BlackRock ESG Integration Statement

Effective Date: 27 July 2018
Revised: 19 May 2022
Introduction

This document details our firm-wide efforts to integrate ESG information into our investment processes, and outlines the foundation, ownership, and oversight mechanisms which underpin our approach. **ESG integration is the practice of incorporating material ESG information into the investment process with the objective of improving the long-term financial outcomes of our clients’ portfolios. We do this across our active portfolios in both public and private markets. In index portfolios where the objective is to replicate a predetermined market benchmark, we engage with investee companies on ESG issues to enhance long-term value for our clients.**

This Statement applies across BlackRock’s investment divisions and investment teams and is reviewed at least annually to reflect changes within our business. This statement is written to cover the full spectrum of investment styles and asset classes at BlackRock; reflecting the breadth of our investments, each investment platform has an ESG integration statement that describes different implementations of the firm-wide approach.

Building on the firm’s strengths across risk management and our Aladdin® technology capabilities, we aspire to be an industry leader in how we incorporate sustainability into our investment research and management, our stewardship of clients’ assets, our sustainable investment solutions, and the operations of our business. More detailed information about these efforts is included in our approach to sustainability on blackrock.com.
BlackRock’s approach to ESG integration

At BlackRock, we have always focused on helping our clients try to reach their long-term investment goals through resilient and well-constructed portfolios. Our investment conviction is that ESG-integrated portfolios can provide better risk-adjusted returns to investors over the long-term, and that ESG-related data provides an increasingly important set of tools to identify unpriced risks and opportunities within portfolios.

BlackRock has a framework for ESG integration that permits a diversity of approaches across different investment teams and strategies and is part of both our active investment process and index investment processes. As the materiality of ESG considerations varies by client objectives, investment style, sector, and macro considerations, our ESG integration framework needs to allow for flexibility across investment teams. BlackRock’s active investors are responsible for integrating material ESG-related insights, consistent with their existing investment process, with the objective of improving long-term risk-adjusted returns. Depending on the investment approach, ESG measures may help inform the due diligence, portfolio construction, and/or monitoring processes of our active and alternatives platforms, as well as our approach to risk management.

Our ESG integration framework is built upon our history as a firm founded on the principle of thorough and thoughtful risk management. Aladdin®, our core risk management and investment technology platform, allows investors to leverage material ESG data as well as the combined experience of our investment teams to effectively identify investment opportunities and investment risks. Our heritage in risk management combined with the strength of the Aladdin® platform enables BlackRock’s approach to ESG integration.

Active investment approach

Across our active investment processes, we structure our ESG integration efforts around three main themes: investment processes, material insights, and transparency. These pillars drive ESG integration at BlackRock, and we support them by equipping our employees with useful ESG data, tools, and education.

Investment Processes
ESG integration is a core part of the investment process, and as with all other components of the investment process, is the responsibility of our investment teams. Active funds and advisory strategies are expected to be ESG integrated, meaning that: i) each strategy has a description of how ESG fits into its investment process, ii) portfolio managers are accountable for managing exposure to material ESG risks, and iii) investment teams are able to provide evidence of how they consider ESG information in their investment processes. Further, across our active funds we incorporate a
heightened scrutiny framework for climate to identify and manage active positions in issuers with particularly significant exposure to climate transition risk. BlackRock’s Risk and Quantitative Analysis team (RQA) considers ESG risk alongside traditional investment risks with the investment teams in regular portfolio reviews.

Material insights
For our public market strategies, we are continuously expanding access to high quality ESG data sources through Aladdin®. BlackRock’s investment teams have access to a range of third-party data sets and internal materiality-focused ratings across core Aladdin® tools, allowing investors to identify sustainability data for their unique investment process where material. BlackRock investors have access to five unique ESG third-party data providers with additional access to several unique internal and external data sets available across different parts of our research environment.

Beyond making third party and internal ESG ratings and metrics available in our core investment tools alongside traditional financial data, the Aladdin® platform also offers a set of analytic tools to assess sustainability and climate-related risks and opportunities. This includes Aladdin® Climate, an evolving platform that is designed to help investors uncover investment risks and opportunities associated with the physical impacts of a changing climate and the uncertain transition to a net zero world. Aladdin® Climate provides scenario analysis capabilities, helping investors consider how climate-related risks and opportunities may evolve and their potential implications under different physical and transition risk scenarios.

Further, portfolio managers, investment research teams, and investment stewardship professionals have the ability to share fundamental ESG research and engagement insights through a common Aladdin® Research platform, consistent with our information barriers. This supports a scaling of fundamental insights at the issuer level and enables dialogue and collaboration across our stewardship and portfolio management teams.

In private markets, which inherently have less availability and standardization of ESG metrics relative to public markets, we continue to progress multiple efforts to better collect, aggregate, evaluate and measure ESG data across our alternative strategies. For example, in addition to leveraging a growing range of third-party data providers, where appropriate, certain alternative investment teams seek to enhance their understanding of ESG considerations by collecting data directly from private companies through ESG questionnaires. Certain teams are also developing technology solutions to better aggregate ESG data to support analytics and ESG research frameworks to better inform investment decision-making.

Transparency
Investors at BlackRock believe well-managed companies balance business-relevant ESG issues alongside traditional financial objectives. Consistent with this expectation, we strive to provide market-leading transparency for how we incorporate ESG in our investment process and products.

Where relevant we disclose ESG integration practices in fund documentation and on product pages, and disclose our firm’s approach to ESG integration through comparable industry relevant reporting frameworks, such as the Principles for Responsible Investment (PRI). For greatest transparency, these reports are publicly available in full on our website.

With respect to transparency in all BlackRock products, we want investors to be able to access clear information on the sustainability risks associated with their investments. For example, we provide
data on our website for all iShares funds and BlackRock Index mutual funds, displaying ESG scores and carbon footprints, among other measurements, where data is available. We make this information available in order to help clients choose the best investment option for their portfolio.

**Index investment approach**

Across our index investments business, we work with index providers to expand and improve the universe of sustainable or ESG indexes, while our investment stewardship processes encourage the companies in which our clients are invested to manage and disclose material ESG risks effectively.

Index portfolios differ from other portfolios in that they are managed with a focus on minimizing the performance tracking difference versus an underlying index. The composition of the index is the responsibility of the index provider, and the portfolio manager seeks to provide investors with exposure to the constituents of that index.

Within BlackRock’s ETF and Index Investments (EII) platform, we differentiate between products that have sustainability objectives explicitly outlined in their investment objective or strategies (Sustainable Suite), and those products that do not have such objectives (ESG integrated portfolios).

**Sustainable Suite**

Products in the Sustainable Suite explicitly outline sustainability objectives in their investment guidelines. As such, their benchmark methodology and investment management approach incorporate the relevant sustainability characteristics.

Index replication and in-portfolio strategies that have sustainability objectives explicitly outlined in their investment guidelines are rules-based and deliver cost-efficient exposure to companies with ESG characteristics. The objective of the strategy may be to avoid certain issuers (“Avoid”). Alternatively, it may be to gain exposure to issuers with better ESG ratings, an ESG theme, or to generate positive environmental or social impact (“Advance”). Index replication and in-portfolio strategies can also combine elements of Avoid and Advance approaches together.

**ESG integrated Portfolios**

EII also manages portfolios that do not have explicit sustainability objectives. ESG integration is generally addressed through:

- **Engagement with index providers** on matters of index design and broader industry participation on ESG considerations.

- **Transparency and reporting**, including disclosing methodology criteria and reporting on sustainability-related characteristics of all strategies (e.g., business involvement screens on iShares.com, fact sheets highlighting key ESG metrics such as rating, carbon footprint and alignment with the UN Sustainable Development Goals).

- **Investment stewardship activities** that are undertaken across all investment strategies invested in corporate equity issuers to advocate for sound corporate governance and business practices in relation to the material ESG factors that are likely to impact long-term financial performance.
Oversight and governance

The Investment Sub-Committee of BlackRock’s Global Executive Committee (GEC) oversees investment process consistency across the firm’s investment groups. Members of the Sub-Committee include the global heads or sponsors of all of BlackRock’s major investment platforms: Fundamental Equities, Fundamental Fixed Income, Multi-Asset Strategies, BlackRock Systematic, Lending Liquidity & Financing (Cash Management), BlackRock Alternative Investors, ETFs and Index Investments.

The BlackRock Sustainable Investing team, in partnership with investment platform ESG operational leads and content experts, coordinates the firm-wide approach to incorporating ESG into investment processes and seeks to ensure coherence and quality in the firm’s sustainable investment products and solutions. The BlackRock Sustainable Investing team reports on ESG integration progress to the GEC Investment Sub-Committee at least annually.

BlackRock employs a three-lines of defense approach to managing risks in client portfolios. BlackRock’s investment teams and business management are the primary risk owners, or first line of defense.

BlackRock’s risk management function, RQA, serves as a key part of the second line of defense in BlackRock’s risk management framework. RQA is responsible for BlackRock’s Investment and Enterprise risk management frameworks which includes ESG-related risks. RQA conducts regular reviews with portfolio managers to ensure that investment decisions are taken in light of relevant risks, and that decisions exposing portfolios to relevant risks, including material ESG risks, are deliberate, diversified and scaled according to the investment objectives of our clients’ portfolios.

The third line of defense, BlackRock’s Internal Audit function, operates as an assurance function. The mandate of Internal Audit is to objectively assess the adequacy and effectiveness of BlackRock’s internal control environment to improve risk management, control, and governance processes.

The BlackRock Sustainable Investing team, RQA, the BlackRock Investment Stewardship team, and individuals across BlackRock’s technology and analytics platform work together to advance ESG research and tools in support of our ESG integration efforts.
Further information

