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BlackRock shows growing ESG role in assessing financial risk

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BlackRock Inc., the world's largest asset manager and a leader among environmental, social and governance-oriented investors, wielded more influence than ever in the most recent corporate proxy season, including a lead role in the boardroom shakeup at Exxon Mobil Corp.

The firm, which has about $9 trillion in invested assets, voted on more than 165,000 management and shareholder proposals across 70 or more markets during the 2021 proxy season, according to a report from its investment stewardship team. It won shareholder support on upward of a third of the 843 proposals it submitted at annual meetings, up from 17 percent of 889 proposals a year ago.

"BlackRock's recent increase in shareholder engagement and distinct increase in proxy votes on environmental and social issues is welcome and recognizes what many smaller investors have known for years: engaging with companies and voting in support of ESG matters can improve companies and increase long-term value," Bryan McGannon, a spokesperson for US SIF: the Forum for Sustainable and Responsible Investment, said in an email.

BlackRock's emphasis on ESG criteria, once dismissed as non-essential in evaluating companies, demonstrates how those factors are now seen by investors as intertwined with long-term financial risk, according to advocates.

"The market — investors, companies and any and all players in the capital markets — increasingly are acting on ESG issues with an eye towards long term profitability, good investment returns and real economic value creation," Kirsten Snow Spalding, senior program director of the Ceres Investor Network, said in an email to CQ Roll Call. "BlackRock's 2021 voting record is yet another proof of that. Mainstream investors like BlackRock are elevating climate governance and, to some extent, human rights governance, in their company engagements."

The biggest news of the year came from the Exxon Mobil's director elections, which saw three out of four activist candidates backed by BlackRock elected to the oil and gas company's board. The activist slate called for the company to undertake greater efforts to reduce carbon emissions.

"Its voting record suggests that BlackRock is following through on its statement of a year and a half ago when it first said climate is central to its investment strategy and to any company's long term prospects," Spalding said. "BlackRock's recognition of the importance of the climate crisis and economic justice issues is a bellwether for all asset managers."

"We are in the midst of a transition to a net zero emissions future and any investor or company that doesn't recognize this will lose out as markets shift and new opportunities open up," she said.

Heidi Welsh, executive director of the Sustainable Investments Institute, agreed the massive fund has influence on markets.

"Clearly, the way BlackRock and other big funds vote has a huge influence on the numbers," Welsh said in an interview with CQ Roll Call.

The report is a "culmination of where things have been headed for a long time" in the ESG movement. It's now obvious that climate, diversity, and other factors are material considerations for modern investors, Welsh said. "They know these factors can impact the bottom line."

Industry experts have warned of the practice of greenwashing, or attempts by companies and industries to overstate their record on sustainability. Without a more robust disclosure framework, some investors have raised concerns over the difficulty of verifying the accuracy of some companies' ESG metrics.

Although some groups have established voluntary standards for ESG disclosures, regulators in the U.S., U.K., and in other countries are still mulling mandatory rules. BlackRock called for standardized disclosure at national and international levels to increase comparability.

"We believe that enhanced reporting is critical to the ability of companies and investors to assess material business risks, including sustainability risks and opportunities," it said in the report.

Republican backlash

That could further draw criticism from Republicans, who have generally opposed the consideration of ESG factors in investing, especially under a mandatory disclosure framework, preferring instead that businesses stick to their traditional profit-seeking function.

Some Republicans have accused BlackRock and other prominent investors in the ESG movement of exerting undue influence to install their preferred political policies through corporate governance.

The Thrift Savings Plan, the retirement vehicle akin to a 401(k) for federal workers, said it will allow participants to select ESG options starting next year. In response, Sens. **Patrick J. Toomey** of Pennsylvania, the ranking Republican on the Senate Banking Committee, and **Ron Johnson**, R-Wis., questioned the legality of that decision.

“We are concerned that BlackRock and [State Street Global Advisors] may be prioritizing their CEOs’ personal policy views over retirees’ financial security,” the senators wrote in a July 1 letter to the Federal Retirement Thrift Investment Board. “Federal law explicitly requires all fiduciaries of the [TSP], including BlackRock and SSGA, to discharge their responsibilities ‘solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to participants and their beneficiaries,'” the lawmakers wrote, quoting the statute.

BlackRock’s huge financial positions bolster its efforts to to push companies to disclose more about sustainability, board and workforce diversity, and fair pay. The firm touted more than 9,000 "engagements" with companies on issues across its five priorities: board quality and effectiveness, incentives aligned with value, climate, financial resilience and social impact.

“When BlackRock wields its economic power, it gets attention,” Welsh said.

The fund says it isn’t trying to favor any political preferences. BlackRock indicated it is focused on long-term risks and returns, which include ESG factors.

“To that end, we aim to be the voice of the long-term investor, urging companies to focus on the governance and sustainability risks that can impact their ability to generate long-term financial returns,” BlackRock said in the report. “More than ever, we believe company valuations can be significantly influenced by these risks.”

A spokesperson for BlackRock declined a request for further comment.

Welsh predicted things could turn more political if deepening concerns from investors and other stakeholders on climate change and diversity spill over into the realm of corporate political spending oversight.

"Investors will hold political activity oversight committees accountable if a company's lobbying or donations contradict its sustainability or diversity goals," Welsh said, adding that political spending will have to align.

Regional variations

This year, "say on pay" proposals to approve executive compensation were affected by COVID-19, as companies adjusted pay structures for the benefit of some executives even though they missed targets, laid off workers, and accepted government relief amid the pandemic, BlackRock said.

This led the company to oppose one-third of executive compensation proposals in Europe, Africa and the Middle East.

Overall, it approved 84 percent of management's say-on-pay proposals this year.

BlackRock cast votes in 64,000 director elections worldwide and sought to oust about 10 percent of candidates for falling short of expectations, the report said.

In North America, the world's largest asset manager voted against more than 1,500 directors and the most common reason given was a lack of board gender diversity.

Still, there has been much progress, BlackRock said.

All S&P 500 companies now have at least one woman on the board, according to the report. Women hold nearly 30 percent of board seats in those companies.

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