PRIVATE AND CONFIDENTIAL

15th April 2020

To: Valdis Dombrovskis – Executive Vice-President, European Commission
John Berrigan – Director General, Financial Markets, FISMA, European Commission
Martin Merlin – Director, Directorate D, FISMA, European Commission
Irene Tinagli – Chair of the ECON Committee, European Parliament

From: Davide Serra

CC: Christine Lagarde – President, European Central Bank
Luis de Guindos – Vice-President, European Central Bank
Andrea Enria – Chair, Single Supervisory Mechanism

Dear Honourable Vice-President, Director General, Director, Chairwoman

Re: Contracting of BlackRock Investment Management

On 8th April 2020, the European Commission – Directorate General for Financial Stability, Financial Services and Capital Markets Union (FISMA) announced[1] the outcome of a tender procedure for the development of tools and mechanisms for the integration of ESG factors into the EU Banking Prudential Framework and into the business strategies and investment policies[2] of banks. As we are facing a climate emergency, it is hard to overstate the importance of the work the European Commission (EC) is doing in this area.

We were therefore very surprised to learn that the aforementioned contract was awarded to Blackrock Investment Management, which will receive EUR 280,000 in compensation for carrying out key advisory work for the EC on these issues. We are writing this letter to voice our concerns with this decision, which we find questionable in light of BlackRock's poor track record on ESG matters, and of the potential conflicts of interest that could arise, when carrying out the duties that relate to this contract.

BlackRock is by far the largest investor in coal equity (i.e. shares issued by coal plant developers) **globally**. Data compiled by NGO analysts[3] show that, as of September 2019, BlackRock was holding **USD 16 bn in coal equity,** accounting *individually* for about 6% of total equity financing received by 258 coal plant developers who still plan to significantly expand capacity. Compared to the size of this coal portfolio, BlackRock's recent announcement[4] that it will sell USD 500 mln in coal investment across its actively managed funds is underwhelming – for a firm that has been increasingly branding itself as an ESG 'champion'.

We are also an asset manager, but we consider coal equity holdings to be a reckless investment decision – in open contradiction with the most basic commitment to ESG principles. The continued existence of investors in bonds and shares of coal plant developers is the ultimate reason why some developers are still planning to expand coal-fired power generation capacity. Investors like BlackRock take a willful decision to keep supporting a sector among those most responsible for climate change. Investors like us, on the other hand, take the willful decision not to invest in any companies planning new coal-fired power, coal infrastructure or mining, nor in any company whose coal share of revenues or coal share of power

[1] As per: https://ted.europa.eu/udl?uri=TED:NOTICE:165869-2020:HTML:EN:HTML&tabId=1&tabLang=en
[2] Reference number: FISMA/2019/024/D
[3] Based on the data released by Urgenwald, Banktrack and other NGOs, and accessible here: https://coalexit.org/finance-data
[4] See https://www.cbsnews.com/news/blackrock-puts-climate-change-first-in-its-its-investment-strategy/

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production exceeds 30%. Coherently with these principles, we also exclude BlackRock from our funds' investable universe.

To give a sense of BlackRock's poor performance in monitoring ESG controversies involving the entities the firm is invested in, it probably suffices to mention that BlackRock's largest coal equity position in 2019[5] (amounting to 3 bn) was in the Brazilian mining company VALE – whose reputation in the areas of both **environmental issues and human rights issues** is far from immaculate[6]. On 25th January 2019 a tailings dam at the Córrego do Feijão iron ore mine owned by VALE collapsed[7], and released 12 million cubic meters of mud over the rural area near the city of Brumadinho (Minas Gerais, Brazil). News reports suggest that VALE had been warned that the chance of collapse was twice the maximum level of risk allowed under company guidelines[8]. As the alarm system that VALE had installed to warn residents did not go off[9], the incident currently ranks as Brazil's deadliest mining disaster[10] with 259 confirmed deaths.

BlackRock has also actively undermined ESG-related shareholders proposals over the years – and it has been recently ranked by Morningstar[11] amongst the 10 *least supportive* fund groups based on proxy data tracking all environmental and social resolutions voted on between 1st July 2014 and 30th June 2019. During the 5-year period analyzed, BlackRock supported only 3% of such shareholder resolutions – against e.g. 87% support rate by DWS, the best performer. Due to its size, a lack of support from BlackRock was frequently the deciding factor in preventing resolutions from passing: of 23 ESG resolutions that achieved between 40% and 50% in the 2019 proxy season, 15 would have passed if BlackRock had supported them. It is hard for us to see how this track record – which is no secret – would align with the EC's decision to contract BlackRock to advise on ESG integration into business strategies and investment policies of banks. We rather fear that the key efforts the EC is rightly taking in this area may be undermined by this decision.

Moreover, various **potential conflict of interests** also concerns us. The tenderer will be tasked by the EC to identify best practices/principles for the integration of ESG risks into EU banks' risk management processes and EU prudential supervision. As a significant investor in global banks, BlackRock retains a sizeable interest in the sector whose financial and prudential outlook will be affected also by BlackRock's own advisory work with the Commission. We cannot help but think that the Commission's interest in procuring unbiased advisory expertise would be better served by awarding this contract to tenderers with no obvious conflicting interests (such as NGOs or think tanks), rather than to a potentially conflicted firm that is in dire need of building credibility credentials on sustainable investing. For lack of a better metaphor: it is generally not advisable to task the fox with guarding the henhouse

We remain at your disposal for any further discussion.

Kind regards,

Davide Serra
Algebris Investments
Founder & CEO

[5] See: https://coalexit.org/investments-investor?name=BlackRock&order=field_shareholding_value&sort=desc
[6] See here for a comprehensive overview: https://www.banktrack.org/company/vale#issues
[7] See: https://www.bbc.com/news/world-latin-america-47096011
[8] See: https://www.bbc.com/news/business-47209265
[9] See: https://www.bbc.com/news/world-latin-america-47096011
[10] See: https://www.bbc.com/news/business-47209265 and https://g1.globo.com/mg/minas-gerais/noticia/2019/12/28/brumadinho-mais-duas-vitimas-do-rompimento-da-barragem-da-vale-sao-identificadas.ghtml
[11] See https://www.morningstar.com/insights/2020/02/12/proxy-votes

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About Algebris: Algebris is an independent, global asset management company embracing long-only, hedged and private debt investment strategies. Algebris has predominantly invested in the global financial sector, and over time gradually expanded its investment expertise beyond financials and currently covers six lines of business in terms of themes. Algebris is a signatory of UN PRI, and committed as a firm to achieve carbon neutrality.

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