



## Fixed Income

December 2022

**Emerging Markets Impact Bond Fund, a sub-fund of BlackRock Global Funds (BGF)**

# Mobilising resources to Emerging Markets (EM) for a greater impact

The Fund is actively managed and the investment adviser (IA) has discretion to select the Fund's investments. The Fund has an unconstrained investment style (i.e. it will not take a benchmark index into account when selecting the Fund's investments). The JP Morgan ESG Green Bond Emerging Markets Index (USD Hedged) (the "Index") should be used by investors to compare the performance of the Fund over the long term.

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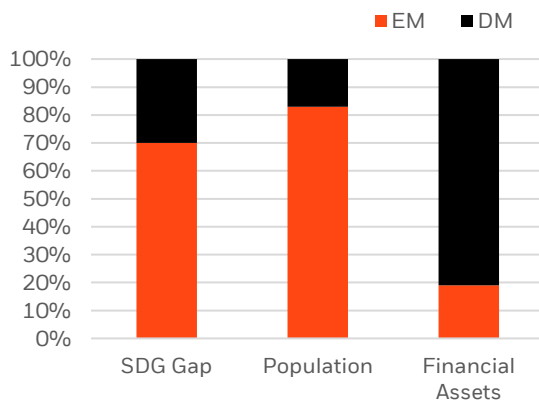
# Closing the Sustainable Development Goals (SDG) Gap

## EM requires financing to close the SDG Gap<sup>1</sup>

- **USD \$6-8 trillion of financing per year** is needed to achieve the UN Sustainable Development Goals (SDGs). More than 70% of the SGD gap is located in EM countries. COVID added an additional USD \$1 trillion of recovery spending in EM.
- Reaching the globally agreed climate goals requires a 50% reduction in carbon emissions by 2030. **Emerging markets are essential to the transition to a low-carbon economy, but they are starved of capital to fund it.** There is insufficient cross-border public/private finance filling the gap.
- The COVID-19 pandemic has resulted in one of **the most damaging economic and humanitarian crises in the recent history.** According to the OECD, the majority of short term and medium-term SDGs impacted from COVID in EM are of social nature.

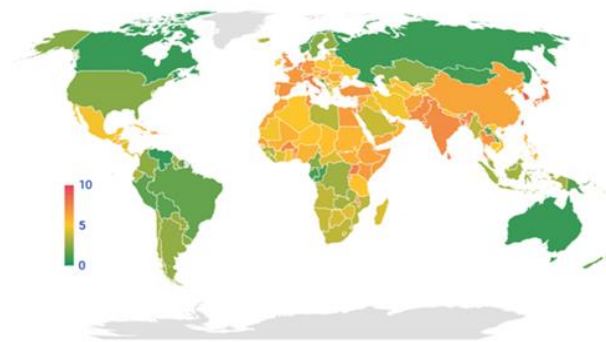
<sup>1</sup>Source: OECD, Global Outlook on Financing for Sustainable Development 2021, 30 June 2021

### SDG Gap in EM



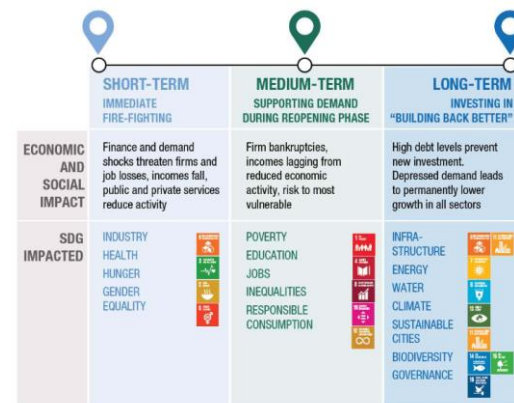
Source: OECD, Global Outlook on Financing for Sustainable Development 2021, 30 June 2021

### Climate change risk



MSCI (10 = highest risk exposure, 0 = lowest risk exposure)  
Source: MSCI, 31 May 2021

### Social SDGs



Source: OECD, Global Outlook on Financing for Sustainable Development 2021, 30 June 2021

# EM Green, Social and Sustainability (“GSS”) Bonds

A direct impact play

‘Use of proceeds’ bonds directly support SDG achievement in EM, as allocation of bonds proceeds go to green/social business activities

## Green Bond

(78% of the GSS market)

- Indian’s leading renewable energy provider Renew Power issued a USD **\$450m Green Bond**
- Firm plans to use the funds to refinance the existing borrowings in solar and wind business
- The firm, with about 5.4 gigawatt (GW) of operational capacity of wind (60%) and solar (40%) power projects, and a project pipeline of 2.6GW

ReNew Power raises \$450 million through dollar bonds



Source: Mint News (India), January 2020.

## Social Bond

(9% of the GSS market)

- The Finance Ministry of Chile issued their first **Social Bond worth USD \$1.6bn**
- The proceeds to be used for social benefits and target the following social SDGs:



‘Chile issues first social bonds, achieving record overseas participation’

‘Overseas investors accounted for approximately 48% of the total placement, ahead of the previous record of 24% in 2019’

Source: Invest Chile (Government Agency), November 2020

## Sustainability Bond

(13% of the GSS market)

- Mexico issued a **\$890m Sustainability Bond** in September 2020 - first ever SDG Bond by a Sovereign
- The proceeds to finance government’s pipeline of eligible projects at USD \$16bn (\$15bn social and \$1bn green) for 2020

Historic \$890 million Sustainable Development Goals Bond issued by Mexico

Mexico launches innovative finance tool linked to the Sustainable Development Goals with the participation of UNDP

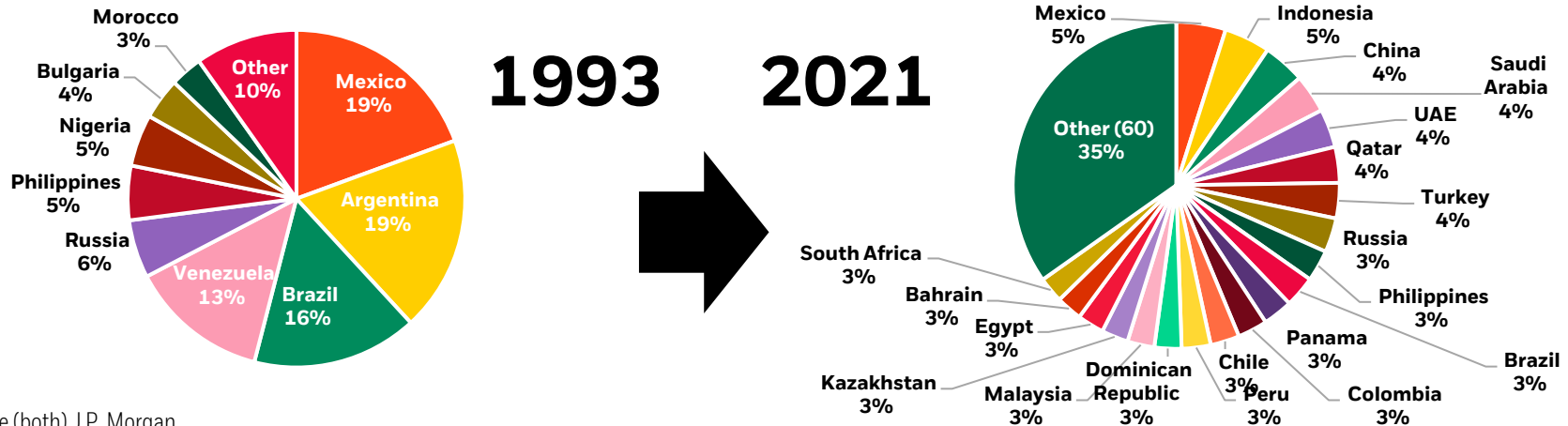


Source: UNDP (United Nations Development Programme), September 2020

# EM GSS Bond Universe

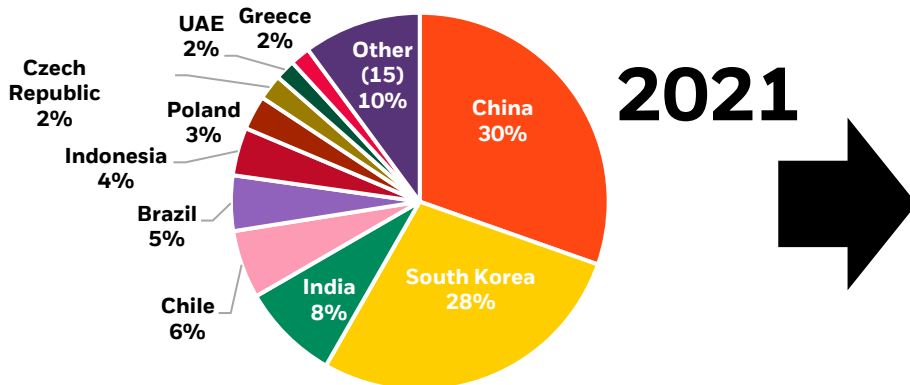
An asset class in the making

## JPM EMBI Global Diversified Composition<sup>1</sup>



Source (both) J.P. Morgan  
JPM EMBI refers to J.P. Morgan Emerging Markets Broad Diversified Index.

## EM GSS Bond Universe Composition



- EM GSS universe increased from 7 countries and 30 issuers in 2016 to 25 countries and over 300 issuers in 2021
- There is tremendous potential for more countries and issuers to occupy the market
- In 2021, there has been already USD \$25 billion of new issuance of GSS bonds in EM

Source: BlackRock, Bloomberg, Environmental Finance, CBI, as of 5 June 2021.

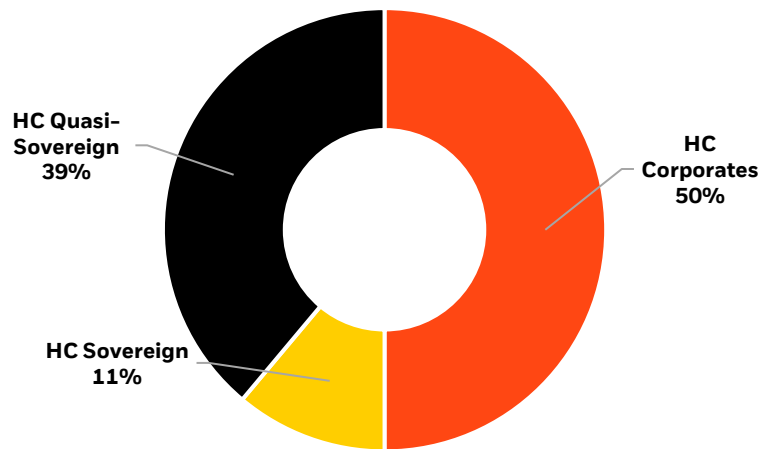
# EM GSS Bond Universe

Not all EM GSS bonds are equal

## EM GSS Hard Currency Universe

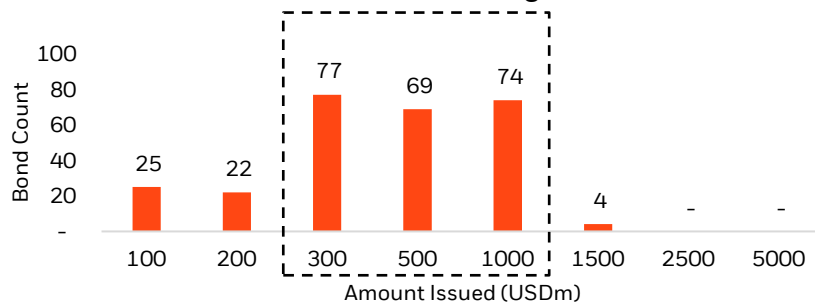
- The majority of Hard Currency GSS bonds are issued by corporates followed by quasi-sovereigns

Total Issuance \$123bn (65% of total GSS universe)



Source: BlackRock, Bloomberg, Environmental Finance, CBI, as of 5 June 2021

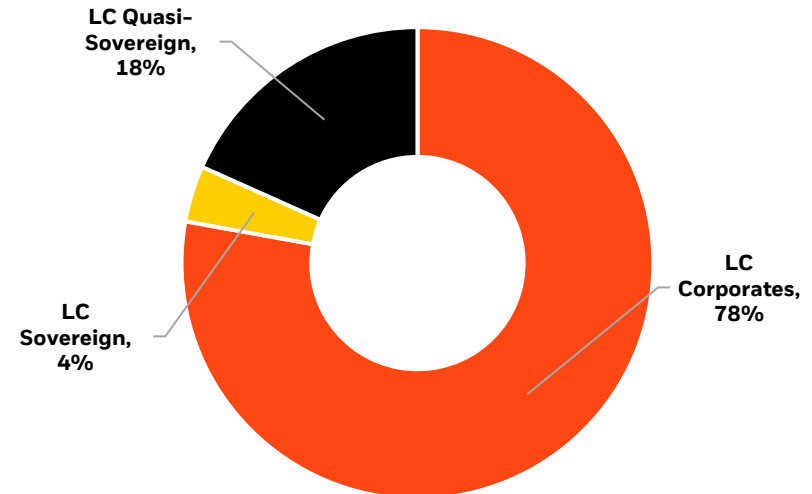
### Most issues are big in size



## Local Currency Universe

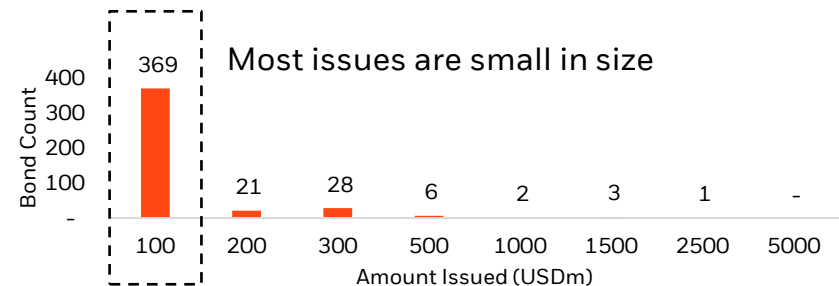
- The majority of Local Currency GSS bonds are issued by corporates

Total Issuance \$67bn (35% of total GSS universe)



Source: BlackRock, Bloomberg, Environmental Finance, CBI, as of 5 June 2021

### Most issues are small in size



# BGF Emerging Markets Impact Bond Fund

The Fund seeks to achieve capital growth and income over the long term by investing at least 80% of its total assets in a relatively concentrated global portfolio of “Green, Social and Sustainability” (GSS) bonds issued by EM governments and companies.

The fund follows an unconstrained investment style and a long term approach. The fund aims to outperform the JPM EM green bond index over the long term.

## Key figures

**6.15%** YTM

**BBB** Rating

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Source: BlackRock, as of 30 November 2022.



## Internal Universe

Internally created investment universe, screening GSS bonds using BlackRock’s proprietary taxonomy.

Analysis of the use of proceeds and issuer alignment framework with the Green Bond Principles Social Bond Principles and Sustainability Bond Guidelines of the International Capital Markets Association.



## Active Approach

Unconstrained approach allows high selectivity of issuers and issues.

Proven credit research process supports portfolio resiliency.

Active security selection combines credit and ESG integration at issuer level.



## Market Development

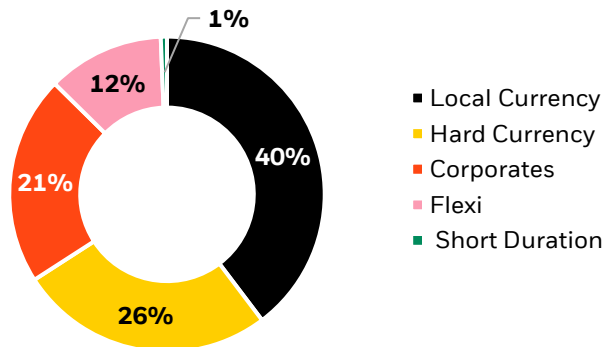
The fund is expected to have an impact in the development of the new and undersupplied markets for green, social and sustainable bonds in EM, thus facilitating the mobilisation of resources to emerging economies where capital is needed to drive sustainable growth.

## Key features

<b>BGF Emerging Markets Impact Fund AUM</b>	\$77 million as of 30 November 2022
<b>EMD Team AUM</b>	\$19 billion as of 30 November 2022
<b>Launch Date</b>	12 July 2021
<b>Base currency</b>	USD
<b>Benchmark Index</b>	J. P. Morgan ESG Green Bond Index EM hedged in USD
<b>Regulatory Structure &amp; Domicile</b>	UCITS, Luxembourg
<b>Ongoing charges</b>	1.05% For A2 USD share class 0.65% For D2 USD share class 0.49% For I2 USD share class
<b>Liquidity</b>	Daily
<b>Portfolio Manager</b>	Michel Aubenais, Jack Deino, Ashley Schulten
<b>ISIN for D2 share class</b>	LU2337645589
<b>Geographic focus</b>	Global EM

# BlackRock Emerging Markets Debt Team

## EM Bond Assets by Strategy



## Comprehensive Sustainable Product range



**There is no guarantee that a positive investment outcome will be achieved.**

**BlackRock**

### 1 Comprehensive Team and Platform

- 34-strong dedicated EMD team, supported by 27 EMD traders
- Three risk managers, fully independent and dedicated to the EMD team
- USD 140+ bn AUM in EMD across the platform, of which USD 19bn are managed by the dedicated EMD team

### 2 All Weather Process

- Combining macro and country research frameworks that focus on fundamental, quantitative and idiosyncratic factors
- A corporate credit selection process that utilises screens, cash flow analysis and qualitative considerations to seek to avoid credit events
- ESG fully incorporated in active sovereign and corporate process, utilizing Aladdin integration for data management

### 3 Leaders in EMD ESG<sup>1</sup>

- Partnered with JP Morgan index team to create new family of ESG benchmarks
- Only asset manager with full range of EMD ESG solutions. Winners of the "Best Fixed Income ESG Fund" in Environmental Finance 2019 Awards<sup>2</sup>
- Strong firmwide ESG resources

Source: Blackrock, as of 30 November 2022.

<sup>1</sup> In 2018, Blackrock partnered with JP Morgan index team to launch first of its kind ESG indices in EM Fixed Income

<sup>2</sup> In 2019, Environmental Finance, based in the United Kingdom, awarded the Best Fixed Income ESG Fund Award to the BlackRock ESG Emerging Markets Debt Funds.



# BlackRock's EMD team

- **Size** - 22 alpha generators, 7 product strategists, 3 dedicated risk analysts, 2 dedicated Core PMs
- **Experience** – 7 Managing Directors, 13 Directors
- **Connectivity** – integral part of BlackRock's Global Fixed Income machinery led by Rick Rieder

## Amer Bisat (32), global head of EMD

Academic (Professor of economics)

Policy experience (10 years at the IMF)

Financial market experience (Morgan Stanley, UBS, BLK)

### Core PM

Q. Ton (17)  
J. Berardo (9)

### RQA

O. Uras (12)  
M. Shevchenko (6)  
E. O'Hare (2)

### Sovereign PM/research

M. Aubenas (21)  
P. Goldberg (27)  
N. Ng Yan Luk (18)  
S. Zanardini (13)  
K. Veretinskii (9)  
K. Leiton (10)  
A.S. Monck (4)  
W. Manan (4)  
M-D. Vlad (1)

### Corporate PM/research

J. Deino (28)  
C. Merrill (24)  
J. Schwartz (20)  
J. Yu (15)  
M. Yu (14)  
N. Do Nascimento (11)  
C. Ward (5)  
M. Siniscalco (2)  
New joiner 2022

### Local PM/research

L. Develay (22)  
M Wozniak (21)  
P. Goldberg (27)  
N. Ng Yan Luk (18)  
M. Katrencik (9)  
N. Do Nascimento (11)  
W. Manan (4)  
N. Dhingra (3)

### Product Strategy

E. Bettoni (24)  
W. Rodriguez (22)  
K. Mapara (7)  
A. Nazarova (6)  
O. Bailey (4),  
A. Moreno (7)  
C. Chiu (4)

Team leverages the breadth and scale of BlackRock's immense investment platform

BlackRock  
investment Institute

Trading and Liquidity  
(27 EMD traders)

RQA and BlackRock  
Solutions

Responsible  
Investing

Global Capital  
Markets

Source: BlackRock, as of 30 November 2022. RQA stands for Risk & Quantitative Analysis Group.

# BGF Emerging Markets Impact Bond Fund

## Portfolio Management Team

### Key Professionals



**Michel Aubenas**  
Head of  
*EM Sovereign Debt*



**Jack Deino**  
Head of  
*EM Corporate Debt*



**Ashley Schulten**  
Head of ESG  
investments



**Emily Weng**  
Fixed Income ESG  
Investments



**Ernesto Bettoni**  
Head of EMD  
Product Strategy

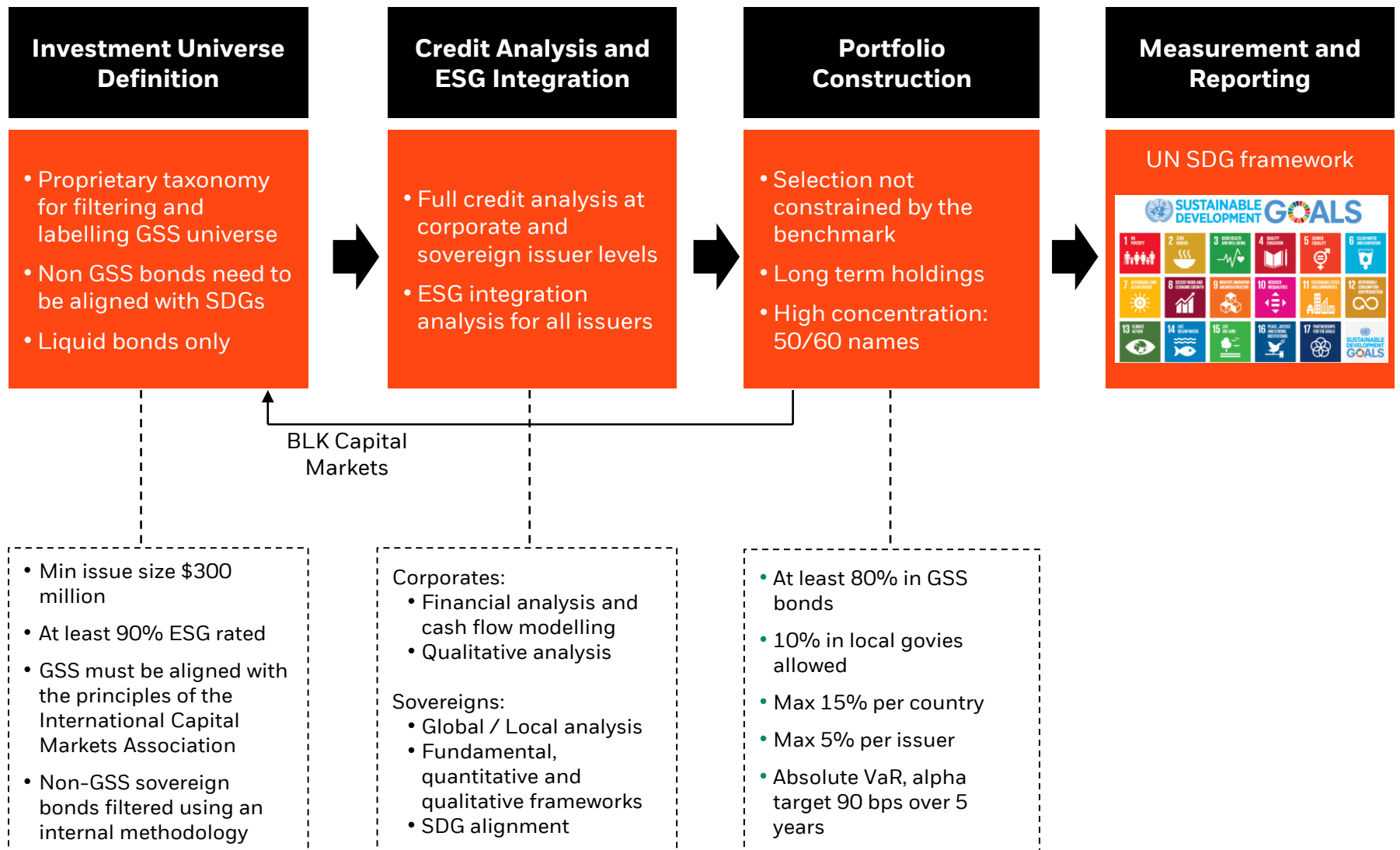
Fund Guidelines	BGF Emerging Markets Impact fund
Benchmark	J. P. Morgan ESG Green Bond Index EM hedged in USD
Risk approach	Absolute VaR
Liquidity	Daily
Baseline screens	Yes
Max issuer %	5%
Max country %	15%
Main FI instruments	Cash bonds
Geographic focus	Global EM

### Fund features

- The fund seeks to invest 80-100% in Green, Social, Sustainable (GSS)
- Unconstrained style allows the portfolio manager to be highly selective. (approx. 50-60 names in the portfolio)
- Long term view on holdings and low turnover expected
- Security selection not constrained by the benchmark
- Alpha objective measured over the long term against the benchmark (over 5 years)
- At least 90% of the portfolio will be in USD
- Typical exposure expected 70-80% in corporates and 20-30% in sovereign bonds

Source: BlackRock, as of 30 November 2022.

# Investment process

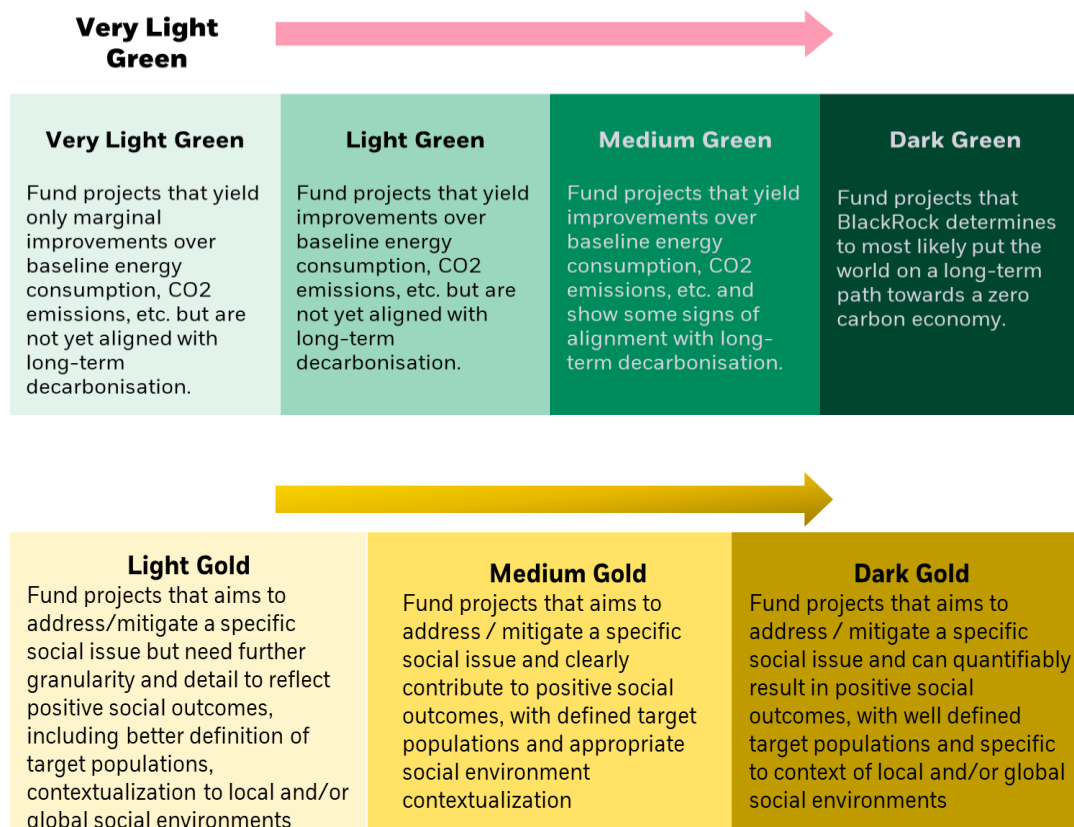


Source: BlackRock, UN, as of 30 November 2022.

# Defining GSS Bonds

## Investment Universe filters

- We have developed a proprietary green bond taxonomy to label the green bond universe. For green bonds, the issuer needs to follow the Green Bond Principles (“GBP”) of the International Capital Markets Association. We also actively engage with the market and issuers to strive for best practices.
- For social bonds, the issuer needs to follow the Social Bond Principles (“SBP”) of the International Capital Markets Association, voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Social Bond market.

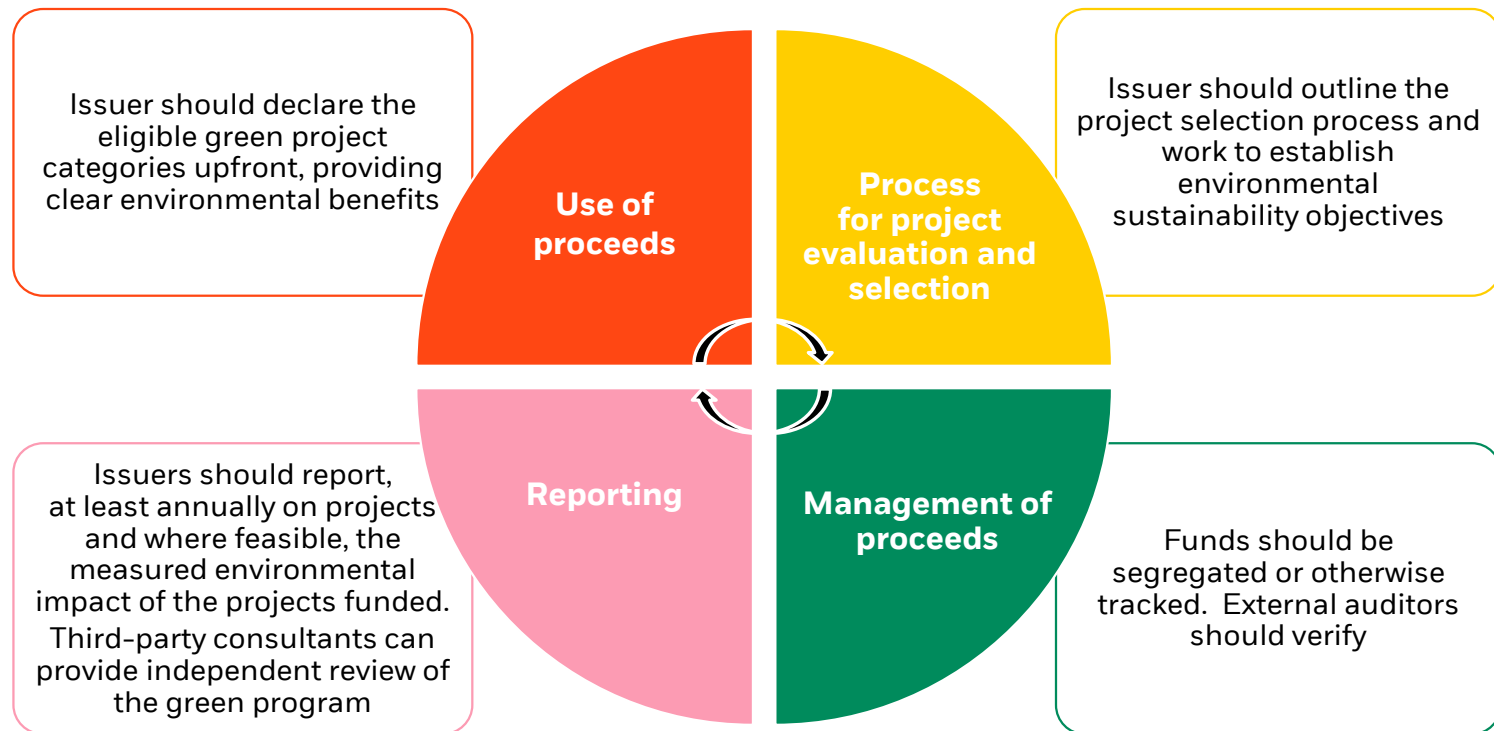


Sources: BlackRock. Data as of 30 November 2022.

# Defining Green Bonds - Minimum Requirements

The issuer needs to follow the Green Bond Principles (“GBP”), voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market.

The GBP are based on the following four components:



There is no guarantee that a positive investment outcome will be achieved.

Sources: Bloomberg, MSCI, Green Bond Principles, 30 November 2022.

# The BlackRock Differentiator

**BlackRock has been and continues to be an active participant and leader in the evolution of the green bond market. We differentiate ourselves as a key market player in the following ways:**

- **We have developed a proprietary green bond taxonomy using which we have built a BlackRock labelled green bond universe that includes green scoring (very light green to dark green scale)**
  - Our process includes checking new issuers for alignment with the Green Bond Principles. We update our proprietary list of green bonds monthly, cross-checked against Bloomberg, the Climate Bonds Initiative, and Environmental Finance databases, and annual verification that issuers are meeting their reporting obligations.
  - We exercise careful discernment for labelled green bonds. There have been occasions where bonds that are self-labelled green bonds or that are included on other green bond lists have not been included in BlackRock's tagging due to a lack of transparency on the intended proceeds or our lack of conviction that the projects financed met a defensible threshold of environmental benefit.
- **We actively engage with the market and issuers to strive for best practices**
  - BlackRock has been on the Executive Committee of the Green Bond Principles since its founding in 2014. We help protect the integrity of and shape the development of the Green Bond market by clarifying the approach for issuance of a Green Bond (including guidance on key components in launching a green bond, ensuring availability of necessary information in evaluating environmental impacts, assist with standardisation of disclosure). In addition, the firm is a member of the Climate Bonds Initiative.
- **We have developed portfolio-level impact reporting**
  - We have developed portfolio-level impact reporting framework, reporting on criteria such as carbon emissions avoided, renewable capacity installed, and energy savings alongside investment. On an annual basis, we compile environmental impact report for our green bond portfolios. We verify that each issuer is complying with its stated reporting obligations and use of proceeds.

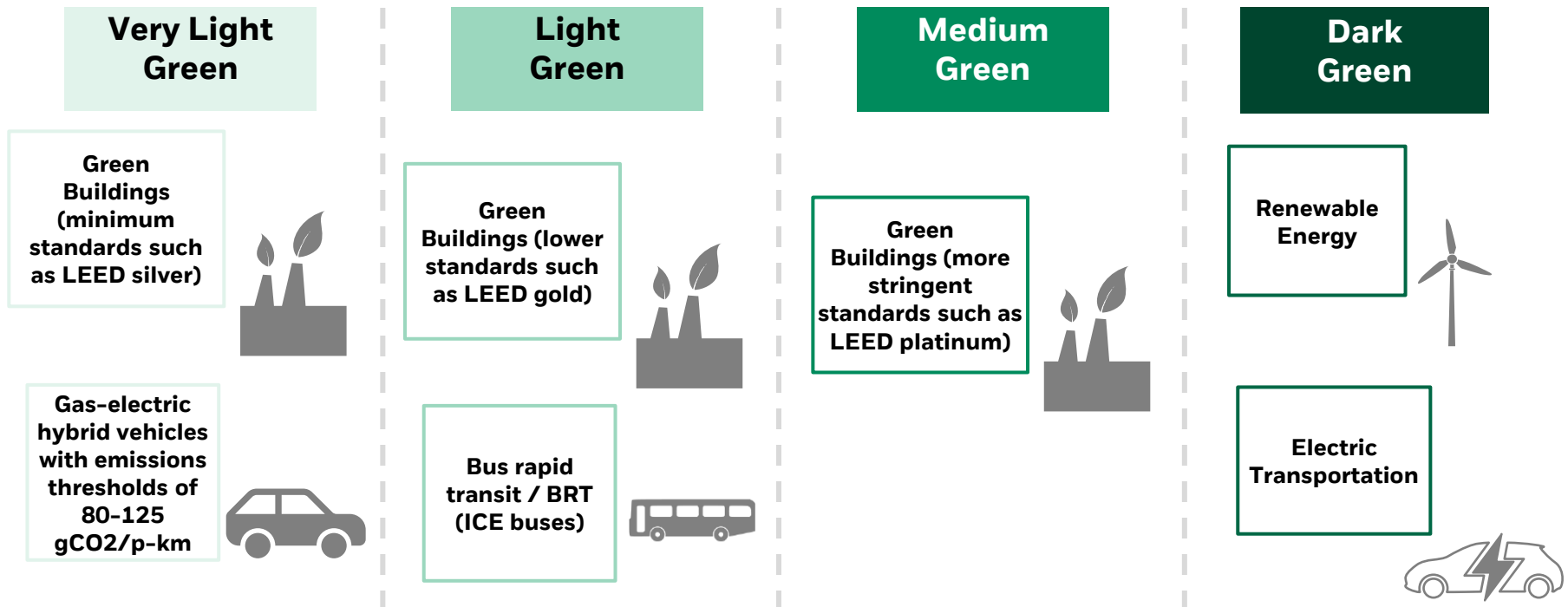
There is no guarantee that a positive investment outcome will be achieved.

Sources: Bloomberg, MSCI, Green Bond Principles, 30 November 2022.

# Defining Green Bonds – BlackRock’s “Green Scale”

BlackRock’s principles:

- What matters are **what projects are financed** by the bonds and how those projects contribute to meeting environmental goals
- We prioritise **climate-change-mitigation** benefits over other positive environmental impacts
- Whenever possible, we factor in **resiliency** of assets (esp. assets with a long life) to climate change impacts
- Ideally, **100% of use of proceeds are applied towards green projects**, but the minimum threshold we will consider is 90% towards green funding. In cases where only 90% of the funding is green, we will evaluate the issuance’s ‘greenness’ on a case-by-case basis depending on the application of funding for the remainder 10%

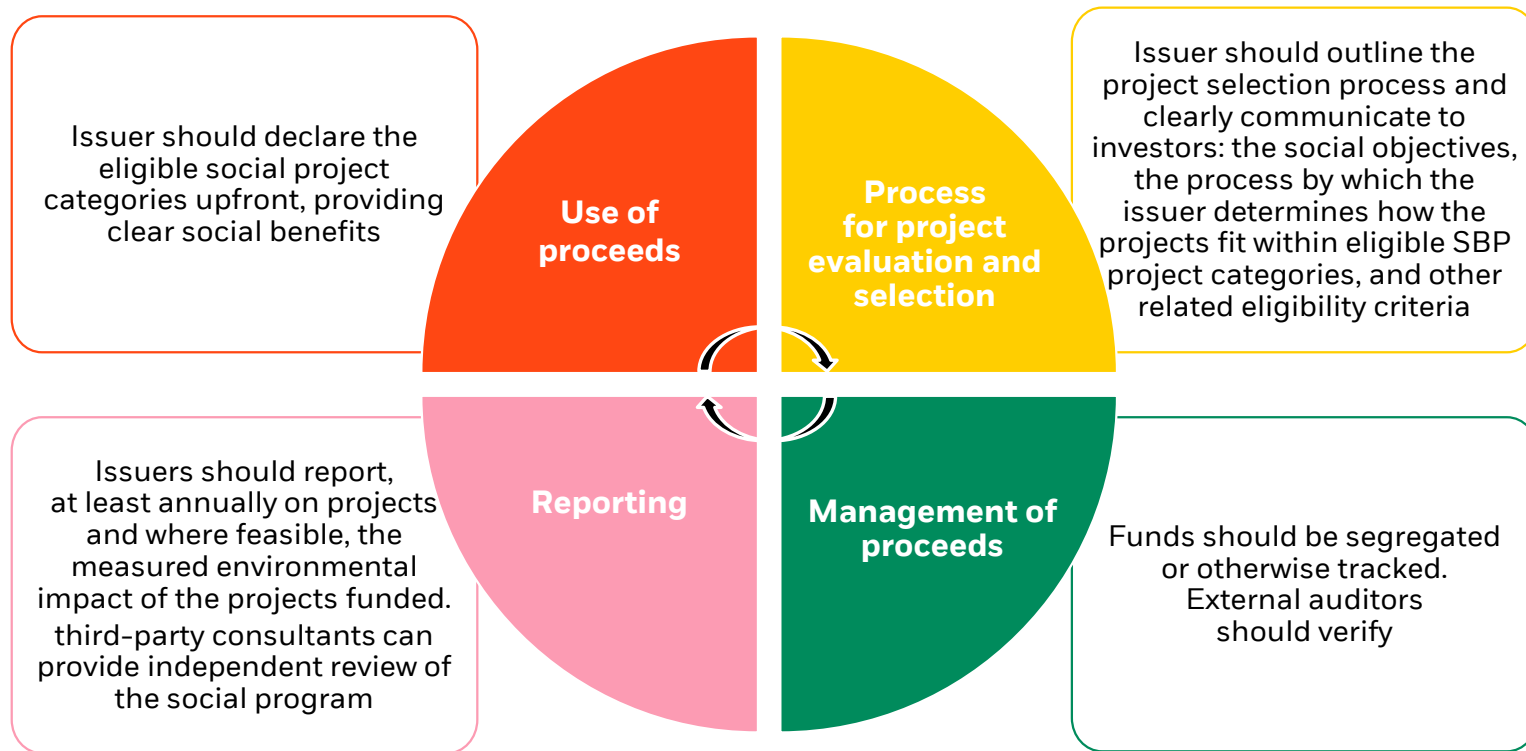


Source: BlackRock. Investment process is shown for illustrative purposes only and subject to change.

## Defining Social Bonds - Minimum Requirements

The issuer needs to follow the Social Bond Principles (“SBP”), voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Social Bond market.

The SBP are based on the following four components:



In addition issuer needs to define use of proceeds that does not conflict with environmental objectives/guidelines as defined by the EU sustainable finance taxonomy

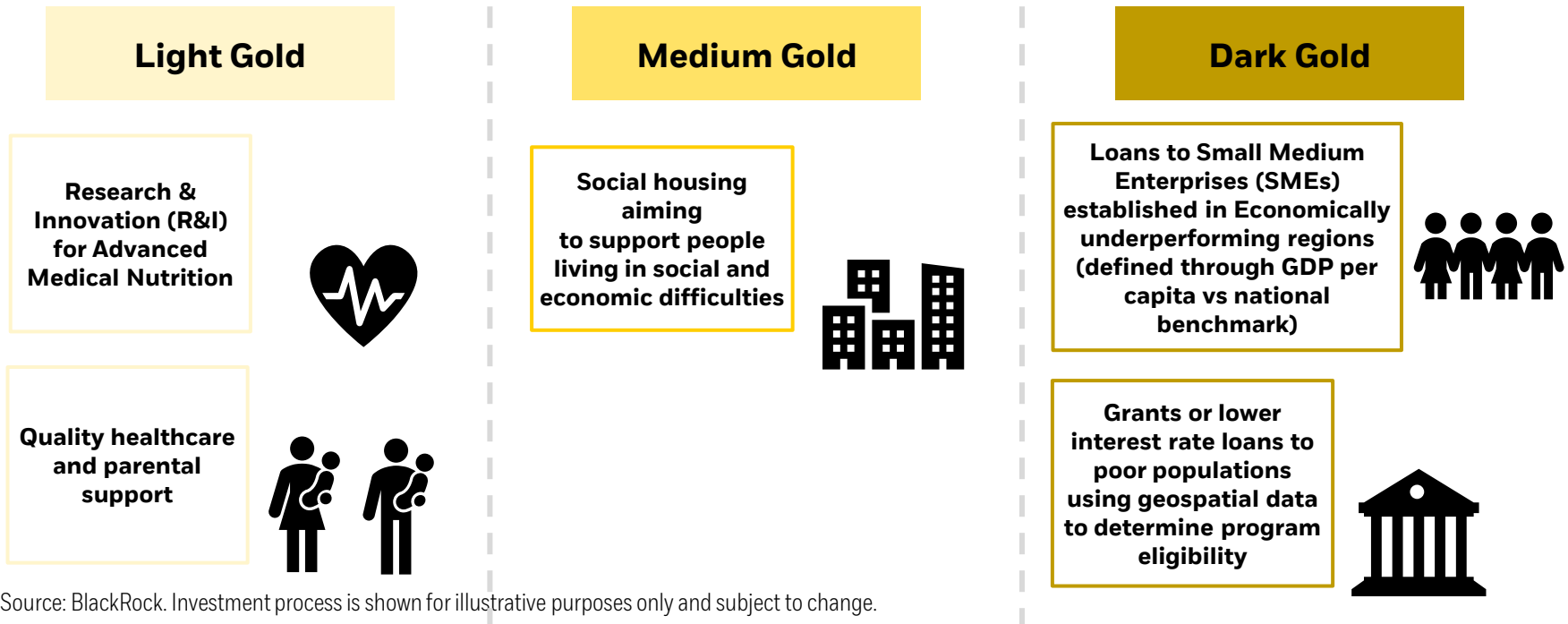
There is no guarantee that a positive investment outcome will be achieved. Sources: ICMA Social Bond Principles, June 2020, EU Taxonomy for sustainable finance, March 2020, BlackRock as of 30 July 2020.



# Defining Social Bonds – BlackRock’s “Gold Scale”

BlackRock’s principles:

- What matters: **segregation of use of proceeds** (pool tracked separately), **clarity of projects financed** by bond proceeds and clear indication of how those projects contribute to **addressing global and local social challenges**
- We require **clear (and quantitative) definitions of target population** and **detailed and transparent use of proceeds aligned with Social Bond Principles**
- Issuers need to articulate the **gap in service** that deployed proceeds fulfill **as it relates to global and/or local contexts** (e.g. healthcare services in a country where healthcare isn’t a public good)
- Preference towards use of proceeds where **issuer passes on concessionary funding** to target population and commits to following **impact reporting guidelines** set by ICMA Harmonized Framework for impact reporting for Social Bonds

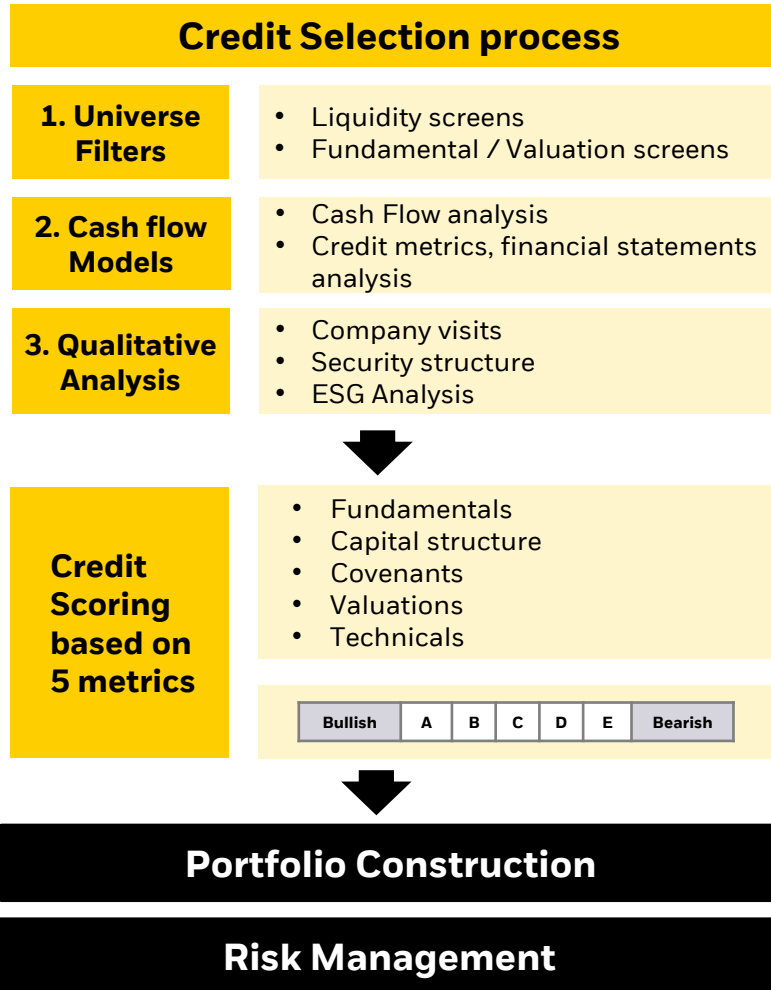


Source: BlackRock. Investment process is shown for illustrative purposes only and subject to change.

# EM Corporate Debt

## Investment Process overview

- Bottom-up analysis, incorporating liquidity, fundamental, qualitative, and relative value screens.
- Credit analysis implemented through cash flow modelling with a layer of qualitative assessment.



Source: BlackRock, as of 30 November 2022. For illustrative purposes only and subject to change.



# Sovereign Credit Analysis

Fundamental, valuations, and technical country level analysis

## Fundamental Macro Research at the Country Level

Analysis of four factors for each country. Creation of a long-term macro score with a documented rationale, and upside/downside risks and signposts

### Monetary Policy

Central Bank policy and inflation are closely monitored to determine the evolution of rates.

### Growth and Fiscal

Analysis of a wide set of variables such as employment level, debt/GDP ratio that defines a fundamental picture of an issuer.

### ESG & idiosyncratic

Country analyst views expressed across E, S and G factors, with a focus on materiality.

### Real Flows

Monitoring bond issuance, FDI and current account level to build a comprehensive technical picture.



Example:

Country	Monetary Policy		Fundamentals		Idiosyncratic & ESG		Flows			Team View
	Rates	FX	Growth	Fiscal	Idiosyncratic	ESG/Other	Flows	Current Account	FDI	
Mexico	-1	1	0	0	0	0	0	-1	1	NTRL

## Complimented with Country Level Market Analysis by Asset Class

Analysis of hard currency, local rates and FX from a market perspective, with a focus on valuations and technicals

- Performance analysis
- Spread analysis
- Crossover comparisons
- Yield curve analysis
- Breakdowns by rating
- New issues monitors
- Regional analysis
- Valuations
- Technical/positioning analysis



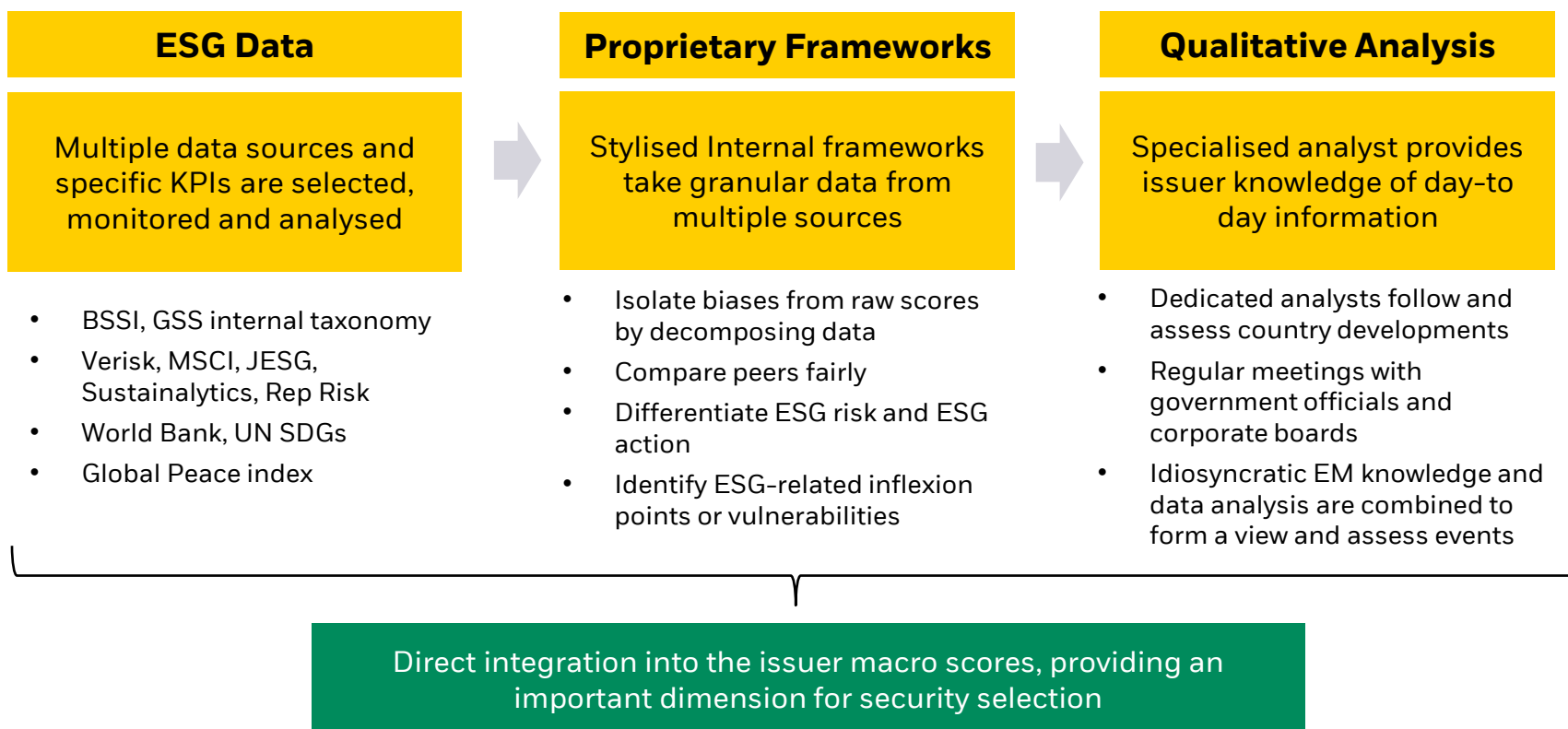
**All specific research content is stored in the BlackRock database**

Source: BlackRock. All screenshots are for illustrative purposes only and do not represent actual data. Investment process is shown for illustrative purposes only and is subject to change.

# Environmental, Social and Governance (“ESG”) Integration

## Analysing materiality

- In our view, certain ESG characteristics can have a **material** impact on EMD performance
- We seek to understand and manage ESG related **risks** while identifying inflexion points
- ESG coexists with other alpha factors such as monetary policy, fundamentals, and technicals



Investment process subject to change and provided here for illustrative purposes only.

Our view reflects the view of the dedicated active EMD Team.

Source: BlackRock, as of 30 November 2022.

# Risk Measurement and Management

## Organic and profound partnership with Risk & Quantitative Analysis Group (RQA)

- Three RQA professionals dedicated to the EMD business
- RQA produces daily reports to cover the EMD platform, which includes:
  - **Traditional risk metrics** - Standalone risk (SAR) per asset class, Marginal Contribution to Risk (MCR), duration, spread duration, Duration Times Spread (DxS), Horizon Rate of Return (HROR), constant vol, beta and realised beta, portfolio concentration
  - **Proprietary risk metric** (“blocks”) - allows RQA to measure risk on an “apples to apples” basis
  - **Stress tests and scenario analysis**
  - **Performance data with detailed attribution**
- RQA runs a weekly “risk meeting” in which they present their dashboards and discuss with PMs changes in portfolio exposure and risk

### Concentration Philosophy

- RQA monitors portfolio concentration on the ongoing basis and discusses with PMs if necessary. RQA has the ability to escalate.

### Usage of Portfolio Hedges

- We actively use portfolio hedges and “air bags”, But the bar for using them is high since they introduce basis (and unintended) risks. If we are uncomfortable with a position, our first port of entry is to cut it rather than hedge it.

### Sizing Philosophy

- Four criteria enter into deciding on sizing of expressions: level of conviction, volatility of the underlying expression, liquidity of the underlying expression, and the analyst’s judgement on the upside/downside.

### Stop Loss Discipline

- We do not use automatic stop losses. But our risk meetings are very focused on analysing “losers” and the bar for maintaining them gets higher the larger the drawdown.

**Risk management cannot fully eliminate the risk of investment loss.**

Source: BlackRock.

# BGF Emerging Markets Impact Bond Fund

As of 30 November 2022

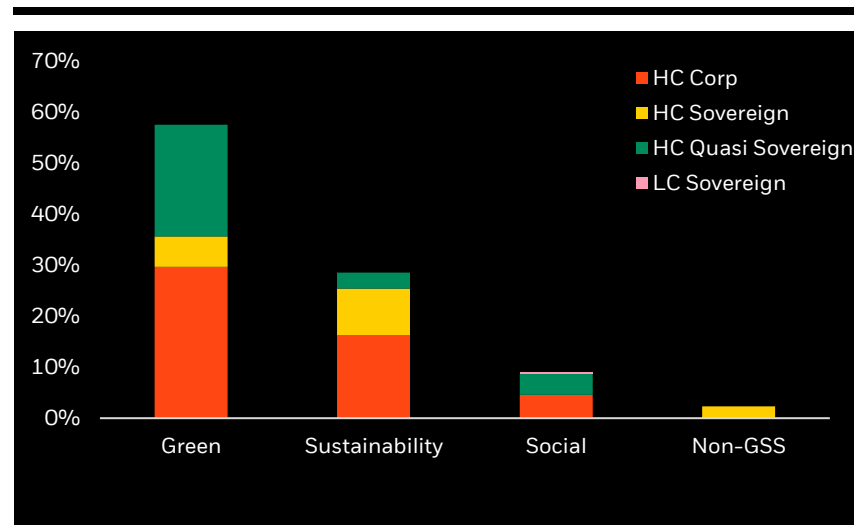
## Portfolio Characteristics

Key Characteristics		Portfolio Breakdown	
Yield to Maturity (%)	6.8	Green	55%
Average Rating	BBB	Sustainability	28%
Spread Duration	5.15	Social	11%
Modified Duration	4.94	Non-GSS	2%
No of bonds	57	Cash	4%
No of issuers	53	<b>Total</b>	<b>100%</b>
No of countries	25		

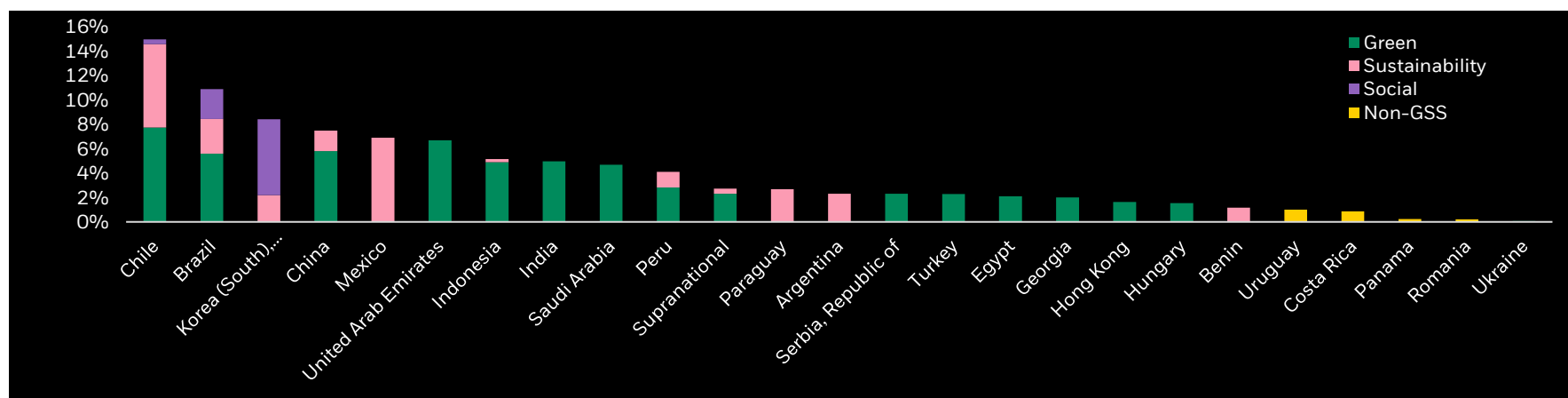
  

Sub-Asset Class Breakdown		Currency Breakdown	
HC Corp	49%	USD	89%
HC Sovereign	16%	EUR	11%
HC Quasi Sovereign	30%	CLP	0%
LC Sovereign	0%	<b>Total</b>	<b>100%</b>
Cash	4%		
<b>Total</b>	<b>100%</b>		

## Sub-Asset Class Overview



## EM GSS Hard Currency Universe

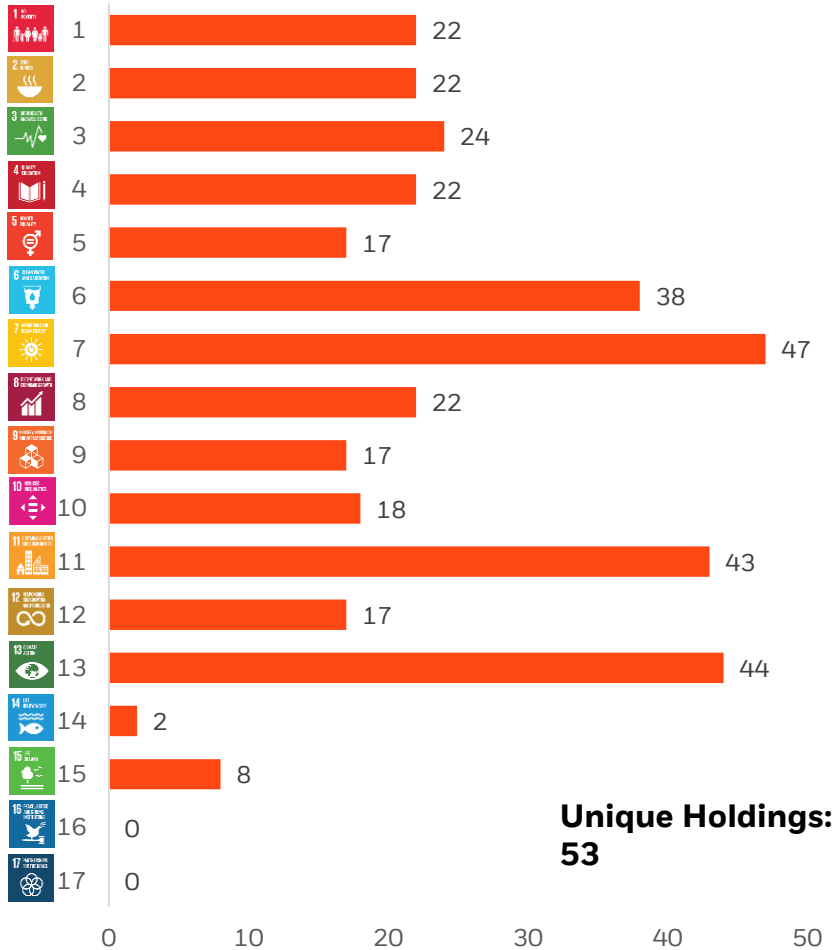


Source: BlackRock. Geographic exposure relates principally to the domicile of the issuers of the securities held in the product, added together and then expressed as a percentage of the product's total holdings. However, in some instances it can reflect the country where the issuer of the securities carries out much of their business. Allocations are subject to change. Due to rounding, the total may not be equal to 100%.

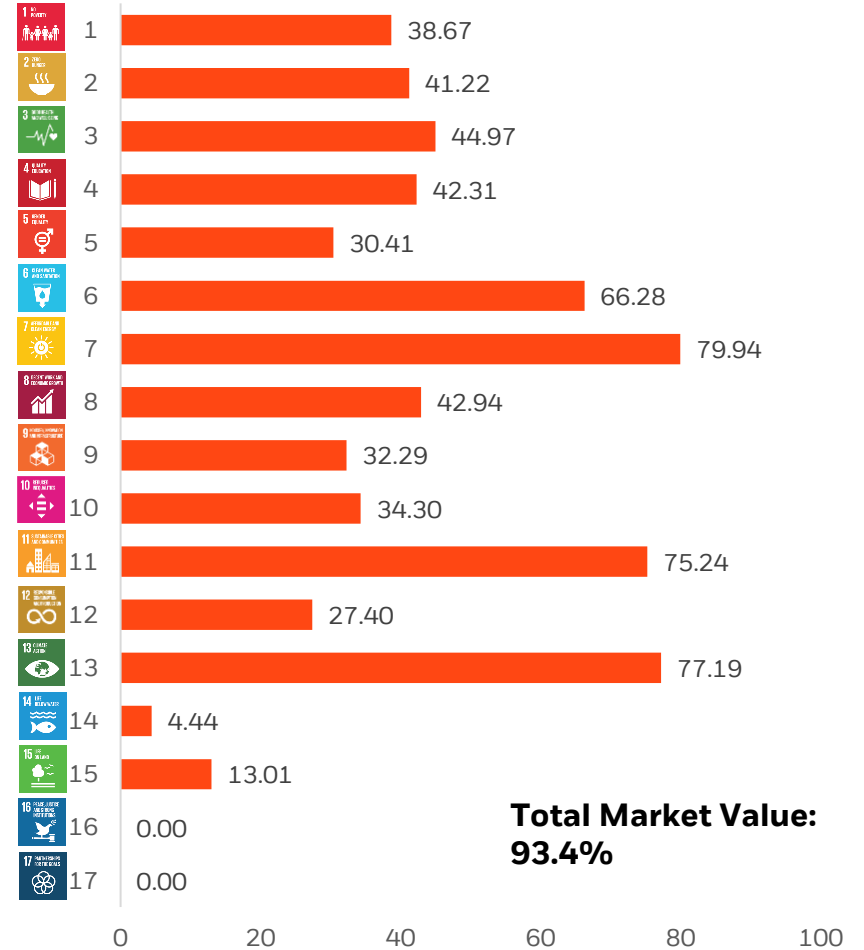


# Aligning Holdings with UN SDGs

## # of Impact Holdings aligned to each SDG



## % Market Value Impact Holdings aligned to SDGS

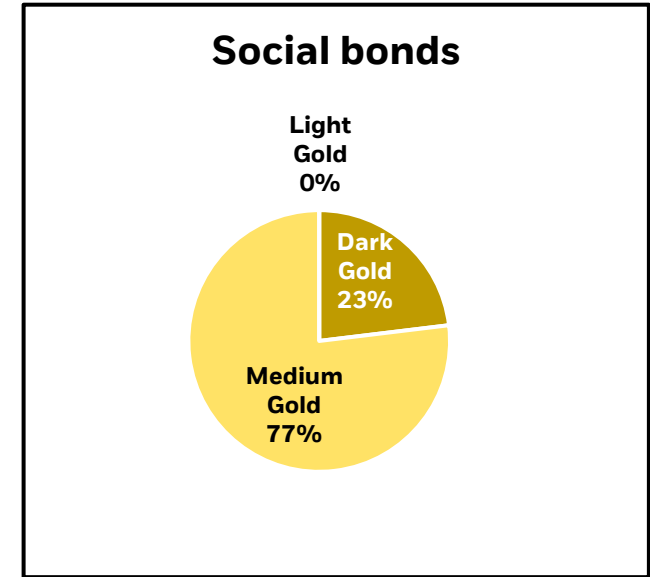
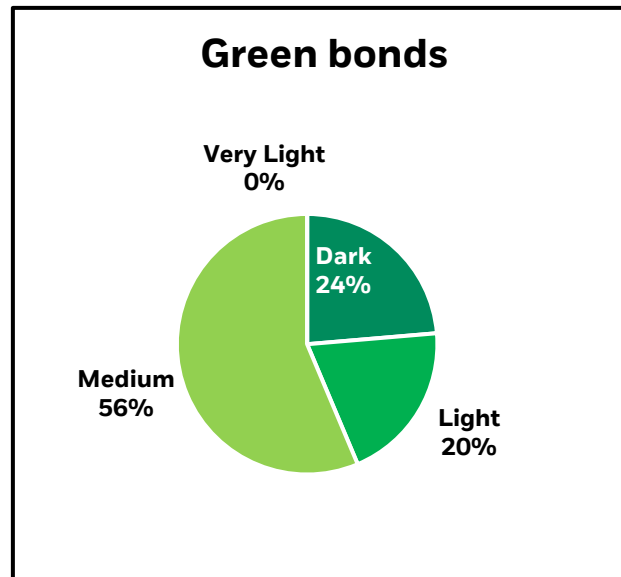
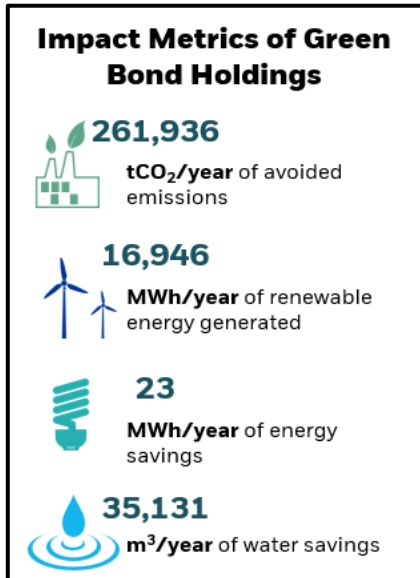


Sources: MSCI, BlackRock, as of 31 October 2022. Note that mappings are not mutually exclusive. See Definitions and Methodologies on slide 33-35 for additional details.



# BGF Emerging Markets Impact Bond Fund

As of 30 November 2022



See Definitions and Methodologies on slide 33-35 for additional details.

Source: BlackRock, MSCI. Geographic exposure relates principally to the domicile of the issuers of the securities held in the product, added together and then expressed as a percentage of the product's total holdings. However, in some instances it can reflect the country where the issuer of the securities carries out much of their business. Allocations are subject to change. Due to rounding, the total may not be equal to 100%.

# Star Energy Green Bond

## Issuer Summary

- Established in 2003, Star Energy Geothermal is Indonesia's largest geothermal energy producer and a leading clean energy company.
- STENGE 38s (IG): there is scarcity value. the only Indonesian IG utilities credit without coal exposure. Their label of green bonds also provides stronger technical support, in our view.
- STAREN 33s (HY): issuer has more stable cash flows than other Indonesian HY credits. The bonds are well structured to provide the visibility of deleveraging credit trend.

## Issuer ESG Overview

- In 2019 Star Energy generated enough to power more than 550,000 homes for 1 year and equivalent to about 11 million barrels of oil displaced. The entire output of these plants is contracted to Indonesia's power distributor, directly replacing mostly coal power generation to the tune of 1.2 coal power plant equivalents/year.
- As an inexhaustible, dispatchable, flexible and widely available renewable energy source, geothermal power holds a lot of promise in the transition to zero carbon and is an excellent complement to solar and wind energy.

## Use Of Proceeds

- Star Energy has issued 2 benchmark size green bonds: a \$580 million deal in April 2018 and a \$790 million deal in April 2020. An extremely interesting example of a geothermal project – structure issued out of Indonesia , also one we consider a potential blueprint for the country and the sector.
- **Use of Proceeds:** Development, construction and operation of geothermal energy generation facilities. Geothermal project, with good quantitative emissions thresholds, by our taxonomy rating this is **MEDIUM GREEN**.

## Star Energy Green Bond contributes positively to advancing the following SDGs:



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Source: BlackRock, Aladdin Research



# Benin Sustainability Bond

## Issuer Summary

- Strong macro performer compared to HY peers, with growth tracking an 6% annual average, debt ratio slightly under 50% after peaking in 2021, while the fiscal deficit is expected at 4.5% in 2022 (after 6.5% deficit in 2021).
- The macro-economic and credit outlook benefit from a market friendly administration, which has embarked on a series of reforms to drive the National Development Plan. In April 2022, the government signed a 42-month IMF EFF program, focusing on revenue mobilisation (revenue only 14% of GDP).



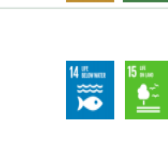

## Issuer ESG Overview

- While the reform drive has significant improved governance, the issuer perform poorly compared to regional peers on several social factors including education. Key risk to monitor is if any progress is made on a more inclusive political framework.
- Last year presidential election saw most opposition candidates unable to run because they did not meet the minimum sponsorship threshold (16 parliamentarians or mayors) after their parties partly boycotted the 2020 municipal elections and were disqualified from the 2019 parliamentary elections under a controversial new electoral code. Parliamentary elections will be held in 2023, and the government indicated that the process could be more consensual and allow more parties to run.

## Use Of Proceeds

- Benin came to market in July 2021, with their first sustainability bond: €500 million 12.5-year transaction (maturing on 22 Jan2035).
- As a member of the UN, Benin has adopted ambitious measures to incorporate the UN SDGs into their budgetary and fiscal policies. They established their SDG Bond Framework ahead of the launch of their issuance.
- Benin's framework categories projects by SDG along 4 pillars: population, prosperity, planet and partnerships. Proceeds were allocated to projects to expand education services, increase access to drinking water and wastewater processing, developing green infrastructure and conservation of lake and coastal areas, and increasing the capacity for electricity distribution in the country.
- Social projects include the construction of middle-income housing units in designated cities, the provision of vegetable growing and national school lunch programs. **We consider the social use of proceeds targeted and exhibit positive social results for the intended populations, thus we rated DARK Gold.**
- For green use of proceeds, this includes electrification of rural areas through the construction of solar and wind plants, and the conservation of lake and coastal areas. **We rated the renewable energy expansion DARK Green and the conservation of coastal ecosystems MEDIUM green for an overall green shading of MEDIUM Green for green use of proceeds.**

### Eligible Expenditures across the 4 pillars

<p><b>"Population" or Social</b></p>	<ul style="list-style-type: none"> <li>• Development of a sustainable and productive agriculture</li> <li>• Access to drinking water and wastewater processing</li> <li>• Improving health for all</li> <li>• Decent housing for the poor</li> <li>• Expanding education services and expanding capacity to take on students</li> </ul>	
<p><b>"Prosperity" or Economy</b></p>	<ul style="list-style-type: none"> <li>• Access to low-carbon, reliable and affordable energy</li> <li>• Connectivity and digital inclusion throughout the territory</li> <li>• Supporting employment and financial inclusion of the youth, women and rural entrepreneurs</li> </ul>	
<p><b>"Planet" or Environment</b></p>	<ul style="list-style-type: none"> <li>• Developing living environments and sustainable infrastructure for all</li> <li>• Conservation of lake and coastal areas, reasonable economic exploitation of the coasts</li> <li>• Conservation of biodiversity, restoration and reasonable exploitation of the forest cover and fighting against desertification</li> </ul>	
<p><b>"Peace/Partnership" or Governance</b></p>	<ul style="list-style-type: none"> <li>• Promoting heritage sites, educational sites and entertainment infrastructure</li> </ul>	

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Source: BlackRock, Aladdin Research

# Chile Social Bond

## Issuer Summary

- Overall a neutral view on the sovereign.
- A new Constitution would reshape the country's business model, structurally increasing demand for public funds, yet approve not a given.
- An overheated economy and a negative terms of trade shock leads to a wide current account deficit that would have to be tackled by a reduction in domestic absorption.

## Issuer ESG Overview

- Chile is an outperformer across LatAm peers on Governance related metrics. We see particular outperformance vs peers in Voice & Accountability; Government Effectiveness; Rule of law; Control of Corruption (World Bank governance metrics).
- Chile scores better than peers on broad Social metrics but income inequality remains a significant vulnerability. On human capital metrics Chile generally scores well – with one of the highest life expectancy and school enrolment in LatAm.
- While having higher reliance on coal & lower use of renewables than peers, we see signs of improvement in Chile's Environmental management. Chile remains a consumer of coal, with 20% of the country's 2019 energy consumption coming from this source. However, in the COP26 Summit we saw Chile pledge to phase out coal by 2050 which was a positive surprise. During COP26 we also saw Chile sign the pledges to end deforestation and to cut methane emissions. In Chile's NDC, its net zero target is set at 2050.

## Use Of Proceeds

- Republic of Chile has been a player in the social bond market since November 2020, when they first established their social bond framework. Chile issued social bonds for USD 3.75 billion in July 2021. **Labelled bonds represent 24.0% of Chile's outstanding central government debt, one of the highest shares in the world.**
- Chile won social bond of the year in Environmental Finance Awards 2022 for the US\$5.8bln multi-currency social bond issuance in July 2021.
- The sovereign has outlined very good quantitative thresholds for every single category. Target population identifications are quantitative, targeted, and the use of proceeds associated have clear beneficial outcomes.
- We believe Chile's social framework covers every single social bond use of proceeds category. We rate this overall **DARK Gold**, given very good quantitative thresholds set for each use of proceeds categories, and upfront disclosure of projects, as well as spending amounts that are applicable.



### Access to Education Ministry of Education

The selected projects to be funded in this category are:

- Preferential school grants.
- Free higher education.
- Transfers for Kindergartens and Cradle Rooms - Integra foundation.
- Transfers for Cradle Rooms – Junji.
- Public education support fund.
- Bicentennial scholarships.

In general terms, these projects finance programs that aim to improve the quality and access to preschool, basic, secondary and higher education for vulnerable children and young people or those with special needs. All projects included in this sector are carried out by services from the Ministry of Education.

This project benefits roughly

## 3.3 million students



### Support for low-income families Ministry of Labor and Social Security

The selected projects to be funded, included in this category are:

- Permanent family transfers.
- Family subsidy.
- Winter transfer.

These projects seek to finance actions and measures aimed at the most vulnerable families in the country through subsidies or contributions to low-income families.

All projects included in this category are carried out by the Institute of Social Security, from the Ministry of Labor and Social Security.

These projects benefit roughly

## 4.3 million people



### Support Affordable Housing Ministry of Housing and Urbanism

The selected projects to be included in this category are:

- Solidarity funds for housing selection DS49.
- Housing improvement DS27.
- Integrated system for housing subsidies DS1.
- Housing program for social integration DS116-2014 and DS19-2016.

In general terms, these projects seek to finance the acquisition, repair, expand, and improve social housing. All projects included in this sector are carried out by the Ministry of Housing and Urbanism.

This project benefits roughly

## 87,000 households

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Source: BlackRock, Aladdin Research



Table 3: Eligible Social Categories













Eligible Categories	Eligibility Criteria	Social Benefits	Contribution to SDGs
Support for vulnerable groups and people in vulnerable situations <sup>28</sup>	Financing of programs and projects to improve financial and social inclusion and access to essential services in alignment with public policies for poverty reduction.	Programs aimed at ensuring the well-being of girls, boys, young people, the elderly, and women, to ensure adequate care that is closely related to three factors: the achievement of economic security, access to health services, and housing and quality education. Therefore, these programs require intersectoral and intergovernmental efforts that reflect the timely articulation of effective interventions.	   
Access to affordable housing, education and essential health services <sup>29</sup>	<ul style="list-style-type: none"> <li>Financing of programs and projects aimed at improving and/or increasing access to education, housing and health services for vulnerable groups.</li> <li>Financing for the acquisition, repair, expansion, improvement of social housing (via schemes such as capped rent/rent control and other affordable home schemes to support home ownership).</li> <li>Financing of programs aimed at improving the quality and access to basic, middle and higher education for vulnerable boys, girls and young people.</li> <li>Financing for the development of health programs for preventive and curative purposes associated with vulnerable groups.</li> </ul>	<ul style="list-style-type: none"> <li>Increase the quality of and access to education, health and housing services to vulnerable groups.</li> <li>Promote equitable access to essential services without discrimination on the basis of gender, ethnicity, religion, socioeconomic class or others.</li> </ul>	    

Table 4: Eligible Green Categories

Eligible Category	Eligible Expenditure	Environmental Benefits	Contribution to SDG	Alignment with Peru's NDC mitigation and adaptation measures
Green Buildings	The financing and refinancing of expenditures related to: <ol style="list-style-type: none"> <li>Construction and modernization of public buildings, with a 30% minimum reduction in carbon emissions</li> <li>Design, construction and maintenance of public buildings certified under the "LEED"<sup>30</sup>, "EDGE", or "CERTIFICACIÓN LIVING BUILDING CHALLENGE" certifications</li> <li>Costs associated with the modernization of existing public buildings to comply with one of the certifications recognized by this Framework, or to improve the current certification level within three years</li> </ol>	<ul style="list-style-type: none"> <li>Climate change mitigation</li> <li>Energy savings</li> <li>Water savings</li> <li>GHG reduction</li> </ul>	  	ECE-19 Promotion of sustainable construction practices in new buildings

For illustrative purposes only

# Sustainability Bond

## Republic of Peru

<b>Issuer</b>	<b>Republic of Peru</b>
<b>Green/Social Bond Framework</b>	<a href="#">Peru's Sustainable Bond Framework</a> - Ministry of Economy and Finance. (Jul 2021)
<b>Second Party Opinion</b>	Sustainalytics - <a href="#">Peru Sustainable Bond Framework</a> (Jul 2021)
<b>Use of Proceeds</b>	<ul style="list-style-type: none"> <li>Allocations are <b>90/10 split for social and green proceeds</b>.</li> <li>Across the social categories, social benefits are outlined. From its website, process to <b>target population is well structured</b>. We would rate this overall as <b>dark gold</b>.</li> <li>In terms of green categories, the 2021 budget has identified the following categories of focus: (1) resilient and efficient water and wastewater management, (2) sustainable agriculture, and (3) sustainable management of natural resources, land use and marine protected areas. For wastewater management, projects include water treatment, flood risk mitigation, and water conservation (<b>light to medium green</b>).</li> <li>For sustainable management of natural resources, wood production and forest management is in line with FSC standards (<b>medium green</b>). For sustainable agriculture, projects include drip irrigation, irrigation systems with improved water efficiency, and use of organic/sustainable fertilizers in agricultural practices (<b>medium to dark green</b>). Would be helpful to mention target efficiency improvements in irrigation systems and whether this does not add any emissions.</li> <li>Overall, would rate green projects as <b>medium green</b>.</li> </ul>
<b>Green/Social Bond + Shading</b>	<b>YES – SUSTAINABILITY</b> <b>MEDIUM GREEN/DARK GOLD</b>

Source: BlackRock, Aladdin Research. For illustrative purposes only.

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## Risk Warnings

**Capital at risk.** The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors 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.

# Risk Warnings

## Fund Specific Risks for the BGF Emerging Markets Impact Bond Fund

- Changes to interest rates, credit risk and/or issuer defaults will have a significant impact on the performance of fixed income securities. Non-investment grade fixed income securities can be more sensitive to changes in these risks than higher rated fixed income securities. Potential or actual credit rating downgrades may increase the level of risk.
- **Emerging markets Risk:** Emerging markets are generally more sensitive to economic and political conditions than developed markets. Other factors include greater 'Liquidity Risk', restrictions on investment or transfer of assets, failed/delayed delivery of securities or payments to the Fund and sustainability-related risks.
- Derivatives may be highly sensitive to changes in the value of the asset on which they are based and can increase the size of losses and gains, resulting in greater fluctuations in the value of the Fund. The impact to the Fund can be greater where derivatives are used in an extensive or complex way.
- The Fund seeks to exclude companies engaging in certain activities inconsistent with ESG criteria. Investors should therefore make a personal ethical assessment of the Fund's ESG screening prior to investing in the Fund. Such ESG screening may adversely affect the value of the Fund's investments compared to a fund without such screening.
- **Counterparty Risk:** The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.
- **Credit risk:** The issuer of a financial asset held within the Fund may not pay income or repay capital to the Fund when due.
- **Liquidity Risk:** Lower liquidity means there are insufficient buyers or sellers to allow the Fund to sell or buy investments readily.

# Appendix

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# Methodologies and Assumptions

Asset Class	Description
<b>Corporates</b>	Corporates are mapped using MSCI's SDG suite of metrics. In this analysis, we focus only on product alignment. Companies who have no strong product misalignment, and have product alignment to at least 1 SDG per MSCI are captured in this analysis.
<b>Green Bonds</b>	Green bonds, as determined by BlackRock FI ESG Investment team, are mapped to SDGs using the below waterfall methodology, which is ordered from most to least granular: <ol style="list-style-type: none"> <li>1. BlackRock impact analysis based on publicly available Green Bond impact reports communicated by issuers</li> <li>2. Environmental Finance SDG mapping of green bonds</li> <li>3. Broad mapping of holdings to Environmental SDGs (6, 7, 11, 13)</li> </ol>
<b>Social Bonds</b>	Social bonds, as determined by BlackRock FI ESG Investment team, are mapped to SDGs using the below waterfall methodology, which is ordered from most to least granular: <ol style="list-style-type: none"> <li>1. Environmental Finance SDG mapping of social bonds</li> <li>2. Broad mapping of holdings to Social SDGs (1, 2, 3, 4, 5, 8, 10)</li> </ol>
<b>Sustainable Bonds</b>	Sustainable bonds, as determined by BlackRock FI ESG Investment team, are mapped to SDGs using the below waterfall methodology, which is ordered from most to least granular: <ol style="list-style-type: none"> <li>1. Environmental Finance SDG mapping of Sustainable bonds</li> <li>2. Broad mapping of holdings to Environmental and Social SDGs (1, 2, 3, 4, 5, 6, 7, 8, 10, 11, 13)</li> </ol>
<b>CMBS</b>	CMBS pools where > 80% loans are financing low income housing, CMBS pools where >80% of loans are financing LEED, GBI, or other green certified collateral are included as SDG aligned
<b>ABS</b>	Solar ABS, Auto loan pools originated by top quartile MSCI auto manufacturers, Student loan pools where > 80% of loans are refinanced at a lower rate, credit card pools originated by financial companies with top quartile MSCI ESG scores are included as SDG aligned.
<b>MBS</b>	US Agency MBS pools originated through existing housing affordability programs, as well as pools with certain collateral characteristics the investment team has deemed to be supportive of measurable Impact outcomes

# Methodologies and Assumptions

Metrics	Definition and Methodology
<b>MSCI Rating</b>	Aggregate MSCI ESG Rating – market value weighted ESG Rating for the fund. Individual holdings normalized based on sector peers.
<b>Sustainalytics Percentile</b>	Aggregate score from Sustainalytics (separate ESG data provider). Market-value-weighted average percentile of fund holdings (sector normalized). Portfolios with a high percentile have higher quality ESG holdings.
<b>Controversial Holdings</b>	The overall controversy assessment signals whether a company has a notable controversy related to a company’s operations and/or products, and the severity of the social or environmental impact of the controversy. This is ranking 0-10 with 0 being worse.
<b>ESG Adjusted Score</b>	MSCI Industry Adjusted Score from 0-10 . Normalized score for each industry. -MV Weighted: Portfolio score calculated by weighting ESG scores by market value -DxS Weighted: Portfolio score calculated by weighting ESG scores by DxS
<b>Counterparty ESG Score</b>	ESG score of counterparties for the derivative portion of the portfolio
<b>Coal</b>	Companies generating >10% (GFI Standard Screens) or >5% (EMEA/Global Screens) revenue from coal mining or electricity generation. Green bonds are excluded.
<b>Controversial Weapons</b>	Percent of holdings in companies that are involved in production and proliferation of controversial weapons
<b>Controversial Holdings</b>	Percent of holdings in companies with a controversy score of 0 from MSCI. Controversy score signals whether a company has a notable controversy related to a company’s operations and/or products, and the severity of the social or environmental impact of the controversy.
<b>Fossil Fuel</b>	This field identifies companies with evidence of owning fossil fuel reserves regardless of their industries, including companies that own less than 50% of a reserves field.
<b>UNGC Violators</b>	Percent of holdings in companies that fail to comply United Nations Global Compact principles
<b>Tobacco</b>	Percent of holdings in companies involved in tobacco production related activities (Global/GFI Standard Screens). This applies to tobacco producers and/or companies that derive >5% of revenue from tobacco retail (EMEA Screens).
<b>Negative Externalities (N_EXT)</b>	Least preferred holdings for ESG/responsible/sustainable portfolios that have some negative societal externalities associated with them.
<b>Holdings w/ Deforestation Risk</b>	Currently captures worst rated names per WWF palm oil score card. Over time we will attempt to capture broader deforestation risk from agricultural and other human activities.
<b>BIS C/D O&amp;G &gt; 2030</b>	Securities maturing later than 2030 issued by oil and gas companies that are rated as C or D by Investment Stewardship
<b>Engagement Stats</b>	These figures represent counts of engagements by our BIS team in the latest calendar year. Engagement mappings to categories and issues are not mutually exclusive. Note that the total count of engagements includes multiple engagements with the same company.
<b>IIGCC Net Zero Framework</b>	The IIGCC Net Zero Investment Framework sets out the approach investors should take when assessing the alignment of assets and setting targets to increase the proportion of assets that are aligned to net zero. Further details <a href="#">here</a> .

## Methodologies and Assumptions – continued

Metrics	Definition and Methodology
<b>Emissions Intensity – (Sales)</b>	Aggregate emissions for every million dollars of revenue for underlying holdings. Green bond adjusted emissions indicates that dark & medium green bond (as shaded by BlackRock GFI ESG team) emission's are set to zero.
<b>Emissions Intensity – (EVIC)</b>	Aggregate emissions financed for every million dollars enterprise value of invested capital invested in the companies. Green bond adjusted emissions indicates that dark & medium green bond (as shaded by BlackRock GFI ESG team) emission's are set to zero.
<b>Sovereign GHG Intensity</b>	GHG intensity of an economy (in tons per USD million GDP nominal). The higher the value the more carbon intensive the economy is. Green bond adjusted emissions indicates that dark & medium green bond (as shaded by BlackRock GFI ESG team) emission's are set to zero.
<b>MSCI Low Carbon Transition Score</b>	A company level score that measures a company's level of alignment to the Low Carbon Transition. Companies with higher Low Carbon Transition score are more aligned with the Low Carbon Transition compared to the companies with lower scores. (Score: 0-10)
<b>Paris Aligned per TPI</b>	Holdings rated to be Paris aligned or better by Transition Pathway Initiative
<b>Holdings with SBTs (Science Based Targets or Commitments)</b>	Exposure to holdings that have science-based targets or commitments. Science-based targets specify how much and how quickly a company needs to reduce greenhouse gas (GHG) emissions that is in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement. <sup>3</sup>
<b>Portfolio Temperature Alignment</b>	The implied temperature warming of holdings in the portfolio. Corporate data is based on MSCI data and is weighted relative to the portfolio's ownership of company's overshoot/undershoot of their emissions budget. Sovereign data is based on MSCI data and is market value weighted. Green bond temperature alignment is set to two degrees.
<b>Aladdin Climate PCAV (Expected Emissions)</b>	The Physical Climate Adjusted Value (PCAV), or percentage change in market value as a result of the Expected Emissions (RCP 4.5) Average Risk scenario. "Expected Emissions" represents a RCP 4.5 W/m2 which assumes some corrective action going into effect to reduce emissions, while projecting an increase in the global surface temperature by 1.7°C to 3.2°C (averaged over 2081-2100 as compared to pre-industrial periods). In this scenario, the CO2 concentrations stabilize around 550 ppm by the end of the 21st century, after an earlier emissions peak at mid-century. The "Average Risk" corresponds to the mean impact from physical risk contributors given the range of temperature increases (e.g., energy expenditures, hurricane damages, etc.).
<b>Aladdin Climate TCAV (Average Emissions)</b>	The Transition Climate Adjusted Value (TCAV), or percentage change in market value as a result of the Orderly – Net Zero by 2050 scenario. The Orderly – Net Zero by 2050 scenario assumes climate policies are introduced early and become gradually more stringent. The orderly scenario limits global warming to 1.5°C through stringent climate policies and innovation, reaching global net zero CO2 emissions around 2050.
<b>Sust. Dev. Impact</b>	Percent of holdings with >20% of revenues derived from any of the eleven social and environmental impact themes including nutrition, sanitation, major diseases treatment, SME finance, education or affordable real estate, alternative energy, energy efficiency, green building, pollution prevention and sustainable water. Also inclusive of all green bonds held in the portfolio.
<b>Positive Externalities (P_EXT)</b>	Most preferred holdings for ESG/responsible/sustainable portfolios that have some positives societal externalities associated with them.
<b>Green Bonds</b>	Percent of holdings in bonds tagged as "Green" by GFI ESG Investing team. Green Bonds are fixed income instruments in which the proceeds will be exclusively applied towards new and existing "green" projects. Dark, Medium and Light shading represents the tiering of green bonds based on "greenness" or "impact" of proceeds use.
<b>Impact Metrics of Green Bond Holdings</b>	BlackRock analysis for green bonds held in the portfolio based on publicly available environmental impact reports as communicated by issuers in the MSCI Bloomberg Barclays Green Bond Index; not every issuer reports on every metric, hence no linear extrapolation should be performed.

Review the MSCI methodology behind the Sustainability Characteristics: <sup>1</sup><https://www.msci.com/esg-ratings>; <sup>2</sup><https://www.msci.com/index-carbon-footprint-metrics>

<sup>3</sup><https://sciencebasedtargets.org/>

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