

Directive II – Engagement Policy

Investment Stewardship

This statement explains how BlackRock Investment Stewardship (BIS) meets the requirements in the Shareholder Rights Directive II relating to the team's stewardship activities, and, specifically, BIS' engagement with management teams and/or board members at the public companies in which BlackRock invests on behalf of clients. The below references extensively materials published on the BlackRock website explaining our approach to engagement and stewardship more broadly. Other materials not explicitly referenced below may also be relevant to the reader and can be found on the [Investment Stewardship](#) section of the BlackRock website.

Investment stewardship at BlackRock

As part of our fiduciary duty to our clients as an asset manager, BlackRock considers it one of our responsibilities to promote sound corporate governance as an informed, engaged shareholder on behalf of clients. At BlackRock, this is primarily the responsibility of the Investment Stewardship team, which monitors companies and provides them feedback. Investment Stewardship's purpose is to support companies in their efforts to deliver long-term durable financial returns on behalf of our clients, the vast majority of whom are investing for long-term goals such as retirement.

BlackRock's approach to investment stewardship is outlined in our policies, i.e. the BIS [Global Principles](#) and [market-level voting guidelines](#). Our policies set out the core elements of corporate governance that guide our investment stewardship activities globally and within each regional market, including when engaging with management teams and/or company board members, and/or voting at shareholder meetings for those clients who have authorized BIS to vote on their behalf. We recognize that accepted standards and norms of corporate governance differ between markets; however, in our experience there are certain fundamental elements of governance practice that are intrinsic globally to a company's ability to create long-term value. Our market-level voting guidelines provide detail on how BIS implements the Global Principles, taking into consideration local market standards and norms. All our policies, as well as our engagements and voting activities, are underpinned by our commitment to act as a fiduciary to BlackRock's clients to advance their long-term financial interests.

BlackRock Investment Stewardship team

BIS serves as a link between our clients and the companies they invest in – and the trust our clients place in us, and the nature of their investments, gives us a great responsibility to encourage sound corporate governance practices to advance their long-term financial interests. Our clients depend on BlackRock to help them meet their investment goals; the business and governance decisions that companies make will have a direct impact on our clients' long-term investment outcomes and financial well-being.

With one of the industry's largest teams of (70+) stewardship and governance specialists from a range of disciplines, BIS is well-equipped to bring a globally consistent, locally nuanced perspective to our clients and to the companies in which we invest on their behalf. We engage with companies throughout each year and our engagements often span multiple years. This leads to stronger relationships with companies and more constructive outcomes for shareholders and businesses alike. We work closely with BlackRock's active investment teams to help ensure our stewardship work is grounded in encouraging the practices that support long-term corporate financial performance, rather than the pursuit of good governance for its own sake. Our analysts' sector expertise and local market knowledge allows for informed dialogue on the issues most material to companies' ability to create durable, long-term value for our clients. This depth of experience also enables us to make informed, considered voting decisions – we do not rely on the recommendations of proxy advisors.

We aim to take a measured approach to the stewardship policy enhancements that inform our voting, maintaining a consistent year-on-year view on what we find to be helpful as investors in assessing the material governance and sustainability-related risks¹ facing the companies we invest in for our clients.

The [BIS primer](#) details the team's approach and describes the core components of our stewardship work.

Analysis and integration

BlackRock integrates corporate governance and material sustainability-related insights and data into our investment processes across asset classes and investment styles through a process described as "ESG integration."² Within this approach, BIS benefits from both internal and external resources which can be used in our analysis of and conversations with companies. These include internal research frameworks, the views of and research by BlackRock's active investment teams, as well as sector and industry research from various external service providers (in addition to relevant qualitative and quantitative company information).

BIS' investment stewardship work contributes to this effort to integrate material sustainability insights into the investment process to enhance clients' long-term risk-adjusted returns. BIS exchanges engagement insights with BlackRock's investment teams globally on corporate governance practices and material sustainability-related factors, and performance matters relevant to investment decisions, via the internal Aladdin® platform. In this way, our stewardship efforts benefit from firmwide data and insights on sustainability-related issues, and our investment teams benefit from the perspectives derived from our stewardship activities – an effective positive feedback loop.

Company engagement

We firmly believe in the value of engaging with companies. Encouraging responsible business operations serves the interests of long-term investors in public companies. BIS engages companies on behalf of BlackRock's equity index funds and accounts and coordinates with portfolio managers with active positions in a company. When BIS engages a company, we do so from the perspective of a long-term investor. Engagement enables us to have ongoing dialogue with management teams and/or boards at the companies we invest on clients' behalf and build our understanding of the opportunities and challenges they face. This is particularly important for our clients invested in indexed funds, which represent a significant majority of BlackRock's equity assets under management.³ Engagement may also inform our voting decisions on behalf of clients (see further below) and allows BIS to provide feedback on companies' corporate governance practices and disclosures, particularly where BIS believes they could be enhanced. Similarly, it provides BIS an opportunity to hear directly from company boards and management on how they believe their actions are aligned with durable long-term value creation.

Each year, BIS prioritizes our engagement work around themes that BIS believes support long-term value creation by companies. Some governance issues are perennial, such as board quality and performance, although the areas of focus may change over time. Other issues have become priorities more recently, driven by our observations of emerging risks and opportunities for companies, market developments, and changing client and societal expectations. BIS' [engagement priorities](#) and [supporting commentaries](#)⁴ are published on the BlackRock website, with the aim of providing clients, companies BlackRock invests in on behalf of clients, and industry participants, more visibility into the topics on which BIS will be focusing and how BIS will engage companies on those topics.

Voting rights

As an asset manager, BlackRock has a fiduciary responsibility to vote shares for those clients who authorize us to vote on their behalf. BIS instructs the majority of the votes BlackRock is authorized to exercise, as approximately 90% of the equity investments BlackRock manages on behalf of clients are in index strategies. Active portfolio managers retain voting authority for the shares of companies held within their portfolios but generally vote consistent with BIS' recommendations given our similar views on drivers of long-term value.

BIS votes in support of management and boards where and to the extent they demonstrate an approach consistent with creating durable long-term shareholder value. We may engage a company's board and management to explain any concerns we have about a company's approach. Following our engagement, we may signal through our voting that we have outstanding concerns, generally by not supporting the election of directors we view as having responsibility for an issue. BIS applies our [voting guidelines](#) to achieve the outcome we believe is most aligned with clients' long-term economic interests.

As mentioned above, active equity investors with positions in a company retain the right to vote the shares held in their portfolios independently of, or consistent with, BIS' recommendation. For routine governance and other non-controversial matters, active portfolio managers typically follow BIS' recommendations. On non-routine matters, BIS and active equity investors discuss the situation and may engage together with the company. The active investor determines whether to follow BIS' recommendation or vote differently to best fulfil their fiduciary duty to the clients invested through their portfolios.

BlackRock believes that clients should, where possible, have more choices as to how they participate in voting their shareholdings. In January 2022, BlackRock introduced "Voting Choice", an industry first and a proprietary offering that enables institutional clients to participate in voting decisions where legally and operationally viable. Announced in October 2021, BlackRock Voting Choice aims to make proxy voting easier and more accessible for eligible clients. BlackRock is committed to a future where every investor can participate in shareholder voting. The Voting Choice [website](#) contains more information about this offering, including the four options eligible clients can choose from to participate in BlackRock Voting Choice.

Working with stakeholders

In addition to our engagement and voting activities on behalf of clients, BIS also contributes to the development of global norms and industry standards through participation in public policy consultations and private sector initiatives, consistent with our clients' interests as long-term investors. For example, BIS participates in market-level industry discussions on behalf of our clients to offer perspective on the value of better disclosures for long-term investors. BIS partners with BlackRock's Global Public Policy Group to establish a BlackRock view on emerging corporate governance and stewardship-related policy issues or existing policies that are under review. Details of positions and perspectives BlackRock has taken on key policy issues and initiatives can be found on the BlackRock [website](#).

BIS generally engages individual issuers independently, rather than alongside other asset managers or asset owners. In our experience, this approach enables us to best advance our clients' long-term financial interests. In addition, BIS is sensitive to the regulatory ramifications of collaborative engagement, particularly with respect to U.S. issuers and issuers with U.S.-listed securities. BIS may participate in collaborative engagements with other shareholders in limited instances, where permissible under local regulations and a market norm, and where we believe that our clients' long-term financial interests could be more productively advanced through joint dialogue. When we do engage collaboratively, BIS determines our engagement objectives independently, including with whom and how best to partner.

Conflict management policies and procedures

The BIS [Global Principles](#) and our [commentary on how we manage conflicts of interest](#) describe how BIS maintains policies and procedures that seek to prevent undue influence on our proxy voting activities. Such influence might stem from any relationship between an investee company (or any shareholder proponent or dissident shareholder) and BlackRock, BlackRock's affiliates, a Fund or a Fund's affiliates, or BlackRock employees and board directors who serve on other public company boards.

Application

This statement sets out BlackRock's Engagement Policy for the purposes of the Shareholder Rights Directive II applicable from 2 January 2023.⁵

Endnotes

1. By material sustainability-related risks and opportunities, we mean the drivers of risk and value creation in a company's business model that have an environmental or social dependency or impact. Examples of environmental issues include, but are not limited to, water use, land use, waste management, and climate risk. Examples of social issues include, but are not limited to, human capital management, impacts on the communities in which a company operates, customer loyalty and relationships with regulators. It is our view that well-managed companies will effectively evaluate and manage material sustainability-related risks and opportunities relevant to their businesses. Governance is the core means by which boards can oversee the creation of durable, long-term value. Appropriate risk oversight of business-relevant and material sustainability-related considerations is a component of a sound governance framework.
2. ESG integration is the practice of incorporating material ESG information into investment decisions with the objective of improving the long-term financial outcomes of our clients' portfolios, consistent with our clients' objectives. To learn more, please see [BlackRock's approach to ESG integration](#).
3. A significant majority of BlackRock's equity assets under management are held in index equity funds which track the performance of a particular grouping of public companies – for example, the S&P 500 in the U.S. or the TOPIX in Japan. Those funds typically remain invested in each company for as long as a company is included in the reference index. While investors in these funds may sell out of the fund in its entirety, they cannot sell holdings in individual companies in that fund. This, in effect, means that most of our clients invested in index funds are long-term investors in those companies.
4. Supporting commentaries provide further detail into BIS' perspectives and its approach to engagement on key corporate governance and sustainability issues such as board diversity, human capital management, and climate risk and the transition to a low-carbon economy, among others.
5. The prior version of this statement, which was applicable from 2 January 2022 to 2 January 2023, can be found [here](#).

Want to know more?

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