



BlackRock

It's all about choice

Empowering investors through
BlackRock Voting Choice

Contents

Executive summary >

By the numbers >

01

Shareholder voting:
past, present,
and future >

Why we built
BlackRock
Voting Choice >

02

The evolution in
client needs >

03

How it works >

04

More options
for more investors >

Looking ahead >



Executive summary

Over the past five decades, innovation and regulatory support have led to a greater choice and democratization in investing strategies, structures and products. Today more than 100 million people can choose among thousands of low-cost, high-quality choices across asset classes and markets.

Greater choice now extends to shareholder proxy voting. Voting has been an option for some institutional investors, but it has been cumbersome, with the result that investors have largely delegated this function to their asset managers and in some cases outsourced it to proxy advisors. Now, however, many investors are looking to exercise greater control over their voting for the companies in their index equity portfolios, and technology has made this more easily available.

We recently introduced BlackRock Voting Choice to make voting easier and more accessible by providing greater choice for investors in separate accounts and certain pooled vehicles to vote their shares. BlackRock Voting Choice currently allows these investors to vote their shares in line with their preferences, or to continue to trust BlackRock as a fiduciary and authorize our stewardship team to vote on their behalf.

Today, public and corporate pension funds, insurance companies, and other institutional investors are eligible for BlackRock Voting Choice, including pension funds serving more than 60 million people. Nearly half of our clients' index equity assets are now eligible and uptake has been encouraging. Our clients have committed \$530bn – or a quarter of eligible assets – to voting their own preferences through Voting Choice – including \$120bn added since January 2022.¹ Our ongoing conversations with our clients demonstrate growing interest in the initiative.

We see BlackRock Voting Choice as a natural extension of our efforts to bring greater choice to our clients and to empower them with greater options and ease around how they want to engage with their money. Over time, we believe some investors will consider choices around voting as important as other fundamental investment decisions, such as asset allocation and portfolio construction.

Our announcement of Voting Choice was an industry first and we see it as a first step. Innovations in technology and operations have allowed us to develop a scalable solution for more investors in more countries, and we believe this model can be adopted by other asset managers.

We are now advancing toward our ambition of expanding choice to all investors, including individual investors in funds. We see an opportunity for asset managers to work together with fund boards to expand voting participation. We also see important work ahead with US policymakers on the legal and regulatory changes needed to make voting choice available to more investors. We are already rolling out pilots in markets like the UK where the regulatory environment enables this choice.

The application of technology to investing has democratized access for millions, offering lower cost and greater choice. Now it can do that for proxy voting too.

¹ Source: BlackRock. Client funds participating in BlackRock Voting Choice are as of May 15, 2022; assets under management are as of March 31, 2022.



By the numbers

Eligible for BlackRock Voting Choice

47%

of all BlackRock
index equity assets
are eligible

95%

of our institutional index equity assets are eligible

650+

global funds are eligible

60mn+

people participate in pension plans that are eligible

Client assets electing to participate in BlackRock Voting Choice

25%

of eligible assets are
held by clients who have
elected to participate in
BlackRock Voting Choice

\$410bn

in legacy client AUM have always controlled
their own voting

\$120bn

are newly committed after just five months
of eligibility



[Contents >](#)

[Executive summary >](#)

[By the numbers >](#)

[01 Shareholder voting: past, present, and future >](#)

[Why we built BlackRock Voting Choice >](#)

[02 The evolution in client needs >](#)

[03 How it works >](#)

[04 More options for more investors >](#)

[Looking ahead >](#)

01

Shareholder voting: past, present, and future

The evolution of investing over the past five decades is a story of expanding choice and democratization. Innovation and regulatory support have led to greater choice of investing strategies, structures and products, allowing investors to express differences in their investment horizons, risk preferences and financial needs. Today even individual retail investors have access to thousands of choices across asset classes and markets, and the rise of index funds and exchange traded funds (ETFs) has allowed investors of all types to much more easily construct diversified investment portfolios at low cost. Effectively, market innovation and regulatory support have democratized access to capital markets and opportunities for wealth creation. The share of US household financial assets invested in funds has grown roughly eightfold since the 1980s, and today more than 100 million Americans participate in the equity and bond markets via mutual funds, institutional funds and index-tracking funds, investing to meet their long-term financial goals such as retirement, education and home ownership.²

At the same time, greater choice and diversification have expanded the sheer number of securities that investors need to monitor in their portfolios. Given this complexity, investors have increasingly delegated oversight of their portfolios to professional asset managers, who have the skills, scale and technology to monitor thousands of companies.

² Adiraju, Blass et al, On the Benefits of Scale Economies in Asset Management, The Journal of Portfolio Management, April 2022.

It is important to stress that asset managers do not own the capital; they manage it on behalf of their clients, and their fiduciary role obligates them to act in the best economic interests of their clients.

In many cases, investors have chosen to delegate authority over shareholder voting to their asset managers. The concept of shareholder voting remains a linchpin of the modern public corporation; it gives shareholders a voice to protect their economic interests and to express their views on how a board oversees a company and its management.

We believe this broad delegation of voting authority to asset managers with scale and expertise has improved corporate governance and benefited investors. The rise of index investing has also strengthened corporate governance, given that index funds are the ultimate long-term investors, investing in companies for as long as they are in the index, on average roughly 25 years.

But today we increasingly see institutional investors wishing to exercise more control over voting themselves. BlackRock's voting decisions are based on our view of what best supports the creation of long-term, durable economic value for shareholders, but we recognize that others may have a different assessment of how to achieve this financial performance.

We at BlackRock want to enable broader access to participation in the shareholder voting process. We see this as a natural extension of our efforts to bring greater choice to our clients and to empower them to realize their financial goals effectively, conveniently and at a low cost. We see choices about participating in shareholder voting becoming as important for some investors as other investment decisions, such as asset allocation and portfolio construction.

To expand participation, we have introduced BlackRock Voting Choice. As we envision and are developing it, this program allows certain institutional clients to vote the shares in the companies in their index portfolios in line with their own preferences – including, if they choose, to continue to rely on BlackRock's informed judgment. Innovations in technology, operations and policy have allowed us to develop a scalable solution for many investors, and we believe this model can be adopted in many markets and by many asset managers.

In 2022, we began offering BlackRock Voting Choice, which introduced more voting options for institutional clients invested in certain pooled funds while also making voting easier for institutional clients invested in separately managed accounts, who have long had this option. Today, \$2.3tn of our total index equity assets under management are eligible to participate in our program – of which 25% are held by clients electing to vote their preferred way with BlackRock Voting Choice. These clients include pension funds, insurance companies and corporations.

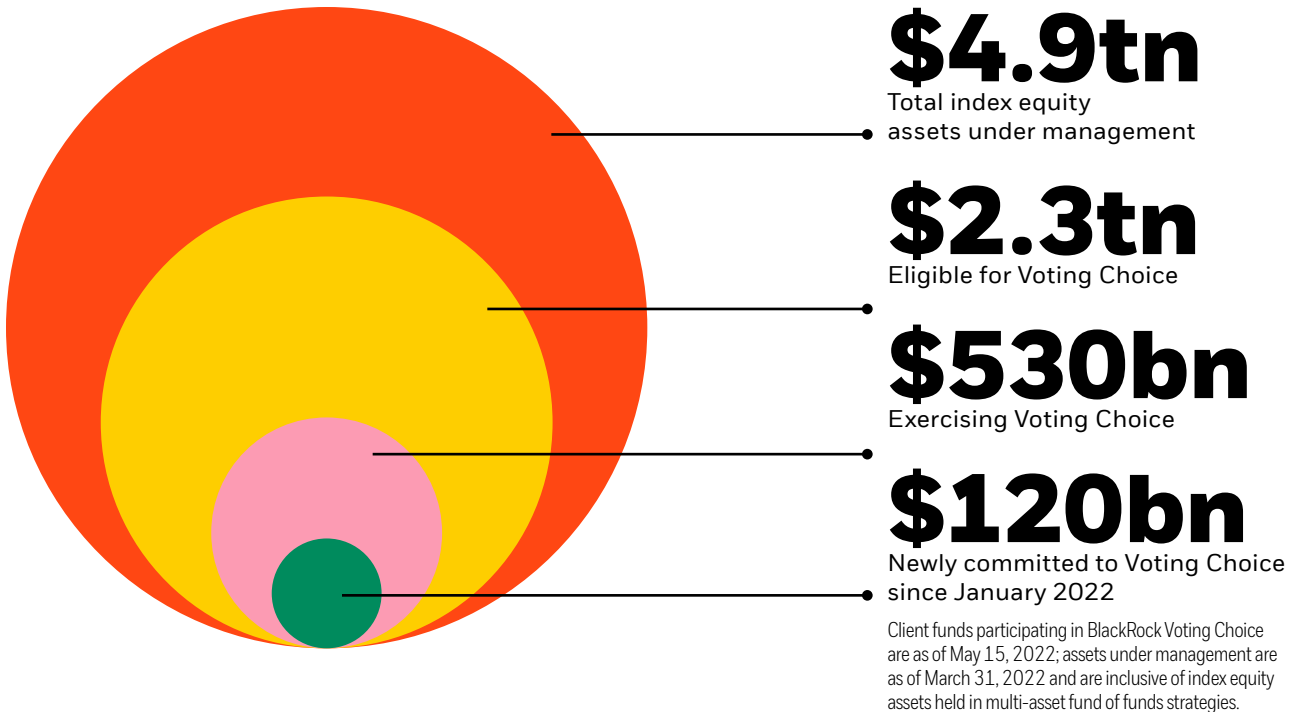


We have long been calling for asset owners to be able to have a say in the voting of their shares, so today's announcement from BlackRock signals a welcome step change for the industry. We are looking forward to exploring this innovative proposition with BlackRock ahead of next proxy season."

Maria Nazarova-Doyle CFA

Head of Pension Investments and Responsible Investing, Scottish Widows stated on October 7, 2021

Expanding the universe for BlackRock Voting Choice



In addition to our institutional offering, we are making advancements in achieving our long-term aspiration of expanding choice to more individual investors in retail-oriented products, where this is possible from a regulatory standpoint. We also see an opportunity for asset managers to work together with fund boards, and their equivalents, to expand voting participation. And we are also working with industry partners on a pilot that aims to enable all investors in a UK mutual fund – institutions and individuals – to exercise choice in how their portion of eligible shareholder votes are cast on the companies in their portfolios.

We are committed to a future where every investor – even individual investors – can have the option to participate in voting decisions. We recognize that there are still considerable regulatory, legal and operational challenges to rolling out such a program on such a broad scale, but we see this as an important step in the evolution of investing, and we intend to continue to advance this vision toward reality. At the same time, we remain committed to our stewardship program, and many of our clients have reaffirmed to us their interest in having us continue to vote on their behalf.

“

We are committed to a future where every investor – even individual investors – can have the option to participate in the shareholder voting process if they choose. We will continue to pursue innovation and work with other market participants and regulators to help advance this vision toward reality.”

Larry Fink
BlackRock Founder, Chairman & CEO.
2022 Letter to CEOs



- [Contents >](#)
- [Executive summary >](#)
- [By the numbers >](#)
- [01 Shareholder voting: past, present, and future >](#)
- [Why we built BlackRock Voting Choice >](#)**
- [02 The evolution in client needs >](#)
- [03 How it works >](#)
- [04 More options for more investors >](#)
- [Looking ahead >](#)

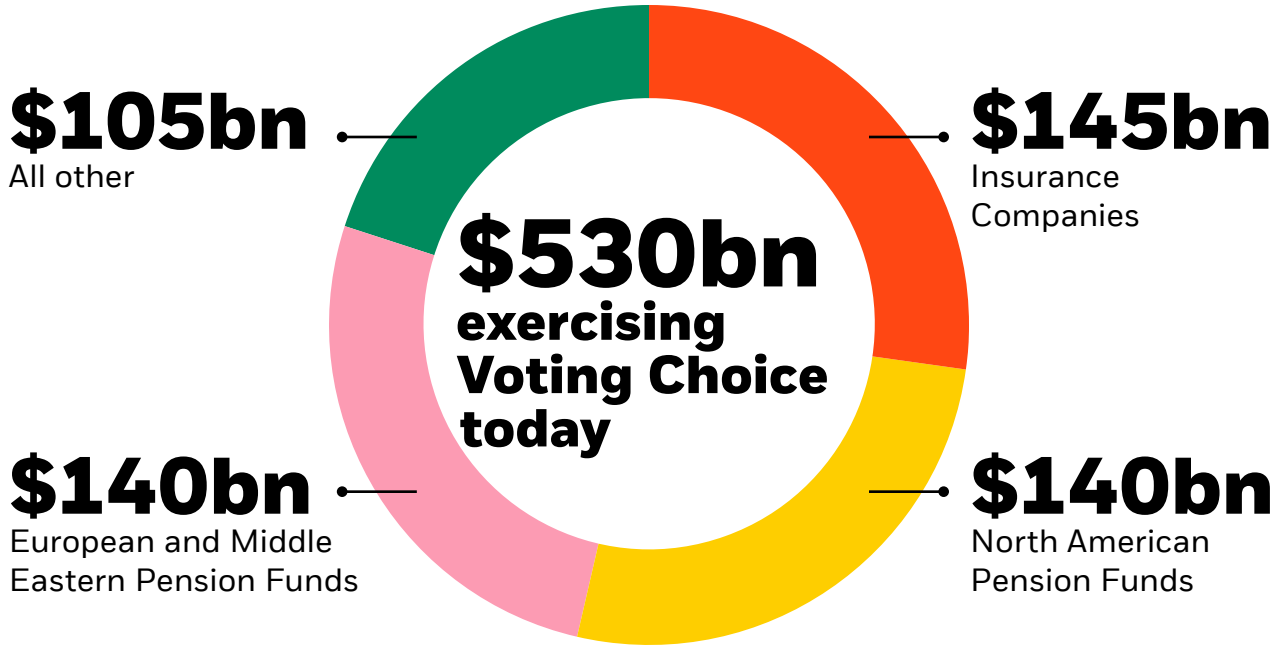
Why we built BlackRock Voting Choice

Over the past several years, we have developed new technology, operations and policies and have worked with industry partners to enable a significant expansion in voting opportunities for our index equity clients. We refer to our proprietary approach to offering eligible clients more shareholder voting options as BlackRock Voting Choice.

Our institutional clients with separate accounts have always had the ability to vote their own shares if they chose. But, until the start of 2022, we did not have extensive third-party options or the ability to offer choice at scale to our clients in pooled funds. We have now expanded our program in two key ways:

First, we have rolled out BlackRock Voting Choice to our institutional clients whose assets can be in both separate accounts and pooled vehicles.

Second, we have made a suite of voting options available to both separate accounts and certain pooled vehicles.



Source: BlackRock. Client participation data as of May 15, 2022. AUM figures as of March 31, 2022.

As a result, \$2.3tn of the index equity assets that BlackRock manages on behalf of our clients are now eligible to participate in BlackRock Voting Choice. This enables pension funds, insurance companies and corporations to enjoy access to a range of voting options designed to suit their needs. As of today, a total of \$530bn – 25% of these eligible assets – have chosen to vote their preferred way through this choice.

BlackRock Voting Choice options now apply to 95% of our institutional index equity products under management – that’s about half of our index equity assets and virtually all of our index equity assets outside ETFs and retail mutual funds. Common investors in these types of products include pension plans, endowments and sovereign wealth funds. In fact, all US state pension plans that BlackRock manages are now eligible for expanded voting options. Close to all of BlackRock’s index equity assets outside of ETFs and retail mutual funds are eligible for Voting Choice. As of May 4, 2022, more than 650 pooled investment funds in the US and the UK are now eligible, and we have expanded shareholder voting for Canadian and Irish institutional pooled funds.

And we are just at the beginning. With the encouragement of our clients, we are committed to bringing BlackRock Voting Choice to all markets and to all fund and account types where it is legally and operationally viable to do so. As a direct next step, we are working to expand our offering to enable more European investors to vote their shares. We will also seek to enable our offering for additional investor types – such as Defined Contribution schemes in the UK – and enable voting choice for securities issued in additional countries.

In Europe and the UK

80%

of BlackRock’s index equity assets (other than ETFs) are eligible for BlackRock Voting Choice

Data as of March 31, 2022.





We are in a continuous dialogue with our clients to help them understand which approach makes sense for their investment portfolio and beneficiaries. Over time, we expect that BlackRock Voting Choice will become a central component of our offering and an important consideration for investors when they are selecting their investment vehicles, alongside traditional considerations such as asset allocation and portfolio construction.

Early adopters of BlackRock Voting Choice have expressed a wide range of voting preferences. Among clients selecting from our four options, thus far:

- The most popular approach has been to select from a menu of third-party proxy voting policies. We are committed to working with existing and prospective proxy advisors and other market participants to expand the range of shareholder voting policies that we can make available.
- Others have chosen to vote their own policies, using their own voting infrastructure.
- Many clients have reaffirmed their choice for BlackRock to continue to vote on their behalf.

We are pleased that so many clients value our approach to voting and stewardship and see it as aligned with their best interests. We will continue to invest in BlackRock Investment Stewardship, which remains capable of voting in an informed, thoughtful way, consistent with our fiduciary responsibility, when our clients authorize us to do so.

“

SCERS is pleased to join other asset owners in using Voting Choice, a groundbreaking proxy-voting implementation for commingled funds. SCERS applauds BlackRock for working through the technological and regulatory challenges that make Voting Choice a reality.”

Leola Ross, Ph.D., CFA

Deputy CIO and Head of ESG, Seattle City Employees' Retirement System



[Contents >](#)

[Executive summary >](#)

[By the numbers >](#)

[01 Shareholder voting: past, present, and future >](#)

[Why we built BlackRock Voting Choice >](#)

[02 The evolution in client needs >](#)

[03 How it works >](#)

[04 More options for more investors >](#)

[Looking ahead >](#)

02

The evolution in client needs

Shareholder voting is a basic shareholder right and the linchpin of modern corporate governance for listed companies. Ultimately it works to align the interests of the users of capital (company management) with the interests of the owners of that capital (investors). Voting allows investors to express their views, exercise oversight, signal support or displeasure for boards and management and require accountability. Without voting, the only recourse that shareholders have is to sell or to sue; both can be costly, and selling is not an option for index funds. By voting, shareholders are not telling management what to do; they are signalling support for or concerns about the way the company is being run.

As portfolio diversification has made monitoring the governance issues associated with each stock in a portfolio more complex and time- and labor-intensive, institutional investors have increasingly sought assistance from asset managers like BlackRock, who act as agents of and fiduciaries for the investors.

Voting has increasingly become a standard part of asset managers' offerings. Delegating voting authority to asset managers makes sense for many investors. Managers' size and scale allow them to invest in teams, market knowledge, sector specialization and technology in ways that many investors cannot. At BlackRock, for example, in 2021 our stewardship team held more than 3,600 engagements with more than 2,300 companies across 57 markets, covering 68% of our clients' equity assets under management. Nearly 60% of our engagements focused on board quality and effectiveness, while 87% touched on governance issues more broadly.



Large asset managers have regular access to boards and corporate management, which in turn allows them to better evaluate board and management effectiveness. Index investors in particular are the ultimate long-term investors, with an average holding period for index equities of as long as 25 years, contrasted with more frequent turnover in active stock-picking funds and quantitative funds. This long-term engagement helps to ensure that their stewardship is aimed at supporting the creation of long-term economic value.

More developed stewardship from asset managers has helped to strengthen corporate governance, to the benefit of all investors and the broader market. Corporate governance has been standardized through the development of market- and international-level governance and stewardship codes (generally through consultation and collaboration among regulators, securities exchanges and market participants). There is evidence that a higher share of ownership by index funds has been correlated with better governance structures, including more independent directors, the removal of takeover defenses and more equal voting rights.³

In recent years, however, some investors have expressed a desire to exercise greater control over how their shares are voted. Some investors with strong views on social or environmental issues, or strong religious convictions, for example, may want to ensure that their investments align with these views, while others will have different interests. Exclusion is one long-standing way of doing this; for example, funds that ban investments in companies linked to tobacco, gambling and/or controversial weapons have existed for decades. Increasingly, we see investors wanting to apply their views to the governance of a wider range of companies and a larger range of concerns.

Our own votes reflect what we think is best for the long-term economic interests of our clients, but we recognize and respect that some investors will see different ways of achieving this goal, and that others will want to emphasize other points of view in their own assessments. This is why we have introduced BlackRock Voting Choice where it is legally and operationally viable, and why we want to make it more efficient and to extend it to other markets and categories of investors. We see our efforts to broaden participation in voting as a natural extension of our ongoing work to provide choice across markets, products and types of investors.

³ See for example, Appel, Gormley and Keim, "Passive Investors, Not Passive Owners", 2016. Kahan and Rock, Index Funds and Corporate Governance: Let Shareholders Be Shareholders, 2021.

100%
of US pension plans
are eligible for
BlackRock Voting
Choice

Data as of March 31, 2022.



[Contents >](#)

[Executive summary >](#)

[By the numbers >](#)

[01 Shareholder voting: past, present, and future >](#)

[Why we built BlackRock Voting Choice >](#)

[02 The evolution in client needs >](#)

[03 How it works >](#)

[04 More options for more investors >](#)

[Looking ahead >](#)

03

How it works

At BlackRock, our goal is to broaden access to participation in the shareholder voting process by giving our clients the right to choose how votes are cast at the companies in their investment portfolios.

Until recently, this capability was only available for large institutional clients, and mostly in separate accounts. Recent technological, operational and policy innovation has allowed us to extend this option to more institutional clients across geographies, investor profiles and fund vehicles. These developments underpin BlackRock Voting Choice, making it easier for more clients to have a voice in the voting process, whether in separate accounts or on a pro-rata basis in certain pooled funds.

We believe that BlackRock Voting Choice, which evolved from our existing infrastructure and functionality, offers a replicable model that other asset managers can draw on. Based on hundreds of conversations with our clients around the concept of greater investor participation in voting, we think a successful program will feature four key attributes:



Alignment

The range of options provided will allow investors to align their voting with their unique investment philosophies or their values. Given the diversity of investors, we see increasing diversity of views and a growing list of investor concerns. A robust program will allow investors to express their views specifically and with granularity, if they so choose.

Ease of use

Operationally, the program should enable investors to have easy access to alternative choices, and implementation should be straightforward. This requires asset managers to invest in creating a range of voting options, a user-friendly interface and a supportive ecosystem for the ‘plumbing’ that underlies the practicalities of voting.

Flexibility

This lies at the core of investor choice. Investors should be able to choose how involved they want to be in the voting process. They may choose to rely on and delegate all voting authority to the asset manager, or to keep it all in-house, or a mix of the two.

Transparency

Transparency around asset managers’ voting records – and the reasoning behind them – will help to guide investors’ own decision-making. Registered funds in the US have long been required to report information on their shareholder voting decisions; disclosure requirements have recently been implemented in Europe. When institutional investors rely upon several different asset managers to conduct their shareholder voting, some find it hard to explain their voting philosophy and outcomes to their own beneficiaries and stakeholders in a succinct manner.

“

We continue to authorize BlackRock Investment Stewardship to vote on behalf of the Philips Pension Fund. After close review we have determined that BlackRock Investment Stewardship’s policies are well aligned with our own stewardship policy.”

Arian Borgers

Investment Manager,
Stichting Philips Pensioenfond

BlackRock Voting Choice offers four options

01

Clients exercise control over their voting

Some of our largest institutional clients have the resources and the expertise to create their own voting policies, as well as the infrastructure needed to conduct the voting. This option gives clients in our pooled vehicles the ability to apply their stewardship preferences in a consistent way across a broader share of their overall portfolio allocation and to exercise a high degree of control over the decision-making process and the voting implementation. We stress, however, that BlackRock Voting Choice is available to institutional clients of all sizes and resourcing levels.

02

Clients take a hybrid approach to voting

This option gives institutional clients in separately managed accounts (but not pooled vehicles) the ability to exercise their voting decisions on the topics or at the companies that matter most to them. Clients can choose to vote their own preferences on some categories of votes, rather than all; these may be specific proposals (for example on governance), specific sectors (such as energy or finance), or specific markets (often the client's home market). The client can choose to leave all other voting decisions to the manager's discretion.

03

Clients choose from a slate of third-party policies

Under this option, institutional clients in both separately managed accounts and certain pooled vehicles can choose to follow an off-the-shelf voting policy from third-party proxy advisers, choosing the policy that best aligns with their views and preferences. Institutional Shareholder Services (ISS), Glass Lewis, and others already offer ready-made policies. Our clients can currently choose from at least seven different third-party policies,⁴ and we expect and hope that the range of choices will expand over time in line with growing investor demand for a diversity of choices.

04

Clients rely on BlackRock's informed judgment for all voting decisions

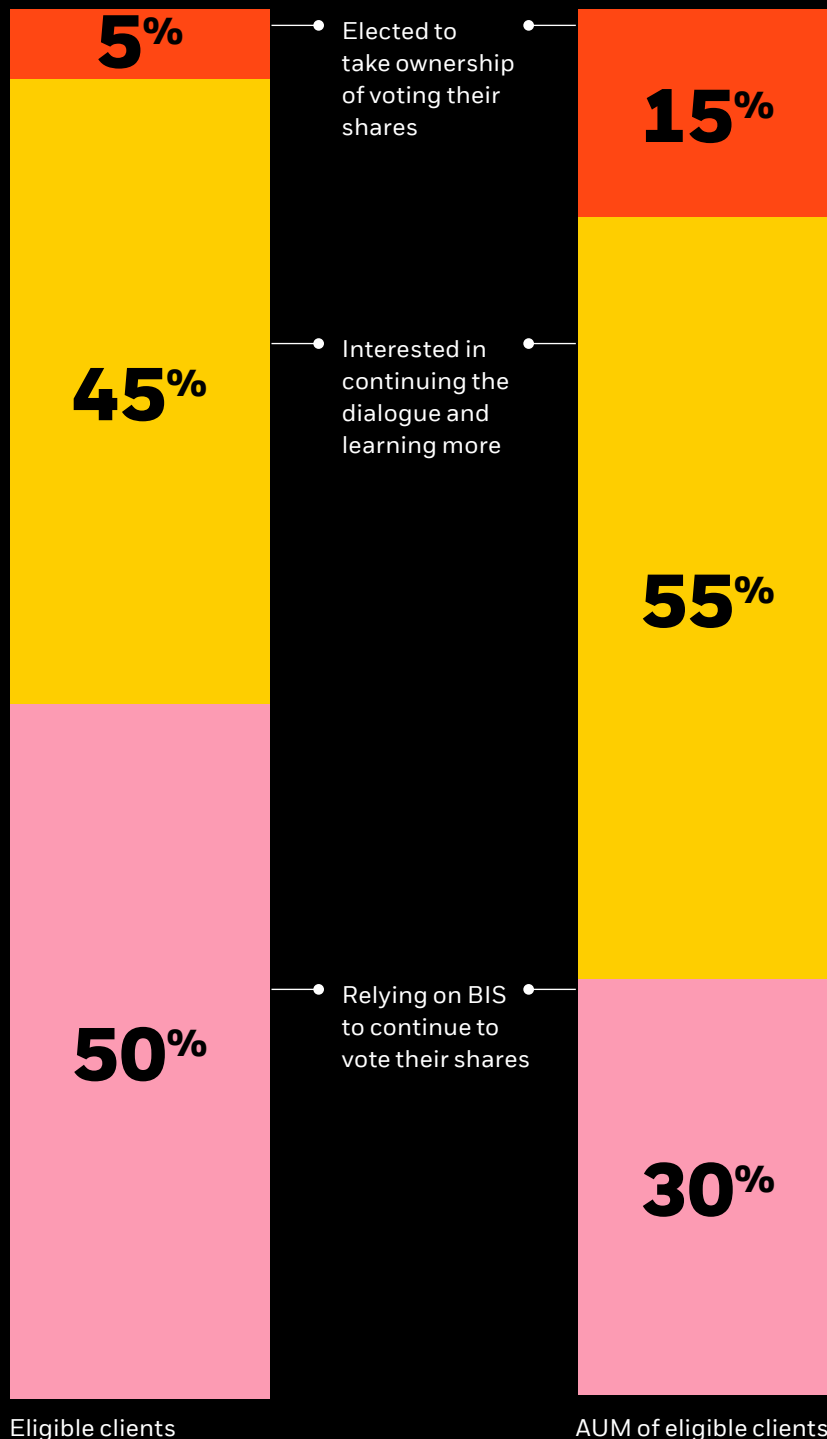
In this option, clients may choose to rely on BlackRock for all of their voting decisions. Continuing to rely on us to exercise voting authority is itself a choice and a deliberate decision to trust BlackRock as a fiduciary to look after our clients' long-term economic interests.

Regardless of which option our clients choose, we will continue to engage with the companies in their investment portfolios throughout the year on a broad range of issues that we believe are material to a company's ability to create long-term economic value for shareholders, including governance and long-term strategic planning. These engagements inform our own voting decisions. We see ongoing engagement as a fundamental part of our approach to investment stewardship, and BlackRock Investment Stewardship (BIS) remains core to our fiduciary responsibility to our clients.

⁴ Click here for the list of ISS policies available through BlackRock Voting Choice. Of the seven policies, all are available in the US and the first six are available in EMEA.

US pension fund feedback

Clients exercising their choice



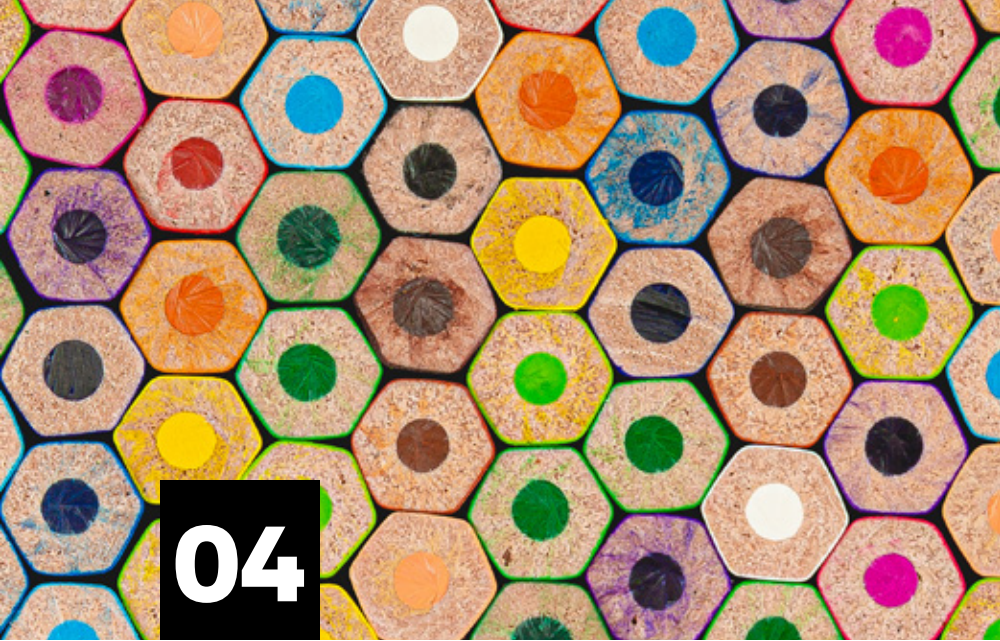
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Our US pension clients are responsible for investing on behalf of millions of workers. It's a priority for us to help align their votes with what's important to their constituents.”

Zach Buchwald

Head of Institutional Business for the US and Canada, BlackRock

Source: BlackRock. AUM figures as of March 31, 2022. US Pension clients contacted since the October 2021 expansion of Voting Choice through May 15, 2022.



[Contents >](#)

[Executive summary >](#)

[By the numbers >](#)

[01 Shareholder voting: past, present, and future >](#)

[Why we built BlackRock Voting Choice >](#)

[02 The evolution in client needs >](#)

[03 How it works >](#)

[04 More options for more investors >](#)

[Looking ahead >](#)

04

More options for more investors

Thus far, we have only been able to offer BlackRock Voting Choice to institutional investors. We recognize that further work will be needed to make it more widely available. One area to investigate is extending participation to retail-oriented products, namely mutual funds and ETFs, in jurisdictions where it is possible from a regulatory standpoint. It is early days for this work, and we see this as an opportunity for joint exploration among participants across the investing ecosystem.

Generally, a fund's governing body, such as its board of directors, is responsible for ensuring that votes are cast in a way that is consistent with the fund's best interests and any regulatory obligations. Traditionally, fund boards have delegated responsibility for proxy voting to the fund's investment managers (with appropriate oversight, review and record keeping). The fund's investment manager, as a fiduciary for the fund, exercises this delegated authority in the best interests of the fund and subject to the oversight of the board of directors.

BlackRock Voting Choice would look different for retail funds than it does for the institutional investors that are currently eligible for BlackRock Voting Choice. We intend to engage with policymakers, fund boards and other participants across the market ecosystem to explore some of the regulatory, technical and operational challenges that need to be addressed in order to further democratize shareholder voting.

To this end, we have already begun to innovate on a small scale and have begun to offer additional shareholder voting options in the US to a small subset of individual investors, as well as endowments and foundations.



These are clients who invest in separate accounts with Aperio, a provider of personalized, tax-optimized separately managed accounts within BlackRock.

Beyond this, we are piloting a program in the UK, in collaboration with other market participants. This pilot will allow us to test what is possible and to gauge demand among investors and interest across the broader investing ecosystem. If successful, this will be an important proof of concept, and its implementation will help to flag issues along the way.

This approach may or may not work elsewhere, but we are pursuing it in the spirit of experimentation and our broad commitment to expanding choice.

Even as individual choice is rolled out, stewardship will remain an important facet of asset managers' role. Ongoing stewardship and engagement, on multiple issues and throughout the year, can inform issuers and lead to enhanced company disclosure, which would help investors to make their own voting decisions.

How we want to work with policymakers in the US

We believe more investors should have the chance to participate in voting, and we seek to extend voting choice further. We would like to work with Members of Congress and policymakers at the Securities and Exchange Commission and the Department of Labor to explore ways to bring voting choice to more people.

Under current law, an individual who invests in a U.S. mutual fund, ETF, or 401(k) plan does not have the ability to vote underlying securities held in the fund or plan. Rather, the vote resides with the independent board of directors (in the case of a mutual fund or ETF) or the trustee of the 401(k) plan, which have a fiduciary duty to vote fund securities in the best interest of the fund or retirement plan as a whole. That fiduciary duty can, in turn, be delegated to the fund's or plan's investment manager, which has a fiduciary duty to vote shares in the best interest of the fund or 401(k) plan.

As we seek to further democratize voting, we seek to work with policymakers to explore what changes in federal and state law would be required to bring more voting choice or input to more people, whether fund boards or individuals, and to analyze the pros and cons of various potential changes. In addition, we will work with policymakers to examine changes in the operational infrastructure that would be needed to support such changes. As part of any changes, it would be critical to ensure that any change does not result in votes not being cast, as a loss of votes could dilute or distort corporate governance.

Looking ahead

BlackRock Voting Choice already shows that it is possible to empower more investors to be part of the shareholder voting process if they choose. Interest from clients led us to expand the initiative in May 2022 to include more fund ranges and markets, and we expect to see further uptake as the program becomes more widely available and familiar.

We believe that capital markets are improved when investors have more ways to express their views. Moreover, greater transparency and participation around shareholder issues are likely to strengthen corporate accountability and governance.

The BlackRock Voting Choice initiative is scalable, though it will take time and effort to extend participation to include individual fund investors. More technological and operational innovation is required from participants across the investment ecosystem, as is a supportive regulatory environment. We hope to work with funds' governing bodies to gauge their interest and to understand what kind of operational support they might require to get comfortable with BlackRock Voting Choice. We welcome the opportunity to work with all market participants to build out a robust voting platform that is fit for the future.

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