BlackRock

Active Investment Stewardship

Engagement Priorities

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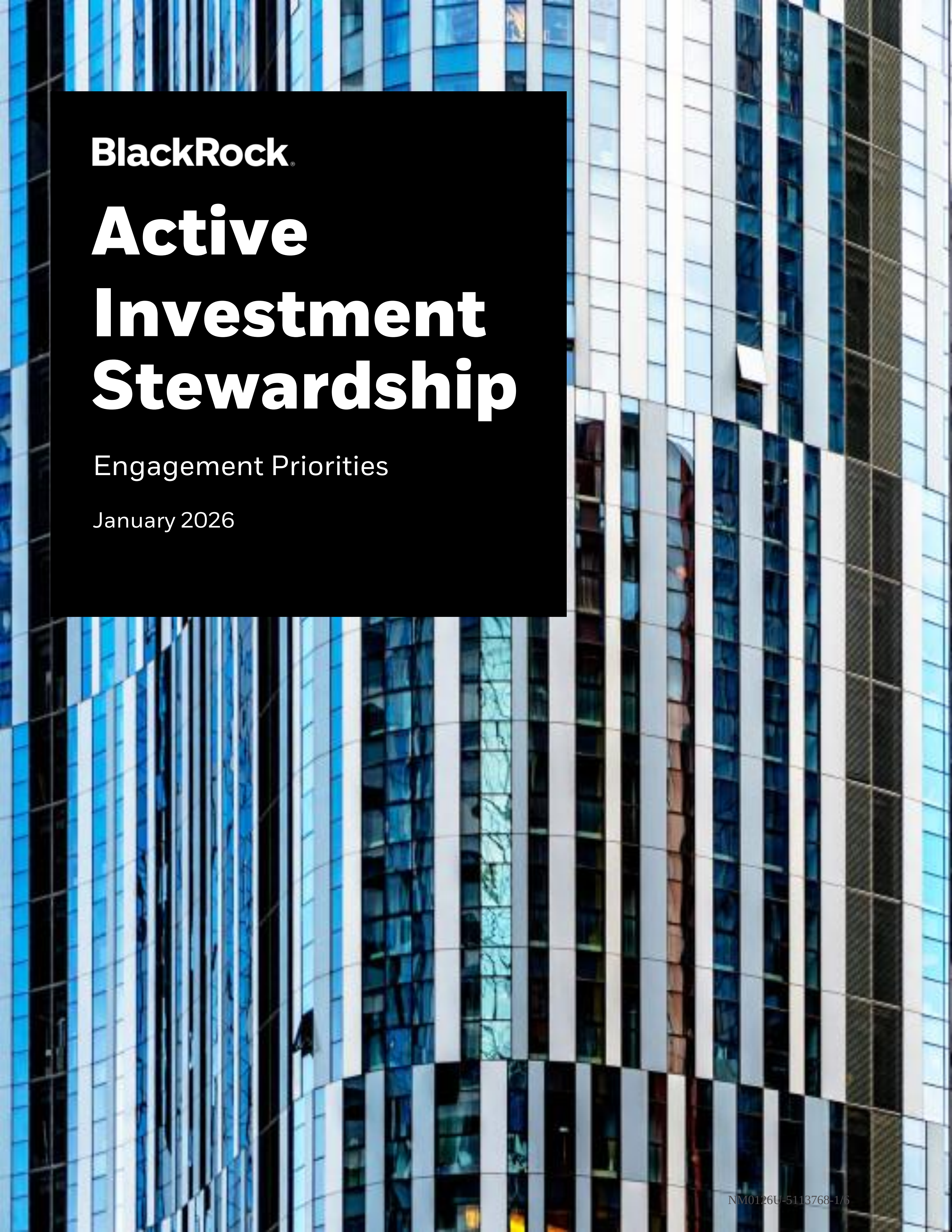

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Introduction

At BlackRock, investment stewardship is core to our role as an asset manager and a fiduciary to our clients. As stewards of our clients' assets, we engage with companies and vote at shareholder meetings to encourage sound corporate governance and business practices that support companies in delivering durable, risk-adjusted financial returns over time.[1] We are committed to building strong relationships through constructive, ongoing dialogue with the boards and management of the companies held in equity strategies in which our clients are invested. Similarly, we also engage issuers of fixed income securities to understand the risks and opportunities they face that may have an impact on our clients' investments.

BlackRock Active Investment Stewardship (BAIS) works in partnership with BlackRock's investment teams, excluding index equity, providing expertise on investment stewardship and engaging with companies alongside and on behalf of those teams when appropriate. BAIS is responsible for establishing voting guidelines for the active equity platform, providing vote recommendations and operationalizing voting decisions.

Engagement with public companies is the foundation of our approach to stewardship within fundamental active investing. Through direct dialogue with company leadership, we seek to understand their businesses and how they manage risks and opportunities to deliver durable, risk-adjusted financial returns. Generally, portfolio managers and stewardship specialists engage jointly on material corporate governance matters. Our discussions focus on topics relevant to a company's success over time including governance and leadership, corporate strategy, capital structure and financial performance, operations and sustainability-related risks, as well as macro-economic, geopolitical and sector dynamics. We aim to be constructive investors and are generally supportive of management teams that have a track record of financial value creation. Our intention is to build and maintain strong relationships with company leadership based on open dialogue and mutual respect.

BAIS develops its engagement strategy in close partnership with members of the active investment platform, ensuring both alignment and effectiveness. Generally, investment teams engage companies to inform portfolio management decisions while BAIS engages to better understand company business models and inform voting analysis and recommendations, and, as such, the discussions are complementary. Both BAIS and active investment teams use a proprietary database to share meeting notes and perspectives, which can inform voting decisions and investment analysis as relevant.

Over time, we have observed a number of consistent themes on which we engage with companies. Governance themes such as board quality, strategy execution and financial resilience, and competitive executive pay are common topics that we regularly discuss with nearly all the companies we engage. Themes associated with sustainable business practices, such as climate risk, natural capital, and company impacts on people will be in focus when they are relevant to a company's business model and have the potential to materially impact its ability to deliver durable financial returns. Each of these themes is discussed in more detail in these Engagement Priorities. We monitor emerging themes to understand their materiality and whether they are likely to have an enduring impact on companies, sectors or markets.

BAIS' Engagement Priorities

1	Board quality and effectiveness
2	Strategy, milestones, and financial resilience
3	Executive incentives
4	Climate- and nature-related risks and opportunities
5	Company impacts on people

Corporate governance

At its core, corporate governance refers to the system of rules, practices, and processes which guide company decision-making and operations. It encompasses the relationships between a company's board of directors, management, shareholders, and other stakeholders, defining how authority and responsibilities are distributed and exercised. Effective corporate governance ensures accountability, transparency, and integrity in a company's decision-making, providing the framework that helps protect investors' interests and support long-term value creation.[2]

Board quality and effectiveness

A company's board plays a central role in its success and financial performance over time. Directors individually bring their expertise and experience to advising management and, as a collective, the board provides strategic direction, oversight and governance that guides the company in achieving its purpose and strategic objectives. For these reasons, board quality and effectiveness are at the heart of BAIS' engagements.

In our discussions with companies, we seek to understand how the board fulfils its fiduciary duties and ensures a governance structure that protects the interests of investors. We consider the experience and expertise of the directors individually and as a group, to understand the alignment with the company's business model and long-term strategy. We may also discuss some of the key responsibilities of the board, to help us understand the board's approach to oversight of management's execution of strategy and operations, succession planning for key executive and board roles, ensuring the integrity of financial reporting and other disclosures, and establishing and implementing executive pay policies.

Strategy, milestones, and financial resilience

A clearly articulated strategy and milestones consistent with a company's business cycle help investors and other stakeholders[3] understand how it is fulfilling its purpose, meeting its objectives and delivering financial returns that are resilient over time. A company's mandatory and voluntary reporting provides these key stakeholders with a baseline for decision-making and possible engagement with company representatives. We find it helpful when companies discuss in their disclosures how their near-term tactical execution contributes to the realization of their long-term strategy.

Boards and executive leadership are responsible for setting strategy and establishing a corporate culture that supports employee engagement and productivity. In our discussions with companies, we are interested in learning how the strategy is being realized, how macroeconomic factors - such as geopolitical fragmentation - and operational disruption - such as artificial intelligence – as well as regulatory and market developments may be influencing changes in company priorities, milestones, and strategic investments.

Executive incentives

Effective executive compensation policies are crucial for aligning management incentives with company strategy and financial performance. Well-designed compensation plans have rigorous but realizable targets that incentivize appropriate risk taking, and balance near- and long-term awards. They are effective at incentivizing long-term thinking though different phases of the business cycle, as well as retaining and attracting executives while minimizing the need for one-off, exceptional awards. Clear disclosures on compensation policies and how they are determined and implemented, including targets linked to strategic goals and compensation paid, help investors understand the link between strategy execution, incentive pay and financial performance.

In our engagements, we generally discuss the board's philosophy on executive compensation, the objectives underpinning any new plans proposed, and the mechanisms in place to balance the interests of executives and shareholders. Engagement helps us to understand the nuances of pay policies, the relevance of performance metrics, and the rationale for any features or payments out of line with market norms, all of which may factor into our vote recommendations.

Sustainable business practices

Sustainable business practices are the strategies and actions that enable companies to operate responsibly, deliver durable financial performance and position themselves for long-term growth and resilience.[4] Well-managed companies with sustainable business practices, in our view, focus on balancing near-term financial returns with maintaining the resources, relationships, and operational integrity necessary for continued success.

Generally, there is a complex interplay between a company's business practices and how these impact the key stakeholders that contribute to its long-term financial success. In our view, companies with material risks and opportunities arising from sustainability-related factors[5] serve investors' interests when they disclose how their governance, strategy, risk management and operational objectives integrate those considerations.[6] As with reporting on other aspects of a company's business operations, comprehensive sustainability-related disclosures can help investors assess how material risks and opportunities are being managed, and the company's reputation and competitive position are being protected.

BAIS engages with companies on these issues, where they are material, to understand how a company generates value or manages risks and thus delivers durable financial performance over time. The purpose of our engagement is to come to an informed view about how management is identifying, assessing and integrating those risks and opportunities into their business decision-making and practices. This understanding enables us to make better informed voting recommendations to investment teams and provides context to inform our analysis.

We explain below the sustainability-related factors on which we most frequently engage companies, where material to their business models.

Climate- and nature-related risks and opportunities

Climate change and natural capital management are closely linked and could present both material risks and opportunities for companies and shareholders.[7] As with any major structural shift, the global transition to a low-carbon economy presents opportunities for companies able to adapt to rapid technological change, shifts in consumer demand and evolving energy policy.[8] At the same time, the energy transition may pose risks for those companies unable to adapt, and climate change creates both financial and operational challenges as a result of resource scarcity and disruptions to supply chains.[9]

Natural capital encompasses the world's stocks of natural assets - including soil, air, water, and biodiversity - that underpin economic activity and human well-being.[10] Degradation or mismanagement of these resources can pose material risks for companies, for example, limited access to water, loss of productive land, regulatory fines, reputational harm, and supply chain disruptions, which may have material financial impacts. Conversely, we believe proactive management of a company's natural capital impacts and dependencies may offer opportunities for differentiation, innovation, and long-term financial value creation.

Companies that embed natural capital considerations into their core strategies, where material to their operations and ability to generate profits, may be better positioned to anticipate regulatory changes, respond to stakeholder expectations, and ensure access to the resources essential to their business models, supporting financial resilience.

Company impacts on people

Companies impact individuals and communities through their employment practices, supply chain management, products and services, and broader stakeholder engagement. As employers, companies' human capital management practices shape their ability to attract, develop and retain the key talent they need to have a competitive advantage in the market. A company's performance may be improved through fair employment practices, safe work environments and a culture that supports employee engagement and productivity.

Similarly, for companies with material human rights risks in their business models, how they approach relations with local communities, Indigenous People's rights and supply chain management, amongst other issues, can impact their reputation, regulatory risks, operational continuity and long-term success.

Endnotes

1. On February 11, 2025, the U.S. Securities and Exchange Commission (SEC) staff issued updated guidance for shareholders' to maintain their eligibility to report their beneficial ownership under Schedule 13G of the Exchange Act. We comply fully with these requirements and do not engage with portfolio companies for the purpose, or with the effect, of changing or influencing control of the company.
2. This framing is common across many jurisdictions, for instance, see the governance principles published by the International Corporate Governance Network, Dutch Corporate Governance Monitoring Committee, Tokyo Stock Exchange and US Business Roundtable, to name a few.
3. For most companies these will include some or all of the following: employees, customers, suppliers, regulators and the communities within which they operate.
4. There are numerous frameworks, guidelines, regulations and best practice recommendations on sustainable or responsible business practices. Two that are widely recognized and referenced are the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct and the United Nations Guiding Principles on Business and Human Rights.
5. By material sustainability-related risks and opportunities, we mean the drivers of risk and financial value creation in a company's business model that have an environmental or social dependency or impact. Examples of environmental issues include, but are not limited to, water use, land use, waste management, and climate risk. Examples of social issues include, but are not limited to, human capital management, impacts on the communities in which a company operates, customer loyalty, and relationships with regulators. It is our view that well-managed companies will effectively evaluate and manage material sustainability-related risks and opportunities relevant to their businesses. Governance is the core means by which boards can oversee the creation of durable financial value over time. Appropriate risk oversight of business-relevant and material sustainability-related considerations is a component of a sound governance framework.
6. BAIS finds it helpful to our understanding when companies provide robust, standardized disclosures on their material sustainability-related risks and opportunities. The International Sustainability Standards Board (ISSB) is one entity working to meet these objectives through its reporting standards, which may be helpful to companies in preparing such reports. However, we do not mandate any specific disclosure framework and note that companies in certain jurisdictions are subject to mandatory reporting requirements under standards specified by policy makers. The ISSB is an independent standard-setting body within the International Financial Reporting Standards (IFRS) Foundation. Please refer to the IFRS website to learn more about the framework and standards S1 "General Requirements for Disclosure of Sustainability-related Financial Information" and S2 "Climate-related Disclosures."
7. For a concise overview of the economic implications see: https://www.weforum.org/stories/2025/06/natural-capital-economic-resilience-global-stability/
8. BlackRock Investment Institute, "Evolving energy transition, evolving opportunities", February 2025.
9. For instance, in March 2025, S&P Global reported that the total cumulative cost of climate hazard exposure for S&P Global 1200 index constituents is projected to reach $25 trillion by 2050, including $4.5 trillion in foregone revenue due to business interruption, $3.8 trillion in excess operating costs, and $16.5 trillion in property damages and excess capital expenditure. For full analysis see: https://www.spglobal.com/en/research-insights/special-reports/look-forward/climate-costs-are-rising-but-few-companies-have-an-adaptation-plan
10. This definition is widely recognized. See, for instance: https://www.doi.gov/restoration/primer/resources; https://www.gov.uk/government/publications/enabling-a-natural-capital-approach-enca-guidance/enabling-a-natural-capital-approach-guidance; https://www.iema.net/media/pxlkpspk/iema-natural-capital-101_2024-07-08-163822_vwfh.pdf.

Want to know more?

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