March 16, 2023

Larry Fink's Annual Letter to Investors

For more than ten years, Larry Fink, Chairman and CEO of BlackRock, the world's largest asset manager, has published separate annual letters — one to CEOs and another to BlackRock's shareholders. This year, Fink combined the two letters into one to underscore that in serving its clients, BlackRock has also created value for its shareholders — a demonstration of stakeholder capitalism at work.

As we recently explained, major asset managers such as BlackRock play a critical role in supporting companies as they seek to fulfill their fundamental purpose of pursuing long-term, sustainable value creation. Central to this mission is recognition that stakeholders (shareholders, employees, customers, suppliers, and communities) are critical to a company's long-term success, and that boards and management should consider their interests when exercising their business judgment. This is the conception of corporate purpose articulated in The New Paradigm (issued by the World Economic Forum's International Business Council in 2016), supported by the Business Roundtable beginning in 2019, and widely accepted by corporate leaders, investors, companies, and practitioners. Fink's letter highlights the importance of this ongoing relationship and partnership between companies and asset managers as well as between companies and their other stakeholders in the context of the stakeholder governance model of corporate purpose.

The latest letter also reiterates how evolving risks and opportunities — whether related to changes in globalization, supply chains, geopolitics, inflation, monetary and fiscal policy, climate, or human capital — continue to reshape the business environment, and that it remains paramount for asset managers including BlackRock to identify and manage investment risks that could impact client portfolios. Boards and management teams must also assess such risks, challenges, and opportunities where they could materially impact the future of a business. These company-specific assessments are critical not only to investors, as Fink's letter makes clear, but also to the board's fiduciary duty of care as well as its obligation under *Caremark* to implement and monitor systems to identify material risks and to address risks once identified.

The views expressed in Fink's letter are not "woke," and the pursuit of stakeholder capitalism and sustainable long-term value is not "woke" capitalism — it is sound and prudent capitalism. To quote Colin Mayer of Oxford University: "the purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems." So too Adam Smith, the father of market capitalism, in *The Theory of Moral Sentiments*, the predecessor to *The Wealth of Nations*. Since 1979 when we wrote Takeover Bids in the Target's Boardroom, we have argued that the consideration of stakeholder interests is well within the bounds of law, a view shared by the Delaware Supreme Court in *Unocal*. Decision-making and action against the background of this formulation of corporate purpose will be fully protected by the business judgment rule, will appropriately manage material risks to the business, and will best position companies to pursue sustainable value and broad-based prosperity over the long term.

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