

The Cabot Carbon Limited CaboSil Division Pension Plan Implementation Statement – 5 April 2020

This document reviews the extent to which the Trustees of the Cabot Carbon Limited CaboSil Division Pension Plan (the “Plan”) have adhered to the policies and procedures set out in the Plan’s Statement of Investment Principles (“SIP”) dated September 2019. It covers reviews of the SIP, demonstrates compliance with the actions the Trustees sought to undertake (noting any areas where the policy was not followed and the reasons for this) and discusses the voting and engagement activity undertaken by the Plan’s actively managed funds over 6 April 2019 to 5 April 2020 (“the Plan year”).

References herein to the actions, review work or determinations of the Trustees refer to activity that has been carried out either by the Trustee board or its investment advisers on behalf of the Trustees.

Executive summary

Over the Plan year, the Trustees:

- Updated the SIP in September 2019 to ensure compliance with the relevant regulatory requirements (including updates for changes in the investment strategy/policy). The SIP was also updated following the year-end to incorporate additional information on the Trustees’ policies in line with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 requirements.
- Adhered to all of the policies it had set out in the SIP.
- Reviewed voting and engagement activity of the Legal & General Investment Management (“LGIM”), BlackRock, Schroders and Baillie Gifford funds that invest in equities. The Trustees were content that these managers have appropriately carried out their stewardship duties.

The stewardship activities for funds that do not hold equity have not been reviewed, as there is limited scope to influence the practises of these issuers.

Further details on each of these matters is presented in the pages that follow.

1. Reviews of the SIP over the reporting period

The SIP was updated in September 2019 to disclose the Trustees' policies regarding financially material matters, non-financial matters and stewardship, as required by the Pension Protection Fund (Pensionable Service) and Occupational Pension Scheme (Investment and Disclosure)(Amendment and Modification) Regulations 2018.

Following the end of the Plan year (in September 2020), the SIP was updated to incorporate additional information on the Trustees' policies in line with the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 requirements. Additional disclosures have been included to address the following areas in respect of the Plan's investment managers:

- How the arrangements incentivise the investment managers to align their investment strategy and decisions with the Trustees' policies.
- How the arrangements incentivise the investment managers to make decisions based on medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the Trustees' investment policies.
- How the Trustees monitor portfolio turnover costs incurred by the investment managers, and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the arrangements with the investment managers.
- Trustees' stewardship policy (voting rights, conflicts of interest & the capital structure of companies).

2. Implementation of policies contained within the Plan's SIP

This section sets out the various policies within the Plan's SIP (dated September 2019, that was in place at the Plan year-end date) and the actions that the Trustees have undertaken in respect of them over the year to this date. We have noted a few actions that were taken following the Plan year-end that we feel are of relevance.

SIP policy	Comments
1. Investment objectives and strategy	
<p>The Trustees' investment adviser is Quantum Advisory. Quantum Advisory are expected to advise on the investment of the Scheme's assets and the SIP, and to provide training as required by the Trustees.</p> <p>The Trustees' policy is to review their objectives and investments, and to obtain written advice (from the Scheme's investment adviser) about them at regular intervals. When deciding whether or not to make new investments, the Trustees will obtain written advice, and consider whether future decision about those investments should be delegated to investment managers. Written advice will consider the issues set out in the Regulations and the SIP, including the following criteria:</p> <ul style="list-style-type: none"> • the best interests of the members and beneficiaries; • security; • quality; • liquidity; • profitability; • tradability on regulated markets; • diversification; and • the use of derivatives. <p>Prior to the appointment of an investment manager, the Trustees will seek appropriate advice from their investment advisers, and may, in certain circumstances, feel it necessary to undertake a manager selection exercise to better inform any decision.</p>	<p>The Trustees have set strategic objectives for the investment adviser to ensure the Trustees' requirements are clear and performance of the investment adviser is measurable. A review of the investment adviser will be undertaken in 2020.</p> <p>The Trustees are in the process of undertaking a full review of the Scheme's objectives and its investments. The Trustees will consult with the Sponsoring Employer on any proposed changes to the investment strategy.</p>

<p>It is the Trustees' policy not to hold any direct investment in the Sponsoring Employer.</p> <p>The Trustees monitor periodically, via Quantum Advisory, the performance of each investment strategy against its target or benchmark. The Trustees may decide to meet with the investment managers periodically in order to discuss performance or other changes which may impact on performance or risk. The appointment of any investment manager can be reviewed at any time if the investment manager is considered by the Trustees to be no longer suitable for the mandate for which it was appointed.</p> <p>The Trustees' examine the charges levied by the investment managers.</p> <p>The Trustees will review the SIP at least every three years and without delay after any significant change in investment policy.</p>	<p>The Plan did not hold any investments in the Sponsoring Employer at the Plan year-end date.</p> <p>The Trustees use LGIM, Baillie Gifford, Schroders and BlackRock as their investment managers, via the Scottish Widows (formerly Zurich) platform, who manage a range of funds the Plan uses.</p> <p>The Trustees periodically reviewed the performance of the funds available to members during the period, through quarterly reports issued by Scottish Widows. The Trustees identified concerns around the performance of some of the funds and have decided to review the wider investment strategy and funds used in light of these.</p> <p>The Trustees have reviewed the portfolio and transaction costs incurred over the year. These are reported in the DC Chair's Statement. Whilst the Trustees do not have pre-defined targets for these, they appear reasonable. Furthermore, the default investment strategy was compliant with the charge cap on Member Borne Deductions of 0.75% p.a.</p> <p>The SIP was reviewed over the Plan year. Details on this are set out in section 1 of this report.</p>
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2. Responsible Investment

<p>Financially material considerations</p> <p>With specific regard to ESG factors, the Trustees consider how these are integrated into the investment processes when (i) appointing new Investment Managers; and (ii) monitoring the existing Investment Manager.</p> <p>The Trustees also periodically consider publicly available ESG related publications pertaining to the incumbent investment managers.</p> <p>The Trustees acknowledge that some of the Plan's investments are implemented on a passive basis. This restricts the ability of the Investment Manager to take active decisions on whether to hold securities based on their consideration of ESG factors. The Trustees do however expect the incumbent managers, where relevant, to utilise their position to engage with companies on these matters.</p>	<p>Financially material considerations</p> <p>The Trustees are going to consider ESG integration as part of the investment strategy review that is being undertaken.</p> <p>The Trustees did not formally review the investment manager's publicly available ESG reporting during the period.</p> <p>The voting activity of the Plan's investment managers is discussed in section 3 of this statement.</p>
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<p>Stewardship</p> <p>The Trustees consider how stewardship factors are integrated into the investment processes when: (i) appointing new Investment Managers; and (ii) reviewing the existing Investment Manager. The Trustees have provided the appointed Investment Manager with full discretion concerning the stewardship of their investments.</p> <p>Non-financial matters</p> <p>The Trustees consider non-financial factors (where members have been forthcoming with their views) however the Trustees do not employ a formal policy in relation to this when selecting, retaining and realising investments.</p>	<p>Stewardship</p> <p>The Trustees have reviewed the stewardship information prepared by the investment managers. The Trustees did not have any immediate concerns around the votes cast.</p> <p>The Trustees acknowledge that the voting practices of their investment managers will not necessarily reflect their views or those of the members and that they will have little, or no, influence on their investment managers' voting practices. However, they will make their views known to their investment managers if they feel it is appropriate to do so, and in the event of frequent disagreement will review the suitability of retaining the investment manager in question.</p> <p>Further details of the investment manager's voting policies and histories are set out in section 3 of this report.</p> <p>Non-financial matters</p> <p>No members have been forthcoming with their views during the period.</p>
<p>3. Risk management</p>	
<p>The Trustees have identified a range of risks members face including: Inflation risk, Annuity conversion risk, Capital risk, Liquidity risk, Negligence risk and Mis-statement risk. The investment strategy has been constructed in a manner that seeks to manage these. Furthermore, the Trustees manage these by:</p> <ul style="list-style-type: none"> • Taking regular investment advice. • Ensuring member communications are reviewed by an investment professional. 	<p>The Trustees, with the help of their investment adviser, reviewed the Plan's investments periodically to manage these risks. Furthermore, a wider review of the strategy is being undertaken.</p> <p>All investment-related member communications were reviewed by the Plan's investment adviser.</p>

3. Investment Manager's voting policies and histories

Trustees' voting and stewardship policies

The Trustees acknowledge the constraints that they face in terms of influencing change due to the size and nature of the Plan's investments. They do, however, acknowledge the need to be responsible stewards and exercise the rights associated with their investments in a responsible manner.

The Trustees, with the help of their investment advisers, consider how stewardship factors are integrated into the investment processes when: (i) appointing new investment managers; and (ii) reviewing existing investment managers. The Trustees have provided the appointed investment managers with full discretion concerning the stewardship of their investments.

The Trustees have reviewed the voting activity of the investments managers/funds where there is the ability to influence positive practises (namely those that invest in equities). The Baillie Gifford Diversified Growth Fund, LGIM Ethical Global Equity Index Fund, BlackRock Aquila Life 30/70 Currency Hedged Global Equity Index and the Schroders QEP Global Active Value Fund have been reviewed. Details on the voting policies and activities of these investment managers is set out below.

Investment manager voting policies and process

Baillie Gifford

All voting decisions are made by Baillie Gifford's Governance & Sustainability team in conjunction with investment managers. Baillie Gifford do not regularly engage with clients prior to submitting votes, however if a segregated client has a specific view on a vote then they will engage with them on this. If a vote is particularly contentious, Baillie Gifford may reach out to clients prior to voting to advise them of this or request them to recall any stock on loan.

Baillie Gifford believe that voting should be investment led, because how they vote is an important part of the long term investment process. The ability to vote their clients' shares also strengthens their position when engaging with investee companies. Baillie Gifford's Governance and Sustainability team oversees their voting analysis and execution in conjunction with the investment managers.

Baillie Gifford do not outsource any part of the responsibility for voting to third-party suppliers. Baillie Gifford utilise research from proxy advisers for information only. Baillie Gifford analyses all meetings in-house in line with their Governance & Sustainability Principles and Guidelines and endeavour to vote every one of their clients' holdings in all markets. Whilst they are cognisant of proxy advisers' voting recommendations (ISS and Glass Lewis), they do not delegate or outsource any of stewardship activities or follow or rely upon their recommendations when deciding how to vote on their clients' shares. All client voting decisions are made in-house. Baillie Gifford vote in line with their in-house policy and not with the proxy voting providers' policies. They also have specialist proxy advisors in the Chinese and Indian markets to provide more nuanced market specific information.

LGIM

LGIM's Investment Stewardship team make all voting decisions, in accordance with LGIM's Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This is intended to ensure LGIM's stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

LGIM's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all of their clients. LGIM's voting policies are reviewed annually and take into account feedback from clients.

LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and strategic decisions are not outsourced. The use of ISS recommendations is purely to augment LGIM's own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that are received from ISS for UK companies when making specific voting decisions. To ensure the proxy provider votes in accordance with LGIM's position on ESG, LGIM have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what LGIM consider are minimum best practice standards which LGIM believe all companies globally should observe, irrespective of local regulation or practice. LGIM retain the ability in all markets to override any vote decisions, which are based on their custom voting policy. This may happen where engagement with a specific company has provided additional information that allows LGIM to apply a qualitative overlay to their voting judgement. LGIM have strict monitoring controls to ensure their votes are fully and effectively executed in accordance with their voting policies by their service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform us of rejected votes which require further action.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as they continue to develop LGIM's voting and engagement policies and define strategic priorities in the years ahead. LGIM also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

BlackRock

The team and its voting and engagement work continuously evolves in response to changing governance related developments and expectations. BlackRock's voting guidelines are market-specific to ensure they take into account a company's unique circumstances by market, where relevant. BlackRock inform their vote decisions through research and engage as necessary. BlackRock's engagement priorities are global in nature and are informed by BlackRock's observations of governance related and market developments, as well as through dialogue with multiple stakeholders, including clients. BlackRock may also update their regional engagement priorities based on issues that they believe could impact the long-term sustainable financial performance of companies in those markets. BlackRock determines which companies to engage directly based on their assessment of the materiality of the issue for sustainable long-term financial returns and the likelihood of their engagement being productive. BlackRock apply their guidelines pragmatically, taking into account a company's unique circumstances where relevant. BlackRock's Investment Stewardship team would not implement the policy themselves, but the client would engage a third-party voting execution platform to cast the votes.

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team (BIS), which consists of three regional teams – Americas ("AMRS"), Asia-Pacific ("APAC"), and Europe, Middle East and Africa ("EMEA") - located in seven offices around the world. The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Corporate Governance and Engagement Principles and custom market-specific voting guidelines. Whilst BlackRock subscribe to

research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into their vote analysis process, and BlackRock do not blindly follow their recommendations on how to vote. BlackRock primarily use proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that their investment stewardship analysts can readily identify and prioritise those companies where their own additional research and engagement would be beneficial. Other sources of information they use include the company's own reporting (such as the proxy statement and the website), their engagement and voting history with the company, and the views of their active investors, public information and ESG research.

Schroders

The overriding principle governing Schroders approach to voting is to act in the best interests of their clients. Where proposals are not consistent with the interests of shareholders and their clients, they are not afraid to vote against resolutions.

Schroders vote on a variety of issues; however the majority of resolutions target specific corporate governance issues which are required under local stock exchange listing requirements, including but not limited to: approval of directors, accepting reports and accounts, approval of incentive plans, capital allocation, reorganisations and mergers.

Schroders evaluate voting issues arising at their investee companies and, where they have the authority to do so, vote on them in line with their fiduciary responsibilities in what they deem to be the interests of their clients. They utilise company engagement, internal research, investor views and governance expertise to confirm their intention. Further information can be found in their Environmental, Social and Governance Policy for Listed Assets policy: <https://www.schroders.com/en/sysglobalassets/global-assets/english/campaign/sustainability/integrity-documents/schroders-esg-policy.pdf>

In applying the policy Schroders consider a range of factors, including the circumstances of each company, performance, governance, strategy and personnel. Their specialists may draw on external research, such as the Investment Association's Institutional Voting Information Services and ISS, and public reporting. Their own research is also integral to their process; this will be conducted by both the financial and ESG analysts. For contentious issues, their Corporate Governance specialists consult with the relevant analysts and portfolio managers to seek their view and better understand the corporate context.

Any UK company which in Schroders opinion meets the spirit of the UK Corporate Governance Code should, in the absence of other factors, expect to be supported on corporate governance issues covered by the Code. Where a company does not comply with the spirit of the Code, Schroders will consider the company's explanation and circumstances, and then react accordingly in a manner they deem most appropriate. If the company provides a convincing justification and/or the issue is not material to the value of its shares, Schroders would ordinarily expect to support the company. Where Schroders are not satisfied with the explanation and they view the departure from the Code as material, they will engage further with the company and or non-executive directors, and may vote against management.

Voting statistics

The table below sets out the key statistics on the investment managers' voting eligibility and action over the Plan year. This only covers the funds that invest in equities.

Statistic	Baillie Gifford Diversified Growth	LGIM Ethical Global Equity Index	BlackRock Aquila Life 30/70 Currency Hedged Global Equity Index	Schroders QEP Global Active Value
Number of equity holdings as at 31 March 2020	286	1,036	Not provided.	705
Meetings eligible to vote at	103	1,026	469	676
Resolutions eligible to vote on	936	14,170	5,333	7,658
Proportion of eligible resolutions voted on	93%	98%	95%	100%
Votes with management	93%	85%	88%	92%
Votes against management	5%	15%	6%	8%
Votes abstained from	2%	0%	1%	0%
Meetings where at least one vote was against management	24%	66%	--	37%
Votes contrary to the recommendation of the proxy	n/a	9%	--	n/a

Source: respective managers.

The Trustees have reviewed the voting information provided and is generally satisfied that these managers have undertaken an appropriate level of stewardship activity.

Conflicts of interest

This section assesses whether Baillie Gifford, LGIM, BlackRock and Schroders are affected by the following conflicts of interest, and how these are managed.

1. The asset management firm overall having an apparent client-relationship conflict e.g. the manager provides significant products or services to a company in which they also have an equity or bond holding;
2. Senior staff at the asset management firm holding roles (e.g. as a member of the Board) at a company in which the asset management firm has equity or bond holdings;
3. The asset management firm's stewardship staff having a personal relationship with relevant individuals (e.g. on the Board or the company secretariat) at a company in which the firm has an equity or bond holding;
4. A situation where the interests of different clients diverge. An example of this could be a takeover, where one set of clients is exposed to the target and another set is exposed to the acquirer; and

5. Differences between the stewardship policies of managers and their clients.

Baillie Gifford

Baillie Gifford have confirmed that they are not impacted by the stated conflicts of interest.

LGIM, BlackRock and Schroders

LGIM, BlackRock or Schroders have not directly commented on which of the above conflicts of interest they are affected by. The Trustees are challenging this.

The Trustees have received a copy of the conflicts of interest policy from all three managers and will request sight of this document and details of any relevant conflicts of interest annually from them.

Significant votes

Appendix 1 lists the most significant votes cast (as defined by the managers) in relation to the Baillie Gifford, LGIM and BlackRock funds, over the year to 31 March 2020. Schroders have not provided ten of these and have instead set out details on the rationale for each “key vote” that was casted. This information is not contained in this report as there are a large number of these.

The criteria the managers have applied in determining these is set out below.

Baillie Gifford

Baillie Gifford have identified the following criteria that they have used to determine their most significant votes.

- Baillie Gifford’s holding had a material impact on the outcome of the meeting.
- The resolution received 20% or more opposition and Baillie Gifford opposed.
- Egregious remuneration.
- Controversial equity issuance.
- Shareholder resolutions that Baillie Gifford supported and received 20% or more support from shareholders.
- Where there has been a significant audit failing.
- Where Baillie Gifford have opposed mergers and acquisitions.
- Where Baillie Gifford have opposed the financial statements/annual report.
- Where Baillie Gifford have opposed the election of directors and executives.

This list is not exhaustive.

LGIM

In determining significant votes, LGIM’s Investment Stewardship team consider the criteria provided by the Pensions & Lifetime Savings Association consultation (PLSA). This includes but is not limited to:

- High profile vote which has such a degree of controversy that there is high client and/ or public scrutiny;
- Significant client interest for a vote: directly communicated by clients to the Investment Stewardship team at LGIM’s annual Stakeholder roundtable event, or where LGIM note a significant increase in requests from clients on a particular vote;
- Sanction vote as a result of a direct or collaborative engagement; and
- Vote linked to an LGIM engagement campaign, in line with LGIM Investment Stewardship’s 5-year ESG priority engagement themes.

BlackRock

BlackRock have not stated their criteria in determining what a significant vote is, but below are some examples of the types of resolutions that BlackRock determined as significant:

- Remuneration policy
- Recall and elect supervisory board members
- Recall and elect members of audit committee
- Report on Climate Lobbying aligned with Paris Agreement
- Approve commitment to tackling Climate Change
- Approve guidelines for the Remuneration of Senior Executives

This list is by no means exhaustive and is only a few examples of the types of resolutions that BlackRock have engaged in.

Schroders

Schroders consider “key votes” as those against the voting recommendation company management as these will typically follow an engagement and the company.

Conclusions

The Trustees have reviewed the respective managers’ voting activity over the Plan year and have concluded that they have appropriately carried out their stewardship duties and that the actions taken were broadly in line with the views of the Trustees.

LGIM have determined their ten most significant votes at a firmwide level. As the funds the Plan invests in only holds some of these, less than ten votes have been provided. Furthermore, because of this approach, LGIM have not disclosed the size of the holding (as a proportion of the fund size). The Trustees have challenged LGIM on the approach they have taken and are awaiting a response.

Appendix 1 – Most significant votes

Baillie Gifford Multi-Asset Growth Fund - Significant votes

In relation to the Fund named above, which 10 votes over the year to 05/04/2020 do you consider to be most significant for the Plan?

	Vote 1	Vote 2	Vote 3	Vote 4	Vote 5	Vote 6	Vote 7	Vote 8	Vote 9	Vote 10
Company name	ADO Properties	Covivio REIT	EDP Renovaveis	Exelon Corporation	Gecina	Hammerston	EDP Renovaveis	Merlin Properties	Tenaga Nasional	Vastned Retail
Date of vote	20/06/2019	17/04/2019	26/03/2020	30/04/2019	17/04/2019	30/04/2019	11/04/2019	09/04/2019	14/05/2019	18/04/2019
Approximate size of fund's holding as at the date of the vote (as % of portfolio)	0.68	0.24	0.44	0.05	0.39	3.63	0.44	0.5	0.17	2.82
Summary of the resolution	Elect Director(s)	Employee Equity Plan	Elect Director(s)	Remuneration - Report	Remuneration - Policy	Amendment of Share Cap	Elect Director(s)	Remuneration - Report	Appoint/Pay Auditors	Amendment of Share Cap
How you voted	Against	Against	Against	Against	Against	Against	Against	Against	Against	Against
Where you voted against management, did you communicate your intent to the company ahead of the vote?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rationale for the voting decision	We opposed the election of a non-independent director due to concerns around board independence.	We opposed a Restricted Stock Plan as the performance criteria attached to the plan were deemed to be insufficiently challenging.	We opposed the election of a director due to the lack of independence and diversity on the board.	We opposed the remuneration report due to concerns with the benefits provided to the CEO.	We opposed the resolution to approve the Remuneration Policy of the CEO as we do not believe the performance targets are sufficiently stretching.	We opposed the proposal to issue up to two-thirds of share capital as we did not believe it to be in our clients' best interests.	We opposed the appointment of a non-independent director given the level of independence on the Board.	We opposed two resolutions relating to the remuneration report and remuneration policy due to concerns regarding salary increases during the year.	We opposed the appointment of the auditor and the authority to set fees given the high levels of fees for non-audit services without sufficient justification.	We opposed two resolutions which sought authority to issue equity because no price assurance was given.
Outcome of the vote	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Fail
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	At the meeting, we believed the composition of the Board gives ADO Group and certain of its shareholders excessive influence and control. As such, we opposed the election of a non-independent director.	Following the AGM in 2019, we informed the company of our voting decision and advised that we expect more stretching performance criteria to apply to long term incentives going forward. We have yet to see improvements in the targets so will continue dialogue.	We have taken action on the election of directors at the company since the 2018 AGM. Our concerns are regarding the attendance record of some directors, a lack of board independence and diversity. We have spoken to the company.	This resolution received a 45% oppose vote at the AGM. This is a clear signal that shareholders are concerned with the company's approach. The level of benefits provided to the CEO was significantly reduced in the subsequent year.	We have been opposing remuneration at the company since 2017 due to concerns with the targets applied to the restricted stock plan. We are yet to see improvements in the remuneration plan however continue to	30% of shareholders opposed this resolution. This is a clear signal to the company to consider its policy in this area. Our preference would be for Hammerston to focus on reducing debt, rather than to issue additional	We have taken action on the election of directors at the company since the 2018 AGM. Our concerns are regarding the attendance record of some directors, a lack of board independence and diversity. We have spoken to the company.	We have been opposing remuneration at the company since 2017 and engaging with the company on the issue. In 2020, we saw significant improvements in the company's remuneration policy.	We have been concerned with the level of non-audit fees paid to the auditor for a number of years. The company has increased disclosure in this area and we have seen a reduction in non-audit fees. This is a positive	This resolution failed at the meeting due to 55% of shareholders opposing the request. This means that the company did not have authority to issue equity at requested level which is a positive outcome. We will continue to
On which criteria (as explained in the cover email) have you assessed this vote to be "significant"?	This resolution is significant because it received greater than 20% opposition. This resolution is significant because we opposed the election of a director.	This resolution is significant because we opposed remuneration.	This resolution is significant because we opposed the election of a director.	This resolution is significant because it received greater than 20% opposition. This resolution is significant because we opposed remuneration.	This resolution is significant because we opposed remuneration.	This resolution is significant because it received greater than 20% opposition.	This resolution is significant because we opposed the election of a director.	This resolution is significant because it received greater than 20% opposition. This resolution is significant because we opposed remuneration.	This resolution is significant because we opposed the election of auditors.	This resolution is significant because it received greater than 20% opposition.

LGIM Ethical Global Equity Index - Significant votes

In relation to the Fund named above, which 10 votes over the year to 31/03/2020 do you consider to be most significant for the Plan?

	Vote 1	Vote 2
Company name	BAYER AG	ESSILORLUXOTTICA
Date of vote	26/04/2019	16/05/2019
Approximate size of fund's holding as at the date of the vote (as % of portfolio)		
Summary of the resolution	Res 2 - Approve Discharge of Management Board for Fiscal 2018	Res A, B and C: Elect Wendy Evrard Lane as Director; Elect Jesper Brandgaard as Director; Elect Peter James Montagnon as Director
How you voted	Against	For
Where you voted against management, did you communicate your intent to the company ahead of the vote?	LGIM publicly communicates its vote instructions in monthly regional vote reports on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.	LGIM publicly communicates its vote instructions in monthly regional vote reports on its website with the rationale for all votes against management. It is our policy not to engage with our investee companies in the three weeks prior to an AGM as our engagement is not limited to shareholder meeting topics.
Rationale for the voting decision	Following its acquisition of agribusiness Monsanto, Bayer was asked to pay millions in damages in several court cases where plaintiffs claimed that Monsanto's glyphosate-based weedkiller RoundUp was linked to causing cancer. The damages were reduced upon appeal, and Bayer was adamant that RoundUp was not carcinogenic. We are concerned that the Bayer supervisory and management boards had not fully considered the significant risks related to glyphosate litigation in the US. Although at the time of the merger agreement in 2016 there were only about a hundred such lawsuits, by the end of 2019, the number grew to over 40,000. From the finalisation of the acquisition in May 2018 until July 2019 Bayer's share price fell by approximately 45%. Unrelated to the litigation, we have previously discussed the importance of a lead independent director, particularly in times of crisis. We spoke to the company ahead of its 2019 AGM to gain a better understanding of the decision-making process in relation to the Monsanto acquisition and the legal advice it received for litigation risk. We recommended establishing advisory and M&A committees, staffed by members appointed with specific expertise; appointing non-executive directors with specific expertise; and appointing new executives. In addition, we suggested that these incidents should have a bearing on remuneration awarded for the year.	In 2018, French lenses producer Essilor merged with Italian frame manufacturer Luxottica. Upon conclusion of the merger, the executive chair of Luxottica's holding company (Deifin) owned 32.7% of the merged company's share capital. Under the terms of the merger agreement, the aforementioned executive chairman and Essilor's executive vice-chairman were both given equal powers. A board was also established, with membership split equally between Essilor and Deifin. In March 2019 an internal disagreement between the two heads of the merged entity occurred. Two of the company's shareholders – Comgest and Valoptec – put forward three board nominees in a bid to break the impasse. We contacted EssilorLuxottica to discuss the issue, but received no reply. We engaged extensively with Comgest, Valoptec and the board nominees. We publicly announced our support for the board nominees ahead of the AGM to ensure the current board knew our intentions and to raise awareness to the other shareholders.
Outcome of the vote	44.5% for; 55.5% against	Res A: 43.7% support ; Res B: 34.1% support
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	The company subsequently established a glyphosate litigation committee to monitor litigation and consult with the board. We will continue to pay close attention to the litigation and any possible settlements, as well as the decisions of Bayer's remuneration committee. The company also announced that the chair would step down at the 2020 AGM.	Before the AGM was due to take place, the company's board announced that it had reached a governance agreement and all disputes had been resolved. EssilorLuxottica's CEOs had been tasked with focusing on the integration process and to accelerate the simplification of the company. The board confirmed that neither CEO would seek to become the leader of the combined entity. The board nominees received significant support from the company's independent shareholders, equalling respectively 43.7% and 35% of the total votes. We continue to engage with the company for the benefit of our clients.
On which criteria (as explained in the cover email) have you assessed this vote to be "significant"?	Vote of no confidence, a rare escalation step.	Escalation of engagement. We publicly announced our support for the board nominees ahead of the AGM to ensure the current board knew our intentions and to raise awareness to the other shareholders.

Voting bulletin: Qualcomm

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental, social, and governance factors that potentially have material economic, operational or reputational ramifications for the company. The BIS team's key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted, and (where relevant) providing information around our engagement with the issuer.

These Voting Bulletins are made public on, or shortly after, the day of the meeting.

Company	Qualcomm Inc.
Meeting Date	10 th March 2020
Resolutions	Multiple
Board recommendation	In favor
BlackRock Vote	BIS held the board accountable by voting against election of longest-tenured compensation committee member and against the Advisory Vote on Compensation

Overview

Qualcomm is a multinational technology company headquartered in San Diego, California that creates technologies and products used in mobile devices and other wireless products. They derive revenues principally from sales of integrated circuit products and licensing intellectual property, including patents and other rights.

BlackRock Investment Stewardship (BIS) regularly reviews Qualcomm's governance structure and risk profile. In prior engagements with the company's board and management team, we discussed a range of material issues driving long-term shareholder value including board composition, corporate strategy, oversight of material risks such as litigation and anti-competitive issues, human capital management, and adopting TCFD/SASB-aligned reporting.

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Compensation

In recent years, Qualcomm's unique business model – particularly the licensing of intellectual property rights – and executive compensation package have garnered public attention. The company has also experienced several material events, including a settlement and related supply/licensing agreements with Apple in 2019 which significantly increased its previously suppressed stock price.

In response to the settlement and related agreements, Qualcomm awarded a one-time equity grant to CEO Steve Mollenkopf and one-time grants to other executive officers.

As we describe in our approach to executive compensation, BlackRock believes compensation committees should have discretion to make adjustments to executive compensation plans. Where discretion has been used, we expect disclosure relating to how and why it was used and further, how the adjusted outcome is aligned with the interests of shareholders. The company provided such disclosure, emphasizing the one-time equity awards were connected to the aforementioned settlement and related agreements. We recognize the importance of this event to Qualcomm's business given ongoing litigation and regulatory risks impacting the company. However, the company did not provide sufficient justification for why this outcome with Apple is outside Mr. Mollenkopf's realm of responsibilities as CEO, which are already covered in the company's long-term executive compensation plan.

Ultimately, granting this one-off award suggests a pay plan that is not aligned with shareholders' long-term interests, which is difficult to reconcile with ongoing underperformance versus Qualcomm's peers, raising a perceived pay-for-performance disconnect. The prior year's executive compensation plan also included a one-time award which we supported as the award was conditioned on achieving certain performance targets that can help ensure alignment with long-term shareholder interests.

We engaged with the Chairman of the Board to express our concerns regarding the appropriateness of awarding the special grant. We also discussed other elements of the plan structure, including the company's approach to peer selection, mix of awards over time, and lack of performance, or time-vesting conditions, associated with Mr. Mollenkopf's special grant.

Rationale for BlackRock vote

The agenda items for the 2020 AGM, upon which BlackRock voted against:

- (1) To elect to the Board of Directors: Harish Manwani
- (4) To approve, on an advisory basis, executive compensation.

Based on our analysis and engagement with the company, we voted against the advisory vote on executive compensation. In addition, because BlackRock believes that when a company is not effectively addressing a material issue, its directors should be held accountable, we voted against the election of the longest-tenured compensation committee member, Harish Manwani.

We will continue to engage with the board and management of Qualcomm on a range of governance, compensation, and material sustainability issues, and we intend to monitor and provide feedback on the quality of relevant disclosures.

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Voting Bulletin | 2

Voting bulletin: The Walt Disney Company

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental, social, and governance factors that potentially have material economic, operational or reputational ramifications for the company. The BIS team's key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted, and (where relevant) provide information around our engagement with the issuer.

These Voting Bulletins are made public on, or shortly after, the day of the meeting.

Company	The Walt Disney Company
Meeting Date	11 th March 2020
Resolutions	Multiple
Board Recommendation	In favor
BlackRock Vote	BIS voted in favor of all management proposals and against a shareholder proposal seeking disclosure on political lobbying

Overview

The Walt Disney Company, together with its subsidiaries, is a diversified worldwide entertainment company with operations in four business segments: Media Networks; Parks, Experiences and Products; Studio Entertainment; and Direct-to-Consumer & International (DTCI). Significant operations include Disney, ESPN, Freeform, FX and National Geographic branded domestic cable networks; ABC branded broadcast television network and eight owned domestic television stations; television production and distribution; National Geographic magazines and a 50% equity investment in A+E Television Networks (A+E).

BIS regularly reviews The Walt Disney Company's governance structure and risk profile. In prior engagements with the company's board and management, we have discussed a range of material issues driving long-term shareholder value, including executive compensation, political spending and lobbying.

Engagement Background

BlackRock engaged with The Walt Disney Company regarding its executive compensation plan, political spending and lobbying disclosure. The Board was responsive to shareholder feedback on both matters.

As noted in the "Fiscal 2019 Shareholder Engagement" section of the company's 2020 proxy statement, "In light of investor feedback, the Compensation Committee discussed with Mr. [Bob] Iger, and he agreed to, adjustments in Mr. Iger's contractual compensation on three separate occasions." The Compensation Committee reduced CEO Mr. Iger's annual compensation and refined the related performance criteria, increasing the rigor of the measures and improving alignment with shareholder interests. We will continue to assess executive compensation at The Walt Disney Company, particularly in light of recent management changes.

With respect to political spending and lobbying disclosure, after the 2018 Annual Meeting, The Walt Disney Company Board decided to expand its lobbying disclosure following extensive shareholder engagement, and published a policy on Political Giving and Participation in the Formulation of Public Policy in the United States. This policy disclosure was provided in addition to the company's Political Disclosure Archive, which currently includes a Contributions Report and PAC Contributions Report by year starting with 2014 through January 2019. The U.S. Trade Associations Report is also included starting with 2018.

Rationale for the BlackRock Vote

The agenda items for the Annual Meeting, and upon which BlackRock voted, were:

1. Election of Directors
2. Ratification of the appointment of auditors
3. Consideration of an advisory vote to approve executive compensation
4. Approval of an amendment to the Company's Amended and Restated 2011 Stock Incentive Plan
5. Consideration of a shareholder proposal requesting an annual report on lobbying

BlackRock supported management on all proposals.

Where companies are making progress on key corporate governance issues, BlackRock will generally support the board and management in those efforts. BlackRock determined that The Walt Disney Company's current level of disclosure, following the changes discussed above, is in line with the best practices detailed in BIS' commentaries on executive compensation and on corporate political activities.

Voting bulletin

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes, and evolve them year over year as necessary. The BIS team's key engagement priorities include:

1. Board Quality
2. Environmental risks and opportunities
3. Corporate Strategy and Capital Allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted, and (where relevant) providing information around our engagement with the issuer.

These Voting Bulletins are made public on, or shortly after, the day of the meeting.

Company	Siemens AG
Meeting Date	5th February 2020
Resolutions	See below
Board recommendation	n/a
BlackRock Vote	BIS voted in favour of all management proposals

Overview

Siemens AG is an industrial conglomerate that provides services and solutions to companies including those in the energy sector. Siemens is listed in Germany.

BIS regularly reviews Siemens' governance structure and risk profile. We have engaged with Siemens' board and management on a range of material issues driving long-term shareholder value, including board composition, strategy and compensation in accordance with our engagement priorities set out above. The company has demonstrated positive evolution on these matters. We are supportive of the company's progress, including on the sustainability goal it set out in 2015, namely to achieve carbon neutral operations by 2030. Siemens provides annual updates on its progress, in line with our expectations to-date on company reporting.

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Adani rail contract for the Carmichael coalmine

Siemens is currently engaged in a contract to supply signaling equipment for the railway line servicing the Carmichael mine in Australia. The size of this contract is relatively small (c. €18 million), both in terms of Siemens' business (c. €87 billion FY 2019 revenue) and the Carmichael project itself (c. US\$1.7 billion project capital expenditure). However, recent NGO and media attention on the contract highlights the breadth of risks facing companies in this space.

As is consistent with our investment stewardship approach, we engaged with Siemens directly on the issue. While the company followed its internal review process for the project, it is nevertheless clear that it requires a more thorough review of the potential risks, including ESG risks, presented by future projects. We are reassured by the company's acknowledgment that it intends to do this.

Our evaluation of the board and the management of the company is not materially altered by this event. We will remain engaged with the company to continue to monitor and understand its approach to, and management of, all material issues, including ESG factors.

Rationale for BlackRock vote

The agenda items for the 2020 AGM, and upon which BlackRock voted, were:

1. To receive and consider the adopted Annual Financial Statements of Siemens AG and the approved Consolidated Financial Statements, together with the Combined Management Report of Siemens AG and the Siemens Group as of September 30, 2019, as well as the Report of the Supervisory Board and the Corporate Governance Report for fiscal year 2019.
2. To resolve on the appropriation of the net income of Siemens AG.
3. To ratify the acts of the members of the Managing Board.
4. To ratify the acts of the members of the Supervisory Board.
5. To resolve on the appointment of independent auditors for the audit of the Annual Financial Statements and the Consolidated Financial Statements and for the review of the Half-year Financial Report and audit of the Closing Statements of Financial Position pursuant to the German Transformation Act (UmwG).
6. To resolve on the approval of the system of compensation for the members of the Managing Board.
7. To resolve on the authorization to repurchase and use Siemens shares pursuant to Section 71 (1) no. 8 of the German Stock Corporation Act (AktG) and to exclude shareholders' subscription and tender rights.
8. To resolve on the authorization to use derivatives in connection with the repurchase of Siemens shares pursuant to Section 71 (1) no. 8 of the German Stock Corporation Act (AktG), and to exclude shareholders' subscription and tender rights.
9. To resolve on granting a new authorization of the Managing Board to issue convertible bonds and /or warrant bonds and exclude shareholders' subscription rights, and on the creation of Conditional Capital 2020, cancellation of the Conditional Capital 2015 and the Conditional Capital 2010 and related amendments to the Articles of Association.
10. To resolve on the approval of a Control and Profit-and-Loss Transfer Agreement between Siemens AG and a subsidiary.

Based on our assessment of company leadership from our analysis and engagements, and specifically on an evaluation of management's delivery against the five BIS engagement priorities, our view is that this is a management team that has performed in shareholders' long-term interests. BIS therefore voted in favour of all management proposals at the 2020 AGM.

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Voting Bulletin | 2

Investment Stewardship Group

Voting bulletin: Toshiba Machine

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes, and evolve them year over year as necessary. The BIS team's key engagement priorities include:

1. Board Quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted, and (where relevant) provide information around our engagement with the issuer.

These Voting Bulletins are made public on, or shortly after, the day of the meeting.

Company	Toshiba Machine Co., Ltd (Shibaura Machine Co., Ltd, as of 1 April 2020)
Market	Japan
Meeting Date	27 th March 2020 (Special shareholder meeting) ¹
Resolutions	Item 1: Approval Regarding Introduction of Response Policies for the Tender Offer, etc. for Company Shares by Office Support K.K. and Its Subsidiaries Item 2: Allotment of Share Options without Contribution
Board Recommendation	In favor
BlackRockVote	BIS voted in favor of all management proposals

Overview

Toshiba Machine Co., Ltd supplies machinery and electronic controls to automotive, aerospace, heavy equipment, construction, plastics, transportation, semiconductor, and communication to clients worldwide.

¹ Meeting details and resolutions can be accessed at: <https://www.shibaura-machine.co.jp/en/ir/GeneralMeeting.html>

Key resolutions

Toshiba Machine sought shareholder approval during an extraordinary meeting to introduce a shareholder rights plan in Item 1 and to trigger the plan in Item 2, specifically intended to dilute stakes held by companies tied to an activist investor. The resolution is conditional on it being approved by a majority of shareholders. In January 2020, Office Support (the fund), an affiliate of the activist investor, launched a tender offer for Toshiba Machine shares. The tender offer sought a maximum of 43.8% of total shares outstanding, including the 12.7% stake currently held by the fund at JPY 3,456 per share in cash (effectively restricting the tender offer to 31.1% of shares outstanding).

The fund stated that they do not intend to build a controlling stake in Toshiba Machine. The company counterargued that a 43.8% stake would effectively transfer control of the company to the fund as it enables it to determine the outcome of resolutions voted on at shareholder meetings, including on the election of directors. The company further raised concerns that the fund seems interested only in returning cash to shareholders as it has been advocating for a buyback of JPY 12bn to 50bn without providing any statements on the company's plans, including on strategy and board composition.

Rationale for BlackRock vote

Considering the legal framework in Japan, BlackRock evaluates shareholder rights plans on a case-by-case basis. We set a high threshold for these types of proposals and will only support a plan when concerns over management entrenchment are fully addressed and the plan would be utilised solely to protect and enhance the interests of minority shareholders. Our proxy voting guidelines² specify numerous conditions we consider, including but not limited to the structure of the plan such as thresholds and duration, board composition and practices, the role and membership of the special committee implementing the plan. We also consider closely the rationale given for implementing a plan and other disclosures published by the company. We review these proposals with regards to their necessity in executing a company's long-term strategy. BlackRock may also engage directly with the relevant stakeholders to ensure we make a fully informed decision.

As a long-term investor, BlackRock believes it was in our clients' interests to vote in favor of the introduction of the shareholder rights plan for a number of reasons in this specific situation. The proposed plan was structured appropriately with a reasonable threshold of 20% and a limited duration until the annual shareholder meeting scheduled in June 2020, which satisfies our stringent requirements related to safeguards and to prevent the plan being used as a tool for management entrenchment. We carefully considered the conditions of the tender offer and the public statements made by the bidder. We compared these with the company's long-term vision and the mid-term action plans, which involve enhancements in corporate governance practices, and the commitment from the board, including the independent non-executive directors, to deliver on these plans.

We will continue to engage with the management and the board to monitor progress on the delivery of the mid-term plan and corporate governance improvements.

² Please see our "Corporate governance and proxy voting guidelines for Japanese securities", <https://www.blackrock.com/corporate/literature/fact-sheet/bis-responsible-investment-guidelines-japan.pdf>, also available in Japanese on our website, <https://www.blackrock.com/corporate/about-us/investment-stewardship/principles-and-guidelines>

BlackRock

Investment Stewardship Group

Voting bulletin

BlackRock Investment Stewardship ("BIS") will publish statements on our analysis, engagements, and vote(s) in relation to certain high-profile resolutions at company shareholder meetings. Our decisions are made public on or shortly after the day of the meeting, so interested parties can be aware of the vote when it is current.

Company	BHP Group ("BHP"), dual-listed in UK and Australia
Meeting Dates	BHP Group Plc Oct 17, 2019; BHP Group Ltd Nov 7, 2019
Resolution 22	Lobbying inconsistent with the goals of the Paris Agreement
Board recommendation	AGAINST
BlackRock Vote	AGAINST
Rationale	BlackRock voted against the shareholder resolution because: 1. BHP is an industry leader on climate-related issues; 2. BHP's track record, and our engagements with their management and board, give us confidence in their judgment on these issues; 3. The ultimate goal of this resolution appears to be more targeted at the industry associations than at driving positive outcomes at BHP.

Overview

On behalf of our clients, the BIS team advocates for sound corporate governance and sustainable business practices that result in long-term value creation. We recognize that climate change presents significant business risks and opportunities that have the potential to impact the long-term value of many companies.

BHP is a natural resources company that extracts and processes minerals, oil and gas. Shareholders have over the years submitted a number of resolutions in the extractive and energy sectors relating to climate risk management and their memberships of industry associations. BHP is dual-listed in Australia and the UK; it has a shareholder meeting in each market after which voting results are aggregated.

The aims of our climate risk engagements remain two-fold: (1) to promote effective management of material climate risks, and (2) to understand how these risks are likely to impact the company's business over time. More information on BIS' approach to stewardship in relation to [climate risk](#) and [corporate political activities](#) are set out on our website.

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The shareholder resolution

The resolution submitted by the Australasian Centre for Corporate Responsibility (ACCR) and co-filing shareholders recommends that BHP suspends memberships of industry associations where:

- a major function of the industry association is to undertake lobbying, advertising and/or advocacy relating to climate and/or energy policy; and
- the industry association's record of advocacy since January 2018 demonstrates, on balance, inconsistency with the Paris Agreement's goals.

The validity of this shareholder resolution is conditional on the proposed amendment of the Constitution of BHP Group Ltd (resolution 21) being passed by the required majority (75%).

Rationale for BlackRock vote

BHP is an industry leader on climate-related issues

BIS has been in regular dialogue with BHP for many years on a wide range of governance issues, including climate risk and lobbying activities. In line with our stated approach¹, we have engaged with representatives of both BHP and the shareholder proponents on several occasions as part of our analysis.

Recognizing the importance of climate-related risks, BHP discloses how it monitors and analyzes the potential impacts on its business². Upon analysis and engagement, our assessment is that BHP is taking steps to both manage and, where possible, mitigate climate-related business risks and monitor portfolio resilience. The company is a recognized leader³ in the mining industry for its commitments to climate-risk management.

BHP significantly strengthened its climate-related ambitions in July 2019 through a series of commitments that include:

- a USD400m Climate Investment Program to develop technologies to reduce emissions from its own operations as well as those generated from the use of its resources;
- a new medium-term, science-based target for scope 1 and 2 emissions in line with the Paris Agreement;
- a new climate-risk portfolio analysis report;
- a strengthening of the link between executive remuneration and greenhouse gas emissions performance; and,
- a commitment to set public goals to address scope 3 emissions.

BHP's track record, and our engagements with their management and board, give us confidence in their judgment on these issues

BHP has shown us that it takes a balanced approach to its affiliations with industry associations. BHP has committed to undertake another review of the lobbying positions relating to climate and energy policy by the industry associations in which it participates⁴. Membership of industry associations, including the Minerals Council of Australia (MCA) and the US Chamber of Commerce, affords BHP the ability to positively influence these organizations and share insights into best practice on a wide range of issues, including environmental management, community and social development, and employee health and safety.

1. For more information about our process and perspective on shareholder resolutions, refer to page 10 of [BlackRock Investment Stewardship 2018 annual report](#).
2. <https://www.bhp.com/our-approach/operating-with-integrity/climate-change-portfolio-analysis>
3. BHP achieved a place on the 2018 CDP Climate Change A List and is rated 4 (highest level) by the Transition Pathway Initiative (April 2019).
4. 2019 Industry Association Review: <https://www.bhp.com/our-approach/operating-with-integrity/industry-associations-bhps-approach/2019-industry-association-review>

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BHP voting bulletin | 2

BHP has not ruled out cutting ties with some industry associations in the future if necessary, as it did with its exit from the World Coal Association in 2017, and has acknowledged some differences between its views and those of some industry associations in relation to their respective positions on climate change, including the Minerals Council of Australia and Coal 21.

Acknowledging investors' feedback, BHP will include Coal 21 in its next industry association review to be published in Q4 2019 while also working to strengthen the association's oversight by seeking board representation. BHP has introduced an expectation that industry associations: (1) publish a statement (to be updated annually) outlining its climate and energy policy position; and (2) update BHP on steps taken in line with the policy position.

Finally, the implementation of the resolution does not consider the comprehensive benefits of participation in these industry bodies and the policy implications of not actively participating in these types of industry-wide collaborative dialogues.

The ultimate goal of this resolution appears to be more targeted at the industry associations than at driving positive outcomes at BHP

Requiring BHP to leave an industry association on a policy-related misalignment could lead to unintended consequences for BHP. Taking such a simplistic and binary approach would deprive the associations and the industry of benefitting from BHP's leadership on these issues, to re-align the associations' policies more closely with the ultimate objective of tackling climate change.

Conclusion

For these three reasons, BIS did not support the shareholder resolution on lobbying activities (resolution 22) at the BHP 2019 annual general meetings.

We will continue to engage with the management and board of BHP on a range of material issues of economic relevance, not just limited to climate-related risks, and regardless of whether the company receives a shareholder resolution. BIS will continue to encourage BHP – and all the companies with which we engage – to make further progress on climate-related issues, holding them to their commitments through our ongoing dialogue with the management and board of directors.

Our climate risk engagements in the year to June 2019⁵

207 Total number of companies BlackRock's investment stewardship team met with globally on climate risk

34 Companies engaged multiple times globally

11 Global Industry Classification Standard (GICS®) sectors engaged

Additional resources

2019 BIS Engagement priorities

2019 BIS Approach to engagement on climate risk

2019 BIS Annual Stewardship Report

⁵ 2019 Investment Stewardship Annual Report August 2019