

BlackRock

Investment Stewardship

2022 Policies Updates
Summary



BlackRock's purpose is to help more and more people experience financial well-being. We manage assets on behalf of institutional and individual clients, the majority of whom are investing to meet long-term financial goals, such as a secure retirement. Investment stewardship is central to our fiduciary responsibilities to our clients to advance their long-term economic interests. We engage with companies to promote corporate governance standards and sustainable business models that we believe contribute to the durable, long-term profitability our clients depend on to meet their financial goals. At BlackRock we take this responsibility very seriously and, consistent with our leadership position in the industry, have invested to establish one of the largest investment stewardship teams.

Our Policy Updates in Context

Each year, BlackRock Investment Stewardship (BIS) reviews and updates our [Global Principles](#) and [market-specific proxy voting guidelines](#). These documents set out the core elements of corporate governance that guide our investment stewardship activities globally and within each regional market, including when voting at shareholder meetings. Our policies are informed by the fact that many of BlackRock's clients are investing to achieve long-term financial goals.

BIS is committed to constructive, long-term-focused engagement that supports companies in their efforts to deliver durable, long-term value to shareholders. As companies' operating environments change in response to consumer trends, public policies, and macroeconomic factors – and corporate governance standards evolve in

response – so must our policies. At the same time, we recognize that companies are facing continued uncertainty and pressures in a challenging business environment.

We update our Global Principles and regional voting guidelines annually to reflect changes in market standards and to help companies understand our views on emerging corporate governance issues. In 2021, we made updates to our policies in line with BlackRock's intensified focus on sustainability across all our investment activities on behalf of clients. In this context, our 2022 policy updates are more incremental, seeking to reflect our latest views on certain governance issues and incorporating insights gained from company engagements, client feedback, regulatory developments, and BlackRock and third-party research. Below we outline five notable updates we have made to our 2022 Global Principles, which are:

01

Climate risk: We continue to ask that companies disclose a net zero-aligned business plan that is consistent with their business model and sector. For 2022, we encourage companies to demonstrate that their plans are resilient under likely decarbonization pathways, and the global aspiration to limit warming to 1.5°C. We also encourage companies to disclose how considerations related to having a reliable energy supply and just transition affect their plans.

02

Board diversity: We are strengthening our focus on diversity of personal characteristics on boards, which in our view should aspire to have meaningful diversity of membership, at least consistent with local market regulatory requirements and best practices. We recognize that building a strong, diverse board can take time.

03

Sustainability reporting: Given continuing advances in sustainability reporting standards, in addition to our ask that all companies report in alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we are evolving our perspective on sustainability reporting to recognize that companies may use standards other than that of the Sustainability Accounting Standards Board (SASB), and reiterate our ask for metrics that are industry- or company-specific.

04

ESG in executive compensation: We highlight that if environmental, social, and governance (ESG) criteria are included in executive compensation programs, those metrics should be rigorous, aligned with a company's strategy and business model, and linked to company performance.

05

Changes to corporate form: We introduce our position that companies or shareholders proposing to change a company's corporate form (e.g., public benefit corporation) should put the measure to a shareholder vote, if not already required to do so under applicable law. Managers or shareholders proposing the changes should clearly articulate in their proposal how shareholders and different stakeholders would be impacted.

Overall, our views on investment stewardship topics continue to reflect the corporate governance standards and norms that we believe support long-term value creation, developed over the years through our engagements with companies, clients, practitioners, and the broader market. The market-specific voting guidelines have been updated to reflect these changes, along with any changes specific to the local market. Our revised policies will be effective from January 1, 2022. In Q1 2022, we will publish updated Engagement Priorities and thematic commentaries, which will provide greater detail on BIS' areas of focus that we believe can contribute to companies' ability to deliver sustainable long-term financial performance.

01 | Understanding the Energy Transition

Over the last two years, BlackRock has made sustainability a key component of the way we manage risk, construct portfolios, design products, and engage with companies, based on our conviction that sustainability risk – and climate risk in particular – is investment risk.

We understand that climate change can be very challenging for many companies as they seek to drive long-term value by mitigating risks and capturing opportunities. A growing number of companies, financial institutions, and governments have committed to advancing net zero. There is growing consensus that companies can benefit from the more favorable macroeconomic environment under an orderly, timely, and just transition to net zero. Many companies are asking what their role should be in contributing to a just transition – in ensuring a reliable energy supply and protecting the most vulnerable from energy price shocks and economic dislocation. They are also seeking more clarity as to the public policy path that will help align greenhouse gas (GHG) reduction actions with commitments.

In this context, BlackRock in 2021 asked companies to disclose a plan for how their business model will be aligned with the global aspiration to reach net zero GHG emissions by 2050, consistent with their business model and sector. As part of this disclosure, for 2022, **we encourage companies to demonstrate that their plans are resilient under likely decarbonization pathways, and the global aspiration to limit warming to 1.5°C.** We also encourage companies to disclose how considerations related to having a reliable energy supply and just transition affect their plans.

Consistent with our current approach, we will continue to look for companies to set short-, medium-, and long-term science-based targets, where available for their sector, for GHG reductions and to demonstrate how their targets are consistent with the long-term economic interests of their shareholders. Companies have an opportunity to use and

contribute to the development of alternative energy sources and low-carbon transition technologies that will be essential to reaching net zero. We also recognize that some continued investment is required to maintain a reliable, affordable supply of fossil fuels during the transition. We ask companies to disclose how their capital allocation across alternatives, transition technologies, and fossil fuel production is consistent with their strategy and their emissions reduction targets.

02 | Progress on Board Diversity

BIS has long asked boards to consider diversity in their director nomination process. We are interested in diversity in the board room as a means of promoting diversity of thought and avoiding 'group think', which we believe leads to more innovative decisions and better long-term economic outcomes for companies and our clients. We ask boards to disclose how diversity is considered in board composition, including demographic characteristics such as gender, race/ethnicity, and age, as well as professional characteristics, such as a director's industry experience, areas of expertise, and geographic location. We assess a board's diversity in the context of a company's domicile, business model, and strategy.

When nominating new directors to the board, we ask that there is sufficient information on the individual candidates so that shareholders can assess the suitability of each individual nominee and the overall board composition. These disclosures should give an understanding of how the collective experience and expertise of the board aligns with the company's long-term strategy and business model.

We have engaged companies on board diversity for many years. That engagement informs our voting guidelines for 2022. For example, **in the U.S., we believe boards should aspire to 30% diversity of membership and encourage companies to have at least two directors on their board who identify as female and at least one who identifies as a member of an underrepresented group.** We will look to the largest companies (e.g., S&P 500) for continued leadership.

In the UK, we continue to look for companies to have boards with at least 33% female directors and encourage them to have at least one director of color, in line with the recommendations of the Hampton-Alexander and Parker reviews, respectively.

In other markets globally, we believe boards should aspire to meaningful diversity of membership, at least consistent with local regulatory requirements and best practices, while recognizing that building a strong, diverse board can take time.

Board demographic diversity can usefully be disclosed in aggregate, consistent with local law. Our approach will necessarily be sensitive to companies' individual circumstances, including the market in which they operate and their size. However, as society and workforces become increasingly diverse, BIS believes that diverse boards can promote greater diversity and resilience in the leadership team and the workforce more broadly, and ultimately enable companies to better respond to the needs of their stakeholders and deliver long-term shareholder value.

03 | Evolving Sustainability Reporting

As we have for several years, BIS will continue to ask companies to make robust sustainability disclosures so investors can more effectively assess the management of the environmental and social drivers of risk and value in their business. This will continue to include asking companies to report in line with the recommendations of the TCFD and to supplement that disclosure with metrics that are industry- or company-specific. The TCFD framework is a useful way for companies to disclose how they identify, assess, manage, and oversee a variety of sustainability-related risks and opportunities. SASB's industry-specific guidance can help companies identify key performance indicators across various dimensions of sustainability that are financially material within their industry.

Given continuing advances in sustainability reporting standards, **we recognize that some companies, in addition to TCFD, may report using standards other than SASB**, and in certain cases are required to by regulation. In such cases, we ask that companies highlight the metrics that are industry- or company-specific.

We have long called for a single, globally consistent set of baseline sustainability reporting standards on which different jurisdictions can build. We welcomed the announcement by the International Financial Reporting Standards Foundation in November 2021 that it would form an International Sustainability Standards Board (ISSB), which will work to deliver a comprehensive, global baseline of sustainability-related disclosure standards. We believe this will help drive progress toward the convergence needed to improve the quality of information available to investors and other stakeholders, while reducing the reporting burden on companies. We also hope the ISSB will build on the work that's already been done to establish industry-specific standards that explain material sustainability factors driving enterprise value creation, such as those developed by SASB.

04 | Addressing ESG Metrics in Executive Compensation

Our principles have long articulated our view that performance metrics for incentive plans should be stretching and aligned with a company's long-term strategy and business model. BIS looks to the board to set incentive pay targets that are transparent and linked to performance. In response to inquiries from companies, as well as greater interest among other stakeholders, we have added to our 2022 Global Principles that BIS does not have a binary position on the use of ESG-related criteria in compensation programs, but believes that **where companies choose to include them, those metrics should be aligned with a company's strategy and business model and should be as rigorous as other financial and operational targets.**

05 | Introducing Our Position on Changes to Corporate Form

We have observed growing interest in how a company's purpose is enshrined in its legal structure. In our 2022 Global Principles, we explain that we believe it is the responsibility of the board to determine the corporate form that is most appropriate given a company's purpose and business model. **Companies proposing to change their corporate form to a public benefit corporation, or similar entity, should put it to a shareholder vote**, if not already required to do so under applicable law. Supporting documentation from companies or shareholders proposing the change should clearly articulate how the interests of shareholders and different stakeholders would be impacted, as well as the accountability and voting mechanisms that would be available to shareholders should a company change its corporate form. As a fiduciary on behalf of clients, we generally support such management proposals if our analysis indicates that shareholders' interests are adequately protected. As in all cases, shareholder proposals on this issue are evaluated on a case-by-case basis.

Looking ahead to 2022

These policies are deliberately high level and not prescriptive. We want to inform investee companies of our views on key corporate governance and sustainability matters and to help them identify areas where their approach may differ and thus where engagement may be warranted. We also aim to provide transparency to our clients about our views on the corporate governance and sustainability practices that we promote at the companies in which BlackRock is invested on their behalf. We anticipate that the focus on good governance, sustainability, and company performance will continue to evolve in the coming year. Strong leadership and responsiveness to changing conditions will be key to delivering value for shareholders in the face of near-term business challenges and longer-term shifts in society, including the global energy transition.

Want to know more?

blackrock.com/stewardship | ContactStewardship@blackrock.com

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