Sustainable investing: an index approach

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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.

Investment conviction

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

Thesis 1 – asset prices and portfolio risks do not fully reflect sustainability-related factors

Innovation is a huge driver in reducing carbon emissions. Investor sentiment in this regard is changing too and this will impact valuations.

Thesis 2 – market factors will accelerate a reallocation of capital towards issuers and assets with positive sustainability characteristics, in turn impacting valuation.

Blackrock's sustainable platform

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

We use a variety of investment approaches – depending on the degree of sustainability investors want to include in their portfolios.

We provide the largest suite of sustainable exchange traded funds (ETFs), both in terms of size and scale. We do this because we want to democratise access by working with a number of index providers to provide ease of access and choice.

We distinguish between two motivational buckets: *avoid* and *advance*

Avoid – this includes divestment strategies. We exclude companies that benefit from controversial activities.

Advance – this includes a variety of strategies with different levels of ESG (environmental, social and governance) factors:

- Broad strategies – these include strategies with an explicit ESG objective
- Thematic – these capitalise on transformative industry or societal trends
- Impact – strategies that are strict and regulated and seek to generate a measurable sustainable outcome alongside a financial return.

Strategies

Our objective is to meet the needs of clients wherever they are in their sustainable investment journey. These are our different ranges:

ESG Screened range – these are essentially from the avoid bucket mentioned above. The range includes exclusionary strategies that eliminate exposure to companies or activities that pose certain risks or which violate an investor's values. This is the entry point for clients looking for sustainable investments. The range stays close to benchmark – the index maintains more than 90% of the traditional benchmark names. It's ultimately designed for investors looking to screen out controversial business areas while maintaining a profile similar to traditional benchmarks.

ESG Enhanced range – Again, the index maintains more than 90% of the traditional benchmark names. It's designed for investors building sustainable portfolios and aims for a 30% carbon and other greenhouse gas intensity reduction target.

Socially responsible investing (SRI) range – This is the strictest of the three ranges and provides exposure to the top ESG performers in each sector. For example, the MSCI has over 1500 constituents, but using our baseline exclusion this reduces the number of companies by just 90, which is only around 6.1% of the market capitalisation. It's not much but it gives us a carbon emission reduction of 33% which is substantial.

Thematic investing – Provides satellite exposure to global developed and emerging markets, together with access to structural economic themes such as clean energy, inclusion & diversity.

Impact investing – Provides satellite exposure to global bond or equity markets with a quantifiable ESG impact and is designed for long-term investors looking to drive measurable change.

ETFs provide a cost-efficient way of investing and now we're also able to meet the sustainability objectives of investors at the same time.

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