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LARRY FINK'S 2019 LETTER TO CEOs

Purpose & Profit

Dear CEO,

Each year, I write to the companies in which BlackRock invests on behalf of our clients, the majority of whom have decades-long horizons and are planning for retirement. As a fiduciary to these clients, who are the owners of your company, we advocate for practices that we believe will drive sustainable, long-term growth and profitability. As we enter 2019, commitment to a long-term approach is more important than ever – the global landscape is increasingly fragile and, as a result, susceptible to short-term behavior by corporations and governments alike.

Market uncertainty is pervasive, and confidence is deteriorating. Many see increased risk of a cyclical downturn. Around the world, frustration with years of stagnant wages, the effect of technology on jobs, and uncertainty about the future have fueled popular anger, nationalism, and xenophobia. In response, some of the world's leading democracies have descended into wrenching political dysfunction, which has exacerbated, rather than quelled, this public frustration. Trust in multilateralism and official institutions is crumbling.

Unnerved by fundamental economic changes and the failure of government to provide lasting solutions, society is increasingly looking to companies, both public and private, to address pressing social and economic issues. These issues range from protecting the environment to retirement to gender and racial inequality, among others. Fueled in part by social media, public pressures on corporations build faster and reach further than ever before. In addition to these pressures, companies must navigate the complexities of a late-cycle financial environment – including increased volatility – which can create incentives to maximize short-term returns at the expense of long-term growth.

Purpose and Profit: An Inextricable Link

I wrote **last year** that every company needs a framework to navigate this difficult landscape, and that it must begin with a clear embodiment of your company's purpose in your business model and corporate strategy. Purpose is not a mere tagline or marketing campaign; it is a company's fundamental reason for being – what it does every day to create value for its stakeholders. **Purpose is not the sole pursuit of profits but the animating force for achieving them.**

Profits are in no way inconsistent with purpose – in fact, profits and purpose are inextricably linked. Profits are essential if a company is to effectively serve all

of its stakeholders over time – not only shareholders, but also employees, customers, and communities. Similarly, when a company truly understands and expresses its purpose, it functions with the focus and strategic discipline that drive long-term profitability. Purpose unifies management, employees, and communities. It drives ethical behavior and creates an essential culture that goes against the best interests of stakeholders. Purpose guides decision-making, provides a framework for consistent decision-making, and, ultimately, helps sustain long-term financial returns for the shareholders of your company.

The World Needs Your Leadership

As a CEO myself, I feel firsthand the pressures companies face in today's polarized environment and the challenges of navigating them. Stakeholders are pushing companies to wade into sensitive social and political issues – especially as they see governments failing to do so effectively. As CEOs, we don't always get it right. And what is appropriate for one company may not be for another.

One thing, however, is certain: the world needs your leadership. As divisions continue to deepen, companies must demonstrate their commitment to the countries, regions, and communities where they operate, particularly on issues central to the world's future prosperity. Companies cannot solve every issue of public importance, but there are many – from retirement to infrastructure to preparing workers for the jobs of the future – that cannot be solved without corporate leadership.

Retirement, in particular, is an area where companies must reestablish their traditional leadership role. For much of the 20th Century, it was an element of the social compact in many countries that employers had a responsibility to help workers navigate retirement. In some countries, particularly the United States, the shift to defined contribution plans changed the structure of that responsibility, leaving too many workers unprepared. And nearly all countries are confronting greater longevity and how to pay for it. This lack of preparedness for retirement is fueling enormous anxiety and fear, undermining productivity in the workplace and amplifying populism in the political sphere.

In response, companies must embrace a greater responsibility to help workers navigate retirement, lending their expertise and capacity for innovation to solve this immense global challenge. In doing so, companies will create not just a more stable and engaged workforce, but also a more economically secure population in the places where they operate.

A New Generation's Focus on Purpose

Companies that fulfill their purpose and responsibilities to stakeholders reap rewards over the long-term. Companies that ignore them stumble and fail. This dynamic is becoming increasingly apparent as the public holds companies to more exacting standards. And it will continue to accelerate as millennials – who today represent 35 percent of the workforce – express new expectations of the companies they work for, buy from, and invest in.

Attracting and retaining the best talent increasingly requires a clear expression of purpose. With unemployment improving across the globe, workers, not just shareholders, can and will have a greater say in defining a company's purpose, priorities, and even the specifics of its business. Over the past year, we have seen some of the world's most skilled employees stage walkouts and participate in

contentious town halls, expressing their perspective on the importance of corporate purpose. This phenomenon will only grow as millennials and even younger generations occupy increasingly senior positions in business. In a recent survey by Deloitte, millennial workers were asked what the primary purpose of businesses should be – 63 percent more of them said “improving /” than said “generating profit.”

In the years to come, the sentiments of these generations will drive not only their decisions as employees but also as investors, with the world undergoing the largest transfer of wealth in history: \$24 trillion from baby boomers to millennials. As wealth shifts and investing preferences change, environmental, social, and governance issues will be increasingly material to corporate valuations. This is one of the reasons why BlackRock devotes considerable resources to improving the data and analytics for measuring these factors, integrates them across our entire investment platform, and engages with the companies in which we invest on behalf of our clients to better understand your approach to them.

BlackRock's Engagement in 2019

BlackRock's **Investment Stewardship** engagement priorities for 2019 are: governance, including your company's approach to board diversity; corporate strategy and capital allocation; compensation that promotes long-termism; environmental risks and opportunities; and human capital management. These priorities reflect our commitment to engaging around issues that influence a company's prospects not over the next quarter, but over the long horizons that our clients are planning for.

In these engagements, we do not focus on your day-to-day operations, but instead seek to understand your strategy for achieving long-term growth. And as I said last year, for engagements to be productive, they cannot occur only during proxy season when the discussion is about an up-or-down vote on proxy proposals. The best outcomes come from a robust, year-round dialogue.

We recognize that companies must often make difficult decisions in the service of larger strategic objectives – for example, whether to pursue certain business lines or markets as stakeholder expectations evolve, or, at times, whether the shape of the company's workforce needs to change. BlackRock itself, after several years of growing our workforce by 7 percent annually, recently made reductions in order to enable reinvestment in talent and growth over the long term. Clarity of purpose helps companies more effectively make these strategic pivots in the service of long-run goals.

Over the past year, our Investment Stewardship team has begun to speak to companies about corporate purpose and how it aligns with culture and corporate strategy, and we have been encouraged by the commitment of companies to engaging with us on this issue. We have no intention of telling companies what their purpose should be – that is the role of your management team and your board of directors. Rather, we seek to understand how a company's purpose informs its strategy and culture to underpin sustainable financial performance. Details on our approach to engaging on these issues can be found at [BlackRock.com/purpose](https://www.blackrock.com/purpose).

I remain optimistic about the world's future and the prospects for investors and companies taking a long-term approach. Our clients depend on that patient approach in order to achieve their most important financial goals. And in turn, the world depends on you to embrace and advocate for a long-term approach in business. At a time of great political and economic disruption, your leadership is indispensable.

Sincerely,



Larry Fink
Chairman and Chief Executive Officer

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