BlackRock Netherlands B.V.

2024 IFR ESG Public Disclosure

Contents

1. Introduction and context

1.1 Purpose

BlackRock (Netherlands) B.V. (‘BNBV’, ‘BNBV Solo’, ‘the firm’) is headquartered in the Netherlands and is regulated by the Autoriteit Financiële Markten / The Netherlands Authority for the Financial Markets (‘AFM’) as the primary regulator, and De Nederlandsche Bank (‘DNB’) from a prudential perspective. BNBV is an Investment Firm authorised under the Markets in Financial Instruments Directive (‘MiFID’) and falls under the prudential framework consisting of the Directive (EU) 2019/2034 (‘the Investment Firm Directive,’ ‘IFD’) and the Regulation (EU) 2019/2033 (‘the Investment Firm Regulation’, ‘IFR’).

Under Part Six of the IFR, in conjunction with the applicable technical standards and guidelines issued by the European Banking Authority (‘EBA’), BNBV is required to publicly disclose the following quantitative and qualitative information: (i) risk management objectives and policies; (ii) governance arrangements; (iii) capital adequacy, levels of own funds held and own funds requirements; (iv) remuneration policies and practices; (v) investment policy; and (vi) environmental, social and governance (‘ESG’) risks, to provide transparency to their investors and the wider markets.

This document fulfils the public disclosure requirements related to ‘ESG risks’[1], hereafter referred to as “sustainability risks”, under Part Six, and specifically Article 53, of the IFR for BNBV Solo and the BNBV Investment Firm Group (‘BNBV Group’). This disclosure should be read and considered in conjunction with the broader BNBV 2024 Public Disclosure made under Part Six, and specifically Article 46, of the IFR. As no template for the IFR Article 53 disclosure has been mandated by the EBA, this disclosure has been prepared by having regard to guidance provided by the EBA on ESG risks in accordance with Article 35 of the IFD.

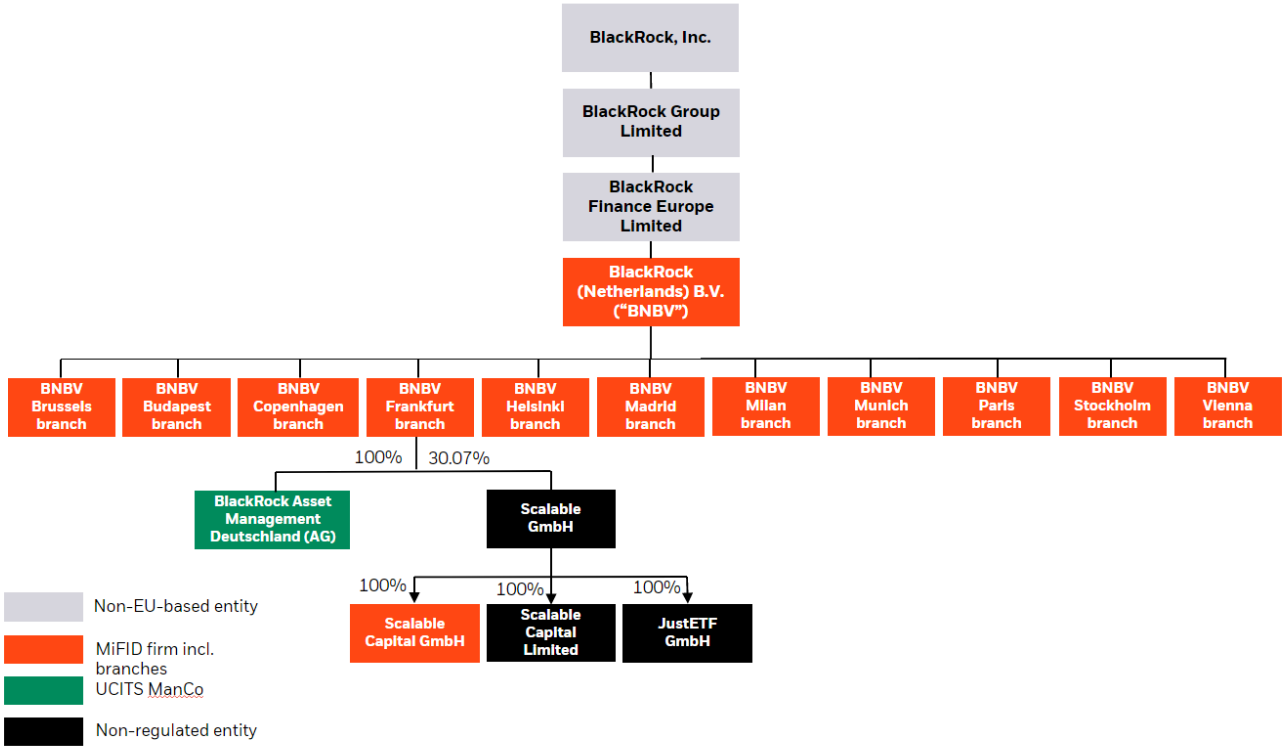
This disclosure document has been reviewed internally and approved by the Board of Directors of BNBV (‘BNBV Board’, ‘the Board’) for publication on the BlackRock website (https://www.blackrock.com/nl/particuliere-beleggers/educatie/documentatie).

1.2 BlackRock structure

The firms which form the BNBV Group are illustrated in Figure 1. BNBV is a subsidiary of BlackRock Finance Europe Limited which is owned by BlackRock Group Limited (‘BGL’). BGL is regulated in the United Kingdom (‘UK’) on a consolidated basis by the Financial Conduct Authority by virtue of it being the holding company for BlackRock, Inc.’s regulated business in Europe, the Middle East and Africa (‘EMEA’) (referred to collectively as the ‘BGL Group’). The ultimate holding company for the BGL Group is BlackRock, Inc. (together with its subsidairies, ‘BlackRock’).

[1] ESG risks or sustainability risks, are the risks of any negative financial impact on BNBV stemming from the current or prospective impacts of ESG factors on its investee companies or invested assets. ESG factors are environmental, social or governance matters that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual.

Figure 1 Summarised BNBV Investment Firm Group structure as at 31 December 2023[2]



BNBV holds a 100% controlling interest in a German subsidiary, BlackRock Asset Management Deutschland AG ('BAMDE') and a 30.07% economic interest in a German entity, Scalable GmbH ('Scalable'). Scalable is not regulated under IFR, however, it has three subsidiaries, Scalable Capital GmbH which is a digital investment manager and brokerage firm regulated under IFR, Scalable Capital Limited, which is a non-regulated UK company, and JustETF GmbH which is a non-regulated German company.

1.3 Basis of preparation

Article 5 of the IFR requires a firm to make public disclosures under Part Six of the IFR on an individual basis. Article 7(1) of the IFR requires firms to also comply with the requirements of Part Six (amongst other Parts) on a consolidated basis. Consequently, BNBV is required to disclose information on sustainability risks under Article 53 IFR on both an individual basis (i.e., for BNBV and its branches), and for the BNBV Group.

Article 53 IFR requires the disclosure on sustainability risks to be published biannually. Additionally, Article 46 IFR requires all information disclosed under Part Six to be published on the same date as the firm's annual financial statements; BNBV is therefore publishing this Article 53 IFR disclosure by 1 May 2024. Annually, BNBV will publish an Article 53 IFR disclosure on the date of publication of the annual accounts and no later than six months thereafter.

In preparing this disclosure, BNBV has:

- applied the principle of proportionality, taking into account its business model, size, the complexity of its activities and services, and the materiality of its exposure to sustainability risks; and
- taken a gradual approach by giving greater focus to the integration of sustainability risk considerations within the firm's business strategy and governance arrangements in the first years of disclosure.

BNBV has disclosed all the information that it deems material. There have been no material changes in relation to BNBV's business in the financial year ending 31 December 2023. For the purpose of this disclosure, information is

[2] MiFID is defined as the Markets in Financial Instruments Directive; UCITS is defined as the Undertakings for Collective Investment in Transferable Securities Directive ('the UCTIS Directive'); ManCo means 'Management Company' within the meaning of the UCITS Directive.

regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

As described in section 1.2, BNBV Group has a non-controlling interest in Scalable. Scalable has not been accounted for within this Article 53 IFR disclosure.

1.4 Other sustainability-related disclosures

In addition to the requirements of the IFR, BNBV is also required to comply with the requirements of the Sustainable Finance Disclosure Regulation ('SFDR').[3] This includes the requirement to prepare and publish a Statement on principal adverse impacts ('PAIs') of investment decisions on sustainability factors ('the PAI statement'). BNBV is required to publish a PAI statement no later than 30 June each calendar year for the 12-month reference period that ends 31 December of the year preceding publication. The BNBV SFDR PAI statement is prepared for BNBV on a solo basis.

The BNBV PAI statement includes quantitative disclosures associated with the assets that BNBV manages on behalf of its clients. The range of quantitative disclosures included in the PAI statement encompass 18 mandatory PAI indicators including, illustratively, the absolute GHG emissions associated with investments in investee companies, tonnes of emissions to water generated by investee companies, and Board gender diversity in investee companies. The BNBV PAI statement also includes two voluntary PAI indicators; the share of investments in investee companies without carbon emission reduction initiatives aligned with the Paris Agreement, and the share of investments in entities without a human rights policy.

This IFR Article 53 disclosure should be read and considered in conjunction with BNBV's PAI statement.

[3] This is a reference to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

2. Governance

Effective corporate governance is critical to executing on BlackRock's strategy and fulfilling its responsibilities to clients. BlackRock's commitment to good corporate governance with respect to sustainability-related matters reflects its commitment to strong leadership and effective oversight by the BlackRock Board and senior management. BlackRock's Board of Directors has oversight of the near- and long-term business strategy (including in relation to sustainability). The BlackRock Global Executive Committee ('GEC') sets the strategic vision and priorities of BlackRock and drives accountability at all levels.

Although BlackRock's strategy, including as it relates to sustainability, is developed and reviewed at a global level, it is designed to meet requirements applicable to all of BlackRock's locations. The BNBV Board aligns with BlackRock's strategy via its oversight and scrutiny of investment services offered by BNBV and ensures that it meets with local regulatory requirements as they relate to sustainability.

The BNBV Board has a critical role to play in ensuring that BNBV is aware of, and able to navigate, an ever-evolving risk landscape. BNBV operates under a one-tier management Board structure with a division of responsibility between the Non-Executive Directors ('NEDs') and the Executive Directors. Among others, the NEDs are responsible for ensuring that the BNBV Board is comprised of individuals who are best able to discharge the duties and responsibilities of directors. Their responsibilities focus primarily on the composition, appointment, succession and effectiveness of the BNBV Board.

The NEDs' responsibilities include conducting an assessment of the skills, experience, independence, knowledge and diversity of both the individual Directors and the collective Board. In addition, the NEDs are responsible for conducting a performance evaluation of the effectiveness of the Board, including the assessment of the Board structure, size and composition. These reviews take place at least every two years and include consideration of sustainability-related knowledge and experience.

BNBV is committed to the highest governance standards. Sound internal governance arrangements are fundamental to the BNBV operational set up. In this context, the BNBV Board has adopted a governance structure comprised of Board and committees to provide review, challenge and oversight of the firm's risks. Governance arrangements, processes and mechanisms are in place to ensure BNBV has sufficient data and information to assess the group-wide risk profile. Furthermore, members of the Board are represented on a wide range of cross-functional BlackRock committees within BlackRock EMEA and globally.

BNBV governance includes three key committees. The Operating Committee primarily supports operational management. In accordance with the governance requirements under the IFR and IFD, BNBV established the Risk Committee and designated the BlackRock Management Development and Compensation Committee ('MDCC') to act as the BNBV Remuneration Committee. The Risk Committee covers risk matters pertaining to the BNBV Group (including its branches and its subsidiary), including in relation to sustainability-related risks. An overview of BNBV's governance structure is provided in Figure 2.

Figure 2 BNBV Governance structure as at 31 December 2023

To facilitate its oversight of sustainability-related risks and opportunities, the BNBV Board considered sustainability-related matters throughout 2023. Topics considered by the Board included, illustratively, sustainability-related regulatory developments, including in respect of the IFR and the Sustainable Finance Disclosure Regulation, and recurring quarterly Investment Oversight updates encompassing, among other matters, sustainability. Where applicable, the functional and business reporting to the Board continues to evolve, to enable the Board to exercise risk-related oversight (including in relation to sustainability risk) that is informed, strategic and closely aligned with the company's business model and operations.

Functional groups

In practice, sustainability is integrated into different functions across BlackRock. Several teams focus on sustainability, while others integrate sustainability into their broader functional responsibilities, as appropriate. Figure 3 contains further information on the climate and sustainability-related responsibilities of the relevant business functions. While many of these business functions are organised globally, including either a direct or indirect reporting line into the GEC, each function works with the local BNBV teams to deliver on client requirements as required.

Figure 3 Functional Groups Involved in Sustainability-Related Matters[4]

Team	Sustainability-Related Responsibilities	Management Reporting Line
Aladdin	• Integrates third-party environmental, social and/or governance metrics on the Aladdin platform to support sustainability-related risk management, regulatory disclosures and reporting requirements. • Develops proprietary climate risk analytics (Aladdin Climate) to support climate risk management and portfolio decarbonization analysis.	Global Head of Aladdin is a member of GEC
BlackRock Investment Institute ('BII')	• Produces macro and portfolio research, including BlackRock's Capital Market Assumptions ('CMAs'). • The Sustainable Investment Research and Analytics team produces sustainable investment insights, including thought leadership and research on investment implications of the low-carbon transition.	Head of BII reports to a Vice Chairman (GEC member)

[4] As of 31 December 2023.

BlackRock Investment Stewardship ('BIS')	• Serves as a link between clients and the companies they invest in, engaging with investee corporate leadership and proxy voting at shareholder meetings when authorized by clients to do so. Where appropriate, BIS engages with companies on material climate-related issues.	Global Head of BIS is a GEC member
Corporate Sustainability	• Leads efforts to drive operational sustainability, establish sustainable business programs and policies, and engage key stakeholders on BlackRock's contribution towards the low-carbon transition and establishing BlackRock's operational sustainability goals.	Reporting line into Global Head of Corporate Affairs (GEC member)
Enterprise Services ('ES')	• Corporate Real Estate, Space Planning, Critical Infrastructure and Workplace Experience teams manage BlackRock's owned and leased corporate footprint, including the management of energy efficiency and carbon reduction initiatives where BlackRock has operational control. • Work alongside key stakeholders such as office leadership, property managers (leased premises) and the employee-run Green Team Network ('GTN') to plan and implement sustainability efforts in offices. • Business Continuity Management manages disaster recovery planning, strategy, and crisis management activities. • Health & Safety team monitors adherence to local environmental regulations and manages BlackRock's Environmental Management System.	Global Head of ES reporting line to Global Head of Technology & Operations (GEC member)
Global Corporate Sustainability Controllers	• Develops corporate climate- and sustainability-related disclosures globally, for both voluntary and mandatory reporting obligations.	Global Controller reports into Chief Financial Officer (GEC member)
Government Affairs & Public Policy ('GAPP')	• Engage in financial services public policy dialogue, including in relation to climate risk and sustainability disclosures, through participation in industry initiatives, engagement with regulators and standard setters around the world, and through whitepapers, comment letters and consultation responses regularly published on BlackRock's website.	Heads of Government Affairs & Public Policy report to Global Head of Corporate Affairs (GEC member)
Global Product Group	• Leads sustainable product innovation and development, governance, and strategy across the global product platform.	Chief Product Officer reports to President (GEC member)
Investment Divisions	• BlackRock investment divisions include ETFs and Index Investments, Portfolio Management Group, Global Trading & Transition Management, and Equity Private Markets. • Active portfolio teams manage exposure to financially material environmental, social and/or governance risks, and consider environmental, social and/or governance information in their investment processes, as applicable and consistent with client goals. • Investment teams often have sustainability-focused units.	Heads of major investment verticals are members of GEC and GEC Investment Sub-Committee
Legal & Compliance ('L&C')	• Assists in development of sustainability-related disclosures and compliance with applicable sustainability-related regulatory and reporting requirements across BlackRock.	General Counsel/Chief Legal Officer is a member of the GEC
Risk & Quantitative Analysis Group ('RQA')	• Responsible for BlackRock's Investment and Enterprise risk management framework which includes oversight of sustainability-related investment risks. • RQA evaluates investment risks, including financially material sustainability risks, on an ongoing basis as part of regular investment risk management processes and, where applicable, during regular reviews with portfolio managers. This helps to ensure that such risks are understood, deliberate, and consistent with client objectives, complementing the first-line monitoring. • Maintains a dedicated Sustainability Risk group that partners with risk managers and businesses to oversee sustainability risk across the platform.	Chief Risk Officer is a member of GEC and GEC Investment Sub-Committee

	• Consults with investors and sustainability experts across BlackRock to evaluate environmental, social and/or governance related data, models, methodologies and/or analytics.	
Sustainable & Transition Solutions ('STS')	• Leads BlackRock's sustainability and transition strategy, drives cross-functional change, supports client and external engagement, powers product ideation, and embeds sustainable expertise across BlackRock in partnership with other teams.	Global Head of STS reports to a Vice Chairman (GEC member)

Remuneration

BlackRock has a clear and well-defined pay-for-performance philosophy and compensation programmes which are designed to meet a number of objectives. These objectives include the promotion of sound and effective risk management across all risk categories, including sustainability risk, and discouraging excessive risk-taking (sustainability related or otherwise).

BNBV is subject to BlackRock's governance processes with respect to remuneration. This helps ensure robust oversight of remuneration, effective management of any potential conflicts of interests and reflects the need to link remuneration decisions with risk appetite and profiles.

BlackRock's remuneration governance for EMEA operates as a tiered structure which includes: (i) the MDCC, which is the global, independent remuneration committee for BlackRock and is comprised entirely of NEDs of BlackRock; and also acts as Remuneration Committee of BNBV; and (ii) in respect of BNBV, the BNBV Board and the NEDs in particular. As the Remuneration Committee of BNBV, the MDCC is responsible for the preparation of decisions on remuneration of the Material Risk Takers ('MRTs') and putting those for approval to the NEDs. The NEDs have the task (acting on the recommendations of the MDCC) of approving the decisions prepared by the MDCC on the remuneration of MRTs, including BNBV's senior officers in the independent control functions.

BNBV's Human Resources, Legal & Compliance and Risk functions are involved in setting, implementing, overseeing and reviewing the BNBV Remuneration Policy.

3. Strategy

BlackRock was founded on the premise of understanding and managing investment risk, anticipating client needs, and working with clients to achieve their investment goals. This is core to BlackRock's strategy. BlackRock recognises that different clients have different investment preferences and objectives. BlackRock provides choice to clients, including by offering a wide range of investment products to help them meet their investment goals, and delivering on the instructions and guidelines that clients ultimately select. This section discusses how sustainability risks and opportunities are considered within BlackRock's strategy.

BlackRock's investment decisions and its stewardship engagement and voting are governed strictly by its fiduciary duty to clients. As such, BlackRock does not make any commitments or pledges that would interfere with its independent determination on how to engage with issuers and vote proxies on behalf of its clients.

3.1 Sustainability-related risk and opportunities

BlackRock has identified a number of climate- and sustainability-related risks and opportunities that are deemed relevant to BNBV's business strategy. BNBV's exposure to sustainability-related risk is primarily indirect, with such risks primarily having the potential to affect future revenues and expenses, as opposed to assets and liabilities. The assets that BNBV manages belong to BNBV's clients, not BNBV. BNBV typically earns investment management fees as a percentage of assets under management ('AUM'). BNBV also earns performance fees on certain portfolios relative to an agreed-upon benchmark or return hurdle.

Sustainability-related opportunities

BlackRock believes that its sustainable investment platform and its transition investment platform are well-positioned to meet the increased demand of clients who are seeking to invest in products that include sustainability / transition-related characteristics. Both the sustainable investment platform and the transition investment platform include assets managed on behalf of BNBV's clients.

Sustainability-related risks

Figure 4 contains a summary of the principal climate and sustainability related risks that BlackRock has identified, and which have also been deemed relevant to BNBV's business strategy, together with an indication of the primary anticipated financial impact arising from each of these risks on BNBV's strategy.

Figure 4 Summary of climate and sustainability related risks[5]

Risk	Description	Primary Anticipated Financial Impact
Market	Market-related risks are among the key risks to which BlackRock's profitability may be exposed. Fluctuations in asset value due to climate-related risks could lead to a reduction in investment management revenues as a result of decline in the value of BlackRock's AUM, withdrawal of funds from BlackRock's products or the rebalancing or reallocating of assets into BlackRock products that yield different fee levels.	Reduced revenues
Product	BlackRock may be unable to develop new products and services to suit clients' climate-related needs and the development of new products and services may expose BlackRock to reputational harm, additional costs or operational risk. Unsuccessful efforts to develop products or services to suit clients' climate-related needs could expose BlackRock to additional costs and/or cause revenue and earnings to decline. Changes in client preferences and/or changes to regulation to which its clients are subject could reduce demand for certain investment products offered by BlackRock.	Reduced revenues

[5] The inclusion of climate-related risks in Figure 4 should not be construed as a characterization regarding materiality or financial impact of these risks.

Reputation	BlackRock is subject to competing demands from different stakeholder groups with divergent views on climate-related matters, including in countries in which BlackRock operates and invests, as well as in states and localities where BlackRock serves public sector clients. This divergence has and continues to increase the risk that any perceived or actual action or lack thereof by BlackRock on such matters on behalf of its clients will be viewed differently by various stakeholders and adversely impact BlackRock's reputation and business, including through withdrawals, redemptions, terminations, or decisions not to commit or invest new capital by clients, as well as legal and governmental action and scrutiny.	Reduced revenues
Regulatory	New, extensive and/or divergent environmental and sustainability-related disclosure requirements, regulations, guidance or taxes that apply to BlackRock's products or other aspects of BlackRock's operations could increase compliance costs or require BlackRock to alter business or operating activities. New laws, regulations or guidance could impact client investment strategies or allocations in a manner that is adverse to BlackRock.	Increased expenses or reduced revenues

3.2 Investment Approach

While BlackRock has identified the principal climate-related risks outlined above, BlackRock's diversified platform and commitment to providing choice to its clients creates flexibility in its business model.

As a fiduciary, BlackRock's investment approach is informed by three principles:

- Understanding the client's investment objectives and providing choice to meet their needs;
- Seeking the best risk-adjusted returns within the scope of the mandate given by clients; and
- Underpinning its work with research, data, and analytics.

BlackRock incorporates financially material sustainability data or information, alongside other information into firmwide processes, where relevant, with the objective of enhancing risk-adjusted returns. BlackRock has a framework for environmental, social and governance integration that permits a diversity of approaches across different investment teams, strategies and particular client mandates. As with other investment risks and opportunities, the financial materiality of environmental, social and / or governance considerations may vary by issuer, sector, product, mandate and time horizon. As such, BlackRock's environmental, social and governance integration framework needs to allow for flexibility across investment teams. Please refer to the BlackRock ESG Integration Statement for additional information.

Research is at the centre of BlackRock's investment approach and processes. It informs BlackRock's investment decisions and product innovation. BlackRock researches major structural trends shaping the economy, markets, and asset prices. BlackRock assess how these trends could affect long-term value and how they could unfold over time.

Sustainable investment solutions

To enable choice and meet client demand, BlackRock offers a wide range of sustainable investment strategies to clients. As of 31 December 2023, BlackRock had over 400 sustainable funds globally covering a spectrum of sustainable solutions, as well as customized solutions to meet clients' objectives.

BlackRock's sustainable platform provides clients with choice to invest in line with their specific investment goals and objectives. Across the platform, products use environmental, social and / or governance data as a portfolio construction input and a subset of those products also seek to achieve long-term sustainability outcomes, in line with each product's specific investment objective. These solutions include a variety of strategies that support the transition to a low-carbon economy. An overview of BlackRock's sustainable product framework is provided in Figure 5.

Figure 5 BlackRock sustainable investing platform

	Screened	Uplift	Thematic	Impact
Investment approach	Constrain investments by **avoiding issuers or business activities** with certain environmental, social and / or governance characteristics.	Commitment to investments with **improved environmental, social and / or governance characteristics** versus a stated universe or benchmark.	Targeted investments in issuers **whose business models** may not only benefit from but also may **drive long-term sustainability outcomes.**	Commitment to **generate positive, measurable, and additional sustainability outcomes.**
Additional details	Includes use of screens and may be enhanced with active engagement with specific issuers.	Environmental, social and / or governance data drives portfolio construction and security selection with some strategies leveraging to target a specific objective.	Strategy construction determined by focused exposure to the specific environmental or social theme.	Investment process must showcase "additionality" and "intentionality" in line with Operating Principles for Impact Management.

3.3 Investment Stewardship

BIS serves as a link between BlackRock's clients and the companies BlackRock invests in on their behalf. The team aims to build constructive relationships with companies and encourage corporate governance practices that can contribute to long-term financial value creation. BIS does this by engaging with investee companies and proxy voting on behalf of BlackRock's clients who have given BlackRock such authority. BIS' approach to stewardship is outlined in its Global Principles, regional voting guidelines and engagement priorities.

Consistent with prior years, in 2023 BIS engaged with companies on five priorities that, in the team's experience, support long-term financial performance: Board quality and effectiveness; strategy, purpose, and financial resilience; incentives aligned with financial value creation; climate and natural capital; and company impacts on people.

3.4 Industry Engagement & Public Policy

BlackRock advocates for public policies that it believes are in the long-term best interests of its clients and shareholders. In doing so, BlackRock supports the creation of regulatory regimes that increase financial market transparency, protect investors, and facilitate the responsible growth of capital markets, while preserving consumer choice and properly balancing benefits versus implementation costs. BlackRock's Government Affairs and Public Policy Group contributes to financial services standard-setting efforts and public policy discourse. As it relates to sustainability disclosure-related policy matters, BlackRock strives to engage constructively in the global dialogue through participation in industry initiatives as well as through engagement with regulators and standard setters around the world.

Since sustainability-related material investment risk is a global issue and many investors allocate funds globally, BlackRock supports a coordinated approach by regulators and standard-setting bodies across jurisdictions, to facilitate high quality, comparable disclosures. BlackRock acknowledges the significant contributions already made in this area by initiatives such as the Taskforce on Climate-related Financial Disclosure, the Sustainability Accounting Standards Board, the International Sustainability Standards Board, the Science Based Targets initiative, and the Global Reporting Initiative, which bring together public entities and private sector firms. BlackRock believes that coordinated regulatory action is required across markets to ensure a level playing field for companies and investors. In BlackRock's view, investors can make better-informed investment decisions when companies provide a clear picture of how they are managing material risks and opportunities, including where appropriate, any material sustainability-related risks and opportunities.

BlackRock and its employees participate in industry initiatives to contribute to a dialogue on issues that are important to its clients, including those related to sustainability-related risks.

3.5 Sustainability-related stress testing

BNBV performs an Internal Capital Adequacy Risk Assessment Process ('ICARAP') to assess the level of capital and liquidity that is considered adequate to cover the nature and level of the risks to which the firm is or might be exposed to. The potential financial impact of sustainability risk (among other risk types) is considered in the BNBV ICARAP using stress testing scenarios. The 2023 BNBV ICARAP included two sustainability-related stress tests that encompassed consideration of regulatory and reputational risk associated with sustainability. The impact of these stress tests is assessed over a three-year planning horizon. For each of these stress tests, while a reduction in profitability is forecast, BNBV remains profitable and maintains sufficient capital and liquidity to satisfy its regulatory own funds threshold requirements.

4. Risk Management

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. BlackRock employs a three-lines of defence approach to managing investment risks in client portfolios.

BlackRock's investment teams and business management are the primary risk owners, or first line of defence. Portfolio managers and research analysts are responsible for evaluating the financially material sustainability risks and opportunities for an industry or company consistent with the portfolios investment guidelines, just as they consider other potentially material economic issues related to their investments. Examples of sustainability-related 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 has developed a framework to monitor exposure to carbon intensive assets to support the understanding and management of potential climate-related risks.

BlackRock's risk management function, RQA, serves as the second line of defence in the BNBV risk management framework along with BlackRock L&C. RQA is responsible for BlackRock's Investment and Enterprise risk management framework, including oversight of sustainability-related investment risks. RQA evaluates investment risks, including financially material sustainability-related investment risks, on an ongoing basis as part of regular risk management processes, and where applicable, during regular reviews with portfolio managers. This helps to ensure that such risks are understood, deliberate, and consistent with client objectives, complementing the first-line monitoring. RQA also has a dedicated Sustainability Risk group that partners with risk managers and businesses to oversee sustainability risk across the platform.

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

4.1 Sustainability risk identification

Sustainability risk is not a standalone risk; hence the risk identification, assessment and monitoring of sustainability risk cannot be performed on a standalone basis. Sustainability risks are identified through exposure to Key Performance Indicators ('KPIs') linked directly to environmental, social and/or governance-related activities, or identified indirectly through their effect on different existing risk types (including, but not limited to, market, liquidity, concentration, credit, asset-liability mismatches, etc.). Sustainability risk factors may have a material impact on an investment held in a product, may increase volatility and may result in a loss to the value of units in a product.

Certain issuers may be particularly exposed to heightened sustainability risks through their sector or business practices. BlackRock has developed a framework to identify and monitor issuers particularly exposed to heightened environmental, social and/or governance risks.

4.2 Description of sustainability risks

BlackRock defines sustainability risk as an inclusive term to designate an investment risk (probability or uncertainty of occurrence of material losses relative to the expected return of an investment) that relates to environmental, social and/or governance issues. As with other investment risks and opportunities, the financial materiality of sustainability risks may vary by issuer, sector, product, mandate, and time horizon. Examples of sustainability-related risks may include but are not limited to:

1. **Environmental Risk**: Risk associated with environmental issues which may include but are not limited to climate change, water use, land use, waste management, environmental degradation, or loss of ecosystem services. Environmental degradation includes water or air pollution, desertification, and loss of biodiversity. Climate-related risks include:
    - **Climate transition risk:** Risk related to the transition to a lower carbon economy. Whether policy, technology, market, or reputation risk arises from the adjustments to a low-carbon economy in order to mitigate climate change.

- **Climate physical risk:** Risk associated with the physical impacts due to climate change. Physical risk arises from the physical effects of climate change which can be acute or chronic. For example, frequent and severe climate-related events can impact products and services, and supply chains.

2. **Social risk:** A broad range of factors that can impact an issuer's operational effectiveness and resilience as well as its public perception, and social license to operate. Examples of social issues include, but are not limited to, human capital management, impacts on the communities in which a company operates and customer loyalty.
3. **Governance risk**: Governance related risks can include risks around board independence, ownership & control, or audit and tax management.

4.3 Sustainability risk assessment

Each sustainability risk assessment is specific to the asset class and to the product's objectives. Different asset classes may utilise different data and tools to assess materiality, and make meaningful differentiations among issuers and assets. Risks are considered and actively risk managed concurrently, by prioritising based on materiality and on the product's objective, as well as ensuring that the risk taking is deliberate, diversified and scaled.

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