BlackRock.

Our approach to sustainability

BlackRock Investment Stewardship

Introduction

We believe sustainability is core to value creation for our clients

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

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

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

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

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

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

"Our approach on climate issues, in particular, is to focus our efforts on sectors and companies where climate change poses the greatest material risk to our clients' investments.

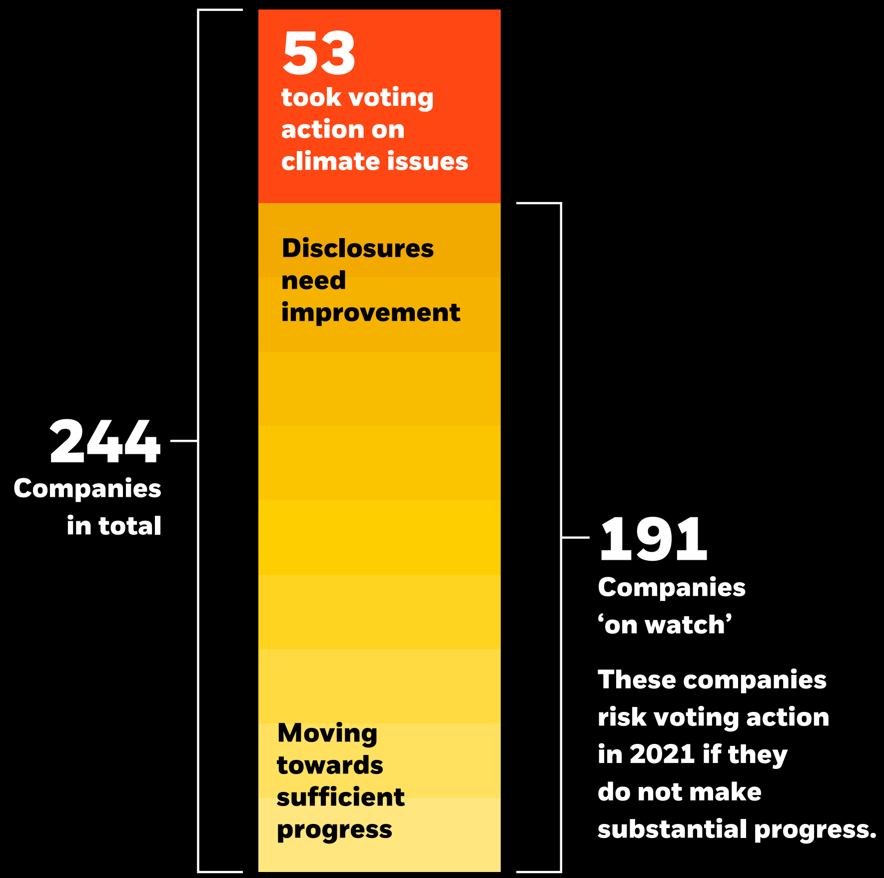
Engagement
is how we build our understanding of a company's approach to governance and sustainable business practices, and how we communicate our views and ensure companies understand our expectations.

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

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

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

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



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

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

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

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

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

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

"The COVID-19 crisis, and more recently the protests surrounding racial injustice in the United States and elsewhere, have underscored the importance of these issues and a company's commitment to serving all of its stakeholders.

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

Section 1

Our approach on climate engagement

Our approach on climate engagement
Voting actions
Placing companies ‘on watch’
Initiating engagement

Our approach on climate engagement

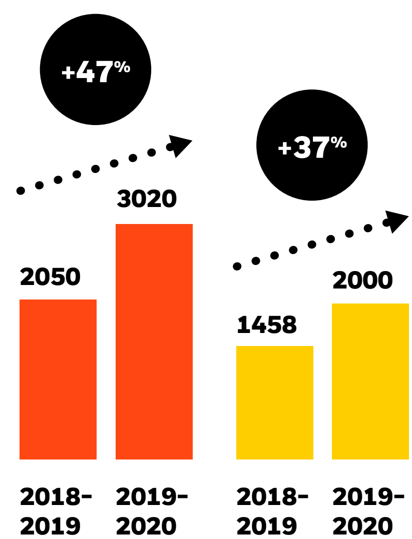
We have been engaging for several years with companies – particularly those in carbon-intensive industries – regarding the need to enhance disclosure of climate risks and how they will impact business models over time. We began this process with a series of letters in 2017 and 2018, prioritizing companies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

Our objective was to bring the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to the attention of company leadership and ask them to consider reporting in line with the TCFD framework. This past January, we elevated our request, explicitly asking companies to report in line with TCFD standards.

In our direct dialogue with company leadership, we seek to understand how a company's strategy, operations and long-term performance would be affected by the transition to a low-carbon economy and other climate risks. Broadly, we aim to ensure that companies are effectively managing the risks and opportunities presented by climate change and that their strategies and operations are aligned with the transition to a low-carbon economy – and specifically, the Paris Agreement's scenario of limiting warming to two degrees Celsius or less, which is laid out in the 'Metrics and Targets' pillar of the TCFD framework. Such engagement can help inform the approach taken by corporate leadership as they advance their sustainability practices and disclosure.

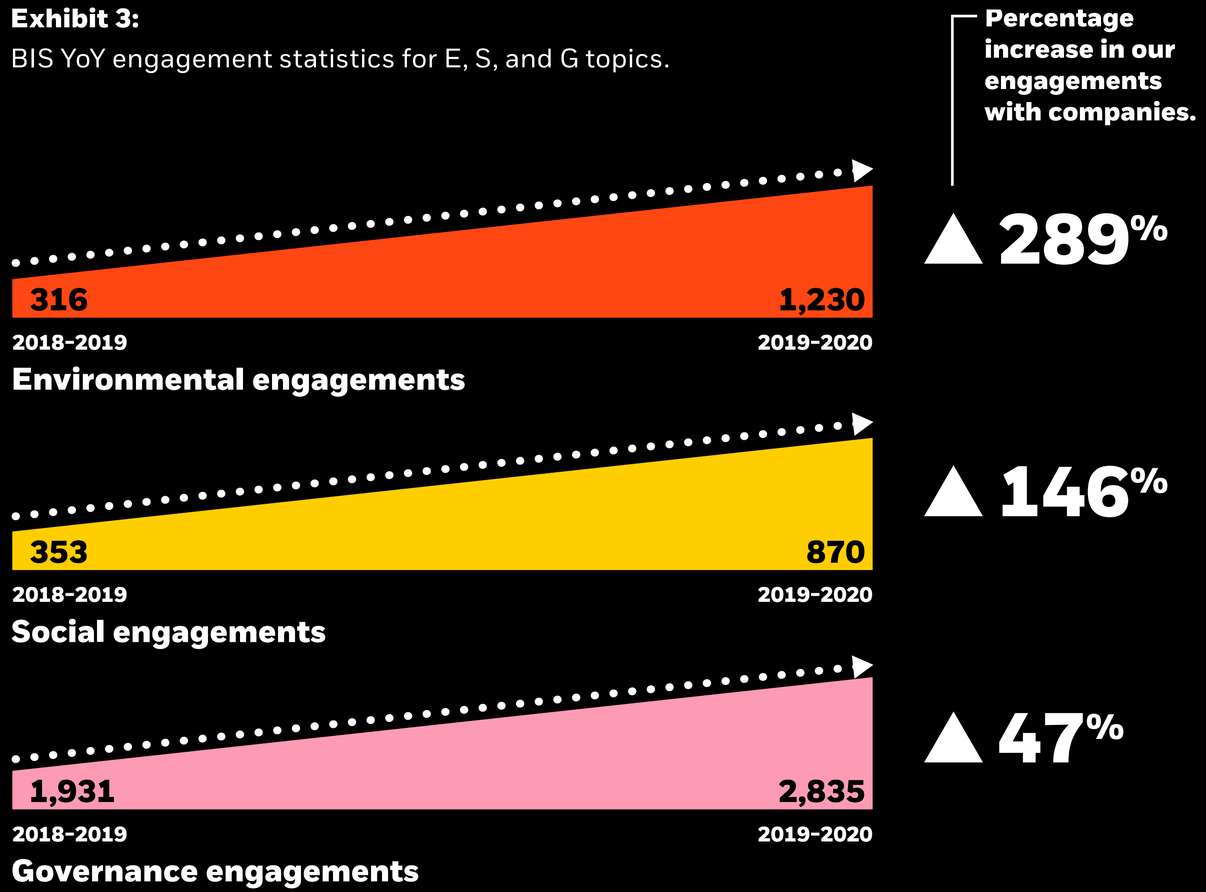
"We began this process with a series of letters in 2017 and 2018.

Exhibit 2:
BIS YoY total engagements and issuers engaged.



Source: BlackRock Investment Stewardship, preliminary data as of June 30, 2020.

Exhibit 3:
BIS YoY engagement statistics for E, S, and G topics.



Source: BlackRock Investment Stewardship, preliminary data as of June 30, 2020. Source: Most engagement conversations cover multiple topics. As such, these totals will not match the totals displayed in Exhibit 2.

Our approach employs a natural escalation process. If we are not satisfied with a company's disclosures, we typically put it 'on watch' and give the company 12 to 18 months to meet our expectations. (The complexity of many sustainability issues may necessitate detailed reviews of operations by the company if it is to make substantive disclosures that inform investors.) If a company has still failed to make progress after this timeframe, voting action against management typically follows.

In our engagements, we often see examples of companies whose disclosures, targets, and business practices on climate issues align with our expectations. We have identified over 60 who fit this category. For these companies, we will continue to engage to ensure that their long-term capital investments and business decisions continue to align with the commitments they have made.

Voting actions

When we vote against a company, we do so with a singular purpose: maximizing long-term value for shareholders. There are two main categories of our voting actions: holding directors accountable and supporting shareholder proposals. Both can be valuable tools in the stewardship toolkit. Shareholder proposals, while often non-binding and less common outside of the U.S., can garner significant attention and send a strong public signal of disapproval. Our approach typically employs votes against directors more frequently since they are a globally applicable signal of concern; additionally, significant votes against directors register strongly with both the individual director and the full board, and, importantly, failure to win a substantial majority frequently results in a director stepping down before the next annual meeting.

> **We usually express our concern about lack of effective governance of an issue by voting against the re-election of those directors with oversight responsibility for the issue of concern or those in senior leadership roles on the board.**

In certain European markets, concerns about a board's performance may be reflected by a vote against the approval (or 'discharge') of a board's actions over a year. Electing directors is a fundamental shareholder right in the vast majority of the markets in which BlackRock invests on behalf of our clients, with elections held annually at most companies. As such, it is an effective, globally applicable tool to hold companies accountable for poor governance practices in general, and for lack of progress on sustainability issues more specifically.

Voting on shareholder proposals offers another way to express targeted disapproval of a company's policies or practices. BIS may support shareholder proposals that address issues material to a company's business model, which need to be remedied urgently and that, once remedied, would help build long-term value. We may support proposals seeking enhanced disclosure if the information requested would be useful to us as an investor and if management has not already substantively provided it. To gain our support, the requests made in a shareholder proposal should be reasonable and achievable in the time frame specified. In some cases, shareholder proposals address issues that may not be material to the company's business operations or risk or suggest changes that are not reasonably achievable within the specified timeframe. In such instances, we generally decline to support the

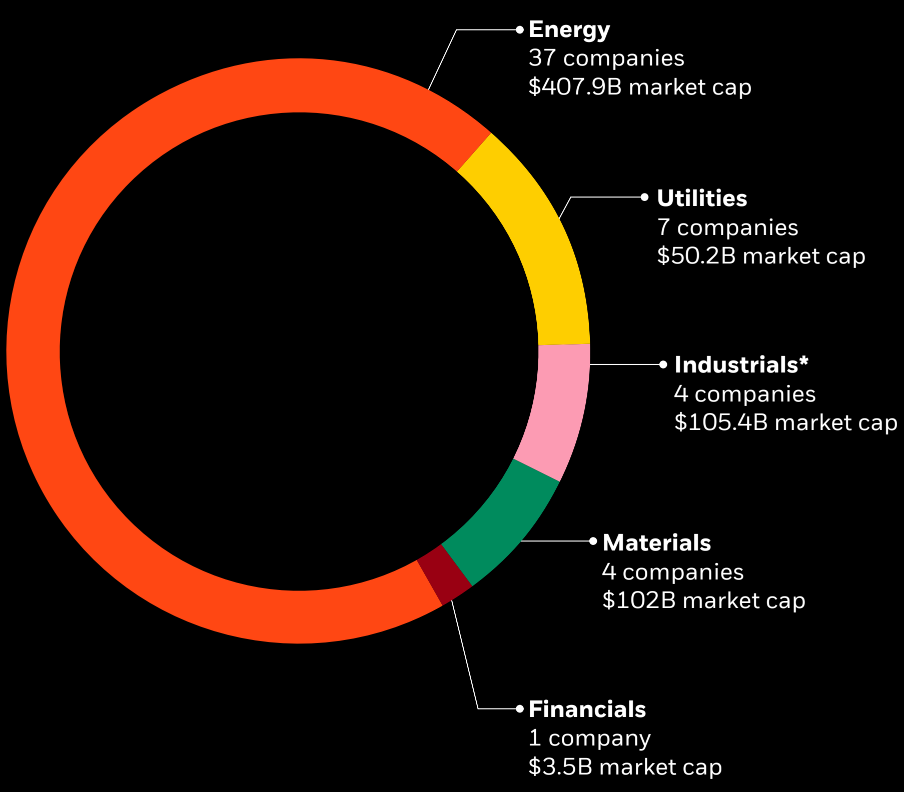
> **There are two main categories of our voting actions: holding directors accountable and supporting shareholder proposals.**

proposals but may vote against directors where we agree that the proposal highlights a failure (such as insufficient climate risk disclosure).

During the 2020 proxy season, we took voting action against 53 companies for their failure to make sufficient progress regarding climate risk disclosure or management. Voting action means that we voted against the re-election of one or more members of a company's board, voted against the discharge of directors or the entire board in certain European markets, or voted for one or more climate-related shareholder proposals.

A wide variety of investors, including BlackRock, have expressed their concerns about the investment risks of insufficient climate risk management. In 2020, we took voting action against those companies where we found corporate leadership unresponsive to investors' concerns about climate risk or assessed their disclosures to be insufficient given the importance to investors of detailed information on climate risk and the transition to a low-carbon economy. In the appendix, in Exhibit 5, is a list of companies that we held accountable through voting for a lack of progress on climate risk disclosures.

Exhibit 4:
53 companies globally where we took voting action this year for their lack of progress on climate, across carbon-intensive sectors.*



* Includes Automobiles from the Consumer Discretionary sector.

Source: ISS Proxy Exchange; BlackRock Investment Stewardship.

Case study

ExxonMobil

Voted against directors due to significant concerns about climate risk management; supported a shareholder proposal on governance.

We have engaged with ExxonMobil for several years on the issue of climate risk management. In 2020, we expressed to Exxon that we have continued to see a gap in the company's disclosure and action with regard to several components of its climate risk management.

We have centered our engagements with Exxon around our request to companies to align their reporting with the recommendations of the TCFD and SASB, which is particularly urgent for carbon-intensive companies such as Exxon. These disclosures would allow shareholders to better assess how the company is considering climate-related risk in its strategy and how its portfolio aligns with the transition to a low-carbon economy. In response to an investor vote, Exxon released its Energy and Carbon Summary in 2018, which partially follows the four pillars of the TCFD framework. However, despite yearly incremental adjustments, we do not believe that full adherence with TCFD standards has been achieved.

We continue to have several areas of significant concern: Exxon's failure to have clear, long-term greenhouse gas reduction targets; the company's lack of disclosure around the degree of warming it expects under its stated strategy; and a lack of evidence that the board is fulfilling its duties of independent oversight and leadership.

Since there was not a relevant shareholder proposal on climate risk disclosure, the best path to express our disapproval was voting action against directors. BIS voted against the lead independent director as well as the chair of the relevant committee responsible for disclosures and climate policy oversight. Further, we voted in favor of a shareholder proposal asking the company to commit to separating the roles of chair and chief executive when the current chair/CEO vacates the role. The latter vote reflects our view that the board has not been responsive to shareholder feedback and concerns regarding climate risk management.

Case study

TransDigm

Voted against a director for lack of progress on climate risk reporting; supported shareholder proposal to adopt emissions goals.

TransDigm is a U.S. aviation manufacturer. BIS engaged the company in 2019 on its lack of climate risk reporting. The company made no progress by the 2020 annual meeting, despite its commitments to enhance disclosures, so BIS voted for a shareholder proposal asking TransDigm to adopt quantitative greenhouse gas emissions goals and voted against the re-election of the board chair.

Case study

Fortum

Voted against directors; abstained from shareholder proposal.

Fortum is a Finnish electricity generation utility company. In early 2020, it undertook a transaction that significantly increased its exposure to coal-fired power generation and therefore the carbon intensity of its business. BIS considered this a retrograde step not aligned with long-term shareholders' interests. We held the board and president accountable by voting against their discharge. There was also a shareholder proposal for Fortum to specify an alignment of business operations with a target of limiting global warming to 1.5 degrees Celsius by amending the company's Articles of Association. We believe that amending the articles is not the most suitable tool to address climate-related matters, but we agreed with the proposal's overall goals of climate risk preparedness, and so we abstained from this proxy item rather than voting for or against.

Case study

Air Liquide

Voted against director and raised governance concern.

At Air Liquide, a French gas technologies and services company, we voted against the independent non-executive director standing for re-election as the board does not require annual elections of directors. Our vote signaled our concern about the company's lack of progress on TCFD-aligned disclosures. In our engagement, we encouraged the company to move to annual election of all directors (rather than staggered elections).

Placing companies 'on watch'

244

Companies we identified as not making sufficient progress in 2020.

191

Companies we have put 'on watch'.

Of the 244 companies we identified as not making sufficient progress in 2020, we have placed 191 companies 'on watch' regarding climate disclosure. While these companies' disclosures are insufficient based on our assessment today, and as such raise concerns about long-term value creation, we did not take voting action this year. We expect each of these companies to make substantial progress prior to the 2021 annual meeting or risk our voting action against boards and management in 2021.

In some cases, these companies had legitimate concerns that delayed their progress on climate issues in 2020, such as responding to the economic crisis and existential threat to business models sparked by the COVID-19 pandemic. In other cases, disclosure standards are evolving for certain sectors, for example, there are several concurrent projects between financial services companies and key institutions, such as the United Nations, that will enhance future reporting. These projects aim to develop reporting methodologies on scenario analysis, stress tests, and science-based Scope 3 emissions definitions and measurement for companies. As a result, we expect companies outside carbon-intensive sectors to be better positioned to provide more complete TCFD-aligned reporting in the near future.

In our assessment, many of these companies are making progress to provide sufficient disclosures by year-end 2020. However, other companies have yet to fully acknowledge the risks and opportunities posed by the transition to a low-carbon economy.

Case study

Woodside

Publicly raised concern about insufficient progress on climate risk and reporting.

Woodside is an Australian oil and gas energy company. BIS has engaged with Woodside leadership over several years on climate risk and reporting. While we agreed with the intention of a shareholder proposal submitted to the company's 2020 shareholder meeting, we were concerned that the proposal bundled a request for public targets aligned with the Paris Agreement for Scope 1, 2 and 3 emissions by 2021[2]. Calculating targets for Scope 3 emissions is an evolving practice and we did not believe it appropriate to require the company to publish this information within such a short time frame. Nonetheless, we publicly stated that we expect Woodside to continue to review and set ambitious emissions reductions targets as the natural gas sector improves its ability to understand and manage Scope 3 emissions.

Initiating engagement

We have identified 110 other companies across carbon-intensive sectors to initiate engagement with in the second half of 2020. These 110 companies represent over $2.7 trillion in market cap of carbon-intensive industries, nearly 1.7 billion tons of CO^2 emissions (Scope 1 and 2) and over $132 billion of our clients' exposure.

These are companies where we have had limited or no climate-related conversations to date but have potentially engaged on a number of other governance-related topics. These companies generally fall into two categories. The first category is companies based in emerging market countries that are heavily reliant on carbon-intensive sources of energy such as coal, and as a result, at an earlier stage of addressing climate change. The second category is companies in sectors that are in the next wave in tackling climate change, such

2 Greenhouse Gas Protocol: "The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions."

as financial services, whose emissions generally are what is considered Scope 3. While we have already had conversations with a number of banks, we plan to increase these engagements over the next year as the sector improves its understanding of Scope 3 disclosures.

Case study

Korea Electric Power Corporation

Company alerted to our concerns, direct dialogue to be initiated.

As part of our increased engagement across the Asia Pacific region, BIS wrote to the CEO of the Korea Electric Power Corporation and raised concerns over planned investments in three coal-fired power plants in Vietnam and Indonesia. We plan in subsequent direct dialogue to discuss the strategic rationale for the company's involvement, given these projects appear to be misaligned with its energy transition commitments.
In addition, we will encourage the company to provide enhanced disclosures on these projects and its progress in addressing climate risk in its business.

Case study

Standard Chartered

Strong disclosures and underlying practices in financial sector.

Our engagement to date with United Kingdom-based financial services company Standard Chartered is an example of the dialogue we plan to initiate across the sector on climate risk. BIS has identified Standard Chartered as a leader in the sector in climate-related business practices and disclosures. The board's risk committee oversees climate risk and it has a dedicated climate risk team with clear accountability to senior management. We have engaged with the company's board, sustainability team, and executive management to gauge the extent to which climate is a strategic priority; they believe the company is uniquely positioned to have a positive role in the transition to a low-carbon economy given the markets in which it operates. The company participates in a number of industry initiatives to advance market level developments and regularly assesses and strengthens its goals. For example, the company increased its target to mobilize financing to create $35 billion in clean technology and renewable power between 2020-2025 from a previous goal of $4 billion towards clean energy technology between 2016-2020.

Section 2

Promoting transparency on climate and broader sustainability risks

Promoting transparency on climate and broader sustainability risks

Engaging on TCFD and SASB to drive adoption

Climate Action 100+

Sustainability issues beyond climate

Our commitment to transparency

Promoting transparency on climate and broader sustainability risks

BIS has long been committed to initiatives that inform and influence governance and reporting practices at the market level, which helps benefit not only our clients but all investors. In relation to climate risk, we have advocated for companies to report in line with the TCFD and SASB frameworks.

We have engaged companies on grounds similar to the strategy of Climate Action 100+, which we joined in January of this year. BIS also enhanced its own disclosures of its stewardship activities to help clients, companies and other stakeholders to better understand our engagement, voting, and advocacy.

> **We believe that all investors need a clearer picture of how companies are managing sustainability-related risks and opportunities.**

Engaging on TCFD and SASB to drive adoption

We believe that all investors need a clearer picture of how companies are managing sustainability-related risks and opportunities.

We advocate for companies to use the TCFD framework and SASB standards as the basis for their sustainability reporting. Both are practitioner-led and continue to evolve in response to feedback from stakeholders on the materiality of certain sustainability issues, on what information is most relevant to investment decision-making and on the need for globally applicable, industry-specific reporting standards. BlackRock contributes to improving market practices, as an original member of the TCFD Board and a member of the Investor Advisory Group of the SASB. We also expect that emerging regulatory standards, particularly the European Union's Non-Financial Reporting Directive, will provide the granular, comparable metrics and targets that investors are seeking.

TCFD and climate engagement in developing market countries

Developing countries and their companies are at very different stages in terms of climate risk management and disclosures relevant to investors. For much of the developing world, sustainability-related disclosure norms are nascent and there is considerable opportunity in the coming years for reporting and target-setting to improve, supported by policy developments and investor engagement.

In our view, the TCFD framework is a valuable tool for enhancing how companies in developing markets can manage and disclose information pertaining to material risks and opportunities from climate change. In the first half of this year, we wrote letters to the CEOs of companies representing 90% of the Asia ex-Japan market to bring our expectations for TCFD-aligned disclosures to their personal attention.

Climate Action 100+

BlackRock joined Climate Action 100+ (CA 100+) in January of this year, a natural progression in our work to advance corporate reporting aligned with TCFD. CA 100+ is a group of investors that engages with companies to improve climate disclosure and align business strategy with the goals of the Paris Agreement.

Prior to joining, BlackRock was a member of the group's five partner organizations[3]. BIS's climate engagement universe includes nearly all of the companies in the CA 100+ list (except those whose ownership structure means we doubt our engagement would influence corporate behaviors). Beyond the CA 100+, BIS's climate engagement universe also includes over 200 additional companies that we believe warrant prioritization. CA 100+ members benefit from the group's collective insights, but each investor determines how to vote their holdings independently of other members[4].

As a member of CA 100+'s Asia Advisory Group, and the Asia-region sponsoring organizations, we seek to provide the group with strategic insight into the characteristics of local Asian markets to help inform engagements. Together with Cathay Financial, we have taken on the role of lead investor in engagement with China Steel, a Taiwanese company. In this engagement, we are encouraging China Steel to enhance its climate disclosures and to pursue more ambitious targets and investment plans to transition its business in line with a lower than 2-degree Celsius scenario.

3 Asia Investor Group on Climate Change (AIGCC); Ceres; Investor Group on Climate Change (IGCC); Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI).

4 As the CA 100+ website notes: "All investor signatories to the Climate Action 100+ initiative are responsible for their own voting decisions – this includes pre-declaration and vote solicitation. Climate Action 100+ investor networks do not seek to provide voting recommendations or to facilitate block voting."

Case study

Total

BIS engages independently with CA 100+ focus company.

Total is a French oil and gas energy company. BIS has engaged extensively with Total over many years on climate risk and the implications for its long-term strategy. Earlier this year our engagement intensified to encourage the company to pursue more ambitious greenhouse gas (GHG) emissions reductions targets. Other CA 100+ members also engaged with Total over that same period. On May 5, the company issued a joint statement with members of the CA 100+ collaborative effort announcing new net zero emissions ambitions for parts of its business and more aggressive 2050 targets for reductions in the carbon intensity of its energy products used by its customers.

Because of this progress, BlackRock and many other members of CA 100+ declined to support a shareholder proposal seeking enhancements to the company's long-term targets, since the company, through its own actions (as reflected in the joint Total-CA 100+ statement), had already substantively met the request made in the proposal.

Sustainability issues beyond climate

Since the beginning of the COVID-19 pandemic, we have engaged with more than 380 companies across all 11 GICS sectors and 29 countries globally to understand how they are balancing short-term pressures created by the COVID-19 crisis with efforts to oversee long-term material financial and operational performance.

In particular, we have focused on how the crisis has impacted companies' commitment to sustainable social practices – that is, the compensation, employee development and advancement, working conditions for employees and suppliers, local community outreach,

> **"We have long made human capital management one of our engagement priorities.**

and other measures companies put in place to build a diverse, engaged workforce and a strong corporate culture within supportive local communities.

It is our investment conviction, grounded in research[5], that companies with sustainable business practices can deliver better long-term, risk-adjusted returns. Companies with clear purpose that build strong relationships with their employees, suppliers, and other stakeholders are more likely to meet their strategic objectives, while poor relationships can reduce productivity, harm product and service quality, and even jeopardize a company's social license to operate.

For this reason, we have long made human capital management one of our engagement priorities. Our broad approach to human capital management touches upon eight of the UN's Sustainable Development Goals – including decent work and economic growth, gender equality, reduced inequalities, and good health and well-being. Well-supported employees, who align with the company's purpose, are more likely to be engaged and play a central role in creating sustainable long-term value. As such, our approach focuses on the board's effectiveness in overseeing how a company meets the expectations of its workforce.

In our recent engagements, we have found many companies that are finding ways to strengthen their commitment to employees and other stakeholders during the pandemic, from establishing employee relief funds to providing meals to local hospitals.

Because COVID-19 poses an existential threat for many companies, it is also straining the social contract between companies and their employees and other stakeholders. As companies reduce staffing levels and restart post-lockdown, for many workers, the promise of decent work in safe conditions feels increasingly remote. In some countries, the resultant economic dislocation has heightened economic, gender and racial inequality. As long-term investors, we believe that companies forced into difficult choices affecting employees, suppliers and local communities – especially those companies receiving government financial support – need to make prudent, balanced decisions about executive and board compensation and allocation of capital.

"It is our investment conviction, grounded in research[5], that companies with sustainable business practices can deliver better long-term, risk-adjusted returns.

5 BlackRock Investment Institute: Sustainable Investing: a 'why not' moment; Sustainability: the bond that endures.

Where we are unconvinced that companies are preserving their social license to operate – whether in the context of the pandemic or more broadly – we may take voting action.

For example:

- We voted against management at Tyson Foods, a U.S. packaged food company, by supporting a shareholder proposal on supply chain due diligence because we were not satisfied with the company's disclosures and practices around sustainable working conditions.
- We voted against the re-election of a director at McKesson, a U.S. pharmaceutical company, for the company's failure to take adequate remedial action for their role in the U.S. opioid crisis.
- We supported a shareholder proposal at financial services company Santander Consumer USA where we were concerned that the risks of racial discrimination in lending practices were not being managed in a transparent and effective manner.
- We supported a shareholder proposal at U.S. technology company Fortinet that demanded greater disclosure around the company's diversity and inclusion efforts.
- And we voted against management at Ocado, a UK online grocery retailer, over concerns that the board did not exercise appropriate oversight of executive compensation given the current economic environment, potentially harming its relationship with consumers.

We believe issues that could threaten a company's license to operate will become even more acute in the wake of the COVID-19 crisis.

We have also engaged extensively over the year on purpose and culture, which both reflect whether a company exhibits a stakeholder-focused orientation. In our recent engagements, many companies have described to us the importance as they responded to COVID-19 of the prior work they have done to align their mission, vision, and values with their day-to-day operations.

> **The consistent message we have heard is that a strong, purpose-driven culture provides companies with a unifying concept for employees and external stakeholders on which they depend.**

“

We also will continue to emphasize the importance of diversity in the board room.

Case study

Danone

Strong stakeholder orientation supports long-term business model.

Under a law introduced in 2019, French companies may amend their bylaws to articulate their raison d'etre or purpose, or even designate themselves as an entreprise à mission – a company whose stated purpose is aligned with specific social, societal, and environmental objectives. BIS engaged on multiple occasions over the past year with the board and management of Danone ahead of its proposal in June 2020 to amend its bylaws to become an entreprise à mission. This proposal was supported by more than 99% of the company's shareholders, including BlackRock. Through our engagement, the company communicated to us how the designation would allow Danone to take the next step in its journey to embed a balanced, profitable and sustainable growth model within its business, and in particular establish what it has described as a strategic framework for its commitments on environmental and social issues. We viewed the company's efforts to operate in the interests of its many stakeholders both a timely decision and a strong signal of good governance.

As noted above, in January, we asked companies to publish disclosure aligned with SASB standards, which includes disclosing the racial and ethnic profile of their U.S. workforce. In the second half of 2020, as we assess the impact of companies' response to COVID-19 and associated issues of racial equality, we will be refreshing our expectations for human capital management and how companies pursue sustainable business practices that support their license to operate more broadly. We will be increasingly disposed to vote against management as and when companies fail to appropriately balance the needs of stakeholders in the post-COVID-19 age. We will also continue to emphasize the importance of racial, ethnic, and gender diversity in the board room.

Our commitment to transparency

Just as we seek transparency from the companies in which we invest on behalf of our clients, BIS seeks to be transparent in its stewardship activities by publishing global governance and engagement guidelines, market specific voting guidelines, quarterly and annual activity reports, and a range of thought leadership pieces.

In January, we committed to enhancing the transparency of our stewardship practices, which we believe we owe to our clients and the broader set of stakeholders in those companies.

Since January, we've taken action to deliver on these commitments, including publishing:

Global quarterly stewardship report
Reports which provide case studies on individual engagements and data on the number of companies engaged with globally across a range of E, S and G topics, including COVID-19-related issues.

Global quarterly engagement activity
A new summary with topic-level detail that includes a list of every company (688 for the first quarter of 2020) with which we engaged in the quarter, as well as the topics of engagement.

Quarterly vote disclosures
We moved disclosure of our rationale for key votes from an annual basis to a quarterly basis.

Vote bulletins
Publications detailing our votes and rationale on complex or high-profile votes. For the year to June 30, 2020, we have published bulletins for votes at 35 companies.

Position papers
We have continued to add to our library of position papers, explaining our approach to engagement with companies on a number of sustainability issues, including climate risk, sustainable agribusiness, GHG emissions targets and TCFD- and SASB-aligned reporting.

Enhanced client reporting
Implemented a new capability through Aladdin® to deliver portfolio-specific company engagement reports for our clients.

We continue to look for opportunities, such as this report, to provide clients and others with insight into the work of BIS and the outcomes achieved through engagement and voting.

BlackRock Investment Stewardship leadership team

Sandra Boss
Senior Managing Director,
Global Head of Investment Stewardship

Michelle Edkins
Managing Director,
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Ray Cameron
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Amar Gill
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Amra Balic
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Appendix

Exhibit 5:
List of 53 companies where we have taken voting action this year for lack of progress on climate.

Company name	Sector	Voting action taken
Adams Resources	Energy	Voted against directors/discharge
Air Liquide SA	Materials	Voted against directors/discharge
Allete Inc	Utilities	Voted against directors/discharge
Arch Coal Inc	Energy	Voted against directors/discharge
Athabasca Oil Corp	Energy	Voted against directors/discharge
Atlantic Power Corporation	Utilities	Voted against directors/discharge
CEZ a.s.	Utilities	Voted against directors/discharge
Chaparral Energy	Energy	Voted against directors/discharge
Cheniere Energy Inc	Energy	Voted against directors/discharge
Chevron Corp*	Energy	Supported climate-related shareholder proposal
CNX Resources Corp	Energy	Voted against directors/discharge
Concho Resources Inc	Energy	Voted against directors/discharge
Consol Energy Inc	Energy	Voted against directors/discharge
Daimler AG	Consumer Discretionary	Voted against directors/discharge
Delek US Holdings Inc	Energy	Voted against directors/discharge
Deutsche Lufthansa AG	Industrials	Voted against directors/discharge
Diamond Offshore Drilling Inc	Energy	Voted against directors/discharge
EVRAZ Plc	Materials	Voted against directors/discharge

* Shareholder proposal at Chevron Corp requested additional disclosures on how the company's lobbying activities are aligned to the Paris agreement. BIS recognizes Chevron as having a high quality of other climate risk disclosures and thus considered that their disclosure on political activities could be further strengthened.

Exhibit 5: continued

Company name	Sector	Voting action taken
ExxonMobil Corp	Energy	Voted against directors/discharge
		Supported climate-related shareholder proposal
Fortum Oyj	Utilities	Voted against directors/discharge
		Abstained from climate-related shareholder proposal
Forum Energy Technologies Inc	Energy	Voted against directors/discharge
Frontera Energy Corp	Energy	Voted against directors/discharge
Gibson Energy Inc	Energy	Voted against directors/discharge
Goodrich Petroleum Corp	Energy	Voted against directors/discharge
Grupo Mexico SAB de CV	Materials	Voted against directors/discharge
HeidelbergCement AG	Materials	Voted against directors/discharge
iA Financial Corporation Inc	Financials	Supported climate-related shareholder proposal
Laredo Petroleum Inc	Energy	Voted against directors/discharge
Liberty Oilfield Services Inc	Energy	Voted against directors/discharge
Magellan Midstream Partners LP	Energy	Voted against directors/discharge
NACCO Industries Inc	Energy	Voted against directors/discharge
National Fuel Gas Co	Utilities	Voted against directors/discharge
Noble Energy Inc	Energy	Voted against directors/discharge
Northern Oil and Gas Inc	Energy	Voted against directors/discharge
NuStar Energy LP	Energy	Voted against directors/discharge
Ovintiv Inc	Energy	Supported climate-related shareholder proposal
Par Pacific Holdings Inc	Energy	Voted against directors/discharge

Exhibit 5: continued

Company name	Sector	Voting action taken
Paramount Resources Ltd	Energy	Voted against directors/discharge
Peabody Energy Corp	Energy	Voted against directors/discharge
PGE Polska Grupa Energetyczna SA	Utilities	Voted against directors/discharge
REX American Resources Corporation	Energy	Voted against directors/discharge
RPC Inc	Energy	Voted against directors/discharge
SandRidge Energy Inc	Energy	Voted against directors/discharge
SilverBow Resources Inc	Energy	Voted against directors/discharge
Tamarack Valley Energy Ltd	Energy	Voted against directors/discharge
TORC Oil & Gas Ltd	Energy	Voted against directors/discharge
TransAtlantic Petroleum Ltd	Energy	Voted against directors/discharge
TransDigm Group Inc	Industrials	Voted against directors/discharge
		Supported climate-related shareholder proposal
Transocean Ltd	Energy	Voted against directors/discharge
Uniper SE	Utilities	Voted against directors/discharge
U.S. Silica Holdings Inc	Energy	Voted against directors/discharge
Volvo AB	Industrials	Voted against directors/discharge
W&T Offshore	Energy	Voted against directors/discharge

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

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