

## Investment Stewardship

# Vote Bulletin: Grupo Financiero Banorte

Company	<b>Grupo Financiero Banorte, S.A.B. de C.V. (BMV: GFNORTEO)</b>
Market and Sector	Mexico, Finance
Meeting Date	22 April 2022
Key Resolutions <sup>1</sup>	<b>Item 4: Election of board members as proposed by the Nominating Committee</b>
Key Topics	Board quality and effectiveness; climate risk; diversity, equity, and inclusion
Board Recommendation	The board recommended shareholders vote FOR item 4
BlackRock Vote	BlackRock voted FOR item 4

### Overview

Grupo Financiero Banorte, S.A.B. de C.V. (Banorte) is a Mexican financial institution that serves more than 28 million clients.<sup>2</sup> In addition to offering universal banking services, Banorte provides a variety of “products and services through its broker dealer, annuities and insurance companies, retirement savings funds, mutual funds, leasing and factoring company, and warehousing.”<sup>3</sup>

BlackRock Investment Stewardship (BIS) engages company leadership to provide feedback from the perspective of a long-term investor and better understand how companies identify and manage risks and opportunities that we believe can impact their ability to deliver sustained financial performance for long-term investors like BlackRock’s clients. As such, BIS looks to company boards to have a clearly defined role in overseeing executive leadership’s approach to material risks and opportunities, and the company’s strategy overall, in alignment with long-term shareholders’ interests.

In our multi-year engagement with Banorte, BIS has covered a range of governance issues. Specifically, we have sought to further our understanding of the company’s approach to board independence and diversity. Our discussions have also touched on the importance of board refreshment and oversight to support management on the identification and management of material risks, including environmental and social-related risks. In addition, we have often encouraged the company to enhance the quality and timeliness of their disclosures to support investors’ understanding of the drivers of value in the company’s business operations.

<sup>1</sup> Grupo Financiero Banorte. “[First Notice – Annual General Shareholders Meeting.](#)” 18 March 2022.

<sup>2</sup> Grupo Financiero Banorte. “[2021 Annual Report.](#)” Page 10.

<sup>3</sup> Grupo Financiero Banorte. “[About GFNorte.](#)”

## Rationale for BlackRock's vote

### **Item 4: Election of board members as proposed by the Nominating Committee**

**BIS supported all 14 directors up for election given that the company provided robust and timely disclosures, articulating how the proposed board is well positioned to oversee the company's strategic aims over the long-term.**

#### ***Board quality and effectiveness considerations***

As explained in our [proxy voting guidelines for Latin American securities](#), BIS encourages Latin American issuers to adopt best in-class global disclosures and operational processes that facilitate participation from international investors. These best practices include publishing the shareholder meeting circular with supporting materials, such as financial statements, at least approximately 30-45 days prior to the meeting date; providing biographical information regarding director candidates as part of the shareholder meeting notice; ensuring that the investor relations team includes individuals who speak languages commonly used by the company's foreign shareholders; and providing dedicated seats on the board for directors nominated by minority investors, among others.

As mentioned above, BIS' multi-year engagements with Banorte have often touched on the company's reporting efforts, including on their board selection and refreshment processes. Over the course of our engagements, we have explained how enhanced disclosure is helpful to further our understanding of how the board oversees management's strategy and approach to navigating challenges and capturing opportunities. BIS has also explained that we see the election of directors as one of our most impactful responsibilities. For this reason, we find it helpful when boards communicate their governance views on director responsibilities and commitments, turnover, succession planning, and diversity, among other issues.

Thirty days prior to the 2022 AGM, Banorte published their annual report and financial statements for 2021, describing the company's overall strategy and progress achieved during the reporting period. Available both in Spanish and English, the company's report also includes an explanation of the structure of the board, as well as details on the board members' independence, diversity, tenure, and attendance rates for 2021. Moreover, the company reported they underwent a rigorous assessment, with the assistance of a third-party, to measure the effectiveness of the board and to identify areas of improvement for 2022.<sup>4,5</sup> The company explained that this exercise supported the Nominating Committee's efforts to enhance the director selection process ahead of the 2022 AGM.

Notably, the company also holds annual, individual director elections, compared to other companies in the Mexican market that hold biannual or triannual, grouped (or slate) elections. In our view, this governance best practice allows shareholders to annually assess the suitability and performance of each director. This also promotes better understanding of how the overall composition of the board supports management in driving the company's strategy and long-term value creation for all investors, including minority investors such as BlackRock's clients.

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<sup>4</sup>The Nominating Committee incorporated the company's updated and robust materiality assessment – that takes into account the company's broader stakeholder base – in their board composition discussions to ensure that the company's most important material risks are duly managed and represented at the board level with qualified candidates with relevant experience. This resulted in Banorte's Nominating Committee designing "a matrix of skills and expertise to ensure the combined capacities of the board are sufficient to consistently manage the group's strategic goals and its various business lines." See Grupo Financiero Banorte's "[2021 Annual Report](#)," at pages 34-39 to learn more.

<sup>5</sup> The assessment evaluated the performance of the board in various areas, including strategic and control responsibilities, qualifications and composition, the dynamics between the board and the support committees, and leadership, among others. See Grupo Financiero Banorte's "[2021 Annual Report](#)," at page 39 to learn more.

## ***Climate-related considerations***

In our past engagements with Banorte, we have also explained that we look to company leadership to disclose how climate risks and opportunities might impact their business, and how these factors are addressed in the context of their business model and sector. We have also encouraged the company to enhance their disclosures in alignment with the Taskforce on Climate-related Financial Disclosures (TCFD) framework, as well as industry-specific metrics, such as those identified by the Sustainability Accounting Standards Board (SASB). Consistent, comparable data across companies in the market allows investors to better analyze companies' performance on key metrics and allocate capital.

Banorte has increasingly aligned their sustainability disclosures with the SASB standards applicable to their industry, as well as with the Global Reporting Initiative (GRI) standards. For example, Banorte incorporated these standards in the materiality assessment that the company conducted prior to the 2022 AGM. Banorte is also a member of the Taskforce on Nature-related Financial Disclosures (TNFD).<sup>6</sup> Moreover, in their 2021 annual report, Banorte committed to publish their first TCFD-aligned report in 2022.<sup>7</sup>

## ***Diversity, Equity, and Inclusion considerations***

As explained in our commentary, "[Our approach to engagement on human capital management](#)," through our analysis of company disclosures and engagement with management, we aim to understand a company's efforts to advance diversity, equity and inclusion. In our view, a diverse and inclusive workforce contributes to a company's ability to innovate, adapt, and be attuned to the customers and communities it serves.

BIS is encouraged by Banorte's efforts to establish a more diverse, equitable, and inclusive culture, as reflected in their public commitment to the United Nations Global Compact (UNGC).<sup>8</sup> Banorte has been a signatory to the UNGC since 2011, and is one of 25 Mexican companies that, since 2020, has participated in the UNGC's Target Gender Equality accelerator program. This program guides UNGC member companies as they seek to advance gender equality goals by 2030, such as increasing the percentage of women on the Board of Directors and senior management and reducing the wage gap, among others.<sup>9</sup>

BIS will continue engaging with Banorte to monitor progress on their annual board refreshment process, especially as the company seeks to enhance diversity in the coming years. While BIS supported the election of all 14 directors – including one director that identifies as a woman – per our [proxy voting guidelines for Latin American securities](#), we believe boards should aspire to 30% diversity of membership and encourage companies to have at least two directors on their board who identify as female and at least one who identifies as a member of an underrepresented group. This position is based on our view that diversity of perspective and thought – in the board room, in the management team, and throughout the company – leads to better long-term economic outcomes for companies and their shareholders.

**We are encouraged by Banorte's receptiveness to shareholder feedback, including BlackRock's, as demonstrated in the steps the company has taken to date to improve the quality, detail, and timeliness of their disclosures. As a result, BIS supported all 14 directors up for election.**<sup>10</sup>

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<sup>6</sup> The TNFD was launched to address the lack of consistent information available to financial institutions on how nature impacts a company's immediate financial performance, or the longer-term financial risks that may arise from how a company depends on and impacts nature. BlackRock is contributing to the TNFD's efforts to develop and deliver a risk management and disclosure framework to help companies to report, and act on, natural capital risks. See the TNFD's "[About](#)" section to learn more.

<sup>7</sup> Grupo Financiero Banorte. "[2021 Annual Report](#)." Page 82.

<sup>8</sup> The UNGC is a voluntary initiative based on CEO commitments to implement universal sustainability principles and to take steps to support UN goals. See "[About the UN Global Compact](#)" to learn more.

<sup>9</sup> Grupo Financiero Banorte. "[2021 Annual Report](#)." Page 132.

<sup>10</sup> At the 2022 AGM, Banorte also submitted 14 candidates to serve as alternate directors, one for each elected director. Per the company's bylaws, each director is allowed to designate an alternate director, provided that the alternate director is also independent. Board members

## About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.<sup>11</sup>

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

**Want to know more?** [blackrock.com/stewardship](https://blackrock.com/stewardship)

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owe fiduciary duties to shareholders in overseeing the strategic direction, operations, and risk management of the company. While we welcome multiple perspectives, we believe the fiduciary duties that directors owe to shareholders are non-transferable. We will continue to engage with the company to share our investor perspective on this issue.

<sup>11</sup> As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.