

Next Generation Forum

BGF **Brown** to **Green**

Materials Fund

18th of January 2024

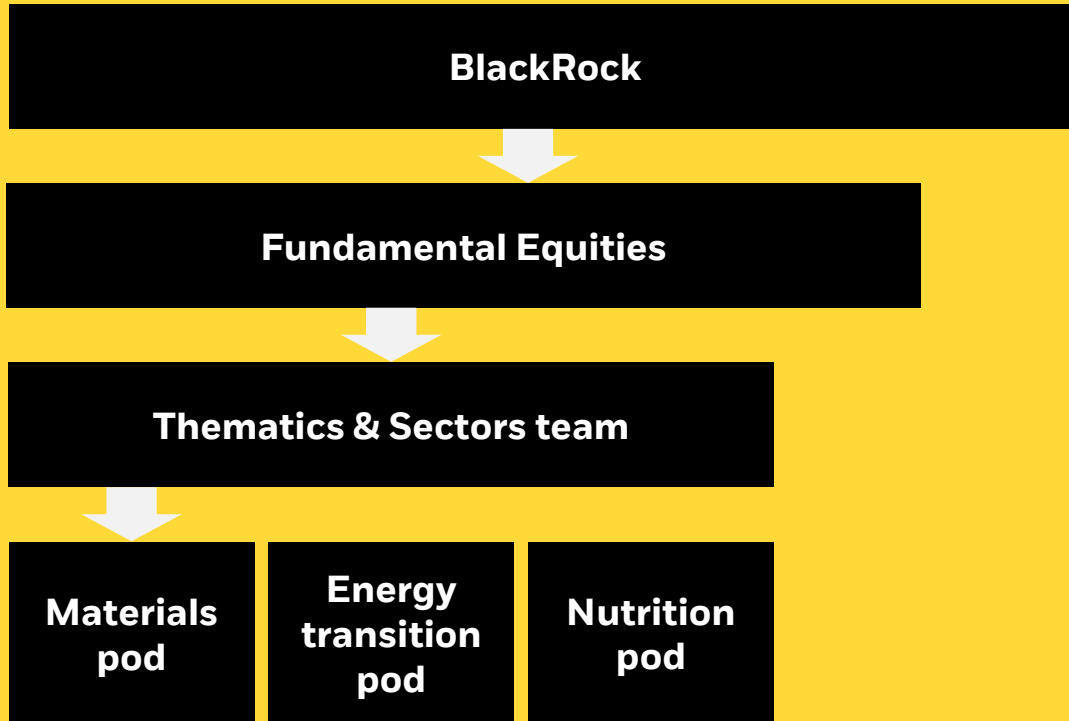
BlackRock

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The team

Place in the firm:



For illustrative purposes only.
Source: BlackRock, January 2024.

Named portfolio managers for the BGF **Brown** to **Green** Materials Fund:



Evy Hambro

Years with BlackRock: 30

Years in industry: 30

Also named on: the team's mining, gold and circular economy portfolios



Hannah Johnson, CFA

Years with BlackRock: 15

Years in industry: 15

Also named on: the team's future of transport and commodity strategies portfolios



Olivia Markham, CFA

Years with BlackRock: 13

Years in industry: 21

Also named on: the team's mining and circular economy portfolios

The Thematics & Sectors team:

Team assets under management: \$31bn

Headcount: 8 portfolio managers, 7 research analysts, 6 product strategists, 2 core portfolio managers and 1 business manager

Backgrounds: traditional finance, sell-side, mining industry, geologist, metallurgist

Collaboration with other BlackRock teams / divisions: other Fundamental Equities teams (e.g. Strategic Equity team), BlackRock Investment Stewardship (BIS), Risk & Quantitative Analysis (RQA), BlackRock Investment Institute (BII) etc.

Fund overview

Fund size: US\$22 million	Launch date: 6 th of June 2023	Typical number of holdings: 30 – 60	Typical turnover: 30 – 60%	Active risk vs MSCI ACWI: 10.1% as at 09/01/2024
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1.

Materials focus

Materials and their supply chain are being disrupted and this creates the opportunity. They are both a key CO2 contributor and have growing demand as they are key to driving decarbonisation

2.

Emissions reducers

We believe that leaders in the move to reduce emissions will see valuation uplifts with the removal of a carbon discount associated with business model risk

3.

Enablers

Structurally higher growth for their end products as a result of the new and shifting profit pools of the energy transition

4.

Green leaders

Businesses with structural carbon advantages should see lower operational and capital expenditure versus higher-carbon peers

Fund objective: to maximise total returns

Outcomes are not guaranteed. Source: BlackRock, January 2024.

Materials contribute to the global emissions problem....

On a conservative estimate, over 17% of total global emissions*

...but they are also a critical part of the solution

We can't have wind turbines, solar panels or electric vehicles without materials to build them

The BGF **Brown** to **Green** Materials Fund is part of BlackRock's Transition platform and is classified as Article 8 under SFDR

*Source: International Energy Agency, based on 2022 global emissions. Source: BlackRock, January 2024.

Mapping the investment opportunity



1. Emissions reducers

Example company types:

- Basic oxygen steelmaking
- Cement
- Plastics
- Aluminium

2. Enablers - materials

Example company types:

- Lithium
- Copper
- Rare earths
- Polysilicon
- Hydrogen gas

3. Enablers – others

Example company types:

- Capital equipment for cement, mining, steel
- Technology solutions

4. Green leaders

Example company types:

- Electric arc furnace steel
- Hydro aluminium
- Recyclers



The criteria in considering a company is subject to change without notice.
Source: BlackRock, January 2024.


Investment process

Universe:

Companies that meet the criteria for:

- Emissions Reducers
- Enablers
- Green Leaders

Universe size: ~250 names



Fundamental Analysis:

Bottom-up research:
(majority of our time spent here)

- Valuation screens
- Modelling companies
- Meeting management
- Site visits
- ESG
- Decarbonisation plans

Top-down macro-overlay:

- Commodity analysis
- industry analysis
- Geographical analysis
- Meetings with the sell-side



Portfolio Construction:

30-60 holdings


Benchmark agnostic

Holdings weighted based on:

- Conviction
- Liquidity
- Risk

UCITS concentration limits applied

No hard limits on: Emissions Reducer versus Enabler versus Green Leader exposure



Review process:

External risk oversight from our Risk & Quantitative Analysis (RQA) division

Friday portfolio review meetings

Quarterly meetings with Fundamental Equities CIOs

Monitoring decarbonisation progress for fund holdings, engagement when we see insufficient progress



Structured meeting schedule:
8:30 – 9:15am daily morning meeting – whole Thematics & Sectors team in attendance:

Monday	Tuesday	Wednesday	Thursday	Friday
Daily market news	Daily market news	Daily market news	Daily market news	Daily market news
Diaries	Macro	Clients	Commodity	Portfolio review

Plus, two Materials pod research meetings: Mondays 10:30–11:30am and Thursdays 11am–12:30pm, GMT.

The environmental, social, and governance (“ESG”) considerations discussed herein may affect an investment team’s decision to invest in certain companies or industries from time to time. Results may differ from portfolios that do not apply similar ESG considerations to their investment process. There is no guarantee that a positive investment outcome will be achieved.

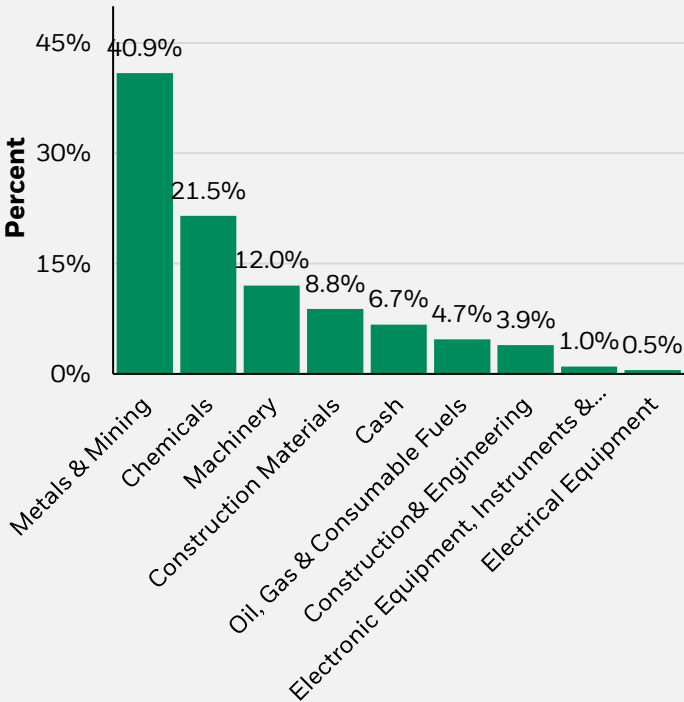
Source: BlackRock, January 2024. Current process for selecting investments in the portfolio is in accordance with its stated investment objective and policies. Process subject to change based on market conditions, portfolio manager’s opinion and other factors. Investment process subject to change and provided here for illustrative purposes only. ESG considerations are evaluated alongside other factors, and not the sole consideration when making investment decisions.

Positioning

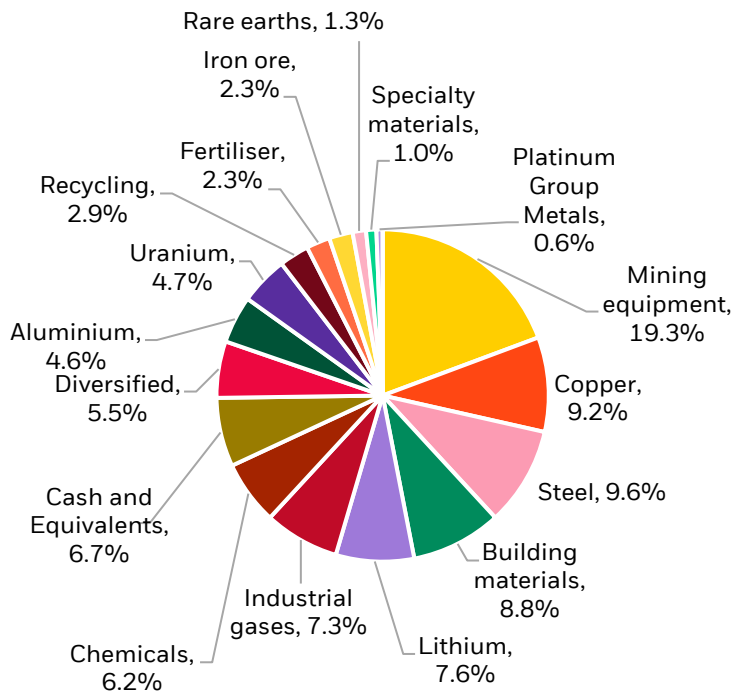
Top 10 holdings

Stock	Portfolio %	Category	GICS Industry
Cameco	4.7%	Enabler (materials)	Oil, Gas & Consumable Fuels
Air Liquide	4.0%	Enabler (materials)	Chemicals
Fluor	3.9%	Enabler (other)	Construction & Engineering
SSAB	3.8%	Emissions Reducer	Metals & Mining
CRH	3.4%	Emissions Reducer	Construction Materials
BHP	3.3%	Emissions Reducer	Metals & Mining
Linde	3.3%	Enabler (materials)	Chemicals
Holcim	3.1%	Emissions Reducer	Construction Materials
Epiroc	3.1%	Enabler (other)	Machinery
Caterpillar	3.0%	Enabler (other)	Machinery

GICS industry breakdown



Sub-sector exposure



Source: BlackRock internal data, as at 30 November 2023. The specific companies identified and described above do not represent all of the companies purchased or sold, and no assumptions should be made that the companies identified and discussed were or will be profitable. Numbers may not add up to 100% due to rounding.

Outlook

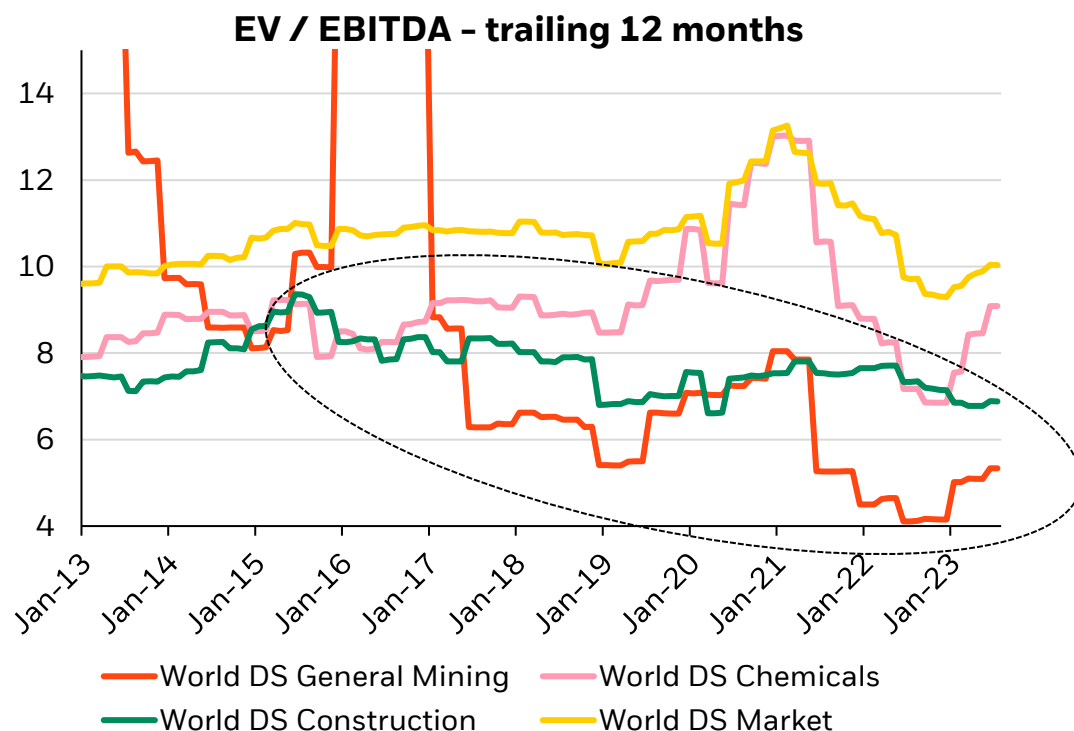
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AEH0134/S-3318159-8/23

A re-rating story for emissions reducers

EV / EBITDA - trailing 12 months



Valuations within steel

	EV / EBITDA
North American carbon-light producer	4.0x
North American carbon-light producer	3.6x
European carbon-intensive producer	2.5x
Global producer with both carbon-light and carbon-intensive production	2.2x
North American carbon-intensive producer	2.0x

Even within materials, there is a high level of dispersion

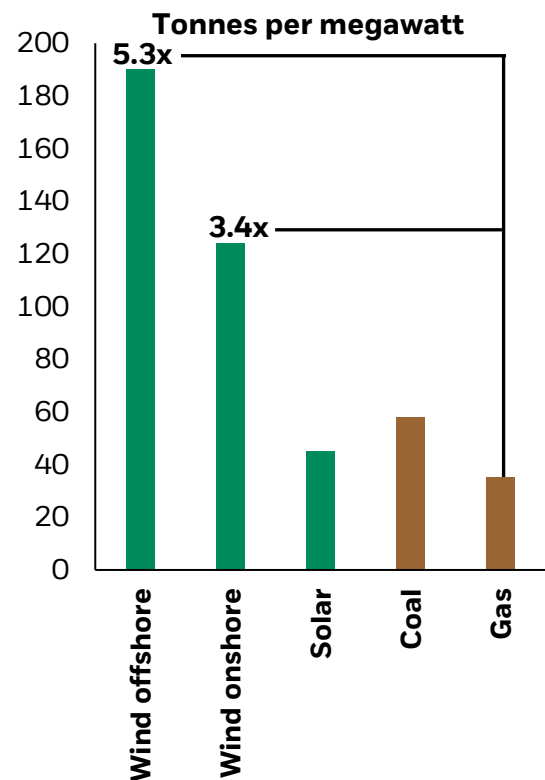
Carbon-intensive - Blast furnace steel production
Carbon-light - Electric arc furnace steel production

There can be no guarantee that the investment strategy can be successful and the value of investments may go down as well as up.

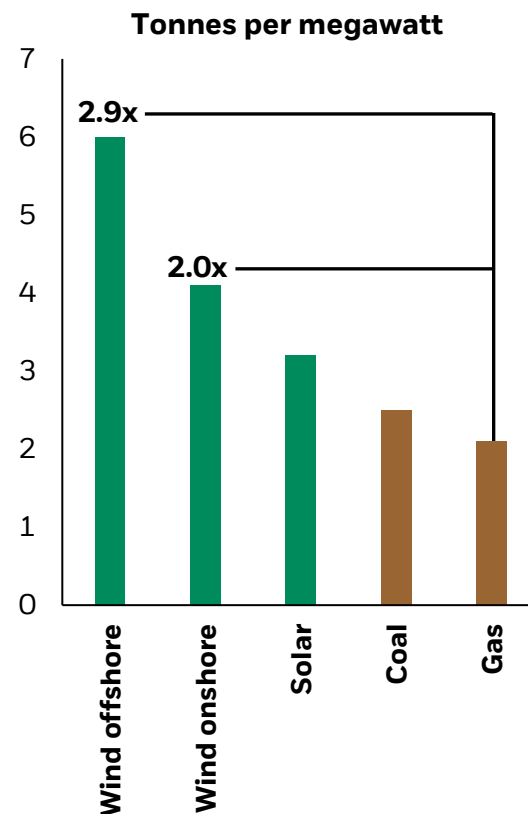
Source: Left-hand-side: DataStream, 11/08/23. Right-hand-side: Bloomberg, 05/01/2024

Underappreciated structural demand growth for enablers

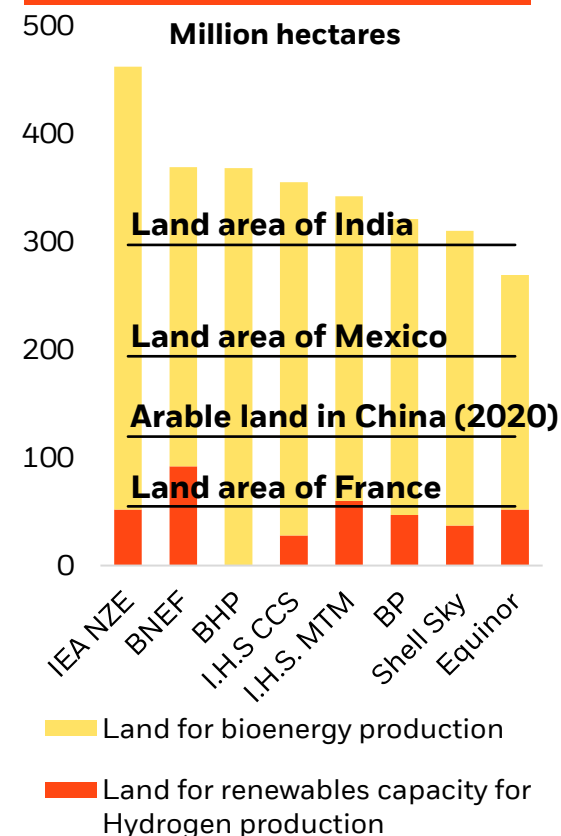
Steel required per unit of power capacity



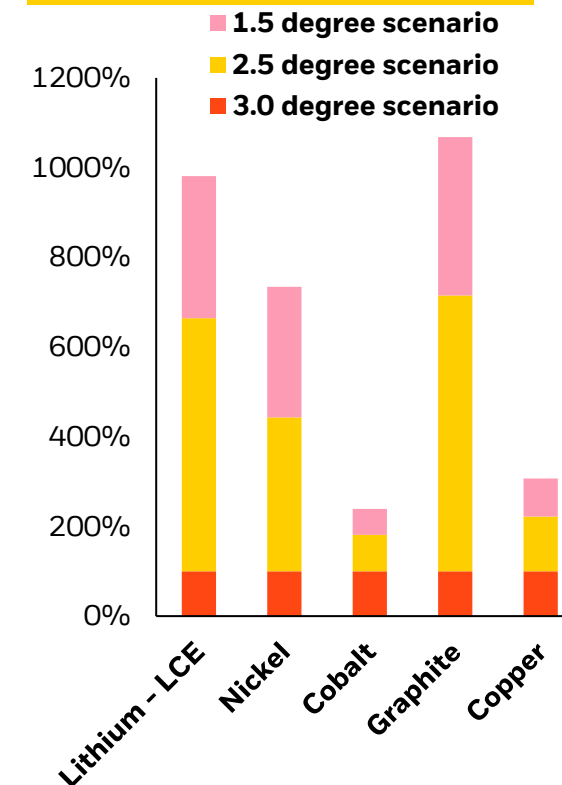
Copper required per unit of power capacity



Land use for green hydrogen and bioenergy production by scenario



Battery sector demand growth by 2030



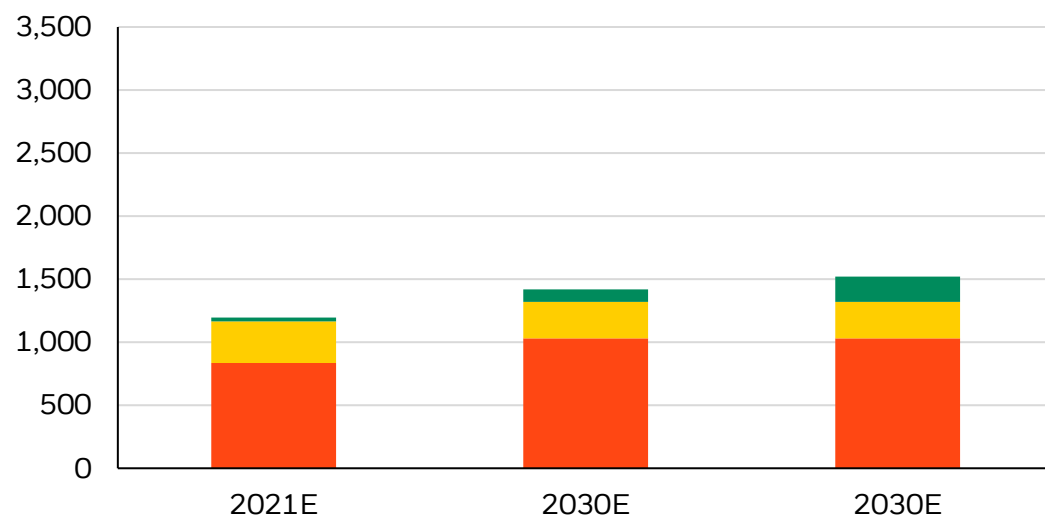
Source: first and second charts: BHP analysis, Hatch, ArcelorMittal, August 2023. Third chart: IEA, BNEF, HIS Markit, BP, Shell and Equinor; US National Renewable Energy Laboratory, BHP Analysis, August 2023. Fourth chart: Wood Mackenzie, June 2023.

Unrealised business model advantages for green leaders

Aluminium smelter all-in cash costs

(Real US\$2021 per tonne)

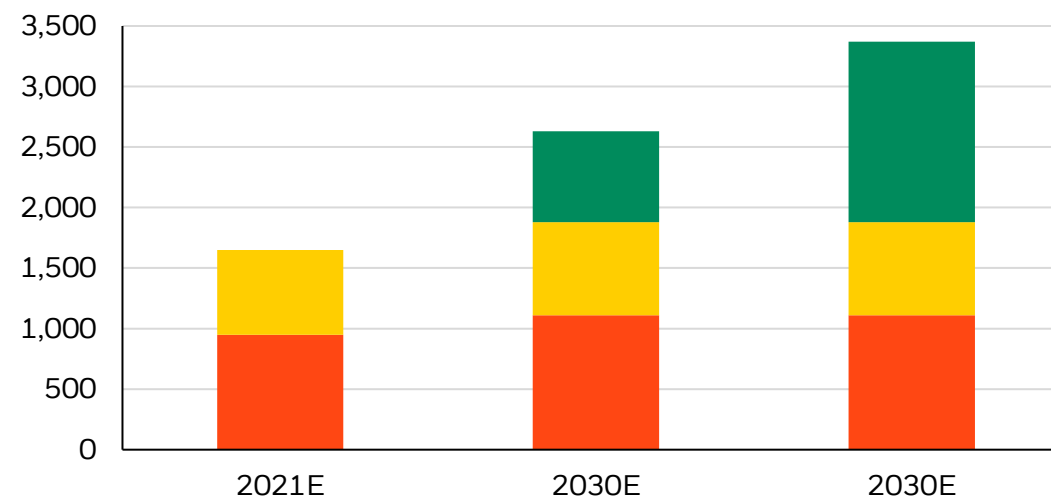
Hydro-powered smelter



Carbon price assumption: **\$50/t** **\$100/t**

Other costs Power costs Carbon costs

Coal-powered smelter



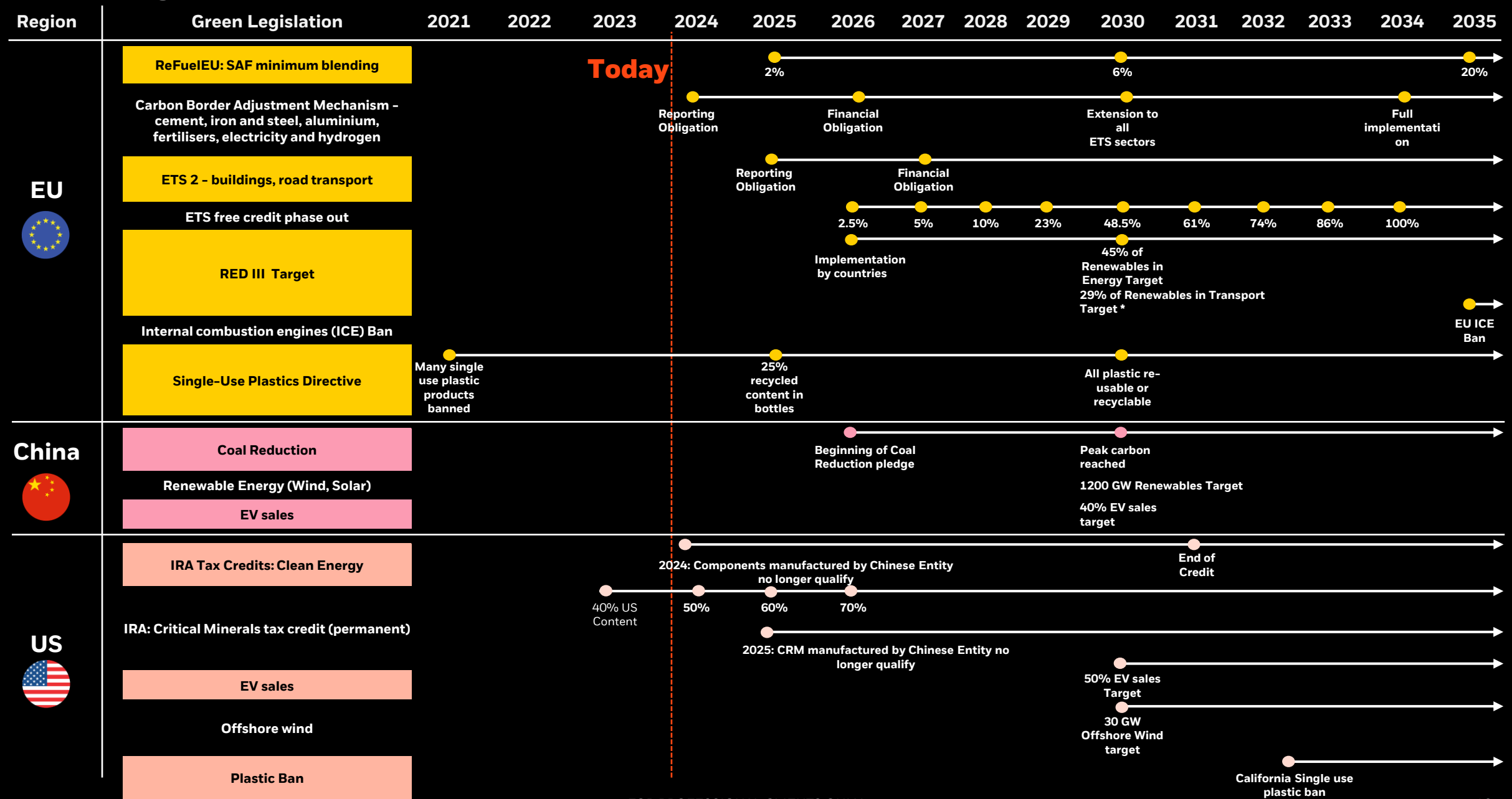
\$50/t **\$100/t**

There can be no guarantee that the investment strategy can be successful and the value of investments may go down as well as up.

Source: Rio Tinto, 31/12/22. There is no guarantee that any forecasts made will come to pass. Any opinions represent an assessment of the market environment at a specific time and is not a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation.

Tipping point?

Source: Goldman Sachs, US Department of the Treasury, BlackRock, January 2024. * or 14.5% diminution in transport GHG intensity

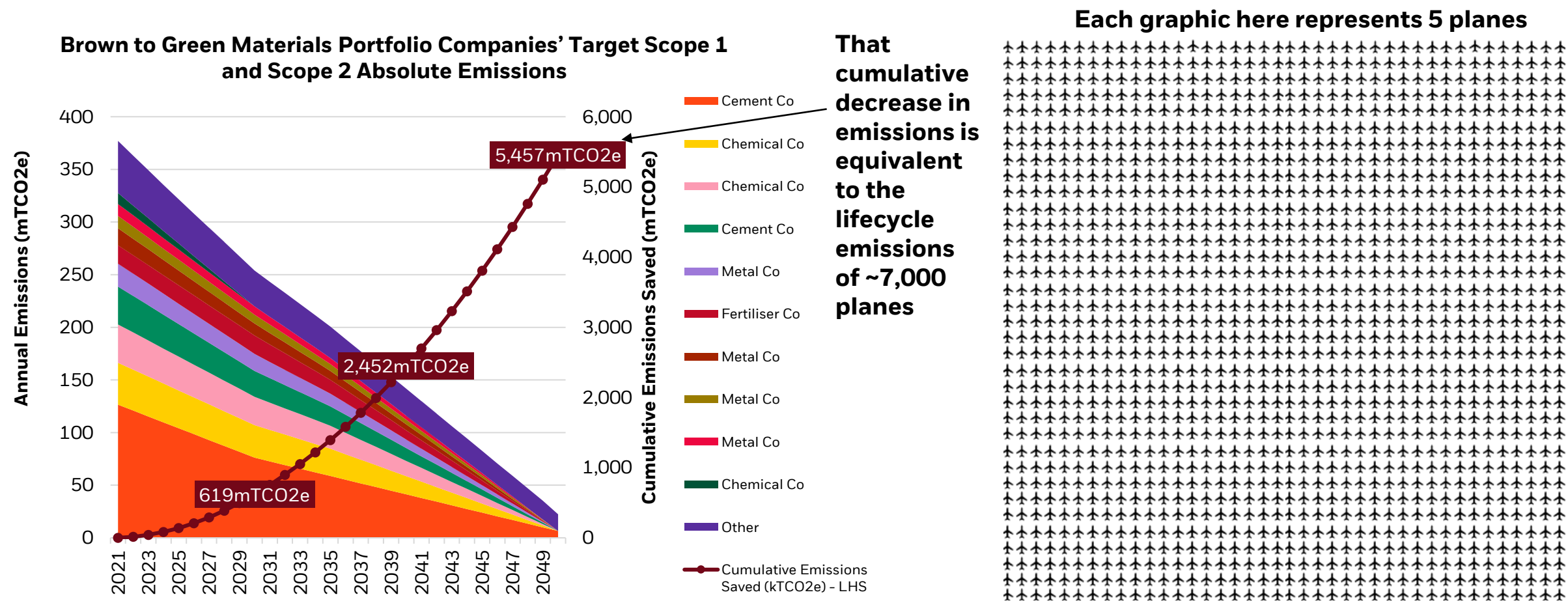


Appendix

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Cumulative reduction in emissions should all current portfolio holdings companies meet their 2050 targets

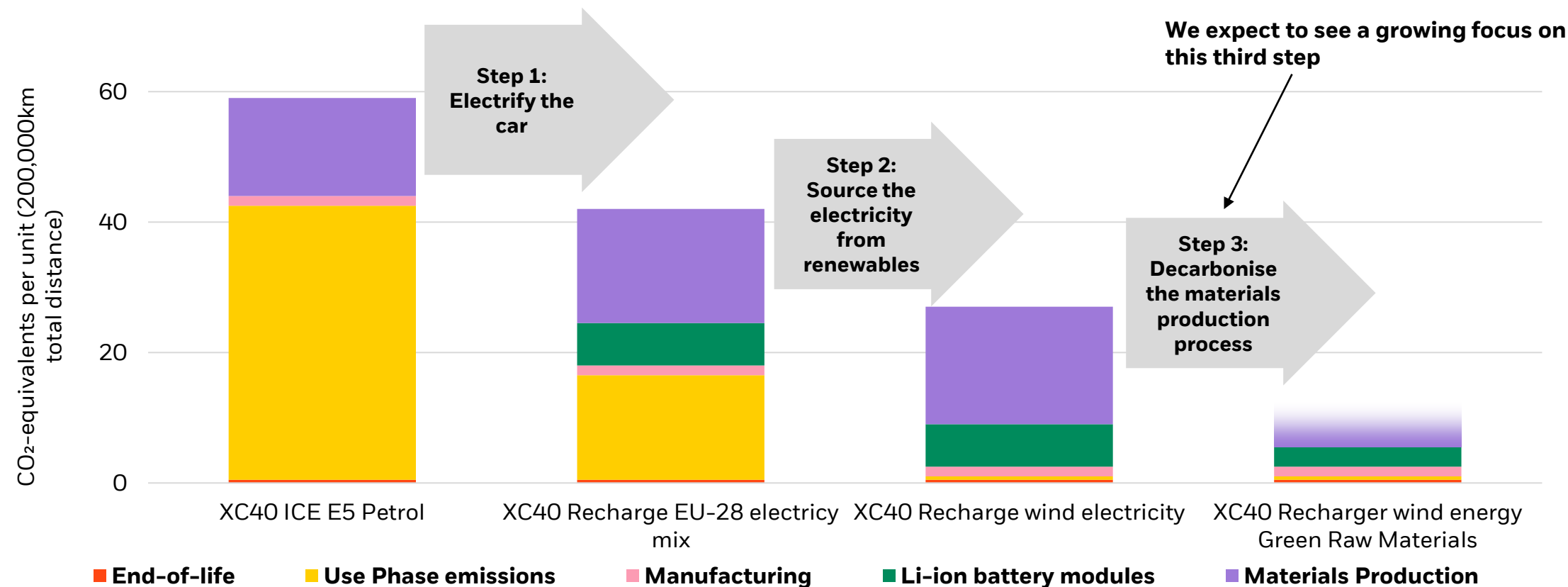


There is no guarantee that any forecasts made will come to pass. For illustrative purposes only.

Source: CDP data and company sustainability reports based on portfolio holdings as at 30 November 2023. Methodology: We used 2021 emissions as the base level and then assumed all holdings meet their announced emissions reduction targets. We have compared this reduction against the life-cycle emissions of the average passenger plane. We have split out the 10 largest emitters in the portfolio based on 2021 emissions and grouped the others into 'Other'.

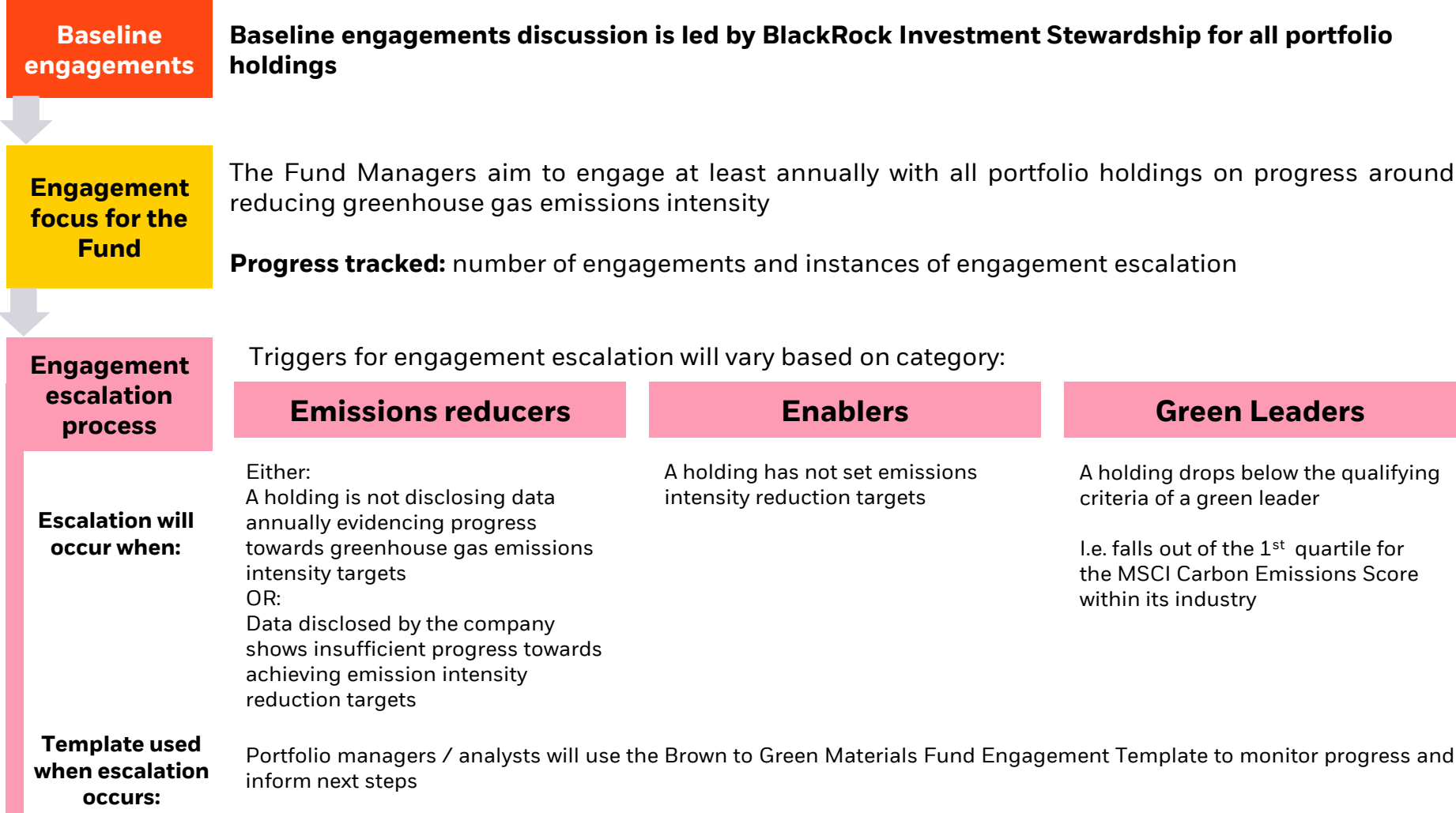
Decarbonising the materials production: Improving the overall impact of lower carbon technologies

Lifecycle carbon emissions associated with driving under various scenarios



Source: Volvo and BlackRock, August 2021. The reduction in lifecycle emissions from decarbonising the materials production process is estimated. Estimates are provided for illustrative purposes only. They should not be relied upon as actual results may vary significantly and may not be achieved. Reference to the company name mentioned in this communications is merely for explaining the investment strategy, and should not be construed as investment advice or investment recommendation of those companies.

Engagement



Source: BlackRock, January 2024. For illustrative purposes only.



Framework for categorising companies

Category	In Scope	Data point
Emissions Reducers	Companies in the materials GICS sector	<ul style="list-style-type: none"> • Company reducing Greenhouse Gas (GHG) emissions intensity by >20% over a defined period (with 5 year look back) • OR: company to move into a better quartile in terms of lower GHG emissions intensity for their particular sub-sector within a defined period • OR: over 30% the company's capex is going into carbon reduction strategies
Enablers	All companies	<ul style="list-style-type: none"> • The materials company generates >20% of revenues from lower carbon technology end markets (e.g. materials for solar panels) or has a plan to reach 20% of revenues within 5 years • OR: the company generates >20% of revenues from producing solutions that help materials companies reduce their GHG emissions intensity or has a plan to reach 20% within 5 years • OR: over 30% of the company's capex is going into solutions that help materials companies reduce their GHG emissions intensity
Green Leaders	Companies in the materials GICS sector	The company is in the 1st quartile for the MSCI Carbon Emissions Score within its industry

Source: BlackRock, January 2024. For illustrative purposes only. Portfolio Managers' current process, which is subject to change without notice.

Framework for SFDR Article 8

1

A minimum of 80% of the Fund will be invested in companies that meet the criteria set out on the previous slide for at least one of our three categories: emissions reducers, enablers and green leaders

2

A minimum of 20% of the Fund will be investing in companies classified as Sustainable Investments according to the Fundamental Equities policy

3

All holdings will need to pass the Good Governance screen

4

The Fund will avoid companies which are UNGC violator MSCI fail and Sustainalytics non-compliant

5

Engagement templates will be used for holdings that are CCC-rated by MSCI, orange / red flags on the Do No Significant Harm test and / or considered more controversial by the portfolio manager / investment analyst



Source: BlackRock, January 2024. For illustrative purposes only. Portfolio Managers' current process, which is subject to change without notice.

Risk report

BGF Brown to Green Materials Fund (B2GMAT)

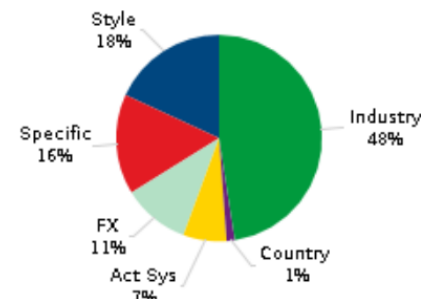
Benchmark: MSCI All Country World Net TR Index (MSCIACWIN)

Active Risk: 10.07% Portfolio Beta: 1.16 Portfolio Risk: 21.12% Benchmark Risk: 16.12% RPT Status: **ALERT HIGH**

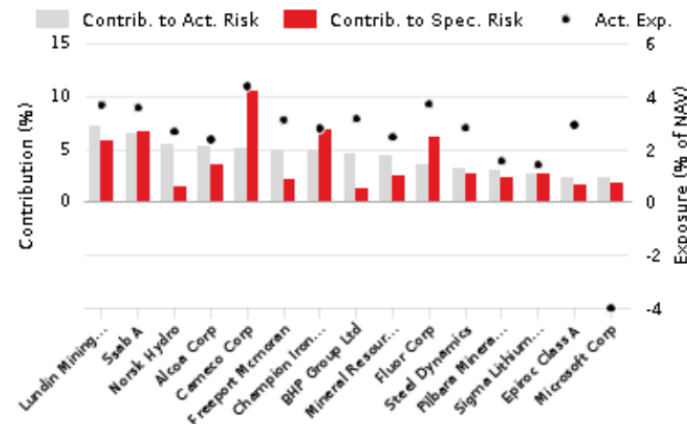
Tue, 9 Jan 2024

51 Assets
Base Currency: USD

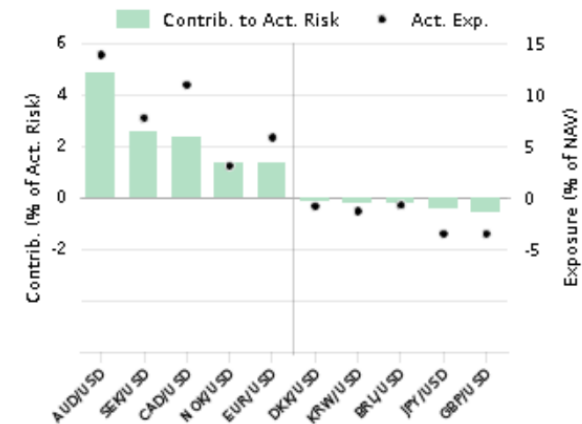
Risk Contributions by Block



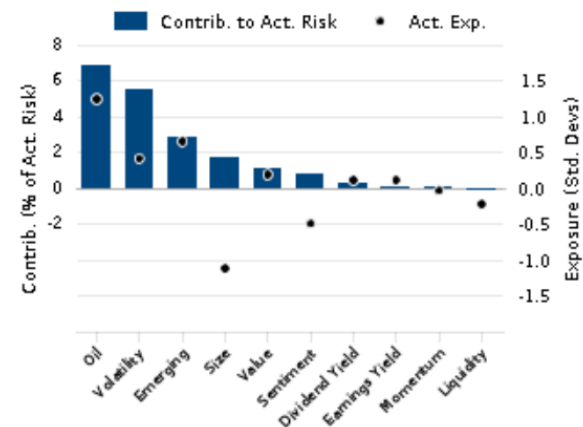
Top Asset Contributions



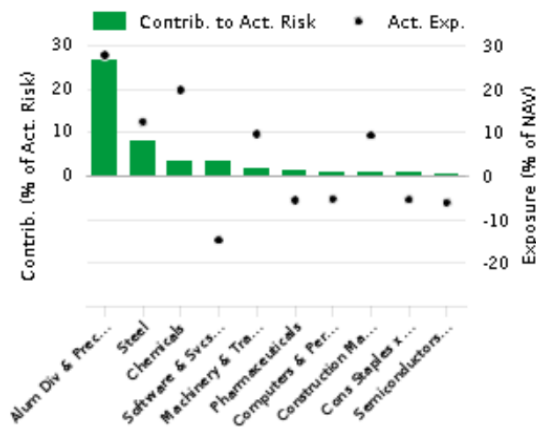
Top & Bottom FX Contributions



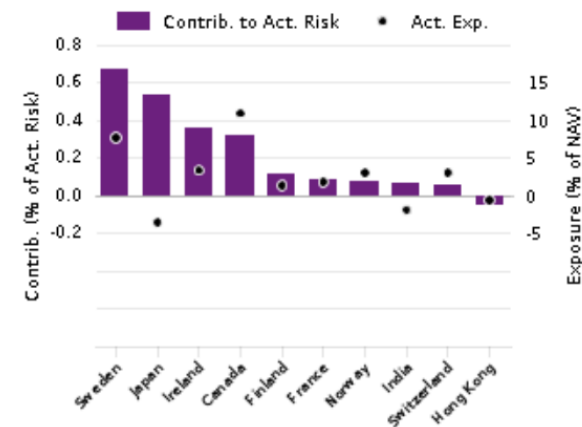
Top Style Contributions



Top Industry Contributions



Top Country Contributions



Source: BlackRock, January 2024. For illustrative purposes only. Portfolio Managers' current process, which is subject to change without notice.



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.

Fund specific risks

BGF Brown to Green Materials Fund

Concentration Risk, Counterparty Risk, Currency Risk, Equity Risk, ESG Screening Risk, Liquidity Risk

Description of Fund Risks

Concentration Risk

Investment risk is concentrated in specific sectors, countries, currencies or companies. This means the Fund is more sensitive to any localised economic, market, political or regulatory events.

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.

Risk warnings

Currency Risk

The Fund invests in other currencies. Changes in exchange rates will therefore affect the value of the investment.

Equity Risk

The value of equities and equity-related securities can be affected by daily stock market movements. Other influential factors include political, economic news, company earnings and significant corporate events.

ESG Screening Risk

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.

Liquidity Risk

The Fund's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Fund may not be able to realise the investment at the latest market price or at a price considered fair.

ESG Investment Statements

This information should not be relied upon as research, investment advice, or a recommendation regarding any products, strategies, or any security in particular. This is for illustrative and informational purposes and is subject to change. It has not been approved by any regulatory authority or securities regulator. The environmental, social, and governance ("ESG") considerations discussed herein may affect an investment team's decision to invest in certain companies or industries from time to time. Results may differ from portfolios that do not apply similar ESG considerations to their investment process.

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