

# BLACKROCK, SOCIAL RESPONSIBILITY, AND THE VOICE OF THE SHAREHOLDER

As you may already be aware, the major theme of this year’s letter from Larry Fink, Chairman & CEO of BlackRock, is that companies need to take more responsibility for making a positive contribution to society, impacting all their stakeholders. Fink notes in the letter that due to the massive growth in the assets it manages on behalf of a larger base of the population, “BlackRock recognizes and embraces our responsibility to help drive this change.”

Specific social topics mentioned, some of which were noted in the previous year’s letter, include what role a company is playing in the community, impact on the environment, a diverse work force, board diversity, technological change and job security, wage growth and planning for a secure retirement. Successful outcomes in these areas are deemed important for creating long-term value.

BlackRock seeks to create this change over time through company engagement, and in addition to this letter to CEOs, has just sent a letter to Russell 1000 companies with fewer than two female directors, asking that they justify how this board structure aligns with their long-term strategies and to report on efforts to increase diversity on their boards.

## SOCIAL-FOCUSED SHAREHOLDER PROPOSALS

To help place BlackRock’s wish list into perspective, it would be helpful to review the overall interests of shareholders, as measured by the types of social impact proposals that have received significant shareholder voting support. Please note that vote results are presented as supporting management’s recommendation – generally against the proposal.

**FIGURE 1: SOCIAL PROPOSALS AT RUSSELL 3000 COMPANIES: 2015-2017 SUMMARY STATISTICS**

Proposal Type	2017	2017	2016	2016	2015	2015
	Number	Percent of vote in support of management	Number	Percent of vote in support of management	Number	Percent of vote in support of management
Adopt Sexual Orientation Anti-bias Policy	2	85.0	2	60.4	2	73.7
EEO Policy	3	66.2	5	59.5	3	67.3
Employment Diversity Related (Board)	8	50.1	4	86.1	2	79.8
Employment Diversity Related (Employee)	11	64.3	4	68.2		
Employment Rights	15	90.3	10	83.8	5	89.4
Facility Safety	3	80.5				
Health Care Related	7	75.3	6	81.4	1	82.3
Human Rights	19	86.3	22	84.3	9	80.7
Link Executive Pay to Social Criteria	3	87.3			1	92.2
Review Foreign Military Sales	1	91.5	1	79.7		
Tobacco Related			1	87.0	4	89.4
Community Environmental Impact			2	64.7	2	79.5
Network Neutrality					2	72.0
Cessation of All Stock Options and Bonuses					3	67.9
Review Drug Pricing or Distribution					3	75.2
<b>TOTAL</b>	<b>72</b>		<b>57</b>		<b>37</b>	

Source: Ipreo BD Corporate Governance

Consistent with BlackRock's theme, activism in the employment diversity category for both boards and the general employee base could be in its early stages. As discussed in a previous Ipreo report, and within this board diversity category, Cognex, Continental Resources, Discovery Communications, and Skechers each saw similar shareholder proposals in 2017 not seen in 2016, asking that the initial list of candidates from which new management-supported director nominees are chosen to include qualified women and minority candidates.

Frequent proponents of social proposals over the past three years have been Holy Land Principles, Inc., NYC Pension System related, and AFL CIO related entities.

With respect to BlackRock's updated voting guidelines for 2018, we share revised policy on social related issues as provided by Ning Chiu at Davis Polk:



**TWO WOMEN ON BOARDS.**

*In its discussion of the importance of boards comprising a diverse selection of individuals bringing to bear a range of experiences and competing views and opinions, BlackRock emphasized that in addition to other elements of diversity, the investor would “normally expect to see at least two women directors on every board.”*



**ENGAGEMENT ON E&S ISSUES.**

*In considering whether to support shareholder proposals on E&S issues, BlackRock will assess the nature of their engagement on the issue over time. The investor will also consider the steps the company has already taken, or whether the company is in the process of implementing a response, as well as the possible material economic disadvantage to the company in the near-term if the issue is not addressed.*

BlackRock will, of course, seek to engage with companies on these topics throughout 2018, and it's likely that the stewardship team will begin to follow its engagement with appropriate voting decisions. As mutual fund managers disclose their voting records on Form N-PX, it's possible for issuers to view the voting history for these investors to aid in the response to a social proposal from a shareholder proponent – depending on the shareholder base, it's possible some social proposals may receive strong institutional support.

## INVESTOR VOTING TENDENCIES ON SOCIAL PROPOSALS

Beyond the public statements from names like BlackRock and SSGA, other major asset managers will generally treat their social proposals voting as a “case-by-case” decision, and will consider the information presented on the proposal from both an economic and a social basis.

Figure 2 shows the set of investors that typically take management's side when it comes to social proposals – note that at many of these companies, portfolio managers are operating concentrated portfolios with large individual positions, hence there may be an inherent bias towards supporting the management of companies where the investor has such strong exposure.

**FIGURE 2 - INVESTORS WITH HIGHEST SUPPORT FOR MANAGEMENT REGARDING SOCIAL PROPOSALS, 2015-2017 (MIN 25 PROPOSALS)**

Investor Name	2017		2016		2015		2015-2017	
	# of Proposals	% Support for Mgmt	# of Proposals	% Support for Mgmt	# of Proposals	% Support for Mgmt	Total #	% Support for Mgmt
Dodge & Cox	12	100%	8	100%	6	100%	26	100%
Harris Associates, L.P.	11	100%	12	100%	6	100%	29	100%
Calamos Advisors, LLC	7	96%	45	91%	48	100%	100	96%
PPM America, Inc.	12	100%	11	100%	10	80%	33	94%
American Century Investment Management, Inc.	56	95%	52	93%	34	90%	142	93%

Source: Ipreo BD Corporate Governance

On the opposite side of the ledger are names that have often opposed management on social proposals (Figure 3) – note that names like Parnassus and Atlanta Capital are associated with dedicated social / environmentally-responsible portfolios, and it’s likely the teams involved in these positions are used to receiving non-financial information to make their decisions, both investment and voting.

**FIGURE 3 - INVESTORS WITH HIGHEST SUPPORT FOR PROPONENT REGARDING SOCIAL PROPOSALS, 2015-2017 (MIN 25 PROPOSALS)**

Investor Name	2017		2016		2015		2015-2017	
	# of Proposals	% Support for Proponent	# of Proposals	% Support for Proponent	# of Proposals	% Support for Proponent	# Total	% Support for Proponent
Parnassus Investments	12	100%	13	85%	12	86%	32	100%
Fred Alger Management, Inc.	36	73%	36	69%	11	79%	96	100%
Atlanta Capital Management Company, LLC	12	55%	12	74%	7	81%	30	68%
Parametric Portfolio Associates, LLC	61	60%	43	33%	12	32%	138	45%
Nuveen Asset Management, LLC	62	31%	57	32%	56	46%	160	35%

Source: Ipreo BD Corporate Governance

Perhaps more interesting is the set of investors that have increased their support for social proposals. Note that BlackRock, despite its public statements, only supported 9% of social proposals in 2017, up from 3% in 2016. The investors in Figure 4 have become more aggressive in opposing management on social proposals. Obviously TIAA-CREF has been long known to act in favor of its beneficiaries (teachers and professors) with respect to social issues, but keep in mind that even quantitative investors such as QS and Parametric may be servicing institutional clients that cede the voting authority to the asset manager, but demand that the manager vote in a socially responsible manner.

**FIGURE 4 - INVESTORS WITH GREATEST INCREASE IN SUPPORT FOR PROPONENT REGARDING SOCIAL PROPOSALS, 2015-2017 (MIN 25 PROPOSALS)**

Investor Name	2017		2016		2015		2015-2017	
	# of Proposals	% Support for Proponent	# of Proposals	% Support for Proponent	# of Proposals	% Support for Proponent	# Total	% Support for Proponent
QS Investors, LLC	66	36%	55	31%	16	0%	137	100%
Parametric Portfolio Associates, LLC	61	60%	43	33%	34	32%	138	100%
Van Eck Associates Corporation	24	38%	19	32%	15	13%	58	30%
Jennison Associates, LLC	44	25%	43	10%	30	3%	117	14%
TIAA-CREF Investment Management, LLC	68	41%	58	27%	41	20%	167	31%

Source: Ipreo BD Corporate Governance

In a macro sense, every issuer recipient of Fink’s letter this January could be seen as “on watch,” as BlackRock expects to engage with companies around their efforts to create social good. However, it’s not just BlackRock that presents this level of concern – other investors may seek to have their voices heard as well. While any company receiving a social shareholder proposal will have an immediate need to “know their shareholders” with respect to their voting approach, even companies that don’t receive proposals will now need to have their story straight when it comes to shareholder engagement, and any company that can’t articulate how it creates more than just economic value may need to think about its message.

For additional information about specific voting results, a broader list of proponents and proposal language for the proposals in the above table, please refer to Ipreo’s Corporate Governance platform or contact your corporate governance account manager.