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Dear Liz

We write with regard to our discussion on BlackRock's approach to corporate governanceactivitiesin relation to companies in which we may invest for our clients.

This is an area that we take seriously and apply good industry practice. We are signatories to the United Nations Principles for Responsible Investment and have regard to the UK Stewardship Code. Our status as one of the largest global asset managers gives us significant access to company boards and management teams and we use this access to ensure that our views are heard.

BlackRock's Corporate Governance & Responsible Investment (CGRI) programme focuses on protecting and enhancing the long-term economic value of the companies in which it invests on behalf of its clients. We do this through engagement with the boards and management of investee companies and, for those clients who have given us authority, through voting at shareholder meetings. In our view, corporate governance is about BlackRock assessing the strength and quality of a company's board, leadership and executive management. Through our engagement with companies we seek to assess this, as well as to build mutual understanding between ourselves, the boards and the management of companies we invest in. Additionally, the CGRI team works closely with portfolio managers to ensure an integrated approach to governance matters.

Our duty to our clients is executed in the following ways:

- BlackRock has adopted a risk-based approach to identify companies with which to engage. In order to do this, we use internal screening and external tools and methodologies to help us evaluate risks and potential triggers for engagement. Our risk-based approach is wide-ranging, taking into account corporate governance, social, environmental, ethical and economic issues; and our engagement covers a wide spectrum of activity, ranging from "low impact" activities such as telephone conversations with management to clarify/explain particular issues, to "high impact" activities such as voting at general meetings of shareholders, or scheduling a series of meetings over an extended period to achieve significant change. We believe that the most effective engagement is usually done by directly engaging with companies. .

- BlackRock has a clearly established process that is applied to all engagements. When we undertake an engagement, the CGRI team will first address its concerns to the non-executive directors of the board. We focus on the board of directors because it is the party that is legally accountable to shareholders. Our goal is to gain comfort that the board is providing proper oversight in ensuring that the executive team manages (and is incentivised to manage) the company in a manner that promotes long-term shareholder value creation. Our portfolio managers engage with company executives and evaluate social, ethical, environmental and governance risks and opportunities for an industry or company as they consider potential economic issues related to their investments.

- BlackRock demonstrates its commitment to protection and enhancement of shareholder value by: (i) voting at shareholder meetings in the way that we believe is in the best interest of our clients, (ii) undertaking different types of engagement that include thematic engagement, performance-based engagement and event driven engagement. As mentioned above, while BlackRock's practice is to engage directly with company boards to discuss areas of concern, we will also use voting to reflect our concerns - for instance by voting against the re-election of directors in a company that is not, in our view, satisfactorily addressing issues that have been raised.

Below we set out some areas of recent engagements:

- **Thematic:** These engagements address issues that BlackRock has identified that are common to a number of companies or to specific sectors. Typical of this category would be engagements around environmental social and governance (ESG) issues. We engage with companies in this instance to understand what policies management have in place to monitor and mitigate such risks. This approach is consistent with our support for and participation in broad-based initiatives such as the Carbon Disclosure Project or the Extractive Industries Transparency Initiative. As an example, last year we met with a number of extractive industries companies to discuss safety in mining in Kazakhstan. Also typical of this category would be engagement around remuneration and benefits. As an example, this year we engaged with major banks in the UK and Europe (namely Germany and Switzerland) to discuss executive remuneration in light of the current economic environment. Our goal was to understand the approach taken by each company and the extent to which there was a robust process behind overall remuneration packages, determining whether we considered them reasonable and not excessive in the context of the market and individual banks' performance. Our approach to reviewing executive remuneration is focused on the structure and whether it is linked to the stated strategy and performance of the company.

- **Performance-based:** These engagements focus on companies that have suffered poor financial performance as a result of company-specific factors, particularly poor governance practices. Unlike the majority of our engagements which aim to pre-empt poor financial performance, engagements in this category are premised on getting management or the board to face up to and actively address performance problems. They tend to be undertaken over a longer period of time and involve our portfolio managers. Whilst for confidentiality reasons we are not at liberty to disclose named examples of this type of engagement, some of the changes that we have successfully lobbied for include the establishment of a Health, Safety and Environment committee that reports to the board and is addressing past weakness in this area that had negatively impacted a company's performance. In another instance we have called for the appointment of independent board directors with a strong relevant industry experience that would contest status quo thinking and enable the company's board to provide greater challenge and oversight of the management team, with an ultimate goal of improving performance.

- **Event-Driven:** These engagements stem from a significant development at a company or in a sector that potentially has, or has had, material economic ramifications for shareholders. In our communication with management or board members we aim to understand the event (and why it occurred), and seek to get clarification on whether the event could reasonably have been prevented and what steps have been taken to remedy it. We may also try to ascertain the extent to which the event is the result of poor management practices or ineffectual board oversight. An example of event driven engagement is with BP plc in the aftermath of the Macondo incident. Here we met extensively with board level executive and non-executive directors immediately after the event, as well as with below-board management. It was shown that the health and safety initiatives being communicated from the top had not been successfully embedded further down the chain of command. The company has since re-organized the way it manages safety and operational risk by creating a separate function with independent specialists working alongside the line management to ensure full compliance with the company's approach to risk management. In order to satisfy ourselves that these matters have been adequately addressed, we continue to engage with the company on a regular basis to monitor how these changes are being implemented and ensure that the new procedures are sufficient to address the weaknesses that have been exposed. We also take these issues into account when engaging with other companies in high risk or operationally intense industries.

BlackRock's governance activities are co-ordinated by the Corporate Governance & Responsible Investment team, which is resourced by 20 dedicated professionals within the portfolio management group. The teams are based in the US, UK, Japan, Hong Kong and Australia and each team is responsible for the engagement and voting activities in their region, with overall responsibility resting with the global head of corporate governance based in San Francisco. The teams work closely with portfolio managers on voting and engagement where there is an active shareholding, and in consultation with them when the only holding is indexed. The intention is to ensure that corporate governance and social, ethical and environmental factors are integrated, to the extent they are material, into the investment process.

In addition to the resources that we deploy internally, BlackRock leverages its efforts by participating in a number of formal coalitions and shareholder groups, such as the Association of British Insurers in the UK, the Asian Corporate Governance Association in Asia, and the International Corporate Governance Network globally, aiming to further responsible share ownership. We will also, at times, work informally with other shareholders (where such activities are permitted under the law) to engage companies on specific issues or areas of common concern. And finally, as mentioned above, BlackRock is a signatory to the United Nations Principles for Responsible Investment and we will therefore undertake engagements in collaboration with the UN PRI Engagement Clearinghouse.

In conclusion, BlackRock takes its responsibilities in corporate governance very seriously and we believe that our corporate governance team's engagement principles and risk-based processes are well suited to protect and enhance shareholder value.

We hope that this provides a clearer picture of our efforts in this area.

Yours sincerely

Rohan Worrall
Managing Director