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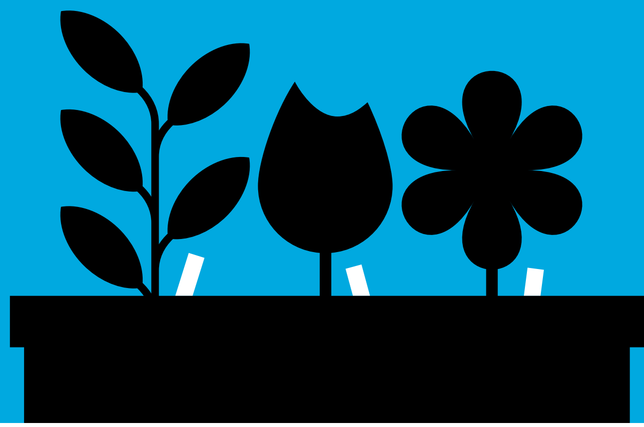
by BlackRock

SUSTAINABLE GOES MAINSTREAM



Back in June of 2020, I **shared** my early experience with sustainable investing, dating back to 1995. We called it SRI for Socially Responsible Investing, with the concept of trying to do well by doing good with your investment dollars. Back then, my conversations with advisors were about how much return they were willing to sacrifice in order to align a client's desire for a more purposeful investment approach with SRI/ESG investments.

By June of last year, however, and for the first time in my 30+ year career, ESG investing had gone mainstream. There were models being developed that were not all ESG, but in which ESG was being utilized as a replacement for low cost beta strategies in order to seek to improve returns. This evolution in the world of investing has been particularly notable in the past 10 months.

Along with so many others in the financial industry, I've come to understand that sustainable investing can be more than just doing good for the environment — and it's not just for a handful investors. Sustainable investing uncovers Environment, Social, and Governance (ESG)-related risks and opportunities that would have otherwise been overlooked by traditional financial analysis. By looking at these risks and opportunities, ESG provides additional insights into a company and may offer competitive risk-adjusted returns.

I believe sustainable investing provides a new, more comprehensive standard for investing that can potentially provide better outcomes for investors over the long-term. And it's not just me. I've seen a similar shift in the industry as more and more advisors are embracing sustainable solutions, and not just because of a social or environmental preference, but for pure investment purposes.

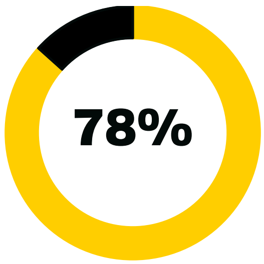
In my conversations with advisors, I see four main reasons driving this shift.

1 Competitive performance.

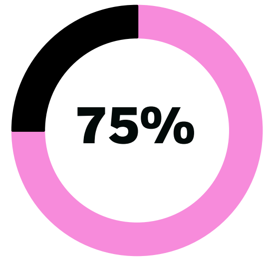
One of the main critiques of sustainable investing that I've heard is that you sacrifice performance. You limit investing, the argument goes, in companies that may not be doing things you personally like but can offer good returns to help meet your investing goals.

It turns out, however, that sustainable investing may not come at the expense of investment performance. Companies that exhibit positive ESG characteristics also tend to be high quality firms, with strong balance sheets, relatively less debt, more stability, and strong corporate governance. Such companies may help position portfolios for the future, something that is particularly important when investing for the long term. It also helps underscore how they may potentially be more resilient during market downturns.

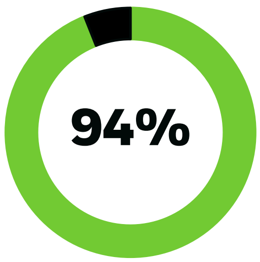
As Figure 1 illustrates, sustainable indexes have outperformed their parent benchmarks during a series of market downturns in recent years. To be sure, this is no guarantee of future performance, and represents just a few events in recent years. But it demonstrates that in recent history, at least, sustainable has kept pace with traditional investing approaches.



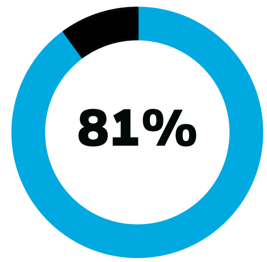
EM / energy downturn
21 Jul 2015-11 Feb 2016



Fed Policy reaction
20 Sep 2018-24 Dec 2018



COVID-19 crisis Q1 2020
21 Jul 2015-11 Feb 2016



2020

Source: BlackRock. As of December 2020. This is a set of 32 globally-representative, widely analyzed sustainable indices and their non-sustainable counterparts. Indices are used for illustrative purposes only and are not intended to be indicative of any fund's performance. It is not possible to invest directly in an index. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

2

ESG data is improving.

Rating a company on ESG metrics seems like it should be straightforward, but it is surprisingly complex. Is a company truly sustainably focused if their suppliers are not? Questions like that create complexity when accurately scoring one's true ESG footprint. But that's changing as the information that feeds into sustainable indexes has improved significantly in recent years. Companies have been better about divulging more information around their sustainability practices, and there are better frameworks to help companies decide what ESG information to disclose and how to do it. There is more data, more transparency, and more commitment than ever before (see figure 2 below). Greater and more transparent ESG data helps uncover potential risks and opportunities that can more favorably position portfolios for the long-term. In addition, we believe markets have not fully priced in ESG risks and opportunities, presenting investors with potential alpha opportunity.

More data

5x more ESG data providers in 2018 vs. 2015[1]

More transparency

13x more companies report ESG data with Sustainability Accounting Standards Board (SASB) today vs. 2018[2]

More commitment

9x more countries are committed to net zero by 2050 today vs. 2019[3]

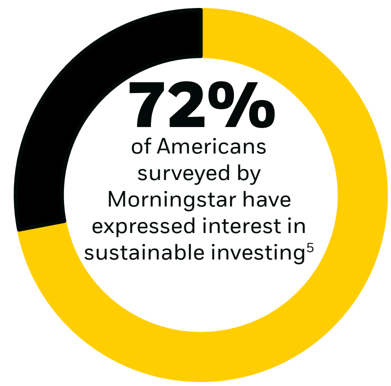
1 Source: The Sustainability Institute by ERM report, "Rate the Raters" 2020 – 600+ and growing ESG data providers in 2018 vs. 125 in 2013.
2 Source: **SASB** 557 companies in 2020 vs. 42 in 2018. 3 Source: **UN Climate Press Release** 2020 101 countries in 2020 vs. 11 in 2019.

3

Clients are asking for it.

Savvy advisors are aware that more investors are asking for sustainable choices for their investment portfolios. According to Morningstar, 72% of those surveyed expressed interest in sustainable investing. This seems to be true across all demographics, but particularly among younger investors like Millennials, who are becoming increasingly important to wealth managers not only now but also in the future, and not just in the U.S., but around the world. Advisors who ignore this demand do so at their own peril. In other words, it's not about your own personal beliefs, but about meeting client needs, be it for purity of investment strategy, or just opportunities for improved outperformance relative to a benchmark, or alpha.

Institutions are investing in ESG



Clients are asking about sustainable investing

4 Source: 2018 Morgan Stanley Survey.
5 Source: **Morningstar Are Your Clients ESG Investors?** Survey of a nationally representative sample of 948 respondents, April 22, 2019.

4

It's easy to do.

With the improvement in ESG data quality and availability, sustainable indexes and products that seek to track them are now available for almost any use case. Indeed, creating an entire portfolio out of sustainable funds was all but impossible until recent advances in indexing. Since index-based investments can now give investors convenient and efficient access to numerous sustainable equity and bond approaches, these building-block exposures can also pave the way for advances in portfolio construction. Perhaps most important for advisors is that many sustainable strategies are built from the industry's most popular broad benchmarks. That means advisors can build a sustainable approach for their clients without fundamentally changing clients' asset allocation exposures.

I understand why many advisors are skeptical of the sustainable investing. It may defy their personal beliefs, as well as their past experience with sustainable investing. But the world is changing — as is sustainable investing — and advisors will need to adapt to it. Greater ESG data and the recent exponential growth of sustainable assets under management, support a sustained reallocation of capital towards sustainable investments which may ultimately drive long-term security prices. And if that isn't enough, clients are increasingly demanding it, which is good news as this can help drive business for advisors as they continue their commitment to meeting their clients' needs. I will admit, I was a skeptic, but now I'm an investor myself.

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ESGD iShares ESG Aware MSCI EAFE ETF

ESGE iShares ESG Aware MSCI EM ETF

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