

BlackRock

Sustainable investing: an index approach

Our investment conviction

We believe Sustainability risk and climate risk are investment risks, and that integrating sustainability can help investors build more resilient portfolios and achieve better long-term, risk-adjusted returns.

This conviction is built on a two-part investment thesis.

Thesis 1



Asset prices and portfolio risks do not fully reflect sustainability-related factors.

Thesis 2

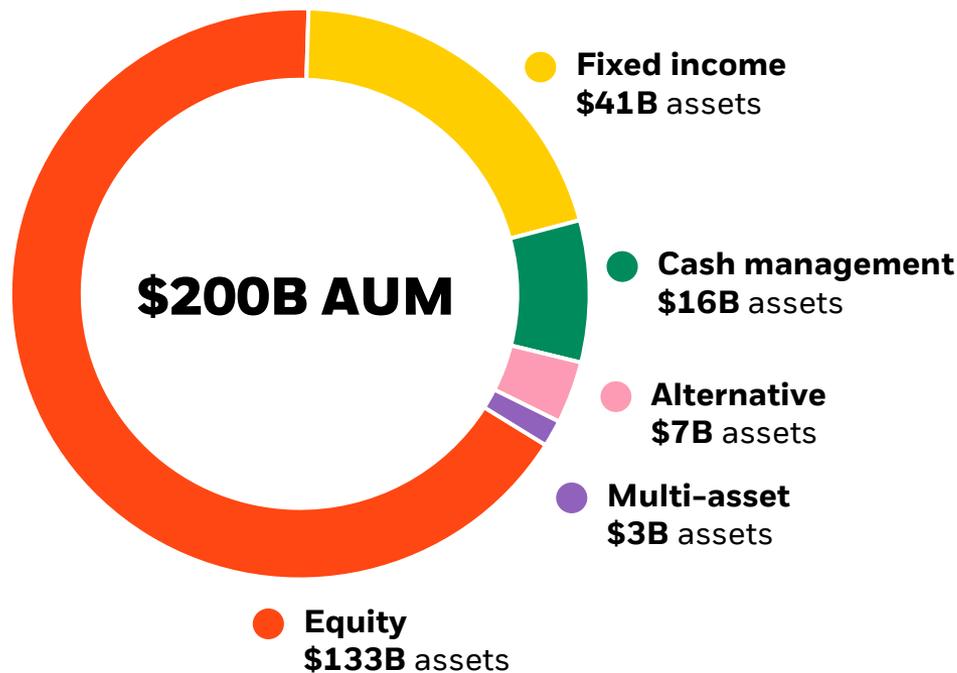


Market factors will accelerate a reallocation of capital towards issuers and assets with positive sustainability characteristics, in turn impacting valuation.

Source: BlackRock Sustainable Investing, "[Making sustainability our standard: BlackRock's approach to integrating sustainability-related factors into portfolio management](#)", December 2020

BlackRock's Sustainable Platform

We have designed a \$200B sustainable platform offering both index and alpha single-and-multi-theme options across all asset classes.



Source: BlackRock Sustainable Investing, as of December 31, 2020. All values in \$USD.

Pioneering choice in sustainability

Breadth of solutions

- Expansive range of over 200 sustainable and screened funds, with ability to customize to help meet your sustainability objectives
- Sustainable investment building blocks exist for all assets in your portfolio.



Depth of research

- Proprietary insights developed across the Portfolio Management Group, BSI Research Team, and Investment Stewardship enable the development of compelling sustainable investment theses.



Largest sustainable ETF offering

- Providers of the largest suite of sustainable ETFs, both in terms of size and scale.
- Democratizing access by working with 11 index providers to launch sustainable versions of flagship indexes



BlackRock seeks to provide ease of access and choice for every kind of sustainable portfolio

Investors now have a comprehensive range of solutions to transition their entire portfolio into sustainable investments, irrespective of a client’s sustainable and financial goals.

Motivation	Avoid	Advance		
Approach	Screened	ESG		Impact
		Broad	Thematic	
Criteria	Exclude controversial activities and companies that benefit from them, as defined by BlackRock’s Baseline Screens	Strategies with an explicit ESG objective which may include a targeted quantifiable ESG outcome. Broad strategies do not choose between E, S, or G, but rather target outcomes across all three.	Strategies that capitalize on long-term transformative industry or societal trends through pursuit of specific Environmental, Social, or Governance themes. Thematic strategies target outcomes in E, S, or G.	Strategies where investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Investment process must adhere to the Operating Principles for Impact Management
Additional Detail	<p>Baseline screens adopted to address majority of client requests:</p> <ul style="list-style-type: none"> Controversial weapons Thermal coal and tar sands Civilian firearms Tobacco Nuclear weapons UNGC violators <p>Further screens may be applied on a tactical basis.</p>	<p>Examples of Potential Outcomes:</p> <ul style="list-style-type: none"> Improved ESG score versus a benchmark; Best in class focus: invest in issuers in the top % of ESG scores; % of portfolio revenues aligned to SDGs (across E, S and G issues); Targeted E, S and G metrics/outcomes at the issuer level 	<p>Examples of Environmental focus:</p> <ul style="list-style-type: none"> Climate Transition Circular Economy Future of Transport <p>Examples of Social focus:</p> <ul style="list-style-type: none"> Diversity & Inclusion Nutrition 	<p>Strategy must demonstrate the investor’s contribution to the achievement impact.</p> <p>Examples of investor contribution:</p> <ul style="list-style-type: none"> Capital directly invested in green bonds Strategic engagement leading to portfolio companies’ increased impact <p>Investment strategy not only <i>aligns</i> with the SDGs but also <i>advances</i> the SDGs.</p>

Source: BlackRock Sustainable Investing, January 2021. There is no guarantee that a positive investment outcome will be achieved. The above information is for illustrative purposes only and should not be interpreted as investment advice or recommendation. The benchmark index only excludes companies engaging in certain activities inconsistent with ESG criteria if such activities exceed the thresholds determined by the index provider. Investors should therefore make a personal ethical assessment of the benchmark index’s ESG screening prior to investing in the Fund. Such ESG screening may adversely affect the value of the Fund’s investments compared to a fund without such screening.

A broad range of sustainable strategies to meet the needs of our clients wherever they are in their sustainable journey

ESG Screened range	ESG Enhanced range	SRI range	Thematic investing	Impact investing
Eliminate exposures to companies or activities that pose certain risks or which violate an investor's values	Maximise ESG score* to a target tracking error	Gain exposure to the top ESG performers in each sector	Focus on a particular E, S or G trend	Seeks to generate a measurable sustainable outcome alongside a financial return
				
<ul style="list-style-type: none"> Core replacement with screens 7 business involvement screens Low tracking error¹ Index maintains >90% of traditional benchmark names³ Designed for investors looking to screen out controversial business areas while maintaining a profile similar to traditional benchmarks 	<ul style="list-style-type: none"> Core replacement with ESG tilt + screens 7 business involvement + very severe controversy screens Target tracking error^{1,2} 50bps DM; 100bps EM Index maintains >90% of traditional benchmark names³ 30% carbon and other greenhouse gas intensity⁴ reduction target Designed for investors building sustainable portfolios 	<ul style="list-style-type: none"> Traditional exposures with highest commitment to ESG Multiple social and environmental aligned business involvement screens⁵ + severe controversy screens Selects the top ESG-scored companies Designed for investors with the highest commitment to and conviction toward the top ESG performers 	<ul style="list-style-type: none"> Satellite exposure to global developed and emerging markets Provides access to structural economic themes (low carbon, clean energy, inclusion & diversity) Seeks to outperform over the long term Unconstrained from a traditional country or sector benchmark 	<ul style="list-style-type: none"> Satellite exposure to global bond or equity markets with a quantifiable ESG impact Seeks to generate a measurable sustainable outcome alongside a financial return Designed for long-term investors looking to drive measurable change



Sources: BlackRock, MSCI as at 31 December 2020. * ESG scores are calculated and provided by MSCI. ¹ Tracking error compared to traditional parent indices. ² Ex-ante tracking error target set within optimisation. ³ Traditional benchmarks defined as parent indices. ⁴ A combination of the carbon and other greenhouse gas emissions intensity as well as the potential carbon emissions per dollar of market capitalisation relative to the Parent Index. ⁵ 17 screens in equity strategy, 12 in fixed income. **Capital at risk.** The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested. This information should not be relied upon as research, investment advice, or a recommendation regarding any products, strategies, or any security in particular. This is for illustrative and informational purposes and is subject to change. It has not been approved by any regulatory authority or securities regulator.

Index as at 31 March 21		Standard benchmark		ESG Screened range	ESG Enhanced range	SRI range ⁴
MSCI World	# of constituents	1,586		1,496	1,493	365
	Tracking error ¹ (%)	-		0.49	0.59	1.96
	ESG score ²	6.1		6.1	7.0	7.8
	Carbon intensity ³	140		94	99	58
MSCI Emerging Markets IMI / Emerging Markets	# of constituents	EM IMI	EM	EM IMI	EM	EM
	Tracking error ¹ (%)	3,075	1,392	2,961	1,312	184
	ESG score ²	-	-	0.60	1.12	5.87
	Carbon intensity ³	4.9	5.0	5.0	5.9	6.8
MSCI EMU	# of constituents	238		227	226	48
	Tracking error ¹ (%)	-		0.71	0.65	3.22
	ESG score ²	7.2		7.4	7.7	8.5
	Carbon intensity ³	172		144	121	100
MSCI Europe	# of constituents	434		413	412	109
	Tracking error ¹ (%)	-		0.88	0.75	2.51
	ESG score ²	7.3		7.5	7.9	9.0
	Carbon intensity ³	141		123	103	64
MSCI USA	# of constituents	621		582	580	127
	Tracking error ¹ (%)	-		0.52	0.55	2.61
	ESG score ²	5.7		5.7	6.3	7.4
	Carbon intensity ³	135		83	94	56
MSCI Japan	# of constituents	301		292	292	63
	Tracking error ¹ (%)	-		0.54	0.60	2.73
	ESG score ²	6.1		6.1	6.6	7.7
	Carbon intensity ³	78		67	60	51
	Exclusions	Nil		Civilian Firearms, Controversial Wpns, Nuclear Wpns, Oil Sands, Thermal Coal, Tobacco, UN Global Compact Violators	Civilian Firearms, Controversial Wpns, Nuclear Wpns, Oil Sands, Thermal Coal, Tobacco, UN Global Compact Violators	Alcohol, Adult Entertainment, Civilian Firearms, Controversial Wpns, Conventional Wpns, Gambling, Genetically Modified Organisms, Nuclear Wpns, Nuclear Power, Tobacco, Thermal Coal, Oil Sands, Unconventional Oil & Gas, Conventional Oil & Gas, Oil & Gas Power Generation, Thermal & Oil Sands Reserves

Sources: BlackRock, MSCI as at 31 March 2021. ¹ Tracking error compared to traditional parent indices and is the average since index inception. ² MSCI Weighted Average ESG Score. ³ MSCI Weighted Average Carbon Intensity measured by metric tons of carbon emissions per million dollars of revenue. ⁴ Data shown is for the MSCI SRI Select Reduced Fossil Fuels Index equity range only. **Capital risk.** The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested. This information should not be relied upon as research, investment advice, or a recommendation regarding any products, strategies, or any security in particular. This is for illustrative and informational purposes and is subject to change. It has not been approved by any regulatory authority or securities regulator. The environmental, social and governance ("ESG") considerations discussed herein may affect an investment team's decision to invest in certain companies or industries from time to time. Results may differ from portfolios that do not apply similar ESG considerations to their investment process.

ESG integration in index strategies

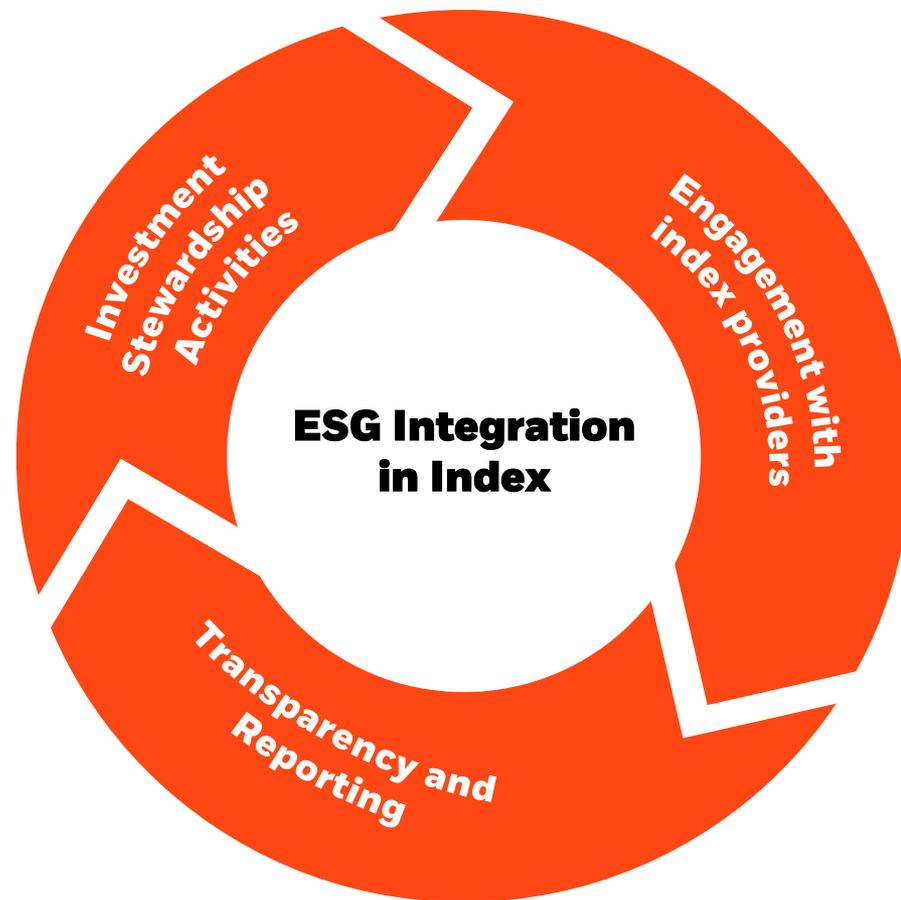
ESG integration is relevant for all asset classes and styles of portfolio management, including index strategies.

Index portfolios differ from others in that they are managed with a focus on minimizing the performance tracking difference versus an underlying index.

The composition of the index is the responsibility of the index provider, and the portfolio manager seeks to provide investors with exposure to the constituents of that index.

As part of our commitment toward making sustainability our standard, we will continue to develop a sustainable alternative for all flagship index products where these alternatives do not already exist

Source: BlackRock Sustainable Investing, January 2021



Stewardship is how we use our voice as an investor

BlackRock's Investment Stewardship team engages with companies to help drive long-term sustainable growth for our investors.

Sustainable growth topics include providing constructive feedback to companies as they manage their transition to a low-carbon economy, recommending TCFD and SASB-aligned corporate reporting and identifying and managing climate risk in company operations, to support long-term value creation.

Engaging with companies as they make progress on their climate commitments

Example: Royal Dutch Shell (UK / NL)

BIS engaged with Shell as it made more aggressive carbon pledges:

- Net zero emissions by 2050
- Reducing the Net Carbon Footprint of energy products by ~65% by 2050 (up from a previous target of around 50%)

Voting against management when companies show insufficient progress

Example: Daimler AG (Germany)

BIS voted against Daimler's management when the company published disclosures that did not align with the TCFD framework:

- Daimler subsequently edited and republished reporting that mapped to the TCFD framework

Engaging and voting against non-sustainable business practices

Example: Fortum (Finland)

BIS voted against Fortum's management after the acquisition of a company with substantial coal usage and carbon intensity:

- We believe this behaviour puts our client assets at risk and is at odds with the goals of the Paris Agreement.

Source: BlackRock, January 2021. Reference to the names of each company mentioned in this communication is merely for explaining the engagement and should not be construed as investment advice or investment recommendation of those companies. For illustrative purposes only. This is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or financial product or to adopt any investment strategy

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