BlackRock®

BlackRock Advisors (UK) Limited

2023 TCFD Entity Report

Contents

1. Introduction and context

1.1 Purpose

BlackRock Advisors (UK) Limited ('BAL' or 'the firm') is a MiFID[1] Investment Firm, regulated by the Financial Conduct Authority ('FCA').

This document fulfils the regulatory requirement under chapters 2.1 and 2.2 of the FCA's Environmental, Social and Governance ('ESG') sourcebook. Chapters 2.1 and 2.2 detail the requirement for firms to prepare and publish a 'TCFD entity report' containing climate-related disclosures consistent with the Task Force on Climate-Related Financial Disclosures ('TCFD') *Recommendations and Recommended Disclosures*.[2] This TCFD entity report sets out how the firm considers climate-related matters when managing assets on behalf of clients, encompassing disclosure of *Governance*, *Strategy* and *Risk Management* arrangements, as well as relevant climate-related *Metrics and Targets*.

This report contains entity-level disclosures; whilst some of the disclosures contained in this report may be relevant for product-level reporting, this should not be considered a product-level report.

1.2 BlackRock structure and business activities

BAL's principal activity is the provision of investment management, advisory and administrative services. The firm primarily manages active investment solutions. Additionally, the firm acts as agent to the securities lending business and provides transition management services.

BAL's immediate parent undertaking is BlackRock Finance Europe Limited ('BRFE'). BRFE is a wholly owned subsidiary of BlackRock Group Limited ('BGL'), a company domiciled in the UK and the holding company for BlackRock's regulated business in Europe, the Middle East and Africa ('EMEA'), known as the 'BGL Group'. BGL Group's principal activity is the provision of investment management and advisory services through its regulated subsidiaries. BGL is ultimately owned by BlackRock, Inc. through multiple holding companies. In addition to BAL, BGL has two further subsidiaries in the United Kingdom that are regulated by the FCA as MiFID Investment Firms; BlackRock Investment Management (UK) Limited ('BIM (UK)') and BlackRock International Limited ('BIL'). Figure 2.1 below illustrates the BGL Group's structure.

The activities of BGL and the three UK MiFID Investment Firms are managed jointly by a common Board of Directors ('Joint Board'). Permission has been obtained from the FCA for each of the MiFID Investment Firms to use committees established for the BGL Group (i.e., Group committees) rather than establish an individual committee for each firm.

1.3 Basis of preparation

This TCFD entity report has been prepared for BAL on a solo basis in accordance with the relevant provisions contained in the ESG sourcebook, the TCFD Recommendations and Recommended Disclosures, and the applicable sections of the TCFD Annex[3] as required under ESG 2.1.6R. Where appropriate, this entity report cross-refers to the BlackRock, Inc. Group ('BlackRock') 2022 TCFD report; cross-referral is made only in respect of matters disclosed in the BlackRock 2022 TCFD report that are directly relevant to BAL.

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[1] UK Markets in Financial Instruments Directive.

[2] TCFD Recommendations and Recommended Disclosures is a reference to the TCFD report entitled 'Recommendations of the Task Force on Climate-related Financial Disclosures' (the 'TCFD Final Report') published in June 2017, and, specifically, the four pillars and the eleven recommended disclosures detailed in section C (Figure 4) of the report. This reference also encompasses the Annex to the TCFD report entitled 'Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures' and, specifically, section C (Guidance for All Sectors) and part 4 section D (Supplemental Guidance for Asset Managers).

[3] The 2021 TCFD Annex updates and supersedes the 2017 version of "Implementing the Recommendations of the TCFD". It provides both general and sector-specific guidance on implementing the Task-Force's recommendations. ESG 2.1.6R(1) and (3) require the firm to ensure its TCFD entity report reflects, to the extent it is relevant, the guidance in section C and part 4 section D of the TCFD Annex. 2021-TCFD-Implementing_Guidance.pdf (bbhub.io)

Chapter 2.1 of the ESG sourcebook requires firms to prepare and publish a TCFD entity report no later than 30 June each calendar year. The BAL TCFD entity report adopts a 12-month reporting period that ends on 31 December of the year preceding the date of publication.

In line with the requirements outlined in the ESG sourcebook chapters 1.1 and 1.2, the disclosures contained in this report relate to assets managed in connection with the firm's TCFD in-scope business. For BAL, TCFD in-scope business is limited to the provision of portfolio management.[4] The disclosures provided in this report relate only to BAL as an asset manager acting on behalf of clients and do not encompass BAL's operations. The metrics presented in section 5 of this report relate to all assets belonging to clients with whom BAL has a direct contractual relationship for the provision of portfolio management, including assets for which BAL has subsequently delegated portfolio management *to* another entity. The metrics presented in section 5 also include assets that BAL manages by way of delegation *from* another entity.[5] This approach has been adopted irrespective of where the client, product or portfolio is domiciled.

In the event of divergence between the relevant entity-level governance, strategy or risk management arrangements disclosed in this report and the approach taken at a product level, an explanation of such divergence will be provided in the relevant on-demand TCFD product report. Clients should refer to their on-demand product reporting for further information.

It is anticipated that BAL's approach to TCFD entity reporting will continue to evolve, particularly as climate-related data and quantification methodologies develop further. The quantitative methodologies adopted for the current report, together with the known limitations of those methodologies, are referenced in section 5 of the report.

1.4 Compliance statement

ESG 2.2.7 requires a firm's TCFD entity report to include a statement confirming that the disclosures contained in the report comply with the requirements of the ESG sourcebook.

In respect of the BAL TCFD entity report, this compliance statement is underpinned by BlackRock's internal control and governance procedures. This provides assurance that the disclosures contained in this report, including any disclosures cross-referred to in the BlackRock 2022 TCFD report, comply with the ESG sourcebook TCFD entity reporting requirements. This compliance statement should be read in conjunction with section 1.3, which details the basis on which this report has been prepared and includes an expectation that the matters disclosed in this entity report will continue to evolve in line with market practice and the ongoing development of quantification methodologies.

Colin McDonald
BlackRock Advisors (UK) Limited Chief Financial Officer

[4] Portfolio Management refers to the regulated activity of managing investments on behalf of clients.

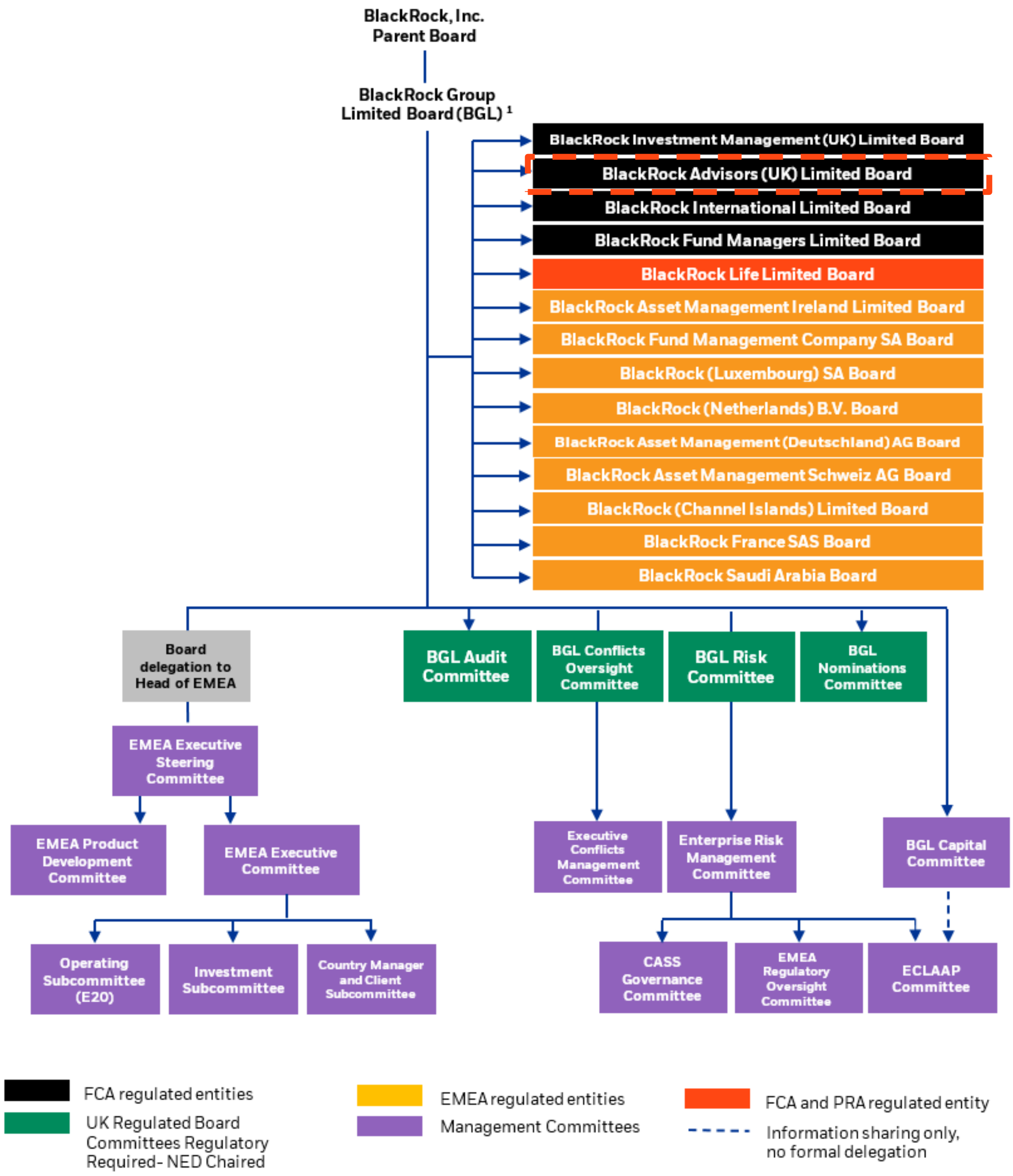
[5] In addition to BAL, two further BGL Group subsidiaries are also required to publish TCFD entity reports for the reporting period ending 31 December 2022; BIM (UK) and BlackRock Life Limited ('BLL'). Where there are delegation arrangements between any of BAL, BIM (UK) and BLL, the approach outlined here will result in metrics being reported in respect of the same assets in more than one TCFD entity report. It is therefore not appropriate to aggregate the metrics presented on a solo basis in the BAL, BIM (UK) and BLL TCFD entity reports.

2. Governance

Effective corporate governance is critical to executing on BlackRock's strategy, fulfilling its responsibilities to clients, and creating long-term value for stakeholders. BlackRock's commitment to good corporate governance with respect to climate-related matters reflects its commitment to strong leadership and effective oversight by the BlackRock Board and senior management. Sustainability,[6] including climate-related issues, is a critical component of BlackRock's overall business strategy. BlackRock's Board of Directors has oversight of the near- and long-term business strategy (including sustainability). The BlackRock Global Executive Committee ('GEC') sets the strategic vision and priorities of BlackRock and drives accountability at all levels.

As described in section 1.2, the Joint Board provides oversight of activities at the BGL Group level. Accordingly, the disclosures provided in this entity-level report refer to activities performed in respect of the BGL Group. The Joint Board has adopted a governance structure comprising Board and management committees to provide review, challenge, and oversight of the BGL Group's activities. The link between the Joint Board and its committees is shown in Figure 2.1.

Figure 2.1 Governance structure of BGL and regulated subsidiaries



6 Throughout the TCFD entity report, references to 'sustainability' will encompass, where relevant, consideration of climate-related risks, opportunities and financial impacts as defined in the TCFD Final Report and the TCFD Annex.

Although BlackRock's sustainability strategy is developed and reviewed at a global level, it is designed to meet requirements applicable to all of BlackRock's locations. The Joint Board has visibility and can input into this strategy by having the ability to make recommendations to ensure it complies with applicable local regulations. The Joint Board implements BlackRock's sustainability strategy via its oversight and scrutiny of investment services offered across the BGL Group and ensures that it meets local regulatory requirements. The Head of EMEA, who is a member of the Joint Board, is also a member of the GEC.

2.1 Joint Board oversight

The Joint Board has responsibility for the approval of the BGL Group's overall long-term strategic objectives and risk appetite. In addition, the Joint Board has oversight of the overall leadership of the BGL Group and responsibility for reviewing the group's performance relative to its strategy, objectives, and business plan.

The Joint Board reviewed and discussed aspects of the BGL Group's sustainability-related strategy throughout the year. Illustratively, the topics discussed at these Board meetings included sustainable investing and product / strategy development, sustainability-related regulatory developments, and an update from the BlackRock Investment Stewardship ('BIS') team. In addition, a sustainability product strategy update was presented to the BGL Group's Non-Executive Directors ('NEDs'). In addition to oversight by the Joint Board, the BGL Group Risk Committee also considered sustainability-related matters during 2022, including an overview of EMEA oversight and governance in relation to sustainability. The BGL Group Audit Committee also received an update in relation to testing of firmwide processes and controls relating to sustainable investing.

Joint Board and committee performance evaluation

The BGL Nominations Committee (comprised of four BGL Group NEDs, including the Chair of the Joint Board) conducts an annual assessment of the skills, experience, independence, knowledge, and diversity of the Joint Board members (both individually and collectively) as required to competently discharge their duties. The Nominations Committee also conducts an annual performance evaluation of the effectiveness of the Joint Board and its committees. This evaluation exercise considers sustainability related knowledge and experience.

The Nominations Committee are responsible for reporting conclusions and recommendations arising out of the evaluation exercise to the Joint Board, and for agreeing an action plan, if required, to address the results of the evaluation exercise. The Nominations Committee is also responsible for periodically reviewing progress against this plan. The results of the most recent evaluation exercise were presented in September 2022. As part of this evaluation exercise, the members of the Joint Board recognised an ongoing need for sustainability-related training / business updates.

2.2 BGL Group management oversight

The Joint Board has delegated management of the day-to-day affairs and activities of the BGL Group to the Head of EMEA, who is also the Chief Executive Officer of the BGL Group, in conjunction with EMEA functional leadership. The responsibilities of the Head of EMEA includes:

- The formulation and implementation of the BGL Group strategic objectives.
- The development of business plans and operating strategies for the BGL Group.
- The oversight of BGL Group operations and business performance, including the review of regional business performance; the review and approval of new business initiatives; oversight of the product development governance process; and oversight of investment performance.
- Risk Management, including the implementation of approved Corporate Group policies.

As illustrated in Figure 2.1, the Head of EMEA is assisted in the discharge of his responsibilities by the EMEA Executive Steering Committee, which acts in an advisory and information sharing capacity, and which has been delegated certain approval and decision-making powers by the Head of EMEA. The Head of EMEA is also assisted by the EMEA Executive Committee (which operates as a sub-committee of the EMEA Executive Steering Committee) with managing the day-to-day affairs of the BGL Group. Membership of the EMEA Executive Steering Committee and the EMEA Executive Committee includes the EMEA co-heads of BlackRock's Sustainable and Transition Solutions ('STS') function (an overview of which is provided in Figure 2.2), both of whom are certified employees under the Senior Managers and Certification Regime.

The EMEA Executive Committee considered sustainability-related matters relevant to the BGL Group throughout the year. Illustratively, the topics considered included sustainable investing, sustainability-related regulatory developments, and a technology and operations update relating to sustainability. In addition, the EMEA Executive Steering Committee also considered sustainability-related matters. Illustratively, the topics considered included sustainable investing and client priorities, sustainability-related governance structures and initiatives, and an update on the EMEA BIS team.

2.3 Functional groups

Sustainability is integrated into different business units across BlackRock. Several teams focus on sustainability, while others integrate sustainability into their broader functional responsibilities. Figure 2.2 contains further information on the climate and sustainability-related responsibilities of the relevant teams. While many of these business units are organised globally, including either a direct or indirect reporting line into the GEC, each function works with the local BGL Group/EMEA teams to deliver on client requirements.

Figure 2.2 Functional groups involved in climate & sustainability-related matters

Team	Sustainability-Related Responsibilities	Management Reporting Line
Teams with Sustainability-Related Areas of Focus		
BlackRock Investment Stewardship	• Serves as an important link between clients and the companies they invest in, engaging with investee company leadership and proxy voting at shareholder meetings when authorized by clients to do so. Where appropriate, BIS engages with companies on climate-related issues.	Global Head of BIS is a GEC member
Sustainable and Transition Solutions	• 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)
BlackRock Investment Institute ('BII')	• Produces macro and portfolio research, including BlackRock's Capital Market Assumptions. • The Sustainable Investment Research and Analytics ('SIRA') team produces thought leadership and research on the implications of the transition on portfolio construction.	Global Head of BII reports to a Vice Chairman (GEC member)
Corporate Sustainability	• Drives efforts to incorporate sustainable practices into business operations including tracking progress on environmental sustainability emissions reductions goals for operations. • Develops corporate climate-related and sustainability-related disclosures.	Chief Sustainability and Social Impact Officer reports to Global Head of External Affairs (GEC member)
Sustainability Integrated into Broader Functional Responsibilities		
Global Public Policy Group ('GPPG')	• Strives to engage constructively 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 the whitepapers, comment letters and consultation responses regularly published on BlackRock's website.	Global Head of Public Policy reports to Global Head of External Affairs (GEC member)
Investment Divisions	• BlackRock investment divisions include: ETFs and Index Investments, Portfolio Management Group, Global Trading & Transition Management, and BlackRock Alternatives. • Active portfolio teams manage exposure to material ESG risks, and consider ESG information in their investment processes, as applicable and consistent with client goals. • Investment teams can often have sustainability-focused units (e.g., BlackRock Alternatives Sustainable Investing team, Fixed Income ESG Investment team).	Heads of investment divisions are members of GEC and GEC Investment Sub-Committee
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)

Team	Sustainability-Related Responsibilities	Management Reporting Line
Risk & Quantitative Analysis Group ('RQA')	• BlackRock's risk management function. • Responsible for BlackRock's Investment and Enterprise risk management framework which includes oversight of sustainability-related investment risks. • Conducts regular reviews with portfolio managers to ensure that investment decisions are taken in light of relevant investment risks, including sustainability-related risks, complementing the first-line monitoring of material climate-related considerations across BlackRock's investment platform. • Maintains a dedicated Sustainability Risk Team that partner with risk managers and businesses to reinforce this constructive engagement. • Collaborates with working groups throughout the Investments Platform and with Aladdin Sustainability Lab to advance BlackRock's sustainability toolkit through consultation on firmwide data, modelling, methodologies, and analytics.	Chief Risk Officer is a member of GEC and GEC Investment Sub-Committee
Aladdin	• Makes available climate and ESG data and physical and transition risk analytics into investors' workflows, regulatory reporting, and decarbonisation/temperature alignment analysis delivered through Aladdin.	Global Head of Aladdin is a member of GEC
Enterprise Services ('ES')	• Health & Safety team monitors adherence to local environmental regulations. • Corporate Real Estate, Space Planning, Critical Infrastructure and Workplace Experience teams work alongside key stakeholders such as 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.	Global Head of ES reports to Global Head of Technology

2.4 Remuneration

The BGL Group has a remuneration policy in place, the responsibility for which rests with the Joint Board. This includes responsibility for the adoption and ongoing oversight of the remuneration policies and practices for employees based in EMEA.

The Management Development and Compensation Committee, which is the global, independent remuneration committee for BlackRock and comprises the NEDs of BlackRock, also acts as the independent remuneration committee for the BGL Group. It therefore supports the Joint Board in meeting its remuneration related obligations by overseeing the design and implementation of the remuneration policy in accordance with applicable regulations.

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).

3. Strategy

BlackRock was founded on the premise of understanding and managing investment risk, anticipating the needs of its clients, and supporting them in achieving their long-term investment goals. This is core to BlackRock's strategy. BlackRock recognises that different clients have different investment preferences and objectives. BlackRock continues to believe in the power of providing 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 describes how climate risks and opportunities are managed by BlackRock, including BAL.

3.1 Investment approach

As a fiduciary, BlackRock's approach to investing is grounded in three principles: 1) BlackRock starts by understanding the client's investment objectives and provides choice to meet their needs; 2) BlackRock seeks the best risk-adjusted returns within the scope of the mandate given by clients; and 3) BlackRock underpins its work with research, data, and analytics.

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

Research is at the centre of BlackRock's investment approach and processes. It informs BlackRock's pursuit of the best risk-adjusted returns, and it underpins product creation and innovation. BlackRock researches major structural trends shaping the economy, markets, and asset prices, including in relation to sustainability and the transition to a low-carbon economy.

Sustainable investment solutions

To enable choice and meet client demand, over the past few years, BlackRock has significantly expanded the number of sustainable investment strategies available to clients. As of 31 December 2022, BlackRock had over 400 sustainable funds globally covering a spectrum of sustainable solutions, as well as customised solutions to meet clients' objectives. As of 31 December 2022, BlackRock managed $586 billion in its Sustainable Investing Platform on behalf of its clients.

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 products and strategies that support the transition to a low-carbon economy. An overview of BlackRock's sustainable product framework is provided in Figure 3.1.

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Figure 3.1 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” or “intentionality” in line with Operating Principles for Impact Management.

Further information on BlackRock’s sustainable investment strategies is available in the **Strategy** section of the BlackRock 2022 TCFD Report.

Transition to a low-carbon economy

Climate risk is an investment risk. It is one of many investment risks BlackRock considers. Government policies, technological innovation, and consumer and investor preferences are driving a material economic transformation. Physical climate change also continues to create financial risk (e.g., through extreme weather), which is affecting asset prices. These trends are dynamic and will create or impair value across companies and industries, and generate investment risks and opportunities.

BlackRock’s research shows that an orderly transition would result in higher economic growth compared with no climate actions. It would create a more constructive macro environment for financial returns for clients overall. Because an orderly transition to a low-carbon economy would benefit the global economy and BlackRock’s clients in aggregate, BlackRock believes that issuers would benefit from developing and implementing robust transition plans.

BlackRock’s role in the transition to a low-carbon economy is as a fiduciary: BlackRock provides choice to its clients; seeks the best risk-adjusted returns within the mandate its clients give them; and underpins its work with research, data, and analytics. The money BlackRock manages is not BlackRock’s – it belongs to clients, many of whom make their own asset allocation and portfolio construction decisions. BlackRock’s role is to help them navigate investment risks and opportunities.

BlackRock provides clients with data and analytics, investment insights and research about the impacts of the low-carbon transition on their portfolios. BlackRock offers a range of products and strategies from which clients can choose to achieve their desired outcomes, including strategies designed to help clients invest in the low-carbon transition.

3.2 Investment stewardship

BIS serves as an important link between BlackRock's clients and the companies BlackRock invests in on their behalf. The business and governance decisions that companies make will have a direct impact on BlackRock's clients' long-term investment outcomes and financial well-being. For this reason, BIS aims to build constructive relationships with companies to further the team's understanding of a company's approach to corporate governance and having a durable business model. BIS does this by engaging with investee companies and proxy voting on behalf of BlackRock's clients who have given such authority. BIS' approach to engagement and proxy voting is outlined in its Global Principles, market-level voting guidelines and engagement priorities.

In 2022, BIS continued to focus its engagement on a consistent set of five priorities that the team believes support the long-term financial performance of BlackRock's clients' investments: board quality and effectiveness; strategy, purpose, and financial resilience; incentives aligned with value creation; climate and natural capital; and company impacts on people. In its engagements, the BIS team encourages companies to provide disclosures that help investors understand their long-term strategy and the governance and operational processes that underpin their business models and long-term financial performance. In addition to robust financial disclosures, BIS finds it helpful when companies provide the data and narrative that help investors understand how they approach material, business relevant sustainability risks and opportunities, where appropriate.

BlackRock voting choice

While many asset owners are pleased to have BlackRock's stewardship team serve as a bridge between them and the companies they are invested in, others want the choice to actively participate in proxy voting. In January 2022, BlackRock launched BlackRock Voting Choice, a capability that gives eligible clients – who are the true owners of the assets BlackRock manages – the option to engage more directly in proxy voting.

The ongoing expansion of the BlackRock Voting Choice programme reflects BlackRock's commitment to democratise participation in the financial markets by providing clients with one of the industry's broadest range of choices across their investment portfolios. For the many clients who choose to continue to use BlackRock's voting policies, BIS continues to focus on how companies are delivering long-term profitability for their shareholders. Continuing to rely on BlackRock to exercise voting authority is itself a choice and a deliberate decision by the client to trust BlackRock as a fiduciary asset manager to look after their long-term economic interests.

Further information on BIS, including its engagement with companies in the BIS Climate Focus Universe,[7] is available in the **Strategy** section of the BlackRock 2022 TCFD Report.

3.3 Risks, opportunities, and scenario analysis

BlackRock recognises the importance of effective identification, monitoring, and management of climate-related risks and opportunities across its global business. BAL's exposure to climate-related risk is primarily indirect, with such risk primarily having the potential to affect future revenues and expenses, as opposed to assets and liabilities.[8] This is because the assets that BAL manages belong to its clients, not BAL. BAL typically earns investment management fees as a percentage of assets under management ('AUM'). BAL also earns performance fees on certain portfolios relative to an agreed-upon benchmark or return hurdle.

[7] In 2020, BIS focused its climate-related engagement on 440 public companies that represented about 60% of the global scope 1 and scope 2 GHG emissions of the companies in which BlackRock invests on behalf of clients. In 2021, BIS expanded the focus universe to over 1,000 carbon-intensive public companies that represent nearly 90% of the global scope 1 and 2 GHG emissions of BlackRock's clients' public equity holdings. The list is developed from publicly available information and is intended to focus engagement efforts where the energy transition is likely to have the most material impact on a company.

[8] As a corporate entity, BAL may also be exposed to climate-related risks. However, as outlined in section 1.3, the scope of this report is limited to the assets associated with BAL's portfolio management activities (in line with the requirements contained in ESG 1.1.3 and ESG 1.2.1).

Climate-related opportunities

BlackRock considers increased client demand for investment solutions that align with clients' sustainability, including climate-related, objectives to be a key opportunity. BlackRock believes that its $586 billion dedicated Sustainable Investing Platform is well-positioned to meet the increased demand from clients looking to invest in products aligned with sustainability- and climate-related investment goals. BlackRock's iShares® Sustainable ETF range, of which BAL is a co-manufacturer, is one of the largest in the industry, both in terms of AUM and the number of investment options provided to investors.

Climate-related 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. As one component of sustainability risk, BlackRock recognises the impacts due to climate change by reference to:

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

- ***Climate transition risk***: Whether policy, technology, market, or reputation risk arises from the adjustments to a low-carbon economy or a ban of environmentally damaging materials or services in order to mitigate climate change and environmental degradation.

Figure 3.2 contains a summary of climate-related risks as they may relate to the BAL business.

Figure 3.2 Summary of climate-related risks[9]

Risk	Description	Primary Anticipated Financial Impact
Market	Market-related risks are among the key risks to which BAL'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 a decline in the value of BAL's AUM, clients withdrawing funds from BAL or the rebalancing or reallocating of assets into products that yield different fee levels.	Reduced revenues
Product	Changes in client preferences reduce demand for investment services offered by BAL. BAL may be unable to develop new investment strategies to suit clients' climate-related needs or the development of new investment strategies may expose BAL to reputational harm, additional costs, or operational risk. Unsuccessful efforts to develop investment strategies to suit clients' climate-related needs could expose BAL to additional costs and/or cause revenue and earnings to decline.	Reduced revenues
Reputation	Stakeholder scrutiny and divergent views related to the impact of BAL's client portfolio holdings on the climate as well as perceived action or lack of action by BAL on climate-related matters could create reputational risk, impact client and employee relationships, subject BAL to heightened legal scrutiny or, for BlackRock more broadly, lead to shareholder divestment.	Reduced revenues
Policy and Legal	New or divergent environmental and climate-related disclosure requirements, or regulations, guidance or taxes that apply to BAL's investment services or other aspects of BAL's operations could increase compliance costs or require BAL to alter business or operating activities. New law, regulations or guidance could impact client investment strategies or allocations in a manner that is adverse to BAL.	Increased expenses or reduced revenues

The impact of climate-related risks, together with other relevant risks, on the BGL Group strategy and financial performance is considered in the BGL Group internal capital adequacy and risk assessment ('ICARA') process and, specifically, through the ICARA stress testing process.

[9] The inclusion of climate-related risks in Figure 3.2 should not be construed as a characterisation regarding materiality or financial impact of these risks.

Scenario analysis & stress testing

Scenario analysis is used to inform assessments of the resilience of an organisation's business or strategy to disruptions and/or the organisation's ability to adapt to changes or uncertainties that might affect its performance. In the case of climate change, scenario analysis allows an organisation to develop insight into how the physical and transition risks and opportunities arising from climate change might impact its business over time. A firmwide climate-related scenario analysis exercise has been conducted for BlackRock to understand the potential implications of climate-related transition and physical risk under a variety of emission scenarios to BlackRock's business strategy over the short-, medium-, and long-term. This scenario analysis has been performed using three scenarios developed by the Network for Greening the Financial System ('NGFS'). These scenarios are: *Orderly – Net Zero 2050*, *Disorderly – Delayed Transition*, and *Hot House World – Current Policies*. Further information on the BlackRock approach to **scenario selection**, **impact assessment** and **scenario conclusions**, together with the **limitations** inherent in the scenario analysis exercise, is available in the **Metrics and Targets** section of the BlackRock 2022 TCFD Report. Clients should also refer to their on-demand product reporting for further information on scenario analysis.

While scenario analysis performed using the NGFS scenarios is not currently prepared at the subsidiary entity-level, it is anticipated that BlackRock's approach to climate scenario analysis will continue to evolve. For the BGL Group, including BAL, the ICARA process includes sustainability related stress testing, which considers the impact of sustainability, including climate-related, risks on the strategy and financial performance of the BGL Group. The BGL Group ICARA is intended to assess the level of capital and liquidity that adequately supports all relevant current and future risks to which the BGL Group may be exposed, given its business activities and operating model.

The 2023 BGL Group ICARA stress tests include two sustainability-related stress tests, both of which consider the product, regulatory and reputational risks associated with a transition towards sustainable investing. Specifically, the stress tests consider (i) the risk that the BGL Group will not be able to provide a satisfactory approach to sustainability investing that meets all types of client demands, preferences and objectives, and (ii) the risk associated with a breach of sustainability-related regulatory requirements due to operational implementation issues from diverging sustainability policies and distribution labels across jurisdictions. 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, the BGL Group remains profitable and maintains sufficient capital and liquidity to satisfy its own funds threshold requirements.

3.4 Industry engagement and public policy

BlackRock advocates for public policies that it believes are in the long-term best interests of its clients. 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 Global Public Policy Group contributes to financial services standard-setting efforts and public policy discourse. As it relates to climate and 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.

BlackRock supports corporate climate disclosures aligned with the TCFD framework and is pleased to observe that the quality of issuers' disclosures is increasing over time. In 2022, BlackRock contributed comments on several policy efforts to heighten the quality of sustainability-related reporting globally, including consultations by the International Sustainability Standards Board on climate-related disclosures and the UK FCA's proposal for Sustainability Disclosure Requirements and Investment Labels. BlackRock's responses to these developing frameworks are guided by, and build on, BlackRock's principles for high quality climate-related disclosures.

BlackRock engages with regulators and standard setters at a National, Regional and Global level. In the UK, for example, BlackRock responded to the Government's call for evidence on the Updated Green Finance Strategy. BlackRock's response highlighted the progress that has been made towards the objectives of the first Green Finance Strategy, stressing that there was now the opportunity to focus on how the UK can enable further green investment in the updated strategy.

BlackRock remains a member of the Glasgow Financial Alliance for Net Zero ('GFANZ') and the Net Zero Asset Managers Initiative ('NZAMI'). In 2022, BlackRock issued its 2030 net zero statement, which it also submitted to NZAMI.

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. This section discusses BlackRock's approach to risk management, including the risk identification, assessment and monitoring processes adopted by BlackRock.

BGL is the holding company for BlackRock's regulated business in EMEA, including BAL. As referred to in section 2, risk management in BAL is governed by the Joint Board. BAL follows the BGL Group's policy and control frameworks. The elements of the risk management framework described in this section are applied at the BGL Group level, which is consistent with the BGL Group's strategy and business management.

4.1 Risk management approach

BlackRock employs a three-lines of defence approach to managing risks, including climate-related risks, in client portfolios.

BlackRock's investment teams and business management are the primary risk owners, or first line of defence.

BlackRock's risk management function, RQA, is responsible for BlackRock's Investment and Enterprise risk management frameworks and serves as a key part of the second line of defence along with BlackRock Legal and Compliance. RQA evaluates investment risks, including financially material climate-related risks, 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, including climate-risks, 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 objectively assess the adequacy and effectiveness of BlackRock's internal control environment to improve risk management, control, and governance processes, including those relevant to climate-related matters.

4.2 Climate risk – identification

Climate risks may be identified through exposure to Key Performance Indicators linked directly to particular 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.). Climate risk factors may have a material impact on an investment held in a portfolio, may increase volatility, and may result in a loss to the value of a portfolio.

Certain issuers may be particularly exposed to heightened climate risks through their sector or business practices. BlackRock has a heightened scrutiny framework to identify and monitor issuers particularly exposed to climate risks. Such issuers identified through a heightened scrutiny framework include thermal coal generators (firms with 25%+ revenue from thermal coal production).

4.3 Climate risk – assessment

Climate risks are identified at various steps of the investment process, where relevant, from research, allocation, selection, portfolio construction decisions, or management engagement, and are considered relative to portfolio risk and return objectives. Assessment of these risks is done relative to their materiality (i.e., likeliness of impacting returns of the investment) and in tandem with other risk assessments (e.g., liquidity, valuation, etc.). How climate considerations are sourced, assessed, and incorporated will vary with portfolio objective, investment style, and asset class. BlackRock's investment professionals assess a variety of economic and financial indicators, including relevant material climate factors, to make investment decisions that align with the investment objectives.

4.4 Climate risk – monitoring and response

As set out in section 4.1, BlackRock's investment teams and business management are the primary risk owners, or the first line of defence. BlackRock's risk management function, RQA, is responsible for BlackRock's Investment and Enterprise risk management frameworks and serves as a key part of the second line of defence along with BlackRock Legal and Compliance. RQA evaluates investment risks, including financially material climate risks, 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.

5. Metrics and Targets

In this section, BAL outlines entity-level climate metrics for BAL's assets under management.[10]

The following is a discussion of the methodology, results, and limitations of an analysis performed on 30 December 2022 holdings data to compute preliminary estimates of the absolute emissions associated with BAL's TCFD in-scope business as it relates to holdings in corporate securities (listed equities, corporate bonds, and associated derivatives).[11] These asset classes were included in the analysis because there is consensus around the methodologies for attributing emissions to investors and sufficient reported or estimated data were available. In addition, BAL is reporting emission intensity metrics for sovereign debt assets, where data is available. It is anticipated that BAL's methodological approach will continue to evolve, particularly in relation to those asset classes not included in the current reporting, as climate-related data and quantification methodologies develop further.

BAL does not set climate-related targets for the AUM associated with its TCFD in-scope business due to BlackRock's role as a fiduciary, meaning that investments are made in line with the instructions and guidelines that clients ultimately select. For additional detail relating to product specific sustainability objectives, please refer to the relevant fund prospectuses, product briefs and fact sheets available on applicable public fund websites.

Metrics Reported

For BAL's TCFD entity-level reporting, absolute emissions, carbon footprint and weighted average carbon intensity are reported. Figure 5.1 shows a summary of these climate-related metrics. Each of these metrics comes with its own uses and limitations, as shown in Figure 5.1.

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[10] Please refer to section 1.3 of this report for confirmation of the approach that has been adopted for determining the AUM in scope of BAL's emissions metrics.

[11] In-scope derivatives are derivatives with corporate issuer underliers and include equity warrants and options, convertible debt and equity, total return swaps, and credit default swaps. The following derivative types are out of scope: equity index options, currency options, options on commodities and volatility index, CDX, swaps (other than CDS and total return), and synthetics.

Figure 5.1: Overview of key climate-related metrics & incorporation into BlackRock reporting

	Exposure to Emissions		
	Absolute Emissions	**Carbon Footprint**	**Weighted Average Carbon Intensity**
Unit	tCO2e	tCO2e/$m AUM	tCO2e/$m Revenue
What it measures	Proportion exposure to investee Greenhouse Gas ('GHG') emissions	Emissions intensity per unit of investment	Emissions normalised by revenue (in USD)
Pros	• Standard data inputs • Direct connection to transition to lower carbon economy • Industry standard (Partnership for Carbon Accounting Financials ('PCAF'))	• Standard data inputs • Normalises for size, allowing for comparability	
Cons	• Doesn't account for size • Market movement can create noise • Incomplete data / asset class coverage	• Market movements can create noise • Incomplete data / asset class coverage	
Current BAL **Use of Metric**	**Entity-level** Absolute Emissions of AUM (corporates)	**Entity-level** Carbon Footprint of AUM	**Entity-level** weighted average carbon intensity

Methodology

Methodologies have been aligned with the PCAF published Global GHG Accounting & Reporting Standard for the Financial Industry where applicable. Please refer to the **Metrics and Targets** section of the BlackRock 2022 TCFD Report for further detail relating to PCAF standards and BlackRock's adaptation of them for the asset classes included in Figure 5.2. Further clarity is provided below in respect of the treatment of derivatives, real estate and non-corporate fixed income assets as it relates to BAL's TCFD in-scope business.

- Derivatives that are not linked to a corporate issuer have been excluded due to the fact they do not have associated emissions and are therefore not relevant for TCFD reporting.
- Derivatives linked to a corporate issuer have been included in the metrics reported. This approach has a minimal impact on absolute emissions and carbon footprint estimates for BAL given that the majority of BAL's AUM is held in long-only index portfolios where short positions and derivatives are not a significant component of the investment strategy.
- Real estate asset emissions have been excluded from this reporting as there are minimal physical real estate holdings during the reporting period.
- Additional asset classes that are excluded from this instance of reporting include non-corporate fixed income[12] and commodities. These assets do not have associated issuing entities that report emissions. There are gaps in respect of the data available for these asset classes that are widely recognised by the market as an area for improvement in data coverage and methodological standardisation.

[12] Although GHG emissions are not reported in respect of non-corporate fixed income assets, emissions intensity metrics are reported in respect of sovereign debt assets. This is considered further below.

Figure 5.2: GHG emissions from AUM – methodological highlights

Emissions Included	Scope 1 & 2
Emissions Excluded	Scope 3
Asset Classes Included	• Listed equities, corporate bonds, and associated derivatives
Asset Classes Excluded	• Non-corporate fixed income • Commodities • Alternatives • Real Estate • Derivatives not linked to corporate issuers
Data Sources	MSCI
Standards Referenced	PCAF (with adjustments to reflect issuers not yet fully contemplated by PCAF Standard)

BAL's reporting utilises a holdings analysis date of 30 December 2022. A key challenge to estimating absolute emissions is obtaining emissions data that is contemporaneous with holdings data. This issue arises because companies typically report their emissions for a given year well after year-end. In addition, there is typically a lag between the date when emissions data is reported and the date that that data is incorporated into the MSCI dataset. As such, holdings values measured at year-end will not be contemporaneous with emissions data that is available at that time. However, BAL's reporting applies the most up to date emissions and EVIC data available from MSCI as at the holdings date adopted for entity reporting.

Results & discussion

Figure 5.3 provides preliminary estimates of absolute emissions for BAL's AUM in corporate securities (where data was available). Estimated absolute emissions were 32.19 million tons CO_2e in 2022. The 2022 carbon footprint was 42.28 tons of CO_2e per million dollars of AUM.

In future reporting, BlackRock expects to integrate both adjusted and unadjusted carbon footprint figures. Adjusted carbon footprint removes the effect of market volatility and with multiple years of comparison data, it will better reflect changes driven by asset allocation decisions and changes in reported investee company emissions, rather than by market volatility over time. For more detailed information on the concept of adjusted carbon footprint and market volatility impact on emissions metrics, please refer to the **Metrics & Targets** section of the BlackRock 2022 TCFD Report.

Figure 5.3: GHG emissions associated with BAL's AUM[13]

	2022[14]
Absolute Emissions (million tCO2e)	32.19
Carbon Footprint (tCO2e/$m AUM)	42.28
Weighted Average Carbon Intensity (tCO2e/$m Revenue)	110.63
Data Quality (Emissions Coverage)	72.11%

Data above represents unaudited, preliminary estimates. Not comprehensive – figures reflect coverage of ~72% of AUM. There are several limitations associated with these figures. Please review results in conjunction with the limitations section referenced below.

These estimates are based on the portion of BAL's AUM for which emissions data and methodologies are available to calculate the emissions attributable to BAL's AUM. This portion reflects approximately $544.65bn in 2022, representing 72.11% of BAL's AUM. The limitations of the estimates should be reviewed carefully (see the Limitations section below).

Sovereigns

BAL is reporting emission intensity metrics for sovereign debt assets, where data is available. The calculations of these metrics were made possible due to progress towards developing methodologies for various emissions intensity metrics. While there is not yet consensus on which intensity metrics to use when determining emissions intensity for sovereign assets, BAL believes it is important to provide a preliminary view of the measures to support the firm's commitment to transparency. In relation to sovereign debt assets, BAL has elected to report GHG intensity and GHG per capita.

Please refer to the Sovereigns methodology detailed in the **Metrics and Targets** section of the BlackRock 2022 TCFD Report for further detail on BlackRock's approach.

Results & discussion

Sovereign emissions intensity is a metric which represents the nation's carbon efficiency, or how dependent its economic activity is on carbon emissions. A higher emissions intensity indicates a relatively higher exposure to transition risks associated with emissions regulations, as well as greater contribution of global GHG levels and the associated impact on warming.

For Sovereign debt assets, BAL is reporting GHG intensity and GHG emissions per capita. GHG intensity of an economy is measured in units of tons per USD million nominal GDP. The higher the value, the more carbon intensive the economy is. BAL is also reporting GHG per capita, measured in tons of CO2e per capita. This is illustrated in Figure 5.4.

Figure 5.4: GHG emissions intensity metrics for Sovereigns included in BAL's AUM[15]

	2022[16]
GHG intensity (tons/USD million nominal GDP)	66.21
GHG per capita (tons)	2.42

Data above represents unaudited, preliminary estimates.

[13] All metrics in this table include corporate securities (listed equity, corporate bonds, associated derivatives) where data was available and excludes all other AUM. Where companies do not disclose their emissions, MSCI applies proprietary methods to estimate emissions. Of the 72.11% emissions coverage, 60.93% represents reported emissions data and 11.18% represents estimated emissions data.

[14] Holdings value analysis date is as of December 30, 2022. The emissions effective date, on which emissions and EVIC data is reported and provisioned by third party data providers is the most recent data available as of the holdings value analysis date.

[15] GHG emissions intensity and GHG per capita include sovereign debt assets and excludes all other AUM.

[16] Holdings value analysis date is as of December 30, 2022. The emissions effective date, on which emissions and GDP data is reported and provisioned by third party data providers is the most recent data available as of the holdings value analysis date.

Limitations

Limitations relating to data quality, lagged data, backward-looking metrics and sensitivity to market value are all elaborated upon in the **Metrics and Targets** section of the BlackRock 2022 TCFD report, which should be referred to for a comprehensive assessment of identified data-related limitations.

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