Sustainable Investment and ESG Integration

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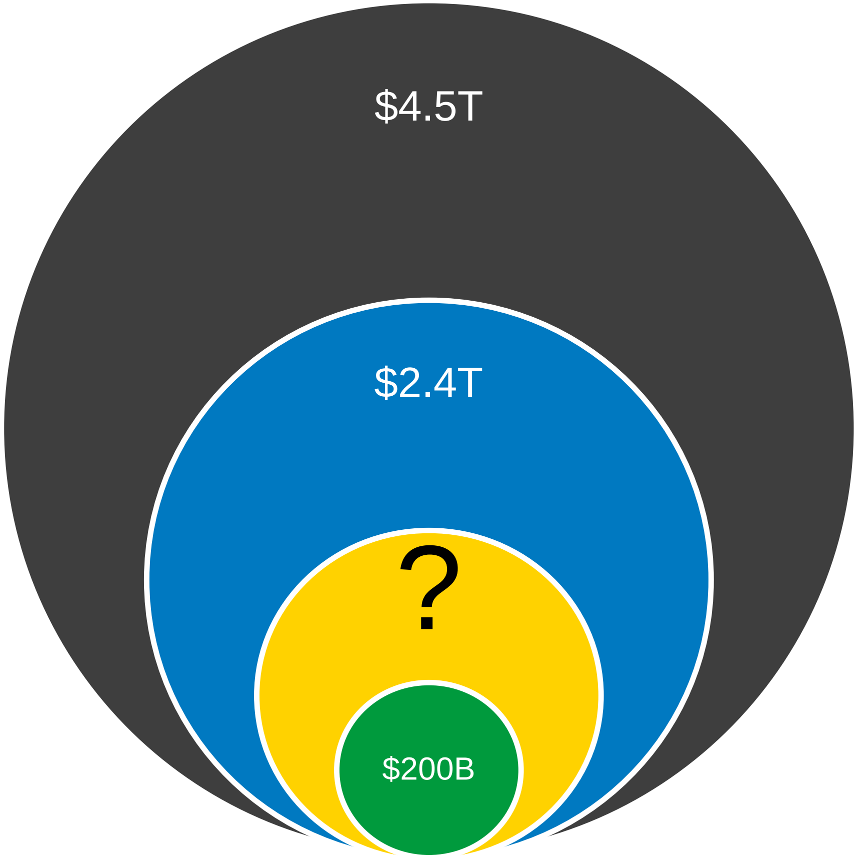
Sustainable investment mandates are only a portion of activities



As of 31 December 2015

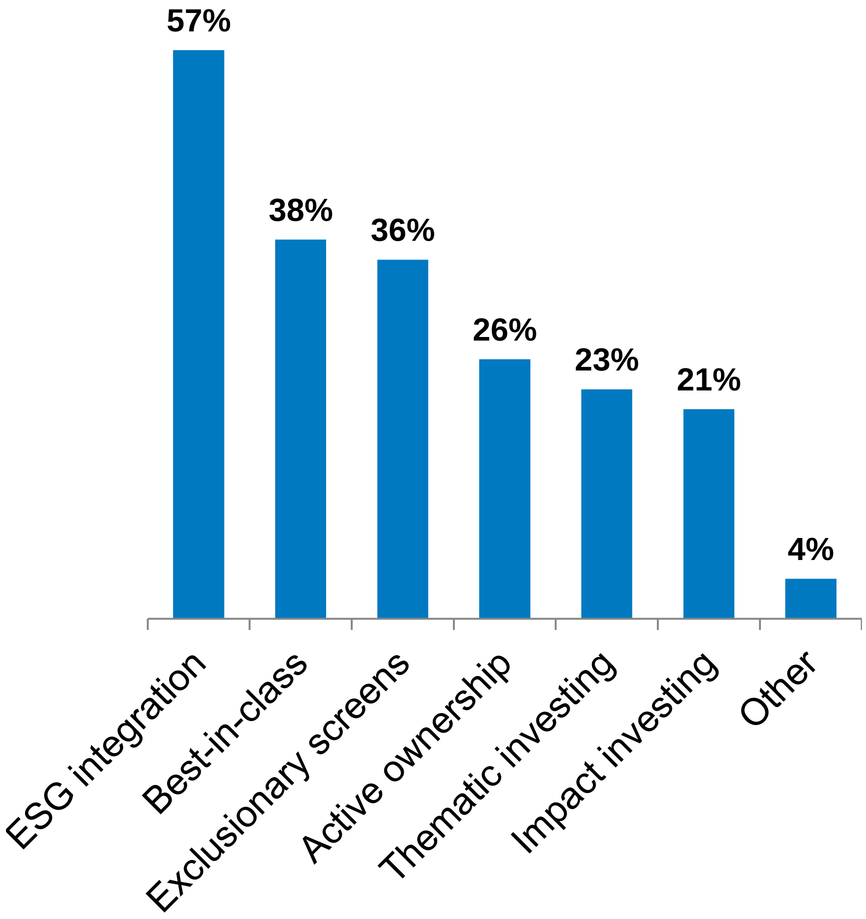
BlackRock counts about $200 billion in assets under management where our clients have asked us explicitly to manage to sustainable investment policies or objectives.

Roughly half or $2.4 trillion of our assets under management are passive equity holdings, owned by our clients who are essentially long-term and locked-in to holding index constituents. As a fiduciary, we engage with held companies to encourage operational excellence, long-term orientation, and strong management of material governance, environmental and social factors.

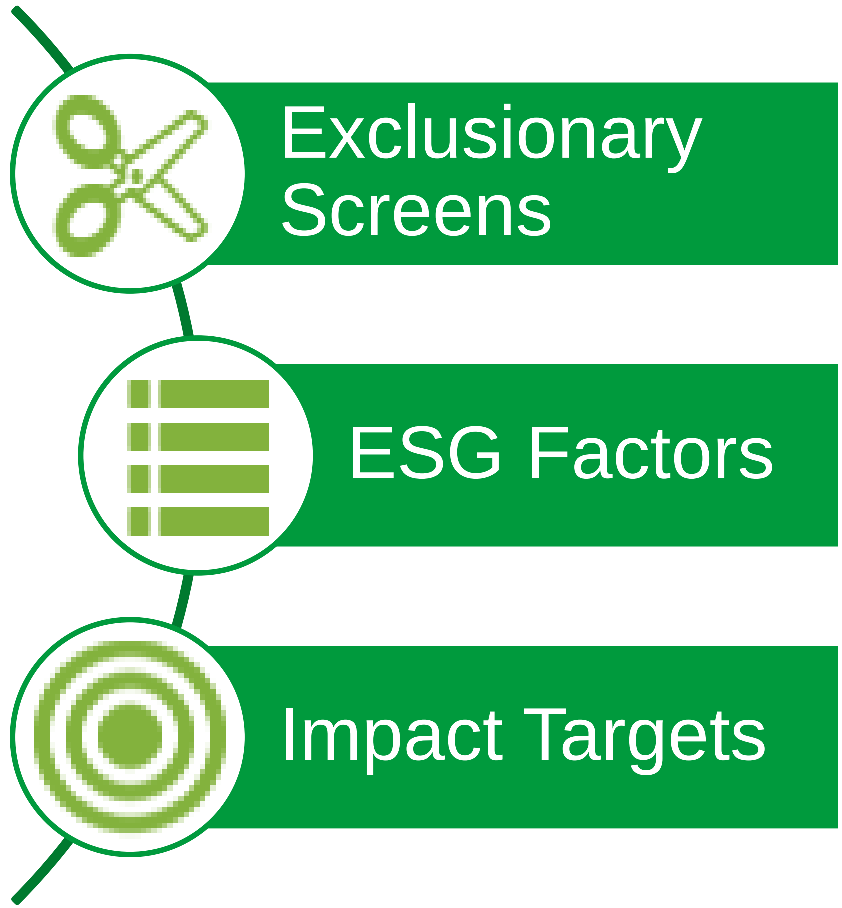
Somewhere in between these figures is a growing category of assets which are ESG-aware. Our clients include mainstream institutional investors who assign traditional investment mandates without explicit ESG agreements, but who nevertheless expect BlackRock to actively consider and report on material ESG factors as they relate to investment decisions.

Sustainable investment approaches

Mainstream methods of considering ESG issues



BlackRock sustainable investing segments



Source: CFA Institute’s Environmental, Social, and Governance Issues in Investing: A Guide for Investment Professionals (2015)

What our clients are saying about sustainable investing

Exclusionary Screens

- We need to exclude specific companies that pose a reputation risk.
- How do we remove fossil fuels from the portfolio?

ESG Factors

- How should we integrate ESG?
- What impact will ESG integration have on portfolio returns?
- Can we integrate ESG into all asset classes?
- We want to practice active ownership, but we have a small staff.
- We expect portfolio managers to consider ESG in financial decisions.

Impact Targets

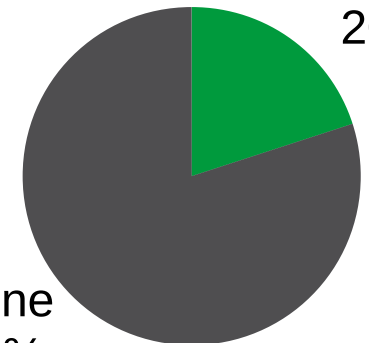
- We want to use our investments to address a specific community need or technology.

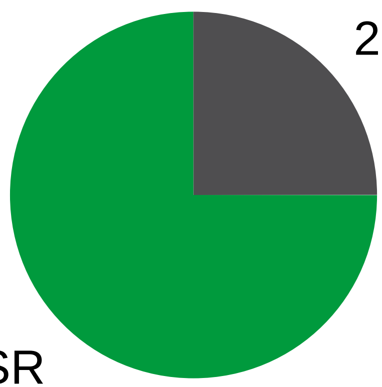
Hurdles to sustainable investment and ESG integration

Materiality	Time horizons	Investor education
Company reported data	Research on financial impacts	Predictive signals
	Comparability	

Hurdles to ESG integration: company reported data

S&P500 companies issuing corporate social responsibility (CSR) reports





Source: G&A Institute

Efforts to increase and standardize disclosures to support investment decisions

INTEGRATED REPORTING <IR>

SASB

Ceres
Mobilizing Business Leadership for a Sustainable World

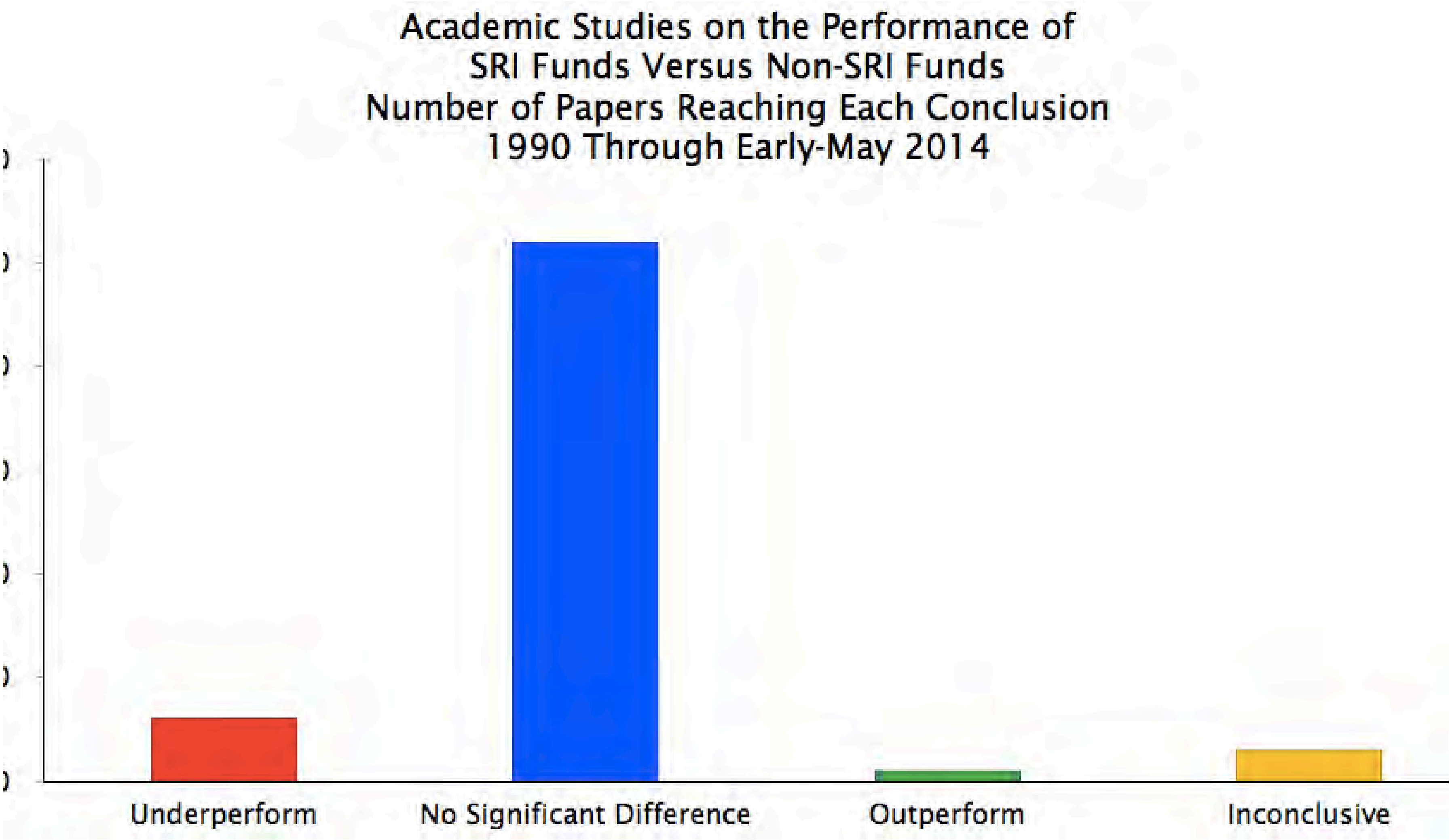
Need for better information, not more information

75%

US listed companies already disclose nearly 75% of the topics SASB recommends for disclosure, but only 15% of disclosure today references metrics or other information that is decision-useful to an investor

Source: Sustainability Accounting Standards Board

Hurdles to ESG integration: research on financial impacts



Source: Empirical Research Partners

Hurdles to ESG integration: materiality

Company news reports illustrate financial impacts of material ESG issues



Risk	Business Example	Opportunity	Business Example
Climate risk Catastrophe	(Insurance) Swiss Re holds $12 billion locked capital against 1-in-200 year natural disasters	Innovation Renewable energy	(Energy) IEA forecasts more than $1 trillion capex for global wind and solar projects by 2020. Rooftop solar enables distributed storage with grid parity in 2016
Natural capital Scarce resourcing	(Utilities) Brazilian water utility Sabesp's net income dropped >80% in 2014 from persistent drought	Efficiency Fuel management	(Transportation) UPS announced in 2013 plans to replace its fleet with LNG vehicles, reducing GHG emissions and cutting fuel costs by 40%
Product safety Regulatory fines and recalls	(Health care) Hospira led peers in Class I FDA recalls and spent $600m in QA expenses 2012-2014	Health and Safety Injuries and productivity	(Materials) Alcoa's CEO new in 1987 set a single financial goal to improve worker accidents. Net income was 5x higher 13 years later when he retired
Labor Wage inflation	(Sovereign) 2013 apparel factory collapse revealed worker risk, led Bangladesh to raise minimum wage by 79%	Human Capital Staff engagement	(Software) At SAP a 1% change (+/-) in employee retention has a €40-50m impact on gross profit—key during the company's restructuring to the cloud
Board transparency Regulatory and political risk	(Banks) Bank of America, Morgan Stanley, JPMorgan, Citi, Goldman Sachs have paid $137 billion in fines and legal fees since the crisis.	Supply chain Ethical sourcing	(Consumer) Brand loyalty kept customers paying for sustainably farmed brews after Starbucks raised prices from $0.10 to $1.00 amidst rising coffee prices in 2014
Corporate behavior Ethical business practices	(Mining) Massey Energy CEO indicted for ignoring safety regulations and breaching worker safety contracts	Cybersecurity Systemic risk management	(Insurance) AIG expects the market for cyberattack insurance to be $10 billion in annual premiums by 2020

Sources: company reports, Reuters, New York Times, Washington Post, Forbes, SASB, CLSA, US Food and Drug Administration

BlackRock's approach to ESG integration

No view on good/bad companies or industries	Provide clients with product options to meet spectrum of needs
Focus on the ESG issues material to investment case	ESG factors tend to become financial over the long term
Engage with companies about operational excellence	Enable investors to consider ESG factors

Operational excellence in detail

Why we expect companies to manage material ESG issues

Well-run companies…

- Articulate a strategy for long-term success
- Manage relevant business risks, including ESG
- Minimize negative externalities
- Maximize positive externalities
- Have a stronger license to operate
- Better manage reputation
- Better adapt to structural changes
- Use resources more efficiently
- Enjoy lower frictional costs of compliance
- Reduce risk of regulatory sanctions and financial penalties