How BlackRock Investment Stewardship manages conflicts of interest

BlackRock manages assets on behalf of a broad range of clients from pension plans, endowments, foundations, charities, official institutions, insurers, and other financial institutions, as well as individuals around the world. As an important part of our fiduciary duty to our clients, we provide the investment and technology solutions to help protect and enhance the long-term value of our clients’ assets.

BlackRock Investment Stewardship (BIS) is focused on assessing the quality of management, board leadership, and standards of operational excellence – in aggregate, corporate governance – at the public companies in which we invest on behalf of our clients. We see this responsibility as part of our fiduciary duty, through which we contribute to BlackRock’s mission to create a better financial future for our clients. BIS is an investment function, independent from BlackRock sales, vendor management or business partnership management. We regularly publish our governance principles, market-specific voting guidelines, activity reports, and position papers on the investment stewardship website.¹ For those clients who have given us authority, we vote in accordance with the relevant market voting guidelines, taking into consideration a company’s specific circumstances. Votes are cast to achieve an outcome that, in the professional judgment of the BIS analyst, is most consistent with a our clients’ long-term economic interests.

In fulfilling our duty, there may be a small number of situations where BlackRock may determine not to vote itself due to regulatory restrictions or a perceived or actual conflict of interest. In such cases, BlackRock uses an independent third party, here referred to as an independent fiduciary, to instruct the votes on our clients’ holdings. We have also published best practices when using an independent fiduciary to cast proxy votes across the various circumstances where one may be needed.

In addition, BlackRock maintains policies and procedures meant to prevent undue influence on the Investment Stewardship team’s engagement and proxy voting activity.² Such influence might stem from any relationship between the issuer of a proxy (or any shareholder proponent or dissident shareholder) and BlackRock, BlackRock’s affiliates, funds and other fiduciary accounts, or BlackRock employees.

Sources of perceived or potential conflicts of interest include:

- BlackRock clients who may be issuers of securities or proponents of shareholder resolutions
- BlackRock business partners or third parties who may be issuers of securities or proponents of shareholder resolutions
- BlackRock employees who may sit on the boards of public companies held in funds and other fiduciary account(s) managed by BlackRock
- Significant BlackRock, Inc. shareholders who may be issuers of securities held in funds and other fiduciary accounts managed by BlackRock
- Securities of BlackRock, Inc. or BlackRock investment funds held in funds and other fiduciary accounts managed by BlackRock
- BlackRock, Inc. board members who serve as senior executives of public companies held in funds and other fiduciary accounts managed by BlackRock

BlackRock has taken certain steps to mitigate perceived or potential conflicts including, but not limited to, the following:

- **Structural separation** – In the normal course of our investment stewardship activities, including client reporting, we may engage with clients, business partners and/or third parties, and employees with external facing roles.
Reporting lines separate members of the BIS team from employees with sales, vendor management or business partnership roles. This separation helps ensure that all engagements with companies, dissident shareholders or shareholder proponents are managed consistently and without regard to BlackRock’s relationship with such parties. Clients or business partners are not given special treatment or differentiated access to BIS, which seeks to treat all companies and other market participants wishing to engage with BlackRock on corporate governance matters equally, regardless of their relationship with BlackRock. Consistent with this structural separation, only BIS or active portfolio managers engage with, and provide feedback to, companies on corporate governance and voting matters. BIS does not disclose voting intentions and/or voting decisions to BlackRock employees not involved in BlackRock’s proxy voting process in advance of a meeting or date of written consent.

The BIS team prioritizes companies for engagement based on several factors including a forthcoming vote decision, our prior history of engagement with the company, our engagement priorities, and our assessment of a company’s financial and governance performance. We may also engage with a company if there have been developments that may impact long-term shareholder value or when a company seeks an engagement with us. We prioritize engagements based on our level of concern and the likelihood that engagement might lead to positive change.

Appointing independent fiduciaries – as previously mentioned, BIS uses an independent fiduciary to instruct certain votes to avoid potential conflicts of interest, satisfy regulatory or compliance requirements, or as may be otherwise required by applicable law. In the context of managing conflicts of interest, BIS has appointed a primary and a secondary independent fiduciary to vote proxies of (i) any company that is affiliated with BlackRock, Inc., (ii) any public company that includes BlackRock employees on its board of directors, (iii) The PNC Financial Services Group, Inc., and (iv) any public company of which a BlackRock, Inc. board member serves as a senior executive. In these cases, the independent fiduciary provides BlackRock’s voting agent with vote instructions, which have been determined based on BIS’s public voting guidelines. The voting agent implements the votes in accordance with the independent fiduciary’s instructions. BlackRock’s Legal and Compliance team monitors the process to ensure that votes are cast as instructed by the independent fiduciary.

In selecting an independent fiduciary, we assess several characteristics, including but not limited to: independence, an ability to analyze proxy issues and vote in the best economic interest of our clients, reputation for reliability and integrity, and operational capacity to accurately deliver the assigned votes in a timely manner.

BIS reviews annually, after peak shareholder meeting season, the votes cast by the independent fiduciaries to ensure that they reflect BlackRock’s published voting guidelines. We report the findings of the review to the Investment Stewardship Risk Oversight Committee, which is responsible for confirming the reappointment of the independent fiduciaries. We also meet with the independent fiduciaries once a year to discuss any votes that seemed inconsistent with BlackRock’s guidelines and to explain any changes to voting guidelines planned for the following year.

BlackRock is confident that these measures enable us to appropriately manage perceived and potential conflicts of interest related to proxy voting while ensuring that we exercise, on our clients’ behalf, the voting rights that help protect and enhance the long-term value of their assets.

Contact BlackRock Investment Stewardship at contactstewardship@blackrock.com

2. How BlackRock Investment Stewardship manages perceived or potential conflicts of interests is also explained in BlackRock Investment Stewardship’s Global Corporate Governance Guidelines and Engagement Principles. These principles describe our philosophy and approach to investment stewardship. It is reviewed, and updated as necessary, on an annual basis in light of market trends, learnings from engagement, and public policy developments. These high-level principles are the framework for our more detailed, market-specific proxy voting guidelines.
4. The secondary independent fiduciary only votes if the primary one is for some reason conflicted or otherwise unable to vote at a particular meeting. We believe it is important to have a reserve such that we can be sure to vote our clients’ shares at a meeting, even if we encounter an unexpected development.