



ASSET MANAGEMENT

How a small group of BlackRock analysts speaks for millions of investors

The firm's investment stewardship team votes on \$4.6tn worth of shares for passive investors; 'it can feel like a lot of power'

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BlackRock casts votes on tens of thousands of proxy proposals a year. The responsibility rests with a team of about 70.

Millions of people are invested in the stock market through BlackRock's index-tracking funds. As these passive investments have grown in popularity, so have the firm's stakes in 13,000 companies world-wide. And so has the clout of BlackRock's investment stewardship team.

The tiny group of analysts — BlackRock has around 18,400 employees all told — looks after the interests of investors in the firm's \$4.6tn worth of passive funds. That means weighing in on matters as varied as executive compensation, climate change and abortion access. Chief executives jockey for time on analysts' calendars. They have the power to unseat directors and upend corporate decision-making.

The team last year engaged with 2,300 companies via emails, phone calls and meetings and ultimately voted on 165,000 proposals at 17,000 shareholder meetings.

"It can feel like a lot of power sometimes," said a former investment stewardship team analyst.

The surging popularity of index funds has made their managers the largest shareholders in many public companies. That is especially true of BlackRock, the world's biggest investor with some \$10tn under management. The amount of equity the firm manages for passive investors has more than tripled over the past decade.

BlackRock's growth and the way it has sought to wield its influence has rankled corporate executives, particularly those in the oil-and-gas industry. BlackRock's stewardship team voted in favour of 47% of environmental and social shareholder proposals last year. Its support helped an activist investor win board seats at oil giant Exxon Mobil.

"We have a new bunch of emperors, and they're the people who vote the shares in the index funds," Charlie Munger, the vice chair of Berkshire Hathaway and Warren Buffett's business partner, said earlier this year.

A group of Republican senators last month introduced a bill calling for individual investors in passive funds to have the option to vote their shares, a move meant to curb the power of BlackRock and its ilk.

Vanguard and State Street, BlackRock's two biggest rivals, also have small stewardship teams. Vanguard has around 60 analysts focused on stewardship. State Street doesn't disclose the size of its stewardship team, but a 2020 Columbia Law Review article on corporate governance estimated its head count at 12. The team has grown since then, a company spokesperson said.

BlackRock chief executive Larry Fink has said he wants to get to a place where all individual investors can vote their own shares. The firm has given that option to institutional investors that control some \$2.3tn in assets. Investors representing about a quarter of that sum have taken the company up on the offer.

For now, the stewardship team is looking out for those who can't, or aren't ready to, vote their own shares.

It plays an especially important role for index-fund investors because they "do not have the option to sell holdings in companies that are not performing as expected," BlackRock said in a February report on its priorities for the 2022 proxy season.

The investment stewardship team is led by [Sandy Boss](#), who spent two decades at McKinsey before joining BlackRock in April 2020.

Its analysts range in seniority — their average tenure is 15 years — and some are fresh out of college, a BlackRock executive said. The team includes climate scientists, engineers and corporate-governance specialists. They speak a total of 20 languages and work in 10 countries.

Each stewardship analyst is assigned to cover a specific industry. They dissect company proxy reports and third-party research, including ESG ratings from MSCI and corporate-governance transparency scores from the nonpartisan nonprofit Center for Political Accountability. Analysts also conduct their own research.

The team subscribes to research from Institutional Shareholder Services and Glass Lewis but doesn't "blindly follow" the proxy-advisory firms' voting recommendations, BlackRock said in a recent report.

ISS helps the stewardship team screen for routine, uncontroversial proposals. All the others are sent to the stewardship team for review. The team's biggest priorities are board quality, strategy and financial resilience, executive compensation, climate and human-resource issues.

Activist investors looking to shake up a company's board sometimes pitch the stewardship team directly. In some cases, they introduce their director candidates to members of the stewardship team — in person or, since the start of the pandemic, virtually.

The team recently met candidates for McDonald's board backed by Carl Icahn in his campaign to get the fast-food giant to change how it treats pregnant pigs, according to a BlackRock executive. (Icahn's nominees lost.)

The team's busiest season is mid-April to mid-June, when US companies tend to hold their annual meetings. Before a meeting that involves contentious shareholder proposals, stewardship analysts will present a recommendation to the team's executive committee. The committee will sometimes consult with BlackRock's active-fund managers, who make their own voting decisions.

Voting decisions are made by the stewardship team alone; Fink and other BlackRock executives have no say. "They run the firm, we run the voting," said Boss in an interview.

That doesn't mean Fink has no influence.

In late 2020, Fink convened a call with a few dozen or so members of the team in charge of US proxy votes, according to people familiar with the matter. His message was clear: The team

needed to do a better job explaining their votes to company executives, the people said, particularly around climate-related proposals.

Fink's main concern was around public perception. He didn't want Wall Street thinking that BlackRock had gone too far in pushing an environmental agenda, the people said.

The firm's stance on climate issues has angered executives and put it on the outs with states that are home to fossil-fuel companies.

West Virginia's treasury investment board earlier this year stopped using a BlackRock fund after the money manager urged companies to achieve net-zero emissions by 2050. And last June, Texas passed a bill that requires state entities to stop doing business with companies that boycott the fossil-fuel industry. While BlackRock hasn't argued for such a boycott, many saw it as a warning shot at the firm and its peers, which manage billions of dollars for Texas pensioners.

The BlackRock team has gone to greater lengths in recent years to explain the reasoning behind high-profile votes, such as in the Exxon proxy fight. Index funds are required to report their votes annually with the Securities and Exchange Commission every August, and the team publishes reports on BlackRock's website quarterly.

In a memo released earlier this year, the stewardship team said climate-related shareholder proposals had become more prescriptive and "intended to micromanage companies".

The team said it would likely support fewer climate proposals this year than last.

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