Compensation Advisory Partners

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BlackRock Prioritizes ESG Actions in 2021 Proxy Voting Guidelines

■ By **Theo Allen** and **Shaun Bisman**

In December, BlackRock released their 2021 proxy voting guidelines and a new report that summarizes their stewardship expectations for the year. These updates highlight BlackRock's stringent expectations for diversity, equity, and inclusion (DE&I) and environmental risk, and they provide a clearer path for the asset manager to vote against companies that do not meet them. This proxy season, BlackRock has signaled their intent to support shareholder proposals without pausing to evaluate the usefulness of engagement.

NEW YORK
1133 Avenue of the Americas
New York, NY 10036
Phone: (212) 921-9350 | Fax: (212) 921-9227
www.capartners.com

CHICAGO
200 S Wacker Drive
Suite 3100
Chicago, IL 60606
Phone: (312) 462-4500

HOUSTON
840 Gessner
Suite 375
Houston, TX 77024
Phone: (713) 559-2715

LOS ANGELES
400 Continental Blvd
6th Floor
El Segundo, CA 90245
Phone: (310) 426-2340

Emphasizing Sound Corporate Governance and Sustainable Actions

BlackRock's Investment Stewardship Expectations Report stresses the asset manager's efforts to promote sound corporate governance and business practices that help clients maximize long-term shareholder value. In doing so, the report provides the rationale behind the key policy changes BlackRock expects to implement this year, many of which display a clear environmental focus. In early 2021, BlackRock will release their engagement priorities and supporting key performance indicators for the year.

In their Investment Stewardship Expectations Report, BlackRock asks companies to demonstrate the following three items over the next year:

- Board and workforce diversity consistent with local market best practice
- An understanding of key stakeholders and their interests
- Plans to align their businesses with the global goal of net zero GHG emissions by 2050

These items and the voting guidelines arise from the developments BlackRock has seen in 2020, and they indicate a marked shift in their approach to shareholder proposals.

2021 U.S. Proxy Voting Guidelines

Breaking with tradition, BlackRock released their proxy voting guidelines before the start of the new year. These guidelines serve as mechanisms for BlackRock to put their stewardship philosophy into practice.

The table below highlights compensation-related policy changes and other key updates:

Focus Area	Update
Executive Compensation	BlackRock added the following disclosure: • Expects boards to have a compensation structure that incentivizes and rewards executives appropriately and is aligned with shareholder interests. • Encourages companies to ensure that their compensation plans incorporate appropriate and rigorous performance metrics, consistent with corporate strategy and market practice. • Holds members of the compensation committee, or equivalent board members, accountable for poor compensation practices. • Believes that there should be a clear link between variable pay and company performance that drives value creation. • Generally, does not support one-off or special bonuses unrelated to company or individual performance. • Expects disclosure relating to how and when discretion has been used by the compensation committee and how the adjusted outcome is aligned with the interests of shareholders. • Acknowledges that the use of a peer group can help calibrate competitive pay; however, concerned when the rationale for increases in total compensation is solely based on peer benchmarking, rather than absolute performance. • Supports incentive plans that foster results consistent with the company's long-term strategic initiatives. • Vesting timeframes associated with incentive plans should facilitate a focus on long-term value creation. • Compensation committees should guard against contractual arrangements that would entitle executives to material compensation for early termination of their contract.

Executive Compensation	• Pension contributions and other deferred compensation arrangements should be reasonable in light of market practice. Prior to the changes noted above, BlackRock had a short section on executive compensation. Previous policy noted they will generally vote for executive compensation proposals, except that they typically oppose shareholder proposals on issues where the company already has a reasonable policy in place and if the company's history suggests that the issues raised are not likely to present a problem for that company.
Human Capital Management (HCM) *New Section*	• BlackRock expects companies to disclose workforce demographics, such as gender, race, and ethnicity in line with the Equal Employment Opportunity-1 Survey, alongside any steps taken to advance DE&I. • Where a company's disclosure or practice falls short of market or peer norms, BlackRock may vote against members of the appropriate committee or support relevant shareholder proposals.
Director Overboarding	• The overboarding guideline, which allows for public company CEOs to serve on a maximum of two boards, has been revised to include all public company executives. • The guideline for non-executive directors remains at a maximum of four boards.
Board Oversight	BlackRock will consider voting against committee members and/or individual directors in the following circumstances: • Where the board has failed to exercise sufficient oversight regarding material ESG risk factors, or the company has failed to provide shareholders with disclosure to indicate the board has adequately considered these factors. • Where a director has poor attendance in a single year with no disclosed rationale.
Responsiveness to Shareholders	• BlackRock now expects companies to "consider" shareholder proposals that get "substantial" support, rather than "implement" shareholder proposals that received "majority" support. As indicated in BlackRock's Investment Stewardship Expectations Report, the "substantial" threshold is defined as support of more than 30% of votes cast. • BlackRock also expects companies to respond when a director does not receive support from at least 75% of shares voted, up from 70% the year prior.
Board Composition	• BlackRock encourages boards to disclose measurable milestones to achieve "multi-faceted racial, ethnic, and gender representation." • They will also consider average board tenure to evaluate processes for board renewal and may oppose boards that appear to have an "insufficient mix" of short-, medium-, and long-tenured directors.
Increase in Authorized Common Shares	• BlackRock's policy regarding requests to increase authorized shares will now be voted for on a "case-by-case" basis. • In addition to their assessment of industry-specific norms and a company's history of common share usage, BlackRock will now also consider potential dilution before voting.

Stakeholder Interests *New Section*	• BlackRock outlines several key stakeholder groups with which they expect companies to build strong relationships, including employees, business partners (e.g. supplies and distributors), clients and consumers, government and regulators, and the communities in which companies operate. • BlackRock warns that poor relationships with these stakeholders expose companies to "legal, regulatory, operational, and reputational risk" as well as jeopardize their "social license to operate." • They advocate appropriate due diligence and board oversight to mitigate such risks but do not state a voting action.
Golden Parachutes	• Removed language that BlackRock normally supports a golden parachute plan unless it appears to result in payments that are excessive or detrimental to shareholders.

This article highlights changes to BlackRock's voting policies. For full detail related to all BlackRock's proxy voting guidelines, please visit:

2021 U.S. Proxy Voting Guidelines

2021 Investment Stewardship Expectations Report