How BlackRock Investment Stewardship engages on climate risk

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We have received a number of inquiries from clients and others about how BlackRock Investment Stewardship analyzes and engages companies on climate risk. The following is intended to explain our approach to a broader audience.

As part of its investment process on behalf of its clients BlackRock assesses a range of factors that might affect the long-term financial sustainability of the companies in which we invest.

We have over the past two years undertaken a number of internal projects to enhance our understanding of climate change and believe that it presents significant investment risks and opportunities that have the potential to impact the long-term shareholder value of many companies. Examples such as the BlackRock Investment Institute publication in September 2016 (https://www.blackrock.com/corporate/en-us/literature/whitepaper/bii-climate-change-2016-us.pdf) reflect our work on this issue.

We have also contributed to external initiatives, such as the Financial Stability Board's Task Force on Climate-Related Financial Disclosures ("TCFD") and the Sustainability Accounting Standards Board, each of which focus on developing market-level and systemic standards that would advance reporting standards on environmental, social, and governance ("ESG") factors such as climate risk, amongst others.

In his letters to CEOs in 2016 and 2017, our CEO, Larry Fink, highlighted the need for companies to help their investors understand the ESG factors most relevant to their business and ability to realize a long-term strategy and generate value over time. He emphasized that our aim is not to micromanage companies, but to assess management effectiveness and thus, a company's long-term prospects. Importantly, he also noted that while we are patient investors, we are not infinitely patient.

Our Investment Stewardship team is responsible for engagement with companies, including voting at shareholder meetings. Team members have contributed to all of the initiatives described above, often drawing on the insights gained through engagement with companies, other shareholders and experts over the past few years.

The team engages with about 1,500 companies a year on average and engages certain companies over a number of years. Multi-year engagements reflect BlackRock's long-term approach to investment and stewardship. Engagements are undertaken in the context of our principles-based policies, which are applied pragmatically and evolve over time as practices and issues change. In the first instance, we will raise an issue with a company and explain our perspective on it; unless we believe management's approach is highly likely to cause significant financial harm to shareholders in the near term, we will give management time to address our concerns. If we do not see progress on the issue and we remain concerned, we will escalate our dialogue, usually to board directors, and in time may vote against the re-election of directors and potentially for shareholder proposals that address our concerns.

Climate risk awareness and engagement has advanced over the past several years and just as our thinking on climate risk continues to evolve, we believe that companies are also increasingly more aware of its business relevance. Climate risk will be one of the key engagement themes that the Investment Stewardship team will prioritize in 2017 and the team's recent work on this issue and its engagement and contributions to external initiatives such as the TCFD will inform our assessment of shareholder proposals on the topic. Over the course of 2017 we intend to engage companies most exposed to climate risk to understand their views on the recommendations from the TCFD and to encourage such companies to consider reporting against those recommendations in due course. For directors of companies in sectors that are significantly exposed to climate risk, the expectation will be for the whole board to have demonstrable fluency in how climate risk affects the business and management's approach to adapting and mitigating the risk. Assessments will be made both through corporate disclosures and direct engagement with independent board members, if necessary.

Consistent with our long-term value focus and "engagement first" process, where shareholder proposals on climate risk clearly address a gap in investment-decision and stewardship relevant disclosure, that we believe will lead to material economic disadvantage to the company and its shareholders if not addressed, and management's response to our prior engagement has been inadequate, we will consider voting in favor of proposals that would address our concern. Ultimately the board is responsible for protecting the long-term economic interests of shareholders and we may vote against the re-election of certain directors where we believe they have not fulfilled that duty, particularly in markets where shareholder proposals are not common.