

David Lomas

June 6th, 2019

BlackRock[®]

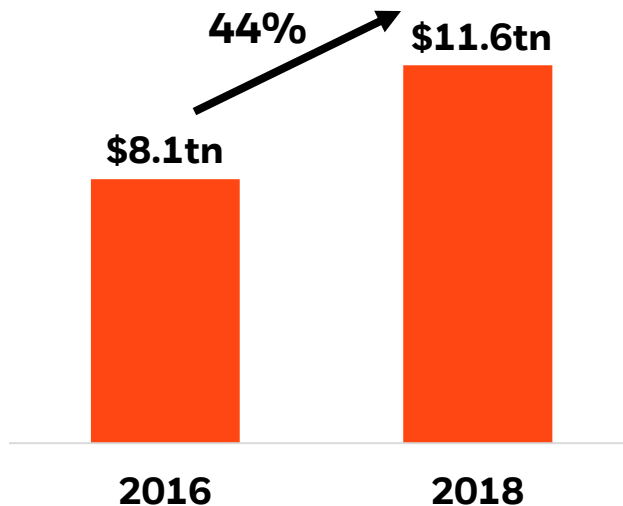
Active Approach to Long-Term Investing

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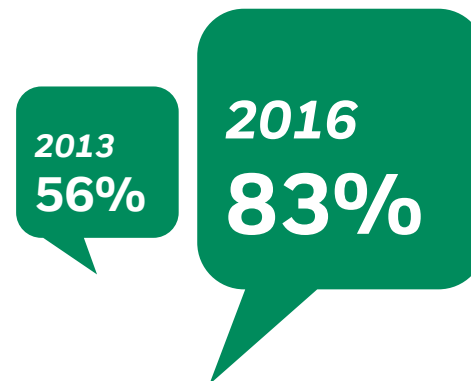
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Sustainability is No Longer a Niche Area, it's Going **Mainstream**

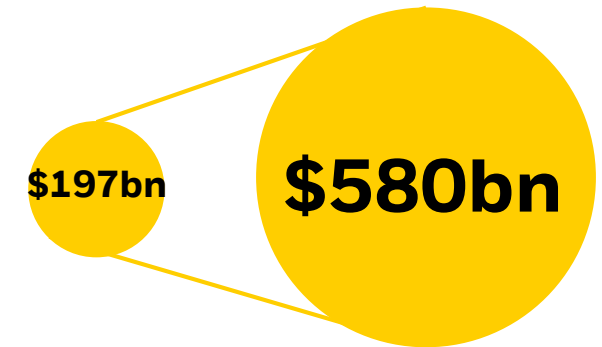
Asset managers consider ESG criteria across \$11.6tn in assets¹



PE firms are becoming more vocal on ESG reporting activities²



ESG AUM in 780 alternative investment vehicles has tripled in 3 years¹
(2016 – 2018)



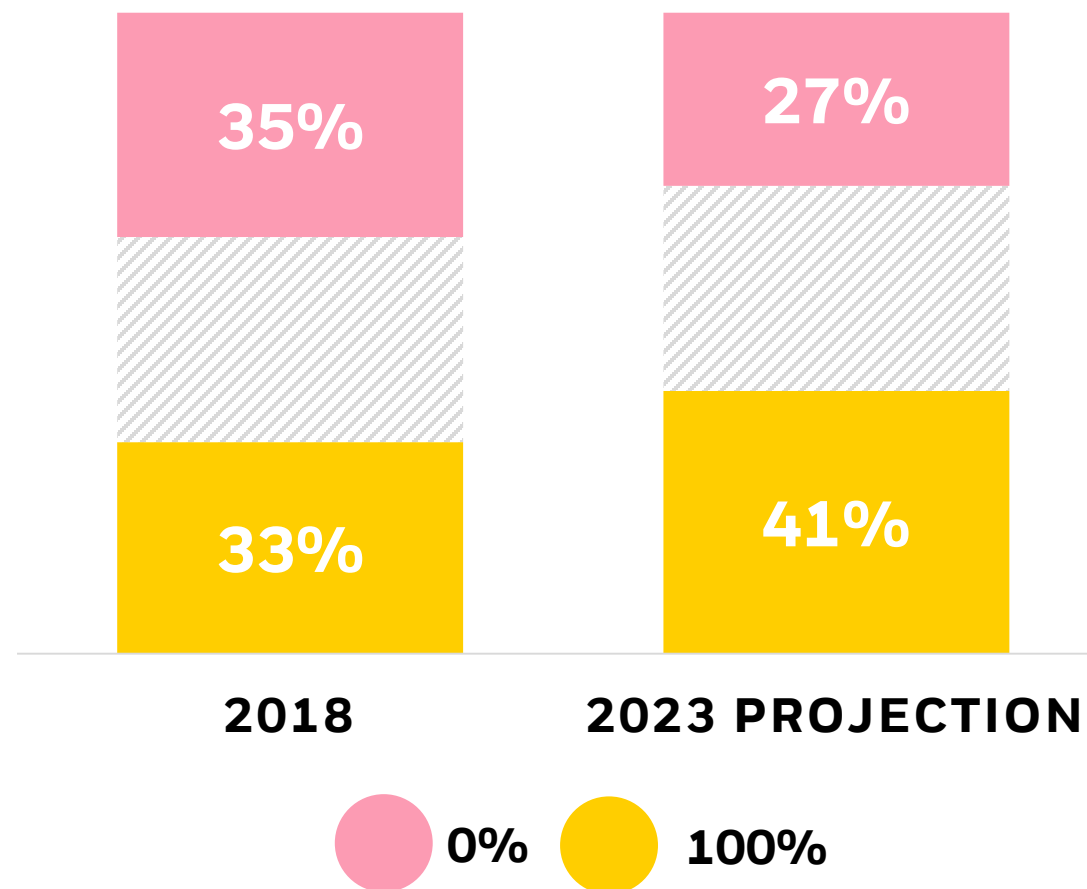
Source: (1) Moving Forward with Sustainable Investing: A Roadmap for Asset Owners, US SIF Foundation 2019. (2) PwC Global PE Responsible Investment Survey 2016

Sustainable Investing: A “Why Not” Moment

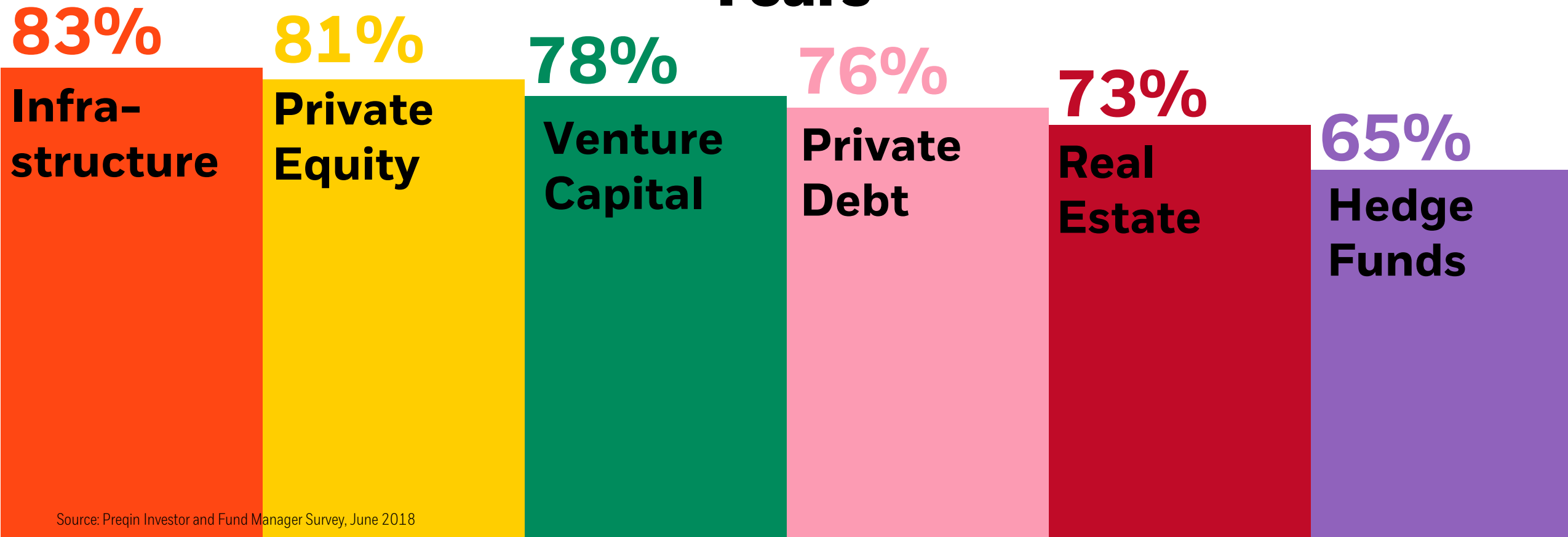
Nearly Half of Alternative Fund Managers Will Consider ESG Principles in Every Investment They Make by 2023

Source: Preqin Fund Manager Survey, June 2018

Proportion of Fund Manager Investments that Implement ESG Policies



The Majority of Investors Believe that ESG Practices and Policies Will Become **Increasingly Important across Alternatives** Over the Next Five Years



Source: Preqin Investor and Fund Manager Survey, June 2018

BlackRock's Approach to Sustainable Investing in Alternatives

Insights

Understanding how ESG issues affect risk and long term returns

Integration

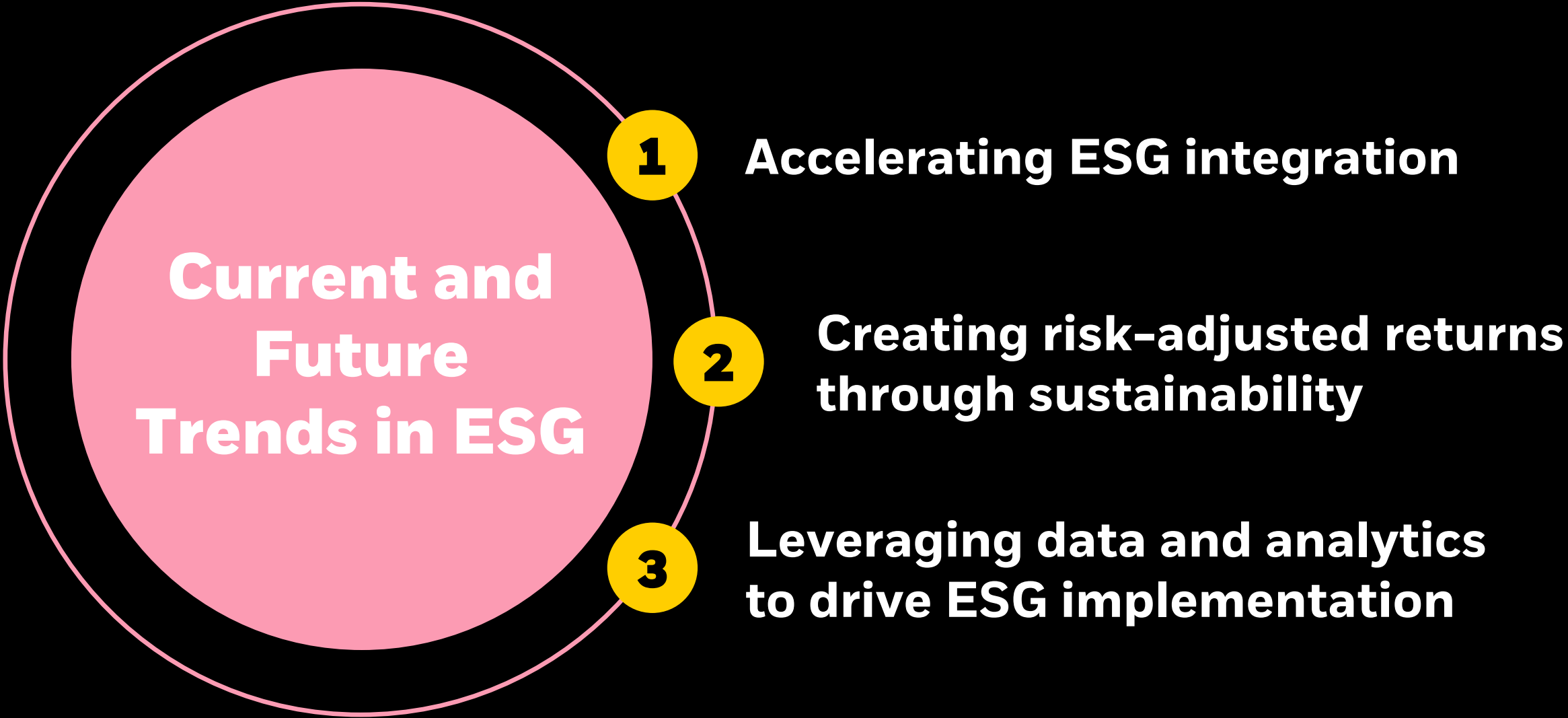
Integrating insights and data into investment processes

Solutions

Empower clients to achieve their financial objectives

Stewardship

Engage on ESG related issues that impact long-term performance



**Current and
Future
Trends in ESG**

1

Accelerating ESG integration

2

**Creating risk-adjusted returns
through sustainability**

3

**Leveraging data and analytics
to drive ESG implementation**

Accelerating ESG Integration

Investors Who Have an ESG Policy in Place (%)

North America

70%

84%

Europe

Asia

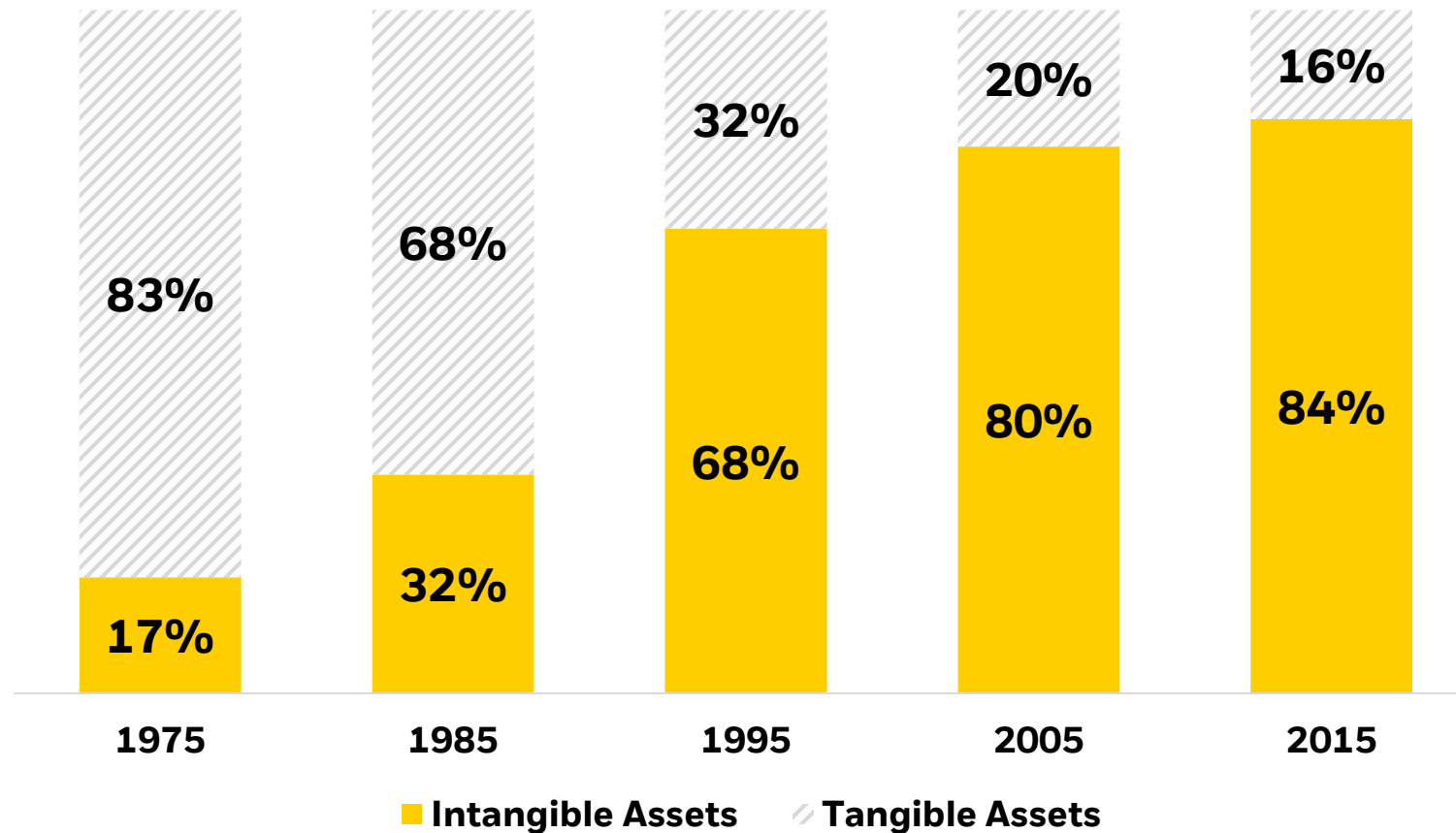
40%

Source: HSBC, East & Partners: Sustainable Financing and ESG Investing Report, September 2018. [Link](#).

**Investors No Longer
Need to Choose Between
the Pursuit of Returns
and ESG Excellence**

Intangible Assets are Increasingly Important in the Valuation of a Company

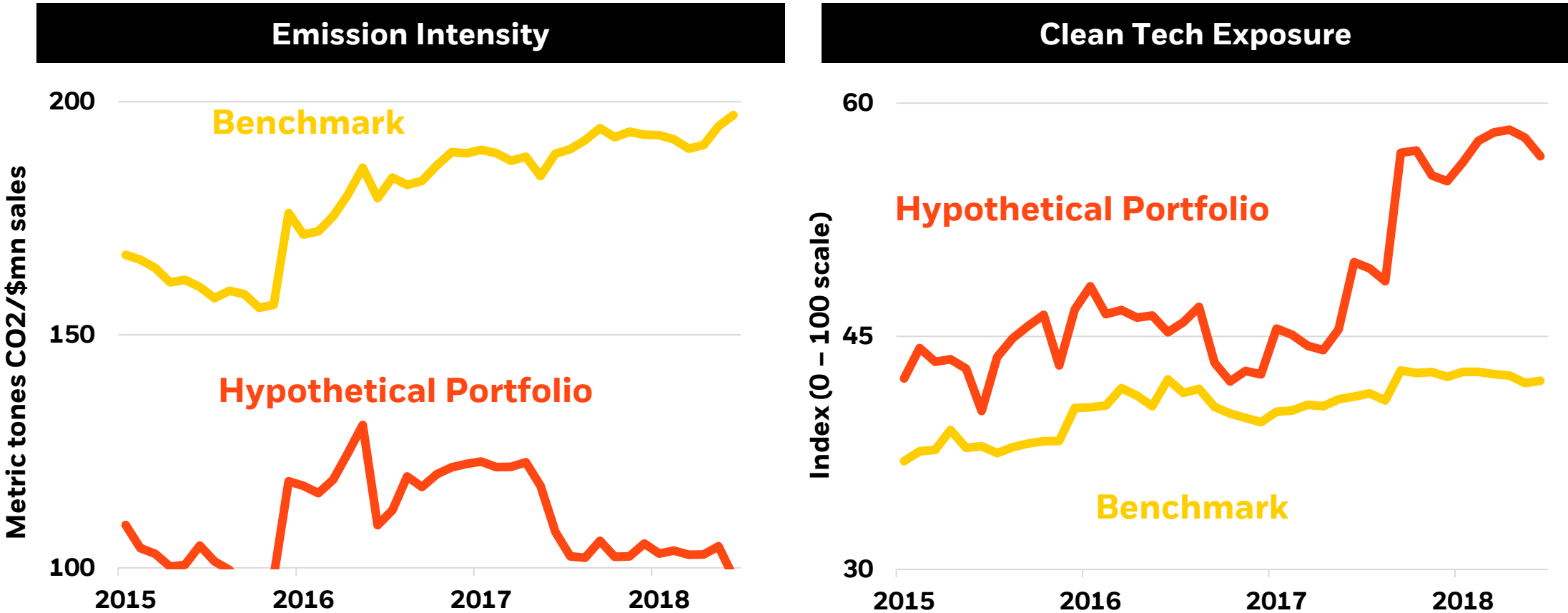
Components of S&P 500 Market Value (%)



Source: Intangible Asset Market Value Study, OceanTomo 2017. [Link](#).

Putting Transition Readiness to the Test: a Win-Win

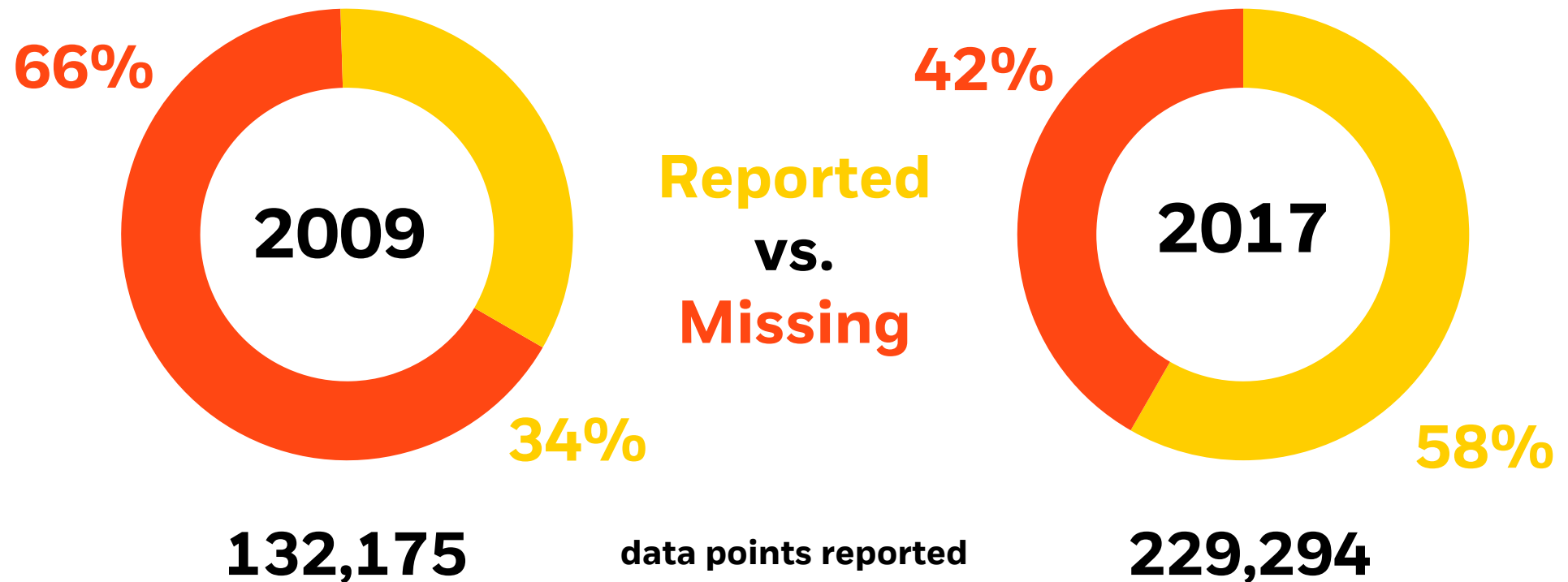
Environmental Metrics of a Hypothetical “Transition Ready” Equity Index, 2015-2018



The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.. Sources: BlackRock Sustainable Investing and BlackRock Investment Institute, with data from MSCI and Sustainalytics, December 2018. Notes: The chart shows the emissions intensity and exposure to clean technology of a hypothetical “transition ready” equity portfolio that is based on the MSCI World ex-U.S. Index. The hypothetical portfolio is designed to maximize BlackRock’s “transition ready” signal while keeping within an annual tracking error of 100 basis points. Emissions intensity refers to MSCI-defined direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions normalized by annual sales. Clean tech exposure is represented by exposure to clean tech revenue as assessed by Sustainalytics, on a 0-100 scale (from the worst to the best).

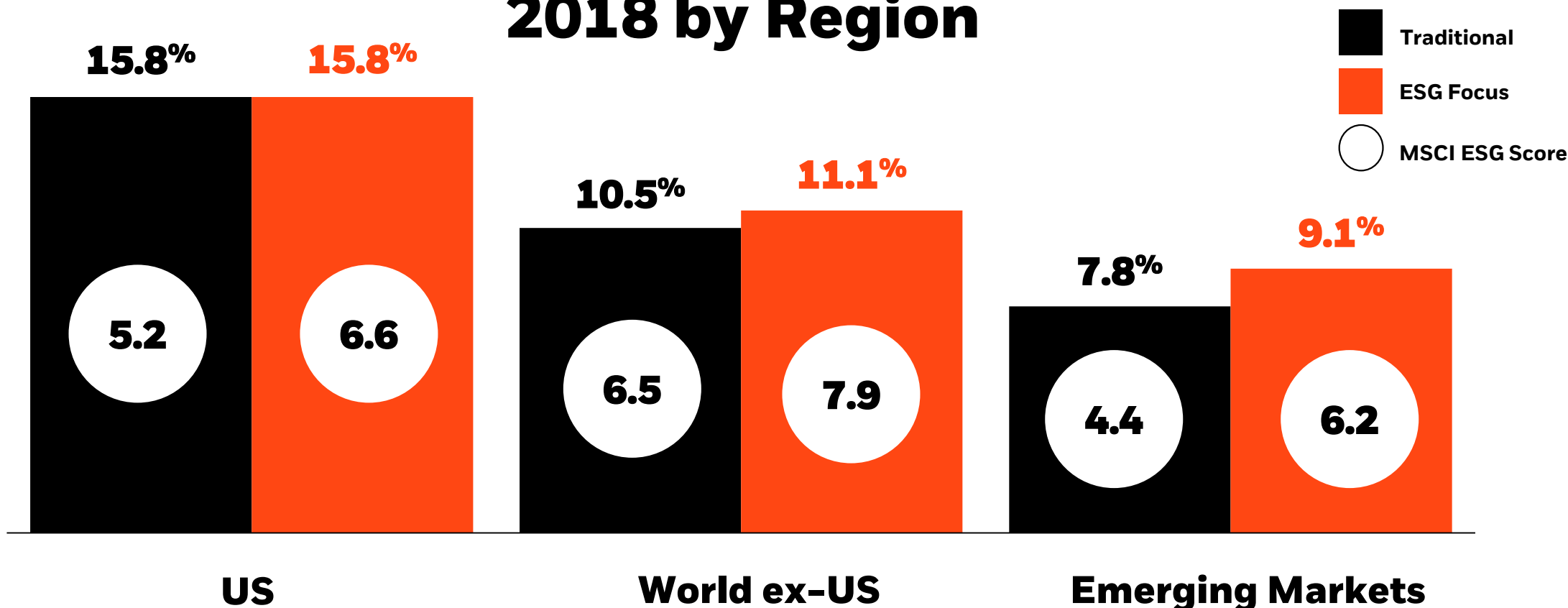
New Benchmarks Are Making ESG Investing More Accessible Across Asset Classes and Regions

ESG Reporting by MSCI ACWI Companies, 2009 and 2017



Sources: BlackRock Sustainable Investing and BlackRock Investment Institute, with data from MSCI, December 2018. Notes: We consider all 150 key metrics used by MSCI in its ESG corporate ratings system. A company reporting a given key metric at least once in a given year is considered one data point. The total number of potential data points are calculated by multiplying the number of companies in the MSCI ACWI Index (2,607 in 2009 and 2,622 in 2017) by 150. The green portion of each ring shows the share of those data points that were actually reported by companies.

Comparison of Traditional and Back Tested ESG-Focused Equity Benchmarks, Annualized Return 2012-2018 by Region

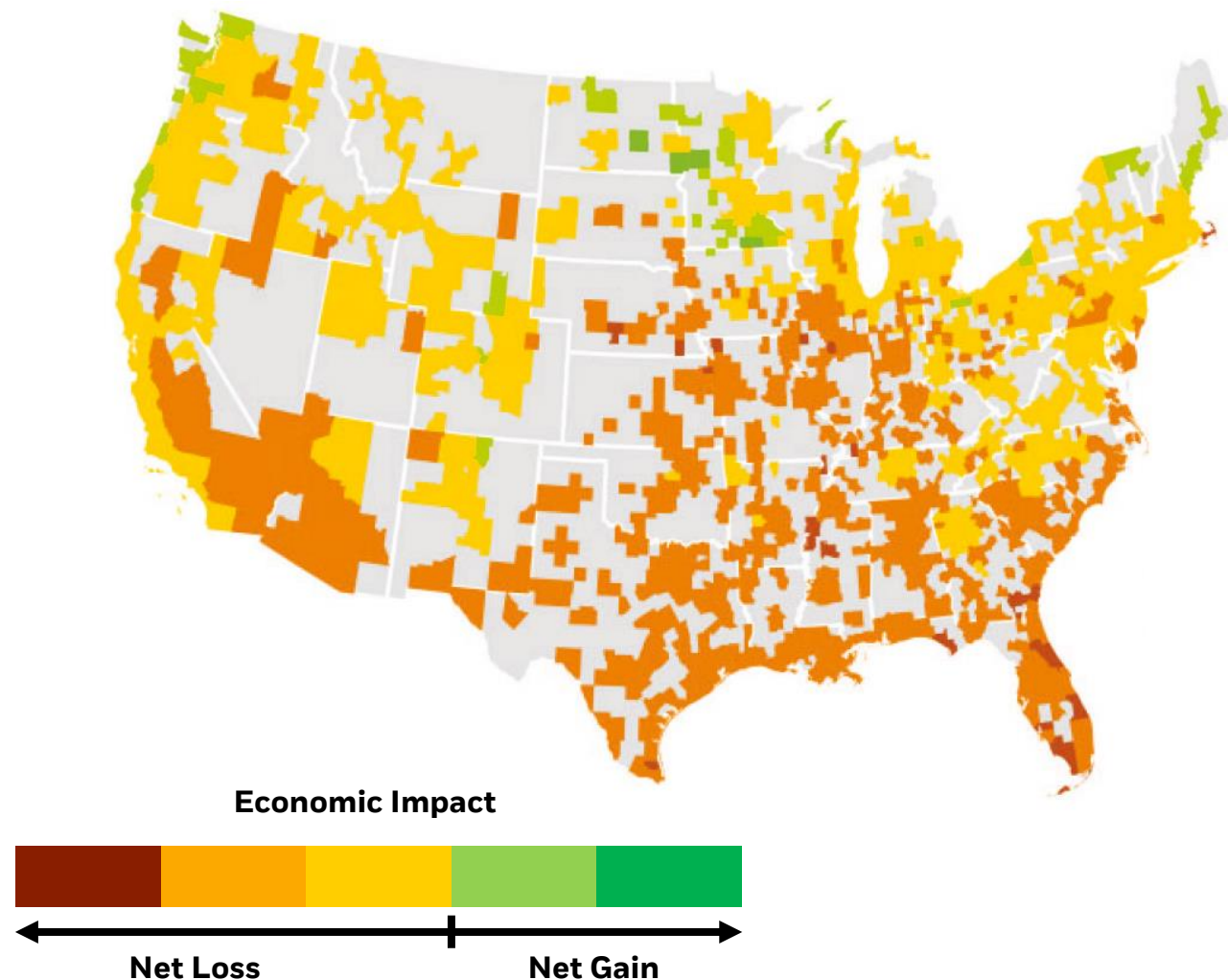


The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Sources: BlackRock Investment Institute, with data from MSCI, November 2018. Notes: The data cover May 31, 2012, to Nov. 30, 2018. Returns are annualized gross returns in U.S. dollar 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 backtested. 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). Backtested performance is hypothetical, simulated and is not indicative of actual or future returns. Backtested performance is developed with 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. See important notes on the back page.

Mapping the Damage

Getting a Better Handle on Physical Climate Risk, Down to the Asset Level, is Critical to an Investor's Toolkit

Estimated Climate-Related Impact on US Regional GDP, 2060-2080



Sources: BlackRock Investment Institute, with data from Rhodium Group, March 2019. Notes: The map shows the projected GDP impact in 2060–2080 on U.S. metropolitan areas under a “no climate action” scenario. Climate changes are measured relative to a 1980 baseline. The analysis includes the effect of changes in crime and mortality rates, labor productivity, heating and cooling demand, agricultural productivity for bulk commodity crops, and expected annual losses from coastal storms. It accounts for correlations across these variables and through time – and excludes a number of difficult to measure variables such as migration and inland flooding. See Rhodium Group’s March 2019 paper *Clear, Present and Underpriced: The Physical Risks of Climate Change* for further details on its methodology. Forward-looking estimates may not come to pass.

Challenges and Opportunities



**Greater standardization
to drive better data**



**A key role for investment
stewardship**



**Dealing with climate-
change related transition**

Risk Warnings and Important Information

Risk Warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. The investor may not get back the amount originally invested.

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.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

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