

# Sustainability as BlackRock's New Standard for Investing

Dear Client,

Since BlackRock's founding in 1988, we have worked to anticipate our clients' needs to help you manage risk and achieve your investment goals. As those needs have evolved, so too has our approach, but it has always been grounded in our fiduciary commitment to you.

Over the past few years, more and more of our clients have focused on the impact of sustainability on their portfolios. This shift has been driven by an increased understanding of how sustainability-related factors can affect economic growth, asset values, and financial markets as a whole.

The most significant of these factors today relates to climate change, not only in terms of the physical risk associated with rising global temperatures, but also transition risk – namely, how the global transition to a low-carbon economy could affect a company's long-term profitability. As Larry Fink writes in his [2020 letter to CEOs](#), the investment risks presented by climate change are set to accelerate a significant reallocation of capital, which will in turn have a profound impact on the pricing of risk and assets around the world.

As your fiduciary, BlackRock is committed to helping you navigate this transition and build more resilient portfolios, including striving for more stable and higher long-term returns. Because sustainable investment options have the potential to offer clients better outcomes, we are making sustainability integral to the way BlackRock manages risk, constructs portfolios, designs products, and engages with companies. **We believe that sustainability should be our new standard for investing.**

Over the past several years, we have been deepening the integration of sustainability into technology, risk management, and product choice across BlackRock. We are now accelerating those efforts in the following ways.

## Sustainable, Resilient, and Transparent Portfolios

Resilient and well-constructed portfolios are essential to achieving long-term investment goals. Our investment conviction is that sustainability-integrated portfolios can provide better risk-adjusted returns to investors. And with the impact of sustainability on investment returns increasing, we believe that sustainable investment will be a critical foundation for client portfolios going forward.

- **Sustainability as Our Standard Offering in Solutions** – BlackRock manages a wide variety of investment solutions that combine different funds to help investors achieve their investment objectives. We intend to make sustainable funds the standard building blocks in these solutions wherever possible, consistent with client preferences and any applicable regulations such as ERISA. All aspects of this approach will be executed over time and in consultation with our clients, and we are committed to offering these sustainable solutions at fees comparable to traditional solutions.
- This year we will begin to offer sustainable versions of our flagship model portfolios, including our Target Allocation range of models. These models will use environmental, social, and governance (ESG)-optimized index exposures in place of traditional market cap-weighted index exposures. Over time, we expect these sustainability-focused models to become the flagships themselves.
- We also plan to launch sustainable versions of our asset allocation iShares this year, in order to provide investors with a simple, transparent way to access a sustainable portfolio at good value in a single ETF.

- Many more steps will follow to make sustainable investments the standard. For example, we are working to develop a sustainable LifePath target date strategy, which would provide investors with an all-in-one, low-fee, sustainable retirement solution, and we are working to expand our sustainable cash offerings as well.
- **Strengthening Sustainability Integration into the Active Investment Processes** – Currently, every active investment team at BlackRock considers ESG factors in its investment process and has articulated how it integrates ESG in its investment processes. By the end of 2020, all active portfolios and advisory strategies will be fully ESG integrated – meaning that, at the portfolio level, our portfolio managers will be accountable for appropriately managing exposure to ESG risks and documenting how those considerations have affected investment decisions. BlackRock’s Risk and Quantitative Analysis Group (RQA), which is responsible for evaluating all investment, counterparty, and operational risk at the firm, will be evaluating ESG risk during its regular monthly reviews with portfolio managers to provide oversight of portfolio managers’ consideration of ESG risk in their investment processes. This integration will mean that RQA – and BlackRock as a whole – considers ESG risk with the same rigor that it analyzes traditional measures such as credit and liquidity risk.
- **Reducing ESG Risk in Active Strategies** – In heightening our scrutiny on ESG issues, we are continuously evaluating the risk-return profile and negative externalities posed by specific sectors as we seek to minimize risk and maximize long-term return for our clients. Today, we have no exposure through our \$1.8 trillion in active AUM to public debt or equity in certain sectors with heightened ESG risk, such as controversial weapons systems manufacturers. We continue to evaluate, in both our public and private investment portfolios, high-risk sectors that are exposed to a reallocation of capital, and we will take action to reduce exposures where doing so can enhance the risk-return profile of portfolios.
- **Exiting Thermal Coal Producers** – Thermal coal production is one such sector. Thermal coal is significantly carbon intensive, becoming less and less economically viable, and highly exposed to regulation because of its environmental impacts. With the acceleration of the global energy transition, we do not believe that the long-term economic or investment rationale justifies continued investment in this sector. As a result, we are in the process of removing from our discretionary active investment portfolios the public securities (both debt and equity) of companies that generate more than 25% of their revenues from thermal coal production, which we aim to accomplish by the middle of 2020. As part of our process of evaluating sectors with high ESG risk, we will also closely scrutinize other businesses that are heavily reliant on thermal coal as an input, in order to understand whether they are effectively transitioning away from this reliance. In addition, BlackRock’s alternatives business will make no future direct investments in companies that generate more than 25% of their revenues from thermal coal production.
- **Putting ESG Analysis at the Heart of Aladdin** – We have developed proprietary measurement tools to deepen our understanding of material ESG risks. For example, our Carbon Beta tool allows us to stress-test issuers and portfolios for different carbon pricing scenarios. In 2020 we will continue to build additional tools, including one to analyze physical climate risks and one that produces material investment signals by analyzing the sustainability-related characteristics of companies. We are integrating these measurements into Aladdin, our risk management and investment technology platform.
- **Enhancing Transparency of Sustainable Characteristics for All Products** – We want investors to be able to clearly see the sustainability risks of their investments. We already provide data on our website for iShares that display an ESG score and the carbon footprint of each fund, among other measurements. By the end of 2020, we intend to provide transparent, publicly available data on sustainability characteristics – including data on controversial holdings and carbon footprint – for BlackRock mutual funds. We will seek to make this information available to all of our clients, including those in separate accounts.

## Increasing Access to Sustainable Investing

We want to make sustainable investing more accessible to all investors and lower the hurdles for those who want to act. We **have advocated** for clear and consistent naming conventions for ESG products across the industry, so that investors can make informed decisions when they invest in a sustainably labeled fund. We have been working to improve access for several years – for example, by building the industry’s largest suite of ESG ETFs, which has allowed many more individuals to more easily invest sustainably. And we are committed to doing even more:

- **Doubling Our Offerings of ESG ETFs** – We intend to double our offerings of ESG ETFs over the next few years (to 150), including sustainable versions of flagship index products, so that clients have more choice for how to invest their money.
- **Simplifying and Expanding ESG iShares, Including ETFs with a Fossil Fuel Screen** – In addition to more choice, clients have asked for a simpler way to integrate ESG in their existing portfolios. To meet that need, we will have three ESG ETF suites in the US and EMEA: one that enables clients to screen out certain sectors or companies that they do not want to invest in; one that enables clients to improve ESG scores meaningfully while still optimizing their ability to closely track market-cap weighted indexes; and one that enables clients to invest in companies with the highest ESG ratings and features our most extensive screens including one for fossil fuels. We will be providing additional information on these product lines later this quarter.

- **Working with Index Providers to Expand and Improve the Universe of Sustainable Indexes** – To provide more sustainable investment options for our clients – and all investors – we are engaging with major index providers to provide sustainable versions of their flagship indexes. We also will continue to work with them to promote greater standardization and transparency of sustainability benchmark methodology. We believe that ESG benchmarks should exclude businesses with high ESG risk such as thermal coal and we are engaging with index providers on this topic.
- **Expanding Sustainable Active Investment Strategies** – BlackRock will be expanding our range of active strategies focused on sustainability as an investment outcome, including funds focused on the global energy transition, and impact investing funds that seek to promote positive externalities or limit negative ones.
  - **Global Energy Transition** – BlackRock currently manages \$50 billion in solutions that support the transition to a low-carbon economy, including an industry-leading renewable power infrastructure business, which invests in the private markets in wind and solar power; green bond funds; LEAF, the industry's first environmental sustainability-focused cash management strategy; and circular economy active strategies, which invest in businesses focused on minimizing waste and leveraging the full life cycle of materials. We will be expanding dedicated low-carbon transition-readiness strategies, offering investors exposure to the companies that are most effectively managing transition risk.
  - **Impact Investing** – BlackRock recently brought on board a leading impact investing team that offers clients alpha through a portfolio of companies chosen on their measurable, positive impact to society. We are committing to launching dedicated impact investing solutions, beginning with the launch of our Global Impact Equity fund this quarter. Our impact investing solutions will be aligned with the World Bank's IFC Operating Principles for Impact Management.

## Enhancing Engagement, Voting, and Transparency in Stewardship

Investment stewardship is an essential component of our fiduciary responsibility. This is particularly important for our index holdings on behalf of clients, in which we are essentially permanent shareholders. We have a responsibility to engage with companies to understand if they are adequately disclosing and managing sustainability-related risks, and to hold them to account through proxy voting if they are not. We have been engaging with companies for some time on these issues, as reflected in our engagement priorities. As in other areas of our investment functions, our investment stewardship team is intensifying its focus and engagement with companies on sustainability-related risks.

- **Joining Climate Action 100+** – BlackRock believes that collaboration between investors, companies, regulators, and others is essential to improving the management of sustainability questions. We are a founding member of the Task Force on Climate-related Financial Disclosures (TCFD), and a signatory to the UN's Principles for Responsible Investment. BlackRock recently joined Climate Action 100+, and prior to joining, BlackRock was a member of the group's five sponsoring organizations. Climate Action 100+ is a group of investors that engages with companies to improve climate disclosure and align business strategy with the goals of the Paris Agreement.
- **Engagement Priorities and Voting Guidelines** – Each year we refresh our engagement priorities and voting guidelines. This year, we will be mapping our engagement priorities to specific UN Sustainable Development Goals, such as Gender Equality and Affordable and Clean Energy. We will also be incorporating key performance indicators in our engagement policies, providing clarity on our expectations for companies.
- **Transparency** – We are committed to enhancing the transparency of our stewardship practices, which we believe we owe to our clients and the broader set of stakeholders in these companies.
  - Starting this quarter, we will be moving from annual to quarterly voting disclosure.
  - On key high-profile votes, we will disclose our vote promptly, along with an explanation of our decision.
  - Finally, we will enhance the disclosure of our company engagements by including in our stewardship annual report the topics we discussed during each engagement with a company.
- **Voting on Sustainability Proposals** – We have engaged with companies on sustainability-related questions for several years, urging management teams to make progress while also deliberately giving companies time to build the foundations for disclosure consistent with the Sustainability Accounting Standards Board (SASB) and TCFD. We are asking companies to publish SASB- and TCFD-aligned disclosures, and as expressed by the TCFD guidelines, this should include the company's plan for operating under a scenario where the Paris Agreement's goal of limiting global warming to less than two degrees is fully realized. Given the groundwork we have already laid and the growing investment risks surrounding sustainability, we will be increasingly disposed to vote against management when companies have not made sufficient progress.

## A fundamental reshaping of finance

Climate change is driving a profound reassessment of risk and we anticipate a significant reallocation of capital.

> [Read Larry's letter to CEOs](#)



## Our Commitment

**Our role as a fiduciary is the foundation of BlackRock's culture. The commitments we are making today reflect our conviction that all investors – and particularly the millions of our clients who are saving for long-term goals like retirement – must seriously consider sustainability in their investments.**

We invest on your behalf, not our own, and the investments we make will always represent your preferences, timelines, and objectives. We recognize that many clients will continue to prefer traditional strategies, particularly in market-cap weighted indexes. We will manage this money consistent with your preferences, as we always have. The choice remains with you.

As we move to a low-carbon world, investment exposure to the global economy will mean exposure to hydrocarbons for some time. While the low-carbon transition is well underway, the technological and economic realities mean that the transition will take decades. Global economic development, particularly in emerging markets, will continue to rely on hydrocarbons for a number of years. As a result, the portfolios we manage will continue to hold exposures to the hydrocarbon economy as the transition advances.

A successful low-carbon transition will require a coordinated, international response from governments aligned with the goals of the Paris Agreement, including the adoption of carbon pricing globally, which we continue to endorse. Companies and investors have a meaningful role to play in accelerating the low-carbon transition. BlackRock does not see itself as a passive observer in the low-carbon transition. We believe we have a significant responsibility – as a provider of index funds, as a fiduciary, and as a member of society – to play a constructive role in the transition.

Where we have the greatest discretion – in portfolio construction, our active and alternatives platforms, and our approach to risk management – we will employ sustainability across our investment process. Where we serve index clients, we are improving access to sustainable investment options, and we are enhancing our stewardship to make sure that companies in which our clients are invested are managing these risks effectively. We will also work with a broad range of parties – including asset owners, index providers, and regulatory and multilateral institutions – to advance sustainability in finance.

The steps we are taking today will help strengthen our ability to serve you as a fiduciary. Sustainability is becoming increasingly material to investment outcomes, and as the global leader in investment management, our goal is to be the global leader in sustainable investing. If you have questions about these actions, or if you would like to arrange a portfolio review to understand any potential implications for the assets we manage on your behalf, our relationship managers and product strategists are at your disposal. We are grateful for the trust you place in us.

Sincerely,

**BlackRock's Global Executive Committee**

- Laurence D. Fink, Chairman and Chief Executive Officer
- Robert S. Kapito, President
- Geraldine Buckingham, Head of Asia Pacific
- Edwin N. Conway, Global Head of BlackRock Alternative Investors
- Frank Cooper III, Chief Marketing Officer
- Robert W. Fairbairn, Vice Chairman
- Robert L. Goldstein, Chief Operating Officer & Global Head of BlackRock Solutions
- Ben Golub, PhD, Chief Risk Officer
- Philipp Hildebrand, Vice Chairman
- J. Richard Kushel, Head of Multi-Asset Strategies and Global Fixed Income
- Rachel Lord, Head of Europe, Middle East and Africa
- Mark S. McCombe, Chief Client Officer
- Christopher J. Meade, Chief Legal Officer
- Manish Mehta, Global Head of Human Resources
- Barbara G. Novick, Vice Chairman
- Salim Ramji, Global Head of iShares and Index Investments
- Gary S. Shedlin, Chief Financial Officer
- Derek N. Stein, Global Head of Technology & Operations
- Mark K. Wiedman, Head of International and of Corporate Strategy

## Where we stand



### Corporate sustainability

We put an unwavering focus on long-term sustainability and ensure it's embedded across our entire business.

> [Learn more](#)



### Investment stewardship

We engage with companies to inform our voting and promote sound corporate governance that is consistent with sustainable, long-term value creation.

> [Learn more](#)