**Amazon Watch and Friends of the Earth's rejoinder to BlackRock**
18 November 2019

Given the urgency of the deforestation and human rights crises across the world, we find BlackRock's response weak and at points misleading. BlackRock is once again deflecting urgent real-world concerns by stating what it can't do, rather than considering what it can.

Blaming clients for problematic investments

BlackRock begins by attempting to shift responsibility onto its clients, writing that it "*manage[s] our clients' assets consistent with their investment priorities."* That statement implies two things: 1) that BlackRock plays no role in guiding clients toward certain products because clients make any and all decisions about asset allocation; and 2) that most clients' investment priorities include the destruction of the world's forests for short term profit.

Any casual observer of the investment management industry can easily understand that BlackRock and other asset managers shape options for clients and guide them into certain kinds of products. As BlackRock's own institutional client website states, "We aim to bring ideas to clients to help them solve their most pressing needs." After all, for many people and institutions the purpose of using the services of asset managers like BlackRock is to avoid having to scrutinize every stock in a portfolio. But has BlackRock provided those clients with any real, meaningful alternative to deforestation-risk portfolios (not to mention fossil-free ones)? We see little evidence that it has. And even if it were true that BlackRock's clients all careful examine their portfolios, it belies belief that the majority of those clients want their portfolios filled with forest-destroying companies.

BlackRock also attempts to shift blame away from itself onto the structure of index funds. Implicit in this excuse is the idea that index funds are "passive." In fact, as academic analysis demonstrates, index funds are a "form of delegated management" that are "passive in name only."

An index is essentially a list of companies based upon a certain set of criteria. The selection of that criteria is a decision point (e.g. the 100-biggest companies, or all companies except fossil fuels companies). While many asset managers like BlackRock make use of indices created by firms like MSCI, many fund managers themselves create indices. One study found that more than 75% of indices are being tracked by a single index fund, meaning they were created for that purpose. Those include 'exclusive industry indices,' which exclude securities from a particular industry – like the beef or the coal industry.

Another decision point is an asset manager's choice to offer a fund that tracks a particular index. Yet another decision is which funds to actually include in an index fund: an index fund doesn't have to include every single stock contained in an index. By definition an index fund must track the performance of an index, not necessarily include every company in the index. Therefore, a fund manager can refrain from buying certain stocks in an index (though a particular fund's terms and conditions may vary). Furthermore, index-creation methodologies can and do change over time, and often the text outlining the methodology explicitly leaves room for discretionary adjustment. Not only that, no regulation in the U.S. exists to restrict these methodological changes.

Claims of action via engagement are insufficient

BlackRock also hides behind a claim of “engagement.” We have read BlackRock’s stewardship reports and, within the bounds of the extremely opaque information it provides to the public, close scrutiny demonstrates that this engagement leaves much to be desired. In fact, how could it given the minimal capacity it dedicates to engagement? BlackRock tells us that it engaged with 256 companies globally in 2019. Yet the NY Stock exchange alone has 2,800 companies, meaning BlackRock’s company engagement tally reaches only 9% of those on the NYSE; the percentage would be much smaller if we were to take into account companies listed on other exchanges.

We certainly have yet to see evidence that any of BlackRock’s engagements had a measurable impact on the 2019 fire crisis in the Amazon, or Indonesia, or anywhere that companies under BlackRock’s stewardship are extracting profit at the cost of systemic and systematic abuses. Will any of these engagements prevent companies in BlackRock’s portfolios from extracting more short-term profits at the cost of long-term disaster, like the rampant deforestation of the Amazon rainforest? If BlackRock has any data to demonstrate positive, meaningful outcomes from its engagement on these issues, we would love to see it.

BlackRock’s claims of engagement also fall short when it comes to its voting record: recent research reveals, yet again, that BlackRock is at the bottom of the asset manager pack when it comes to supporting climate action. What the data tells us, consistently, is BlackRock is doing much more to actively undermine action on climate and deforestation than it does to engage in responsible stewardship.

As the largest investor in the global economy, BlackRock has immense power to make change for the good of the rainforest and the climate in two main ways: it can shift capital out of companies that are wrecking the planet by, for example, making fossil fuel-free funds its default recommendation to clients (a recent study found it could have saved its clients upwards of $90 billion if it had started moving money from a small set of oil majors a decade ago). It can also, where it does keep shares in these companies, apply real pressure to change company behavior. We know from BlackRock’s arguments over the years that engagement is a long-term relationship and BlackRock doesn’t want to be overly aggressive. But with the clout it wields, no company in the world will flout its recommendations. Serious engagement on climate, on deforestation and on human rights is a matter of critical governance, that can only stand to benefit both BlackRock’s investee companies and it clients.

With regard to the Amazon rainforest, Amazon Watch and Friends of the Earth US, along with Rainforest Action Network and Greenpeace US, have communicated to BlackRock via various channels about concrete ways it could engage with companies linked to forest destruction in the Amazon that would produce concrete results. Yet the best we get from BlackRock is boilerplate corporate PR-speak about why it can’t take any meaningful action. BlackRock’s refusal to communicate with us directly about specific actions makes its lack of seriousness painfully apparent.

The planet is now confronted with a climate crisis the likes of which we have never seen. This crisis will eventually force firms like BlackRock to change the ways they do business, for the survival of the species. The time is rapidly approaching when its facade of “sustainability” will collapse entirely. As civil society leaders who promote robust practices consistent with sustainable long-term performance, we suggest BlackRock take action before that time comes.