BlackRock®

The Honorable Brian Schatz
United States Senate
722 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Sheldon Whitehouse
United States Senate
530 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Tammy Baldwin
United States Senate
709 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Elizabeth Warren
United States Senate
309 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Martin Heinrich
United States Senate
303 Hart Senate Office Building
Washington, D.C. 20510

October 14, 2020

Delivery via email

Dear Senators Schatz, Whitehouse, Baldwin, Warren, and Heinrich,

We are writing in response to your letter of October 8 regarding BlackRock's sustainable investing practices. We appreciate your interest and are pleased to address your questions.

First, it is important to reaffirm our publicly stated view that climate risk is an investment risk. We believe it is our responsibility to help clients navigate the current energy transition. Our investment conviction is that sustainability- and climate-integrated portfolios can provide better risk-adjusted returns to investors. Furthermore, with the impact of sustainability on investment returns increasing, we believe that sustainable investing is the strongest foundation for client portfolios going forward.

In January, we made several commitments to our clients to put sustainability at the center of our investment processes. Specifically, we laid out the following goals and have delivered on many of them:

- **Increase sustainable product offerings to provide our clients with more choices.** We committed to increasing the number of ESG ETFs we have available, simplifying and expanding our ESG iShares offerings, working with index providers to expand available sustainable indexes, and expanding our sustainable active investment strategies. Year to date in 2020, we launched 38 new ETFs and 10 other new sustainable products. Our goal is to give clients breadth and variety of sustainable products so that they can each find appropriate solutions to fit their unique needs.
- **Make sustainability our standard offering in solutions** by creating sustainable versions of our flagship model portfolios, including our Target Allocation range of models. As of June 30, 2020, we have $127 billion of AUM in dedicated sustainable products and another $547 billion of AUM in additional strategies that utilize ESG screens.
- **Strengthen sustainability integration into the active investment process** by ensuring that every active investment team at BlackRock considers ESG factors in its investment process. We are on track for all active portfolios and advisory strategies to be fully ESG integrated by year-end. This means that, at the portfolio level, our portfolio managers will be accountable for appropriately managing exposure to ESG risks and documenting how those considerations have affected investment decisions.
- **Reduce ESG Risk in our $2.1 trillion of AUM invested in active strategies** where BlackRock has more discretion as compared to our index strategies. Entering 2020 we had no exposure in active strategies to controversial weapons systems manufacturers, and by this Spring we successfully removed exposure to companies that generate more than 25% of their revenue from thermal coal production.
- **Put ESG analysis at the center of Aladdin,** our technology platform, where we continue to build tools to help our clients better analyze climate risk. Our carbon beta tool, which allows us to stress-test issuers and portfolios for different carbon pricing scenarios, is just one example.
- **Enhance transparency of sustainable characteristics for all products** by making data on sustainability characteristics publicly available – including data on controversial holdings and carbon footprints – for BlackRock mutual funds by the end of 2020. This expands on the already existing publicly disclosed sustainability data on our iShares funds.
- **Enhance our investment stewardship activities.** During 2020, we joined Climate Action 100+ (CA100+), a natural progression of our existing commitment to the group, having been active members in all five of the organizations that sponsor CA100+[1]. In addition, we refreshed our engagement priorities and voting guidelines and increased the transparency of our activities by shifting to quarterly reporting of our voting; we are also now disclosing the engagement topics addressed with each company. Given

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[1] Asia Investor Group on Climate Change, Ceres, Investor Group on Climate Change, Institutional Investors Group on Climate Change and Principles for Responsible Investment

the increasing interest in voting, we published 48 voting bulletins explaining our rationale on certain key proposals.

In our July 2020 report, Our approach to sustainability, we present a detailed account of our climate-related votes. This year, our focus on climate was primarily issue engagement and holding members of the board accountable. Earlier this year, we identified 244 companies that are not making sufficient progress toward integrating climate risk into their business models or disclosures. Of these companies, we took voting action against 53, or 22%, mostly by voting against directors. We have placed the remaining 191 companies 'on watch.' Those that do not make significant progress risk voting action against management in 2021. Additionally, building on several years of our support for the Sustainability Accounting Standards Board (SASB) and Task Force on Climate-Related Financial Disclosures (TCFD) frameworks, we explicitly asked companies to provide SASB and TCFD aligned disclosures. We were pleased to see that there has been a 400% increase in the number of issuers using SASB reporting standards thus far this year and an increase in support for TCFD from a wide range of policymakers globally.

In our recent Investment Stewardship Annual Report, BlackRock's Investment Stewardship (BIS) team described how our global emphasis on good governance, and our extensive work across engagement themes, create a strong foundation that enables boards to oversee sustainable business practices. Looking ahead, we will continue to leverage all aspects of stewardship to mitigate ESG risks for our clients' investments. In 2020, we increased our votes against directors to over 5,100, underscoring our focus on director accountability. We engage and vote regardless of whether a company has received a shareholder proposal and will continue to do so to try to improve reporting on climate issues and encourage companies to adapt their business models to address climate risk and energy transition. By contrast, while shareholder proposals can garner significant attention and send a strong public signal of disapproval, they are often non-binding (unlike direct votes against board members) and are less common for non-US-based companies. We are conducting a policy review of our regional proxy voting guidelines, which will, in particular, emphasize our expectations for companies around some areas that are currently less clearly defined. As we revise our proxy voting guidelines, we expect to add more companies to our "on watch" list, alerting those companies that we are assessing them against our expectations.

In response to the reports by Morningstar and Majority Action that you cited in your letter, we note that these reports evaluate voting action taken on 34 and 36 shareholder proposals, respectively, which represent a very small subset of the tens of thousands of votes that we cast in 2020. In addition, the reports focus solely on shareholder proposals, whereas we consider holding directors accountable to be a more effective approach for ensuring progress against sustainability goals. Notably, fewer than a third of the proposals evaluated in the reports sought enhanced climate-related disclosures, which was our priority. Looking at our record this year, we conducted over 1,200 engagements on environmental issues, 950 of which were focused on climate. BlackRock cast 61 votes against management based on climate issues, which includes 55 votes against directors and 6 votes in favor of shareholder proposals. Given the small sample size, even a handful of votes has a significant impact on the percentages.

BlackRock makes voting decisions based on the circumstances each company is facing and the nuanced request the proposal is making. In many cases, the company receiving a shareholder proposal was already largely doing what the proposal was requesting or the company was already meeting our expectations as detailed in our voting guidelines. For example, 8 proposals in the Morningstar report (and 9 in the Majority Action report), asked companies to separate the Chairman and CEO role. In our voting guidelines, we state that we will normally vote in support of management for companies that choose to combine the Chairman and CEO role if the company has appointed a lead independent director with meaningful authority per our specifications. Likewise, 11 proposals in the Morningstar report (and 18 in the Majority Action report), asked companies to increase disclosure on lobbying activities. These companies already met the expectations in our voting guidelines by disclosing company contributions and personal contributions to political candidates in their proxy materials. As another example of our nuanced and deliberate approach, both Chevron and Delta received similar shareholder proposals on increasing disclosure of their political contributions. However, after careful analysis, we chose to vote in favor of the Chevron proposal, and against the Delta proposal. The rationale for each vote is detailed in the applicable voting bulletins but the overall point is that not every company is the same and we think about them individually as it relates to evaluating the shareholder proposals they might receive.

An analysis of our voting action based on a small sample of shareholder proposals highlighted by the Morningstar and Majority Action reports should not be interpreted as antithetical to our support for and our decision to join CA100+. As we noted above, BlackRock joined CA100+ in January of this year as a natural progression of our work to advance corporate reporting aligned with TCFD. CA100+ is very clear that members make voting decisions independently and supporting shareholder proposals is not a prerequisite for membership. BIS' approach over the past year demonstrates our alignment with the goals of CA100+, namely, to engage the most carbon-intensive companies to:

1. **Implement a strong governance framework** which clearly articulates the board's accountability and oversight of climate change risks and opportunities;
2. **Take action to reduce greenhouse gas emissions across the value chain,** consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees Celsius above pre-industrial level;
3. **Provide enhanced corporate disclosure** in line with the TCFD.

BlackRock has engaged directly with over half of the 160 CA 100+ focus companies to encourage TCFD-aligned reporting and enhanced business practices addressing climate risk and energy transition. As noted above, we have held directors accountable where companies fall short in our assessment.

We continue to be committed to sustainability as a meaningful part of our fiduciary duty to our clients and we recognize that the coming energy transition will result in a major reallocation of capital. To achieve long term financial returns for our clients, we believe it is imperative that sustainability and climate risk remain at the center of investor decision making. Through our 2020 commitments, BlackRock is leading the asset management community in this space, and we expect that to continue in the coming years.

We welcome your interest in sustainable investing and look forward to continuing to engage with you.

Sincerely,

Barbara Novick
Vice Chairman

Sandy Boss
Senior Managing Director, Global Head of Investment Stewardship