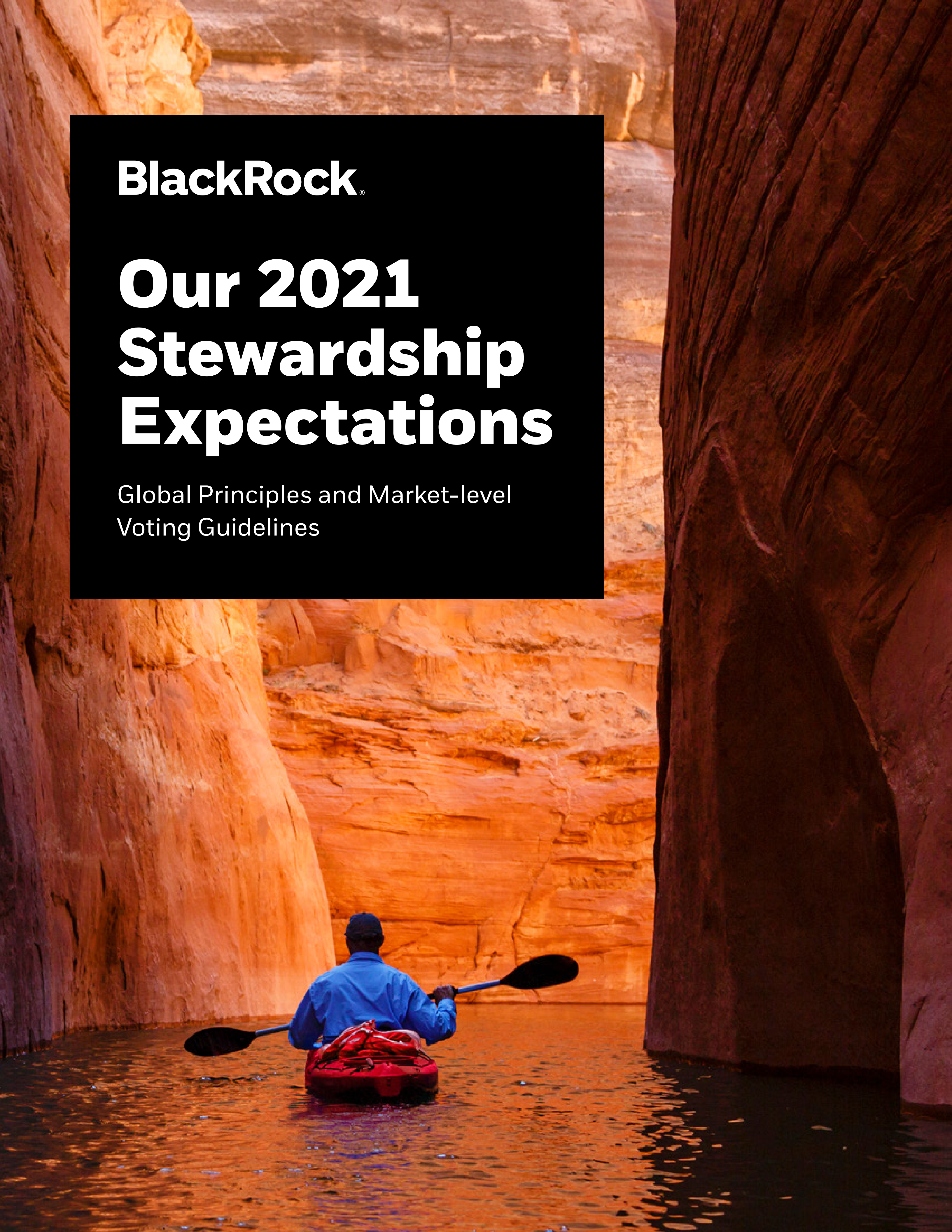
BlackRock

Our 2021 Stewardship Expectations

Global Principles and Market-level Voting Guidelines



Contents

Executive summary

Each year, BlackRock Investment Stewardship (BIS) reviews and updates our Global Principles and market-specific voting guidelines. The rationale for any change is to ensure that our policies are aligned with our commitment to pursuing long-term financial returns for our clients as shareholders. We are pleased to share with you the changes we have made for the coming year and the full set of updated principles and voting guidelines. The updates are the natural next step following on from the commitments BlackRock made this past January.

Our Global Principles set out our stewardship philosophy and our views on corporate governance and sustainable business practices that support long-term value creation by companies. Our market-level voting guidelines provide detail on how we implement the principles taking into consideration local market standards and norms. Together they form the basis for our stewardship activities, including thought leadership, company engagement, and holding companies accountable by voting on management and shareholder proposals.

Key changes in our policies address board quality; the transition to a low-carbon economy; key stakeholder interests; diversity, equity and inclusion; alignment of political activities with stated policy positions; and shareholder proposals.

The events of this year have intensified our conviction that sustainability risk — and climate risk in particular — is investment risk. Therefore, together with updates to our policies on governance factors, we have made several notable changes to our policies on environmental and social factors. These changes reflect our continuing emphasis on board effectiveness alongside the impact of sustainability-related factors on a company's ability to generate long-term financial returns.

The updates to our policies reflect efforts to continuously strengthen our stewardship practices, as well as a number of specific factors, including:

- The demonstrated impact that sustainability-related factors can have on a company's ability to generate long-term risk-adjusted returns;
- The shift we expect to see by companies to align their underlying business models with the goal of limiting global warming to well below 2 degrees Celsius and reaching net zero greenhouse gas (GHG) emissions globally by 2050; and
- The application of our latest insights on the impact voting has on corporate behavior.

Engagement and voting

The impact of votes against directors and for shareholder proposals

We are a long-term investor on behalf of our clients. We ground our analysis and voting decisions on achieving the outcomes most aligned with our clients' long-term economic interests.

We engage on financially material, business relevant issues — including governance, sustainability, and long-term performance — with more companies than any other firm in the industry. Engagement is core to our stewardship efforts as it enables us to provide feedback to companies and build mutual understanding about corporate governance and sustainable business practices.

From July 1, 2019 to June 30, 2020, we engaged with over 2,000 companies and held over 3,000 engagements – both a record number and an increase of more than half over last year – covering 61% by value of our clients' equity investments.

- Where we believe companies are not moving with sufficient speed and urgency, our most frequent course of action will be to hold directors accountable by voting against their re-election. Over the same period, we voted against 55 directors/director-related items on climate-related issues.[1] This is a tool available to us in virtually every market we invest in on behalf of our clients
- Our data, discussed in more detail below, tells us that voting against directors is effective: 83% of the time our votes against directors in the FTSE 350 over remuneration concerns resulted in revisions to pay policies within 12 months
- 41% of companies where we voted against directors for diversity reasons in 2019 increased their board diversity in the following year

Voting for impact

- Our votes against directors on pay led to changes by over 80% of companies
- Our votes against directors on diversity led to improvements by more than 40% of companies
- Companies responded to 75% of shareholder proposals that attracted over 30% support

In preparation for this annual policy review, BIS measured the impact on U.S. corporate behavior of shareholder proposals addressing environmental and/or social issues on their shareholder meeting agenda that received 30% or more votes in favor, a relatively high level of support.

Our findings show that:

- For shareholder proposals that received 30-50% support, 67% resulted in companies fully or partially meeting the ask of the proposal
- For shareholder proposals that received over 50% support, 94% resulted in companies fully meeting the ask of the proposal

For 2021, we are asking companies to demonstrate:

Board and workforce diversity consistent with local market best practice

An understanding of key stakeholders and their interests

Plans to align their business with the global goal of net zero GHG emissions by 2050

Our expectations for 2021

While BIS has been engaging with companies for several years[2] on sustainability issues, this past January, BlackRock wrote to clients about the clearer link between sustainability factors and investment risk and returns.

440
Carbon-intensive companies included in our 2020 focus universe

1,000+
Companies our expanded focus universe will include in 2021

We signaled our intention to engage more deeply and more often with companies in carbon-intensive sectors on climate-related business risks and opportunities as the world addresses the transition to a lower carbon economy.

In the year to June 30, 2020, we focused on a universe of 440 carbon-intensive companies, representing approximately 60% of the global scope 1 and 2 emissions[3] of the companies in which our clients invest. Of these 440 companies, in addition to voting against 55 directors, we put 191 “on watch”, meaning they risk votes against directors in 2021 unless they demonstrate significant progress on the management and reporting of climate-related risk. Beginning in 2021, our expanded focus universe will cover more than 1,000 companies[4] that represent 90% of the global scope 1 and 2 emissions of the companies in which our clients invest.

We communicated our position throughout the past year and expect companies to demonstrate how climate and sustainability-related risks are considered and integrated into their strategy. If a company does not provide adequate public disclosures for us to assess how material risks are addressed, we will conclude that those issues are not appropriately managed and mitigated. This perspective has applied to our voting on management and shareholder proposals since July 1, 2020[5] and is reflected in the key updates to our policies set out below.

In practice

These updated stewardship principles and voting guidelines are informed by the developments we have seen in 2020 and how they have impacted the operating environment for every company as we head into 2021. They mark a shift in our approach to shareholder proposals and reinforce our expectations of boards in their oversight and support of management that will be seen in our voting in the coming year.

Shareholder proposals

We see voting on shareholder proposals playing an increasingly important role in our stewardship efforts around sustainability. Accordingly, where we agree with the intent of a shareholder proposal addressing a material business risk, and if we determine that management could do better in managing and disclosing that risk, we will support the proposal. We may also support a proposal if management is on track, but we believe that voting in favor might accelerate their progress. As a long-term investor, BIS has historically engaged to explain our views on an issue and given management ample time to address it. However, given the need for urgent action on many business relevant sustainability issues, we will be more likely to support a shareholder proposal without waiting to assess the effectiveness of engagement.

Climate risk

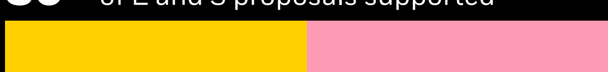
We ask explicitly that the companies in our expanded focus universe disclose a business plan aligned with the goal of limiting global warming to well below 2 degrees Celsius, consistent with achieving net zero global GHG emissions by 2050. Over the second half of 2020, we initiated engagement with 110 companies based in emerging markets or in sectors, such as financial services, that are not directly carbon-intensive but have significant climate risk inherent in their business model.

Since July 1 of this year, we are supporting more E and S shareholder proposals

89% of E proposals supported

For 8 **Against 1**

50% of E and S proposals supported



For 11 **Against 11**

Director accountability since July 1, 2020[6]

We have voted against over 1,200[7] directors on a range of governance and sustainability-related issues.

Shareholder proposals

Since July, there have been 22 environmental and social proposals on issues like climate, deforestation, and diversity, equity, and inclusion put to a vote at shareholder meetings. Our new approach meant we supported 11 of these proposals, or 50%, which we believed were aligned with long-term value. We also supported 31 G proposals out of 113 (27%).

Key stakeholder interests

We ask that companies report on how they have determined their key stakeholders and considered their interests in business decision-making. We also ask that companies effectively address adverse impacts that could arise from their business practices and mitigate material risks with appropriate due diligence processes and board oversight. Beginning in 2021, we are prioritizing a focus universe of approximately 150 companies whose business practices may have resulted in adverse impacts or reflect insufficient management of 'social' sustainability risks.

Diversity, equity, and inclusion (DEI)

We are raising our expectations, in the context of regional norms, on board and workforce ethnic and gender diversity. In our view, diverse personal and professional experiences support the diversity of mindset that contributes to board effectiveness. This view aligns with our conviction that tone from the top matters as companies aim to develop workforces that more closely resemble the customers and communities they serve.
For example, in the UK, we expect companies to adopt the recommendations of the Parker and Hampton-Alexander reviews. We also believe that an inclusive, diverse, and engaged workforce contributes to business continuity, innovation, and long-term value creation. In the U.S., we are asking companies to disclose the diversity of their workforce, including demographics such as race, gender, and ethnicity through the disclosure of EEO-1 data, as well as the actions they are taking to advance DEI and support an engaged workforce.

Lobbying

We will now seek confirmation from companies, through engagement or disclosure, that their corporate political activities are consistent with their public statements on material and strategic policy issues. Moreover, we expect companies to monitor the positions taken by trade associations of which they are active members on such issues for consistency on major policy positions and to provide an explanation where inconsistencies exist.

Board quality

We are raising our regional expectations for director independence and director capacity to serve, reflecting our reliance on strong, engaged, and effective boards to look after investors' long-term economic interests. For example, in Asia we are asking companies to identify a lead independent director who will, as part of their responsibilities, engage with shareholders.

In terms of our own governance, we made a commitment to transparency in our stewardship efforts in January. Since then we have published over 50 voting bulletins, initiated a global quarterly engagement summary listing every company engaged and the topics discussed, and moved from annual to quarterly voting disclosure including a rationale for key votes. We also published eight position papers explaining our approach to engagement with companies on a number of sustainability issues. Having held ourselves to a higher standard for transparency in stewardship, we aim to continue to raise the bar in the coming year.

Early in 2021, we will release our engagement priorities and supporting key performance indicators for the year. We will also release new commentaries outlining our perspectives on companies' impacts on natural capital — the environment beyond climate — and their impacts on people, including customers, employees, suppliers, and communities.

What's new, what's changed

This year, on the back of BlackRock's January 2020 commitments to put sustainability at the heart of everything we do, we conducted a thorough review of our expectations of companies.

Our revised Global Principles and voting guidelines mark several key changes in our expectations across environmental, social and governance factors, as well as changes in how we will hold boards and management accountable in our voting.

We will continue to engage where it matters most, on the material risks and business practices that support sustainable long-term value creation. We will emphasize company disclosures and what they reveal about underlying business practices and long-term plans. We will focus on board quality and effectiveness, holding directors accountable if company practices or disclosures fall short. And we will engage and vote on a case-by-case basis, taking a pragmatic approach as aligned with our clients' long-term economic interests.

Early next year, we will provide further detail about our expectations of companies. This will include our revised engagement priorities and supporting commentaries explaining our approach to engagement on each of these key themes.

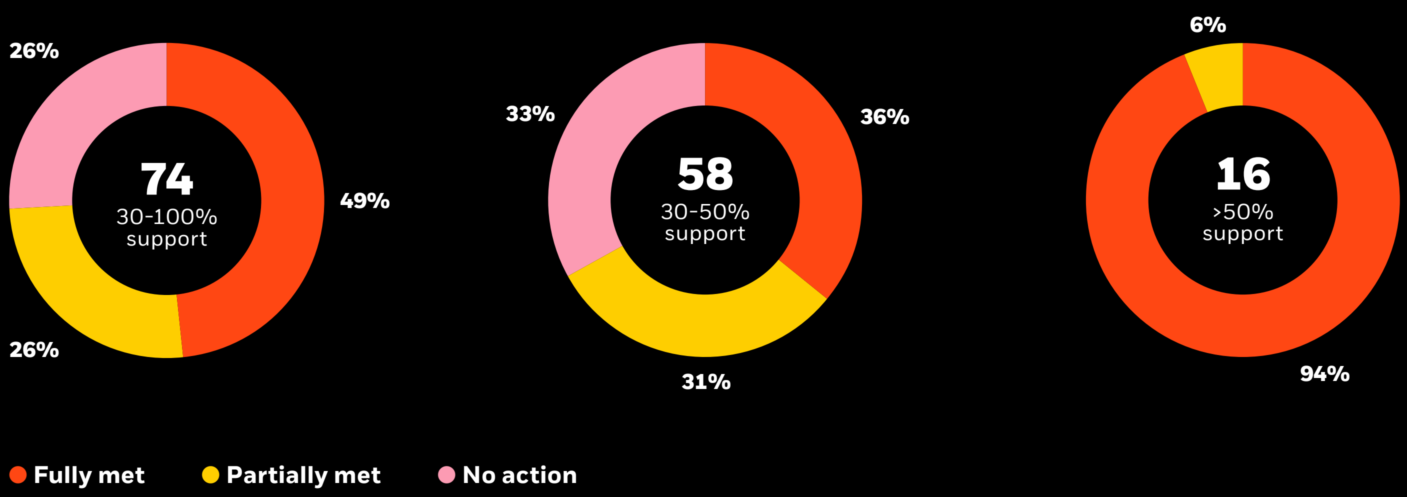
Our principles and practices develop over time and are informed by the feedback we get from clients and companies, market developments, research and insights published by thought leaders, and observations and analysis by BlackRock specialists. This year, BIS analysed the voting tools we use to understand how companies respond to the different signals sent through shareholder votes. Our analysis is described in further detail in the following pages and informs our evolving approach.

Measuring the effectiveness of voting on E&S shareholder proposals

We investigated the relationship between high levels of support for shareholder proposals and subsequent company action.[8] Using Proxy Insight data, we reviewed 74 E&S shareholder proposals from the last three years that received support of 30% or more. We divided this 74-proposal universe into two categories — those that received between 30-50% support (58 proposals), and those that received more than 50% support (16 proposals) to further analyze whether companies fully met the request of the proposal, partially met the request or took no action.[9]

Analysis of E & S shareholder proposals

2017 - 2019*



Source: Proxy Insight, BIS analysis. Percentages are rounded to the nearest whole number.
*July 1, 2017 – December 31, 2019 (not including full 2020 N-PX reporting year)

Our analysis finds that **companies tend to meet the request made in a shareholder proposal if it receives significant support, regardless of whether or not the proposal passes.** Our analysis also confirmed that the proposals on which companies acted addressed material business risks.

Measuring the effectiveness of votes against directors for governance issues

We analyzed the impact of our votes against directors because of concerns over executive compensation policies in the UK and insufficient board diversity in the U.S. Our analysis finds that voting against directors, when we make clear to the company our rationale and expectations, is an effective tool for encouraging positive outcomes.

Executive compensation analysis

We assessed the year-on-year changes to our votes taken against directors of companies in the FTSE 350 over concerns about remuneration in the three years from July 2017 to June 2020. We only voted against a company's directors over remuneration concerns in consecutive years in 17% of cases. **The remuneration concerns we raised were substantively addressed by 83% of companies when we held a director accountable the prior year.**

Board diversity analysis

We reviewed outcomes at companies in the Russell 3000 over the last two years[10] where we voted against director elections due to inadequate gender diversity on the board. In the U.S. we expect boards to have, in addition to other aspects of diversity, at least two women directors.[11] **Nearly 41% of companies where we voted against directors for diversity reasons in 2019 improved their board diversity by 2020.**

Our policy changes explained

We are refining our expectations of boards and management

We aim to be a constructive and supportive long-term shareholder. We look to boards and management to consider their shareholders — our clients — and other stakeholders as they make the decisions that shape their companies.

At BlackRock, we remain firmly convinced that sound company governance — underpinned by a capable, well-functioning board — is integral to our clients' long-term economic interests in the companies we invest in on their behalf. In a well-governed company, the board provides effective oversight of management such that management is aware of and mitigating both idiosyncratic and systemic risks, and capitalizing on strategic opportunities to better position the company for the future.

We modified our principles to be clear that we expect boards to shape and monitor management's approach to material sustainability factors in a company's business model. We will hold directors accountable where business practices or disclosures fall short of our expectations. This is not a new position, but we want to be explicit and clear about our views on board responsibility for sustainability and director accountability.

Independence is of paramount importance to a well-functioning board, and it is clearly linked to long-term value creation.[12] **We clarified our expectations of independence.** In Asia, we are strengthening our expectation that companies name a Lead Independent Director whose duties include meeting with minority investors to ensure their voice is heard.

We have a long-standing expectation in most major markets that board composition should reflect diversity of personal characteristics, including ethnicity and gender, as well as professional experience. **We strengthened our focus on ethnic and gender diversity on large company boards, with an eye toward more voting action against boards not exhibiting diversity in 2022.** In the U.S., we are asking companies to disclose, amongst other things, data on the race and ethnicity of their board members to enable investors to make informed diversity assessments. We will also look more closely at average director tenure, as we seek a balance between the knowledge and experience of seasoned directors and the fresh perspective of newer directors. In the UK, we expect companies to adopt the recommendations of the Parker and Hampton-Alexander reviews. In more developed Asian markets, we are also introducing minimum gender diversity expectations and will begin to take voting action against larger companies failing to meet local market expectations.

Finally, our approach to compensation asks companies to demonstrate that executive compensation is clearly linked to long-term value creation. Globally, our analysts always consider company context in assessing whether compensation policies and outcomes are appropriate. **In Europe, we are asking that companies explicitly consider outcomes for all their stakeholders when making executive compensation decisions.**

We are evolving our approach to shareholder proposals

In most markets, eligible shareholders have the right to make proposals to be voted by shareholders at a company's annual or extraordinary general meeting. They address a range of topics, including governance reforms, capital allocation, and the management and disclosure of environmental and social risks.

We evaluate each proposal on its merit, with a singular focus on long-term value creation. We consider the economic relevance, materiality and urgency of the issue raised, and we consider the legal effect of the proposal in advising or binding company management.

Where we agree that the issue and intended outcome of a proposal are consistent with long-term value creation, we expect the board and management to meet the spirit of the request. **Where our analysis and engagement indicate a need for improvement in a company's approach to an issue, we will support shareholder proposals that are reasonable and not unduly constraining to management.**

We are refining our expectations for how companies manage climate risk

In January, we asked companies to demonstrate they were adequately managing climate and other sustainability-related risks by reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework and metrics provided in the Sustainability Accounting Standards Board (SASB) standards.

We are firmly supportive of these two disclosure approaches and have been encouraged by rapid industry adoption as well as progress toward global convergence in sustainability standards, as discussed in our recent position paper.[13] We welcome recent moves by policy makers and regulators in countries like the UK and New Zealand that recently mandated TCFD reporting, and in others that recommend disclosure aligned with the TCFD and SASB.

In our principles, we clarify our expectation that companies disclose a plan for how their business model will be compatible with a low-carbon economy, that is, one where global warming is limited to well below 2 degrees Celsius and consistent with a global aspiration of net zero GHG emissions by 2050. **This is not a new ask – it is consistent with the TCFD recommendations, on which we have been engaging companies for several years.**

We are broadening the universe of focus companies given the significant physical and/or transition climate-related risk in their business. The extended universe of over 1,000 companies includes the 440 names on our 2020 focus list. This represents 90% of the global scope 1 and 2 emissions of the companies in which our clients invest globally. We will step up our engagement efforts with this universe and consider accelerated voting actions should the substance of companies' climate-related commitments and disclosures not meet our expectations.

We also recognize that for many carbon-intensive companies the credibility of their commitments to manage climate and other sustainability risks may be undermined by their involvement in or affiliations with efforts that seek contradictory public policy aims. **For this reason, we enhanced our disclosure requests in relation to a company's political activities.** We will evaluate whether there is alignment between a company's public statements on policy issues that are material to its strategy and its corporate political activities, including those of the trade associations where they are active members.

We are intensifying our engagement on other environmental and social issues

We are firmly convinced that climate risk — physical and transition risk — presents one of the most significant systemic risk to the long-term value of our clients' investments. But we are also aware that other environmental risks can be material for many companies. For this reason, we continue to engage on a wide range of environmental topics, as outlined in our Approach to engagement with the palm oil industry and our Approach to engagement with agribusiness companies on sustainable business practices commentaries.

In January 2021, we will provide a more holistic commentary on our approach to natural capital. This will deepen our perspectives and expectations on promoting biodiversity and counteracting deforestation. These are topics we actively engage and vote on, particularly in fragile parts of the global ecosystem such as the Amazon Basin and rainforest rich countries in Southeast Asia. It will also address how we expect affected companies to manage the scarce water and energy resources on which they depend to avoid negative impacts that could impair their ability to operate.

We are also keenly aware of the need for companies to translate words into action in looking after the interests of all their stakeholders, particularly in the context of the COVID-19 pandemic. We are more convinced than ever of the words from Larry Fink's 2018 letter to CEOs: "Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders."

We have long engaged with companies on purpose, stakeholder considerations, and human capital management. **When we update our engagement priorities, we will provide a more holistic set of expectations regarding how companies monitor and manage their impacts on people, including their employees, suppliers, customers, communities, indigenous peoples and other stakeholders.** We will prioritize engagement with approximately 150 focus companies whose business practices have resulted in adverse impacts and exposure to material business risks. Additionally, we will raise our expectations that companies take action to advance equity of opportunity within the workforce and make relevant SASB-aligned disclosures. In the U.S., we will ask companies to disclose the diversity of their workforce, including demographic information such as race, gender, and ethnicity.

Our policies in action

We continue to be a supportive long-term shareholder to those companies that demonstrate sound corporate governance and sustainable business practices. But as we have explained in the prior sections, we will hold companies accountable through our voting if they fall short of our expectations. We depend on companies to provide shareholders with the disclosures on the range of material, business relevant issues that enable them to assess practices, performance, and progress. We aim to be transparent about our approach and have provided numerous examples of engagement and high profile votes in Our Approach to Sustainability, our Annual Stewardship Report, and Global Quarterly Reports.

The cases below explain how we have supported recent shareholder proposals to signal concerns about the sustainability of a company's business practices. Where we agree with the intent of a shareholder proposal associated with a material business risk, we will be supportive if we think management could better manage and disclose that risk.

Voting on directors is, in our view, one of our most important responsibilities as leadership from the boardroom is critical to a company's long-term success. It is also a signal of support or concern available globally. In the cases that follow, we also provide recent examples of our holding directors accountable through our voting when they do not seem to be acting in shareholders' long-term interests.

Voting for shareholder proposals that address material business risks

Since July 2020, we have supported eight out of nine environmental proposals and three out of 13 social proposals globally.[14] This reflects our new approach in action and is an indication of our direction of travel as we go into the peak shareholder meeting season in the second quarter of 2021.

Our refreshed approach to shareholder proposals is consistent with and informed by analysis we have done into their effectiveness as a tool for advancing the desired business practices by companies. As always, we continue to follow a case-by-case approach in assessing each proposal on its merits.

Since July 1, we have supported four shareholder proposals at three companies — AGL, Aena and Chr. Hansen — asking companies to produce climate transition plans consistent with our expectations of TCFD-aligned disclosure.

AGL Supporting a shareholder proposal for a plan for retiring coal-fired power by 2035

AGL is Australia's largest power company and is also its largest single producer of CO2 emissions.

AGL has committed to achieve net zero carbon emissions by 2050 and is a market leading investor in renewable energy, including solar, wind, and hydro. We supported a shareholder proposal asking the company to produce a plan for retiring its coal-fired power plants by 2035 in line with a 1.5-degree global warming scenario. While the company has been responsive to investor feedback and has steadily improved its disclosures, including updating its most recent TCFD reporting to include a 1.5-degree scenario framework, we believe there is room for improvement. Moreover, we support the management's efforts to transition their energy mix toward sustainable sources, but we are concerned that the company's coal plant risks becoming a stranded asset if left open until 2048 under current plans. The proposal was supported by 20% of those voting at the shareholder meeting.

Aena Supporting two shareholder proposals for an annual 'Say on Climate'

Aena, a large Spanish airport operator that is 51% owned by the Spanish Government, had two climate-related shareholder proposals, which management ultimately supported, on the agenda at its shareholder meeting. As explained in our voting bulletin, we voted for the proposal requesting an annual 'say on climate', as this is consistent with our expectations for annual disclosures of climate plans using the TCFD framework. We also supported the proposal to embed an annual vote on the climate plan into the company's bylaws, as the company is state-controlled, and this offers additional assurance to minority investors that they will have an opportunity to evaluate the company's climate plan going forward. Both proposals received over 95% support.

We also supported proposals seeking enhanced disclosure of political activities. Some proposals sought general improvements in disclosures while others focused specifically on how a company ensured that the strategically important policy positions of its trade associations were aligned with its own statements. In some cases, like Origin, we see progress on monitoring misalignment, but work remains to minimize the risk of material contradictions in positions, particularly on the energy transition. Some companies, like Cintas, provide no information on their political activities and in our view require significantly more work.

Origin Supporting a proposal on trade association alignment with Paris Agreement

Origin is an Australian integrated energy company which received several shareholder proposals this year. One requested that the company review advocacy activities undertaken by its industry associations related to economic stimulus measures in response to COVID-19 restrictions, and to suspend membership in associations whose activities and lobbying are not in line with the company's commitment to the Paris Agreement. The company has demonstrated leadership among its peers with its transparency on how it manages its industry association memberships. Nonetheless, BIS supported this proposal to signal the importance of the opportunity for Origin to continue to manage the reputational risk of certain memberships by engaging its trade associations to further advance their policy positions in support of the global energy transition. Improved disclosures regarding the company's ability to influence its industry associations would help investors understand and assess the possible misalignment in public positions on key strategic policy issues with those of certain associations of which it is a member. The proposal received 25% support.

Cintas Supporting a proposal on political contributions disclosure

Cintas Corporation, a U.S.-based company that provides specialized corporate products and services, received a shareholder proposal for the second year in a row requesting a report on political contributions. We believe that given the risks that can arise from direct corporate political contributions, companies should develop and maintain robust processes to guide these activities and mitigate such risks, including effective board oversight and adequate disclosure. Accordingly, we supported the proposal because, in our view, the company's disclosures were inadequate, and it had made no visible improvement in response to last year's shareholder request for additional information on this issue, which received 32% support. Along with analysis of the company's current disclosure, we reviewed the company's transparency compared to its peers across industries, based on third party data, in which Cintas scored very poorly (e.g., a score of 0 out of 100 on the CPA-Zicklin index). The proposal received 42% support.

Environmental risk is broader than climate, and we will support proposals that address material environmental risks that a company could be managing to greater effect. This was the case at Procter and Gamble, where we supported a shareholder proposal asking the company to report on whether and how it could increase the scale, pace, and rigor of its efforts to eliminate deforestation and the degradation of intact forests in its supply chains.

We will support proposals on social topics where we believe there is a material risk to the company that has not yet been addressed or disclosed. But we observe that, while many environmentally focused shareholder proposals increasingly address material business risk, proposals on social issues are not always as targeted. Further, some request disclosures that the company is already substantively providing.

Oracle and Procter and Gamble Different voting outcomes for proposals requesting disclosure on diversity, equity, and inclusion efforts

Oracle Corporation is a U.S.-based cloud technology company that provides computing infrastructure and software globally. For the past four years (including the most recent 2020 Annual General Meeting) the company has received a shareholder proposal seeking disclosure on a potential gender and ethnicity pay gap. We supported the proposal this year, as we have in all prior years, given the company's inadequate disclosure, which lags its peers. Additionally, the company faces ongoing legal risks from a recent lawsuit pertaining to allegations of gender discrimination in the workplace. This year, we also voted against the chair of the Nomination and Governance committee due to the company's failure to address this risk. This represented an escalation in signaling our concern to Oracle on this material business issue and is in line with our policy to hold directors accountable when we do not believe a material risk is being adequately managed or disclosed. The proposal received 46% support.

At U.S.-based Procter and Gamble (P&G), one of the largest global branded consumer packaged goods companies, we voted against a shareholder proposal requesting that it publish an annual report assessing the company's diversity and inclusion efforts. In September 2020, the company updated its workforce demographic disclosure to include enhanced gender and ethnic diversity metrics, which addressed the proposal's requests. Moreover, the company's longstanding, multi-pronged initiatives, along with robust human capital management disclosures, place P&G at the forefront of DEI efforts in the market. As a result, we determined that the requested report was not necessary and therefore did not support the proposal. The proposal received 37% support.

Chr. Hansen Supporting a proposal to strengthen country-specific tax disclosures

Chr. Hansen, a global bioscience company based in Denmark, received a shareholder proposal this year requesting the company assess the feasibility of country by country tax reporting, in line with the Global Reporting Initiative framework. BIS supported the proposal, which was also supported by both the company's management and board, as the company recognized the trend in its home market towards providing more detailed tax information on jurisdictions where multinationals operate.

In general, we do not support proposals that we believe to be overly prescriptive or intrusive into the basic decisions of management. For example, we voted against four proposals in Australia that asked management to produce plans to wind down certain business operations at Whitehaven Coal Ltd, Beach Energy, Cooper, and New Hope. Support for the proposals averaged 5%. In such cases, if we believe there is an issue that the company needs to address, we may choose to signal that by voting against directors rather than supporting a shareholder proposal. At both Whitehaven and New Hope we voted against the re-election of a responsible director to signal concern about the quality of disclosure on plans to transition to a low-carbon economy.

Origin Voting against a shareholder proposal on indigenous rights

Origin is an Australian integrated energy company which received several shareholder proposals this year. One requested the company to commission a review of the process used to obtain consent from Aboriginal owners who may be affected by the company's hydraulic fracturing (fracking) activities in the Northern Territory.

We voted against this proposal as Origin had engaged and obtained consent from the Northern Land Council in acquiring the permits for the Beetaloo project. Importantly, the host traditional owners whose land Origin operates on have publicly stated their support for the project. Furthermore, we considered the proposal overly prescriptive, given the short timeframe within which it requested Origin to publish a report (by June 30, 2021). The proposal received 12% support.

Whitehaven Voting against a shareholder proposal but holding a director to account

Whitehaven Coal Ltd, an Australian coal producer, received a shareholder proposal at its 2020 annual shareholder meeting requesting that the company disclose a plan "to wind up its coal production assets and operations in a manner that is consistent with the climate goals of the Paris Agreement." We did not support the proposal given its overly prescriptive nature, as well as the contradiction between the proposal's request and the long-term economic interest of shareholders via winding down all of the company's operations. Nonetheless, we remain concerned about issues such as stranded asset risks and the company's future expansion plans. To signal these concerns, we voted against a non-executive director on Whitehaven's board to encourage the company to proactively and ambitiously manage the climate risk inherent in its business model. We also encouraged the company to continue to develop its strategy to transition its business model and position itself to respond to the continued evolution of the energy sector and long-term policy environment in Australia and globally. The proposal received 4% support.

Holding directors accountable where business practices or disclosures fall short

The (re)election of directors to the board is a near-universal right of shareholders. In our experience, votes against directors send a powerful signal of concern to boards and management. Such votes — accompanied by a well-articulated rationale explained through engagement — tend to focus the minds of board members and lead companies to address the governance and sustainability risk management concerns that we and other investors are raising.

The effectiveness of voting against directors is well-documented in independent research. For example, a recent working paper demonstrates that voting against directors has advanced gender diversity on boards. Researchers found that campaigns by BlackRock, State Street, and Vanguard led firms to add at least 2.5 times as many female directors in 2019 as they had in 2016 and increased a female director's likelihood of holding a key position on the board.[15] This is consistent with our own analysis, described above.

Our expectations of boards and management are higher than ever before. This year, as discussed in our Annual Report, we opposed the (re)election of 5,100 directors globally – sending a strong signal of concern when companies fell short on the issues that matter to us as long-term investors. Governance concerns drove most of these votes, for reasons of:

- Lack of director independence, a particular problem in controlled companies outside the U.S. and the UK;
- Lack of board diversity, where we expect gender diversity in the U.S., EMEA, and elsewhere as a proxy for diversity of characteristics and perspective;
- Director over-commitment, a concern strengthened as the COVID-19 pandemic has forced most companies into crisis mode simultaneously; and
- Executive compensation, where we felt it was misaligned with long-term performance.

As previously noted, in the year to June 30, 2020, we voted against directors at 53 companies for concerns over how they are managing or disclosing climate risk. It is worth stating that this is more than the 42 companies that received a shareholder proposal focused on climate risk in the same period.

At company after company, we are seeing the effect of our combined engagement and voting approach. This includes companies who have made fundamental changes in their climate-related strategies and targets that demonstrate they are managing this important long-term risk. It includes other companies who have responded to our request for improved disclosures using the TCFD framework and the SASB standards.

Kepco Volte face on coal-fired utilities after engagement and voting against directors

State-owned Korea Electric Power Corporation (KEPCO) is South Korea's largest electric utilities service provider. The Korean government owns a controlling stake (approximately 51.1% in aggregate) through the Korea Development Bank and the Ministry of Trade, Industry and Energy which hold 32.9% and 18.2% respectively. We significantly increased our engagement with the company in 2020 on its plans to invest in controversial overseas coal projects. These represent a clear misalignment with KEPCO's stated climate strategy.

We voted against the re-election of three incumbent inside directors at the company's September Extraordinary General Meeting (EGM) to signal our concerns, holding them accountable for the decision to proceed with investing in a coal-fired power plant project in Indonesia. KEPCO's board nevertheless approved another coal-fired project in Vietnam soon after the EGM.

However, in late October, just two weeks ahead of another EGM, KEPCO announced a "shift in overseas business development" stating that it would put a stop to any "further overseas coal-fired plant projects in the future", and that "all overseas coal-fired power plant projects of KEPCO will be terminated by 2050."

While we welcome this announcement, we remain very concerned about the coal-fired power plant projects KEPCO continues to pursue in Indonesia and Vietnam. We will continue to engage with the company on the financial and environmental risks associated with these projects.

We believe the company needs to enhance its disclosure on its long-term plans and the anticipated conversion and/or termination of projects in the Philippines and South Africa. We hope also to better understand how KEPCO intends to make progress on its climate strategy.

Volvo Holding the chairman accountable for inadequate climate action

Volvo, a Swedish manufacturer and distributor of trucks, buses, construction equipment, and marine and industrial engines globally, has significant climate risks inherent in its business, which the company recognizes. At the June shareholder meeting, we voted against the re-election of the chairman of the board as the company had not provided robust reporting on the governance framework around these risks and how they are incorporated into the company's strategy and risk management process. We engaged to make clear our expectations that the company publish long-term adaptation strategies in line with the recommendations of the TCFD by 2021.

In November, Volvo announced its commitment to the Science Based Targets initiative as the next step in its climate strategy and committed to establish targets and roadmaps during 2021 towards being a net-zero emissions company by 2050 at the latest. The company also announced that "to improve the disclosure of climate-related risks and opportunities, Volvo supports the TCFD and will continue to adopt its recommendations."

Engaging to enhance company reporting

Corporate disclosure of both data and narrative on material business risks underpin our analysis. It is the broadest form of engagement that companies can undertake and helps investors to understand how well boards and management are leading a company to long-term success.

Sanderson Farms The effectiveness of engagement on enhanced disclosure and corporate strategy

Sanderson Farms, the third largest poultry producer in the U.S, received two shareholder proposals at its 2020 AGM requesting reports on water resource risks and on the company's human rights due diligence process. We engaged with management to understand their intended response to the proposals. Based on our analysis and engagement with the company, we did not support either proposal. We determined that Sanderson Farms' existing policies and processes adequately addressed the proponents' concerns regarding the company's oversight of the environmental and social issues pertaining to water stewardship and human rights. Moreover, the company had already committed to improving its disclosure following engagements with its largest shareholders, including BlackRock, by aligning reporting with the SASB framework. True to its commitment, in September, Sanderson Farms published an updated 2019 Corporate Responsibility Report aligned with its industry's SASB standard.

Conclusion

In Larry Fink's letter to CEOs this year, BlackRock committed as a firm to make sustainability our new standard driven by our investment conviction that sustainability risk — and climate risk in particular — is investment risk. We committed to increase our understanding of how sustainability-related factors can affect economic growth, asset values, and financial markets overall. We committed to increase our understanding of how sustainability-related factors can affect economic growth, asset values, and financial markets overall and make them integral to the way BlackRock manages risk, constructs portfolios, designs products, and engages with companies.

Our January stewardship commitments support our fiduciary duty — to pursue sound governance and sustainable business practices that support long-term value creation by the companies that we invest in on behalf of our clients. The stewardship team engaged clients and companies on those themes extensively in 2020. Informed by those conversations and our own insights, we are evolving the way we use our key tools — industry thought leadership, engaging with companies, and voting at shareholder meetings — to ensure that companies are adequately managing and disclosing the material sustainability risks with long-term value implications for our clients' investments.

The changes we have made to our stewardship principles and voting guidelines strengthen our expectations of management and boards in ensuring companies have a sustainable long-term business model.

The 2021 shareholder meeting season will see boards and management scrutinized over their response to the COVID-19 pandemic. In addition to that near-term challenge, investors and others will be looking to see how companies are rebuilding their businesses for long-term sustainability and value creation. We hope that our revised principles and voting guidelines provide a clear indication to companies of our expectations as a long-term shareholder on behalf of our clients.

Appendix

BIS voted on 22 Environmental and Social Shareholder Proposals from July 1 to December 4, 2020.

Company name	Proposal summary	BIS vote	Additional voting action taken
Aena S.M.E. SA	Approve Instructions to the Board to Present the Climate Action Plan at the 2021 AGM **BIS Vote Rationale:** Company has committed to doing what the request is asking and a vote for may accelerate progress (management also recommended shareholders support the proposal)	For	n/a
Aena S.M.E. SA	Amendment of the Bylaws to add a new Article 50b to Require that the Company Maintain a Current Climate Action Plan **BIS Vote Rationale:** Company has committed to doing what the request is asking and a vote for may accelerate progress (management also recommended shareholders support the proposal)	For	n/a
AGL Energy Limited	Approve Coal Closure Dates **BIS Vote Rationale:** Request is clear, material and company should be doing more	For	n/a
Alimentation Couche-Tard Inc.	Adopt a Responsible Employment Policy While Ensuring Its Employees a Living Wage **BIS Vote Rationale:** Company already substantively doing what the request is asking	Against	n/a
Beach Energy Limited	Approve Capital Protection: Request a Plan to Wind up Oil and Gas Production Assets and Operations **BIS Vote Rationale:** Request made is too prescriptive	Against	n/a
BHP Group Limited	Approve Suspension of Memberships of Industry Associations where COVID-19 Related Advocacy is Inconsistent with Paris Agreement Goals **BIS Vote Rationale:** Request is clear, material and company should be doing more	For	n/a
BHP Group Plc	Approve Suspension of Memberships of Industry Associations where COVID-19 Related Advocacy is Inconsistent with Paris Agreement Goals **BIS Vote Rationale:** Request is clear, material and company should be doing more	For	n/a
Chr. Hansen Holding A/S	Starting from Financial Year 2020/21, the Company must Apply the Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) as the Framework for Climate-Related Disclosure in the Company's Annual Report **BIS Vote Rationale:** Request is clear, material and company should be doing more	For	n/a
Chr. Hansen Holding A/S	Instruct Board to Complete an Assessment of the Ability of the Company to Publish Country-by-Country Tax Reporting in line with the Global Reporting Initiative's Standard (GRI 207: Tax 2019) starting from Financial Year 2021/22 **BIS Vote Rationale:** Request is clear, material and company should be doing more	For	n/a
Coloplast	Instruct Board to Complete an Assessment of the Ability of the Company to Publish Country-by-Country Tax Reporting in line with the Global Reporting Initiative's Standard (GRI 207: Tax 2019) starting from Financial Year 2021/22 **BIS Vote Rationale:** Request is clear, material and company should be doing more	For	n/a

Appendix continued

Company name	Proposal summary	BIS vote	Additional voting action taken
Cooper Energy Limited	Approve Capital Protection: Request a Plan to Wind up Oil and Gas Production Assets and Operations **BIS Vote Rationale:** Request made is too prescriptive	Against	n/a
Insurance Australia Group Ltd.	Approve IAG World Heritage Policy **BIS Vote Rationale:** Company already substantively doing what the request is asking	Against	n/a
New Hope Corporation Limited	Approve Capital Protection: Request a Plan to Wind up Coal Production Assets and Operations **BIS Vote Rationale:** Request made is too prescriptive	Against	BIS **voted against directors** for insufficient disclosure on climate issues
Oracle Corporation	Report on Gender Pay Gap **BIS Vote Rationale:** Request is clear, material and company should be doing more	For	BIS **voted against directors** for insufficient disclosure on social issues
Origin Energy Limited	Approve Consent and Fracking **BIS Vote Rationale:** Company already substantively doing what the request is asking	Against	n/a
Origin Energy Limited	Approve Lobbying and COVID-19 Recovery **BIS Vote Rationale:** Request is clear, material and company should be doing more	For	n/a
Tesla, Inc.	Report on Paid Advertising **BIS Vote Rationale:** Company already substantively doing what the request is asking	Against	n/a
Tesla, Inc.	Report on Employee Arbitration **BIS Vote Rationale:** Company already substantively doing what the request is asking	Against	n/a
Tesla, Inc.	Additional Reporting on Human Rights **BIS Vote Rationale:** Company already substantively doing what the request is asking	Against	n/a
The Procter & Gamble Company	Report on Efforts to Eliminate Deforestation **BIS Vote Rationale:** Request is clear, material and company should be doing more	For	n/a
The Procter & Gamble Company	Publish Annually a Report Assessing Diversity and Inclusion Efforts **BIS Vote Rationale:** Company already substantively doing what the request is asking	Against	n/a
Whitehaven Coal Limited	Approve Capital Protection: Request a Plan to Wind up Coal Production Assets and Operations **BIS Vote Rationale:** Request made is too prescriptive	Against	BIS **voted against directors** for insufficient disclosure on climate issues

Endnotes

1 As reported in our 2020 Annual Report, published in September, we voted against management on 55 director-related items for insufficient progress on climate disclosures. Director-related items includes management proposals to elect directors or supervisors, as well discharge and election of board chairman proposals.

2 We began this process with a series of letters in 2017 and 2018, regarding the need to enhance disclosure of climate risks and how they will impact business models over time, prioritizing companies with the most carbon-intensive business models where BlackRock's clients collectively were significant shareholders.

3 By convention, emissions in most companies' disclosures, and the databases that aggregate these, are reported in tonnes CO2 equivalent (GHG emissions in tCO2e). They include carbon dioxide (CO2) but may also include methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF6) and nitrogen trifluoride (NF3). All these gases contribute to climate change. Instead of reporting them separately, the convention is to convert and disclose them as a single figure.

4 The sectors included in the universe are communication services, consumer discretionary, consumer staples, energy, financials, health care, industrials, information technology, materials, real estate, and utilities.

5 Most companies globally hold their shareholder meetings in the second quarter of the year. The SEC requires certain regulated funds to file an annual record of voting for the year July 1 to June 30. This is the reporting year for BIS.

6 July 1, 2020 to December 4, 2020.

7 Votes against include withholding support and abstentions.

8 This was a comprehensive set of those receiving this level of support.

9 Fully met: company disclosed a report addressing the topic raised in the shareholder proposal (typically within 1-1.5 years); Partially met: company took related, but not direct action on the topic raised in the shareholder proposal, such as making a commitment to address it, (typically within 1-1.5 years); No action: company did not address the topic raised in the shareholder proposal.

10 The SEC requires certain regulated funds to file an annual record of voting for the year July 1 to June 30. This is the reporting year for BIS.

11 https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-us.pdf

12 Numerous academic studies have established a link between sound corporate governance practices and superior operational and financial performance over time. See: Appel, Ian, Todd Gormley, and Donald Keim (2016): 'Passive Investors, Not Passive Owners', Journal of Financial Economics. Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2475150; Correa, Ricardo and Ugur Lel (2016): 'Say on Pay Laws, Executive Compensation, Pay Slice, and Firm Valuation Around the World', Journal of Financial Economics. Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2430465; Cuñat, Vicente, Mireia Gine, and Maria Guadalupe (2012): 'The Vote is Cast: The Effect of Corporate Governance on Shareholder Value', Journal of Finance. Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=155596 or https://www.nber.org/papers/w16574; Flammer, Caroline and Pratima Bansal (2017): 'Does a Long-Term Orientation Create Value? Evidence From a Regression Discontinuity', Strategic Management Journal. Available at: https://onlinelibrary.wiley.com/doi/abs/10.1002/smj.2629

13 https://www.blackrock.com/corporate/literature/publication/blk-commentary-sustainability-reporting-convergence.pdf

14 In the year to June 30, 2020, BIS voted on 153,000 proposals of which 1,100 (0.7%) were submitted by shareholders. Nearly 900 of these addressed governance issues, with the remaining 200 split relatively evenly between environmental and social issues. We supported 15% of shareholder proposals, predominantly those on governance issues.

15 The Big Three and Board Gender Diversity: The Effectiveness of Shareholder Voice; Todd A. Gormley, Vishal K. Gupta, David A. Amtsa, Sandra C. Mortal and Lukai Yang; November 6, 2020.

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