SFDR – frequently asked questions

BlackRock

Delivering on Sustainability as our Standard in Europe

1. What is BlackRock announcing?

We are setting out all the ways in which we are making sustainability integral to the way we manage risk, generate alpha, build portfolios, and pursue investment stewardship for clients in Europe, in order to help improve investment outcomes. This announcement relates specifically to the European Union's Sustainable Finance Disclosure Regulation (SFDR).

2. Why is SFDR important?

Our investment conviction is that sustainability risk and climate risk are investment risks, and that integrating sustainability considerations into our advisory and active investment process and the index strategies we offer can help investors build more resilient portfolios and achieve better performance for our clients. **SFDR is a key catalyst to help advance sustainable investing in Europe.** We see the standardisation of definitions and concepts as crucial for advancing sustainable investing, with investors seeking increased transparency and data on sustainable risks and opportunities.

3. What is BlackRock doing to help its clients navigate the transition to more sustainable portfolios?

In 2020 we completed our goal of achieving 100% ESG integration across our active and advisory portfolios, representing over €2.3tn in our assets globally.[1] BlackRock has built one of the largest sustainable investment platforms in the industry for investors (including one of the widest ranges of Sustainable ETFs), to support clients in acting upon our conviction that sustainable portfolios can deliver better risk adjusted returns.

Today, over €332bn of the assets BlackRock manages are Article 8 and 9 under SFDR, meaning that they commit to enhance E or S characteristics or sustainable objectives and ensure that all their corporate holdings demonstrate good governance.[1] We are expanding the range of our sustainable solutions even further, including solutions aligned to a net zero pathway across Index, Active and Alternative asset classes.

4. What is BlackRock's track record on the transition of investor portfolios to Article 8 or 9 compliant funds?

Since December 2018, BlackRock EMEA Baseline Screens have been applied on all new active funds in Europe, Middle East and Africa ("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. 63% of funds launched and repositioned in Europe last year are Article 8 or Article 9, meaning they need to ensure that all their corporate holdings demonstrate good governance, and commit to enhance E or S characteristics.[1]

In 2020 for funds in scope under SFDR, 74% of active flows, and 38% of index flows, went into today's Article 8 or 9 funds, equating to over €69.5bn.[1] To put this in context, as recently as 2018, just 6% of our iShares flows went into funds that would have been Article 8/9.[1]

Over the last year we have created bespoke index and active Article 8 fund solutions, which include underlying custom client driven sustainable screens, for over €18.3bn of client assets.[1]

We've also expanded investor access to sustainability-related KPIs in core Aladdin tools from 75 in 2019 to more than 1,700 at the end of Q1 2021.[1]

5. How can I find out if a particular fund is Article 6, Article 8 or Article 9?

Please reach out to your relationship manager for more information.

6. The sustainable transition is urgent. What is BlackRock planning to do to deliver further progress on sustainable investing for its European clients?

We are making two important commitments:

1. **Sustainability will be our standard for product development in Europe.** In 2021 we expect that 70% of our newly launched or repositioned funds will be Article 8 or 9, and we anticipate that this sustainable product development activity will continue to increase over time.
2. **We are reviewing our Article 6 funds, to provide Article 8 or 9 alternatives for our clients,** by repositioning and launching funds across our platform to provide a transition opportunity to Article 8/9 strategies for over 50% of current Article 6 AUM in our flagship ranges.

At the same time, we continue to aim to deliver differentiated performance with ESG integration critical to alpha generation efforts across the whole platform regardless of article 6/8/9 classification.

Sustainability is our default, but the choice will always remain with our clients. We recognize there will be some clients who seek solutions aligned to Article 6 strategies.

7. Transitioning my portfolio is complex. How can BlackRock help make this a smoother process?

We are taking specific action to remove friction from clients' transition, partnering with them to manage the costs and risks of implementing ESG strategies and building solutions such as customized screens/labels and alignment to UN SDGs.

We have transitioned over €75bn in ESG strategies since 2018, and we are investing in our business to support increased demand for this service.[1]

We will continue to invest heavily in data, technology and sustainability analytics via our industry-leading Aladdin technology, which offers transparency to investors on sustainability characteristics, measuring both the physical risk of climate change and the transition risk to a low-carbon economy on portfolios.

We are accelerating our work with index providers, continuing to push for an increased number of Sustainable Indices, and consistency across Article 8 and 9 benchmarks.

8. BlackRock's investment stewardship function (BIS) has really focused on sustainability in the last year. What is their role here?

BlackRock is an actively engaged steward of our clients' capital, and BIS will continue to engage with companies on the material risks and business practices that support sustainable long-term value creation.

We updated our stewardship expectations of companies for 2021, to include board and workforce diversity, understanding key stakeholders and aligning business models to global net zero by 2050.

We have mapped our engagement priorities to specific UN SDGs, such as Gender Equality and Clean and Affordable Energy, and we have provided high level globally relevant KPIs for each so that companies are aware of our expectations.

We will continue to hold directors accountable if company practices or disclosures fall short. In 2020, of our universe of 440 carbon-intensive companies, we voted against 64 directors and 69 companies for lack of progress addressing climate risk, and we put 191 companies "on watch".[1] Absent significant progress these companies risk voting action in 2021.

We have expanded our focus universe to over 1,000 carbon-intensive companies globally, representing more than 90% of the global Scope 1 and 2 emissions of the companies that we invest in on behalf of our listed equity clients.[1]

We also see support for shareholder proposals playing an increasingly important role in our stewardship efforts around sustainability. Using our new approach to shareholder proposals, in the second half of 2020, we supported 92% of all environmental proposals, having assessed that they were aligned with long-term value.

9. Where can I get more information about what SFDR means for me and for my portfolio?

Your Relationship Manager will be happy to arrange a more detailed discussion for you on the opportunity presented by sustainable investing. With one of the largest sustainable investment platforms in the industry, including one of the widest ranges of Sustainable ETFs, BlackRock is well-positioned to support clients in acting upon our conviction that sustainable portfolios can deliver better risk adjusted returns.

1 BlackRock, as of 31 December, 2020

Risk Warnings

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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.

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