



**Remarks at the World Economic Forum
“Building Sustainable Markets: What Is Needed For A Transformation To A
Sustainable Market Place?”**

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Introduction

Thank you for having me here at the [Sustainable Development Impact Summit](#).

In conversations on sustainability and the role of the private sector, we often hear about how much needs to be done. Looking back over the past decade, we observe that significant progress has been made. Of course, that does not mean we cannot continue to improve, but it is important to pause and both acknowledge and celebrate our successes in sustainable finance.

Let me explain my perspective that the glass is half-full.

- The investor community has built various coalitions to make progress in this area over the last decade.¹
- Long-term investors in companies have been focusing their engagement with companies on Environmental, Social and Governance (ESG) issues for quite some time.
- There has been significant growth of sustainable solutions in terms of new product launches and innovation.
- The business community has been doing more and reporting more over the last ten years.

While progress is significant, some impediments remain. Importantly, the quality of information which underpins both investors’ and businesses’ pursuit of greater sustainability is uneven and presents a barrier for further progress in sustainable finance. The current alphabet soup of competing standards and initiatives can be confusing.

Today, I will discuss what’s been done in building investment solutions and coalitions to date, and how the landscape is evolving. Then I will focus on the role of stewardship, and, finally, the role of regulation.

The Growth of Sustainable Products and Investment Solutions

Sustainable investing is becoming more prominent within the investing community. The Principles of Responsible Investment (PRI) launched in April 2006 with 63 signatories accounting for \$6.5 trillion in assets. Over the past 12 years, the PRI has

¹ For example, Global Sustainable Investment Alliance, UN Sustainable Investment Goals, Carbon Disclosure Project

grown to over 1900 signatories accounting for over \$80 trillion in AUM. In the past five years alone, the number of signatories has increased by 65% and AUM has increased by 240%.² Per the Global Sustainable Investment Alliance (GSIA), approximately 26% of the assets under management globally already incorporate ESG factors in some form.³ At BlackRock, we have over \$50 billion in AUM in dedicated to sustainable strategies, and an additional \$450 billion in AUM utilizing exclusionary screens.⁴ Further, the firm as a whole is focused on integrating ESG data across our platform to enable investment teams to consider material ESG factors.

As asset owners become more interested in ESG, we are witnessing in response strong growth in sustainable solutions in terms of new product launches and innovation. In the last three calendar years between 2015-2017, over 100 new sustainable mutual funds and exchange-traded funds (ETFs) were launched in the US alone.⁵ This same client-driven demand has resulted in the expansion of strategies and vehicles such as target-date solutions for the defined contribution (DC) space, and sustainable ETFs (low-cost and easy-to-access solutions) for individual investors.

At BlackRock, we've been focused on expanding the offerings on our platform, and in particular filling gaps we see in the market place. We have built out our sustainable ETF offerings in the US and EMEA, which account for over \$6.8 billion in AUM.⁶ We also recently launched a suite of active ESG Emerging Markets debt strategies in EMEA, in response to client demands to address ESG in fixed income.⁷ Further, in both the US and UK, we are building new products for our Defined Contribution clients. In the UK, we launched a DC pension eligible low-carbon fund at the end of 2017 that has already gathered \$1 billion in committed assets.⁸

We are also seeing a trend where companies and asset owners are aligning their business and investments with the UN Sustainable Development Goals (SDGs). According to the KPMG Survey of Corporate Responsibility Reporting (2017), 40% of the world's 250 largest corporations discuss the SDGs in their corporate reporting. In particular, European- based companies and consumer facing sectors (i.e., utilities, automotive, retail) are reporting on the SDGs.⁹ Some institutional asset owners are adopting the SDGs as a framework for sustainable investing, with strong

² UN Principles for Responsible Investment, available at <https://www.unpri.org/Uploads/n/1/PRI-Global-growth-2006-2018.xlsx>.

³ Global Sustainable Investment Alliance, "2016 Global Sustainable Investment Review", http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf.

⁴ As of Jun. 30, 2018.

⁵ Morningstar Research, "Sustainable Funds U.S. Landscape Report" (Jan. 2018), available at https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/Sustainable_Funds_Landscape.pdf.

⁶ As of Aug. 31, 2018.

⁷ See for example, Investment Week, "BlackRock launches ESG emerging market debt ETF", (Sept. 2018), available at <https://www.investmentweek.co.uk/investment-week/news/3063468/blackrock-launches-esg-emerging-market-debt-etf>

⁸ As of Aug. 2018.

⁹ KPMG, "The Road Ahead – The KPMG Survey of Corporate Responsibility Reporting" (2017), available at: <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/10/kpmg-survey-of-corporate-responsibility-reporting-2017.pdf>.

commitments from pension funds such as the Dutch PGGM.¹⁰ In the US, CalPERS has mapped the SDGs to their existing sustainability investment plan.¹¹

At BlackRock we believe there is room for innovation in solutions addressing SDGs. Back in 2016, we partnered with MSCI to launch a sustainable impact index solution which uses the 17 SDGs as a framework to identify high impact companies. The index only includes companies that derive over 50% of their revenues from products and services that address at least one of the SDGs.¹²

Areas under Development

ESG data is improving due to technology and increased focus on transparency and disclosure, however the data is still a work in progress. For example, there are multiple ESG data providers with sometimes conflicting ratings of individual companies. On a positive note, more companies have developed reporting on sustainability issues, although the quality varies. In the US, 85% of the companies in the S&P 500 published sustainability reports in 2017, compared to 20% of companies back in 2011.¹³

On a positive note, technology is enabling better access and processing of ESG data. Just as the growing scope and availability of data has enabled investors to identify traditional factors that drive investment returns, it is also enabling investors to identify when and how sustainability-related issues help manage risk and enhance long-term return. At BlackRock, we are leveraging our technology platform to identify sustainability issues that are material investment considerations, and we are using big-data techniques to improve data quality and coverage.¹⁴ As an example, we are partnering with our fixed income team as well as external research groups to apply geo-located physical climate risk data to assets and securities such as those tied to real estate in areas prone to flooding.

Another important development is the role of individual investors. Institutional investors such as pension funds, insurance companies or sovereign wealth funds have historically played a large role in driving sustainable investing. Increasingly, retail investors are becoming more deeply engaged. As a result of demographic shifts (e.g., millennials and women controlling an increasing proportion of wealth) and technological shifts that enable better access to information, individual investors are expressing more interest in sustainable investing. Millennials have been shown to take sustainability into consideration when it comes to their jobs and as consumers, and they are now doing so as investors. Some robo advisors targeting

¹⁰ "Sustainable Development Investments (SDIs) Taxonomies" (May 2017), available at https://www.pggm.nl/english/what-we-do/Documents/SDI-taxonomies-APG-PGGM-mei_2017.pdf.

¹¹ CalPERS, "UN Sustainable Development Goals Mapping" (Jul. 2018), available at https://www.calpers.ca.gov/docs/board-agendas/201807/full/day1/03sdg-ipp-ppt_a.pdf.

¹² See for example, BusinessWire, "BlackRock Introduces iShares Sustainable MSCI Global Impact ETF" (Apr. 2016), available at <https://www.businesswire.com/news/home/20160422005523/en/BlackRock-Introduces-iShares-Sustainable-MSCI-Global-Impact>.

¹³ Governance & Accountability Institute, "85% of S&P 500 Index® Companies Publish Sustainability Reports in 2017", (Mar. 2018), available at <https://www.ga-institute.com/press-releases/article/flash-report-85-of-sp-500-indexR-companies-publish-sustainability-reports-in-2017.html>.

¹⁴ See "Tech Power – The Growing Role of Technology in Sustainable Investing" (2017), available at <https://www.blackrock.com/ch/individual/en/literature/whitepaper/blackrock-tech-power-en-ch-whitepaper.pdf>.

younger investors focus solely on sustainable investing.¹⁵ US DC plans are similarly becoming more interested in sustainable investment options as millennials become the largest generation in the US workforce.

Globally, assets in dedicated sustainable mutual funds and ETFs grew by nearly 30% in 2017, to approximately \$760 billion.¹⁶ We've already seen strong growth in sustainable mutual funds and ETFs, and we believe increasing retail demand will continue to drive innovation in developing easy-to-access sustainable solutions.

While "sustainability" has become a global theme, the definition varies across clients and across regions. In other words, sustainable investing is not "one size fits all." Our clients have noticeably different sustainable investment preferences. Understanding and recognizing the diversity of priorities and methods that investors use to achieve their sustainable investing goals is critical to matching capital with appropriate investment opportunities.

Our goal as an asset manager is to provide our clients with the best possible investment options based on their investment preferences. For example, many of our European clients are concerned about headline risks. We surveyed approximately 80 of these clients to understand the most common screens requested. Following this survey, we are launching traditional market cap weighted exposures that exclude specific business involvement areas (such as thermal coal, weapons, tobacco, etc.). In the US, many asset owners do not want to implement various business involvement screens, yet they may have interest in sustainability. In response, we have worked with these clients to create strategies that "tilt" a portfolio using ESG factors.

The Role of Investment Stewardship

Just as corporate governance contributes to sustainability, investment stewardship plays an important role. As an asset manager, BlackRock invests in public companies on behalf of clients and exercises shareholder engagement or "stewardship" activities on their behalf. We view "investment stewardship" as central to our fiduciary duty, which is to protect and enhance the value of the assets that our clients – the asset owners – have entrusted us to manage on their behalf. As stewards acting on behalf of clients, we encourage the adoption of sound business practices that are consistent with delivering sustainable long-term financial results for our clients through both constructive and continuous engagement with investee companies and proxy voting. Our approach to stewardship as a long-term investor is to be patient with companies to ultimately develop the mutual understanding that supports continued, effective dialogue paving the way for durable positive change over time.

BlackRock's Stewardship team is global, consisting of approximately 40 professionals coordinated across three regions with offices in six countries, allowing us to have specialists who understand local customs and the regional ecosystems

¹⁵ A few examples of such robo advisors include Swell, OpenInvest, and EarthFolio.

¹⁶ As of Jun. 2018. Includes ESG, thematic, and impact strategies.

within which companies operate.¹⁷ While this is the largest dedicated team in the industry, we continue to invest in this area adding both people and technology.

Over the past two decades, a combination of official sector initiatives and practitioner initiatives have codified the landscape. Each of these initiatives recognize the importance of corporate governance and investment stewardship in promoting broader policy objectives such as long termism or sustainability. At the global level, the [G20/OECD Principles of Corporate Governance](#) and the PRI have, for many years, shaped the framework of corporate governance. More recently we have seen the emergence of Stewardship Codes, starting with the [UK](#) who published the first version of their code in 2010. Many countries have followed suit, such as [Japan](#), [Italy](#), [South Korea](#), [The Netherlands](#) and [Australia](#). Today, there are nearly 20 Stewardship Codes globally. The revision of the [Shareholder Rights Directive](#) in the European Union encourages shareholder engagement, with a focus on the long term and sustainability issues. In the U.S., BlackRock has been part of a coalition of asset owners and asset managers that created the [Investor Stewardship Group Corporate Governance Principles](#) as well as its [Stewardship Principles](#).

These developments are positive, as these regulations and “soft law” practices prompt investors, asset managers and asset owners to reflect on their stewardship responsibilities and to actively monitor and engage with companies. We encourage policy makers to continue to support stewardship practices, corporate governance standards, and shareholder promotion of long-term business value creation through Stewardship Codes.

As BlackRock’s Chairman and CEO, Larry Fink, emphasized in his [letter to CEOs](#) earlier this year, listed companies will need to improve their corporate governance practices and integrate sustainability issues that are material to their business into their long-term strategy. As part of this process, companies should articulate their framework for long-term value creation and define their sense of purpose.

The Role of Regulation

Policy makers have recently turned their attention to sustainability. We see several important roles for policy and potential regulation:

1. Create incentives for asset owners to increase their allocations to sustainable investments.
2. Provide Guidance Recognizing the Need for Companies to Disclose Material ESG Information.
3. Encourage the development of sustainable investment products, and develop a common language for these products.
4. Recognize corporate governance and stewardship standards.

¹⁷ For more on BlackRock Investment Stewardship, see: <https://www.blackrock.com/corporate/about-us/investment-stewardship>.

1. Create Incentives for Asset Owners

Asset owners are the capital providers for companies and investment projects. As I mentioned earlier, asset owners differ dramatically across their investment profile and objectives, as well as their regulatory, accounting and tax frameworks. To increase allocations in sustainable investments, the starting point for policy makers is to create tailored incentives for those with capital making the investment decisions: the asset owners. These incentives may include capital requirements, tax benefits, or other factors.

2. Provide Guidance Recognizing the Need for Companies to Disclose Material ESG Information

Many asset owners have a long-term profile – they seek to increase their capital to meet financial goals, which oftentimes revolve around retirement – either their own, or to fund the retirement of their members / beneficiaries. Sustainability-related issues can have real impacts on the long-term financial performance of their investments.¹⁸

Many asset owners and asset managers are already taking up these issues as inputs to investment or risk management processes, and many would like better quality data. The current lack of clear, consistent, and comparable standards for the reporting of material ESG data by companies in which they invest creates challenges.

Currently, there are a number of competing standards for disclosure of ESG data for companies, including the TCFD (Task Force on Climate-related Financial Disclosures), SASB (Sustainability Accounting Standards Board), GRI (Global Reporting Initiative), IIRC (International Integrated Reporting Council), and, of course, the UN SDGs, and more. This proliferation of different standards creates confusion for investors trying to assess the relevant ESG risks and opportunities of investee companies. Likewise, having too many standards is challenging for companies in determining which corporate reporting standards to follow. We often hear from companies suffering from “survey fatigue”.

In June 2016, BlackRock published a *ViewPoint* titled [Exploring ESG: A Practitioner’s Perspective](#). In this *ViewPoint*, we called for policy makers to focus on establishing a consistent global framework that enables stakeholders and market participants to develop detailed ESG standards and best practice guidelines. More specifically, we encourage policymakers to provide guidance that recognizes the need to tailor reporting across diverse industries, because relevant ESG factors can vary primarily by industry, and also by geography, and even by specific company. While each framework has its own merits and some industry bodies are trying to address the lack of consistency, policy makers could encourage companies to provide clear and consistent data on material sustainability issues and contribute to greater standardization of reporting frameworks. I emphasize the importance of “materiality” here, which means to focus the reporting on what is relevant for the

¹⁸ See BlackRock Investment Institute, “[Sustainable Investing: A “Why Not” Moment](#)” (May 2018); BlackRock Investment Institute, “[Adapting Portfolios to Climate Change](#)” (Sep. 2016).

particular business and its long-term commercial prospects, both in terms of risks and opportunities, and what is relevant for investors to make better investment decisions.

3. Encourage the Development of Sustainable Investment Products

The financial markets currently lack a common language outlining the meanings of “sustainable”, “green” or “socially responsible.” A common language would provide confidence and clarity to invest in and offer accurately-named products. The EU is looking at this with the so-called [“taxonomy” legislative proposal](#) the European Commission published in May of this year. Done appropriately, this taxonomy can build a common language. When the EU process is complete, it may merit consideration for broader adoption.

We can apply our lessons from ESG corporate reporting standards here: to avoid a proliferation of too many taxonomies across the globe, a common global language on what is and what is not “sustainable” would be incredibly useful and would allow investment solutions built around these concepts to achieve greater scale and investability.

In addition, we encourage policy makers, together with the industry, to think through ways to offer investors sustainable products more easily and more cost efficiently. Since the goal is to increase allocations to sustainable investments, sometimes I call this the “speed pass” to get to market. For example, building streamlined product approval processes or structural features for investment funds intended to make sustainable investment on a pooled basis more easily scalable. Policymakers could take a more holistic approach and look at the cumulative effects of regulation to ensure policy measures do not avertedly hinder greater investments in sustainable finance. One such risk is in the OECD’s Base Erosion and Profit Shifting (BEPS) initiative. While the project seeks to fulfil the laudable aim of mitigating abusive tax practices by multinational companies, we see a real risk that it may unintentionally capture legitimate cross-border investment. As such, investment funds which are both serving cross-border investors and investing in real assets or private markets (for example, funds investing in renewable energy on a cross-border basis) could find themselves subject to double taxation.

4. Recognize Corporate Governance and Stewardship Standards

Often the debate on sustainable markets puts aside corporate governance and stewardship to focus more on investment behavior and asset allocation. But, the dialogue between companies and shareholders is one of the most meaningful ways to achieve greater sustainable outcomes and long-term value creation for companies. As I noted earlier, through investment stewardship, investors can encourage companies in which they invest to adopt better practices in relation to material sustainability factors relevant to their businesses. In doing so, they not only enhance the value of their clients’ investments in those companies over time, but they also contribute to a more sustainable economy.

Conclusion

Looking back, we can see how far we have come. Over a trillion dollars of assets are invested in dedicated sustainable strategies, thousands of companies are providing more insights on their business, and there is growing awareness of the importance of material E, S, and G factors in the investment process.¹⁹

We are at an important crossroads. On one hand, we have too many standards and a great deal of data of uneven quality and utility. On the other hand, we have demand from asset owners to create more sustainable products.

Policy makers, working alongside the private sector, can help with consistency of data, establishing a common language and creating incentives for asset owners, while also facilitating a streamlined process to bring sustainable investment products to market.

¹⁹ Global Sustainable Investment Alliance, "2016 Global Sustainable Investment Review", http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf; KPMG, "The Road Ahead – The KPMG Survey of Corporate Responsibility Reporting" (2017), available at: <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/10/kpmg-survey-of-corporate-responsibility-reporting-2017.pdf>.

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