

**November 2019**

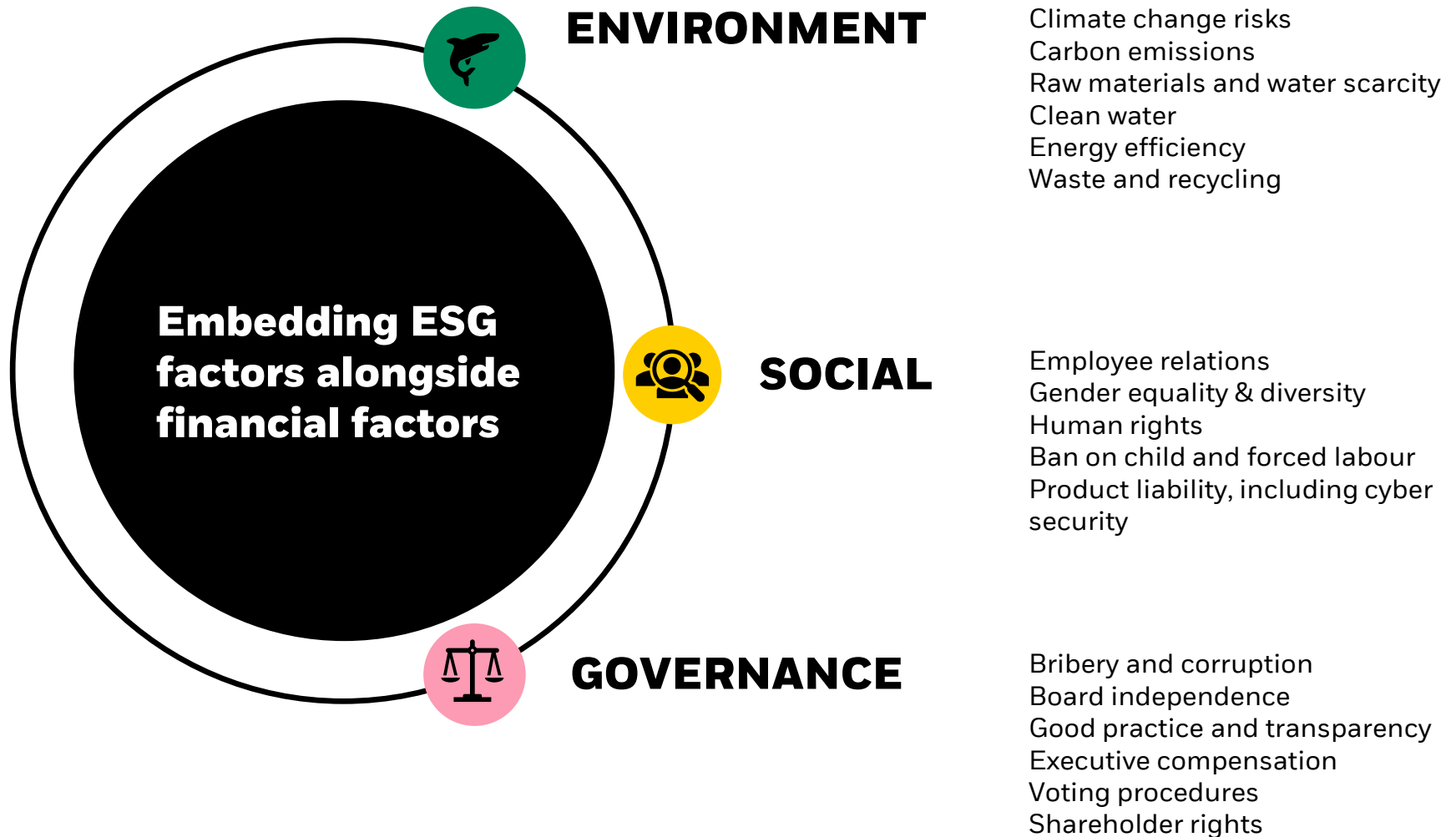
Stephen Andrews, Managing Director

**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.

“

*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 issue<sup>1</sup>

**USD 30 – 40T**

transferred to women & millennials over the next few decades<sup>2</sup>

## Regulatory and Governance



### France, Article 173

requires asset owners and asset managers to disclose information on exposure to climate risks<sup>3</sup>



### 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 findings<sup>4</sup>

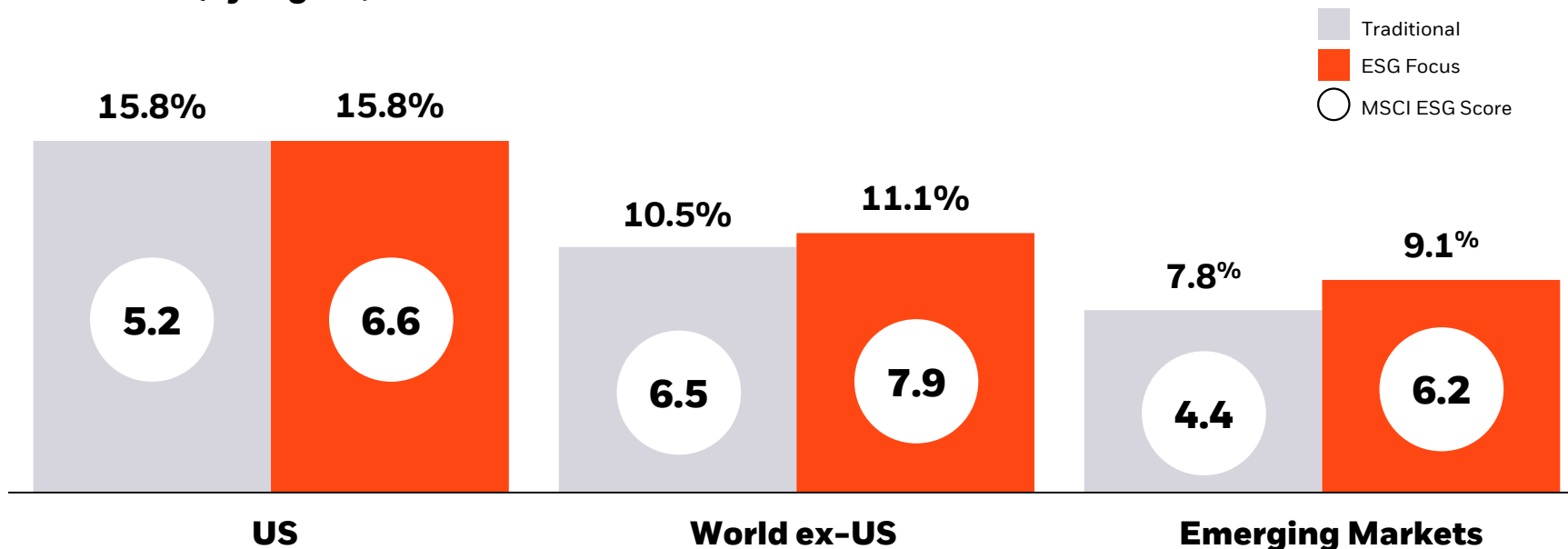
Higher ESG ratings can - through lower systematic risk and lower cost of capital - lead to higher valuations<sup>5</sup>

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 without<sup>6</sup>

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.**

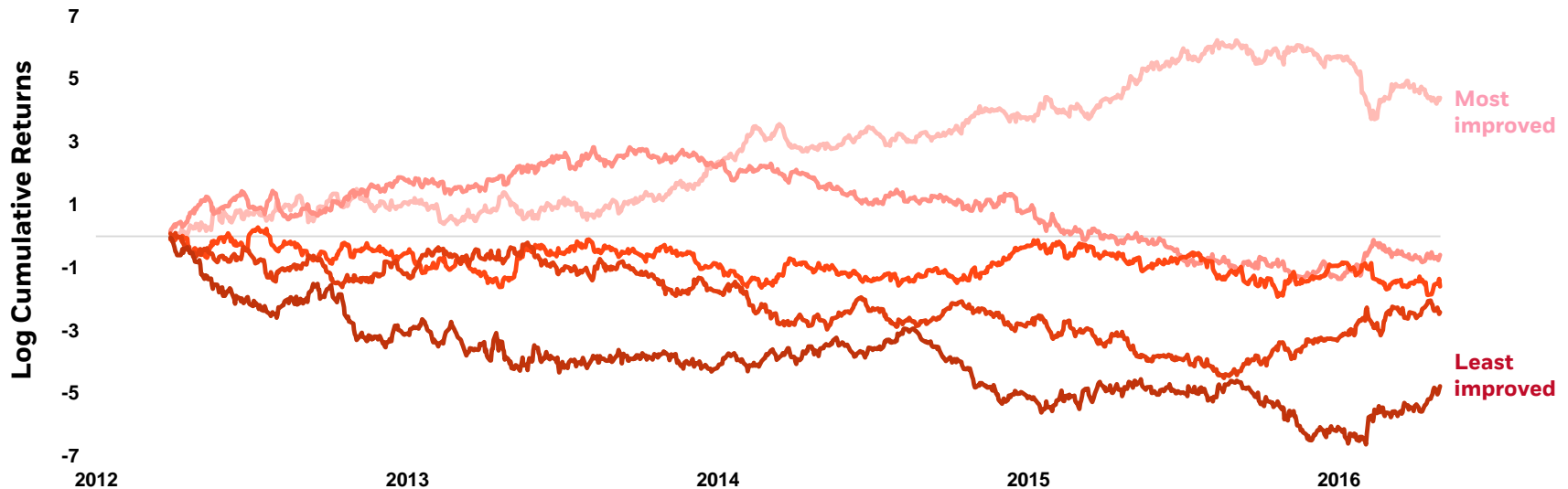
Sources: BlackRock Investment Institute, with data from MSCI, November 2018.

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.

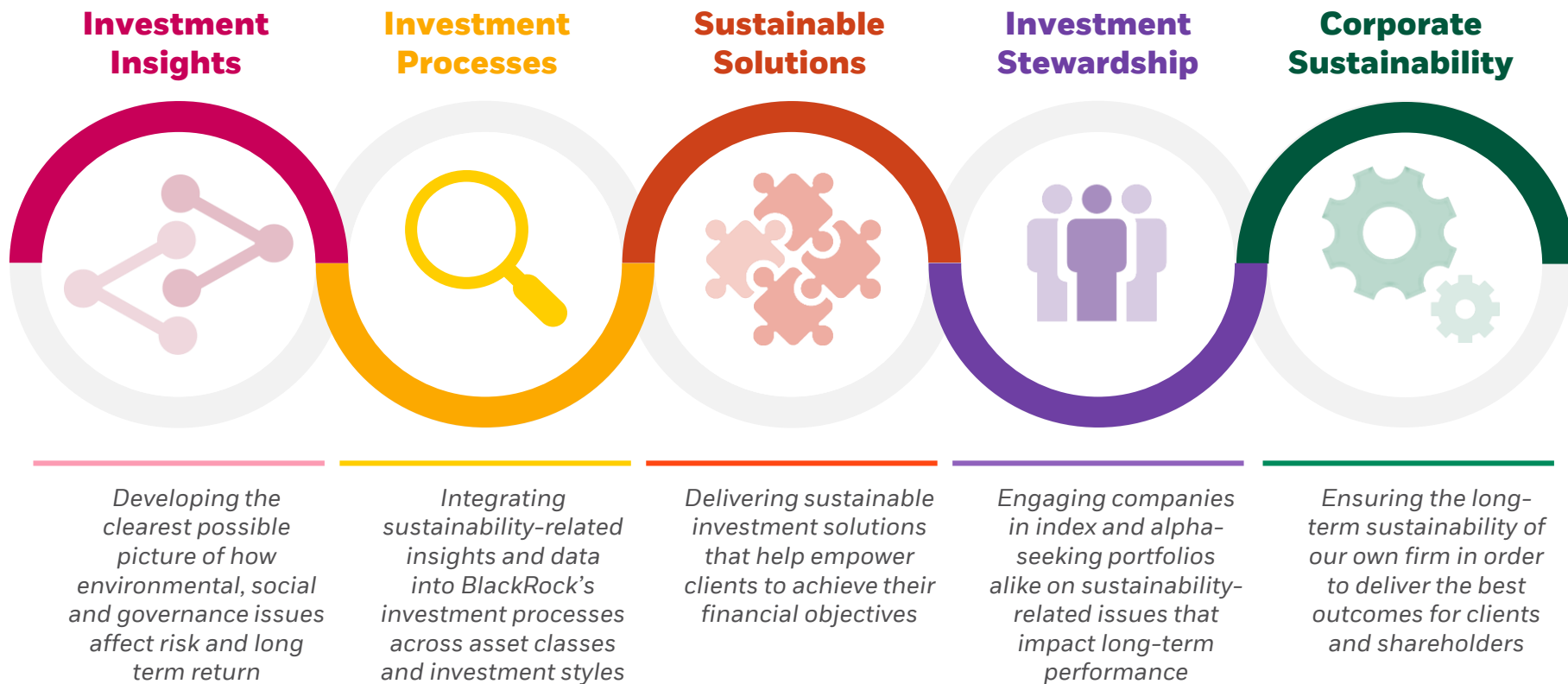
Notes: The analysis above calculates the carbon intensity of all MSCI World companies by dividing their annual carbon emissions by annual sales. Companies are ranked and bucketed in five quintiles based on their year-over-year change in carbon intensity. We then analyze each quintile’s stock price performance 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**

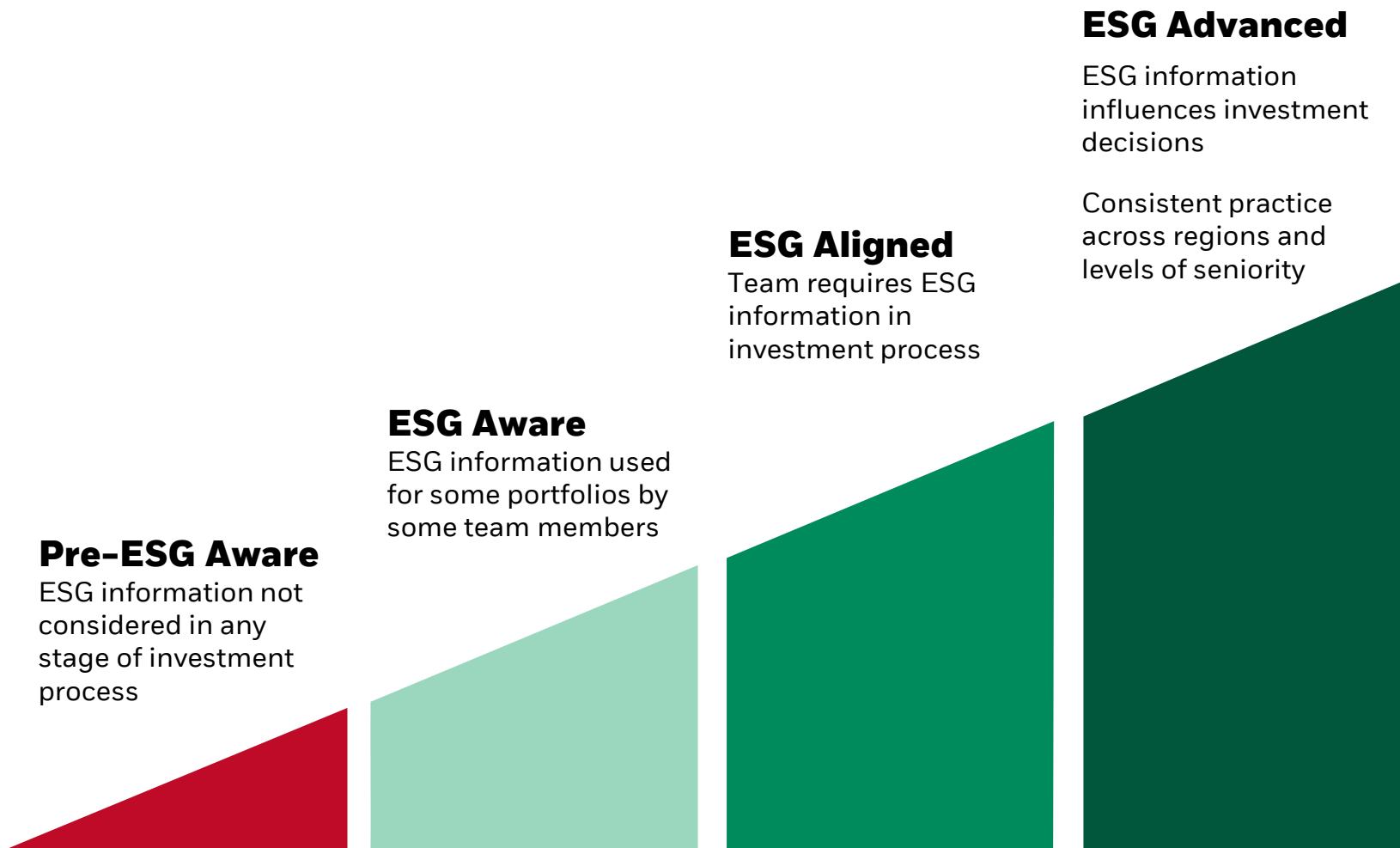
# Sustainability at BlackRock

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



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)

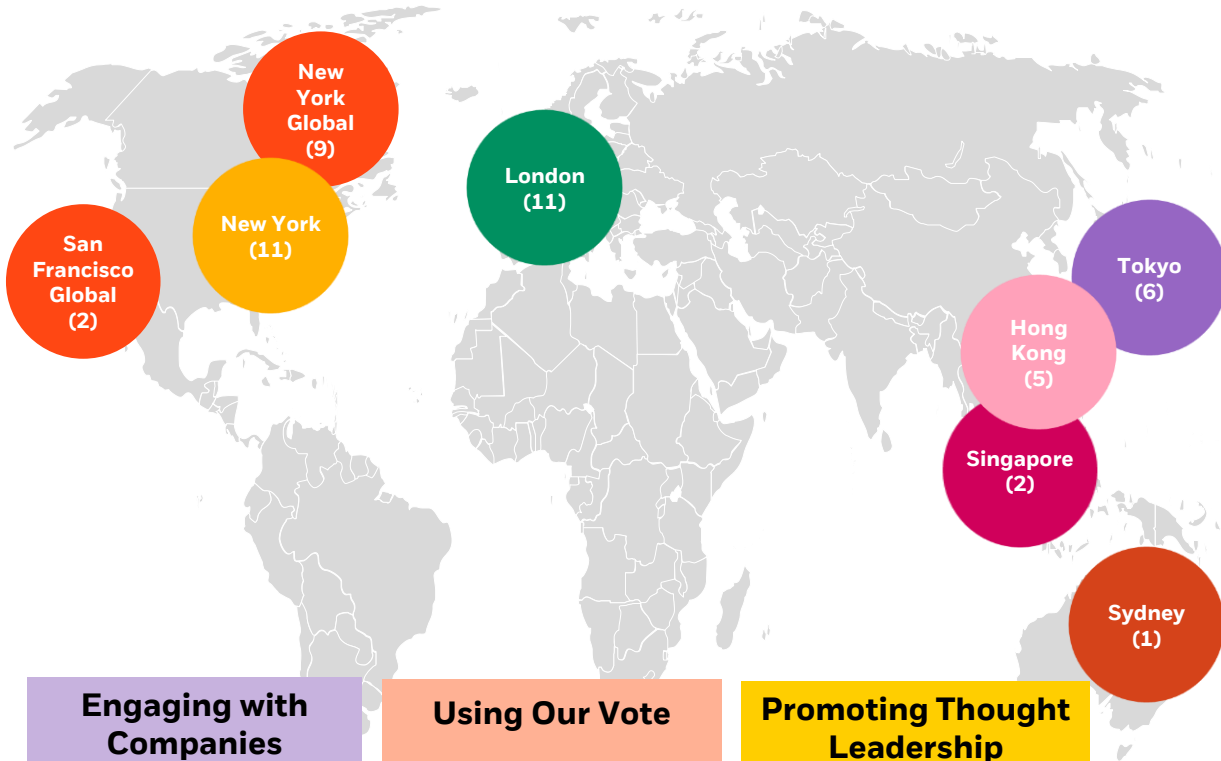
7 Offices Globally

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

# Important Disclosures

This document is provided for information purposes only and must not be relied upon as a forecast, research, or investment advice. BlackRock is not making any recommendation or soliciting any action based upon the information contained herein and nothing in this document should be construed as constituting an offer to sell, or a solicitation of any offer to buy, securities in any jurisdiction to any person. This information provided herein does not constitute financial, tax, legal or accounting advice, you should consult your own advisers on such matters.

In Hong Kong, this information is issued by BlackRock Asset Management North Asia Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

The information and opinions contained in this document are as of November 2019 unless it is stated otherwise and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. Although such information is believed to be reliable for the purposes used herein, BlackRock does not assume any responsibility for the accuracy or completeness of such information. Reliance upon information in this material is at the sole discretion of the reader. Certain information contained herein represents or is based upon forward-looking statements or information. BlackRock and its affiliates believe that such statements and information are based upon reasonable estimates and assumptions. However, forward-looking statements are inherently uncertain, and factors may cause events or results to differ from those projected. Therefore, undue reliance should not be placed on such forward-looking statements and information.

Prepared by BlackRock, Inc.

©2019 BlackRock, Inc. All rights reserved.