

# Transparency policy for BIPF Sustainable Global Allocation Tailored Fund

## A sub-fund of BlackRock Institutional Pooled Funds

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

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# Investment Objective

## **BIPF Sustainable Global Allocation Tailored Fund or the “Fund”**

The investment objective of the fund is to provide high total investment return through a fully managed investment policy utilizing global equity securities, debt and money market securities, in a manner consistent with the principles of environmental, social and governance (“ESG”) focused investing, the combination of which will be varied from time to time both with respect to types of securities and markets in response to changing market and economic trends.

## **Main and additional ESG strategy**

- ESG Thematic Investments
- Best-in-class Approach
- Normative and exclusionary screening

**Main asset class:** Multi-Asset. While the Fund’s reference benchmark consists of 60% MSCI ACWI Index / 40% Bloomberg Barclays Global Aggregate Index, the benchmark itself serves as a neutral asset allocation with no ESG considerations. The Fund is unconstrained relative to the reference benchmark once ESG considerations are accounted for. The Fund’s investment universe is comprised of global equities, fixed income, cash equivalents, and currencies. The Fund may invest in individual securities, baskets of securities or particular measurements of value or rate, and may consider a variety of factors and systematic inputs.

# Sustainability Approach

## Externalities Framework:

Through BlackRock's proprietary PEXT/NEXT framework (further details below), the Fund actively seeks to tilt towards securities with positive externalities (PEXT), while screening out a comprehensive set of securities with negative externalities (NEXT) in order to establish a minimum standard of holdings in the Fund. The PEXT/NEXT framework brings together rigorous bottom-up sector work into a broad but concise infrastructure that forms the basis of our active sustainability approach, alongside active financial management.

### PEXT/NEXT framework

- There are four broad categories in which names are bucketed:
  - **PEXT (positive externalities)** – issuers that are highlighted as preferred holdings e.g. best-in-class companies, companies rapidly decarbonizing, green/social bonds or other holdings with associated positive environmental and social impact.
  - **BEXT (baseline externalities)** – issuers that are defined as neutral and deemed as acceptable.
  - **DEXT (discussion on externalities)** – issuers that are tagged for discussion in our monthly ESG meeting and where the engagement with the companies will happen alongside sector specialists. These are typically issuers that do not fall under PEXT or BEXT, but where the alpha opportunity is deemed compelling enough from the lead PM team to warrant further discussion around the ESG merits.
  - **NEXT (negative externalities)** – issuers that are restricted from purchase, including all screened names e.g. worst rated ESG names (MSCI CCC), issuers with severe controversies, UNGC violators, thermal coal (5% rev threshold), tobacco, controversial weapons, civilian firearms, oil sands, fossil issuers with maturities >2030, gambling, adult entertainment, unconventional oil & gas names, amongst others.

**The fund commits to exclude issuers classified as NEXT, while promoting issuers under the PEXT and BEXT categories.**

**The externality framework and its application allow the Fund to approach sustainability in multiple approaches:**

#### **1. ESG Thematic Investments**

**Our most preferred holdings (categorized as PEXT in the framework) include issuers that exhibit positive externalities in many different ESG themes such as decarbonization/climate change, Sustainable Development Goals (SDGs) and use-of-proceed bonds such as green, social and sustainability bonds.**

### Sustainable Investments:

The Fund also invests in Sustainable Investments. BlackRock defines Sustainable Investments as investments in issuers or securities that contribute to an environmental or social objective, do not significantly harm any of those objectives and where investee companies follow good

governance practices. BlackRock refers to the United Nations' Sustainable Development Goals, the European Union Taxonomy, Paris Agreement and other relevant sustainability frameworks to identify the alignment of the investment to environmental or social objectives.

Sustainable Investments should also meet the do no significant harm (DNSH) requirements, as defined by applicable law and regulation. BlackRock has developed a set of criteria to assess whether an issuer or investment does significant harm.

The Fund invests at least 20% of its holdings in Sustainable Investments in pursuit of its investment objective. All Sustainable Investments will be assessed by the Investment Adviser to comply with BlackRock's DNSH standard outlined above.

The Sustainable Investments held in the Fund are either:

- Investments in companies deriving at least 20% of estimated revenues from products and services aligned with environmental and/or social objectives, such as, but not limited to, alternative and renewable energy, energy efficiency, pollution prevention or mitigation, reuse and recycling, health, nutrition, sanitation and education;
- Investments in companies that have set de-carbonisation targets in accordance with the Science Based Targets initiative;
- Investments in use of proceeds bonds, such as green bonds, social bonds, and sustainable bonds that comply with the ICMA Green Bond Principles; and/or
- Investments in certain fixed income securities that are aligned with environmental and/or social objectives. This includes, but is not limited to environmental and/or social asset-backed and mortgage-backed securities, bonds issued by supranational entities committed to the promotion of UN Sustainable Development Goals, and municipal bonds related to environmental and/or social objectives such as healthcare, housing and sanitation.

## **2. Best-in-class Approach**

**PEXT and BEXT categories also include issuers that are best-in-class versus their peers – either exhibiting higher ESG ratings or sovereign debt that has is rated higher than their peers.**

## **3. Normative and Exclusionary Screening**

**The NEXT category includes names that exhibit negative externalities and are restricted for the Fund. Further details on the exclusions below.**

**The Fund also applies further exclusionary screening by excluding 20% of the benchmark by security count, specifically those securities deemed to be the on the lowest end of the scale for sustainability metrics within each asset class**

The Fund also seeks to promote climate change mitigation by reducing the greenhouse gas emissions intensity of the portfolio, which is the estimated greenhouse gas (Scope 1 and Scope 2) emissions per \$1 million of sales revenue across the Fund's holdings. Greenhouse gas emissions are categorised into three groups or 'scopes' by the most widely used international accounting tool, the Greenhouse Gas (GHG) Protocol. Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting issuer. Scope 3 includes all other indirect emissions that occur in an issuer's value chain.

## **Corporate Engagement**

BlackRock as a firm has made a strong commitment to corporate engagement. BlackRock's approach to corporate governance and stewardship is explained in our Global Principles. These high-level Principles are the framework for our more detailed, [market-specific voting guidelines](#), all of which are published on the BlackRock website. The Principles describe our philosophy on stewardship (including how we monitor and engage with companies), our policy on voting, our integrated approach to stewardship matters and how we deal with conflicts of interest. These apply across relevant asset classes and products as permitted by investment strategies. BlackRock reviews our Global Principles annually and updates them as necessary to reflect in market standards, evolving governance practice and insights gained from engagement over the prior year. Our Global Principles available on our [website](#).

The Investment Stewardship team recently published our approach to engagement on climate risk in which we note that for the past several years we have contributed to initiatives such as the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). Both initiatives provide frameworks for standardizing disclosure of these climate risks and opportunities with a particular focus on information that investors would find material. These initiatives have enhanced our understanding of climate risk and helped guide our engagement approach. As many of the most heavily impacted companies are global, SASB and TCFD level the playing field by seeking comparable disclosures from companies within a given sector, providing investors with insight into how companies are managing these risks.

Additionally, BlackRock believes that climate change presents significant investment risks that have the potential to impact the long-term value of many companies, and prioritizes climate risk in our evaluation of and discussion with companies. Our process emphasizes engagement before voting because we believe that is the most effective way to achieve productive outcomes for our clients' long-term interests. As reported on our [website](#).

- For BlackRock Investment Stewardship's approach to engagement on climate risk and the transition to a low-carbon economy: [Link](#)
- Our approach to engagement on natural capital: [Link](#)
- Emissions, engagement, and transition to a low-carbon economy: [Link](#)

Read more about updates to our Global Principles and market-specific voting guidelines [here](#)

Furthermore, as part of our PEXT/NEXT framework, we seek to engage with issuer that are categorized as DEXT.

# Sustainability Restrictions

## **Normative screening:**

The Fund intends to exclude companies with an involvement in severe controversies relating to the environment, human rights & communities, labor rights & supply chain, customers and governance. The Fund's assessment is based on adherence UN Global Compact principles as well as alignment with:

- **OECD** Guidelines for Multinational Enterprises
- Universal Declaration of Human Rights
- The UN Human Rights Norms for Business
- **ILO** Conventions, 4 Principles
- Kyoto Protocol to the United Nations Framework on Climate Change
- The United Nations Framework Convention on Climate Change

## **Sovereign exclusions:**

**Freedom House Rules:** The Fund intends to exclude all sovereign issues from states that are deemed as "Not Free" by the Freedom House 'Freedom in the World' – survey.

The Fund intends to exclude all sovereign issues from:

States that have not ratified or have not implemented in equivalent national legislation:

- the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work
- at least half of the 18 core International Human Rights Treaties

States which are not party to:

- the Paris Agreement
- the UN Convention on Biological Diversity
- the Nuclear Non-Proliferation Treaty
- States with particularly high military budgets (>4% GDP)
- States considered 'Jurisdictions with strategic AML/CFT deficiencies' by the FATF
- States with less than 40/100 on the Transparency International Corruption Perception Index

The Fund may however contain investments in public debt instruments for reasons of diversification or (currency risk) hedging issued by core reserve (non-Euro) currency issuers i.e. UK, US and Japan, that do not comply with the above requirements to a maximum of 30% (in total) of the portfolio. This threshold may be exceeded in the event of extraordinary market conditions.

## **Sector exclusions:**

### **Weapons:**

- **Controversial Weapons:** The Fund intends to exclude direct investment in securities of issuers which have exposure to, or ties with controversial weapons (nuclear, cluster munitions, biological-chemical, landmines, blinding laser, depleted uranium, non-detectable fragments or incendiary weapons).
- **Civilian firearms:** The Fund intends to exclude direct investment in securities of issuers which produce firearms intended for retail to civilians or deriving over 5% of revenue from the retail of firearms to civilians.

- **Conventional weapons:** The Fund intends to limit direct investment in conventional weapons by excluding issuers which derive 5% or more revenue from the production of conventional weapons and issuers which derive 5% or more aggregate revenue from weapons systems, components, and support systems and services.

**Thermal Coal:** The Fund intends to exclude direct investment in securities of issuers deriving over 5% of revenue from thermal coal extraction and generation.

**Oil Sands:** The Fund intends to exclude direct investment in securities of issuers deriving over 5% of revenue from oil sands extraction.

**Unconventional oil and gas:** The fund intends to exclude direct investments in securities of issuers deriving 5% or more of revenue from unconventional oil and gas-related activities. Exceptions are made for securities of issuers with appropriate SBTi targets set, or if more than 25% of CapEx is dedicated to contributing activities, except in the case of oil sands activities.

**Tobacco:** The Fund intends to exclude direct investment in securities of tobacco producers and issuers deriving over 5% of revenue from tobacco retailing, distribution and licensing.

Further, the Fund considers principal adverse impacts (PAIs) on sustainability factors through the application of the BlackRock EMEA Baseline Screens, its exclusionary policy and its carbon reduction target.

The Fund takes into account the following PAIs:

- GHG intensity of investee companies.
- Share of investments in companies active in the fossil fuel sector.
- Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas.
- Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises.
- Share of investments in investee companies involved in the manufacture or selling of controversial weapons.

#### **Further Screens (beyond the “Towards Sustainability” label requirements):**

**Best-in-class:** The fund takes a **best-in-class approach**, whereby we utilise MSCI data to exclude 20% of the benchmark by security count, specifically those securities deemed to be the on the lowest end of the scale for sustainability metrics within each asset class



# ESG embedded in the investment process

## Investment Process

The Team employs a disciplined process that combines macro regime identification, asset allocation and fundamental, bottom-up security selection augmented by quantitative research and analytics in a manner consistent with the principles of environmental, social and governance (“ESG”).

Through this process, the Team seeks to add value across a broadly diversified investment universe in order to identify undervalued investment opportunities while mitigating macroeconomic risks. The investment universe is comprised of global equities, fixed income, cash equivalents, and currencies. The Fund may invest in individual securities, baskets of securities or particular measurements of value or rate, and may consider a variety of factors and systematic inputs.

The portfolio managers are responsible for setting the overall investment strategy including the top-down asset allocation, portfolio-level positioning, and risk profile. Macro regime identification informs the top-down asset allocation and takes into account a variety of factors including but not limited to inflation, central bank policies and interest rates.

To ensure ESG considerations are ingrained in every part of the investment process, the portfolio management team closely coordinates with the BlackRock ESG Investment Team. The ESG Investment Team defines the universe of eligible investments for the PM team, utilizing BlackRock’s proprietary PEXT/NEXT framework. Each issuer in the investible universe is defined under this methodology in which the ESG profiles of all issuers are looked at with an emphasis on their externalities. All PEXT/NEXT ratings, and updates to them are captured on Aladdin, along with the team’s proprietary research repository, Mosaic.

A weekly Investment Strategy Group meeting of the portfolio managers is the main forum for setting top-down asset allocation and for reviewing portfolio targets for a wide range of portfolio exposures and risk management. In addition to the weekly strategy meetings, a deliberate and disciplined framework exists for daily fundamental security selection, quantitative strategies, portfolio construction and platform oversight. This daily framework includes constant dialogue between the portfolio managers and the ESG Investment Team. Broader ESG metrics within the portfolio are reviewed across the investment team on a regular basis. In addition, there is a formal Responsible Investing ESG committee meeting that members of the investment team attend to discuss holdings, the Fund’s overall ESG profile and any relevant engagement dialogue across the platform.

Portfolio managers collaborate on investment decisions and engage the greater investment team in the process. This engagement occurs from both a bottom-up security selection and top-down asset allocation perspective. Fundamental analysts are primarily categorized by global sector along with some regional specialization and focus on high conviction ideas from bottom-up security selection. They conduct independent research and have the flexibility to pursue ideas across the capital stack. The Team considers a wide array of macro and micro factors and company specifics, and valuation is a key factor that serves as the basis for most investment choices.

The number of issuers covered by each individual will vary over time and may depend on a number of factors including domain expertise and years of experience; in general, most of the fundamental analysts are expected to cover approximately 20 to 30 issuers. There is no set limit or minimum number of securities covered by the Team.

Portfolio optimization tools assist portfolio managers in the sizing of positions and help calibrate top-down asset allocation decisions alongside ESG considerations. That said, all final buy and sell decisions are made by the team's portfolio managers, led by Rick Rieder.

The investment process can be summarized using the diagram below:

## Process integrates macro, sector, and security selection

Process leverages the breadth of BlackRock's global macro resources, the depth & experience of the GA team, and the specialised expertise across GFI to deliver on investment objectives



Source: BlackRock, as at 30 September 2022. For illustrative purposes only. Subject to change.

## ESG Decision-Making Approach

- The portfolio management of the Fund is a collaborative effort between the Global Allocation Investment Team and the ESG Investment Team.
- The ESG Investment Team defines the universe of eligible investments for the PM team, utilizing BlackRock's proprietary PEXT/NEXT framework (detailed further in "ESG Integration"). Each issuer in the investible universe is defined under this methodology in which the ESG profiles of all issuers are looked at with an emphasis on their externalities.
  - The methodology behind issuer tagging is designed to be consistently applied across the entire investable universe. Any proposed methodology changes can be approved on a monthly basis at the Responsible Investing ESG Committee meeting.
  - Issuer tagging may change intra-month due to a change in the underlying ESG characteristics of an issuer e.g. rating changes or reported revenue changes. Email alerts are sent to each member of the portfolio management team indicating any changes in category.

- The portfolio managers responsible for BIPF Sustainable Global Allocation Tailored Fund work closely with the ESG Investment Team with constant dialogue. On a monthly basis, this is formalized through the Responsible Investing ESG committee meeting to discuss holdings, the Fund's overall ESG profile and any relevant engagement dialogue.
- From a top-down perspective, the Fund will seek to identify broader themes that are believed to lead to ESG advancements and ultimately alpha generation. Bottom-up, the Fund will seek to price in the risks and rewards of specific ESG factors and exclude companies we believe are associated with objectionable activities and securities that score poorly on ESG related metrics.
- Fundamental analysts have access to security-level ESG scores within the team's proprietary research platform (Mosaic) and enables ESG information to be evaluated as one of multiple inputs in the screening and analysis of the investment universe
- ESG related issues help inform fundamental research on long-term economic scenarios, secular trends and industry disruptions. This process is further augmented by ESG dedicated systematic signals incorporated with the aim to capture specific sustainable factors

### **ESG Integration**

ESG factors are integrated into every stage of the investment process – encompassing company evaluations, sustainability, investments in green, social and sustainable bonds, and engagement on ESG issues with the companies in our portfolio. How an issuer manages the ESG risks and opportunities relevant to its business can contribute to its long-term financial performance. As a result, sustainability metrics can provide useful insights to investors as signals of good governance, operational excellence or business model tail risks.

We consider the ESG profiles of all issuers with an emphasis on the externalities of these holdings, helping to address the shortcomings of more traditional methods of assigning ESG scores or classic business revenue approaches.

We have therefore built the 'PEXT/NEXT' framework (detailed further below) which we believe more accurately covers the entirety of the Fund's investment universe and ultimately provides a superior tool for integrating ESG into the process.

BIPF Sustainable Global Allocation Tailored Fund actively seeks to tilt towards securities with positive externalities (PEXT) through this framework, while we screen out a comprehensive set of securities with negative externalities (NEXT) in order to establish a minimum standard of holdings in the Fund.

The implementation of this framework can be summarized in the chart below:



# 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

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

## Description of Fund Risks

**Equities 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.

**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.

**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.

Changes to interest rates, credit risk and/or issuer defaults will have a significant impact on the performance of fixed income securities. Noninvestment grade fixed income securities can be more sensitive to changes in these risks than higher rated fixed income securities. Potential or actual credit rating downgrades may increase the level of risk.

**Liquidity Risk:** Lower liquidity means there are insufficient buyers or sellers to allow the Fund to sell or buy investments readily.

**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.

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