

# KIRKLAND & ELLIS

Kirkland Governance Update

## r/BlackRockAnnualLetter: Climate Change and ESG in the Age of Reddit

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- **BlackRock's rollout of Larry Fink's annual letter last week was overshadowed by the Reddit-driven mania involving GameStop and other heavily shorted stocks.**
- **The evolving (and sometimes wild) market dynamics associated with the rapid rise of the day-trading retail investor base, coupled with a resurgent, short-term focused shareholder activism environment, underscore the importance for public companies of deepening relationships with their largest and longest-term investors.**

Last week, BlackRock published the [2021 version of Larry Fink's annual CEO letter](#). Consistent with BlackRock's pronouncements over the last 12 months, the single biggest focus in the letter is climate change. The upshot is that BlackRock is now asking companies to disclose a plan for how their business model will be compatible with a net-zero economy (which BlackRock defines as one that emits no more carbon dioxide than it removes from the atmosphere by 2050, the scientifically established threshold necessary to keep global warming well below 2°C). Acknowledging that climate disclosure can be cumbersome, particularly in light of the current alphabet soup of competing sustainability reporting frameworks, BlackRock has [endorsed convergence under the single standard proposed by the IFRS](#). In the interim, BlackRock continues to support TCFD- and SASB-aligned sustainability reporting.

The letter also reiterates BlackRock's views on corporate purpose, stakeholder capitalism and diversity matters. BlackRock's views on diversity extend beyond board

composition, including by asking companies to disclose how talent strategy fully reflects long-term plans to improve diversity, equity, and inclusion (and offers BlackRock's own disclosures as an [example](#)).

BlackRock's letter comes on the heels of similar ESG-focused letters and policy updates from State Street, ISS, and Glass Lewis, among others. While the [State Street letter](#) attracted attention primarily for its new voting policies on racial diversity (as described in our most recent [boardroom diversity presentation](#)), the letter also made clear that State Street's other key priority for 2021 will be addressing the systemic risks associated with climate change. In its policy updates for 2021, ISS noted that it may recommend against directors at companies with "demonstrably poor" risk oversight of environmental and social issues (including climate change), while Glass Lewis will, starting in 2022, begin recommending against S&P 500 NomGov chairs for failing to provide clear disclosure about board-level oversight over environmental and social issues.

While BlackRock can be a powerful ally for companies seeking to defend long-term strategy, its recent words and actions also indicate that BlackRock is poised to more frequently use its substantial voting power to vote against directors and support shareholder proposals to advance its investment stewardship objectives:

- BlackRock is a top 3 holder in the vast majority of U.S. public companies, and it now manages nearly \$9 trillion in assets, up 17% from last year
- Since 2012, BlackRock has already been voting in favor of activist nominees in approximately 30% of proxy contests
- In the past year, BlackRock focused its climate engagement on 440 carbon-intensive companies and voted against 64 directors for lack of progress on climate risk, and put 191 companies on notice of intention to vote against directors in 2021 unless they show progress on climate risk
- For 2021, BlackRock has threatened to vote against directors and support climate-focused shareholder proposals at an expanded focus list of 1,000+ companies that BlackRock believes represent more than 90% of global emissions within its portfolio if they do not provide adequate climate disclosures
- After being criticized for its failure to support climate-related shareholder proposals, in October 2020 BlackRock publicly announced its support for a climate-related shareholder proposal at P&G (which received support of 67% of votes cast), and in the second half of 2020, BlackRock supported 54% of all environmental and social shareholder proposals
- Beyond just carbon-intensive companies, BlackRock is rapidly increasing its direct engagement with all companies (it held over 3,000 engagement meetings last year,

up more than 50% from the prior year) and has recently touted the direct impact of its willingness to vote against directors for lack of gender diversity (41% of companies where BlackRock voted against directors for diversity reasons in 2019 improved their board diversity by 2020)

To be sure, the fact that BlackRock and other large index fund managers continue to prioritize ESG while frequently playing the role of the “swing vote” in contested elections has not been lost on activist hedge funds. Activists have grown more adept at incorporating ESG principles into their activist programs as a way to curry favor with ESG-focused index fund managers (e.g., Elliott touting the benefits of infrastructure investment and stakeholder value in launching its campaign against Evergy) and at opportunistically latching onto ESG-focused attacks to advance their more traditional, financially driven activist campaigns (e.g., D.E. Shaw’s campaign seeking to pressure Exxon to cut spending and capital expenditures following the high-profile campaign launched by Engine No. 1, a new ESG-focused activist fund, pushing for, among other things, more investment in net-zero emissions sources and clean-energy infrastructure).

While last week’s rollout of Larry Fink’s annual letter may have been overshadowed by the Reddit-driven mania involving GameStop and other heavily shorted stocks, the evolving (and sometimes wild) market dynamics associated with the rapid rise of the day-trading retail investor base, coupled with a resurgent, short-term focused shareholder activism environment, underscore the importance for public companies of deepening relationships with their largest and longest-term investors, including BlackRock, through a thoughtful and proactive engagement strategy.

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## Related Services

### Practices

- Corporate Governance
- Sustainability

## Suggested Reading

- 29 April 2025 Kirkland Governance Update Bridge Over Troubled Waters: Five Ways Public Companies Can Prepare for Shareholder Activism in Times of Turbulence
- 08 June 2023 Kirkland Governance Update Crisis Preparedness in the Rapidly Evolving Vulnerability Landscape:  
Ten Questions for Board Chairs to Ask to Prepare for Shareholder Activism, Hostile Takeovers, Short Attacks, (Anti-)ESG Pressure and Other Emergent Threats
- 03 October 2019 Kirkland Governance Update #MeToo Compliance – Two Years In, “Wait-and-See” Is No Longer An Option

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