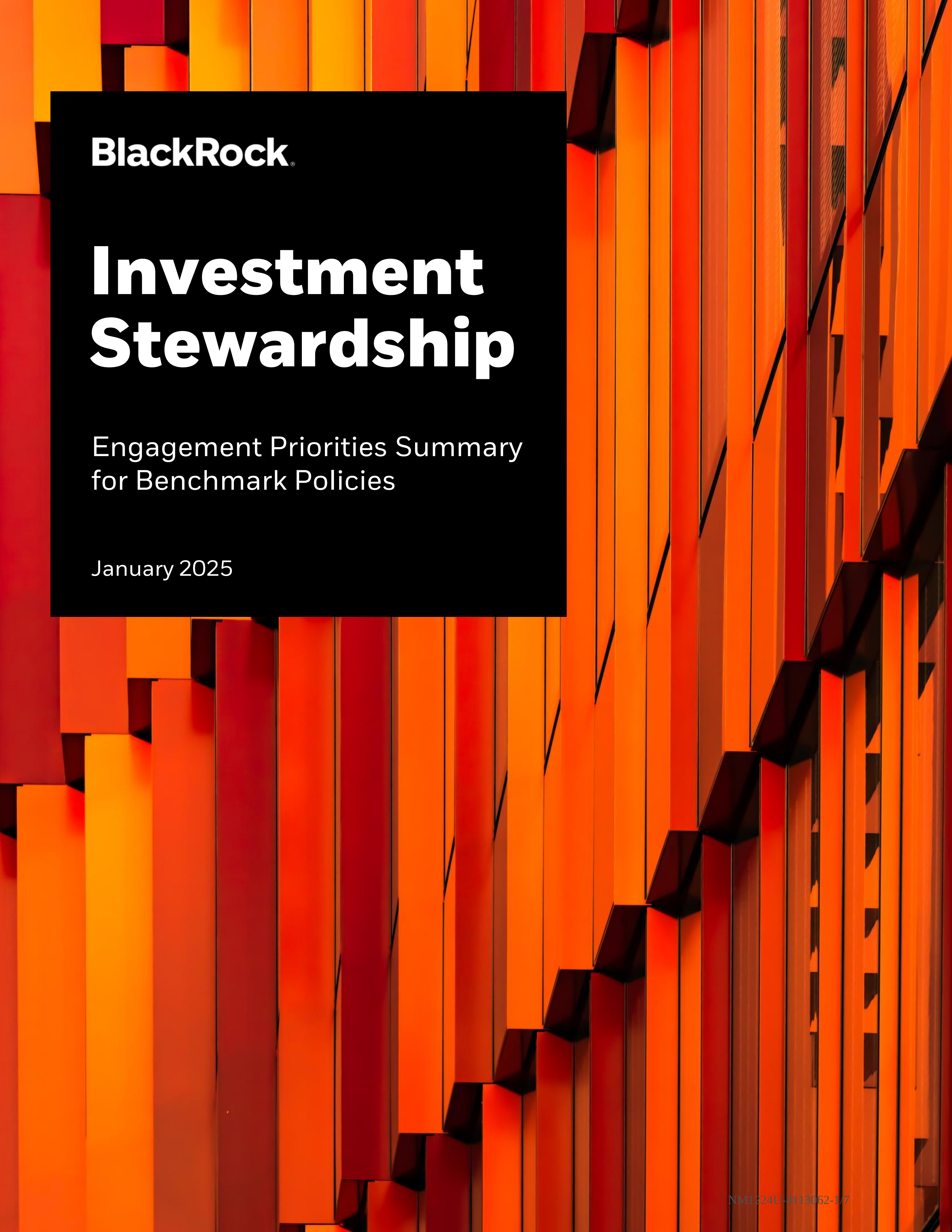

BlackRock

Investment Stewardship

Engagement Priorities Summary for Benchmark Policies

January 2025

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This note summarizes BlackRock Investment Stewardship's (BIS) 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.

In addition, these Engagement Priorities should be read alongside our Global Principles and regional proxy voting guidelines, which are collectively the foundation of our stewardship work under our Benchmark Policies in relation to the companies we invest in, on behalf of clients, through index strategies. The Global Principles, regional voting guidelines, and engagement priorities (collectively, the BIS Benchmark Policies)[1] 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. We take a globally consistent approach, while recognizing the unique markets and sectors in which companies operate.

Our Engagement Priorities

BIS takes a constructive, long-term approach to our engagement with companies, reflecting the investment horizons of the majority of our clients. An engagement is a meeting between BIS and a company's board and management that helps improve our understanding of the company's business model and material risks and opportunities, to inform our voting decisions on behalf of clients who authorize us to vote on their behalf. In these two-way conversations, we listen to and learn directly from company directors and executives and ask questions relevant to their business. Either a company or BIS can request an engagement. Many of the engagements are initiated by companies to discuss their long-term strategy, risk and opportunity set, and management's plan to deliver financial returns through business cycles. The ongoing, multiyear nature of our engagements allows us to build strong relationships with company leadership and mutual understanding on key matters of corporate governance and the drivers of long-term financial performance.

BIS' Engagement Priorities reflect the five themes on which we most frequently engage companies, where they are relevant and a source of material business risk or opportunity. As such, how these themes 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 majority of BIS' engagements are focused on corporate governance because, in our experience, sound governance is critical to the success of a company, long-term financial value creation, and the protection of investors' financial interests.

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

For 2025, BIS' Engagement Priorities 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. Under our benchmark policies, there are no material changes to the principal issues on which we engage with companies.

We provide more detail on our Engagement Priorities in our seven thematic commentaries available on our website. 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.

Many of the topics addressed in our engagement priorities may also be taken into consideration in our voting. BIS votes on behalf of those clients who have delegated voting authority to us and engagement may inform our voting decisions. In case of concerns, we typically raise these through dialogue with board members and management teams first. When we determine that it is in our clients' financial interests to convey concerns through voting, we may do so by not supporting director elections or other management proposals, or by not supporting management's voting recommendation on a shareholder proposal.

BIS' Benchmark Policies

BIS' Benchmark Policies, and the vote decisions made consistent with those policies, reflect our reasonable and independent judgment of what is in the long-term financial interests of our clients invested in index strategies. They are informed by our in-depth analysis of company disclosures, engagement with boards and management teams, third-party research, and comparisons against a company's industry peers.

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 2025, BIS' Benchmark Policies are consistent with previous years. Any updates we did make were to clarify points where needed or reflect the evolution of policy in certain markets.

Summary of BIS' Engagement Priorities

Board quality and effectiveness

Commentary available here

As noted above, appropriately qualified, engaged directors with characteristics relevant to a company's business enhance the ability of the board to add value and be the voice of shareholders in board discussions. In our view, a strong board gives a company a competitive advantage, providing valuable oversight and contributing to the most important management decisions that support long-term financial performance. This is why our investment stewardship efforts have always started with the performance of the board of directors and why we see 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 take a multifaceted approach to evaluating board quality and effectiveness. In assessing sound governance, we take into consideration a number of factors, including the sector, market, and business environment within which a company is operating, and how that influences the responsibilities and composition of the board and how it functions.[3]

In addition, when evaluating boards as a whole, we look at a number of factors. This includes the board's effectiveness as a group, individual directors' independence and time commitments, as well as the breadth and relevance of director experiences and skillsets, and how these factors may contribute to the financial performance of the company. We look to boards to establish a formal and transparent process for nominating directors that reflects the company's long-term strategy and business model. Regular director elections benefit the ability of boards to adjust their composition in an orderly manner to account for a company's operating environment, and to refresh the group's thinking on matters material to financial value creation.

Strategy, purpose, and financial resilience

Commentary available here

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.

When engaging on long-term corporate strategy, purpose, and financial resilience, we seek to understand a company's strategic framework, the board's process for oversight, how the strategy incorporates key stakeholders' interests, and how strategy evolves over time in response to changing consumer preferences, technology advancements and broader economic, regulatory, and sectoral factors. We are also interested in the board's role in supporting executive leadership assess the company's purpose and culture.

Incentives aligned with financial value creation

Commentary available here

Executive compensation is an important tool used by companies to support long-term financial value creation. In our experience, well-structured compensation policies reward the successful delivery of strategic, operational, and/or financial goals, encourage an appropriate risk appetite, and align the interests of shareholders and executives through equity ownership.[4, 5]

For these reasons, appropriate and transparent compensation policies are a focus in many of BIS' engagements with companies our clients are invested in. To aid our understanding, we find it helpful when companies 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.

Where BIS finds apparent misalignment 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 responsibilities, most likely a director serving on the compensation committee.

Climate and natural capital

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

Climate-related risk

BIS' approach under our benchmark policies to material climate-related risks and the opportunities presented by the low-carbon transition is based on our fundamental role as a fiduciary to our clients.[6]

The low-carbon transition may present different challenges and potential rates of change for companies across sectors. With this in mind, when discussing climate- and transition-related risks with companies, we generally focus our conversations where the transition is most likely to materially impact a company's long-term financial performance.

At companies where climate-related risks are material, we find it helpful when they publicly disclose, consistent with their business model and sector, how they intend to deliver long-term financial performance through the transition to a low-carbon economy.[7]

In our experience, disclosure consistent with the International Sustainability Standards Board (ISSB) standards,[8] specifically IFRS S2,[9] or the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) can help investors assess company-specific climate-related risks and opportunities and inform investment decisions.[10] Such disclosures also provide investors with insights into how companies are managing the risks associated with climate change by managing their own carbon emissions or emissions intensities to the extent financially practicable. Recognizing the value of these disclosures, in some jurisdictions, like the U.K, large companies must disclose such climate-related financial information on a mandatory basis, while in other jurisdictions these disclosures are viewed as best practice in the market.

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.[11] For these companies, we rely on disclosures to assess the board's risk oversight and to understand how nature-related impacts and dependencies are considered within their strategies.

While natural capital is a broad term, 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. Based on our assessment, companies with material nature-related risks and opportunities stand to benefit from the robust management of these components, which may lead to operational efficiency, management capabilities, and innovation.

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.[12] 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. This information could be augmented with an evaluation of the business impacts of potential, or unpredictable, changes in the availability of critical natural resources. It is also helpful to hear from companies about how they manage natural capital dependencies and impacts in the context of their value chains.

Company impacts on people

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

In BIS' 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, we have found that 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 direct and indirect workforce,[13] and 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. Our discussions cover material workforce-related risks and opportunities, which may include how a company's business practices foster a workforce culture inclusive of a variety of perspectives; enhance job quality and employee engagement; enable career development; promote positive labor relations, safe working conditions, and fair wages; and consider human rights.[15]

BIS finds it helpful when companies provide shareholders with the necessary information to understand their approach to human capital management (HCM) and how it 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.

Companies' human rights impacts

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. We are focused on the governance of this business risk, where appropriate. As one of many minority shareholders in public companies, BlackRock does not tell companies how to identify, manage and mitigate material human rights-related risks. We recognize that most companies' business models, including their supply chains, are multi-tiered and complex and, thus, not always easily assessed by shareholders.

BIS finds it helpful when corporate leadership provides robust disclosures on their approach to governance, strategy, and management of material business risks and opportunities. This information can help investors better understand how companies are managing their material risks and planning for the long-term. Recognizing that exposure to human rights-related risks will vary by company, by industry, and by geographic location, we find it helpful when companies disclose whether and how they integrate human rights considerations into their operations and risk management processes and identify the steps they are taking to address these issues, if any.

Endnotes

1. BIS' benchmark policies, and the vote decisions made consistent with these policies, take a financial materiality-based approach and are focused solely on advancing clients' financial interests. BIS' benchmark policies – comprised of the BIS Global Principles, regional voting guidelines, and engagement priorities – apply to clients' assets invested through index strategies and provide guidance on our position on common corporate governance matters. We take a globally consistent approach, while recognizing the unique markets and sectors in which companies operate. BlackRock offers a wide range of investment products and funds to support our clients' unique and varied investment objectives. We have taken additional steps to expand our stewardship options to provide our clients more choice. In July 2024, BIS finalized a new decarbonization stewardship program for those clients who explicitly direct BlackRock to invest their assets with decarbonization investment objectives. Specifically, the new Climate and Decarbonization Stewardship Guidelines will be applied to select funds that have explicit climate-related objectives and are available to clients with separately managed accounts. Other materials on the BIS website might also provide useful context.
2. An engagement consists of discussions with company boards and management. In our view, an engagement is a constructive, ongoing dialogue with a company's board and management. These two-way conversations take place all year long and extend well beyond proxy season. BIS counts only direct interaction as an engagement.
3. We recognize that some companies operate across multiple geographies and regulatory regimes, which can result in differing governance and voting polices being applied by their investors. For instance, impediments to director independence may vary, as may thresholds for perceived long-tenure. Additionally, different board structures and responsibilities may influence the demands on directors. We explain in our regional voting guidelines how we assess key board issues such as director independence, tenure limits, election cycles, diversity, and time commitments in the context of local market norms and regulations.
4. The term "compensation" is used as an equivalent to "remuneration" or "pay."
5. 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.
6. BlackRock offers a wide range of investment products and funds to support our clients' unique and varied investment objectives Along with our Global Benchmark Policy as mentioned in Footnote 1,. we have taken additional steps to expand our stewardship options to provide our clients more choice. In July 2024, BIS finalized a new decarbonization stewardship option for those clients who explicitly direct BlackRock to invest their assets with decarbonization investment objectives. Specifically, the new Climate and Decarbonization Stewardship Guidelines will be applied to select funds that have explicit climate-related objectives and are available to clients with separately managed accounts.
7. We note that climate-related financial disclosures will be mandatory in the near term in a number of jurisdictions. For example, climate-related disclosure requirements have been finalized in the EU (the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD)) Singapore, Hong Kong and Canada, and other markets, including the UK, Australia, Japan, and Canada, are consulting, have recently completed consultations, or have proposed draft legislation on their proposals to introduce disclosure requirements.
8. The standards build on the Task Force on Climate-related Financial Disclosures (TCFD).
9. 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.
10. BlackRock, "Global perspectives on investing in the low-carbon transition", June 2023. We recognize that companies may phase in reporting aligned with the ISSB standards over several years, depending on local requirements. We also recognize and respect that some companies may report using different local standards, which may be required by regulation, or one of a number of voluntary standards. In such cases, we ask that companies disclose their rationale for reporting in line with the specific disclosure framework chosen and highlight the metrics that are industry- or company-specific.
11. See BloombergNEF, "When the Bee Stings: Counting the Cost of Nature-Related Risks", December 9, 2023.
12. 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), provide frameworks to guide disclosure on material, nature-related impacts and dependencies, alongside associated risks and opportunities. The TNFD released its final recommendations in September 2023. We recognize that some companies may report using different standards, as consistent with the norms or regulations in their home market. TNFD-aligned reporting is not a voting issue.
13. We define "direct and indirect workforce" as both the employees that are employed by the company (direct), as well as those that are not employed by the company, but are contracted to provide services to the company, such as contractors or supply chain employees (indirect).
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. For additional insights, see BIS' commentary on our "Approach to engagement with companies on their human rights impacts."

Want to know more?

blackrock.com/stewardship
contactstewardship@blackrock.com

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