

Asset managers of scale give voice to investors and support the economy



Barbara Novick
Vice Chairman



Sandy Boss
Global Head of
Investment
Stewardship



Michelle Edkins
Investment
Stewardship



Theodore Bunzel
Head of Retirement
Solutions Group



Sarah Matthews
Public Policy, EMEA



Chris Dieterich
ETF and Index
Investments

Introduction

Most asset management companies are not household names. People typically interact with them indirectly, through a financial advisor, an investing app, or a workplace pension.

Nevertheless, the mutual funds and exchange traded funds (ETFs) developed by asset managers have made diversified investing easier and more affordable, and helped millions of people build savings that serve them throughout their lives. These simple investment tools have played an important role in connecting pooled capital with investments in thousands of public companies. Pooled investment helps to fuel job creation and innovation that feeds the real economy, and it provides savers and investors throughout society the opportunity of a return — helping build a more resilient economy that benefits more people.

The mass-market adoption of mutual funds — both those that actively seek returns above an index, and those that track an index — has made larger asset managers more prominent. This has given rise to debate over their role as investors, and their impact on companies and society.

Sometimes missed in the evolving debate is the role that asset managers operating at scale play in promoting strong corporate governance, and how they use their voice to advance responsible leadership and deliver long-term value for all stakeholders. Through the practice of investment stewardship, asset managers monitor governance standards, engage with company managers and directors,

and cast informed votes on management and shareholder proposals, on behalf of the clients who invest through their products and services. By doing so, asset managers represent the interests of underlying shareholders.

This *ViewPoint* reviews how large asset managers — those that operate at scale, with a diverse client base and a long-term orientation — offer value to investors, businesses, and society, by connecting capital with investments in the companies that drive the economy. We shine a light on the role that asset managers play as stewards of investments, encouraging portfolio companies to deliver long-term value through sound governance. We close by asking what would happen if asset managers were to take a backseat on stewardship, and conclude that smaller and individual investors would suffer from a loss of voice as a result.

Contents

1. Asset management at scale delivers value for society and the economy..... [p3](#)
2. Stewardship promotes the interests of shareholders..... [p6](#)
3. Stewardship by asset managers provides a useful minority voice..... [p9](#)
4. What if asset managers didn't engage in investment stewardship?..... [p10](#)

The opinions expressed are as of December 2020 and may change as subsequent conditions vary.

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Key points

1. Asset managers of scale deploy pooled capital into the global economy, and help millions of people build savings that serve them throughout their lives

- Many individuals and households use asset management products — such as mutual funds — to help pursue life goals such as buying a home and saving for retirement. Institutions — from banks to pension plans to insurers, corporates and charities — use asset managers to manage risk for businesses, serve retirees, and earn an investment return to finance business, scientific, cultural, and charitable pursuits.
- Simple investment strategies provided by asset managers help savers meet their financial goals in a low interest rate world. Asset managers of scale — particularly those offering index investment strategies — have reduced costs for investors, helping them keep more of their returns.
- As intermediaries between sources and uses of capital, asset managers help mobilize and connect capital to help businesses grow, creating jobs and enabling economies to prosper.

2. Stewardship activity by asset managers represents the long-term interests of shareholders to companies

- Strong corporate governance can help businesses expand, and insulate companies from the risk of failures that might harm workers, communities, and the environment. Asset managers of scale help bring the voices of shareholders to portfolio companies, speaking up in favor of strong corporate governance.
- Asset managers of scale focus on promoting long-term value creation by companies for their shareholders. This is particularly important for asset managers offering index funds, which typically remain invested in a stock for as long as it remains in an underlying index, bringing a long-term perspective to stewardship.
- Stewardship by asset managers typically focuses on issues that support sustainable long-term performance, such as board composition and effectiveness, executive compensation, governance, environmental issues, and human capital management. Asset managers do not use stewardship to dictate business strategy decisions, which are the responsibility of company boards and management.

3. Asset managers play a useful role as a minority voice in the stewardship of public companies

- Even large asset managers are minority shareholders in public companies, which must act in the interests of all their shareholders. While asset managers provide important representation for shareholders, each is one voice among many, and rarely carry decisive influence in corporate governance decisions or votes on management or shareholder proposals.
 - The largest shareholder's vote could have determined board of director appointments in fewer than 1% of elections for companies in the Russell 3000, FTSE 350, and MSCI Europe indexes.¹
- Third-party proxy advisors such as ISS and Glass Lewis, which make recommendations to shareholders on how to vote, typically carry considerably more influence in stewardship than any single asset manager — without an equivalent alignment of economic interests with shareholders.

4. Were asset managers not to fulfill their role as engaged stewards of investments, smaller and individual shareholders would be most affected by a loss of voice

- Absent asset manager engagement in stewardship, overall voting would likely fall, leading to challenges reaching a quorum for certain votes. Smaller and individual shareholders would be the least able to replicate the broad monitoring, engagement on governance standards and informed voting currently provided by asset managers.
- The influence of other voices, including proxy advisors, activist investors and controlling shareholders, would likely increase.
- The stewardship dialogue would lose an engaged partner in corporate governance standard-setting efforts, and the expertise and global insights contributed by asset managers of scale.

1. Asset management at scale delivers value for society and the economy

Savers and institutions throughout society trust asset managers to invest on their behalf. In doing so, asset managers act as intermediaries between sources and uses of capital, helping provide liquidity to businesses via stocks and bonds, and credit to governments via sovereign bonds.

Companies use this capital to grow their businesses, sustain employment, invest in the research and development necessary for the next breakthroughs in products and services, and build real assets – from buildings, to warehouses, to manufacturing facilities.

National and regional governments use the proceeds of bond issuances to balance their budgets and fund critical projects, such as improving national infrastructure.

Returns from asset management products help the individuals and households invested in them pursue life goals such as buying a home, funding a child's education, and saving for retirement. They also benefit a wide range of institutional investors, including the insurers and pension funds helping meet the liabilities of retirees or life insurance beneficiaries; corporates needing to cover their payroll expenses and pay suppliers; charities maximizing their capital to fund social, cultural, and scientific activities; and schools and universities using their endowments to subsidize educational opportunities for future generations.

By facilitating this two-way flow of investment capital and returns, asset managers play an important role in contributing to personal financial well-being for savers, and a more resilient economy that benefits more people.

Mutual funds and ETFs have made investing easier and more affordable

Most asset managers provide financial market access to investors through mutual funds and exchange traded funds, which have given investors simple and cost-efficient access to diversified investment strategies. In recent decades, funds offered by asset managers have helped individuals move from owning individual stocks with concentrated risk, to broader and increasingly global strategies.

In the 1950s, Harry Markowitz codified one of the most enduring investment principles in modern finance: there's wisdom in diversification.² The practice of spreading risk and assets across sectors, industries, and companies became a cornerstone of investing in the ensuing decades, and helped spur the advent of index mutual funds in the 1970s. Index funds (both index mutual funds and ETFs, which launched in the 1990s) typically require lower research costs and portfolio turnover, since their portfolio

In 1990, Harry Markowitz, and fellow economists Merton Miller and William Sharpe, were jointly awarded the Nobel prize in economic sciences, for their pioneering work in the theory of financial economics.³

securities seek to track an underlying index as closely as possible, rather than actively selecting individual securities.

Scale lowers costs so that investors keep more of what they earn

A fast-growing fund marketplace has created economies of scale – operational efficiencies that allow companies to pass on lower costs to consumers. Competition among asset managers has helped to reduce fund management fees for all investors. In the U.S., average fees for equity mutual funds have halved, from 1.04% annually in 1996, to 0.52% in 2019.⁴ In Europe, average fees for actively managed equity funds fell from 1.56 % in 2013, to 1.36 % in 2019, with fees for index tracking equity funds falling from 0.40 % to 0.28 % over the same period.⁵ Investors today can build a diversified portfolio of ETFs with fees of less than 0.10% of their capital.

The adoption of index investing has been boosted by an increased focus on fees by both regulators and investors. While the value for money that a fund offers consumers depends on more than price, lower fees generally allow investors to keep more of their returns.

Defining asset managers of scale

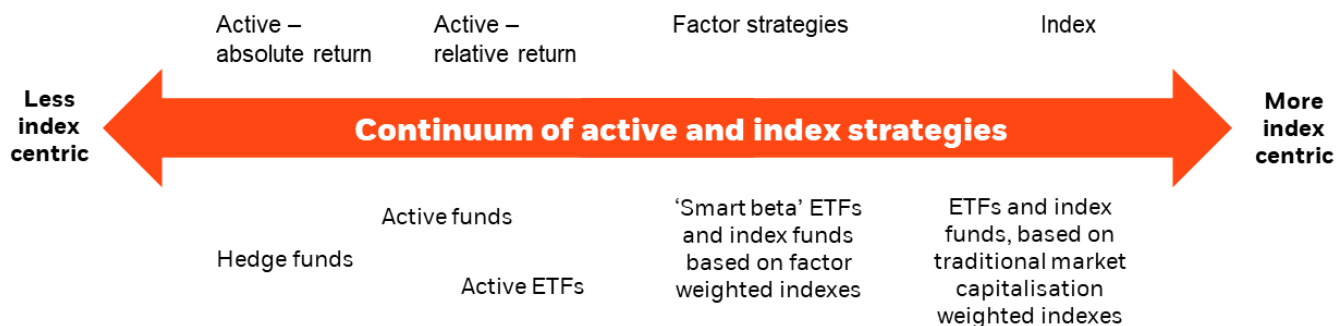
The global asset management industry includes a full-spectrum of fund companies that offer both active and index investment offerings, boutique specialists with niche products, and everything in between. Asset managers differ widely in scale, strategies, long-term vs. short-term orientation, geographic focus, and client base.

In this *ViewPoint*, we focus on asset managers operating at scale, meaning they:

1. are large enough to represent the invested capital of millions of investors around the world;
2. have a client base that includes institutions and everyday savers;
3. take a long-term approach to their investment strategies and stewardship activity, rooted in the time horizons of their typical clients.

We note that many large asset managers offer a variety of strategies to investors, including private funds and shorter-term strategies. However, in aggregate, the typically long-term investment horizons of their clients drive the long-term perspective of asset managers of scale.

Exhibit 1: The investment styles offered by asset managers reflect a continuum



Source: BlackRock. For illustrative purposes only.

People power: Managing index portfolios

Asset managers use technology to efficiently track indexes, but the process is far from automated. Specialist portfolio engineers use high-touch expertise to seek fund performance that closely tracks its index. (See [iShares Investigates: Market Indexes and Index Investing – Equity Index Rebalances](#)). While differentiating between active and index strategies is often a useful shorthand, we note that the investment landscape is better understood as a continuum of investment styles, each driven by a greater or lesser degree of active or index management, and a greater or lesser relationship to a benchmark index.

Helping savers in aging societies and a low-rate environment

Operational efficiencies and cost management take on added importance in a low-yield environment. Global central banks dropped policy interest rates to near or below zero in the wake of the 2008-09 global financial crisis (GFC), to help stimulate economic growth. Many rates are now even lower, as central banks manage the economic impact of the COVID-19 pandemic.⁶ These policies have had knock-on effects for savers, who are earning less from conservative investments, such as government bonds and bank deposits.

Combined with longer lifespans, the low-rate environment makes it harder for savers to generate sufficient returns during their working life, to maintain their standard of living in old age. The global population over 65 years old is estimated by the UN to double by 2050.⁷ Sovereign balance sheets are under pressure from the GFC, and more recently, the COVID-19 pandemic, while low rates make it harder to meet liabilities.⁸ By one estimate, the world is experiencing an estimated pension funding gap of USD 41 trillion.⁹

In response, asset managers are helping savers prepare for retirement in many countries by offering simple investment tools that offer the potential of inflation-beating returns; helping pension plans manage their funding gaps through portfolio management and liability-driven investment techniques; and innovating retirement income products to

help individuals move from saving to investing. These tools and products will be increasingly important as many retirement systems develop workplace and private solutions, as a complement to state provision.

“ Retirement systems worldwide are under stress and providing financial security to retirees has become one of the most defining societal challenges of our time.”

— Laurence D. Fink, CEO of BlackRock¹⁰

Mobilizing long-term capital to help businesses and the economy grow

Asset managers of scale — particularly those offering index investment strategies — provide long-term, patient, capital investment. Index strategies generally hold securities for years — for as long as they are included in the index — because they are designed to represent an entire market. A more stable shareholder base helps companies focus on delivering long-term value.

Long-term investors are especially important in the context of crises. The availability of bank credit was constrained after the GFC. As a result, many companies struggled to access the resources they needed to adapt to the new environment. Countries with the deepest, most liquid stock and bond markets, like the U.S., recovered more quickly than those more reliant on bank lending. Similarly, recovery from the economic shock caused by the COVID-19 pandemic will require long-term capital, likely well into the trillions of USD. Asset managers are well-positioned to help connect capital with investments in the economy.

Looking ahead, asset managers can help finance next-generation business and infrastructure priorities, including digital transformation and the transition to a low-carbon economy. Researchers estimate that between

USD 1.6–3.8 trillion in investment will be required annually until 2050, to upgrade energy systems (from power generation, to transmission and storage) with the goal of limiting global temperature increases to 1.5°C.¹¹ Asset managers are helping facilitate significant capital flows to related projects, which are expected to create tens of millions of new jobs in less carbon-intensive activities.¹² European mutual funds with a focus on environmental, social, and governance (ESG) issues alone are estimated to reach up to EUR 7.6 trillion in assets by 2025, up from EUR 1.2 trillion in 2018.¹³

By developing dedicated sustainable funds and sustainable investing analytics, asset managers are helping attract capital to the most responsible companies measured in

terms of ESG criteria. In turn, asset managers help deliver market-driven rewards in the form of a lower cost of capital to companies and countries that are most responsive to all stakeholders in addressing sustainability risks.

“ Capital markets are vital to the recovery, because public financing alone will not be enough to get our economies back on track.”

— Valdis Dombrovskis, Executive Vice-President, European Commission¹⁴

Leveraging our scale to help more people experience financial well-being

BlackRock has spent the last 32 years working to help people build better financial futures. Our clients, and the people they serve, are saving for retirement, paying for their children’s educations, buying homes and starting businesses. Their investments are also helping to strengthen the global economy: support businesses small and large; finance infrastructure projects that connect and power cities; and facilitate innovations that drive progress.

We help millions of people build savings that serve them throughout their lives.

- We’re helping more people retire securely. This includes investments for over 45 million retirement savers in the U.S. and U.K., through workplace pension plans, and a further 1 billion savers and 300 million retirees across Asia Pacific are invested with us or receive payouts through pension assets.
- BlackRock has a long history of innovation in retirement. We pioneered the target-date fund, an all-in-one portfolio that automatically adjusts for different stages of an investor’s life. Today, we’re developing solutions across the savings lifecycle, with products and programs that make saving for and spending in retirement a seamless experience.

We make investing easier and more affordable.

- We simplify investing by making it easier and more convenient for anyone to access market opportunities anywhere in the world.
- We offer choice, so that our clients can have a wide range of options and choose what works best for them. Our solutions empower investors to take control of their financial futures.

We advance sustainable investing because it delivers better outcomes for investors.

- We currently manage USD 152 billion of dedicated sustainable investments, including USD 21 billion invested in green bonds, which channel capital into green projects.
- Our investments in renewable energy projects generate more than 16 million MWh of energy, and power over 21 million homes. This includes 270 solar and wind energy projects across the world.

We contribute to a more resilient economy that benefits more people.

- We engaged 640 companies on human capital management, encouraging them to improve how they treat their employees. We used our voice to support board diversity, voting against over 1500 companies due to a lack of gender and ethnic diversity on their boards.
- We are supporting opportunity with a USD 10 million commitment to racial justice organizations.

Source: BlackRock, Where we stand, December 2020. Visit: <http://www.blackrock.com/corporate/where-we-stand>

2. Stewardship promotes the interests of shareholders

Strong corporate governance can help businesses grow, create jobs, and deliver value to shareholders, communities, and a wide range of other stakeholders. It can help preserve value for shareholders through the management of risks, including system-wide risks such as climate change. It can also reduce the chances of high-profile failures that destroy value for shareholders and harm entire communities, from the loss of jobs at a key employer, to knock-on effects for suppliers, to a risk of declining local economic activity. In the worst cases, corporate failures can cause environmental disaster, injury, and loss of life.

Shareholders can speak out in favor of strong corporate governance, since share ownership is generally accompanied by the right to vote on management and shareholder proposals. Investment stewardship means engaging with companies and exercising this right.

Asset managers of scale engage as investment stewards on behalf of their clients, by monitoring corporate governance, engaging with company managers and directors, and casting votes on management and shareholder proposals. Evidence shows that companies with sound governance and strong shareholder rights outperform their peers¹⁵, and that there is a causal relationship between improvements in corporate governance and long-term returns.¹⁶

Amplifying clients' voices

Fund investors typically delegate investment stewardship to asset managers. And, given the popularity of index investing, index funds have accumulated minority ownership stakes on behalf of their clients in almost every global publicly listed company. As a result, asset managers of scale are advocates for strong corporate governance across nearly all markets and public companies.

Approximately one-quarter of BlackRock's equity separate account clients retain voting rights for themselves and use an in-house team or a third party to vote at shareholder meetings.

By monitoring, engaging, and voting on behalf of investors, asset managers can amplify the voices of fund investors who don't themselves have the resources to regularly cast informed votes at thousands of global companies' shareholder meetings. Asset managers help ensure that shareholder interests are heard by company management.

More than twenty stewardship codes around the world call on institutional investors, including asset managers, to be active stewards.¹⁷ When an asset manager has the authority to vote on behalf of clients, stewardship codes and

regulatory guidance encourage, and in some cases mandate, them to do so. In the EU, the Shareholders Rights Directive requires institutional investors, including asset managers, to develop and publish an investment stewardship strategy, or explain why they have chosen not to do so.¹⁸

Advocating for long-term value

Asset managers of scale typically focus on promoting long-term value creation by companies for their shareholders. Preserving and creating value through stewardship practice means engaging on topics of governance, disclosure, and the management of material risks that can impair long-term financial performance.

Numerous public sector reports and studies in the wake of the GFC focused on the financial impact of corporate short-termism.¹⁹ The legacy of this thinking has contributed to the long-term perspective of the global stewardship codes, and the evolution in stewardship expectations.

Expressing a long-term perspective and engaging actively in investment stewardship is particularly important for asset managers offering index funds, which typically remain invested in a stock for as long as it remains in an underlying index — often many years. Consider that Cola-Cola Co., Campbell Soup Co., and others have remained in the S&P 500 since its inception in 1957; Tesco PLC and others have been in the FTSE 100 since its inception in 1984.²⁰

Corporate short-termism can lead to poor management of material risks, harms to shareholder value, and to society. The long-term capital that asset managers channel to public companies, and resulting engagement between shareholders and company boards, both play a stabilizing role.

Stewardship in practice

The stewardship practices of asset managers of scale usually focus on broad issues such as corporate governance standards, reporting transparency, and ESG, and include engagement with company managers on how they are addressing associated risks at their particular firm.²¹ In taking this approach, asset managers can promote best practices across industries and geographies, and contribute to policy and standard-setting efforts — in addition to promoting these practices with individual companies through engagements. Asset managers of scale do not use stewardship to dictate business strategy decisions, which are the responsibility of company board and management.

By contrast, activist investors with more concentrated (or less diversified) portfolios often engage in more specialized issues. This narrower approach to stewardship tends to focus on company-specific issues, and may also include seeking board seats, influencing capital management and strategy, or making shareholder proposals.

Activist investors are primarily private fund managers who take a position within companies and then advocate for changes to strategy, capital management, and boards. Their portfolios are typically more concentrated in individual companies than traditional asset managers.

Asset managers of scale tend to focus on common topics of investment stewardship, including:

- **Board composition and performance:** Boards have a central role in corporate governance. Asset managers expect board members with relevant expertise and the ability to commit time to business matters. Shareholders may vote against the re-election of board members who fail to meet this standard. Research underscores the importance of board composition. Group diversity has been shown to play a significant role in decision making.²²
- **Executive compensation:** Asset managers seek to understand the board’s policies on executive incentives and how they align with returns to shareholders over time. They expect pay to be structured to attract high-calibre business leaders, reward the successful implementation of company strategy, and recognize sustainable returns. In most markets, shareholders have the chance to vote on the board’s executive pay policies,

typically on an advisory, ex-post basis.

- **Environmental issues:** We believe sustainable investing will help investors achieve better, more durable returns over the long run. Sound practices in relation to the material environmental factors inherent to a company’s business model can be a signal of operational excellence and management quality. The Task Force on Climate-related Financial Disclosures (TCFD), the Principles for Responsible Investment (PRI), and the various regional sustainable investment forums (SIFs) are just a few examples of initiatives encouraging investors to engage with companies on environmental issues.
- **Human capital management:** A company’s approach to human capital management is a critical factor in ensuring business continuity and success. Companies included in Fortune Magazine’s “100 Best Companies to Work For” lists earned, over the long-term, excess risk-adjusted returns of 3.5%.²³

Clear disclosure of voting and engagement policies, resources, engagement activity, voting records and stewardship goals help all stakeholders understand how asset managers promote their clients’ long-term interests. Industry codes and regulatory guidance establish the standard for transparency in stewardship.²⁴

Sizing up the public company shares managed by asset managers

The global asset management industry is highly competitive and relatively fragmented, with the top 10 managers accounting for less than half of total industry assets (see Exhibit 2). Asset managers manage about 35% of global equity.²⁵ Together, the three leading asset

managers manage about 11% of public company shares.²⁶ BlackRock manages around 4% , through both index-tracking and actively managed products.²⁷

The assets that BlackRock manages belong to our clients. Two-thirds relate to helping people save for their retirement.²⁸

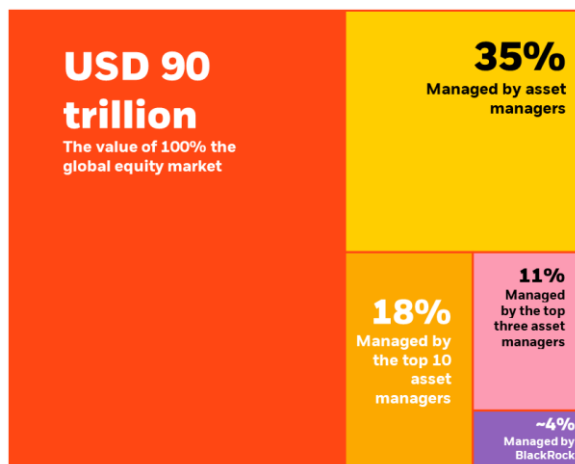
The money we manage is allocated across all asset classes, according to the terms of an Investment Management Agreement (IMA), or governing documents of a fund. Just under half, or USD 3.5 trillion, is invested for our clients in public company shares.²⁹ 90% of our clients’ public equity assets are invested in index investment products.³⁰

While index investing has grown quickly in recent years, industry assets in index-tracking mutual and exchange traded funds account for less than 10% of the value of global shares.³¹

Some 60% of all global financial assets are managed directly by institutional or individual owners.³²

Institutional investors use in-house portfolio management teams to do this; individuals hold shares in individual companies outside of funds.

Exhibit 2: Percentage of global public company shares managed by asset managers



For illustrative purposes only. Source: Chart by BlackRock in December 2020. Value of global equity market, as at December 2019, from The World Federation of Exchanges (WFE); BlackRock, top 3, and top 10 asset manager equity AUMs, as at December 2019, from Pensions & Investments.

Investment stewardship at BlackRock

BlackRock's stewardship team – with more than 45 professionals in seven locations – promotes governance objectives around the world. We believe that companies should pursue long-term strategies that consider the welfare of all their stakeholders and preserve their social license to operate. We exercise voting rights on behalf of clients, where we have authority to do so, on the proposals put forward by company management, and those selectively raised by shareholders. We don't make shareholder proposals of our own.

Engagement approach

We engage according to priorities published on our [website](#) annually, with the objective of building mutual understanding with companies on practices that support sustainable performance. We strive to explain our governance and voting policies and listen to companies' explanations for how their approaches support long-term value creation. Should we have governance concerns, we often aim to communicate directly with companies. While such meetings are private to allow for open discussion, we disclose the topics discussed on [our website](#).

As documented in [BlackRock's annual stewardship report](#), in the 12 months to June 30 2020, the team:

- Conducted over **3,000 engagements**, in **52 countries**, representing more than **60% of the assets we manage**.
- Voted against over **5,000 directors** for governance reasons – such as lack of board diversity, lack of independence, and compensation. We cast **53 votes against** companies for their lack of progress on managing the transition to a low-carbon economy, and put **191 on watch** for voting action in 2021.
- **Engaged with 400 companies in carbon-intensive industries** that represent exposure to climate risk in our clients' portfolios. Numerous companies have responded to our heightened expectations for better management of sustainability risk, including Daimler AG, Samsung Electronics Co., J.B. Hunt Transport Services Inc., Newmont Corp., Verizon Communications Inc., and Sanderson Farms Inc.

Contributing to global standard-setting efforts and public policy discourse on governance

Asset managers of scale have cross-border insight into corporate governance and shareholder rights issues. Global footprints make these asset managers well-placed to contribute to the corporate governance policy discourse and standard-setting efforts, at both national and international levels. Such activity, often in partnership with other institutions, can help drive the adoption of common frameworks that advance corporate practices.

- BlackRock's support of the TCFD framework and the Sustainability Accounting Standards Board (SASB) standards – alongside support of many regulators, listing authorities, asset owners and managers – has been instrumental in accelerating industry adoption. TCFD now has 1,500 supporters, including 60% of the world's 100 largest listed companies. SASB has seen a 3.4 x increase in uptake of its reporting standards in 2020.³³
- We [support](#) the emerging consensus framework among private standard-setters, with regard to sustainability reporting. We are hopeful that this can be housed under a single global governing body and endorse the proposal that the IFRS form a Sustainability Standards Board. In January 2020, BlackRock's CEO Larry Fink, wrote a [letter to CEOs](#) recognizing that climate change is driving a fundamental reshaping of finance, and stating BlackRock's support for the SASB standards for reporting sustainability information, and the TCFD framework for evaluating and reporting climate-related risks.³⁴
- We believe that engagement by a range of stakeholders in the financial ecosystem – investors, companies, regulators and others – is beneficial to improving the management of sustainability questions. In 2020, BlackRock joined [Climate Action 100+](#), a group of investors that engages with companies to improve climate disclosure, and prior to this, was a member of the group's five sponsoring organizations.³⁵

We comment on policy topics through our [ViewPoint](#) and [Spotlight](#) series of papers, respond to consultations, and submit comment letters across a range of topics including listing requirements, stewardship codes, and weighted voting rights. BlackRock's policy analysis is published widely – on our [website](#), in public forums, in speeches and in the press – to foster dialogue within the industry and with policymakers.

BlackRock Investment Stewardship: Resources and reports

BlackRock's engagement strategy, voting guidelines, and voting results, as well as annual and quarterly reports on our stewardship engagement, vote bulletins providing analysis of voting decisions on high profile proposals, and policy positions, are available at [blackrock.com](https://www.blackrock.com).

BlackRock's Stewardship website: <https://www.blackrock.com/corporate/about-us/investment-stewardship>

Our 2021 Stewardship Expectations: <https://www.blackrock.com/corporate/literature/publication/our-2021-stewardship-expectations.pdf>

BlackRock's Engagement Priorities: <https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-priorities>

BlackRock's Annual Stewardship Report: <https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020.pdf>

Our Approach to Sustainability: <https://www.blackrock.com/corporate/literature/publication/our-commitment-to-sustainability-full-report.pdf>

Commentary: Sustainability Reporting: <https://www.blackrock.com/corporate/literature/publication/blk-commentary-sustainability-reporting-convergence.pdf>

3. Stewardship by asset managers provides a useful minority voice

Asset managers play an important role in investment stewardship by advocating for the long-term interests of underlying shareholders. However, even those operating at scale are minority shareholders, and rarely have a decisive influence in corporate governance decisions, or votes on management or shareholder proposals.

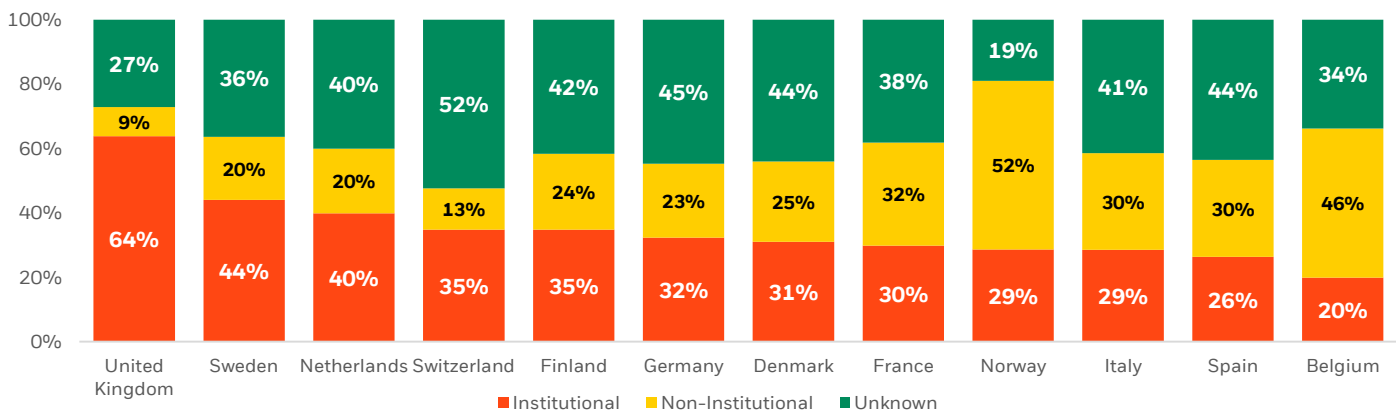
The influence of asset managers is often secondary to controlling shareholders, where they are present, as well as third-party proxy advisors, who provide recommendations to shareholders to inform their votes on management and shareholder proposals.

Asset managers may be visible shareholders, but aren't close to holding controlling stakes

Ownership of publicly traded companies in developed markets is diffuse, and the largest independent shareholder typically holds only a single digit-percentage of shares.³⁶ Even asset managers of scale are minority shareholders. They are not generally decisive in determining voting outcomes or board seats.

BlackRock's recent *ViewPoint, Europe's listed companies: their governance, shareholders and votes cast*, shows that European institutional investors — banks, insurers, pension funds, and asset managers — together hold less than 40% of public company shares (see Exhibit 3). Of the remainder, 22% of shareholders are non-institutional investors, such as parent or holding companies, families, foundations, public sector, and strategic individuals; 39% are unidentified (primarily because their shareholdings fall below national reporting thresholds).³⁷

Exhibit 3: Ownership of companies in the MSCI Europe index, by institutional and non-institutional investor type

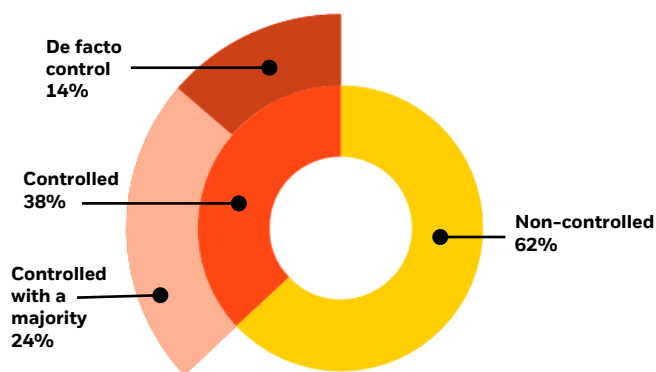


Source: FactSet ownership database as of 31 December 2019, accessed 16 February 2020.

In France, Germany, Sweden, and Italy, and many parts of Asia, controlling shareholders of public companies are often founders, parent companies, and national governments – not asset managers or other institutions. Institutional investors are even less influential in APAC markets: outside Japan and Australia, majority state or family ownership is common.³⁸

Dominant ownership by non-institutional shareholders dilutes the influence of asset managers. For example, 38% of companies in the MSCI Europe Index are controlled either by majority shareholders holding more than 50% of voting rights or by significant shareholders holding at least 30% of voting rights (see Exhibit 4).³⁹

Exhibit 4: Controlled companies in the MSCI Europe Index



Source: MSCI ESG Manager screens for controlling shareholders and their voting rights, using the MSCI Europe index as of 31 December 2019. Data accessed 16 February 2020. Numbers have been rounded to the nearest digit.

Spotlight on proxy votes

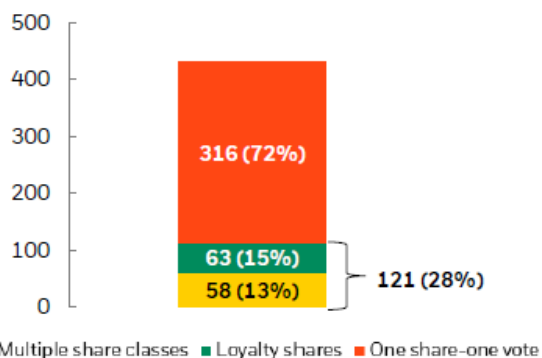
Most management votes are routine, covering matters such as the reappointment of auditors. Few are contentious or attract headlines. Indeed, the outcome of these votes is rarely close enough for any asset manager to cast a deciding vote. For context, the largest shareholder’s vote could have determined the board of director appointments in fewer than 1% of elections for companies in the Russell 3000, FTSE 350 and MSCI Europe indexes.⁴¹

Proxy advisors such as ISS and Glass Lewis, which make recommendations to shareholders on how to vote, carry considerable influence. Proxy advisors are not shareholders and do not cast votes, but by one estimate the recommendations of these third parties can drive as much as 25% of certain votes.⁴² This is typically many times the voting impact of any individual asset manager. Importantly, proxy advisors are not bound by a specific alignment of interests with shareholder interests.

BlackRock supports the established principle of one share, one vote. In countries where voting rights diverge from this principle, the increased voting power of shareholders that can benefit from this feature reduces the voting influence of minority shareholders, including asset managers. 28% of companies in the MSCI Europe index diverge from this principle, offering either multiple share classes or loyalty shares.⁴⁰

Exhibit 5: The application of ‘one share one vote’ principle and differentiated voting rights

Companies in the MSCI Europe index



Source: MSCI ESG Manager screen for multiple share classes and single share classes with differentiated voting rights, using the MSCI Europe index as of 31 December 2019. Data accessed 16 February 2020. Figures have been rounded to the nearest digit.

While commentators often seek to aggregate the shareholdings of leading asset managers, in practice, asset managers do not coordinate voting. Each asset manager has a duty to vote in accordance to what they deem to be their client’s economic interests. Voting records show that asset manager votes are not routinely aligned.⁴³

4. What if asset managers didn’t engage in investment stewardship?

While they are a minority voice in the stewardship ecosystem, asset managers play an important role in advocating for the long-term interests of their clients. The absence of their investment stewardship activity would lead to a loss of voice for millions of investors, and would result in the removal of important advocates of stronger global standard-setting efforts around governance. It would also expand the influence of parties that are less representative of the long-term interests of investors, such as proxy advisors and activists.

Asset managers of scale have resources to engage globally

Asset managers of scale have the resources to monitor corporate governance practices of publicly traded companies around the world. Were the responsibility to exercise voting rights passed to the underlying individual and institutional asset owners, few of them would be likely to engage with the often thousands of underlying individual companies across the globe in which they are invested. The result would be less representation of investor perspectives in corporate governance, and lead to challenges reaching a quorum for certain votes.⁴⁴

In the U.S., individual shareholders — that is, those who invest in a security directly rather than through a managed fund — typically vote less than 30% of their shares.⁴⁵ The process is often complex and time-consuming. It requires that individuals take time to form a policy position, understand the context and business impact of a specific proposal, decide, and then vote. Absent engagement by asset managers on their behalf, it's difficult to conceive of an alternative voting system that would not result in the loss of many of these votes entirely, harming representation for this important investor group.

Last year, BlackRock cast 153,000 votes at 16,200 company general meetings on behalf of our institutional and individual clients, most of whom are invested for the long term.⁴⁶ While BlackRock uses proxy advisor research as one input among others in our own investment stewardship process, our large investment stewardship staff enables us to engage with companies and develop an independent voting perspective in the interests of our clients.

Neither smaller institutions nor individuals can reasonably be expected to have the resources to monitor, analyze, and engage across borders given national variation and frictions inherent in the governance frameworks of each country. In the absence of stewardship by asset managers, many institutions without well-resourced stewardship teams would likely rely partly or entirely on the recommendations of third-party advisors, further increasing the power and influence of proxy advisors.

Asset managers put momentum behind international standard-setting

Investors would lose strong allies were asset managers of scale no longer able to contribute to global standard-

setting around corporate governance. Asset managers have a breadth and depth of insight into governance best practices across portfolio companies and markets. Such insights feed into collaborative work with policymakers, standard-setters, companies, and other investors to promote consistent, yet locally relevant, corporate governance codes and disclosure requirements.

The influence of parties with narrower interests would grow

Were asset managers absent from stewardship, we believe that actors with narrower interests would step in to take their place. As a result, we believe that the outcome of votes on management and shareholder proposals could shift away from long-term value creation objectives.

Asset managers are fiduciaries, meaning they look after the interests of their clients. Other participants in the proxy voting network are not fiduciaries. For example, proxy advisors have no direct economic interest in the long-term value of companies, nor are they required to justify their vote recommendations. The already substantial influence of proxy advisors would likely grow. Proxy advisors such as ISS and Glass Lewis already determine up to 25% of votes cast.⁴⁷ Their effectiveness in being able to play such an outsize role in shaping corporate governance decisions is unclear.

We also believe that proposals by activist investors would receive less scrutiny were asset managers to be less engaged in stewardship efforts. Activist investors often have shorter-term priorities than asset managers of scale, and we would anticipate much higher success rates for activist-related initiatives.

BlackRock conducts case-by-case analyses of shareholder proposals. Last year, we supported 33% of activist director slates, where we felt these were warranted based on our view of the long-term value of the companies involved.⁴⁸

Additionally, state-owned enterprises, families, and others with controlling (or significant minority) interests in many companies across Europe and the developing world would also grow in influence, absent asset manager engagement. At times, these dominant shareholders fail to recognize the interests of minority shareholders, particularly in related party transactions, which may not serve the long-term interests of the company overall.

Case study: Scrutiny of an activist proposal

In 2020, an airline faced a proxy contest led by the company's founder — an activist investor — who, along with his family, controls 34% of the company. The founder had publicly disagreed with the company's expansion strategy since 2008, and proposed the removal of four incumbent directors, including the CEO, Chairman, and CFO, to force the company to cancel key contracts. BlackRock determined that the proposal would impact the company's long-term prospects, employment, and have other detrimental economic effects, and we voted our clients' full shareholding, recalling shares on loan, in opposition to the founder's proposals.

The decision to recall shares on loan to vote is based on a formal analysis by BlackRock of the anticipated revenue to clients from the shares on loan compared to the assessed economic benefit of casting votes. Generally, we expect that the likely long-term economic benefit to clients of casting votes would be less than the income they would earn from leaving the shares on loan. In this case, due to the importance of the issue at this shareholder meeting, we believed that it was in our clients' long-term economic interest to vote the total shareholding for which BlackRock has voting authority.

Considering the founder's 34% voting stake, and average voter turnout for U.K. annual meetings being approximately 70%, the simple majority support (50%+1) needed to pass the proposal could have been achieved with the founder's votes alone. Even so, the proposals were defeated with 99% of votes cast by independent shareholders supporting the current board.

For further details, see 'Recalling shares to vote the full position in an airline proxy contest' in [BlackRock Investment Stewardship: 2020 Q2 Global Quarterly Report](#)

Case study: Representing minority shareholders in a controlled company

BlackRock has engaged with Volkswagen AG's Supervisory Board since 2016 on a range of ESG topics. VW is a controlled company, with 90.1% of voting rights controlled by just three shareholders.

Despite attempts to encourage the company to improve the number of independent directors on its Supervisory Board, the company demonstrated little progress. In our assessment, insufficient independent oversight of management by VW's Supervisory Board played a major role in the company employing a 'defeat device' in some of its diesel engine cars, as uncovered in 2015. VW faces ongoing legal proceedings, which threaten shareholder value.

BlackRock voted against the discharge of members of the Board of Management serving at the time of the emissions incident, to hold those individuals to account for VW's governance practices and management of its material risks. We also voted against the discharge of nomination committee members given our ongoing concerns with the insufficient level of independence on the Supervisory Board and its subcommittees.

Voting results indicate that BlackRock was alone in voting in the interests of minority shareholders. This is likely influenced by federal legislation that makes it difficult for minority shareholders in this company to voice concerns by voting. BlackRock continues to encourage the company to provide shareholders with more options for participation and for expressing their views.

For further details, see BlackRock's [Voting Bulletin: Volkswagen AG](#)

Conclusion

Asset managers help real people and the real economy. The advent of mutual funds and ETFs made low-cost, diversified investing available to millions of savers and investors across the world. Through these funds, asset managers help investors large and small to build savings and financial well-being throughout their lives. Pooled investing through funds also helps fuel the growth of companies, which in turn create jobs and foster innovation. The role that asset management products and services play in bolstering personal financial resilience and connecting capital to companies will be more important than ever, in the recovery from the economic impact of the COVID-19 pandemic.

As stewards of investments, asset managers — particularly those that operate at scale — monitor governance standards, engage with company managers and directors, and cast informed votes on thousands of management and shareholder proposals each year. They advocate for the interests of clients who invest through their products and services. While even large asset managers are minority investors, they play an important role in representing the long-term interest of shareholders. Were they to take a backseat on stewardship, smaller and individual shareholders would be most affected by a loss of voice.

Endnotes

1. Index data as of 30/6/2020, voting data covering the period of 1/7/2019 – 30/6/2020. Source: Proxy Insight voting database, FactSet database. Accessed 12/03/2020.
2. See Harry Markowitz's 1952 thesis, Portfolio Selection, available at www.jstor.org/stable/2975974.
3. Nobel Media AB 2014, The Prize in Economics (1990), available at http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1990/press.html
4. ICI: Trends in the Expenses and Fees of Funds, 2019, available at: <https://www.ici.org/pdf/per26-01.pdf>
5. ICI Research Perspective October 2020 // VOL. 26, NO. 7, available at: <https://www.ici.org/pdf/per26-07.pdf>
6. For example, following the rise of the global COVID-19 pandemic in March 2020, the US Federal Reserve cut its interest rate from a range of 1.50-1.75% to a range of 0-0.25%, see <https://www.federalreserve.gov/monetarypolicy/openmarket.htm>; and the Bank of England cut its interest rate from 0.75% to 0.1%, see <https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate>.
7. UN: World Population Prospects, 2019, available at: <https://www.un.org/en/development/desa/population/publications/pdf/ageing/WorldPopulationAgeing2019-Report.pdf>
8. For impact of the COVID-19 crisis on pension systems, see IMF Special Series note Pension Schemes in the COVID-19 Crisis: Impacts and Policy Considerations, July 2020, available at: <https://www.imf.org/en/Publications/SPROLLS/covid19-special-notes>
9. PWC Funding the Future <https://www.pwc.com/gx/en/asset-management/asset-management-insights/assets/awm-revolution-full-report-final.pdf>
10. BlackRock press release BlackRock and Microsoft to Reimagine Retirement, December 2018, available at: <https://www.blackrock.com/corporate/newsroom/press-releases/article/corporate-one/press-releases/reimagine-retirement>
11. UN Environment Programme: Emissions Gap Report 2019, available at: <https://wedocs.unep.org/bitstream/handle/20.500.11822/30797/EGR2019.pdf?sequence=1&isAllowed=y>
12. A report by The Global Commission on the Economy and Climate estimates that the transition to low-carbon economies could create over 65 million net new jobs globally out to 2030. See <https://newclimateeconomy.report/2018/>.
13. PWC, 2022 - The growth opportunity of the century Are you ready for the ESG change?, available at: <https://www.pwc.lu/en/sustainable-finance/esg-report-the-growth-opportunity-of-the-century.html>
14. Coronavirus response: Making capital markets work for Europe's recovery, July 2020, available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1382
15. See FRC's Review of the UK Stewardship Code, 2018, available at http://alexedmans.com/wp-content/uploads/2015/02/TPC_Stewardship-Code_Thoughts-For-Change.pdf
16. Id.
17. Brazil AMEC Stewardship Code; Canadian Coalition for Good Governance (CCGG) Principles for Governance Monitoring, Voting and Shareholder Engagement; Denmark Stewardship Code; European Fund and Asset Management Association Code for External Governance; Hong Kong Principles of Responsible Ownership; Italian Stewardship Principles; Japan's Stewardship Code; Kenya Stewardship Code; Korea Stewardship Code; Netherlands Eumedion Best Practices for Engaged Share-Ownership; Singapore Stewardship Principles for Responsible Investors; South Africa Code on Responsible Investing; Swiss guidelines for institutional investors governing exercising of participation rights in public limited companies; Taiwan Stewardship Principles for Institutional Investors; The Financial Reporting Council's UK Stewardship Code; The Investor Stewardship Group Stewardship Framework for Institutional Investors and Corporate Governance Principles for US listed companies; UN PRI; G20/OECD Principles of Corporate Governance
18. EU Shareholders Rights Directive, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017L0828>
19. For example, the Kay Review in the UK, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/253454/bis-12-917-kay-review-of-equity-markets-final-report.pdf.
20. S&P Dow Jones Indices (as of Nov. 16, 2020), see: <https://web.archive.org/web/20160527213828/http://www.prnewswire.com/news-releases/sp-releases-list-of-86-companies-in-the-sp-500-since-1957-52121912.html>; Reuters, Sept. 10, 2019, see: <https://www.reuters.com/article/us-ftse-stocks-m-s-graphic/graphic-ftse-100s-changing-face-a-trip-down-memory-lane-idUSKCN1W1MQ>

Endnotes

21. As described in FRC's Review of the UK Stewardship Code, 2018, as, 'Stewardship may be "generalised", applied on a standardised basis across companies, for example, such as engagement on ESG issues. Standardisation makes generalised stewardship relatively low cost to implement.'. Available at http://alexedmans.com/wp-content/uploads/2015/02/TPC_Stewardship-Code_Thoughts-For-Change.pdf
22. Diversity, and the inclusion of different perspectives for board discussions and decision-making, is a globally relevant feature of board quality and effectiveness. We recognize that pertinent diversity characteristics may differ across markets. Therefore, we combine a global view on diversity with a local lens, which enables us to engage on board diversity in a manner appropriate to each market. In addition, we recognize that diversity has multiple dimensions, including personal factors such as gender, race, ethnicity and age, as well as professional characteristics such as a director's industry, area of expertise and geographic location. While the dynamics of diversity and decision making remains an area of ongoing academic study, research already reveals correlations between specific dimensions of diversity and effects on decision making processes and outcomes. For example, the role of gender diversity on team cohesion and participative communication is explored by: Post, C., 2015, When is female leadership an advantage? Coordination requirements, team cohesion, and team interaction norms. *Journal of Organizational Behavior*, 36, 1153– 1175. <http://dx.doi.org/10.1002/job.2031>
23. Edmans, Alex. Does the Stock Market Fully Value Intangibles, *Journal of Financial Economics* 101 (2011): 621–640. Available at: <http://faculty.london.edu/aedmans/Rowe.pdf>
24. In the US, funds disclose how they vote proxies every year. In the EU, institutional investors (such as insurers and pension funds) and asset managers are required disclose a detailed shareholder engagement policy (on a 'comply or explain' basis), including voting records and voting rationale for the most significant votes. This disclosure is already contributing relevant and meaningful information that enables the public to understand how institutional investors and asset managers fulfil their shareholder duties. Participation in votes is typically published, in the form of quarterly and annual reports.
25. See Policy Spotlight: Shareholders are Diverse and Dispersed, 2019. Available at: <https://www.blackrock.com/corporate/literature/whitepaper/policy-spotlight-shareholders-are-dispersed-and-diverse-april-2019.pdf>
26. See Exhibit 2, page 7.
27. Id.
28. BlackRock 2017 Annual Report, available at: https://s24.q4cdn.com/856567660/files/doc_financials/2017/ar/2017-Annual-Report.pdf
29. BlackRock, July 2020
30. Id.
31. See ViewPoint: Index Investing Supports Vibrant Capital Markets, 2017. Available at: <https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-index-investing-supports-vibrant-capital-markets-oct-2017.pdf>
32. The FSB notes that the majority of financial market participants manage their investments on their own without the help of third-party asset managers, and that many sophisticated investors have their own asset management capacities in house. While estimates vary, the FSB suggests that the asset management sector managers around 40% of global financial system assets. See FSB, 2017, Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities (Jan. 12, 2017).
33. In December 2019, 100 companies were reported to be using the SASB reporting framework, see <https://www.prnewswire.com/news-releases/sasb-adds-six-new-members-to-investor-advisory-group-300971543.html>. In September, 341 companies have reported SASB metrics, see: https://www.sasb.org/wp-content/uploads/2020/09/New-Stds-Board-Members-2020_09_29-FINAL.pdf
34. Larry Fink Letter to CEOs 2020: A fundamental reshaping of finance, available at: <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>
35. See: <http://www.climateaction100.org/>
36. Policy Spotlight: Shareholders are Diverse and Dispersed, 2019. Available at: <https://www.blackrock.com/corporate/literature/whitepaper/policy-spotlight-shareholders-are-dispersed-and-diverse-april-2019.pdf>
37. ViewPoint: Europe's listed companies: their governance, shareholders and votes cast, 2020, available at: <https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-europe-listed-companies-governance-shareholders-votes-cast-february-2020.pdf>
38. OECD report on Asian equities, available at: <http://www.oecd.org/daf/ca/oecd-equity-market-review-asia.htm>
39. ViewPoint: Europe's listed companies: their governance, shareholders and votes cast, 2020, available at: <https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-europe-listed-companies-governance-shareholders-votes-cast-february-2020.pdf>
40. Id.
41. Index data as of 30/6/2020, voting data covering the period of 1/7/2019 - 30/6/2020. Source: Proxy Insight voting database, FactSet database. Accessed 12/03/2020.
42. Nadya Malenko and Yao Shen, The Role of Proxy Advisory Firms: Evidence from a Regression-Discontinuity Design, *The Review of Financial Studies*, 2016, available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2526799
43. BlackRock conducted a review of asset manager votes on shareholder proposals for Russell 3000 companies between July 1, 2016 and June 30, 2017. Our analysis revealed that voting patterns differ considerably across asset managers, and the managers' votes differ strongly compared to ISS recommendations. See BlackRock, Viewpoint: The Investment Stewardship Ecosystem, July 2018, available at <https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-investmentstewardship-ecosystem-july-2018.pdf>
44. In the US, 38% of proposals already require at least one adjournment to reach quorum. See ICI letter RE: SEC Roundtable on the Proxy Process (File No. 4-725), available at: <https://www.sec.gov/comments/4-725/4725-6580709-201124.pdf>
45. Id.
46. BlackRock Investment Stewardship Report 2020, available at: <https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020.pdf>
47. Nadya Malenko and Yao Shen, The Role of Proxy Advisory Firms: Evidence from a Regression-Discontinuity Design, *The Review of Financial Studies*, 2016, available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2526799
48. BlackRock Investment Stewardship Report 2020, available at: <https://www.blackrock.com/corporate/literature/publication/blk-annual-stewardship-report-2020.pdf>

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