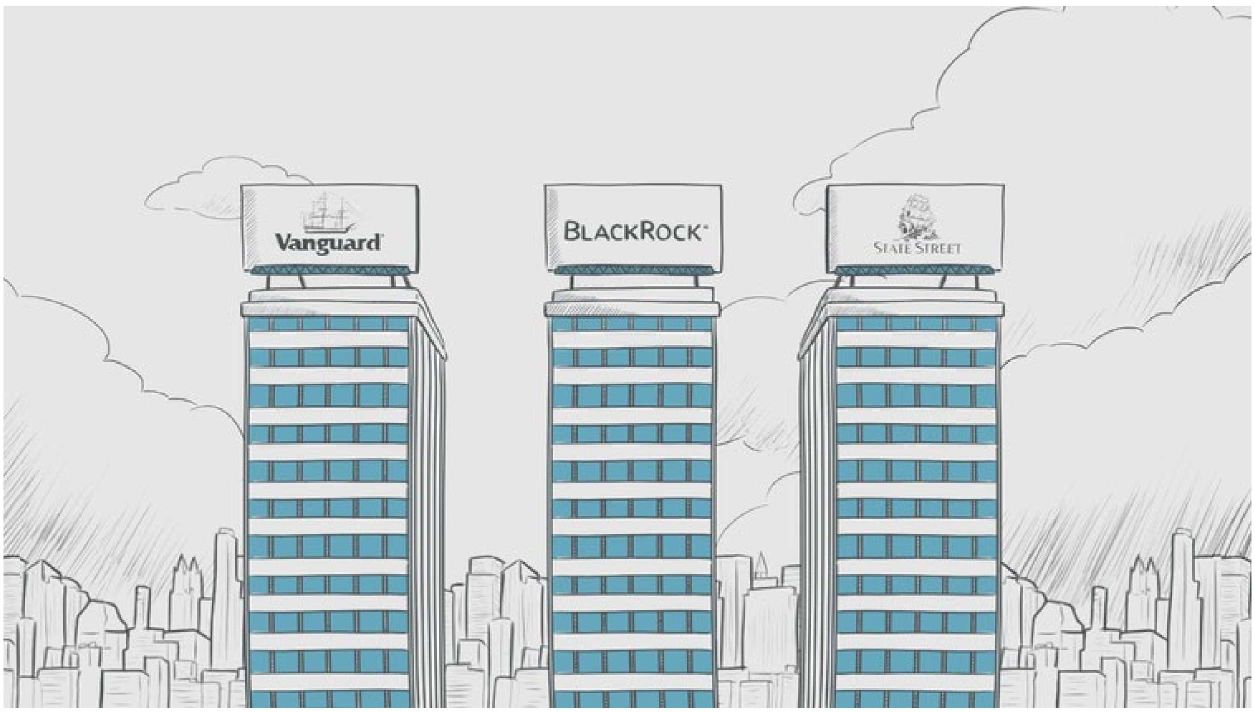
WORLD'S BIGGEST INDEX FUNDS ELEVATE COMPANY ACCOUNTABILITY



BlackRock, Vanguard and SSGA, collectively manage more than $14tn and account for a quarter of votes cast at S&P 500 companies. This is set to grow to 34% over the next 10 years, and over 40% in 20 years, according to academics at Harvard Law School. In this article, we will look at how The Big Three are shifting their investment strategies to place a greater focus on Environmental and Social (E&S) policies, practices and disclosures of companies as their views are that climate-integrated portfolios can provide better risk-adjusted returns to investors.

BlackRock

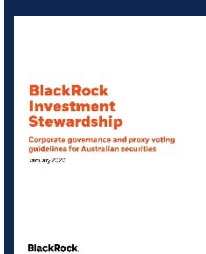
CEO and Chairman of BlackRock, Larry Fink, released his annual letter to CEOs and clients, with sustainability being the core of his message.

In his letters, Mr Fink stated that BlackRock will be increasing their positions in sustainable investment solutions and by mid-2020, and will have exited existing investments in companies which generate more than 25% of their revenue from thermal coal production. With regards to sustainability frameworks, he stated that the Sustainability Accounting Standards Board (SASB) “provides a clear set of standards for reporting sustainability information across a wide range of issues, from labour practices to data privacy to business ethics”. BlackRock will also be releasing a TCFD-aligned disclosure by the end of 2020 and has already provided SASB-aligned disclosure on their website.

To enhance its engagement on climate risk, BlackRock has also joined the Climate Action 100+, an organisation comprised of a group of investors that engage with companies to improve climate disclosure and align business strategy with the goals of the Paris Agreement. The organisation will also be mapping their engagement priorities to the UN Sustainable Development Goals such as Gender Equality and Affordable and Clean Energy and incorporating such indicators in engagement policies.

> **Investors are increasingly recognizing that climate risk is investment risk**
>
> Larry Fink, CEO BlackRock

Key changes to BlackRock’s Australian voting guidelines


BlackRock Investment Stewardship

Corporate governance and proxy voting guidelines for Australian securities

BlackRock

- Risk Management Committee - Renewed policy regarding Risk Oversight
- Additional section on climate risk outlining a voting process on a case-by-case scenario for climate-related shareholder proposals
- Additional section outlining a process to vote case-by-case on the election of directors and assessing whether the company is effectively addressing all material issues
- Significant expansion on ESG including request for SASB and TCFD disclosure by companies

State Street Global Advisors (SSGA)

Cyrus Taraporevala, President and CEO, State Street, released his annual letter to Board members in January 2020, reiterating that ESG and sustainability remains front-of-mind.

They identified that "unfortunately, fewer than 25% of the companies evaluated by SSGA had meaningfully identified, incorporated and disclosed material ESG issues into their strategies". To combat this, SSGA launched R-Factor (the 'R' standing for Responsibility), that measures the performance of a company's business operations and governance as it relates to financially material and sector-specific ESG issues. Utilising data from leading providers and leveraging the SASB's materiality framework, R-Factor generates a unique ESG score, allowing SSGA to incorporate this into their investment decision making.

"SSGA believe a company's ESG score will soon effectively be as important as its credit rating."

Based on the R-Factor scores of the companies in the following indices, SSGA will take voting action **against** board members if they are laggards and are unable to articulate how they plan to improve their score:

- S&P 500
- FTSE 350
- ASX 100
- TOPIX 100
- DAC 30 and
- CAC 40

We believe that addressing material ESG issues is good business practice and essential to a company's long-term financial performance

Cyrus Taraporevala, CEO State Street Global Advisors

Vanguard

Vanguard maintains its approach to climate change and related issues, however is facing increased pressure to pledge a stronger stance on E&S issues, given increased authoritative disclosures from its 'Big Three' peers. Vanguard will vote on a case-by-case basis on disclosures relating to E&S proposals.

Through a visualisation produced by Corpnet Research what becomes clear is that `The Big Three` are the largest shareholders in 40% of all publicly traded stocks in the US.

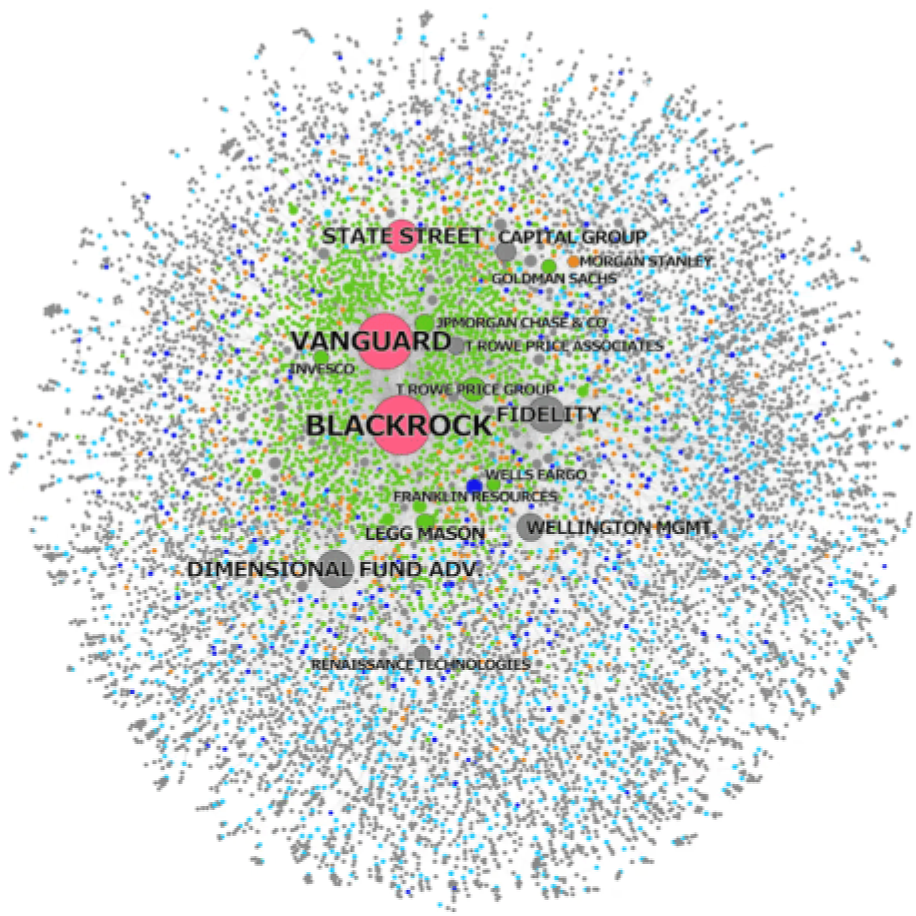


Figure 1: Network of ownership by the Big Three in listed US firms. (See our paper for explanation of colours).
Fichtner, Heemskerk & Garcia-Bernardo (2017)