BlackRock.

Dear Mr. Madan and Mr. Conant,

Thank you for sharing a draft of your research and for the opportunity to review and provide our perspective prior to publication.

BlackRock has been very vocal about our views on climate risk as an investment risk. Deforestation is certainly an issue that presents climate risk and is concerning to BlackRock. We view improper land use and management that contributes to deforestation as an environmental, social, and governance risk for many companies in which we invest on behalf of our clients.

As a reminder, BlackRock is an asset management firm and the assets we manage are not our own, rather they belong to our global client base. We manage **active and alternative** investment strategies – over which we have discretion in investment and risk management – and **index** investment strategies, where we do not have discretion over the securities that are included in the investment portfolios. In these index portfolios, securities are determined by the indices that the funds are benchmarked against. Our clients choose the indices in which to invest.

In our active and alternative strategies, we manage ESG risk, integrate data and insights into our portfolio management processes and we're also committed to expanding choice in our actively managed product set. Our global platform now has over 60 active sustainable products, spanning equity, fixed income and alternatives, including one of the industry's largest renewable power platforms, with over $8 billion of invested and committed capital from global clients.

In index funds, which comprise more than 90% of our total equity assets under management, BlackRock does not have discretion to exclude any investments from the indices that our clients choose to invest in. Some of the funds our clients choose to invest in hold shares of companies in more controversial sectors and BlackRock's obligation as an asset manager and a fiduciary is to manage our clients' assets consistent with their investment decisions and priorities.

For the index component of our business, we are focused on **choice, transparency and engagement.**

For example, for clients who want to avoid exposure to certain industries, we have launched a suite of "ESG Advanced" ETFs, which screen out fossil fuel producers and 13 other controversial sectors and only invest in companies with an MSCI ESG rating of BBB or greater

Because we can't sell certain companies or sectors from index funds that own them, we focus on engaging with companies' management teams and Boards to understand how companies are managing sustainability risks; integrating sustainability into their strategy and operations and responding to society's expectations of them. We have also been engaging index providers to deliver sustainable versions of their flagship indices, so we can expand options for investors.

The agricultural sector plays a vital role in the economy. As we see in many industries, however, poor business practices by specific companies can result in environmental degradation and social harm.

The BlackRock Investment Stewardship team (BIS) began to address deforestation several years ago, as part of a longer-term engagement strategy pertaining to sectors covered in the OECD's Responsible Business Conduct Guidelines and the impacts of companies' operations and products. This led us to start prioritizing companies with the highest risks in the palm oil sector, as well as other agribusinesses such as livestock and food staple companies.

BlackRock

BIS believes that companies with material E&S dependencies and impacts need to demonstrate high standards of operating practices. We expect companies to disclose how the material E&S risks and opportunities in their business model might affect their long-term strategy, capital expenditure, and operations and to explain how relevant risks are assessed, mitigated and managed.

BIS has published commentaries explaining our approach, which cover how we assess and engage companies in these sectors to encourage corporate governance and business practices consistent with sustainable operations that benefit shareholders and other stakeholders over time.

The commentaries describe that the team's areas of focus in engagement with agribusiness and related sectors on environmental factors include land use and management, climate risk, greenhouse gas emissions, illegal logging, biodiversity protection and waste and water management. Their areas of focus on social factors **include protecting land rights—particularly those of indigenous peoples, workers' rights, health and safety as well as working conditions, bribery and corruption prevention,** humane farming practices, product traceability, and antibiotics in animal raising.

Amongst other things, they ask companies to disclose any initiatives and externally developed codes of conduct, for example **committing to deforestation-free supply chains**, to which they adhere and to report on outcomes. In addition, they ask companies to disclose medium-and long-term targets relevant to their business practices that enable shareholders, and others, to assess operational standards, monitor progress and inform engagements.

We recognize that sustainable agriculture is an extensive and complex issue, with many interwoven dependencies. The ownership structure of many of the companies in the sector, which have a single or small group of affiliated shareholders that control a majority of the shares, also limits the impact of engagement and voting by a minority shareholder like BlackRock. The need for government standards and enforcement cannot be under-estimated. Nonetheless, BIS will continue to engage to better understand and promote a company's sustainable agricultural practices. Moreover, given the groundwork BIS has already laid engaging on sustainability-related risks, opportunities and disclosures, we will be increasingly disposed to vote against the reelection of relevant board directors when companies have not made sufficient progress.

Please find attached our approaches to engagement with agribusiness companies and the palm oil industry on sustainable business practices.

On the following pages, please also find our perspective on certain excerpts of your research report where we believe there are inaccuracies or misrepresentations in the analysis.

We would welcome the opportunity to speak directly about these, as well as our investment stewardship activities more broadly.

Sincerely,

Michelle Edkins, Managing Director in BlackRock's Investment Stewardship
Alexis Rosenblum, Chief Corporate Sustainability Officer

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"The Big Three asset managers' lack of coherent and publicly available engagement approaches on deforestation, land conversion, and human rights indicates a failure to recognize the urgency and the saliency of these issues."

BlackRock's Investment Stewardship team (BIS) has published a number of publicly-available commentaries explaining our engagement approach, including specific to the Agribusiness and Palm Oil industries – two industries that have been implicated in deforestation. These commentaries on our engagement approaches include discussions of deforestation, the protection of land rights and human rights:

- "Comprehensive, consistent and decision-useful disclosures are critical in order to give investors, along with regulators, insurers, and the public, a clearer picture of how companies are managing sustainability-related business factors."

- "We assess and engage agribusiness companies to encourage corporate governance and business practices consistent with sustainable operations that benefit shareholders and other stakeholders over time."

- "Amongst other things, we ask companies to disclose any initiatives and externally developed codes of conduct, e.g. committing to deforestation-free supply chains, to which they adhere and to report on outcomes, ideally with some level of independent review. In addition, we ask companies to disclose medium- and long-term targets relevant to their business practices that enable shareholders, and others, to assess operational standards, monitor progress and inform engagements."

- "Given the groundwork BIS has already laid engaging on sustainability-related risks, opportunities and disclosures, we will be increasingly disposed to vote against the reelection of relevant board directors when companies have not made sufficient progress."

"In mid-2020 the Ceres Investor Network published An Investor Guide to Deforestation and Climate Change to give investors a framework to understand and engage on deforestation-driven climate risks across their portfolios. Engagement on deforestation in respect to addressing the climate crisis is important; Ceres' recent guidelines are a valuable resource that provide an important set of signals to follow."

BlackRock helped Ceres develop the investor guide:

- "It was developed for investors with input from major institutional investors, including BNP Paribas, BlackRock, and the Office of New York City Comptroller, and other investors, as well as an influential Advisory Committee made up of leading data and science experts. In the last few years, investors have become increasingly concerned over the risks associated with commodity-driven deforestation."

We also participated in Ceres' webinar about the guide.

Related media coverage includes:

- BlackRock, BNP Paribas push deforestation as urgent climate change risk
- BlackRock to vote against directors over supply chains and deforestation – Edkins

"An analysis of its January 2020 announcement revealed significant gaps including no timeline to phase out thermal coal from ESG products"

In our January 2020 letter to our clients, we said:

- "We are in the process of removing from our discretionary active investment portfolios the public securities (both debt and equity) of companies that generate more than 25% of their revenues from thermal coal production, **which we aim to accomplish by the middle of 2020.**"

In May 2020, we provided an update on our progress:

- "**We have no exposure today** in the actively managed public debt or equity portfolios where we have investment discretion to certain sectors with heightened ESG risk, such as controversial weapons systems manufacturers or companies that generate more than 25% of their revenues from thermal coal production."

"As investors finance and facilitate deforestation and associated human rights abuses – and as social and environmental violations are increasingly recognized as relevant to fiduciary duty – financial institutions have a direct responsibility to address these risks."

As part of our commitment to greater transparency in our investment stewardship activities, in July 2020 we published a special report about how BlackRock Investment Stewardship approaches sustainability.

- "This past January, BlackRock wrote to clients about how we are making sustainability central to the way we invest, manage risk, and execute our stewardship responsibilities. This commitment is based on our conviction that climate risk is investment risk and that sustainability-integrated portfolios, and climate-integrated portfolios in particular, can produce better long-term, risk-adjusted returns."

- "Our efforts around sustainability, as with all our investment stewardship activities, seek to promote governance practices that help create long-term shareholder value for our clients, the vast majority of whom are investing for long-term goals such as retirement. This reflects our approach to sustainability across BlackRock's investment processes, in which we use Environmental, Social, and Governance factors in order to provide clients with better risk-adjusted returns, in keeping with both our fiduciary duty and the range of regulatory requirements around the world. As a result, we have a responsibility to our clients to make sure companies are adequately managing and disclosing sustainability-related risks, and to hold them accountable if they are not."

"While passive funds have the significant benefit of low fees for consumers, analysts are increasingly recognizing that the growth of passive investing is an active problem for climate crisis mitigation and other ESG issues."

From our January 2020 letter to our clients:

- "Investment stewardship is an essential component of our fiduciary responsibility. This is particularly important for our index holdings on behalf of clients, in which we are essentially permanent shareholders. We have a responsibility to engage with companies to understand if they are adequately disclosing and managing sustainability-related risks, and to hold them to account through proxy voting if they are not. We have been engaging with companies for some time on these issues, as reflected in our engagement priorities. As in other areas of our investment functions, our investment stewardship team is intensifying its focus and engagement with companies on sustainability-related risks."

- "Where we serve index clients, we are improving access to sustainable investment options, and we are enhancing our stewardship to make sure that companies in which our clients are invested are managing these risks effectively. We will also work with a broad range of parties – including asset owners, index providers, and regulatory and multilateral institutions – to advance sustainability in finance."

"In recent years, socially responsible investors have begun to regularly issue public statements urging companies to disclose and address the material risks posed by rising greenhouse gas emissions from fossil fuels as well as from deforestation and land conversion."

- "**Improved Disclosure for Shareholders –** We believe that all investors, along with regulators, insurers, and the public, need a clearer picture of how companies are managing sustainability-related questions. This data should extend beyond climate to questions around how each company serves its full set of stakeholders, such as the diversity of its workforce, the sustainability of its supply chain, or how well it protects its customers' data. Each company's prospects for growth are inextricable from its ability to operate sustainably and serve its full set of stakeholders."
https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

- "**Promoting SASB and TCFD-aligned reporting –** BlackRock was not only a founding member of TCFD, but we have spent the past several years encouraging companies to increase disclosure aligned to TCFD and SASB. This was a key part of Larry Fink's letter to CEOs this year. We are pleased that there has been a 180% increase in SASB reporters over 2018 levels, and SASB has reported a significant increase in the number of companies downloading their standards. As of February 2020, more than 1,000 companies, with a total market cap of US$12tn, had endorsed TCFD recommendations including more than 473 financial firms representing US$138.8tn of managed capital. This is an important area of engagement for our investment stewardship team this year, and we are gratified to see companies (such as Netflix and Sanderson Farms[6]) who, after engagement with many of their shareholders, have committed since January to integrate SASB reporting into their disclosures this year."
https://www.blackrock.com/corporate/about-us/sustainability-progress-update

- "**Joining Climate Action 100+ –** BlackRock believes that collaboration between investors, companies, regulators, and others is essential to improving the management of sustainability questions. We are a founding member of the Task Force on Climate-related Financial Disclosures (TCFD), and a signatory to the UN's Principles for Responsible Investment. BlackRock recently joined Climate Action 100+, and prior to joining, BlackRock was a member of the group's five sponsoring organizations. Climate Action 100+ is a group of investors that engages with companies to improve climate disclosure and align business strategy with the goals of the Paris Agreement."
https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter

- "**Consistent Reporting and Disclosure is Critical –** The intensity and materiality of GHG emissions varies widely across industries. Investors and asset managers, such as BlackRock, need more data about these challenges and how the companies in which we invest on behalf of our clients are managing climate-related risks and opportunities."

https://www.blackrock.com/corporate/literature/publication/blk-commentary-engaging-on-emissions.pdf

- BlackRock Investment Stewardship's approach to engagement on the TCFD and the SASB aligned reporting

"Increasingly, investors are expecting companies to fully disclose scope 3 emissions in line with science-based targets. An important signal in this direction came during the 2020 shareholder season when BlackRock raised concerns about Exxon's failure to disclose its scope 3 emissions. BlackRock's action sets a positive tone but is far from sufficient."

- "For **carbon intensive companies**, [BlackRock Investment Stewardship] seeks the following disclosure on GHG:
    - A company's Scope 1, 2 and ideally, **Scope 3 emissions**
    - Whether the company has applied an internal price on carbon
    - Whether the company has performed scenario analysis; which scenarios it has chosen, and why?; and whether it includes a Sustainable Development Scenario as set for by the International Energy Administration (IEA) (targeted toward ~1.5 degrees) in its analysis
    - Whether the targets are set based on assets operated OR owned by the company
    - Whether the company has committed to a certain amount of clean energy investment (including research for new technologies)
    - Whether any component of executive compensation is tied to GHG targets"

  https://www.blackrock.com/corporate/literature/publication/blk-commentary-tcfd-sasb-aligned-reporting.pdf

"Of the resolutions noted above, most did not receive sufficient support to pass – the exception being Domino's Pizza in 2018, which passed with 54% of votes."

The 2018 shareholder proposal at Domino's Pizza regarding deforestation and related human rights issues received 69.4% votes against and 30.6% votes for. The shareholder proposal was not approved. https://ir.dominos.com/node/17466/html

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Additional information

- The large majority of BlackRock's equity holdings are held through index funds and ETFs, which track the investment results of third-party indices to which our clients themselves choose to allocate their assets. As the asset manager, BlackRock cannot substitute one company for another company, or exclude any particular companies, from the indices selected by our clients.

- BlackRock offers its clients various product choices, including portfolios with a focus on ESG factors. These portfolios are among our fastest growing which reflects clients choosing to allocate their assets to investment strategies that take ESG factors into consideration. As of March 31, 2020, BlackRock manages US$101 billion in our dedicated sustainable investment platform, including ESG outcome-oriented, sustainable thematic and impact funds across equities, fixed income and alternative investments. This includes US$65 billion in solutions that support the global energy transition. The firm offers more than 150 sustainable mutual funds and ETF solutions for clients, which represents the world's largest line-up of sustainable index products. We manage an additional US$481 billion of assets across BlackRock's broader platform that utilize environmental, social or governance screens.

- By year end, our 5,600 active portfolios, representing c. US$1.9T in client assets, will be fully ESG integrated, and we are already well on our way to reaching this goal.

- We have also begun displaying sustainability characteristics not just for index funds, but for every retail fund, both index and active, that BlackRock offers across Europe, where available. By the end of 2020 we expect all BlackRock retail funds globally, both index and active, will feature these sustainable characteristics. We believe that this raises the bar for transparency across the industry.