BlackRock

Sustainable Finance Disclosure Regulation

EU entity level principal adverse impacts statement

Introduction

The statement addresses 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 consideration of principal adverse impacts of investment decisions on sustainability factors.

This statement describes and details how the below listed financial market participants and financial advisers assess adverse impacts on sustainability factors as part of their investment processes and advisory services.

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.

This principal adverse impacts statement covers the period from 10 March 2021 to 30 June 2022.

BlackRock's approach to principal adverse sustainability impacts

As a global investment manager, BlackRock invests in financial instruments on behalf of its clients within its Products which are managed in line with their investment objectives and constraints. While many of the investments made within Products can have positive impacts on their stakeholders and society, the business activities of certain companies or assets that are held in BlackRock's Products may have adverse impacts on the environment or people ("principal adverse sustainability impacts" or "PASI").

For purposes of this regulation, BlackRock considers PASI in the categories shown below:

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

- **Environmental Impacts**: Impacts that accelerate climate change and/or the loss of natural capital.
- **Human Rights**: Impacts that fail to support and respect the protection of internationally proclaimed human rights, complicity in human rights abuses.
- **Labour Standards**: Impacts from participation in or facilitation of any forms of forced or compulsory or child labour, employment and occupational discrimination.
- **Corruption**: Impacts from the participation in, or facilitation of, corruption in all its forms, including bribery, extortion and money laundering
- **Controversial weapons and civilian firearms**: Impacts that reflect ties to cluster bombs, landmines, depleted uranium weapons, chemical and biological weapons, blinding laser weapons, non-detectable fragments, incendiary weapons, nuclear weapons, firearms and small arms ammunition for the civilian market.

Beyond the potential reputational, ethical and controversy considerations associated with having exposure to a company in one of these categories, there can be material investment risk that can directly or indirectly impact the long-term risk-adjusted financial performance of the issuer. These risks could manifest as regulatory and legal risks, changes in consumer demand, operational risks and increased resource competition and costs. Financially material ESG risks arising from the exposure to PASI are generally covered under BlackRock's definition of 'sustainability risks'. For more information around BlackRock's definition of 'sustainability risks' please refer to BlackRock's Sustainability Risk Statement.

PASI is considered in the context of the following:

1. Offering a series of products that apply "BlackRock EMEA Baseline Screens"
2. Providing Product-level transparency to help BlackRock's clients understand potential exposures to PASI
3. Engagement and proxy voting to encourage investee companies to effectively manage material ESG issues, including those that may result in PASI, that have the potential to materially impact the long-term financial performance of a company
4. Risk management processes to ensure risk-taking in client portfolios is deliberate, understood, and consistent with client guidelines. This includes heightened monitoring of categories deemed to present potentially higher risks.

PASI context in detail

1. **Product Offerings**: Many of BlackRock's clients increasingly wish to avoid exposure to certain companies or sectors that pose reputational and investment risks or are not aligned with their beliefs and values. In order to offer scalable solutions to investors across multiple asset classes and investment styles, BlackRock has developed a set of exclusionary screens, "BlackRock EMEA Baseline Screens", that seek to address a majority of clients' requests for exclusions in Europe, Middle East and Africa (EMEA). As an example, and in accordance with the definitions, these exclusionary screens eliminate holdings with more than de minimis exposure to certain sectors/industries including, but not limited to, controversial weapons, nuclear weapons, fossil fuels, civilian firearms, tobacco, and UN Global Compact violators. BlackRock EMEA Baseline Screens are applied on all new active funds in EMEA on a comply or explain basis by our portfolio management teams within our product governance structure. For all new sustainable index strategies in EMEA, BlackRock works with the index provider to reflect the same screens in the custom index. Qualified investors with separate accounts can have exclusionary screens set with specific criteria as determined by the investor. Please follow link here for more information on how we define BlackRock EMEA Baseline Screens. The definition of the baseline screens and its adoption into sustainable screened funds is governed

by the Sustainable Product Council (SPC). For more information on the responsibilities of the SPC, please refer to the Governance and Accountability section of this document.

2. **Product-Level Transparency**: BlackRock manages a variety of different Products, each with their own investment strategy, guidelines, and constraints. BlackRock wants investors to be able to clearly see the sustainability factors (including financially material ESG risks that arise from the presence of PASI) of their investments including potential exposure to assets with significant revenue exposure to PASI. As such, utilizing third-party data sources, ESG metrics including business involvement exposures (e.g. exposures to Thermal Coal, UN Global Compact, Controversial Weapons, Civilian Firearms, Nuclear Weapons) are made publicly available for publicly offered funds including iShares ETFs and BlackRock mutual funds where permitted by local and applicable regulation. The same information is provided to separate account portfolio clients upon request where appropriate and applicable.

3. **Investment Stewardship**: Consistent with the rights afforded to shareholders, BlackRock considers it has a responsibility to monitor and provide feedback to investee companies, in its role as a steward of its clients' investments. BlackRock Investment Stewardship (BIS) does this through engagement with management teams and/or board members of publicly listed companies on material business issues including ESG matters and, for those clients who have given authority to BlackRock, through proxy voting at company meetings in the best long-term economic interests of its clients. For details of the relevant BIS principles and guidelines, see the summary of its engagement policies below. BIS is strategically positioned as an investment function and confers regularly with investment professionals across the firm in identifying and assessing significant sustainability issues impacting companies, including those relating to PASI. BIS exchanges engagement insights with investment teams globally on material ESG factors and performance matters relevant to investment decisions. The Global Head of BIS is a member of the Global Executive Committee (GEC) and has primary oversight of the activities of BIS.

   BlackRock believes that well-managed companies will deal effectively with material ESG factors relevant to their businesses. BlackRock looks to companies to provide timely, accurate, and comprehensive reporting on all material governance and business matters, including ESG issues. Robust disclosure is essential for investors to effectively gauge companies' business practices and strategic planning related to such issues, including those concerning PASI. BlackRock views the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the standards put forward by the Sustainability Accounting Standards Board (SASB) as appropriate and complementary frameworks for companies to adopt for the disclosure of financially material and business relevant ESG information. Given the increased understanding of material ESG risks, and the need for better information to assess them, BIS advocates for continued improvement in companies' reporting. In particular, BIS expects companies to articulate how they address adverse impacts that could arise from their business practices and affect critical business relationships with their stakeholders.

   In addition to seeking improved disclosures, BIS sets certain expectations of public companies in terms of actions that are relevant to mitigating and/or addressing PASI. These are described in more detail in the BIS principles and guidelines (referenced in the summary of BlackRock's engagement policies below) and include expecting companies to implement, to the extent appropriate, monitoring processes (often referred to as due diligence) to identify and mitigate potential adverse impacts, and grievance mechanisms to remediate any actual adverse impacts. In such cases, BIS is focused on the extent to which, by addressing financially material and business relevant ESG risks that may arise as a result of PASI or other sustainability factors, companies are taking due account of key stakeholder interests that are key to creating sustainable value. Where company reporting and disclosure is inadequate or the approach taken is inconsistent with BlackRock's view of what supports sustainable long-term value creation, BIS will engage with a company and/or use voting to encourage a change in practice.

Engagement is an important mechanism that provides BIS with the opportunity to improve BlackRock's understanding of the business and ESG risks and opportunities that are material to the companies in which BlackRock's clients invest. As a long-term investor on behalf of clients, BlackRock seeks to have regular and continuing dialogue with executives and board directors to advance sound governance and sustainable business practices, as well as to understand the effectiveness of the company's management and oversight of material issues. Engagement also allows BIS to provide feedback on company practices and disclosures, particularly where BIS believes they could be enhanced. BIS uses BlackRock's data sources to identify public companies that are considered to have experienced severe controversies resulting in adverse impacts to people and the environment and exposure to material business risks. These data sources inform the prioritisation of our engagement, which is intended to encourage the remediation of issues and the implementation of practices for mitigating adverse impacts.

Separately, for investments made in the private markets, the BlackRock Alternative Investors (BAI) team conducts its own reviews and engagement with its portfolio companies through investment sourcing, screening, investment due diligence and ongoing monitoring stages of the investment process. The team establishes, where appropriate, mechanisms to frequently monitor and manage environmental, social and governance considerations in addition to potentially adverse impacts associated with its investments.

4. **Risk Management**: For those products that do not explicitly employ a screen as part of their investment guidelines, BlackRock utilizes similar criteria and data as the BlackRock EMEA Baseline Screens to define a set of ESG involvements, themes and attributes used as proxies to identify potential exposure to higher ESG risk assets. Material risks are discussed across broad portfolio groups as part of BlackRock's risk management oversight through regular risk reviews as well as Chief Investment Officers (CIO) portfolio reviews. This approach increases visibility of these holdings and heightens the scrutiny of the investment case for higher ESG risk assets. These processes ensure risk-taking in client portfolios is deliberate, understood, and consistent with client guidelines. Please see the Governance and Accountability section for details on BlackRock's 3-lines of defense approach to risk management.

BlackRock legal entities that are subject to SFDR and provide regulated investment advice do so either in the context of: (i) advising on BlackRock Products; or (ii) advising on third party products. When advising on third party products, BlackRock's advisers plan to consider PASI information as and when this is made available by the third party managers. With regard to providing regulated investment advice on BlackRock Products, BlackRock's advisers have access to information about the firm's PASI assessments, its sustainability risk policies and processes and product level information relevant to PASI. This information is taken into consideration in the advice process in relation to BlackRock's clients' risk/return and overall objectives. BlackRock's ESG integration is under frequent review and development as the regulatory framework is clarified and additional ESG data becomes available.

Governance & accountability

An integral part of BlackRock's identity is the core belief that rigorous risk management is critical to the delivery of high-quality asset management services. The majority of BlackRock's pre-existing investment, product and/or risk management policies are internal to BlackRock and have a broad coverage and may therefore, not specifically address PASI but nonetheless remain relevant in relation to PASI. BlackRock employs a three-lines of defense approach to managing risks in client portfolios.

BlackRock's investment and business management teams are the primary risk owners, or first line of defense. Portfolio managers and research analysts are responsible for evaluating the material ESG risks and opportunities for an industry or company just as they consider other potential economic issues related to their investments. Examples of risks taken into account include risks from regulatory change or litigation, and exposure to physical impacts such as flooding or other extreme weather events or changes in temperature. In addition, BlackRock is developing risk tools that monitor exposure to carbon intensive assets as a way to better understand potential transition risks.

BlackRock's risk management function, the Risk & Quantitative Analysis group (RQA), serves as a key part of the second line of defense in BlackRock's risk management framework. RQA partners with portfolio teams and business management to help them understand, monitor, manage, and report investment risks, including ESG risks. This helps to ensure that such risks are understood, deliberate, scaled and consistent with client objectives. RQA and BSI work with investment leadership to create ESG risk dashboards and standard reporting practices, leveraging the capabilities of Aladdin. Conversations are framed such that portfolio managers know and understand their Product's ESG profile, including through exposure to higher ESG risk sectors and companies via baseline screens and ESG questionnaires where applicable. In certain instances, the investment risk of higher ESG risk assets is significant enough that portfolio action may be taken. This can include divestment, diversification and engagement. Discretion for investment decisions always remains with the investment team, but the investment case for higher ESG risk assets is scrutinised with greater diligence. RQA performs risk assessments, independent from the investment managers, and report these to the investment managers, Chief Investment Officers, management and oversight committees, and Boards, as deemed appropriate. Please see our Sustainability Risk Statement for additional details regarding BlackRock's approach to risk management of material ESG risks.

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 in order to improve risk management, control, and governance processes.

Role of Investment Professionals: All investment professionals play a part in ensuring that sustainability factors (including financially material ESG risks that arise from the presence of PASI) are taken into account within BlackRock's investment decisions. Senior representatives from each investment team across the firm lead in ESG integration, with support given by one or more representatives from businesses across the firm, who work together to advance ESG research and integration, support active ownership, and develop sustainable investment strategies and solutions.

Sustainable Product Council: Product development and governance around sustainable products is managed through the Sustainable Product Council (SPC) which meets monthly and has the following responsibilities: a) Centralized governance of sustainable investment products; b) Platform alignment to ensure all products are appropriately classified, positioned and marketed, including setting and approving naming conventions; c) management of new sustainable products in the pipeline; and d) Governance of screening policies and accreditations including the baseline screens policy. The core members of the Council include representatives from BSI, Global Product Group, Legal & Compliance, Exchange Traded Funds (ETFs) and Index Investments Group, Portfolio Management Group, Institutional and Wealth Product Strategy Teams as well as BlackRock Alternative Investors.

Senior Management Oversight: The Investment Sub-Committee of the GEC oversees the consistency of the investment process across the firm's investment groups. Members of the Sub-Committee include the Global Heads, CIOs or sponsors of all of BlackRock's major investment solutions: ETFs and Index Investments, Global Fixed Income, Active Equities, Multi-Asset Strategies, BlackRock Alternative Investors, Trading & Liquidity Strategies including Cash Management, and Client Portfolio Solutions. The GEC Investment Subcommittee receives periodic updates on the development of ESG integration in BlackRock's investment processes.

BlackRock, Inc. Board Oversight: BlackRock Inc.'s Board of Directors has ultimate responsibility for oversight of management's performance in delivering on BlackRock's framework for long-term value creation, of which sustainability (including financially material ESG risks that arise from the presence of PASI) is a core component. The Board's Risk Committee reviews and discusses with management, levels of risk, risk assessment, risk management, and related policies including those related to material ESG risks. The

Nominating & Governance Committee (NGC) of BlackRock Inc.'s Board has been given specific oversight responsibility over the activities of BIS and receives periodic updates from BIS leadership.

Summary of engagement policies

As articulated in its Shareholder Rights Directive II Engagement Policy, BlackRock has determined that it is generally in the best long-term interest of its clients to promote sound corporate governance through voting as an informed, engaged shareholder (often referred to as investment stewardship). This is the responsibility of BIS. BlackRock's approach to investment stewardship (including engagement with companies) is outlined in the BIS Global Principles. These Global Principles provide the framework for a more detailed, market-specific voting guidelines, which explain how the principles inform BlackRock's voting decisions in relation to specific ballot items for shareholder meetings.

Each year, BIS prioritizes its engagement work around themes that BIS believes will encourage sound governance and business practices. Some governance issues are perennial, such as board quality and performance, although the areas of focus may change over time. Other issues have become priorities more recently, driven by our observations of emerging risks and opportunities for companies, market developments, and changing client and societal expectations. The BIS priorities and related engagement commentaries are published on its website, with the aim of providing clients, companies, and industry participants more visibility into the areas on which BIS will be focusing and how BIS will engage companies on those topics.

BlackRock's Shareholder Rights Directive II Engagement Policy is applied by all its asset manager entities within the scope of the Shareholder Rights Directive II (Directive 2007/36/EC as amended by Directive 2017/828). BlackRock adheres to the reporting requirements of the Shareholder Rights Directive II.

Adherence to international standards

BlackRock's approach to the identification of PASI is largely reflective of the principles of the UN Global Compact (UNGC Principles). The UNGC Principles, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights help inform BlackRock's thinking about and engagement on companies' adverse impacts, particularly in relation to human rights, labour standards and anti-corruption.

As regards climate risk specifically, BlackRock is cognisant of applicable international standards and expects companies to articulate how they are aligned to a scenario in which global warming is limited to well below 2ºC and which is consistent with a global aspiration to reach net zero greenhouse gas emissions by 2050.