Q3 2019

Investment Stewardship Report: Americas

September 30, 2019

BlackRock®

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The BlackRock Investment Stewardship (BIS) team publishes quarterly reports to explain BlackRock's approach to corporate governance engagement that supports long-term value creation for our clients. The examples reported give a sense of the wide range of issues our engagements and voting analyses cover. We aim to provide examples that highlight particular environmental, social and governance ("ESG") considerations, emerging practices or issues and notable company-specific developments. We also provide examples of our engagement in the public domain, such as responses to formal policy consultations and presentations or informal discussions at conferences.

Engagement and Voting Highlights

1 Engaging a large media company to drive a range of governance improvements

In July 2019, BIS engaged with senior management of a large media company following their annual shareholder meeting to discuss a range of governance topics, including some of our votes against management recommendations. We also discussed the company's approach to human capital management and employee activism, given that some of its peers had been subject to public criticisms of their policies by their own employees.

We explained that, consistent with our US proxy voting guidelines, we withheld support from a member of the nominating and governance committee for failing to take action on shareholder proposals that received majority support at the previous annual meetings. The company implemented one of several shareholder proposals that received majority support but did not provide any commentary in the proxy statement regarding the other proposals. We recommended that, moving forward, management disclose their rationale for not acting on shareholder proposals that receive majority support in order to clarify their position on those issues.

We also explained our views on directors' time commitments and our rationale for voting against the chair of the audit committee given her tenure on five boards. Consistent with our US proxy voting guidelines, we consider a director serving on over four public boards as over-committed. Following our vote, the company explained that the director has committed to reducing her board service with one of the companies going private and agreed to step down from another.

Our engagement also covered the challenges certain peers have experienced with employee activism related to some of their employers' policies. Employee activism has garnered significant attention at some companies in the technology sector[1].

The company discussed corporate culture and the directors' engagement with employees outside of the C-suite. Through attending quarterly business reviews and other internal meetings, directors gain insight into the company at various levels and gain a sense of the culture as experienced by employees.

The company felt that it was well prepared to manage and constructively respond to employee activism given their existing framework for open communication and a well-established process for employees to report and voice concerns to senior management. For example, in response to employee feedback, the company has hired a Vice President of Inclusion Strategy to improve diversity and inclusion efforts.

The engagement demonstrates the variety of topics that we may cover in a discussion: from explaining our vote, to sharing our views on the importance of acting on a shareholder proposal that a majority of shareholders supported, to board engagement with employees and oversight of corporate culture. We look forward to future constructive engagements with the company.

[1] https://www.nytimes.com/2019/07/08/technology/tech-companies-union-organizing.html

2 Amazon Basin engagements

As we discussed in our commentary on engagement with companies involved in palm oil production, we engage with agribusiness companies to understand their policies on a number of environmental and social issues, including deforestation, biodiversity loss, land use, and supply chain management, as well as board oversight of related management practices and disclosures.

Most recently, fires in the Amazon Basin have attracted considerable international attention. As a result, we believe companies with business interests in the region – either through direct operations or significant supply chain connectivity – could face increased regulatory, operational or reputational risk. In situations such as this where a sector faces a specific risk, we engage with the relevant companies that are held in our clients' portfolios to better understand how the board and management are addressing the situation, and what governance and business practices they have in place to mitigate potential risks. Such engagements usually involve several meetings with the companies and require continued monitoring.

In the third quarter, we engaged with five Brazil-based agribusiness companies to understand their policies and practices on issues specific to operating in the Amazon Basin, such as land use and supply chain management, and to hear their views on the long-term climate-related risks for the agricultural industry associated with accelerated deforestation. Each company stated that their business operations were not the cause of, or directly impacted by, the recent fires. They all raised that they have in place zero deforestation policies that are strictly adhered to and monitored closely, and that they observe the legally established land rights of indigenous peoples in the Amazon Basin. Most also highlighted their participation in local and global industry initiatives to promote and advance sustainable land use and farming practices. Lastly, the companies pointed out that implementation of their operating policies are independently validated, and audit reports are published to their respective websites. This was cited as a requirement to supply products to certain markets, particularly in Europe.

We will continue to closely monitor these companies to verify that they are doing as they say, including implementing their sustainable land use policies, and will engage further as necessary to ensure the adoption of sound business and governance practices.

3 Multiyear engagement with an energy company around governance and climate risk

BIS has engaged extensively with companies on climate-related risks and opportunities. Since the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) were published, we have consistently been encouraging companies to align their reporting with the framework. Changing physical risks and the evolving expectations of governments, clients, and communities in relation to fossil fuels and climate change create risks, that, if not appropriately managed, have the potential to impact the value of companies over the long-term. Additional information about our approach to engagement with companies on climate risk is readily available on our website.

We have had ongoing multiyear engagements, with a US-based global energy company on a wide range of governance issues, including business risk and disclosure. Over that period, the company received numerous shareholder proposals related to the management and reporting of climate-related risks.

Our engagements have been constructive and have yielded direct positive outcomes. For example, we provided the company our perspective on the importance of directors engaging directly with shareholders in order to effectively represent their interests in board discussions. We also discussed the need for enhanced disclosures in a number of material areas. Following our discussions, the company enhanced its engagement policy to enable board members to engage directly with shareholders on the board's role in advising and overseeing management and published enhanced materials on its views on the transition to a lower carbon economy and the likely impact on its business model.

We welcome the company's enhancements to date. However, these reporting improvements should, in our view, be taken further if the company is to keep pace with current practice in its peer group. To that end, our engagement discussions, both prior to its annual meeting and in the third quarter, focused on further enhancements to reporting to help investors better understand the company's perspective on and management of climate-related risks and opportunities in its business.

Most recently, we recommended the company consider enhanced disclosure of:

- greenhouse gas (GHG) emissions
- risk assessments and investments in geographic areas that have experienced extreme weather events
- long-term resilience with regard to its asset mix
- research and development allocations in alignment with its corporate strategy

We also encouraged the company to set and publish long-term GHG emissions goals.

Our ongoing dialogue has been largely constructive and effective, however there have also been matters where the company wasn't adequately responsive to shareholder feedback. As a result, in the second quarter we voted against the re-election of the lead independent director for the company's lack of progress on climate-related disclosure, and we supported a shareholder proposal seeking a report on the extreme weather resilience of certain operations. This is consistent with our approach to first engage with companies on our concerns and to subsequently hold directors accountable if those concerns are not sufficiently addressed.

We anticipate further dialogue with the board and management and remain optimistic that our recommendations to enhance governance and transparency will lead to additional positive future outcomes.

4 Communicating our perspective on material E&S factors to a US chemical company

Together with two of BlackRock's active investment teams, we recently engaged with board members of a large US-based chemical company to discuss a variety of topics, ranging from the company's valuation and investment thesis to its shareholder communications and sustainability reporting. The company is in a unique position in its lifecycle: it has been in its industry for decades, but recent transformations to the company's corporate strategy have provided an opportunity to seek investor input on its shareholder communications and sustainability practices and reporting.

The company has published a detailed sustainability report that is aligned with the United Nations' Sustainable Development Goals[2]. The board shared that they found it challenging to balance using the Sustainability Accounting Standards Board's (SASB) reporting framework with the desire to also report corporate social responsibility (CSR) activities as requested by other stakeholders. The company sought our feedback to understand what disclosures we may be looking for when evaluating a company's consideration of environmental and social (E&S) risks and opportunities.

When we engage with companies on the SASB standards, we find that some companies conflate sustainability initiatives with CSR activities. As SASB explains, "sustainability accounting reflects the management of a corporation's environmental and social impacts arising from production of goods and services, as well as its management of the environmental and social capitals necessary to create long-term value." Reporting on CSR initiatives may encompass such sustainability accounting while often dedicating substantial disclosure to one-off projects or community engagement activities. While there may be value in disclosing these individual initiatives to stakeholders, we encourage companies to consider enhancing governance and reporting on E&S factors which are measurable, comparable, and financially material to their shareholders.

Our Global Corporate Governance & Engagement Principles note that sound practices in relation to the material E&S factors inherent in the business model can be signals of operational excellence and management quality. Our Engagement Priorities explain that investors find it challenging to navigate inconsistent E&S data and points to the benefits of the SASB framework as a way for companies to identify and report on key performance indicators (KPIs). During our engagements on these topics, we highlight that companies should aim to disclose:

- How the board assures itself, in light of the company's long-term strategy, that management

[2] https://sustainabledevelopment.un.org/sdgs

is implementing and adapting its business practices in support of long-term sustainable performance
- The board's collective expertise in, and experience of, the issues and thus its ability to oversee management's sustainability policies and practices
- How the board monitors the implementation by management of those policies and what KPIs the company measures to evaluate the efficacy of its sustainability program
- Current and planned corporate reporting, including on sustainability programs and industry initiatives in which the company actively participates
- How the company assesses and addresses environmental, social, and reputational risks relating to its operations and supply chain, including assurance undertaken to ensure compliance with its own KPIs and the objectives of industry initiatives in which it participates

During our engagement, we emphasized the importance of establishing measurable KPI goals, detailing the scale or impact of a project on the company's business, and aiming to quantify the financial impact in the form of: cost savings, efficiencies, waste reduction, recyclability, risk mitigation tactics, and/or market capture.

The board was eager to continue the dialogue and said they would consider incorporating our feedback in a revised version of their sustainability report, and potentially integrating material E&S risk factors into their standardized reporting documents. We have planned another engagement in the coming months to check-in on the company's progress.

5 Signaling concerns by voting against management in the pharmaceutical sector

In the third quarter we continued our engagements with a pharmaceutical company on a variety of governance topics encompassing the oversight of opioid-related risk and on tying executive pay to financial performance. The company has been linked to the growing opioid epidemic, leading to criminal and civil legal exposure. In the wake of several settlements, the company made significant changes to its compliance program for controlled substances. Over the past two years we engaged with the company's board and management numerous times to discuss a range of related topics, including its supply chain management plan, community and employee education, and efforts to create a culture of compliance. The company has taken strategic actions to drive future company growth and amend its executive compensation practices. However, over the past several years, its returns to shareholders continued to decline.

In 2019, following an executive leadership change, the company agreed to pay the outgoing executive very generous lifetime retirement benefits in addition to its ongoing payments for an advisory position. We engaged with the chair of the compensation committee to understand the board's thinking with regard to how the company's incentive plans reflect its strategy and incorporates drivers of long-term shareholder value. We shared our view that the compensation plan for the outgoing executive did not appear to be aligned with company performance. We were also concerned that such payments did not set the proper tone in light of the headline risks the company continued to experience in relation to the opioid crisis.

As a result, we withheld support from members of the compensation committee and from management's executive compensation proposal. We also withheld support from a director on the basis of being the longest-tenured member of the audit committee - which is responsible for risk oversight – given legal, reputational, and financial risks the company is facing with regard to the opioid crisis. We followed up our pre-vote engagement with a letter to the board to explain our vote and summarize our concerns. We will continue to engage with this company to monitor the leadership transition and to assess the company's compliance and governance practices as well as progress on changes to the executive compensation structure.

6 Realizing strategic transformation in Latin America through engagement with a Mexican corporation

During our engagements, we seek to understand a company's strategic framework for long-term value creation including how boards support management in achieving this objective. As mentioned in our approach to engagement on long-term strategy, purpose, and culture, implementation plans are subject to change so it is helpful for shareholders to understand how and why management and boards have changed their long-term strategic frameworks.

Over the past several months, we have engaged multiple times with a multinational conglomerate undergoing a strategic transformation. This Mexico-domiciled company's businesses operate in industries such as chemicals, agriculture, telecommunications, and energy in over 50 countries. The company is seeking to elevate its profile as a global best-in-class company and has embarked on a process to alter its long-term strategy, purpose, and culture.

Over the next three to five years, the board and management aim to more clearly articulate their purpose, cultivate a more engaged workforce, and enhance their corporate governance structure to effectively oversee the company in this next phase. The company requested our feedback on how it is communicating progress to shareholders. During our conversations with management, the company provided insight into its roadmap, which includes re-evaluating corporate strategy and purpose, governance, and human capital management, amongst other things.

Additionally, the company expressed a desire to go beyond country-specific, legally-mandated disclosures and provide more transparency into their operation. We shared our perspective on reporting initiatives such as the Task Force on Climate-related Financial Disclosures and the Sustainability Accounting Standards Board for assessing and reporting on a range of material environmental and social risks and opportunities.

Ultimately, the company views their turnaround as a truly "transformational journey" which will require partnering with all relevant stakeholders. We are encouraged that they would like to continue to engage with us regularly. We believe that effective articulation of strategy, purpose, and culture provides shareholders a clear sense of the direction management intends to take the company and provides milestones against which performance can be assessed.

7 Engagement insight following an activist settlement and subsequent board integration

Earlier this year, a large asset management company announced an agreement with an activist shareholder wherein the activist and the company board would nominate two new directors ahead of the company's 2019 annual meeting.

Of the two directors proposed by the activist shareholder, one had previously served on the company's board and the other has a strong financial services and large public company background.

As a result of these proposed changes and regular board turnover, there would be five directors with tenures of less than two years on the board. We engaged with the company in advance of the annual meeting to discuss: 1) the rationale behind the activist's two nominees, and 2) how the total number of new directors would affect board culture.

Regarding the former, management described the company's historic interaction with the director who previously served on the board. Even after stepping down, the director remained an engaged shareholder on behalf of his fund and regularly provided constructive feedback on corporate strategy. The company also emphasized that the activist's thoughts on near-/mid-/long- term strategy were well-aligned with both management and the current board. The company believed that adding these individuals to the board, given its oversight role, was beneficial because it formalized the activist's input into board decision-making.

We also discussed the practical implications of blending new and established directors on the board. Because of the long-standing relationship between the activist and the company, and their alignment on strategy and values, management noted that the incumbent directors were not concerned.

Management expects the new board to operate effectively. They explained to us that they planned to enhance the on-boarding program, including increasing time spent on education, policy explanation, and company culture. They will establish individualized development plans to address each new director's knowledge gaps. While it was too early to assess the effectiveness of these steps, the company has committed to speaking further with us.

8 Pre- and post-vote engagements to improve executive compensation practices in communications equipment sector

We recently engaged a technology company, both in advance of our vote decision and subsequent to our vote, to discuss problematic provisions in the company's executive compensation. In our pre-vote analysis, consistent with our US proxy voting guidelines, we identified an overreliance on compensation committee discretion in determining the performance measures for the short-term incentive plan as part of the CEO's total payout. As noted in our commentary on executive compensation, where discretion has been used by the compensation committee we expect disclosure relating to how and why the discretion was used and further, how the adjusted outcome is aligned with the interests of shareholders. We also questioned the appropriateness of the company using a peer group of larger companies than this company for executive pay benchmarking. The company did add a performance-conditioned component to its long-term plan, but it was based on a single metric. It remained unclear following our conversation how this single measure was tied to the company's long-term strategy and performance.

Ultimately, the combination of these factors led us to vote against the company's executive compensation plan at their 2019 annual meeting. We determined that the company did not persuasively demonstrate the connection between strategy, long-term shareholder value creation, and incentive plan design.

After the annual meeting, we engaged with the company to share our perspective. The company explained its plans to re-evaluate its compensation practices and potentially amend their peer group. They also discussed improving their disclosures to better demonstrate a link between performance and rewards under the short- and long-term plans. We agreed to engage again prior to the next annual meeting to evaluate their progress. They shared that they appreciated our thoughtful analysis and willingness to engage.

9 Signaling our concerns on non-shareholder friendly executive pay practices

In our analysis of a small cap clinical-stage biotech company, we considered the appropriateness of the company's proposed excise tax gross-up payment for the incoming CEO contract. The new CEO was recently promoted after having served in a different executive role at the firm.

Under their new contract, the CEO will receive cash payments for his base salary and annual bonus, the latter determined by the board's assessment of their performance in connection with established and disclosed goals. The contract, however, also provides for excise tax gross-up payments to be paid upon a change in control event. Excise tax gross-up payments provide a potential windfall cash transfer from the company and its shareholders to the CEO for payments relating to personal tax liabilities. It's a mechanism that can substantially increase the severance payment received by a CEO upon a change in control.

In this case, the change in control provision allows for immediate vesting of all outstanding options to the executive, even if the company still employs the executive. This "single trigger" change in control provision could potentially cost shareholders by giving additional benefits to the CEO not tied to his performance.

The company has several other practices that we view as potentially disadvantageous to shareholders. For instance, at last year's annual meeting, the company requested authorization to increase common stock, which was approved by only 58% of shareholders. Despite low shareholder support, the company decided to issue the increased shares and dilute existing shareholders. Furthermore, the company's disclosure practices made it difficult for shareholders to be aware of the details of the CEO's employment contract. The tax gross-up feature was embedded in an 8-k filing from earlier this year rather than the proxy filing. Unfortunately, the company did not respond to our request for engagement prior to our vote.

In the context of poor disclosure practices and the use of an excise tax gross-up provision, we voted against management's advisory vote to ratify named executive officers' compensation (the say-on-pay proposal). Given the small board size, we did not think it appropriate to vote against directors without engaging and giving the company an opportunity to respond.

Market Developments and Trends

SEC's Statutory Interpretation Regarding Proxy Advisory Firms

For well over a year, the investment community, regulators, and elected officials have discussed what some believe to be an increased influence of proxy advisory firms. These firms, most notably Institutional Shareholder Services (ISS) and Glass Lewis, provide corporate governance research to investors who seek information for their proxy voting at company meetings. The matters up for vote at these meetings range from advisory votes on executive compensation to shareholder proposals to the approval of mergers and acquisitions.

In late August, the U.S. Securities and Exchange Commission ("SEC") issued a statutory interpretation with regards to certain activities of proxy advisory firms. The interpretation concluded that proxy voting advice constitutes a solicitation under federal proxy rules.

In the interpretation the SEC relied upon the definition of the term "solicitation" in Rule 14a-1(1) of the Exchange Act as a "communication to security holders under circumstances reasonably calculated to result in the procurement, withholding or revocation of a proxy." The interpretation clarified that solicitation can be construed even if the individual or entity seeking to influence the vote may be indifferent to the outcome of the meeting. During the meeting adopting the interpretation, SEC Chairman Jay Clayton indicated that changes to Rule 14a-1(1) may be forthcoming, and that the SEC may seek to incorporate this interpretation into the Rule. Changes to the rule would, under applicable law, be subject to public notice and comment.

Additionally, at the same time it issued the interpretation, the SEC provided guidance to investment advisors regarding their proxy voting responsibilities. The guidance highlighted the need for investment advisors to vote in their client's fiduciary interests, in line with the client's respective objectives, and to base voting decisions on accurate, complete information. Moreover, investment advisors that have not already done so must now adopt and implement written policies and procedures for proxy voting.

Engagement and Voting Statistics

Americas Q3 2019 Engagement and Voting Statistics

214 Total engagements[4]

8% Multiple engagements[5]

441 Meetings voted[6]

3,040 Proposals voted

4 The Americas engagement statistics are sourced from BlackRock on October 5, 2019 and are a reflection of 3rd Quarter 2019.
5 Multiple engagements represents the number of multiple meetings during the quarter with the same company.
6 The Americas voting statistics are sourced from ISS Proxy Exchange on October 5, 2019 and are a reflection of 3rd Quarter 2019.

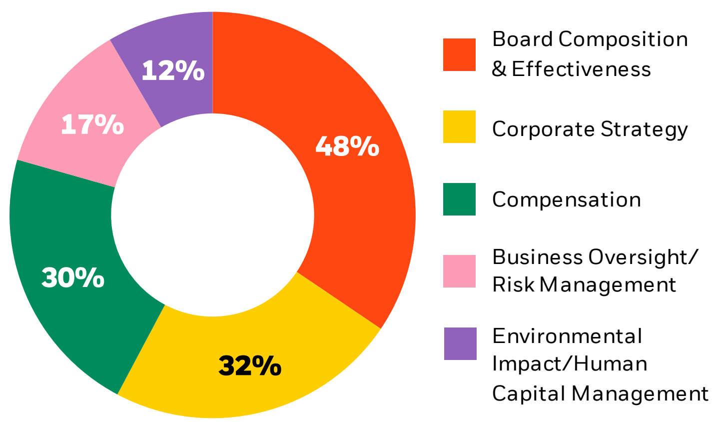
Engagement Topics

199 Governance

52 Environmental

25 Social

Top Engagement Themes*



* Most engagement conversations cover multiple topics

Region	Period covered	Engagements	Multiple engagements*	Meetings voted	Proposals voted
Americas	October 1, 2018 to September 30, 2019	937	7%	4,932	41,537
Global	October 1, 2018 to September 30, 2019	2,241	9%	15,946	154,624

*Multiple engagements represents multiple meetings with the same company over this period

www.blackrock.com/corporate/about-us/investment-stewardship

Engagement and Voting Statistics

Americas Q3 2019 Voting Statistics

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
North America	385	2,700	34%	8%
Latin and South America (LATAM)	56	340	25%	7%
Americas Region Total	441	3,040	32%	9%

Votes Against Management by Proposal Type for the Quarter

Region		North America	Latin and South America (LATAM)	Americas Totals	Global
Management Proposals					
Anti-takeover and related proposals	total number of proposals voted	86	0	86	204
	% of proposals voted against management	7%	0%	0%	5%
Capitalization	total number of proposals voted	67	24	91	2,238
	% of proposals voted against management	6%	4%	6%	7%
Election of directors and related proposals	total number of proposals voted	1,717	148	1,865	7,553
	% of proposals voted against management	10%	7%	10%	9%
Non-salary compensation	total number of proposals voted	374	9	383	1,346
	% of proposals voted against management	9%	22%	9%	17%
Mergers, acquisitions and reorganizations	total number of proposals voted	62	23	85	770
	% of proposals voted against management	0%	0%	0%	12%
Routine business	total number of proposals voted	308	132	440	3,432
	% of proposals voted against management	5%	8%	5%	4%
Shareholder Proposals					
Compensation	total number of proposals voted	3	0	3	7
	% of proposals voted against management	0%	0%	0%	43%
Corporate Governance	total number of proposals voted	3	0	3	32
	% of proposals voted against management	67%	0%	67%	6%
Election of directors and related proposals	total number of proposals voted	38	4	42	287
	% of proposals voted against management	0%	0%	0%	1%
Miscellaneous business	total number of proposals voted	9	0	9	101
	% of proposals voted against management	11%	0%	11%	2%

Engagement and Voting Statistics

Proposal Terminology Explained

Management Proposals

Anti-takeover and Related Proposals — proposals concerning shareholder rights, the adoption of "poison pills", and thresholds for approval, among others.

Capitalization — generally involves authorizations for stock issuances, private placements, stock splits, and conversions of securities.

Election of Directors and Related Proposals — a broad category which includes the election of directors, supervisory board matters, declassification of boards, implementation of majority voting, among others.

Non-salary Compensation — covers shareholder approvals of compensation related matters like advisory or binding votes on remuneration, omnibus stock plans, vote frequency, and special compensation situations.

Mergers, Acquisitions, and Reorganizations — involves significant transactions requiring shareholder approval like spin-offs and asset sales, as well as changes to company jurisdiction or structure.

Routine Business — covers formal approvals of reports, name changes, and technical bylaws, among many others.

Shareholder Proposals

Compensation — compensation, perquisites, and other executive compensation policies.

Corporate Governance — key corporate governance matters affecting shareholders rights including governance mechanisms and related article/bylaw amendments.

Election of Directors and Related Proposals — elections to the board of directors, and other governance provisions related to the board.

Miscellaneous business — resolutions regarding social and environmental matters that may have an impact on company operations, including shareholder proposals relating to procedural matters.

Prepared by BlackRock, Inc.

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