iShares by BlackRock

INVESTING WITH CLIMATE IN MIND

Like many others, I've grown increasingly concerned over the years by the impact of climate change to the planet and society. Part of my unease stems from my longstanding passion for scuba diving, which has made me keenly aware of the impact of climate change and carbon emissions on the oceans. Scientists estimate that 70%-90% of all coral reefs, which play a key role in oceanic ecosystems, will disappear in the next 20 years due to global warming, for example.[1] But I am also a father of two young daughters and think a lot about what kind of world they will inherit. As we have seen with the increased number of extreme weather events in recent years, climate change has a big impact on our lives and — most importantly — those that will come after us.

Understanding and preparing for climate change and the transition to a low carbon future are the core themes of ***A sea change in global investing***, a new paper from BlackRock. This paper is the latest thought leadership on sustainability to come from BlackRock building on Larry Fink's 2019 Letter to CEOs that outlined how climate risk is an investment risk. In this report, we go even deeper, and describe how the shift to a low carbon future is changing the economic and investing worlds and represents both a risk and an opportunity.

A major transformation

We are witnessing a major transformation in the global economy as the world moves towards a low carbon future. That shift is predicated on four main factors: the growing cost of extreme weather events, increasing regulation, innovation and consumer preference. We believe these factors will influence asset prices and portfolios and impact every investor.

We are committed to helping investors prepare for this economic shift. We believe that iShares will be at the forefront of helping investors navigate the transition to a low-carbon economy. iShares ETFs can help make strategies that consider climate risks and opportunities associated with the transition to a low carbon economy affordable, transparent and easily accessible for investors. And we believe that investors can pursue competitive returns with these strategies.

We already have existing sustainable funds that help incorporate climate risks and opportunities into portfolios, offering both broad building blocks, as well as targeted exposures in specific sustainable themes such as clean energy.

We are enhancing our suite of sustainable funds with the launch today of two funds specifically focused on the transition to a low carbon future, our BlackRock Carbon Transition Readiness ETFs. These funds provide access to large- and mid-cap companies tilting towards those that BlackRock believes are better positioned to benefit from the transition to a low-carbon economy.

Building a portfolio with climate in mind

We believe that as climate considerations become central to portfolio construction, investors may want to consider direct or indirect climate approaches to help align their portfolios with the transition to a low carbon economy. As the graphic below illustrates, those are:

Broad Building Blocks

Reduce

Seek to reduce exposure to carbon emissions or fossil fuels-related activities

Funds that seek to reduce exposure to heavy carbon emitters; may include broad environment, social and governance (ESG) funds with stringent fossil fuels-related screens:

- **ESG Advanced**
- **ESG Screened**
- **Low Carbon Target**

Prioritize

Prioritize investments based on climate opportunities and risks

Funds that allocate capital based on a company or government's commitments and actions to transition, such as companies reducing their reliance on fossil fuels and setting science-based targets:

- **Low Carbon Transition Readiness**

Targeted Exposures

Target

Target climate themes and impact outcomes

Funds that invest in a specific sustainable activity, such as clean energy, or investments directly tied to projects designed to advance environmental purposes, such as green bonds:

- **Clean Energy**
- **Green Bonds**

Seek to reduce exposure to carbon emissions or fossil fuels-related activities. Funds with fossil fuel and carbon emission reduction considerations seek to exclude or diminish the presence of securities affiliated with fossil fuel production. These strategies initially focused on simple divestment from specific sectors or industries. Increasingly, these approaches consider metrics related to carbon emissions output relative to sector peers, as well as the level of revenues derived from activities with adverse effects on climate.

Prioritize investments based on climate opportunities and risks. Advances in data and disclosure about climate-related business activities allow for investors to pursue strategies designed to increase exposure to securities that may be better positioned for the transition to a low-carbon economy, and to decrease exposure to securities that are poorly positioned. Such strategies, for instance, score securities based on metrics that gauge exposure and management to transition risks and opportunities. The new low carbon transition readiness funds exemplify this approach.

Target climate themes and impact outcomes. Targeted investing focuses on specific industries, themes or asset classes that represent potential opportunities in the transition economy. This type of investing may appeal to investors with higher conviction and a higher tolerance for returns that deviate from broad benchmarks. Strategies tend to focus on renewable energy equities, as well as green bonds, which are used to fund specific environmental projects.

As Larry Fink has said, "Winners and losers will emerge in every sector based on each company's ability to adapt, innovate and pivot their strategies toward the low carbon economy." Just as my daughters will inherit a world very different from the one in which I came of age, investors will see a very different investing landscape in the decades ahead. iShares is committed to giving investors the tools to help adapt to and prepare for the decades ahead.

Author

Armando Senra

Head of iShares Americas at BlackRock

Featured funds

LCTU	**BlackRock U.S. Carbon Transition Readiness ETF**
ICLN	**iShares Global Clean Energy ETF**
XVV	**iShares ESG Screened S&P 500 ETF**
USXF	**iShares ESG Advanced MSCI USA ETF**
LCTD	**BlackRock World ex U.S. Carbon Transition Readiness ETF**
BGRN	**iShares Global Green Bond ETF**

1 Source: "Nearly All Coral Reefs Will Disappear Over The Next 20 Years, Scientists Say," Trevor Nace, Forbes magazine, February 24, 2020.

Carefully consider the Funds' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses or, if available, the summary prospectuses which may be obtained by visiting www.iShares.com or www.blackrock.com. Read the prospectus carefully before investing.

International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. These risks often are heightened for investments in emerging/ developing markets or in concentrations of single countries.

Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and than the general securities market.

Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments.

A fund's environmental, social and governance ("ESG") investment strategy limits the types and number of investment opportunities available to the fund and, as a result, the fund may underperform other funds that do not have an ESG focus. A fund's ESG investment strategy may result in the fund investing in securities or industry sectors that underperform the market as a whole or underperform other funds screened for ESG standards. In addition, companies selected by the index provider may not exhibit positive or favorable ESG characteristics.

A fund's strategy of investing in securities of companies with low carbon exposure limits the type and number of investment opportunities available to the fund and, as a result, the fund may underperform other funds that do not seek to minimize carbon exposure. A fund's low carbon exposure investment strategy may result in the fund investing in securities or industry sectors that underperform the market.

The Fund's green bond investment strategy limits the types and number of investment opportunities available to the Fund and, as a result, the Fund may underperform other funds that do not have a green bond focus. The Fund's green bond investment strategy may result in the Fund investing in securities or industry sectors that underperform the market as a whole or underperform other funds with a green bond focus. In addition, projects funded by green bonds may not result in direct environmental benefits.

Actively managed funds do not seek to replicate the performance of a specified index. Actively managed funds may have higher portfolio turnover than index funds.

The BlackRock funds are actively managed and their characteristics will vary.

This material represents an assessment of the market environment as of the date indicated; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any issuer or security in particular.

iShares
by BlackRock