BlackRock

Sustainable Finance Disclosure Regulation

EU entity level sustainability risk disclosure

Introduction

The statement is based on the requirements as set out in the Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (SFDR) specifically relating to the integration of sustainability risks.

This statement describes and details how the below listed financial market participants and financial advisers assess and integrate sustainability risk information into their investment processes and advisory services. Furthermore, it outlines the approach and oversight mechanisms used to monitor the integration approach.

Definitions

"**Advisers**" means those persons within the relevant entity providing regulated investment advice to clients by making recommendations in relation to specific financial instruments either presented as suitable or based on consideration of a client's specific circumstances

"**Portfolio Managers**" means those persons within the relevant entity to whom day to day responsibility for managing a Product has been allocated.

"**Product**" means funds and separate account portfolios.

BlackRock's approach to sustainable investing and ESG integration

Environmental, Social and Governance (ESG) investing is often conflated or used interchangeably with the term "sustainable investing." We see sustainable investing as describing the investment process and ESG as a data toolkit for identifying and informing investment decisions made as part of that process. It is important to note that ESG integration is distinct from the development of sustainable products – which focus on providing a financial outcome alongside or through a stated sustainability related objective.

BlackRock defines ESG integration as the practice of incorporating material environmental, social, and governance (ESG) data and insights into investment decision-making, alongside traditional financial information, with the objective of improving the long-term financial outcomes of portfolios. Unless otherwise stated in Product documentation or included within the Product's investment objective, consideration of sustainability risk does not imply

Scope

This statement applies to the following BlackRock legal entities (BlackRock) which are deemed financial market participants and financial advisers:

BlackRock Asset Management Deutschland AG
(Legal Identity Identifier: 549300NFJRUOWRTZM703)

BlackRock Asset Management Ireland Limited
(Legal Identity Identifier: 5493004330BCAPB3GT42)

BlackRock (Netherlands) B.V. [1]
(Legal Identity Identifier: 549300NYKTM6QSCOOL42)

BlackRock France S.A.S [1]
(Legal Identity Identifier: 549300J8EENG40ZIIN89)

BlackRock Investment Management (Dublin) Limited [1]
(Legal Identity Identifier: 549300K54WGVFVNLSJ55)

BlackRock (Luxembourg) S.A.
(Legal Identity Identifier: 549300M5A8STIRLYM684)

[1] These legal entities are also deemed financial advisers

that a Product has an ESG-aligned investment objective, but rather describes how sustainability risk information is considered as part of the overall investment process.

Our integration program provides a structured approach for Portfolio Managers and Advisers to assess on an ongoing basis whether and how sustainability-related market considerations impact materiality of risk or relative pricing of specific assets within a sector or portfolio and enable them to respond to this information in the context of their investment process. We consider sustainable performance drivers can be as relevant in traditional investment portfolios as in portfolios with a sustainable objective.

BlackRock has remuneration policies which are aligned with and promote sound and effective risk management, and discourage excessive risk taking. In accordance with SFDR, these remuneration policies have been updated to integrate sustainability risk.

BlackRock believes that an investee company's management of ESG factors can have a material impact on its long-term financial performance. Therefore, our investment conviction is that sustainability-related data and information provides increasingly important insights to help identify unpriced risks and opportunities within investment portfolios. As a result, we actively integrate sustainability risk into our investment and risk management approaches. For more information on BlackRock's firmwide approach to ESG integration, please refer to the Firmwide ESG Integration Statement.

Description of sustainability risks

BlackRock is committed to putting sustainability at the centre of its investment process, based on the belief that sustainability risk, including climate risk, is investment risk, and that sustainability-integrated portfolios provide the best opportunity for performance over the long term. BlackRock's approach to sustainable investing is built on a two-part investment thesis, which reflects the firm's view of changing asset valuations and portfolio risks – both in the immediate as well as the medium-to-long term: first, asset prices and portfolio risks do not yet fully reflect a broad set of sustainability-related considerations. Second, the market is at the front end of a significant reallocation of capital towards sustainable investing, which will result in a flow of capital towards issuers and assets with positive sustainability characteristics (and away from those with negative characteristics). This in turn will also impact the relative pricing of risk and assets in portfolios.

We consider sustainability risk as an inclusive term to designate investment risk (probability or uncertainty of occurrence of material losses relative to the expected return of an investment) that relates to Environmental, Social or Governance issues. Our sustainability investment thesis focuses on four high-level sustainability risks further defined below. These are only examples of sustainability risk factors and do not solely determine the risk profile of the investment. The relevance, severity, materiality and time horizon of these factors can differ significantly by Product.

1. **Physical climate risk**: The risk associated with the physical impacts due to climate change. Physical risk arises from the physical effects of climate change, acute or chronic. For example, frequent and severe climate-related events can impact products and services, and supply chains.
2. **Climate transition risk**: Whether policy, technology, market or reputation risk arises from the adjustment to a low-carbon economy in order to mitigate climate change.
3. **Stakeholder management risk**: A broad range of positive and negative factors, traditionally considered "non-financial" that can impact an issuer's operational effectiveness and resilience as well as its public perception, and social license to operate. Examples can include but are not limited to labor rights and community relations.
4. **Governance risk**: Governance related risks can include but are not limited to risks around board independence, ownership & control, or audit & tax management.

Sustainability risk can manifest itself through different existing risk types (including, but not limited to, market, liquidity, concentration, credit, asset-liability mismatches etc). By way of example, a fund may invest in the equity or debt of an issuer that could face potentially reduced revenues or increased expenditures from physical climate risk (e.g. decreased production capacity due to supply chain perturbations, lower sales due to demand shocks or higher operating or capital costs) or transition risk (e.g. decreased demand for carbon-intensive products and services or increased production costs due to changing input prices). Alternatively, a company may face potentially increased expenditures from physical risk (e.g. higher operating or capital costs) or transition risk (e.g. increased production costs due to changing input prices and output requirements). A company may face potentially reduced capital and collateral from physical risk (e.g. reduced value of household and firms' assets both through direct damage, write-offs) or transition risk (e.g. repricing of stranded fossil fuel assets, changes in real estate valuations due to stricter energy efficiency standards). All of these listed potential risks would either impact the company's capacity to generate enough income to service its obligations or may interrupt its ability to perform daily operations. Sustainability risk factors such as these may have a material impact on an investment held in a Product, may increase volatility and may result in a loss to the value of units in a Product.

Description of ESG integration

Each sustainability risk assessment is specific to the asset class and to the Product's objectives. Different asset classes may utilise different data and tools to apply heightened scrutiny, assess materiality, and make meaningful differentiation among issuers and assets. All risks are considered and actively risk managed concurrently, by prioritizing them based on their materiality and on the Product's objective, as well as ensuring that the risk taking is deliberate, diversified and scaled. In order to manage portfolios against sustainability risks and opportunities, we structure our ESG integration efforts around three main themes:

1. **Material insights**
2. **Investment processes**
3. **Transparency**

These pillars drive ESG integration at BlackRock, and we support them by equipping our employees with useful ESG data, tools, education and a risk framework which incorporates sustainability risk alongside other investment risks.

1. **Material insights**

BlackRock Portfolio Managers access material sustainability insights through analysis from our Research teams coupled with third-party data and research through Aladdin, BlackRock's core risk management and investment technology platform. This data ranges from broad ESG scores and rankings to indicators of physical climate risk, reputational risk or employee sentiment. In addition to third party data, we have developed our own measurement tools to deepen our portfolio managers' understanding of material sustainability risks which are identified through a dynamic and iterative dialogue amongst portfolio managers, research analysts, sustainability teams and risk managers. Our materiality-based ESG assessment capability leverages a research-based quantitative/qualitative methodology to provide a backward- and forward-looking assessment of material ESG key performance indicators including sustainability risks.

2. **Investment process**

Sustainability risks are identified at various steps of the investment process, where relevant, from research, allocation, selection, portfolio construction decisions, or management engagement, and are considered relative to the funds' risk and return objectives. Assessment of these risks is done relative to their materiality (i.e. likeliness of impacting returns of the investment) and in tandem with other risk assessments (e.g. liquidity, valuation, etc.). How sustainability considerations are sourced, assessed, and incorporated will vary with portfolio objective, investment style, and asset class. BlackRock has developed a principles-based program that provides the structure, governance, and tools that enable investment teams to have ownership over their ESG integration approach, while ensuring alignment to a central governance framework. Our investment professionals assess a variety of economic and financial indicators, including material ESG factors, to make investment decisions that align with the Product objectives. Products' exposure to material sustainability risks are primarily managed by portfolio managers who are accountable and act as the first line of defence. See Transparency section for more information around where we disclose information around each investment team's approach.

Below is a summary, for illustrative purposes, of different ways teams incorporate sustainability considerations into the investment processes by management style:

- **For actively managed strategies** (including where BlackRock provides regulated investment advice): The Portfolio Manager or Advisor includes ESG considerations in combination with other information in the research phase of the investment process. This may include relevant third-party insights, as well as internal engagement commentary and input from BlackRock Investment Stewardship on engagement activities. The Portfolio Manager or Advisor conducts regular portfolio reviews with the Risk and Quantitative Analysis group and with the Chief Investment Officers. These reviews include discussion of the portfolio's exposure to material ESG risks, as well as exposure to sustainability-related business involvements, climate-related metrics, and other factors.
- **For open architecture product strategies** (including where BlackRock provides regulated investment advice): The Portfolio Manager or Advisor conducts assessments for all third-party active managers as part of an approval process: this assessment considers whether the third-party managers have dedicated ESG resources or use internal ESG data, as well as the degree to which ESG is fully integrated into the investment process. For equity managers, the Portfolio Manager or Advisor also considers the strength of investment stewardship capabilities. The assessment results in an internal manager specific ESG rating based on the level of ESG integration. The Portfolio Manager or Advisor considers these ratings when selecting new active managers. The Portfolio Manager or Advisor includes ESG criteria in Portfolio Construction Review meetings. The Portfolio Manager or Advisor reviews internal manager ESG ratings in periodic manager research reviews. The Portfolio Manager or Advisor conducts regular portfolio risk reviews between the investment team and BlackRock's Risk and Quantitative Analysis group. These reviews include discussion of portfolio exposure to material ESG risks.
- **For index strategies**: Index Products are managed with a focus on minimizing the performance tracking difference versus an underlying index. While our index platform offers Products with sustainability objectives, which have either the objective to avoid certain issuers or gain exposure to issuers with better ESG ratings, an ESG theme, or to generate positive environmental or social impact, BlackRock also manages Products that do not have these explicit sustainability objectives. For these Products, ESG integration includes ongoing: i) engagement with index providers, ii) transparency and reporting of sustainability characteristics or business involvement at the product level, iii) Investment Stewardship activities.
- **For direct private market strategies**: The Portfolio Manager includes ESG information, where relevant or available in the 1) initial research and screening, 2) due diligence, 3) investment committee and approval, and 4) monitoring phases of the investment process. This includes thematic ESG information sourced from primary sources, which is included in the underwriting process, and the use of proprietary ESG due diligence questionnaire to identify, analyse and document ESG matters and to inform commentary for the Investment Committee. This information is used by the Investment Committee when reviewing and approving an investment opportunity. The portfolio manager considers ESG criteria during post-investment monitoring and conducts regular portfolio risk reviews between the investment team and BlackRock's Risk and Quantitative Analysis group. These reviews include discussion of portfolio exposure to material environmental, social and governance risks.

3. **Transparency**

BlackRock discloses ESG risk integration practices at the team or platform level as well as for each unique investment strategy through a series of integration statements. Investment strategy level integration statements are publicly available on product pages for retail funds where permitted by law/regulation. These statements are supplemented with portfolio-level ESG scores and carbon footprints, among other sustainability characteristics. This additional set of information is publicly available so current and prospective investors and investment advisers can view sustainability-related information for a Product and in turn, they can make informed decisions when choosing to invest in certain products. Additionally, and in accordance with SFDR, more information regarding sustainability related risks can be found in the prospectus for each Fund. This information is also available to BlackRock's investment teams to inform the investment advice they provide to clients. Relevant sustainability risks vary by product and may result in a material negative impact on its value and financial performance. Refer to product specific disclosures for more information on relevant sustainability risks for a fund.