that its provisions should be sufficiently flexible to be meaningful for the wide spectrum of investment strategies found across the industry. We also welcomed the acknowledgment that the creation of long-term value for clients and beneficiaries should remain the core purpose of stewardship, which should in turn lead to benefits for the economy, the environment, and society at large.

We support the FRC and the FCA focus on transparency. We believe this will result in greater visibility into the outcomes of stewardship activities of both asset owners and asset managers. We intend to respond to the higher standards set by the Stewardship Code, and we will look to participate in future industry discussions designed to promote stewardship activities that fulfil our clients' objectives.

Engagement and Voting Statistics

EMEA Q4 2019 Engagement and Voting Statistics

168 Total engagements[4]

11% Multiple engagements[5]

465 Meetings voted[6]

4,716 Proposals voted

4 The EMEA engagement statistics are sourced from BlackRock on January 5, 2020 and are a reflection of 4th Quarter 2019.
5 Multiple engagements represent the number of multiple meetings during the quarter with the same company.
6 The EMEA voting statistics are sourced from ISS Proxy Exchange on January 5, 2020 and are a reflection of 4th Quarter 2019.

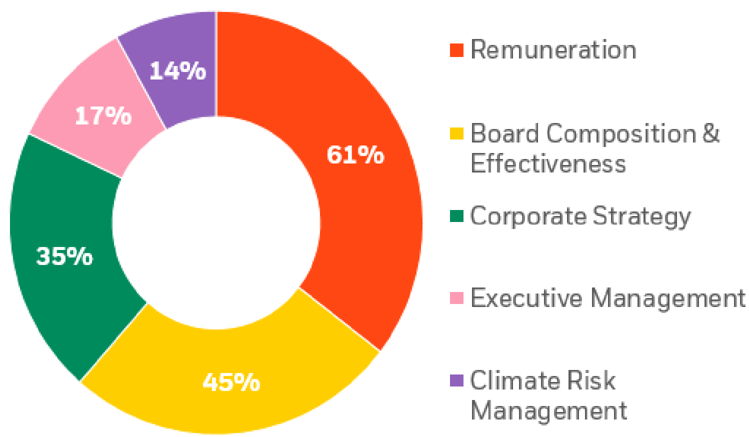
Engagement Topics

162 Governance

40 Environmental

19 Social

Top Engagement Themes*



* Most engagement conversations cover multiple topics

Region	Period covered	Engagements	Multiple engagements*	Meetings voted	Proposals voted
EMEA	January 1, 2019 to December 31, 2019	640	21%	3,385	47,227
Global	January 1, 2019 to December 31, 2019	2,604	20%	15,939	153,706

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

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Engagement and Voting Statistics

EMEA Q4 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	131	1,418	26%	5%
EMEA ex UK	334	3,298	44%	10%
EMEA including UK Totals	465	4,716	40%	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	total number of proposals voted	46	12	58	190
	% of proposals voted against management	0%	58%	12%	8%
Capitalization	total number of proposals voted	305	326	631	1,749
	% of proposals voted against management	1%	9%	5%	6%
Election of directors and related proposals	total number of proposals voted	540	1,417	1,957	6,256
	% of proposals voted against management	12%	8%	9%	8%
Non-salary compensation	total number of proposals voted	127	292	419	1,718
	% of proposals voted against management	6%	26%	20%	14%
Mergers, acquisitions and reorganizations	total number of proposals voted	33	102	135	1,406
	% of proposals voted against management	0%	9%	7%	14%
Routine business	total number of proposals voted	362	981	1,343	2,485
	% of proposals voted against management	0%	9%	6%	6%
Shareholder Proposals					
Compensation	total number of proposals voted	0	7	7	29
	% of proposals voted against management	0%	0%	0%	7%
Corporate Governance	total number of proposals voted	0	2	2	90
	% of proposals voted against management	0%	0%	0%	24%
Election of directors and related proposals	total number of proposals voted	0	34	34	417
	% of proposals voted against management	0%	0%	0%	2%
Miscellaneous business	total number of proposals voted	2	20	22	162
	% of proposals voted against management	0%	0%	0%	6%

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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