

Transparency policy for BGF Impact Bond Fund

A sub-fund of BlackRock Global Funds

For use with professional, institutional, and qualified investors/professional clients.

December 2022

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RETH0722E/S-2269197-1/14
RETH0423E/S-2834931-1/14

MKTGM0523E/S-2881814-1/14

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Investment Objective

Investment Objective

The Impact Bond Fund seeks to achieve capital growth and income over the long term (at least five consecutive years) by investing in a Global portfolio of fixed income instruments which have a positive social and/or environmental impact. At least 80% of its total assets in “impact” investments which are those made with the intention to generate positive, measurable social and/or environmental impact alongside a financial return. Impact investments are defined as those that advance the UN SDGs. Each impact investment must be Material (actively advances one or more of the UN SDGs), Additional (targets areas which would otherwise be underinvested), and Measurable (impact must be quantifiable).

(Please refer to prospectus for full investment objective (available on the product website).

Investment Team

The impact investing universe in fixed income has developed significantly in size and diversification across sub-asset classes, sectors, regions, and impact themes. The Portfolio Managers (PMs) leverage a proprietary impact universe spanning green, social and sustainable (GSS) bonds, impact mortgages, impact municipals and impact companies. The portfolio management team offers extensive experience (average of 18 years industry-experience) in managing multi-sector and sustainable fixed income portfolios, combining impact expertise from across BlackRock’s platform. The Fund is managed in collaboration between the Global and Euro FFI teams, under the leadership of Rick Rieder and Michael Krautzberger. The wider research platform provides deep expertise in ESG research, impact security selection and return-enhancing strategies.

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Key elements of our sustainability approach:

Investment Strategy

The BGF Impact Bond Fund is a flagship impact solution for BlackRock, seeking to achieve capital growth and income over the long term by investing in a global portfolio of fixed income instruments which have a positive social and/or environmental impact.

The Fund invests with a dual objective, seeking to deliver financial return while advancing the UN Sustainable Development Goals (SDGs). We leverage a proprietary impact universe spanning GSS bonds, impact mortgages, impact municipals and impact companies. The Fund will allocate a minimum of 80% (typically higher) to impact investments and is managed against the ICE Green, Social and Sustainable Bond Index, EUR hedged.

While most competitors focus on one element of green or social bonds, few have such a broad approach to Impact, including a range of asset classes such as impact municipals and impact mortgages, as well as green, social and sustainable bonds. The BGF Impact Bond Fund aims to combine the strengths of each competitor by providing a global multi-sector, flexible fund which applies proprietary impact research within an alpha-seeking framework. We do so with a team with strong and deep expertise across ESG, impact research, macro and credit strategies.

How do we do this?

The BlackRock Global Fixed Income (GFI) ESG Investment team monitors achievement of impact bond investments, which is a crucial part of the ongoing investment management of the portfolio. First, the investment team analyses how proceeds of the capital raised through GSS bonds, Impact MBS and Impact Municipal bonds will be used. Investments which lack transparency or fail to meet the required standards for impact are omitted from the investment universe.

For the selection of GSS bonds, the team will analyse the use of proceeds of the issues and the issuer framework for alignment of the bonds with the Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG) of the International Capital Markets Association to determine suitability within the investment universe. The investment universe of GSS bonds is internally created, screening bonds using BlackRock's proprietary taxonomy described below. Bonds are assessed based on their level of impact on the United Nations Sustainable Development Goals ("UN SDGs"). Additionally, our aim is to contribute to the development of the GSS bond market by encouraging new issuance of GSS bonds and helping to provide the capital needed to drive sustainable growth, whilst mitigating against the risks of greenwashing.

Our proprietary green and social bond taxonomies expand on a binary 'impact' classification, differentiating investment opportunities based on the level of impact delivered by financed projects. This enables portfolio managers to focus on those investments which we believe deliver the greatest impact. We believe that not all GSS bonds are equal; our taxonomies help safeguard the green and social labels that are assigned to bonds.

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Green bonds: BlackRock has developed a **proprietary green bond taxonomy** that shades each BlackRock-labelled green bond on a scale based on the bond’s intended use of proceeds, associated environmental benefits, and its issuers’ ongoing commitment to allocation and impact reporting.

Very Light Green e.g. Green Buildings (minimum standards such as LEED silver); Gas-electric hybrid vehicles	Light Green e.g. Green Buildings (lower standards such as LEED gold); Bus rapid transit (BRT)	Medium Green e.g. Green Buildings (more stringent standards such as LEED platinum)	Dark Green e.g. Renewable energy. Electric Transportation
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Source: BlackRock. As at 30 November 2022. Investment process is shown for illustrative purposes only and subject to change.

Social bonds: Our scoring methodology assigns tiering to social bonds based on the issuer intended “positive outcomes” or “impact” of the proceeds use in the real world, definition of target population and suitability of use of proceeds in global/local contexts.

Light Gold e.g. Research & Innovation for Advanced Medical Nutrition; Quality healthcare and parental support for general public	Medium Gold e.g. Social housing aiming to support people living in social and economic difficulties	Dark Gold e.g. Loans to SMEs in economically underperforming regions; Grants or lower interest rate loans to poor populations
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Source: BlackRock. As at 30 November 2022. Investment process is shown for illustrative purposes only and subject to change.

Impact MBS lending programs as those that 1) facilitate equal access to credit, 2) target historically underserved populations, and /or 3) increase the stock of sustainable housing units (both affordability and environmental aspects). Our Impact MBS framework works to source collateral that is focused on area median income levels, use of down payment assistance, and first-time or first-generation homebuyers. Our framework seeks to ensure financing of loans with these attributes through existing lending programs as well as the ongoing review of new lending programs and practices.

Impact Municipal investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Our impact municipal investments specifically focus on municipal bonds that benefit underserved communities and vulnerable populations that otherwise would have no or few alternatives. We invest in projects predominantly within education, health care, housing, mass transit, and water & sewer that provide these essential services to underserved groups/communities that are disadvantaged due to low-income, elderly age, race, gender, and lack access to essential services.

There are two areas that the Investment Manager and GFI ESG Investment Team focus on when evaluating the negative impacts of investments in impact bonds. The first is around the specified use of proceeds. Proceeds must be used as intended for an investment to maintain their impact label. BlackRock is also keen that the use of proceeds from impact investments follow globally accepted norms around do-no-significant harm (DNSH), whether that is environmental or social.

Sustainability Restrictions

Normative screening:

This strategy does not invest in companies with severe controversies concerning UNGC, ILO conventions, OECD and UNGP. Companies with a controversy case assessed as Red by MSCI, fall into this category and are screened out by this strategy.

Additionally, it should be noted that ILO and UNGP are addressed via the same UNGC Screens. This clearly states that the 10 principles of UNGC are derived from the UNGP and ILO (The Ten Principles | UN Global Compact “The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.”)

ESG assessment of sovereign issuers

The Impact Universe extends widely into sovereign bonds and these are subject to the same level of analysis as described above. Under our BlackRock Externalities Framework, the Fund will exclude all NEXT (negative externalities) exposure and focus towards PEXT (positive externalities) investments. For sovereign bonds specifically, the BlackRock Sovereign Sustainability Index (BSSI) is used, alongside MSCI ESG scores and JPM ESG scores to remove worst-in-class issuers. The BSSI is a BlackRock proprietary index that ranks sovereign debt issuers based on the country’s overall sustainability measures from an ESG perspective. This includes but is not limited to environmental considerations such as carbon emissions, social factors such as income share held by the lowest 20% of the country’s population, and governance quality such as control of corruption.

Government bonds from countries marked as 'Not Free' by Freedom House Index are also excluded.

Sector exclusions

Tobacco

The Fund excludes companies classified as producers or deriving 5% or more aggregate revenue from production, distribution, retail and supply of tobacco related products.

Weapons

The Fund exclude companies involved in weapons activities with details as follows:

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- Controversial weapons companies. Modeled after baseline screens. Cluster, anti-personnel mines and depleted uranium, chemical and biological, blinding laser, non-detectable fragments and incendiary weapons, dual-use component; dual-use delivery platforms; exclusive-use component; exclusive-use delivery platforms; components of exclusive-use delivery platforms; warheads & missiles; support services.
- Civilian firearms companies. Production and sale of civilian firearms (revenue 5% or more for retail).

Coal

GSS Bonds

The Fund is able to invest in Green and Sustainability bonds linked to the production of coal, including supply chain and services as the 'Use of Proceeds' structure of these bonds (proceeds are ring-fenced for a certain environmental project) result in a positive environmental impact and the issuer level screening with regards to coal involvement in particular will not be applicable here. Bonds must also meet do no significant harm criteria and for use of proceeds bonds this will be assessed at the issue level based on the projects financed.

Non-GSS Bonds

The Fund excludes the following companies for non-GSS bonds: Companies that derive greater than 5% revenue from the mining of thermal coal and its sale to external parties. This excludes: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading. Additionally, the fund also seeks where possible to exclude direct investment in securities of issuers with over 5% of revenue from the thermal coal value chain (including transportation, distribution, refining, dedicated equipment/services). We use MSCI data to assess revenues associated with thermal coal production, but bottom-up assessments are currently still required for evaluating thermal coal value chain. The bottom up assessment makes use of the 'Thermal Coal Any Tie' from MSCI as well as company disclosures in order to identify issuers exposed to the thermal coal value chain.

No Absolute limit is currently applied for companies expanding their Coal production, if their revenue is less than 5% from this sector, otherwise it is excluded as per the 5% revenue rule.

Further to this, we have developed our Heightened Scrutiny Framework as a means of monitoring whether a company is structurally increasing their "contributing activities" or reducing the adverse impact of their activities. We expect the issuers we invest in on our clients' behalf to be adequately managing the global transition towards a net zero economy. While many companies are energetically preparing for this evolution, others that are not adequately prepared present a risk to our clients' portfolios. As part of our heightened scrutiny framework for embedding sustainability risk into our active investment process, and using our full set of risk management tools, we will be establishing a "focus universe" of holdings that present a particularly significant climate-related risk, due to:

- High carbon intensity today
- Insufficient preparation for the net zero transition
- Low reception to our investment stewardship engagement

Where we do not see progress in this area, and in particular where we see a lack of alignment combined with a lack of engagement, we will not only use our vote against management for our index portfolio-held shares, we will also flag these holdings for potential exit in our discretionary active portfolios because we believe they would present a risk to our clients' returns.

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Unconventional oil & gas

The Fund excludes issuers deriving more than 5% of their revenue from the production and generation of tar sands (also known as oil sands) and intends to exclude *all* companies involved in unconventional oil & gas activities, subject to the 5% revenue threshold. The Fund currently holds zero exposure to such issuers with an exclusion of all other unconventional oil & gas issuers with a 10% revenue threshold (e.g. including oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane).

Conventional oil & gas

The Fund excludes issuers deriving more than 5% of their revenue from thermal coal extraction and/or thermal coal-based power generation, with the exception of “green bonds”, that are considered to comply with the International Capital Markets Association’s Green Bond Principles. The Fund intends to exclude *all* companies involved in conventional oil & gas activities, subject to the 5% revenue threshold, with the exception of “green bonds”. The Fund currently holds zero exposure to such issuers.

Power generation, including nuclear energy

The Fund excludes issuers deriving more than 5% of their revenue from thermal coal extraction and/or thermal coal-based power generation, with the exception of “green bonds”, that are considered to comply with the International Capital Markets Association’s Green Bond Principles, from such issuers.

The Investment Team has integrated into the ESG due diligence process, the monitoring and evaluation of companies involved in unconventional oil & gas activities, conventional oil & gas activities and power generation.

The Investment Team leverages research conducted by Credit Research team amongst other ESG resources. The issuers are also subject to Good Governance criteria as per SFDR requirements.

We are able to closely monitor an issuer's environmental, social and governance scores to assess whether they are on an upward/downward trajectory. Should the latter be the case, we may look to take action even before the ESG score threshold is breached.

ESG screens in further detail

Under our BlackRock Externalities Framework, the Fund will exclude all NEXT (negative externality) exposure detailed below for each sector.

Government and government-related

We use the BlackRock Sovereign Sustainability Index (BSSI) rankings to identify holdings for the framework, as well as the JP Morgan JESG Scores for EM Sovereigns. BSSI rankings are generated internally by the Global Fixed Income ESG (GFI-ESG) team on a monthly basis. Further details on with both methodologies is available on request.

All government and government-related securities are excluded on the basis of:

- BSSI Score ≤ 2.5 (scale of 1 – 10)
- United Nations (UN) Sanctions (broad arms embargo)
- JESG bottom quintile.

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Municipals

State & local bonds secured by/for:

- Correctional facilities
- Lottery
- Gaming
- Alcohol

Utility:

- Public power (high carbon issuers)

Tobacco:

- State
- Local

US CMBS

Deals with concentrations in the casino sector or other socially sensitive exposures (to be determined on case-by-case basis).

US ABS

Tobacco litigation receivables.

European securitized

RMBS/Consumer ABS:

- Signs of predatory lending.

CMBS:

- Gaming/Casino.

Corporates (IG & HY)

- **Gambling.** 5% or more revenue from gambling operations or 15% or more revenue from gambling-related business activity
- **Coal Issuers.** 5% or more of revenue from generation or mining.
- **Tobacco.** 5% or more of revenue from tobacco or a tobacco producer.
- **Controversial weapons.** Modeled after baseline screens. Cluster, anti-personnel mines and depleted uranium, chemical and biological, blinding laser, non-detectable fragments and incendiary weapons, dual-use component; dual-use delivery platforms; exclusive-use component; exclusive-use delivery platforms; components of exclusive-use delivery platforms; warheads & missiles; support services.

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- **UNGC violators.** UN Global Compact Violators²⁴ are companies that violate global norms as defined by the UN Global Compact Principles.
- **Oil sands.** Set of companies that own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction.
- **Palm oil.** Set of companies that are covered as Palm Oil Producers per SPOTT that either: - have no Palm Oil Revenue data per MSCI - have Palm Oil Revenue > 5% per MSCI and severe Environmental Controversies per MSCI.
- Names identified by BlackRock Fixed Income Credit Research as offenders against Transition to Decarbonized Energy System Theme.
- **Civilian firearms.** Production and sale of civilian firearms (revenue 5% or more for retail).
- **Red Flag controversial.** Holdings with notable controversy related to a company's operations.
- Issuances by corporate fossil names rated as climate transition laggards by BlackRock Investment Stewardship maturing >2030.
- **CCC ESG Rated Names.** Holdings rated 'CCC' by MSCI.
- **Bottom half fossil fuel names.** Holdings that rank in the bottom half of MSCI ESG scoring in the fossil fuel universe.
- **Unconventional Oil & Gas.** Revenues >10% from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane.
- **EM: Band '5' in JPM EM ESG Indices.** This is the lowest 'band' in the EM ESG universe. These are issuers in the parent JPM indices but not in the JESG indices.

Important information

Risk Warnings

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.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Fund-specific risks

BGF Impact Bond Fund

Counterparty Risk, Credit Risk, Derivatives Risk, Equity Risk, ESG Screening Risk, Liquidity Risk

Description of Fund Risks

Counterparty Risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Credit Risk

The issuer of a financial asset held within the Fund may not pay income or repay capital to the Fund when due.

Derivatives Risk

Derivatives may be highly sensitive to changes in the value of the asset on which they are based and can increase the size of losses and gains, resulting in greater fluctuations in the value of the Fund. The impact to the Fund can be greater where derivatives are used in an extensive or complex way.

Equity Risk

The value of equities and equity-related securities can be affected by daily stock market movements. Other influential factors include political, economic news, company earnings and significant corporate events.

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ESG Screening Risk

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.

Liquidity Risk

The Fund's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Fund may not be able to realise the investment at the latest market price or at a price considered fair.

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