BlackRock

Executive summary

Our approach to sustainability

BlackRock Investment Stewardship

Introduction

We believe sustainability is core to value creation for our clients

As part of our commitment to greater transparency in our investment stewardship activities, we are publishing this special report on BlackRock Investment Stewardship's (BIS) approach to sustainability.

We wish to provide clarity and insight to our clients, the companies they are invested in, and our other stakeholders about our approach to sustainability.

This past January, BlackRock wrote to clients about how we are making sustainability central to the way we invest, manage risk, and execute our stewardship responsibilities. This commitment is based on our conviction that climate risk is investment risk and that sustainability-integrated portfolios, and climate-integrated portfolios in particular, can produce better long-term, risk-adjusted returns.

Our efforts around sustainability, as with all our investment stewardship activities, seek to promote governance practices that help create long-term shareholder value for our clients, the vast majority of whom are investing for long-term goals such as retirement. This reflects our approach to sustainability across BlackRock's investment processes, in which we use Environmental, Social, and Governance factors in order to provide clients with better risk-adjusted returns, in keeping with both our fiduciary duty and the range of regulatory requirements around the world. As a result, we have a responsibility to our clients to make sure companies are adequately managing and disclosing sustainability-related risks, and to hold them accountable if they are not.

While we have been speaking with companies for years on sustainability issues, our investment stewardship team has intensified its focus and dialogue this year with companies facing material sustainability-related risks. Our approach on climate issues, in particular, is to focus our efforts on sectors and companies where climate change poses the greatest material risk to our clients' investments. 'Climate risk' may include a company's ability to compete in a world that has transitioned to a low-carbon economy (transition risk), for example, or the way climate change could impact its physical assets or the areas where it operates (physical climate risk).

As with other matters of corporate governance, we use the two key instruments of the stewardship toolkit: engagement and voting.

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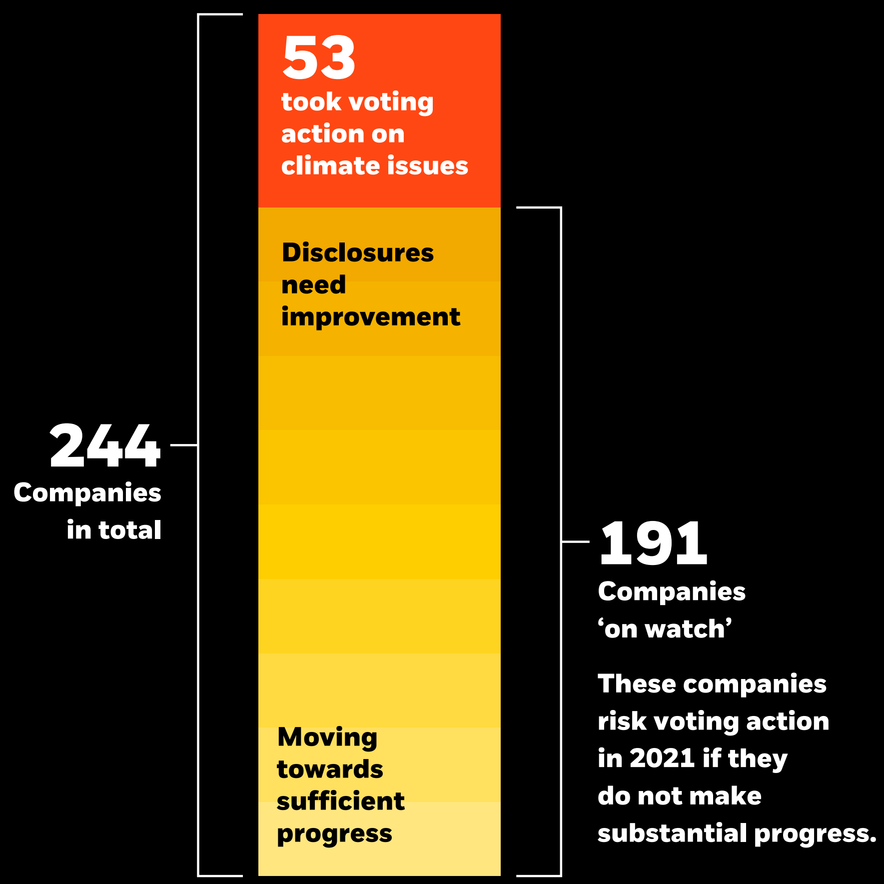
Engagement
is how we build our understanding of a company's approach to governance and sustainable business practices, and how we communicate our views and ensure companies understand our expectations.

Voting
is how we hold companies accountable when they fall short of our expectations. Our voting actions typically take the form of either votes against company directors (or boards) or support for shareholder proposals (SHP).

In order to maximize our impact on behalf of clients, our climate-related engagements are focused on companies in carbon-intensive sectors that, taken together, represent a significant proportion of market capitalization and CO^2 emissions in their respective regions. These companies face material financial risks in the transition to a low-carbon economy that we need to understand as long-term investors.

> **In 2020, we identified 244 companies that are making insufficient progress integrating climate risk into their business models or disclosures. Of these companies, we took voting action against 53, or 22%. We have put the remaining 191 companies 'on watch.' Those that do not make significant progress risk voting action against management in 2021.**

Exhibit 1:
Companies where we have taken voting action or placed 'on watch' for insufficient progress on climate.



Source: ISS Proxy Exchange and BlackRock Investment Stewardship, as of July 8, 2020.

We have engaged hundreds of other companies on climate and sustainability-related issues over the years. Many companies have made important progress in recent years, and we will continue to engage with them to monitor this progress. We have also identified a number of companies outside the carbon-intensive sectors that present high sustainability-related risk for heightened engagement over the next year.

While this report focuses on climate-related issues, our investment stewardship approach to sustainability is much broader. It encompasses other environmental issues, such as sustainable practices in agribusiness. Our stewardship also includes topics that have been central to many companies' license to operate, particularly over the past few months, such as human capital management and diversity and inclusion. The COVID-19 crisis, and more recently the protests surrounding racial injustice in the United States and elsewhere, have underscored the importance of these issues and a company's commitment to serving all of its stakeholders.

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In January, we asked companies to publish disclosure aligned with the Sustainability Accounting Standards Board (SASB) standards, which includes disclosing the racial and ethnic profile of their U.S. workforce. In the second half of 2020, as we assess the impact of companies' response to COVID-19 and associated issues of racial equality, we will be refreshing our expectations for human capital management and how companies pursue sustainable business practices that support their license to operate more broadly. We also will continue to emphasize the importance of diversity in the board room and will consider race, ethnicity, and gender as we review a company's directors.

Through this report, we hope to provide a deeper look at our engagement process and methods; how we are working to promote transparency in investment stewardship, both in our own activities and through the adoption of disclosure standards[1]; our involvement with Climate Action 100+; and our view on the importance of social factors to the long-term health of companies and society as a whole.

Going forward, we will continue to review our process for engaging and voting on climate risk and other sustainability-related issues. We have made important progress heightening our focus on sustainability, but we are also committed to constantly enhancing our approach in order to protect our clients' long-term investments.

1 We asked in January 2020 that companies publish reports aligned with the recommendations of the Task-Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) standards.

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