

## **BlackRock Asset Management North Asia Limited Disclosure of Climate-related Risks**

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### **Introduction**

On 20 August 2021, the Securities and Futures Commission of Hong Kong (“**SFC**”) issued a Circular to Licensed Corporations on the Management and Disclosure of Climate-related Risks by Fund Managers (the “**Circular**”). Amendments to the Fund Manager Code of Conduct require fund managers managing collective investment schemes to take climate-related risks into consideration in their investment and risk management process and make appropriate disclosures.

The Circular sets out, among others, the enhanced standards on risk management-related disclosures to be complied with by Large Fund Managers, which are defined as fund managers with collective investment schemes under management that equal or exceed 8 billion Hong Kong dollars in fund assets for any three months in the previous reporting year. BlackRock Asset Management North Asia Limited (“**BAMNAL**”) is being classified as a Large Fund Manager and accordingly, it is required to comply with both baseline requirements and enhanced standards from 20 August 2022 and 20 November 2022 respectively.

This document details out our approach in managing and disclosing climate-related risks that are relevant and material to the funds over which BAMNAL has investment management discretion and is responsible for overall operation of, excluding the management of discretionary accounts.

### **Transparency and Disclosure**

When developing the requirements set out in the Circular, the SFC has largely made reference to the well-recognised Task Force on Climate-related Financial Disclosures (“**TCFD**”) Recommendations<sup>1</sup>, to foster the development of a more consistent and harmonised framework.

BlackRock published its first TCFD Report in 2020 and thereafter annually to date. BlackRock’s TCFD Report is for BlackRock, Inc. (together, with its subsidiaries, unless the context otherwise indicates, “BlackRock” or the “Company” or the “firm”). BlackRock encourages companies in which it invests on behalf of clients to provide comprehensive disclosures and recognizes the importance of leading by example in its own disclosure. Throughout its TCFD Report, BlackRock has sought to provide information on all four pillars and eleven recommendations structured in accordance with the TCFD Recommendations.

BAMNAL has adopted BlackRock’s TCFD Report to address its disclosure obligations set out in the Circular, except for the portfolio carbon footprints which are disclosed below. The policies and practices referred to in BlackRock’s TCFD Report, unless otherwise noted, are adopted by BlackRock on a group-wide basis and applied in relevant jurisdictions in which BlackRock operates.

BlackRock’s annual TCFD Report is available here:

<https://www.blackrock.com/corporate/sustainability#shareholders>.

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<sup>1</sup> The TCFD Recommendations, first launched in 2017, are designed to encourage consistent and comparable reporting on climate-related risks and opportunities by companies to their stakeholders. The TCFD Recommendations are structured around four content pillars: (i) Governance; (ii) Strategy; (iii) Risk Management; and (iv) Metrics & Targets; and eleven recommendations to support effective disclosure under each pillar. See the TCFD Recommendations: <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

As the sustainability landscape evolves with new information, data and risk methodologies, and greater comparability, BlackRock will continue to refine and expand its disclosures to provide meaningful information for stakeholders.

## Portfolio Carbon Footprints Disclosure

Among the enhanced standards that came into effect on 20 November 2022, there is a requirement to annually disclose portfolio carbon footprints of the Scope 1 and Scope 2 greenhouse gas (“**GHG**”) emissions associated with the funds’ underlying investments (“**portfolio carbon footprints**”), where data is available or can be reasonably estimated, for the funds that Large Fund Managers have discretion over the investment management process and are responsible for the overall operation. The disclosure of portfolio carbon footprints should be made not later than the usual due date of the funds’ audited accounts or annual reports.

The portfolio carbon footprint is calculated in accordance with the following formula, aligned with the Circular:

$$\sum_N \left( \frac{\text{Current value of investment}_i}{\text{Investee company's enterprise value}_i} \times \text{Investee company's Scope 1 and Scope 2 GHG emissions}_i \right) / \text{Current portfolio value (\$ million)}$$

Scope 1 GHG emissions are defined as direct emissions that occur from sources owned or controlled by the reporting company. Scope 2 GHG emissions are defined as indirect emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. GHG emissions are the seven gases mandated under the Kyoto Protocol and to be included in national inventories under the United Nations Framework Convention on Climate Change (“**UNFCCC**”) – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride, and nitrogen trifluoride. (Source: Partnership for Carbon Accounting Financials (“**PCAF**”))

### **BlackRock Premier Fund**

Pursuant to the Circular, portfolio carbon footprints have been disclosed below in relation to the sub-funds of the BlackRock Premier Fund (“**Sub-Funds**”) for which BAMNAL has discretion over the investment management process and is responsible for the overall operation (including but not limited to day-to-day management), where climate-related risks are considered relevant and material, and where the data is available or can be reasonably estimated. Portfolio carbon footprints are calculated based on the Sub-Funds’ positions as of the Sub-Funds’ last financial year-end (i.e., 30 September 2023) as at the date this document is published.

The table below summarises each of the Sub-Fund's portfolio carbon footprints and the proportion of investments which are assessed or covered.

Sub-Funds	Portfolio Carbon Footprint (in tons of CO <sub>2</sub> e per million US\$ invested)	Data Coverage <sup>(Note 4)</sup> (% of investments)
iShares Hong Kong Equity Index Fund	105.69	98.19
iShares Asia ex-Japan Equity Index Fund	46.13	14.74
iShares World Equity Index Fund	58.35	92.23
iShares World Government Bond Index Fund <sup>1 (Note 3)</sup>	N/A	0
BlackRock Premier China US Dollar Bond Fund	178.68	27.98
BlackRock Premier Global Megatrend Allocation	45.82	69.94
BlackRock Premier Dynamic High Income Fund	76.11	42.57
BlackRock Premier Systematic Global Equity High Income Fund	44.21	68.49

As of 30 September 2023. All figures have been rounded up to 2 decimal places.

Further information on these portfolio carbon footprints, including the calculation methodology, underlying assumptions and limitations, are summarised in the following notes:

#### Notes

1. Scope 1 and Scope 2 GHG emissions from investments and debts are allocated to the reporting institution based on the proportional share of investment or debt in the investee company. For example, if an institution's investment represents 5% of a company's enterprise value including cash and cash equivalents ("EVIC"), then that institution accounts for 5% of the company's GHG emissions. The carbon emissions intensity of the Sub-Fund's holdings are then aggregated with security level weights and normalised by the Sub-Fund's market value in million US dollars. EVIC here means the sum, at financial year end, of the market capitalisation of ordinary and preferred shares and the book value of total debt and non-controlling interests, without deducting cash or cash equivalents.
2. Portfolio carbon footprints are expressed in tons of carbon dioxide equivalent emissions ("CO<sub>2</sub>e") per million US dollars invested. MSCI has been used as a third-party data provider of the carbon emissions intensity data (Scope 1 and Scope 2 GHG emissions divided by EVIC in million US dollars at issuer level). The as-of date of the carbon emissions intensity data provided by MSCI may depend on when the investee companies most recently reported their GHG emissions data, which may not be the same as the Sub-Funds' financial year-end.
3. According to the Application of the Climate-related Risks Requirements under the Fund Manager Code of Conduct ("FAQs"), the SFC's minimum requirement is to follow the formula described above which uses EVIC as a basis, in order to promote consistency and comparability among different funds. However, some asset classes may use a different basis. For example, the PCAF Global GHG Accounting and Reporting Standard (dated December 2022) recommends value of a country's output (GDP) as a basis for sovereign debt. Moreover, reliable Scope 1 and Scope 2 GHG emissions data may not be readily available for all securities, asset classes or sectors, although the data availability is expected to improve over time. For this reason, some of the Sub-Funds that invest in government bonds or government policy bonds (or track indices that invest in such) may not have the portfolio carbon footprints available yet.
4. Portfolio carbon footprint data coverage is a proportion of a Sub-Fund's market value for which MSCI's carbon emissions intensity data is available. Sub-Funds with low coverage may not fully

<sup>1</sup> Effective 19 September 2023, the iShares World Government Bond Index Fund is terminated.

represent the Sub-Funds' carbon characteristics given the lack of data.

5. Changes in the enterprise value of investee companies can be misinterpreted. Portfolio carbon footprints are also sensitive to changes in market values of the Sub-Funds.

Besides portfolio carbon footprints disclosure which is a requirement for Large Fund Managers under the Circular, BAMNAL also voluntarily discloses MSCI Weighted Average Carbon Intensity (“**WACI**”) for some exchange-traded funds (“**ETFs**”) and mutual funds where reliable data are available. MSCI WACI represents the estimated GHG emissions per million US dollars in sales across the Sub-Fund's holdings and is expressed in tons of CO<sub>2</sub>e per million US dollars in sales. For more details on the sustainability characteristics of specific funds including WACI, please refer to <https://www.blackrock.com/hk/en>.

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