



BlackRock's Climate Problem

Executive Summary: As the largest asset manager in the world, BlackRock contributes more to climate change than almost any other single company on Earth. Its investments and lack of meaningful shareholder engagement are driving us toward a world with runaway climate change.

BlackRock CEO Larry Fink demands that corporate CEOs define their societal purpose or else lose social license to operate, and extolls them for a too-narrow focus on short-term profits. But he has yet to define BlackRock's own social purpose as it relates to climate change.

BlackRock can make money for its asset owners and help protect the climate by aligning its investments with the Paris Climate Agreement.

Being a real climate leader means using its power as a major shareholder to aggressively pressure fossil fuel companies, and ultimately shifting investments away from fossil fuels and forest destruction and toward climate solutions that respect human rights.

BlackRock's Influence is Needed in the Climate Fight

BlackRock is the largest asset manager in the world with \$6.3 trillion under management as of Q1 2018, roughly equal to the world's top 20 pension funds.¹ Including its Aladdin software that it licenses to other asset managers, BlackRock has a hand in influencing over \$20 trillion worth of investments.²

BlackRock is the largest investor of passive products globally with \$2.4 trillion in index funds and \$1.8 trillion in exchange traded funds (ETFs),³ comprising the bulk of the company's recent and projected growth. BlackRock expects the global ETF market to double in three to four years.⁴

¹<https://www.willistowerswatson.com/en/insights/2017/09/The-worlds-300-largest-pension-funds-year-ended-2016>

² <https://www.ft.com/content/eda44658-3592-11e7-99bd-13beb0903fa3>

³ <https://seekingalpha.com/article/4137192-blackrock-inc-2017-q4-results-earnings-call-slides>

⁴ <https://www.newsmax.com/Finance/StreetTalk/BlackRock-Kapito-ETFs-investing/2015/12/08/id/705037/>

A broadly diversified business across clients, products and geographies

Q4 2017 Total Base Fees of \$2.896 billion
Assets Under Management of \$6.288 trillion at December 31, 2017



Note: Base Fees and AUM by region data is based on client domicile.

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BlackRock's growth over the last decade mirrors the consolidation within the industry. The top six global wealth and asset managers (BlackRock, Vanguard, UBS, State Street, Fidelity, Allianz) alone manage around \$22 trillion, roughly equivalent to the value of the top 300 pension funds and 30 largest sovereign wealth funds in the world,⁵ making these companies incredibly influential shareholders.

BlackRock, along with Vanguard and State Street, are driving a shift towards more asset investments in low-fee, broad-based passively managed index funds and ETFs. BlackRock and Vanguard are each poised to have \$10 trillion under management within the next 5 years, with most of this planned growth fueled by passive investments.⁶ By investing broadly in the entire marketplace and being long-term focused, universal owners like BlackRock are betting on the long term viability of the global economy, a bet threatened by climate change.

These large universal owners are important and influential investors in the attempt to align with the Paris Climate Agreement's objective of making "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".⁷ In order for this to happen, trillions must shift away from the fossil fuel industry and towards low-carbon and carbon-free alternatives.

Some investors, including large asset managers, are taking action. Many large investors are engaging existing carbon intensive industries like oil and gas in order to make sure the rising

⁵<https://www.willistowerswatson.com/en/insights/2017/09/The-worlds-300-largest-pension-funds-year-ended-2016>

⁶<https://www.bloomberg.com/news/features/2017-12-04/blackrock-and-vanguard-s-20-trillion-future-is-closer-than-you-think>

⁷ https://unfccc.int/sites/default/files/english_paris_agreement.pdf

costs due to regulating carbon do not lead to stranded assets. Recent investor letters have challenged carbon majors to be more aggressive in combating climate change. Investors with \$10.5 trillion have issued a call urging the oil industry to do more to support the Paris Climate Agreement, and this call is supported by large asset managers such as BNP Paribas AM, Legal and General IM and AXA IM.⁸ Going even further, an investor network with \$2.5 trillion under management has urged the oil industry not to open up the Arctic Refuge for drilling.⁹

Yet until the very largest asset managers take a leadership role in actively driving down climate risk, this shareholder engagement approach will not reach the full potential needed to 'shift the trillions' and align the investment community with the goals of the Paris Climate Agreement. As the largest investor in many fossil fuel companies,¹⁰ BlackRock lags behind other asset managers in the approach it takes in mitigating climate risk.

BlackRock Leads Investment in Climate Change Destruction

BlackRock is one of the leading investors in industries that drive climate change.

Coal Mining and Coal-Fired Power Plants

Coal is the leading cause of climate change worldwide.¹¹ Existing carbon budgets aligned with the Paris Climate Agreement do not allow for more coal mining or new coal plants construction. The world must rapidly phase out coal over the next 12 years in the developed world and over a slightly longer timeframe in the rest of the world.¹² Large institutional investors and insurers of the coal economy agree, with companies like AXA and Allianz recently making commitments to end investment and insurance support for coal.¹³

Last year, a senior BlackRock executive seemingly concurred with this analysis, proclaiming that 'coal is dead'.¹⁴ Yet Blackrock remains one of the leading investors in the coal economy. It is the largest investor in new coal plant development worldwide¹⁵ and only sits behind the Indian Government as the largest investor in coal reserves.¹⁶

⁸ <https://www.ft.com/content/fda63c26-5906-11e8-b8b2-d6ceb45fa9d0>

⁹ <https://www.theguardian.com/environment/2018/may/14/investors-urge-fossil-fuel-firms-shun-trump-arctic-drilling-plans-alaskan-wilderness>

¹⁰ https://data.bloomberglp.com/bnef/sites/4/2014/08/BNEF_DOC_2014-08-25-Fossil-Fuel-Divestment.pdf

¹¹ https://www.ecofys.com/files/files/world-ghg-emission-flow-chart-2012_v9-c-asn-ecofys-2016_02.pdf

¹² http://climateanalytics.org/files/climateanalytics-coalreport_nov2016_1.pdf

¹³ <https://www.ft.com/content/a23a6c3c-4eec-11e8-9471-a083af05aea7>

¹⁴ <https://www.triplepundit.com/2017/06/blackrock-coal-dead/>

¹⁵ https://coalexit.org/sites/default/files/download_public/Investors%20vs.%20Paris_web.pdf

¹⁶ <https://influencemap.org/report/Clarifying-carbon-ownership-8cb210f5b6643c8e58037dbfaa28d7ae>

Top institutions investing in bonds and shares of coal companies (in USD mln)

Rank	Investor	Country	Shareholding	Bond-holding	Total	Share of Investment in National Coal Companies (%)
1	BlackRock	United States	10216	1291	11506	9%
2	Government Pension Investment Fund	Japan	4767	2237	7004	83%
3	Vanguard	United States	5570	113	5683	15%
4	Khazanah Nasional	Malaysia	5458		5458	100%
5	National Pension Service	South Korea	4172		4172	100%
6	Life Insurance Corporation of India	India	3846		3846	100%
7	Capital Group	United States	1407	2021	3428	33%
8	Butterfield Group	Bermuda	3292		3292	0%
9	Employees Provident Fund	Malaysia	2360		2360	100%
10	Mizuho Financial	Japan	2080	11	2091	99%
11	Yayasan Pelaburan Bumiputra	Malaysia	1977		1977	100%
12	Dimensional Fund Advisors	United States	1511	293	1804	2%
13	JPMorgan Chase	United States	1473	295	1768	14%
14	Mitsubishi UFJ Financial	Japan	1671	42	1713	38%
15	Fidelity Investments	United States	1089	583	1672	22%

Source: CoalExit.Org

Deforestation and Resource Extraction

After the mining, drilling and burning of fossil fuels, deforestation and forest degradation are recognized as the second significant driver of climate change. With over \$600 million invested in forest-risk commodities like palm oil, timber, rubber, paper and pulp, BlackRock is the largest US investor in financing rainforest destruction.¹⁷

BlackRock has acknowledged the financial risks associated with exposure to climate-linked deforestation,¹⁸ and has engaged with some of the companies it owns in these sectors, but needs to do significantly more to end its financial backing of deforestation.¹⁹

BlackRock has increased investor risk by holding investments in companies involved in widespread abuses of community rights and large-scale deforestation in Africa²⁰ and Asia.²¹ BlackRock is exposed to include several companies in the Salim Group, recently charged

¹⁷ <http://forestsandfinance.org/>

¹⁸ <https://www.blackrock.com/corporate/literature/whitepaper/bii-climate-change-2016-us.pdf>

¹⁹ https://1bps6437gg8c169i0y1drtgz-wpengine.netdna-ssl.com/wp-content/uploads/2017/webiva_fs_2/USPalmOilFinanceFactSheet.pdf

²⁰ <https://frontpageafricaonline.com/news/2016news/global-oil-palm-body-rebuked-gvl-over-land-grab-in-sinoe-grand-kru/>

²¹ <https://www.koreaexpose.com/south-korean-companies-destroying-indonesia-virgin-rainforest/>

with illegally clearing up to 10,000 hectares of rainforest in Borneo;²² Posco Daewoo, which recently destroyed some 19,000 hectares of Papuan rainforest,²³ and Golden-Agri Resources, whose private equity vehicle Golden Veroleum is embroiled in human rights controversies in Liberia, where the company is appealing a verdict by the Roundtable on Sustainable Palm Oil, the industry's primary certification body.²⁴

BlackRock has significant investments in companies with licenses to drill for oil in the Amazon, an ecosystem crucial for climate survival. Oil drilling deforests large swaths of rainforest and displaces and harms the health of local indigenous peoples.²⁵ The threat to climate stability and indigenous rights posed by oil extraction in the Amazon directly translates to serious legal, reputational, political, and financial risks for the operating companies and financial backer like BlackRock, and has recently drawn scrutiny from United States Senators Whitehouse and Schatz.²⁶

BlackRock's Climate Action Needs to Match Larry Fink's Rhetoric

BlackRock CEO Larry Fink regularly expresses his belief that corporations should play a positive role in society, benefitting not just their shareholders but the communities in which they work and even the rest of the world.

In his most recent open letter to CEOs, he warned executives that all companies must have a social mission. "Society is demanding that companies, both public and private, serve a social purpose," Fink wrote. "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate... Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders."²⁷

Fink has repeated his support for environmental causes at other moments. In his 2016 CEO letter he chided companies for focusing on short-term profits, writing, "many companies continue to engage in practices that may undermine their ability to invest for the future. Over the long term," he wrote, "environmental, social and governance issues — ranging from climate change to diversity to board effectiveness — have real and quantifiable financial impacts," and specifically mentioned the importance of the Paris Climate Agreement.²⁸

²²https://1bps6437gg8c169i0y1drtgz-wpengine.netdna-ssl.com/wp-content/uploads/2017/webiva_fs_2/USPalmOilFinanceFactSheet.pdf

²³<http://www.mightyearth.org/buyers-beware-posco-daewoos-deforestation-palm-oil-is-ready-for-international-markets/>

²⁴ http://foe.org/wp-content/uploads/2018/05/GVL_CP-Final-Decision.pdf

²⁵ <https://amazonwatch.org/work/end-amazon-crude/investing-in-amazon-destruction>

²⁶<https://amazonwatch.org/news/2018/0326-us-senators-send-letters-to-blackrock-and-jpmorgan-chase-on-amazon-crude>

²⁷<https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter?cid=twitter%3Alarryslettertoceos%3A%3Ablackrock>

²⁸<https://www.nytimes.com/interactive/2016/02/02/business/dealbook/document-larry-finks-2016-corporate-governance-letter.html>

It is important for Fink to heed his own words and ensure that BlackRock itself has a social purpose as it relates to the action it takes on climate change. In addition to its investments, BlackRock touts its robust and growing shareholder engagement team²⁹ and alleges that it will not be endlessly patient, saying that, “when we do not see progress despite ongoing engagement, or companies are insufficiently responsive to our efforts to protect the long-term economic interests of our clients, we will not hesitate to exercise our right to vote against management recommendations.”³⁰

Yet, when compared to other large asset managers’ votes on climate disclosures and two degree analyses at key energy and utility shareholder meetings in 2017, BlackRock did not take bold action, instead lagging well behind other asset managers and almost always voting with management and against more rigorous climate action.³¹ While BlackRock received praise for its votes against Exxon and Occidental Petroleum in 2017,³² if it had voted more consistently against management and specifically for a two degree analysis, ten more shareholder resolutions would have passed due to BlackRock’s significant equity investments in these companies. See accompanying charts.

Table 2: Asset manager 2017 support for Key Climate Votes & 2-Degree Scenario votes

Asset Manager	Rank by size	% Support for 2017 Key Climate Votes	% Support for 2 Degree proposals 2017
MFS INVESTMENT MANAGEMENT	23	91%	100%
DEUTSCHE ASSET MANAGEMENT	15	90%	100%
NUVEEN	12	88%	100%
LEGG MASON	17	85%	86%
WELLS FARGO	20	85%	100%
ALLIANCEBERNSTEIN	21	81%	100%
MORGAN STANLEY	24	79%	100%
UBS	19	78%	73%
AFFILIATED MANAGERS GROUP	16	71%	89%
NORTHERN TRUST	11	61%	100%
STATE STREET	3	61%	57%
GOLDMAN SACHS	10	58%	71%
FRANKLIN TEMPLETON	18	39%	46%
PRUDENTIAL	9	38%	36%
PIMCO	7	35%	29%
FIDELITY	4	30%	14%
AMERICAN FUNDS/CAPITAL GROUP	8	29%	40%
INVESCO	13	28%	23%
T ROWE	14	24%	36%
JP MORGAN	6	22%	14%
BNY MELLON	5	19%	0%
DIMENSIONAL	22	15%	0%
VANGUARD	2	15%	14%
BLACKROCK	1	9%	14%

²⁹ <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

³⁰ http://www.agefi.fr/sites/agefi.fr/files/fichiers/2017/03/blackrock_investment_stewardship_2017-2018_priorities_final.pdf

³¹ <https://5050climate.org/news/new-report-leading-asset-managers-failing-on-key-climate-votes/>

³² https://www.washingtonpost.com/news/energy-environment/wp/2017/05/31/exxonmobil-is-trying-to-fend-off-a-shareholder-rebellion-over-climate-change/?utm_term=.0075d2573c4b

Table 5a. If Blackrock had voted yes, ten additional 2DS proposals would have gained majority support: PNM, Dominion, Ameren, Duke, Southern, DTE, FirstEnergy, Devon, Marathon Petroleum, and AES.



Source: 50/50 Climate Project

More Climate Action Needed from BlackRock

A growing group of organizations are calling out the devastating climate impacts of BlackRock’s investments and are challenging Larry Fink to live up to the ambitious goals set in his own CEO letters and statements.³³

There are many concrete steps that BlackRock and other asset managers can take that would shift capital and align BlackRock’s investments with the Paris Climate Agreement.

Larry Fink makes clear that in terms of BlackRock’s \$1.7 trillion in actively managed funds, the company could sell its securities if BlackRock is “doubtful about [a company’s] strategic direction or long-term growth.”³⁴ Therefore, BlackRock should divest its actively managed funds from coal and tar sands--industries for which the world has no more carbon budget--, as other asset managers are moving to do.³⁵³⁶

As large investors like the Norwegian Sovereign Wealth Fund and the New York City³⁷ look to divest from fossil fuels, BlackRock should make it easier for investors -- both institutional

³³<https://www.sierraclub.org/sites/www.sierraclub.org/files/blog/Larry%20Fink%20NGO%20Letter%20May%204%202018.pdf>

³⁴<https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

³⁵<http://www.pionline.com/article/20170425/ONLINE/170429925/axa-investment-managers-to-divest-from-coal-companies>

³⁶<https://www.telegraph.co.uk/business/2018/04/23/hit-climate-target-will-ditch-shares-lqims-threat-dirty-companies/>

³⁷<https://www.theguardian.com/us-news/2018/jan/10/new-york-city-plans-to-divest-5bn-from-fossil-fuels-and-sue-oil-companies>

and individual -- to invest in products that are free of fossil fuels and/or screened to only include companies that are aligned with the Paris goals.

Given the ambitious action needed to meet the goals and timeline of the Paris Climate Agreement, BlackRock should also become a much more aggressive shareholder by using its voting power and being willing to escalate pressure as necessary. It should join high ambition investor networks, like the ones pressuring oil majors to abandon Arctic drilling, or simply chart its own high ambition course, as other asset managers will follow the sector's largest company. Voting for strong climate resolutions and improved corporate governance managing climate risk is a start; BlackRock also must be willing to escalate pressure on industry laggards by voting against boards that do not adequately manage climate risk and thus increase the investor risk of stranded assets.³⁸ Further, BlackRock should be more transparent about its engagement process with companies on climate, as it has done with gun manufacturers.³⁹

BlackRock must take these and other strong steps toward true climate leadership, not just because it will demonstrate coherence between Mr. Finks' rhetoric and the company's actions, but also because if major players like BlackRock do not take climate action now, we will soon no longer have a world left in which to live, let alone invest.

³⁸ <https://www.carbontracker.org/reports/under-the-microscope/#>

³⁹ <https://www.blackrock.com/corporate/newsroom/press-releases/article/corporate-one/press-releases/blackrock-approach-to-companies-manufacturing-distributing-firearms>

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