

**David Lomas**

February 5<sup>th</sup>, 2020

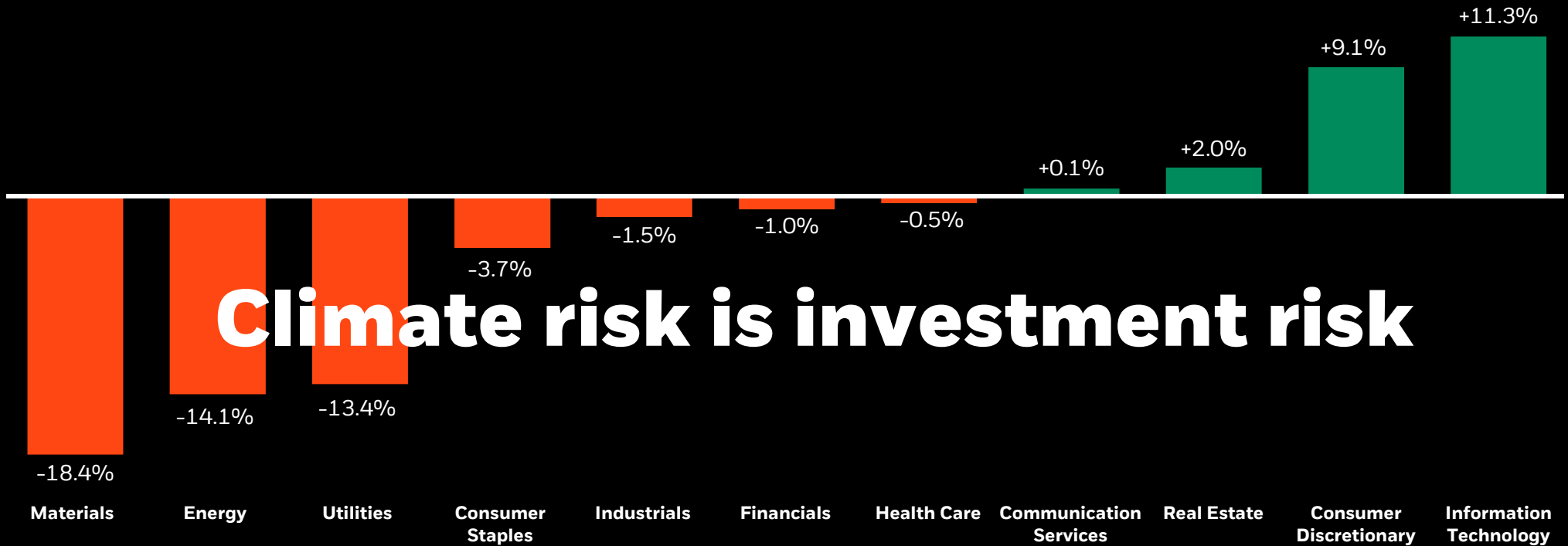
**BlackRock**

# **A fundamental reshaping of finance**

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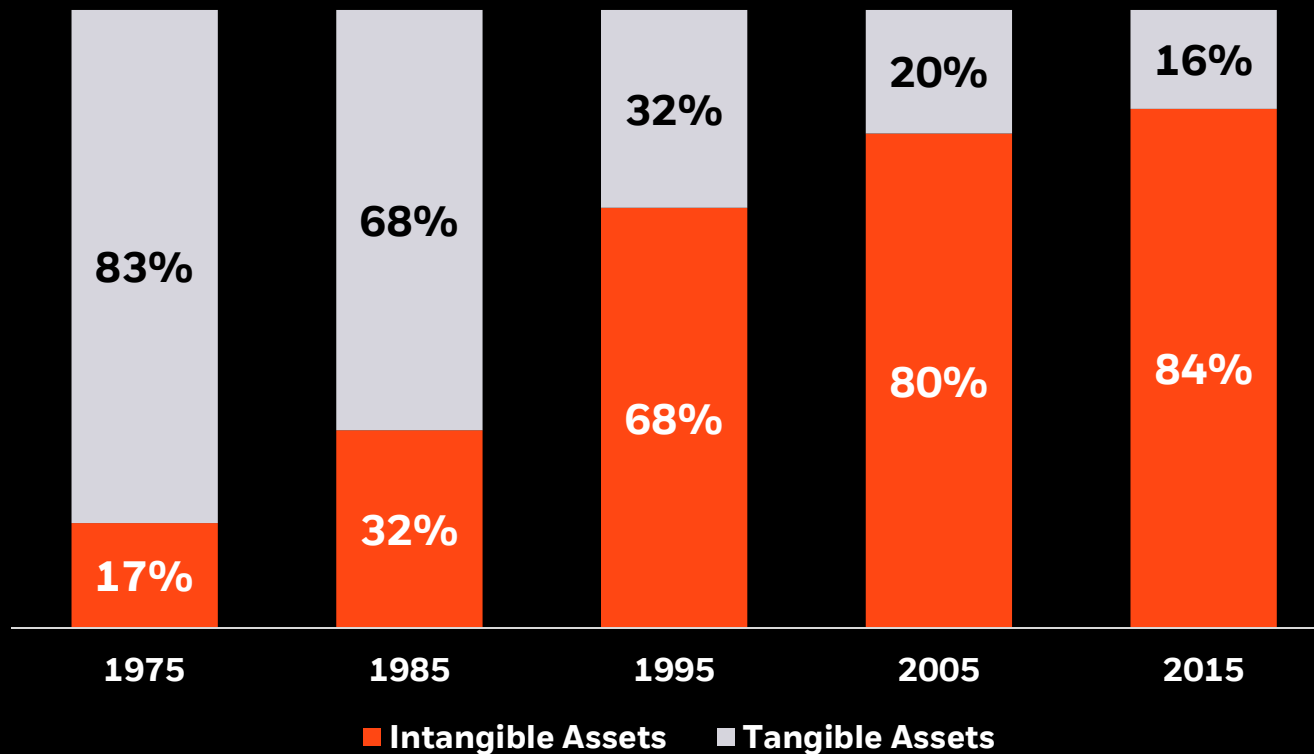
## Hypothetical sector return under \$25 metric ton carbon price



Source: BlackRock Sustainable Investing. For illustrative purposes only. Initial model covers the MSCI ACWI equity universe. Data as of August 30, 2019. This material represents an assessment of the market environment at a specific time 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 of any security in particular.

# Intangible assets are increasingly important in the valuation of a company

Components of S&P 500 market value (%)

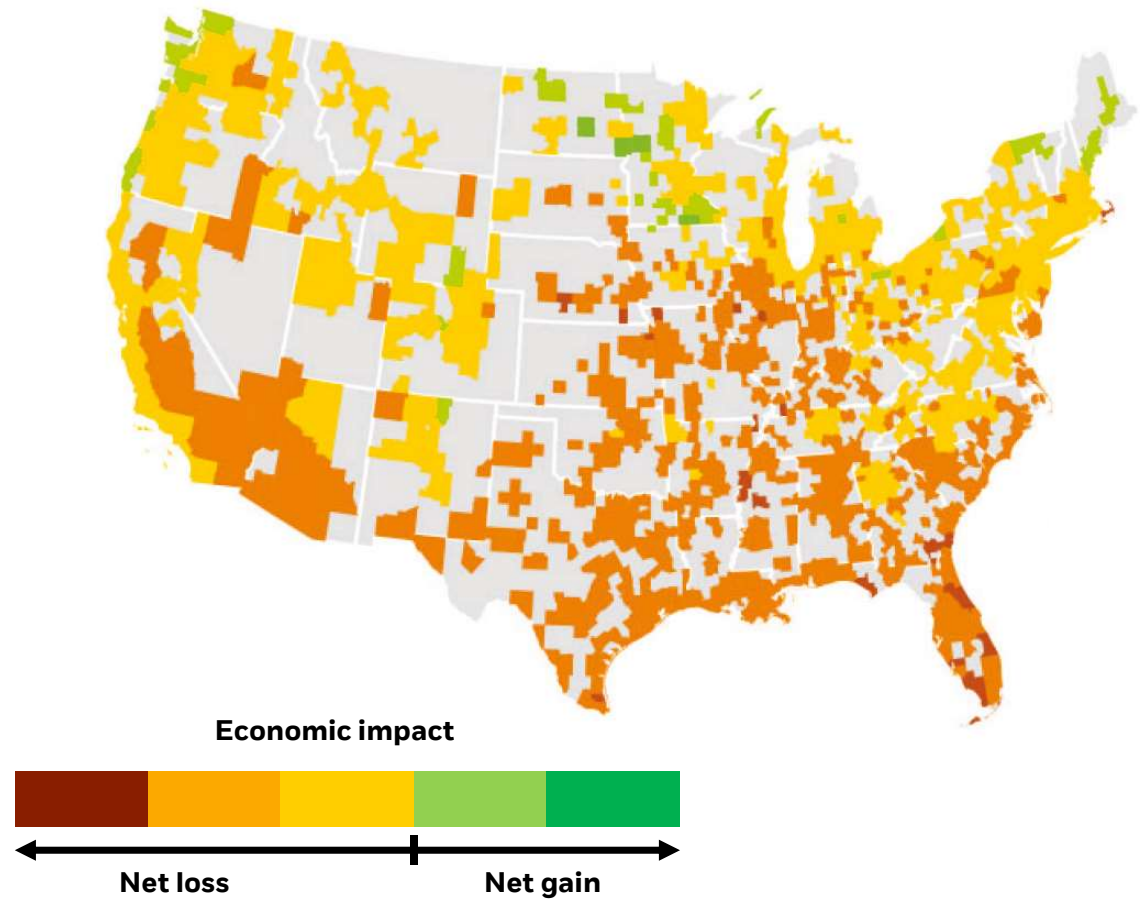


Source: Intangible Asset Market Value Study, OceanTomo 2017. [Link](#). For illustrative purposes only.

# Mapping the damage

Getting a better handle on physical climate risk, down to the asset level, is critical to an investor's toolkit

Estimated climate-related impact on US regional GDP, 2060-2080

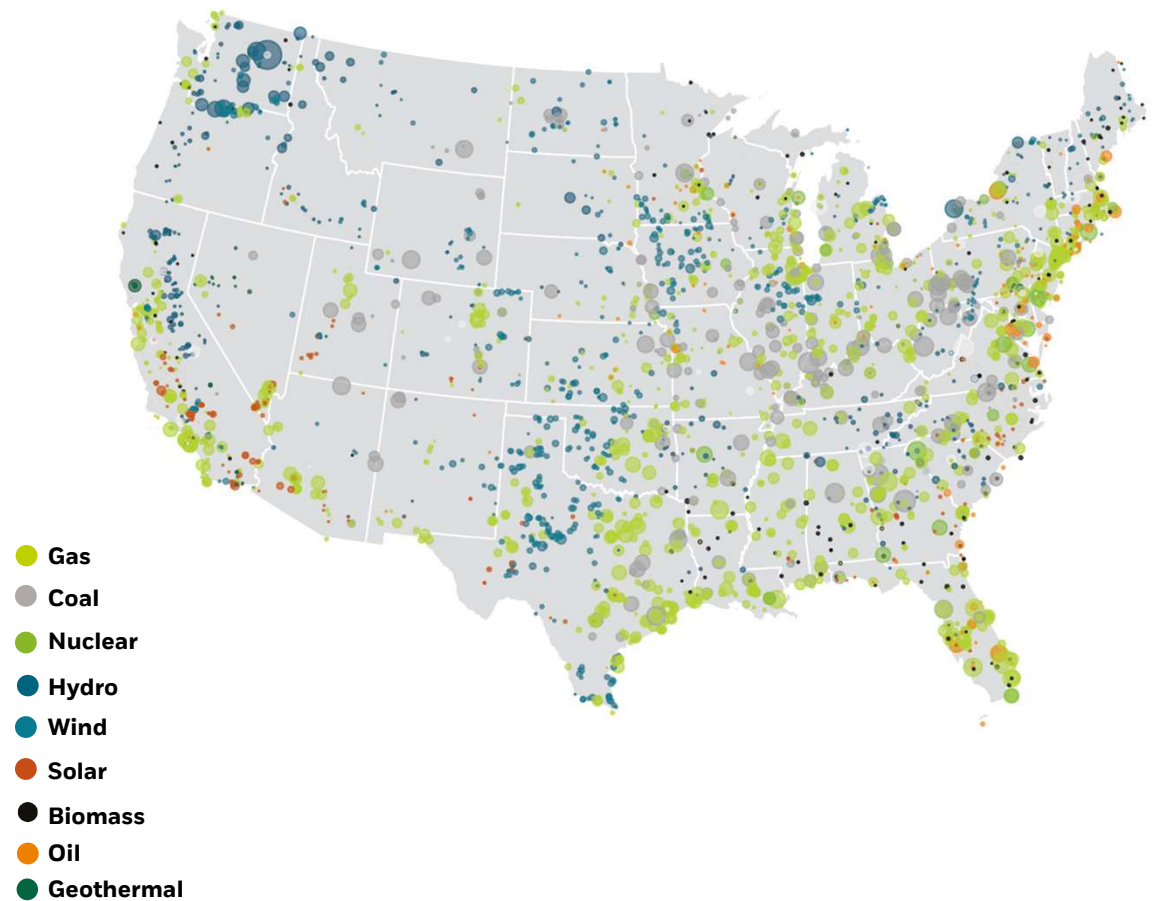


Sources: BlackRock Investment Institute, with data from Rhodium Group, March 2019. Notes: The map shows the projected GDP impact in 2060-2080 on U.S. metropolitan areas under a "no climate action" scenario. Climate changes are measured relative to a 1980 baseline. The analysis includes the effect of changes in crime and mortality rates, labor productivity, heating and cooling demand, agricultural productivity for bulk commodity crops, and expected annual losses from coastal storms. It accounts for correlations across these variables and through time – and excludes a number of difficult to measure variables such as migration and inland flooding. See Rhodium Group's March 2019 paper Clear, Present and Underpriced: The Physical Risks of Climate Change for further details on its methodology. Forward-looking estimates may not come to pass.

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U.S. electric utility plants by fuel source, 2019



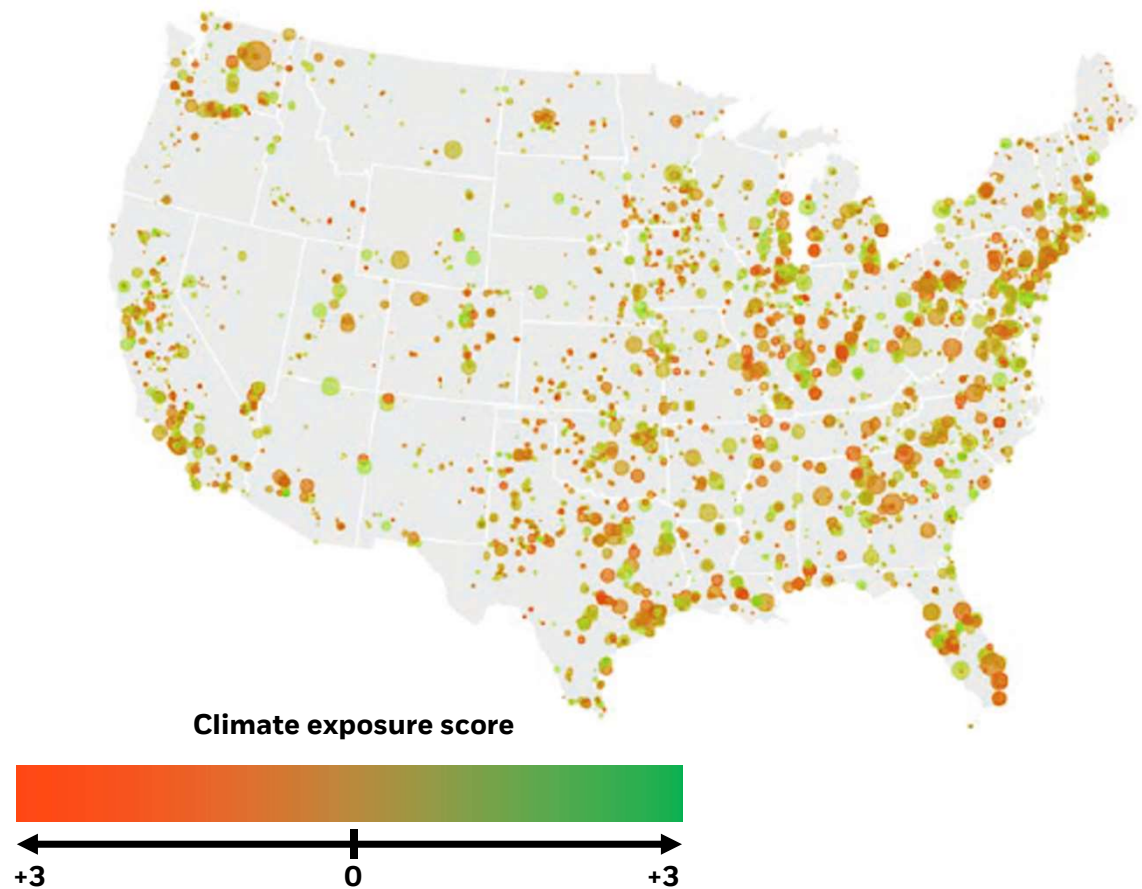
Sources: BlackRock Investment Institute and BlackRock Sustainable Investing, with data from EIA, March 2019.  
Notes: The chart plots the location of more than 8,000 U.S. electric power plants, as well as planned generation as reported to the U.S. Department of Energy. The bubbles are sized in proportion to each site's power generation capacity

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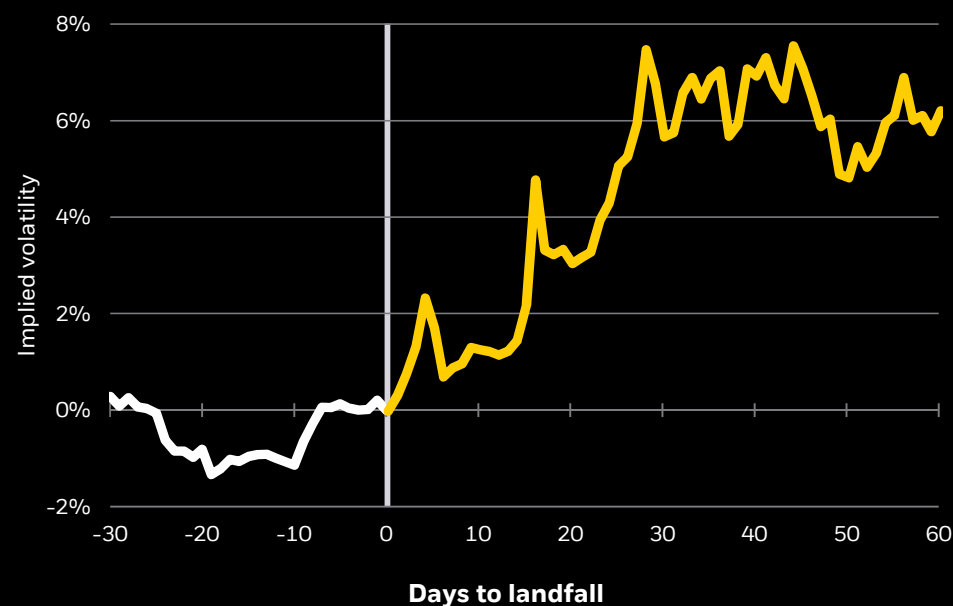
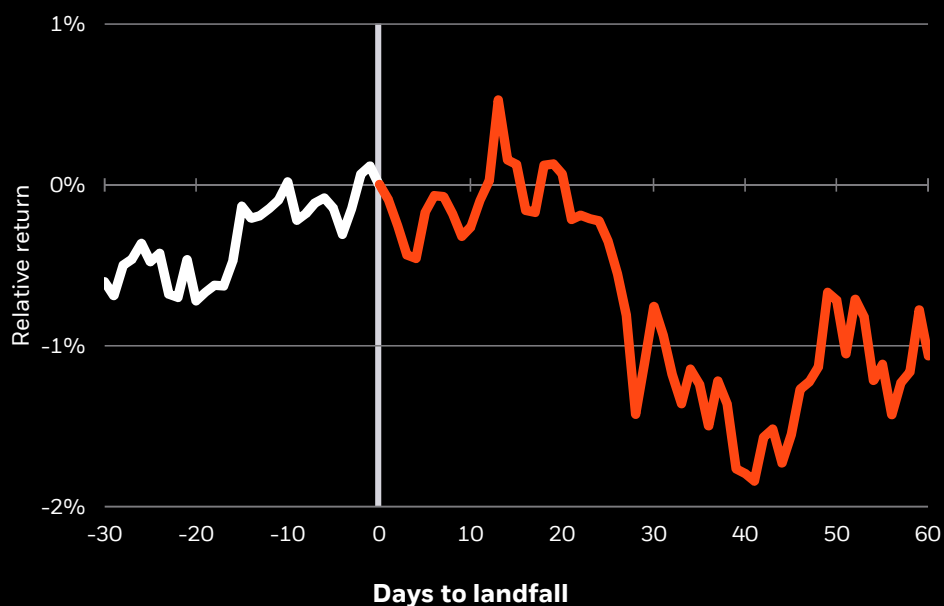
Sources: BlackRock Investment Institute, with data from Rhodium Group, Verisk Maplecroft and U.S. Department of Energy, 2019. Notes: The chart plots the location of each U.S. electric power plant and is color coded according to BlackRock's assessment of its climate exposure. For illustrative purposes only. Risk is expressed in standard deviations, with a +3 score (low climate risk) pointing to an exposure that is three standard deviations above the mean exposure of the plants in our study.

## Estimated climate-related impacts on US power plants



# Climate damages are material

## Stock price and volatility reaction of U.S. electric utility equities around hurricanes, 1980-2019



Sources: BlackRock Investment Institute and BlackRock Sustainable Investing, February 2019. Notes: Our study includes all hurricanes in the NOAA's database since 1980. Day zero is the day of each hurricane landfall. We isolate the power plants within 300km from the location of the landfall, and identify their parent companies. We then form a hypothetical portfolio of affected companies, weighted in proportion to their revenues affected as implied by their generation capacity as a share of the total capacity of the group. We compare the total return of this hypothetical portfolio to the S&P 500 Utilities index to arrive at the relative return. Implied volatility is calculated from the OptionMetrics database as the average implied volatility of at-the-money ( $0.45 \leq \Delta \leq 0.55$ ) equity call and put options with 30 days to expiration.

# BlackRock's sustainability commitments

**1**

## **Accelerate our ESG integration efforts**

Exit our public holdings of thermal coal producers (25% revenue threshold) from our active portfolios by mid year

**2**

## **Increase our sustainable products**

Increase our sustainable fund offering from \$90bn to \$1tn by the end of the decade

**3**

## **Enhance our stewardship activities**

Enhance transparency into our engagements through increased disclosure, and ensure our efforts are aligned with the industry (namely SASB, TCFD and Climate Action 100+)

Sources: BlackRock, 2020. All figures are USD.



# Risk Warnings and Important Information

## Risk Warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. The investor may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

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