

8 February 2018

Rt Hon Frank Field MP
Chair, Work and Pensions Committee

Rachel Reeves MP
Chair, Business, Energy and Industrial Strategy Committee

Submitted via email to workpencom@parliament.uk and beiscom@parliament.uk

RE: Carillion PLC

Dear Mr Field, Ms Reeves,

Thank you for your letter dated 26 January 2018 addressed to Charles Hatami, the Global Head of BlackRock's Financial Markets Advisory Group. BlackRock¹ welcomes the opportunity to respond to the joint committee inquiry into Carillion PLC (the Company). In light of your focus on corporate governance and stewardship, I am responding on behalf of BlackRock to describe the recent engagement that the BlackRock Investment Stewardship team (BIS) has had with the Company. As an initial matter, please note that BIS operates separately from the investment and client facing side of BlackRock, which is responsible for managing our clients' assets.

BlackRock's Investment Stewardship programme focuses on protecting and enhancing the economic value of the companies in which BlackRock invests on behalf of its clients, who are institutional and individual asset owners. BIS accomplishes this through engagement with boards and management of investee companies and, for those clients who have given BlackRock authority, through voting at shareholder meetings. BlackRock is a signatory to the UK Stewardship Code (the Code), and sets out its approach to stewardship in a statement on compliance with the Code.² As explained in more detail in that statement, BIS seeks to ensure that companies observe the accepted corporate governance standard in their domestic market or explain why doing so is not in the interests of shareholders.

As the Code emphasises, compliance with the Code does not constitute an invitation to manage the affairs of a company.³ BlackRock does not consider it the role of shareholders to instruct on the day-to-day management of any company, which would include the making of financial decisions.

Following the publication of the Company's 2016 Annual Report and Accounts on 1 March 2017, BIS did not engage with the Company. It may nonetheless be helpful to the Committees to be aware that in prior periods, BIS had engaged on a number of occasions with the Company's chairman, Philip Green and selected non-executive members of its board. These meetings addressed a range of environmental, social and corporate governance topics including the role and functioning of the board, the

¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

² For the benefit of the Committees, a link to BlackRock's most recent statement of compliance, dated October 2016, is provided: <https://www.blackrock.com/corporate/en-gb/literature/fact-sheet/blk-responsible-investment-statementoncompliance-uk-stewardshipcode.pdf>

³ Paragraph 7 of the section of the Code entitled "Stewardship and the Code". This paragraph also states that compliance with the Code does not preclude a decision to sell a holding, where this is considered in the best interest of clients or beneficiaries.

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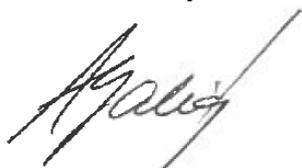
relevance of the skills and experience of the directors and the apparent fit of the board's profile with the company's stated strategy and executive remuneration.

Such meetings are representative of BIS's engagement activities, which also include reviewing companies' corporate governance reports and statements of compliance with the requirements of the UK Corporate Governance Code. BIS also engaged with the Company's board in February 2017 in relation to proposed executive director remuneration arrangements.⁴ Following our feedback, in which we shared our concerns over the proposed increase in annual bonus opportunity, and perhaps that of other investors, the board decided not to increase the maximum opportunity. BlackRock consequently voted in favour of the resolutions put to shareholder vote at the 2017 Annual General Meeting.

As to what lay behind decisions to sell shares in the Company, as noted above, the stewardship activities of BIS are separate from the investment decisions made by BlackRock's portfolio management teams⁵. As referenced in BlackRock's public statements to date in relation to the liquidation of the Company, BlackRock's various portfolio management teams have maintained long and short positions in the Company on behalf of a variety of its clients since 1 March 2017 (and before) based on the specific investment strategies of those clients. The majority of positions have been held in long-only, passively managed portfolios whose objective is to track an index in which the Company was included. Sales within those portfolios will necessarily have resulted from outflows, decreases in the Company's weight in the index or the Company's removal entirely from that index. By way of example, the Company was deleted from the FTSE UK Dividend Plus, published by FTSE Russell, with effect from 13 July 2017 following the Company's suspension of dividends. Such events will have led to an effectively automatic obligation on BlackRock and, indeed, on other index-tracking fund managers, to sell shares in the Company.

I trust the foregoing provides helpful context for the Committees in considering the issues relevant to their joint inquiry.

Yours sincerely,



Amra Balic
Managing Director
Head of EMEA BlackRock Investment Stewardship

⁴ BIS accepted an invitation to comment on a letter dated 12 December 2016 to BlackRock from the Chair of the Company's Remuneration Committee, Alison Horner.

⁵ Therefore, that part of this response concerning BlackRock's investments in the Company is based on information provided to me from others within BlackRock.