



From Governance to Purpose to the Fundamental Reshaping of Finance

GlobeScan Analysis: Larry Fink's 2020 CEO Letter
and Trends Since 2012

BlackRock Letters to CEOs: Barometers of Business and Society



Since 2012, Larry Fink, Chairman and CEO of BlackRock – the world’s largest fund manager, overseeing \$7 trillion worth of investments – has sent out an annual letter to CEOs of the companies that BlackRock invests in on behalf of its clients.

As we start a new decade, Fink’s 2020 letter stands out for several reasons:

- A strong tone from the outset, with the title *A Fundamental Reshaping of Finance*, and a focus on action, both from companies and from BlackRock itself
- The principle message of the letter is clear: the risks that climate change poses to the world of finance can no longer be ignored – a stronger and more specific theme than in previous years
- And, thus far, the letter appears to be smashing the records of its previous counterparts in terms of reach and reaction (see pages 7 and 11)

BlackRock’s annual CEO letters have become a rallying cry for responsible long-term business strategy. The events of 2019 – not least the actions of Extinction Rebellion and the climate youth movement – coupled with criticism of Fink’s 2019 letter for not being backed up by BlackRock’s own behavior meant that a climate change focus this year was inevitable. And the letter follows a year of unprecedented attention by the financial sector to climate risk. Just in recent weeks we’ve seen BlackRock sign up to Climate 100 and Bank of England Governor Mark Carney being appointed UN Special Envoy for Climate Action and Finance. To address the criticism on action, BlackRock this year couples the CEO letter with one to clients, entitled “*Sustainability as BlackRock’s New Standard for Investing*”.

In the analysis presented here, GlobeScan traces the emergence and evolution of central themes in the letters from 2012 to 2020. This helps us better understand the shifting expectations for business and the extent to which purpose, stakeholder engagement, sustainability and particularly climate change are becoming more mainstream aspects of management.

Our analysis tracks the changing outlook, from the fiduciary imperative of good governance, to a societal obligation for purposeful leadership to this year’s demand for action on climate change, in the context of significantly restructured capital flows.

“ *Climate change has become a defining factor in companies’ long-term prospects. Last September, when millions of people took to the streets to demand action on climate change, many of them emphasized the significant and lasting impact that it will have on economic growth and prosperity – a risk that markets to date have been slower to reflect. But awareness is rapidly changing, and I believe we are on the edge of a fundamental reshaping of finance.* ”

Summary of the 2020 Letter to CEOs (1/2)

Larry Fink's 2020 Letter to CEOs has a very clear focus this year: climate change. Fink is specific about the risks that the climate crisis presents to capital flows, with specific examples of how this may alter the global financial landscape.

Will cities, for example, be able to afford their infrastructure needs as climate risk reshapes the market for municipal bonds? What will happen to the 30-year mortgage – a key building block of finance – if lenders can't estimate the impact of climate risk over such a long timeline, and if there is no viable market for flood or fire insurance in impacted areas? What happens to inflation, and in turn interest rates, if the cost of food climbs from drought and flooding? How can we model economic growth if emerging markets see their productivity decline due to extreme heat and other climate impacts?

The language of the letter is strong and reflects the systemic threat of the climate crisis in its title “A Fundamental Reshaping of Finance”. Furthermore, Fink makes very clear that climate risk is not just a vague future threat but is something that will very soon start to affect asset values and capital flows.

These questions are driving a profound reassessment of risk and asset values. And because capital markets pull future risk forward, we will see changes in capital allocation more quickly than we see changes to the climate itself



Summary of the 2020 Letter to CEOs (2/2)

This year's CEO letter, and the accompanying Letter to Clients, are much more action-oriented than previous versions, indicating BlackRock is trying to demonstrate that it's putting its money where its mouth. Pledges cover both where the firm chooses to invest its clients' money (for example, divestment from thermal coal) and warnings about more proactive and challenging future engagement, including votes at AGMs and holding board members accountable. By highlighting these new commitments, Fink is responding directly to the criticism BlackRock received last year.

...With the impact of sustainability on investment returns increasing, we believe that sustainable investing is the strongest foundation for client portfolios going forward.

As well as the focus on climate change, the letter revisits previous themes of long-termism, the need for a strong send of purpose and stakeholder-centric business. Fink builds on these with more specificity regarding particular climate risks, how he expects businesses to respond to climate change – disclosure plays a significant role here – and what action BlackRock is committing to.

...A strong sense of purpose and a commitment to stakeholders helps a company connect more deeply to its customers and adjust to the changing demands of society. Ultimately, purpose is the engine of long-term profitability.



“ We believe that *all investors, along with regulators, insurers, and the public, need a clearer picture of how companies are managing sustainability-related questions.* This data should extend beyond climate to questions around how each company serves its full set of stakeholders, such as the diversity of its workforce, the sustainability of its supply chain, or how well it protects its customers’ data. *Each company’s prospects for growth are inextricable from its ability to operate sustainably and serve its full set of stakeholders.* ”

Evolution of Content

The positioning, content and language of Larry Fink's annual letters to CEOs has evolved significantly between 2012 and 2020 with four themes emerging over time:

2012-2015

GOOD GOVERNANCE

The first letter sent out in early 2012 was cautious in its approach and did not attempt to instruct or influence companies on how to act. Instead the request was for more engagement with investors on governance mechanisms. The letter stated the importance of good governance in achieving "superior long-term business performance." This request for long-term value and a strategy to deliver for the future was strongly emphasised in subsequent letters in 2014 and 2015.

2016-2017

OUTWARD FOCUS

In 2016, Fink's letter first mentioned the need for companies to look outside their own four walls and to take environmental and social factors into consideration in their decision making. This built on the request for companies to consider long-term business impacts. The need to look outward was amplified in 2017, in the context of a rise in negative populism, resulting in the UK Brexit vote and Donald Trump's election victory.

2018-2019

PURPOSE LEADERSHIP

Larry Fink's 2018 letter is titled *A Sense of Purpose*. While reiterating the need for long-termism and restating previous demands, the letter goes further by explicitly highlighting the need for business to meet the interests of external stakeholders and to have a broader purpose in society. The call to action for companies to lead on resolving social and environmental issues is furthered in the 2019 letter. It makes the case that putting purpose at the heart of business drives profitability and long-term growth.

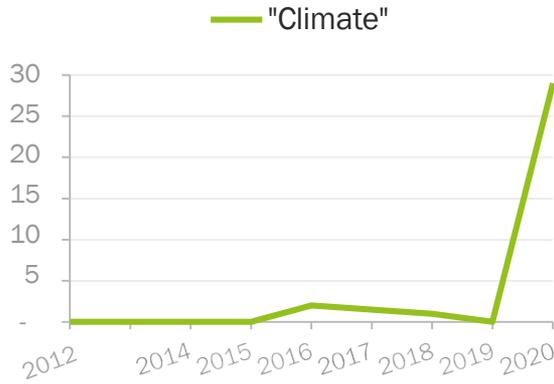
2020

CLIMATE ACTION

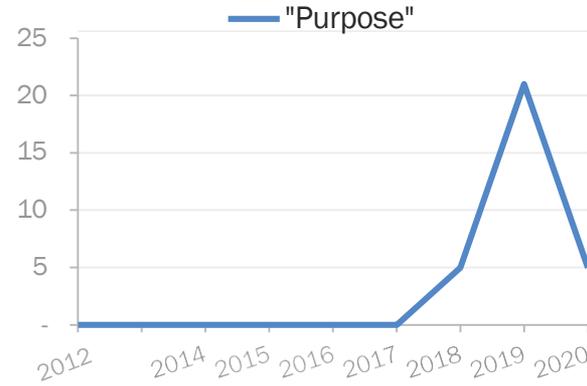
The 2020 letter is much more action-oriented than its previous counterparts. The request for a sense of business purpose, taking into account the needs of a range of stakeholders, is still present but Fink also requests much more specific action on climate change. The main action requested is improved disclosure and transparency through the use of frameworks such as the Sustainability accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD).

Text Analysis of Key Themes

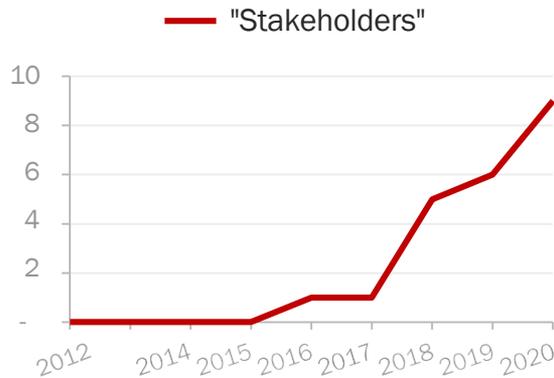
Text analysis shows that climate change is the central theme for 2020 alongside a stakeholder-focused approach



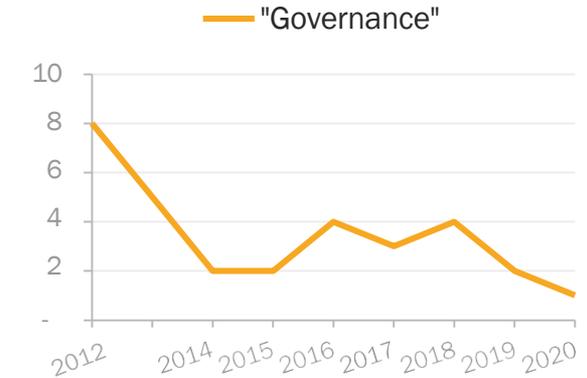
Climate change and climate risk are concepts mentioned very lightly by Fink, until his 2020 letter in which the word "climate" is mentioned a massive 29 times.



Purpose is a term not used until the 2018 letter. Its use skyrockets to 21 mentions in the 2019 letter.



References to stakeholders (beyond just investors) are first included in 2016 and the focus increases in 2018 and 2019 with five and six mentions, respectively.



Strong corporate governance is still referred to, but is not such a focus of later letters in comparison to the first in 2012.

The Focus on Purpose has Shifted to Climate Risk

2018 and 2019 letters combined

BlackRock is mentioned itself more times this year, emphasising Fink's desire to reassert the action that his firm is committing to

2020 letter



Purpose and long-termism are key themes of the last two years. These are built on further in 2020 as the focus shifts more to action on climate change

News Coverage of 2018/2019 and 2020 Letters

News Coverage of 2018/19 and 2020 Letters Captures the Changing Language from Encouragement to Action

2018-2019
PURPOSE



Larry Fink is not God, but he is an Apostle of Purpose

THE WALL STREET JOURNAL
BlackRock CEO to Companies: Pay Attention To ‘Societal Impact’

The New York Times

DEALBOOK

World’s Biggest Investor Tells C.E.O.s Purpose Is the ‘Animating Force’ for Profits

FINANCIAL TIMES
BlackRock’s Fink urges CEOs to tackle social issues

2020
CLIMATE ACTION



Climate change to drive 'massive' investment shift

The Washington Post

BlackRock makes climate change central to its investment strategy

FINANCIAL TIMES
BlackRock shakes up business to focus on sustainable investing

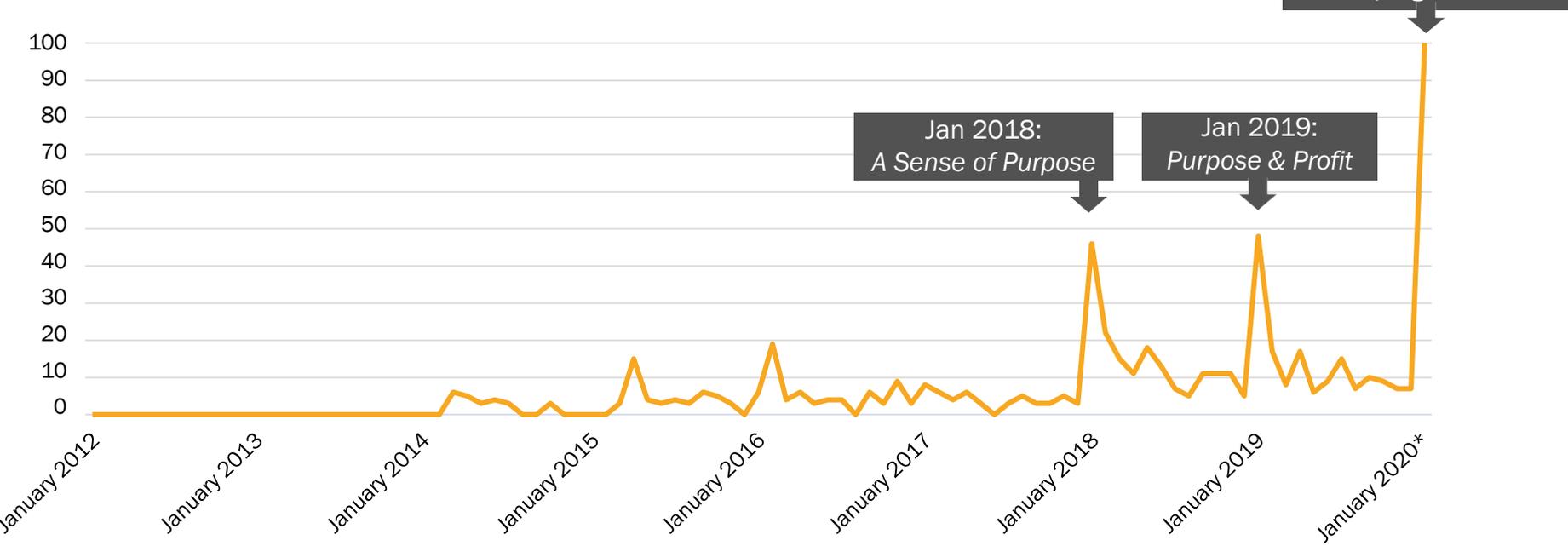


BlackRock vows tougher stance on climate after activist heat



Relative Level of Interest in CEO Letters Over Time

Google Trends: relative interest over time in “Larry Fink letter” 2012-2020. The trend shows that the 2020 letter has been searched for via Google double the number of times of the letters in early 2018 and 2019.



Source: Google Trends, search term “Larry Fink letter” dates January 1, 2012 – January 22, 2020

*Data for January 2020 are incomplete and only include data from January 1, 2020 – January 22, 2020

Interest Over Time: Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means there was not enough data for this term.

“ Over the 40 years of my career in finance, I have witnessed a number of *financial crises and challenges* – the inflation spikes of the 1970s and early 1980s, the Asian currency crisis in 1997, the dot-com bubble, and the global financial crisis. Even when these episodes lasted for many years, they were all, in the broad scheme of things, short-term in nature. *Climate change is different*. Even if only a fraction of the projected impacts is realized, this is *a much more structural, long-term crisis*. Companies, investors, and governments must prepare for *a significant reallocation of capital*. ”

Appendix: Links to Fink's Letters

Year	Links to Letters
2012	https://www.blackrock.com/corporate/literature/whitepaper/corporate-governance-engagement.pdf
2014	https://www.blackrock.com/corporate/literature/publication/letter-to-corporates-fink-032114.pdf
2015	https://www.blackrock.com/corporate/literature/publication/long-term-value-letter-041415.pdf
2016	https://www.blackrock.com/corporate/literature/press-release/2016-larry-fink-ceo-letter.pdf
2017	https://www.blackrock.com/corporate/literature/press-release/2017-ldf-ceo-letter.pdf
2018	https://www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter
2019	https://www.blackrock.com/corporate/investor-relations/2019-larry-fink-ceo-letter
2020	https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

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