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BlackRock Releases 2017-2018 Governance Engagement Priorities

On Monday, March 13th, BlackRock released its engagement priorities for 2017-2018 to help prepare directors and management teams to engage with its Investment Stewardship team over the coming year. BlackRock reiterated its preference to engage privately with companies in a constructive manner, but also reminded companies that it will vote counter to management recommendations when appropriate.

BlackRock's new engagement priorities address traditional areas of investor engagement such as governance, strategy and compensation alongside developing areas like climate risk and human capital management.

Highlights include:

- **Board Diversity & "Climate Competency" –** BlackRock emphasized that it will engage with companies regarding their processes for addressing director turnover, succession planning and diversity, with a specific focus on understanding how companies are improving gender balance in the boardroom. Similar to State Street Global Advisors' announcement earlier in March on how it plans to engage on issues around board gender diversity, BlackRock announced it may vote against nominating and/or governance committees for a lack of commitment to board diversity. In addition, BlackRock expects all directors of companies that are significantly exposed to climate risk to be "climate competent," which it defines as having demonstrable fluency in how climate risk affects the business and how management is adapting to and mitigating the risk. Where it has concerns that material risks around these issues are not being effectively dealt with, BlackRock may vote against certain directors.
- **Corporate Strategy for the Long-Term –** BlackRock continues to expect companies to succinctly explain their long-term strategic goals, as well as anticipated milestones and obstacles. This explanation should be refreshed and adapted to reflect the changing business environment and should take into account any new approach to capital allocation among capital investments, research and development, employee development and capital return to shareholders.
- **Compensation that Promotes Long-Termism –** BlackRock continues to be focused on how boards establish performance metrics and hurdles in the context of long-term strategic goals. In particular, the Investor Stewardship team will seek insight into how companies prioritize "inputs" within management's control with "output" metrics such as earnings per share or total shareholder return. BlackRock also indicated it will focus on how internal pay equity and broader macroeconomic themes influence the structure of compensation programs.
- **Disclosure of Climate Risks –** BlackRock reiterated its belief that climate risk is a systemic issue and that disclosure standards should be developed that are both globally consistent and applicable across each market. BlackRock cites the recommendations of the 32 member, industry-led Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD), of which it is a member, as laying out a relevant roadmap for companies. BlackRock indicated that it will

proactively engage companies that it believes are most exposed to climate risk to understand their view on the TCFD.

- **Human Capital Management –** BlackRock believes creating an engaged and stable workforce is a competitive advantage, particularly given the current talent-constrained environment. BlackRock views a company's approach to human capital management, employee development, diversity and commitment to equal employment opportunity, health and safety, labor relations and supply chain labor standards, among other topics, as a window into the company's culture, operational risk management practices and quality of its board oversight. In engagement, BlackRock will ask how boards oversee and work with management to improve performance in these areas.

How Companies can Navigate Increased Investor Demands

CamberView expects the trend of increased investor focus on engagement to continue to grow in importance over the coming proxy season and beyond. BlackRock's guidelines reinforce the need for companies to sharpen their engagement approach to focus on key areas of investor concern across all investor constituencies. BlackRock's note, along with co-authored documents such as the Investor Stewardship Group, the SDX Protocol and the Commonsense Corporate Governance Principles, provides guidance for navigating engagement in this new, highly-engaged, investor environment.

Major institutional investors expect engagement to be substantive, sophisticated, targeted and relevant. However, BlackRock made clear in its note today that many engagements are triggered because companies "have not provided sufficient information in their disclosures to fully inform our assessment of the quality of governance, including the exposure to and management of environmental and social factors." This call for greater disclosure beyond areas traditionally covered in proxy statements continues to increase the importance of a holistic, investor-focused approach to discussions of governance, compensation, strategy and sustainability in company materials.

Companies can address investors' concerns by executing a responsive, substantive and multi-pronged effort which includes enhancing disclosures targeted by investors and engaging in regular, year-round dialogue with their investors.

About CamberView Partners

CamberView Partners is the leading provider of investor-led advice to public companies on engagement and shareholder relations, activism and contested situations, sustainability and complex corporate governance matters. CamberView helps its clients succeed by providing unique insight into investors' perspectives on long-term value creation, interpreting the evolving governance landscape and creating proactive strategies to stay ahead of investor challenges.

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