BlackRock

Investment Stewardship

Engagement Priorities Summary

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This note summarizes our Engagement Priorities. Our approach to engaging on each priority is set out in detail in the supporting commentaries on each topic. This summary should be read in conjunction with the commentaries.

Our Engagement Priorities

BlackRock Investment Stewardship's (BIS) Engagement Priorities[1] reflect the five themes on which we most frequently engage companies,[2] where they are relevant and a source of material business risk or opportunity. As such, how they are managed may have an impact on companies' ability to deliver the long-term financial returns on which our clients depend to meet their investing goals. The vast majority of BIS' engagements are focused on corporate governance. In our experience, sound governance is critical to the success of a company, long-term financial value creation, and the protection of investors' interests.

BIS takes a constructive, long-term approach to our engagement with companies and focuses on the management and oversight of the drivers of risk and financial value creation in a company's business model. Engagement is core to our stewardship efforts as it provides us with the opportunity to improve our understanding of a company's business model and the risks and opportunities that are material to how they create financial value. Engagement may also inform our voting decisions for those clients who have given us authority to vote on their behalf, particularly on issues where company disclosures are not sufficiently clear or complete, or management's approach seems misaligned with the financial interests of long-term shareholders.

As one of many, and typically a minority shareholder, BIS does not tell companies what to do. Our role, on behalf of our clients as long-term investors, is to better understand how corporate leadership is managing risks and capitalizing on opportunities to help protect and enhance the company's ability to deliver long-term financial returns.

BIS' Engagement Priorities

1. Board quality and effectiveness
2. Strategy, purpose, and financial resilience
3. Incentives aligned with financial value creation
4. Climate and natural capital
5. Company impacts on people

BIS' Engagement Priorities for 2024 are consistent with those from prior years as they continue to reflect the corporate governance norms, that in our view, drive long-term financial value. There are no material changes in our approach to engaging companies on these themes.

We do note however, that the macroeconomic and geopolitical backdrop companies are operating in has changed. This new economic regime is shaped by powerful structural forces that we believe may drive divergent performance across economies, sectors, and companies. Amid these shifts, **we are particularly interested in learning from investee companies about how they are adapting to strengthen their financial resilience.**

In our Viewpoint, Financial resilience in a new economic regime, we highlight the structural shifts that we believe are shaping this new regime and discuss how companies are adapting to manage risks and harness opportunities spurred by it.

We provide more detail on our Engagement Priorities in our seven thematic commentaries. As in previous years, these commentaries explain why we consider these priorities to be investment issues, particularly for long-term investors like our clients, and set out how we discuss them with companies.

The Engagement Priorities and thematic commentaries, alongside our Global Principles and regional proxy voting guidelines, collectively are the foundational policies describing our approach to engaging with companies and voting at shareholder meetings on behalf of clients who have authorized us to do so. BIS reviews our global and regional policies every year and updates them, as necessary, to reflect changes in market standards and regulations, insights gained over the year through third-party and our own research, and feedback from clients and companies.

For 2024, BIS' policies are largely consistent with the previous years, as there was little need for updates. Those we did make were largely to reflect changes in the market such as the finalization of various reporting standards.

Summary of BIS' Engagement Priorities

Board quality and effectiveness

Commentary available here

Our investment stewardship efforts have always started with the board and executive leadership. We recognize that accepted standards and norms of corporate governance can differ between markets. However, we believe there are certain fundamental elements of governance practice that are intrinsic globally to a company's ability to create long-term financial value. One of these is a high caliber, effective board responsible for overseeing and advising management and accountable to shareholders.

As we explain in the BIS Global Principles, the performance of the board is critical to the long-term financial success of a company and the protection of shareholders' economic interests. For this reason, BIS sees engagement with, and the election of, directors as one of our most important responsibilities. The election of directors to the board is a near-universal right of shareholders globally and an important signal of support for, or concern about, the performance of the board in overseeing and advising management.

We engage, as necessary, with members of the board's nominating and/or governance committee to assess whether governance practices and board composition are appropriate given the business model and the broader context in which the company operates. In our engagements, we discuss various governance topics, including board composition and independent leadership, board oversight of management's strategy and approach to risk management, succession planning for key board and management roles, and the board's nomination and evaluation processes. We look to boards to have credible responses to a range of questions on these topics that, in our experience, can demonstrate a robust approach to board quality and effectiveness.

Strategy, purpose, and financial resilience

Commentary available here

In our experience, a clear purpose supports a clear sense of direction in corporate leadership, and helps companies to compete, navigate short-term challenges, and achieve long-term growth.[3,4] This in turn helps companies to attract and retain a high caliber workforce, build stronger customer loyalty, and maintain investor confidence. These factors are important to building financial and business resilience, attracting long-term capital, and delivering durable profitability.

Establishing and aligning strategy and purpose to effectively drive a company's long-term financial performance is the responsibility of executive leadership and the board of directors. As one of many shareholders, and typically a minority one, BlackRock does not tell companies what to do. Our role, on behalf of our clients as long-term investors, is to better understand how corporate leadership is managing risks and opportunities to help protect and enhance their company's ability to deliver financial returns over time. We find it helpful when companies publish comprehensive disclosures that clearly state their purpose and set out a long-term strategy consistent with it, including milestones against which shareholders can measure performance. We also look for the board to have a clearly defined role in advising on, and overseeing executive leadership's approach to, the company's strategy, purpose and culture, and in overseeing the company's financial resilience.

We engage on long-term corporate strategy, purpose, and financial resilience to understand how boards and management are aligning their business decision-making with the company's purpose and adjusting strategy and/or capital allocation plans as necessary as business dynamics change. We also seek to understand how companies manage risks and opportunities within their operations to deliver long-term financial value for shareholders. These discussions also allow us to communicate any concerns about a company's approach to governance and material risks and opportunities that, in our assessment, have the potential to affect their performance, and in turn, our clients' long-term financial interests.

Incentives aligned with financial value creation

Commentary available here

Executive compensation[5] is an important tool used by companies to drive long-term financial value creation by incentivizing and rewarding the successful delivery of strategic goals and financial outperformance against peers. However, when compensation policies are not well-structured, and when outcomes are misaligned with performance,[6] companies may face business and/or reputational risks. To that end, appropriate and transparent compensation policies are a focus in many of BIS' engagements with companies we invest in on behalf of clients. In our view, it is important for companies to make clear in their disclosures the connection between compensation policies and outcomes and the financial interests of long-term shareholders.

When we analyze a company's disclosures, BIS seeks to determine whether the board's approach to executive compensation is rigorous, yet reasonable, in light of the company's stated long-term corporate strategy and specific circumstances, as well as local market and policy developments. We use third-party research, in addition to our own analysis of company disclosures, to evaluate existing and proposed compensation policies.

Where BIS finds apparent misalignments between executive pay and company performance, or has other concerns about a company's compensation policies, we may engage to better understand the company's approach. We prefer to engage with directors with the relevant oversight, most likely a member of the compensation committee, where we have concerns about or feedback on compensation policies or outcomes.

Climate and natural capital

Climate-related risk commentary available here, natural capital commentary available here

Climate-related risk

As an asset manager, BlackRock's approach to climate-related risk, and the opportunities presented by the low-carbon transition, is based on our fundamental role as a fiduciary to our clients. Our role is to help our clients navigate investment risks and opportunities; it is not our role to engineer a specific decarbonization outcome in the real economy.

In this role, we want to hear from the companies in which we invest for our clients regarding the impact climate-related risks and opportunities and the low-carbon transition is expected to have on their strategies and long-term business models. We engage on this topic because the way in which companies navigate material climate-related risks and adapt through the low-carbon transition may have a direct financial impact on our clients' investment outcomes and financial well-being.

While companies in various sectors and geographies may be affected differently by climate-related risks and opportunities, the low-carbon transition is an investment factor that can be material for many companies and economies around the globe.[7] As long-term investors, we seek to understand how companies are managing material business-relevant risks and opportunities, including those related to the low-carbon transition, in the context of their business model and sector. We look to companies to disclose their approach to managing material climate-related risk and opportunities in their business models.

In our view, long-term investors like our clients can make better informed investment decisions when companies disclose their approach to ensuring they have a resilient business model covering governance, strategy, risk management, and metrics and targets, including industry-specific metrics. The International Sustainability Standards Board (ISSB) standards, IFRS S1 and S2, [8] provide companies with a useful guide to preparing this disclosure. The standards build on the Task Force on Climate-related Financial Disclosures (TCFD) framework and the standards and metrics developed by the Sustainability Accounting Standards Board (SASB), which have converged under the ISSB.[9]

Natural capital

The management of nature-related risks and opportunities is a component of the ability to generate long-term financial returns for companies whose strategies or supply chains are materially reliant on natural capital.[10] For these companies, we look for disclosures to assess risk oversight and to understand how nature-related impacts and dependencies are considered within the company's strategy.

While natural capital is a broad concept, we focus on three key components — land use and deforestation, water, and biodiversity — which can affect the long-term financial returns of companies with material exposure. Where natural capital is material to the long-term strategy of companies, we look for public disclosures to assess risk oversight and to understand how nature-related impacts and dependencies are managed. We find it helpful when these disclosures include a discussion of material natural capital risks and opportunities in the context of a company's governance, strategy, risk management, and metrics and targets.

While nature-related disclosures have historically been limited and difficult to compare across companies, private-sector initiatives, such as the Taskforce on Nature-related Financial Disclosures (TNFD),[11] provide frameworks that may prove useful to guide disclosure on material, nature-related impacts and dependencies, alongside associated risks and opportunities, consistent with the framework developed by the TCFD and the approach of the ISSB. [12, 13]

Company impacts on people

Commentary on human capital management available here, commentary on companies' human rights impacts available here

In our experience, companies that invest in the relationships that are critical to their ability to meet their strategic objectives are more likely to deliver durable, long-term financial performance. By contrast, poor relationships may create adverse impacts that could expose companies to legal, regulatory, operational, and reputational risks. This is particularly the case with regard to a company's workforce, as a significant number of companies acknowledge the importance of their workers in creating long-term financial value.[14]

Human capital management

In our engagements, BIS focuses on understanding the effectiveness of boards and management in ensuring a company has the workforce necessary for delivering long-term financial performance. BIS looks to companies to demonstrate a robust approach to human capital management (HCM) and provide shareholders with the necessary information to understand how the approach taken aligns with the company's stated strategy and business model. BIS does not seek to direct a company's policies or practices, which are the responsibility of management and the board. We find it helpful when companies provide clear and consistent reporting on HCM matters to help investors to understand a company's approach to a potentially material business risk. We recognize that there are different reporting standards and frameworks on HCM, which may be voluntary or required by regulation. In such cases, we appreciate when companies provide context on their reporting and highlight the metrics reported that are industry- or company-specific.

Companies' human rights impacts

On behalf of our clients as long-term investors, BIS engages with companies on how they manage the human rights issues that are material to their businesses and monitor the effectiveness of their human rights practices on a best-efforts basis. Long-term investors can benefit when companies implement processes to identify, manage, and prevent adverse human rights impacts that could expose them to material business risks, and provide robust disclosures on these processes. A company that addresses human rights-related risks in a proactive and effective manner can, in addition to mitigating against such risks, also create opportunities for improved relationships across their value chain (e.g., through access to education, employment, and other economic and social benefits), increased productivity, higher-quality products, better positioning for their corporate reputation, and a more engaged employee base.

Engagement in practice

BIS' work – including our engagement activities – is undertaken solely to advance the long-term financial interests of our clients, many of whom are saving for long-term goals like retirement. We aim to be a constructive, supportive investor on behalf of our clients, bringing a long-term perspective to our work with companies as they manage material risks and opportunities in the context of their business model and sector and that, when addressed, support long-term financial value creation.

Engagement[15] provides the BIS team with an opportunity to hear directly from company directors and executives about how they are addressing business risks and opportunities that impact their ability to deliver durable, long-term financial performance. Similarly, it is an important mechanism to provide feedback on company practices and disclosures, particularly when, in our judgment, a company does not appear to be acting in the financial interests of long-term shareholders like our clients.

The BIS team takes a localized approach to engagement with companies while also benefiting from collective global insights. BIS primarily engages public companies on behalf of BlackRock's index funds and accounts, and BIS's analysis and engagement notes are available to BlackRock's active portfolio managers.

While engagement provides a venue for companies to provide their investors with insights and clarification, comprehensive company disclosures can help ensure there is no confusion in the first place. In our view, companies benefit when they provide timely, comparable, and comprehensive reporting – on all material governance and business matters – as that serves as a broad-based platform to inform investors.

Endnotes

1. These Engagement Priorities should be read alongside our Global Principles and regional proxy voting guidelines, which are collectively the foundation of our stewardship work. The BIS Global Principles, regional voting guidelines, and engagement priorities (collectively, the "BIS policies") set out the core elements of corporate governance that guide our investment stewardship efforts globally and within each market, including when engaging with companies and voting at shareholder meetings. The BIS policies are applied on a case-by-case basis, taking into consideration the context within which a company is operating.
2. BlackRock is a leading asset manager with a broadly diversified business across clients, products, and geographies. BIS primarily engages public companies on behalf of BlackRock's index funds and accounts and makes our company analysis and meeting notes available to BlackRock active portfolio managers. Other teams across BlackRock may engage with companies to help inform their work on a broad spectrum of risk and value drivers in their investible universe.
3. In August 2019, the Business Roundtable (BRT) published an updated Statement on the Purpose of a Corporation. 181 CEOs signed the Statement and committed to leading their companies for the benefit of all stakeholders — customers, employees, suppliers, communities, and shareholders. The Statement letter has not been updated.
4. 63% of respondents to the 2024 Edelman Trust Barometer view business as the most and only trusted institution, January 2024.
5. The term "compensation" is used as an equivalent to "remuneration" or "pay."
6. A compensation outcome generally relates to the payout of a performance-conditioned pay component and reflects both the construction of the pay program as well as the performance of the company and executives against defined performance objectives.
7. We recognize that companies in different markets are adapting to the low-carbon transition in varying contexts as a result of differences in the current government policy landscape. For example, the Inflation Reduction Act in the U.S. creating significant opportunities for investors to allocate capital to the low-carbon transition. This legislation commits an estimated U.S. $369 billion for investment in energy security and climate change mitigation. The European Union and European governments are also developing incentives to support the transition to a net zero economy and drive growth. Please also see, BlackRock Investment Institute, "Mega forces: An investment opportunity", 2023.
8. The objective of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. The objective of IFRS S2 Climate-related disclosures is to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.
9. The IFRS has assumed responsibility for monitoring companies' climate-related financial disclosures from the TCFD, which was disbanded in October 2023. The IFRS S2 Climate-related disclosure standard builds on the four pillars and 11 recommendations of the TCFD, but has additional requirements. For more information, please see, IFRS, "Comparison IFRS S2 Climate-related Disclosures with the TCFD Recommendations," July 2023.
10. See BloombergNEF, "When the Bee Stings Counting the Cost of Nature-Related Risks", December 9, 2023.
11. The TNFD released its final recommendations in September 2023.
12. We also expect more jurisdictions to mandate nature-related disclosures in the future, as is already the case in the European Union with the entry into force of the EU Corporate Sustainability Reporting Directive (CSRD) in January 2023. Target 15 of the Global Biodiversity Framework (GBF) calls on parties of the Convention to take measures to encourage and enable business to monitor, assess, and transparently disclose their risks, dependencies and impacts on biodiversity.
13. In our view, the final recommendations of the TNFD may prove useful to some companies as they build or improve their reporting over time. We also encourage companies to consider the disclosure metrics suggested in the TNFD final recommendations where possible and relevant to their business model or the location they operate in. We recognize that some companies may report using different standards, which may be required by regulation. In addition, some industry groups have developed their own nature-related disclosure standards, which may be useful for certain sectors.
14. This perspective is also backed by research, for example: Fedyk, A and Hodson, J. "Trading on Talent: Human Capital and Firm Performance." Review of Finance, forthcoming. October 15, 2022.
15. An engagement consists of discussions with company boards and management. BIS counts only direct interaction as an engagement. The stewardship team also writes letters to raise companies' awareness of changes in policy or thematic issues on which the team is focused, but this outreach is considered distinct from engagement as it is difficult to monitor the effectiveness of letter writing without direct interaction.

Want to know more?

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