

November 2019

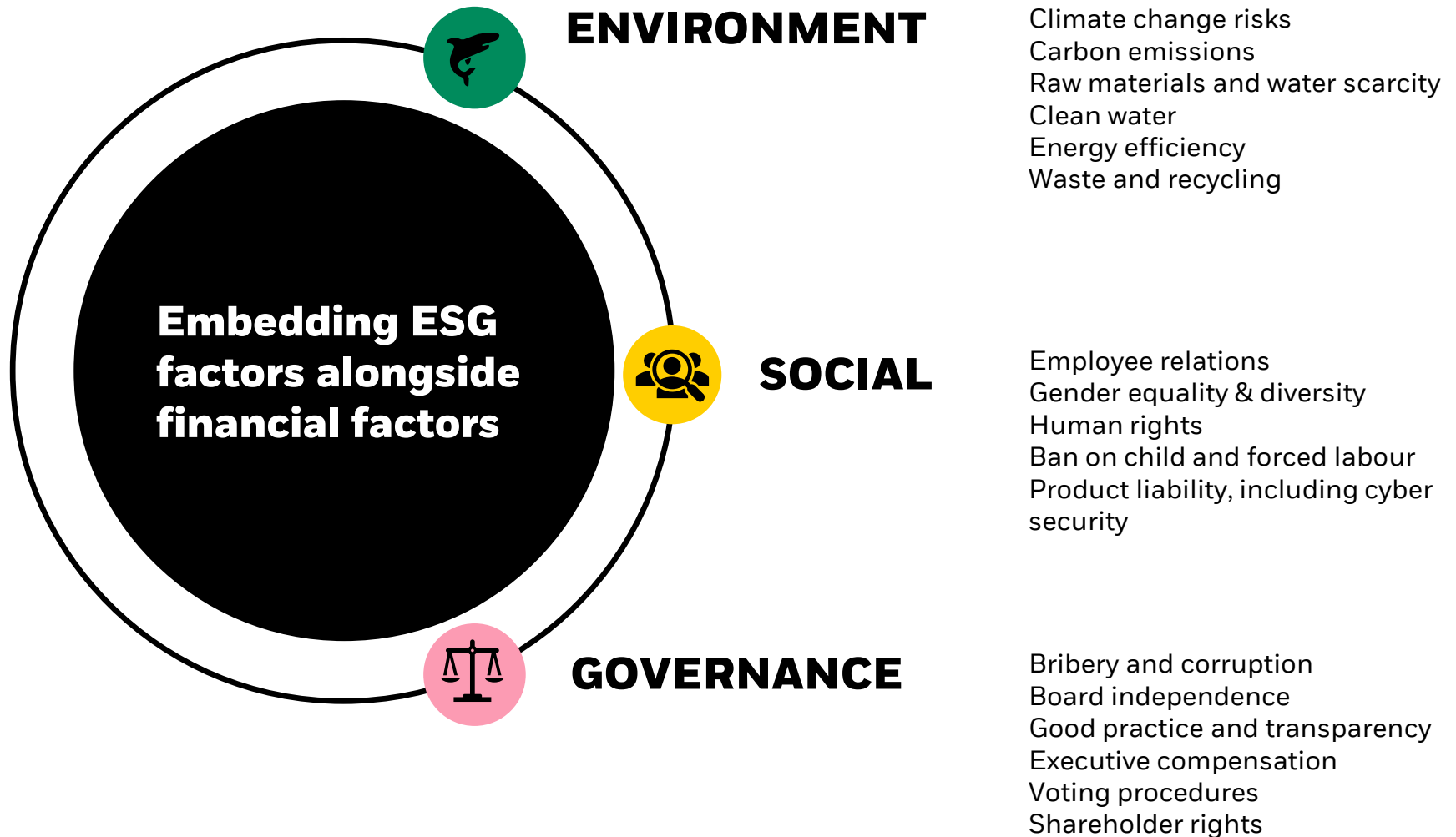
Stephen Andrews, Managing Director

BlackRock

ESG Investing at BlackRock

What is ESG?

What is ESG investing?



Source: BlackRock, as at 30/04/19. For illustrative purposes only and subject to change.

ESG integration

The practice of explicitly incorporating environmental, social and governance information into investment decisions.

ESG is information

Environmental, social, and governance (ESG) information is **another set of inputs in the mix** of market signals, financial reports, unstructured data, and research opinions investors consider.

Investment process, not product

Teams integrate ESG into their investment process. This benefits all strategies under management. Some teams also manage dedicated sustainable investment strategies.

Investment value, not values

To better understand opportunities and risks, we use ESG information in seeking to deliver the returns our clients expect.

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*Integrating **ESG information**, or sustainability considerations, should be part of **any robust investment process.**”*

*- BlackRock ESG
Investment
Statement*

Source: BlackRock Sustainable Investing, August 2019. BlackRock ESG Investment Statement: <https://www.blackrock.com/corporate/literature/publication/blk-esg-investment-statement-web.pdf>

Drivers of ESG Investing

Forces driving adoption of sustainable investing

Reputation and Values

Reputation Management

institutional investors emphasize the importance of ESG to corporate performance and see ESG as a risk and reputation issue¹

USD 30 – 40T

transferred to women & millennials over the next few decades²

Regulatory and Governance



France, Article 173
requires asset owners and asset managers to disclose information on exposure to climate risks³



EU, Sustainable Finance Action Plan
aims to encourage capital flows to sustainable investments and manage financial risks



UK, Department for Work & Pensions
Mandated to set out pension fund policy on how ESG considerations are taken into account

Investment Theses

From a meta-analysis of over 2000 empirical studies, 90% find a nonnegative relationship between ESG and corporate financial performance, a large majority reports positive findings⁴

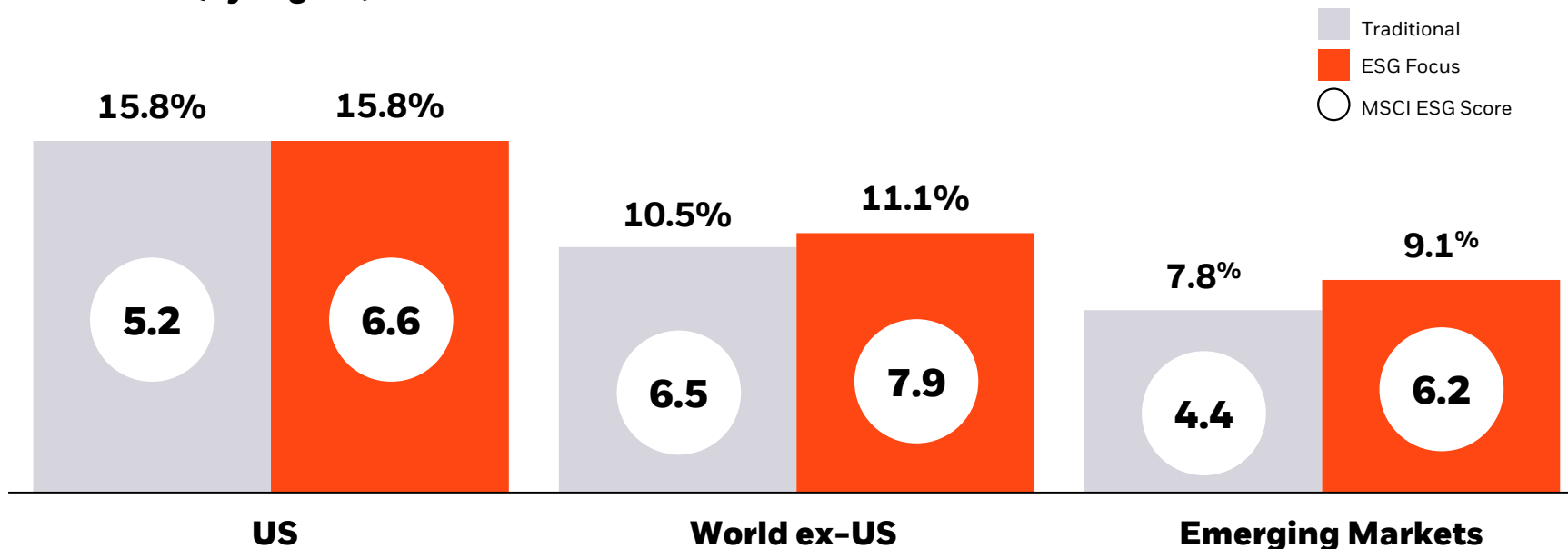
Higher ESG ratings can - through lower systematic risk and lower cost of capital - lead to higher valuations⁵

MSCI research shows that companies in the MSCI World Index with strong female leadership generated a Return on Equity of 10.1% per year versus 7.4% for those without⁶

1. KPMG. ESG, risk, and return, A board's-eye view. (2018). 2. Swipe right to invest: millennials and ESG, the perfect match? MSCI, November 2017; 3. European SIF; December 2016; 4. Journal of Sustainable Finance & Investment (Friede, G., Busch, T. and Bassen, A), "ESG and financial performance: aggregated evidence from more than 2000 empirical studies", November 2015; 5. Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk, and Performance (July 2019). 6. MSCI: "Women on Boards" (2015). The opinions expressed are as of date and are subject to change at any time due to changes in market or economic conditions. The above descriptions are meant to be illustrative. There is no guarantee that any forecasts made will come to pass.

Sustainable investing: “Why Not”

Comparison of traditional and back tested ESG-focused equity benchmarks, annualized return 2012-2018 (by region)



Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index.

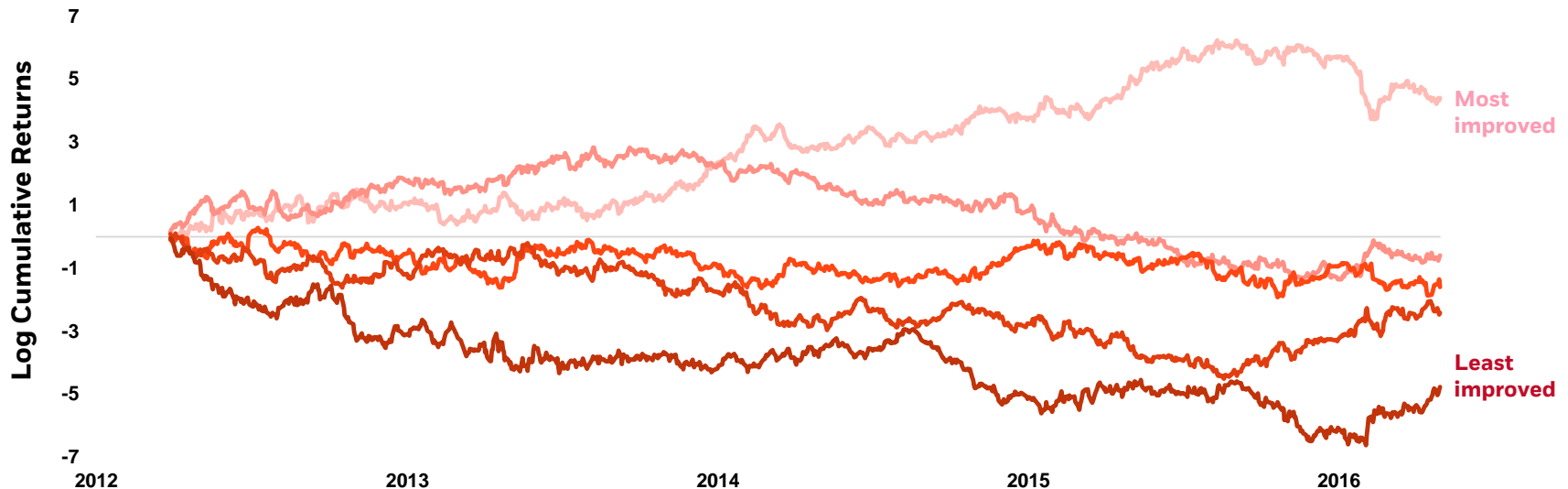
Sources: BlackRock Investment Institute, with data from MSCI, November 2018.

Notes: The data cover May 31, 2012, to Nov. 30, 2018. Returns are annualized gross returns in U.S. dollar terms. Number of stocks, price-to-earnings ratio and dividend yield are monthly averages. Indexes used are the MSCI USA Index, MSCI World ex-U.S. Index, MSCI EM Index (“Traditional columns) and MSCI’s ESG-focused derivations of each (MSCI USA ESG Focus Index, MSCI World ex-U.S. Focus Index and MSCI Emerging Markets ESG Focus Index). The data shown prior to inception for each MSCI ESG Focus index (August 2016 for U.S.; March 2017 for World ex-U.S.; April 2016 for EM) are back tested. They are optimized to maximize ESG exposure within constraints (example: a tracking error of 50 basis points and maximum active weight of 2% for each index constituent for USA ESG Focus). Back tested performance is hypothetical, simulated and is not indicative of actual or future returns. Back tested performance is developed within the benefit of hindsight, has inherent limitations and invariably shows positive rates of return. ESG scores shown are average scores for each index based on MSCI data.

Sustainable investing: “Why Not”

We find global companies that have reduced their carbon footprints (annual carbon emissions divided by sales) the most every year have outperformed the carbon laggards.

Efficiency Improvement: Equity Performance by Carbon Intensity



Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index.

Source: Garvey, G. et al. (2018). Carbon Footprint and productivity: does the “E” in ESG capture efficiency as well as environment? Journal of Investment Management, Vol.16, No. 1, pp. 59-69; BlackRock (2016). Adapting portfolios to climate change. BlackRock Investment Institute.

Underlying Sources: BlackRock Investment Institute, ASSET4 and MSCI, July 2016.

Notes: The analysis above calculates the carbon intensity of all MSCI World companies by dividing their annual carbon emissions by annual sales. Companies are ranked and bucketed in five quintiles based on their year-over-year change in carbon intensity. We then analyze each quintile’s stock price performance versus the MSCI World Index. Most improved means the 20% of companies that posted the greatest annual decline in carbon intensity. Data are from March 2012 through April 2016. The example is for illustrative purposes only. Past performance is no indication of future results. There are plenty of caveats, including the small sample size, limited time period and self-reported nature of the emissions data.

ESG Investing at BlackRock

Sustainability at BlackRock

We are an asset manager whose objective is to create better financial futures for our clients and the people they serve.

Investment Insights



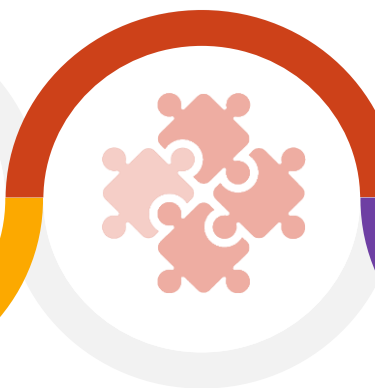
Developing the clearest possible picture of how environmental, social and governance issues affect risk and long term return

Investment Processes



Integrating sustainability-related insights and data into BlackRock's investment processes across asset classes and investment styles

Sustainable Solutions



Delivering sustainable investment solutions that help empower clients to achieve their financial objectives

Investment Stewardship



Engaging companies in index and alpha-seeking portfolios alike on sustainability-related issues that impact long-term performance

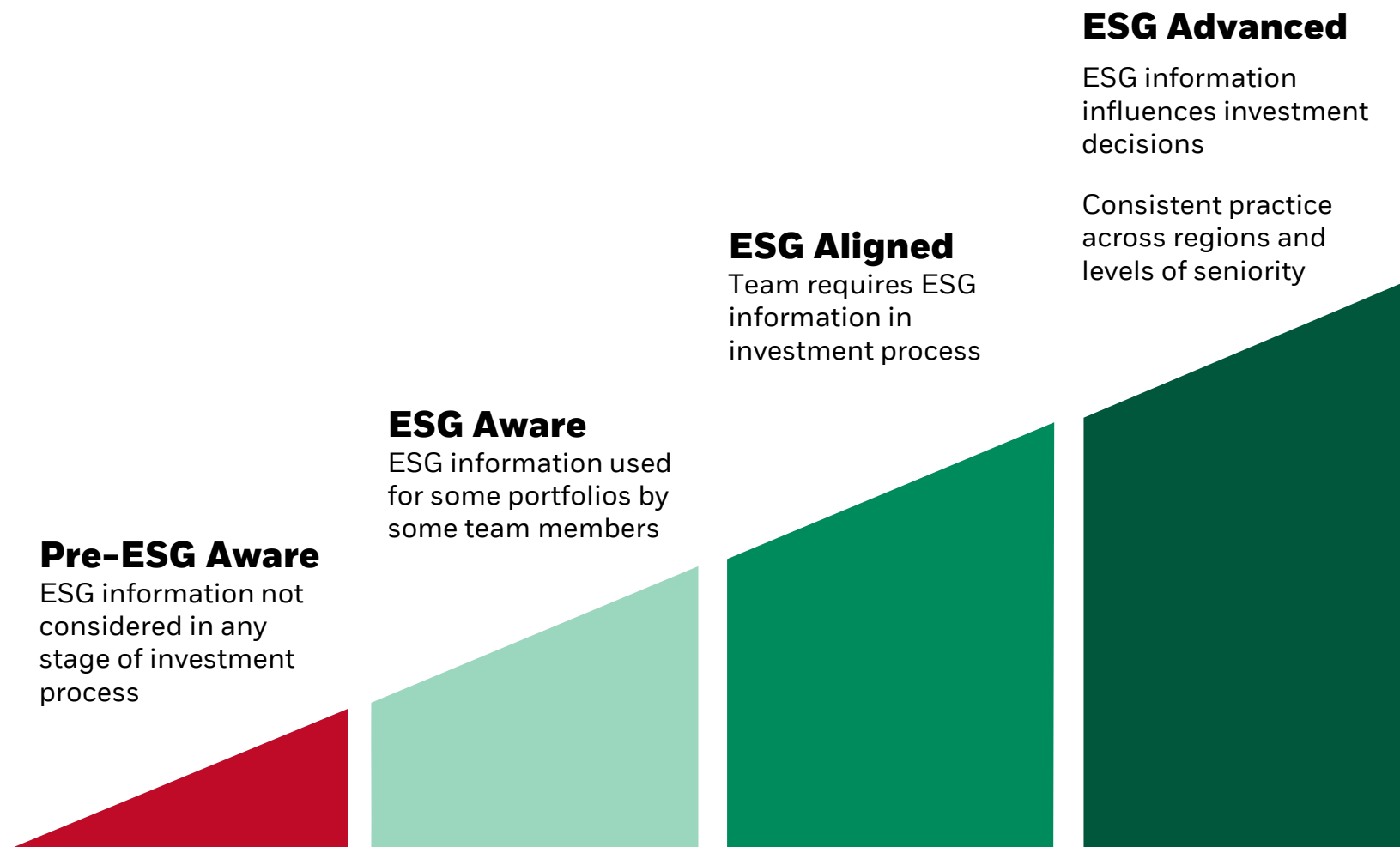
Corporate Sustainability



Ensuring the long-term sustainability of our own firm in order to deliver the best outcomes for clients and shareholders

Source: BlackRock Sustainable Investing, August 2019. For illustrative purposes only.

We aspire to bring all teams up to a minimum standard, and help all teams advance along the ESG integration curve



There is no guarantee that a positive investment outcome will be achieved.

BlackRock Investment Stewardship (BIS)

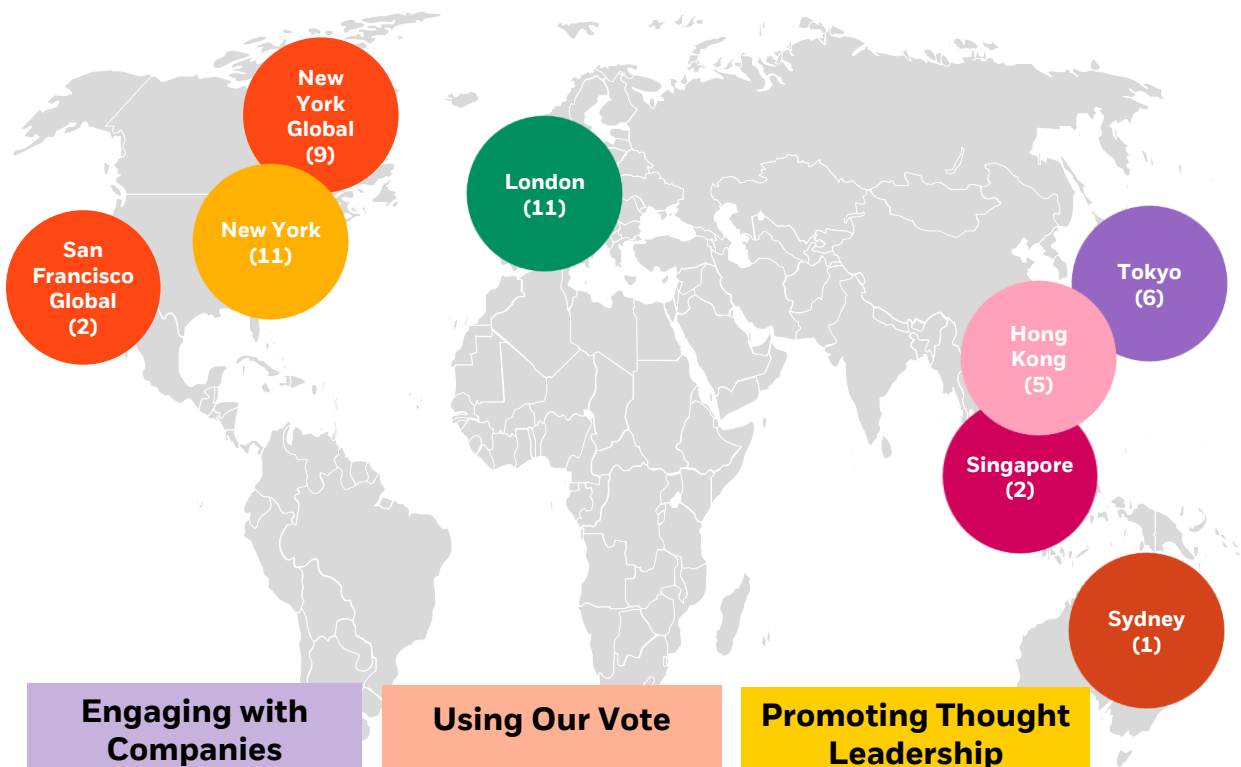
7 Offices Globally

45+ Member Team

85 Voting Markets

Leveraging the global expertise of our

Portfolio Managers
Researchers
Specialists



- Largest stewardship team in the industry
- Regional presence with sector focus and local markets/regulatory expertise
- Over 2,000 engagements annually with over 1,450 public companies in 42 markets
- Vote at over 16,000 meetings and on over 150,000 proposals annually
- Global corporate governance and engagement principles with market-specific voting guidelines
- Sharing of unique engagement insights with investment teams globally through Aladdin
- Speaking engagements at over 120 industry events globally

Engaging with Companies

Direct dialogue with companies on corporate governance issues that have a material impact on long-term financial performance

Using Our Vote

Arriving at informed proxy vote decisions that are consistent with our voting guidelines and that we believe are in the best long-term economic interest of our clients

Promoting Thought Leadership

Engaging in public policy issues, participating in market-level dialogue at industry events and interacting with clients globally

Source: BlackRock Investment Stewardship, as of end October 2019

Investment Stewardship engagement priorities for 2019

The engagement priorities for 2019 are a slight evolution of those from 2017 and 2018.

The three main changes are:

- A broader focus on diversity beyond gender
- The addition of capital allocation to the corporate strategy priority
- A broader focus on environmental factors beyond climate risk disclosure

Governance

Board composition, effectiveness, diversity, and accountability remain a top priority

Corporate strategy and capital allocation

Board review of corporate strategy is key in light of shifting assumptions

Compensation that promotes long-termism

Executive pay policies should link closely to long-term strategy and goals

Environmental risks and opportunities

Disclosure provides enhanced understanding of board and management oversight of policies, risk factors and opportunities that drive long-term financial performance

Human capital management

In a talent constrained environment, sound human capital management is a competitive advantage

*Reporting cycle from July 2017 to June 2018.

Engagement in July 2018 to June 2019 in numbers

The Investment Stewardship team often collaborates with our investment colleagues in engaging companies.

Stewardship and investment teams use a range of qualitative and quantitative information on company performance and governance to inform our stewardship and investment decisions.

2,050* engagements

1,458 individual companies

>50% by value of our equity assets

42 countries in which we engaged, including Brazil, China, India, Mexico, South Africa, Singapore and Taiwan

* Source: BlackRock, July 1, 2018 to June 30, 2019

Q&A

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