

## Article 8 SFDR – Website Disclosure Summary FDC SICAV Global Bonds Paris Aligned – Indexed

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### Overview / Summary

Fonds de Compensation de la Sécurité Sociale, SICAV-FIS has appointed BlackRock Investment Management (UK) Limited ("BlackRock") as the portfolio manager of its sub-fund FDC SICAV Global Bonds Paris Aligned – Indexed (the "Sub-Fund"). The management of the Sub-Fund has been classified under Article 8 of SFDR<sup>1</sup>.

It should be noted that, in implementing its investment strategy and as an overarching binding restriction, BlackRock is required to exclude companies from the Sub-Fund referenced on Fonds de Compensation de la Sécurité Sociale, SICAV-FIS' proprietary exclusion list. The latter screens out companies based on their involvement in controversial practices against international norms. The core normative framework consists of the Principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles for Business and Human Rights. Equally screened out are companies linked to following controversial weapons: anti-personnel mines, cluster munitions, chemical weapons, biological weapons, depleted uranium, white phosphorus and nuclear weapons. Fonds de Compensation de la Sécurité Sociale, SICAV-FIS' exclusion list can be viewed at <https://fdc.public.lu/en/investissement-responsable/liste-exclusion-fdc.html>.

The Sub-Fund promotes environmental or social characteristics, but does not have as its objective sustainable investment. The Sub-Fund does not commit to investing in sustainable investments.

The Sub-Fund is passively managed against the Bloomberg Global Aggregate Ex-Securitized Index (the "Parent Index") while promoting certain environmental and social characteristics of the Bloomberg MSCI Global Aggregate ex-Securitized Climate Select Index Hedged EUR (the "Benchmark Index"):

1. exclusion of corporate issuers deemed to be involved in certain activities considered to have negative environmental and/or social outcomes;
2. exclusion of corporate issuers deemed to be involved in very severe ESG related controversies;
3. exclusion of corporate issuers deemed to be involved in severe or very severe controversies relating to environmental issues;
4. exposure to corporate issuers which have been selected and weighted to align with the climate commitments i.e. reduction in greenhouse gas emissions ("GHG emissions") versus Parent index and year on year decarbonisation pathways;
5. exposure to sovereign issuers which have been selected and weighted to meet a reduction in GHG emissions versus Parent Index.

The investment policy of the Sub-Fund is to invest in a portfolio of securities that as far as possible and practicable consists of the component securities of the Benchmark Index and thereby comply with the ESG characteristics of its Benchmark Index (as further described below). By investing in the constituents of its Benchmark Index, the Sub-Fund's investment strategy enables it to comply with the ESG requirements of its Benchmark Index as determined by the index provider. The Sub-Fund takes into consideration principal adverse impacts on sustainability factors by tracking the Benchmark Index which incorporates certain ESG criteria in the selection of index constituents.

The Sub-Fund seeks to invest in a portfolio of securities that as far as possible and practicable consists of the component securities of the Benchmark Index. It is expected that at least 80% of the Sub-Fund's assets will be invested in either securities within the Benchmark Index or in securities that meet the environmental and social selection criteria of the Benchmark Index. The Sub-Fund does not currently commit to investing more than 0% of its assets in investments in environmentally sustainable economic activities within the meaning of the Taxonomy Regulation. The Sub-Fund does not currently commit to invest in fossil gas and/or

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<sup>1</sup> Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector ("SFDR").

nuclear energy related activities that comply with the EU Taxonomy.

BlackRock monitors the Sub-Fund's adherence to the environmental and social characteristics which the Sub-Fund seeks to promote. The environmental and/or social characteristics of the Sub-Fund are embedded into the Benchmark Index methodology and the Sub-Fund is monitored in a manner that seeks to identify exceptions to the Sub-Fund's sustainable commitments being met as at each rebalance.

BlackRock has access to research, data, tools, and analytics to integrate ESG insights into the investment process. ESG datasets are sourced from external third-party data providers and index providers, including but not limited to MSCI and Sustainalytics. BlackRock's internal processes are focused on delivering high-quality standardised and consistent data to be used by investment professionals and for transparency and reporting purposes. Data, including ESG data, received through BlackRock's existing interfaces, is processed through a series of quality control and completeness checks which seeks to ensure that data is high-quality data before being made available for use downstream within BlackRock's systems and applications.

BlackRock applies a comprehensive due diligence process to evaluate provider offerings with highly targeted methodology reviews and coverage assessments based on the sustainable investment strategy (and the environmental and social characteristics or sustainable investment objective) of the Sub-Fund. BlackRock's process entails both qualitative and quantitative analysis to assess the suitability of data products in line with regulatory standards as applicable.

Sustainable investing and understanding of sustainability is evolving along with the data environment. Industry participants, including index providers face challenges in identifying a single metric or set of standardized metrics to provide a complete view on a company or an investment. ESG data sets are constantly changing and improving as disclosure standards, regulatory frameworks and industry practice evolve. There may be some circumstances where data is unavailable, incomplete, or inaccurate. Despite reasonable efforts, information may not always be available in which case an assessment will be made by the index provider based on their knowledge of the investment or industry. In certain cases, data may reflect actions that issuers may have taken only after the fact, and do not reflect all potential instances of significant harm.

BlackRock carries out due diligence on the index providers and engages with them on an ongoing basis with regard to index methodologies including their assessment of good governance criteria set out by the SFDR which include sound management structures, employee relations, remuneration of staff and tax compliance at the level of investee companies.

BlackRock does not perform direct engagement with the companies / issuers within the Benchmark Index as part of the investment strategy of the Sub-Fund. BlackRock will engage directly with the index and data providers to ensure better analytics and stability in ESG metrics.

The Benchmark Index is designated as a reference benchmark to determine whether the Sub-Fund is aligned with the environmental and/or social characteristics that it promotes.

### **No sustainable investment objective**

This financial product promotes an environmental or social characteristic but does not have as its objective a sustainable investment.

### **Environmental or social characteristic**

The Sub-Fund is passively managed against the Bloomberg Global Aggregate Ex-Securitized Index (the "Parent Index") while promoting certain environmental and social characteristics of the Bloomberg MSCI Global Aggregate ex-Securitized Climate Select Index Hedged EUR (the "Benchmark Index"):

1. exclusion of corporate issuers deemed to be involved in certain activities considered to have negative environmental and/or social outcomes;
2. exclusion of corporate issuers deemed to be involved in very severe ESG related controversies;
3. exclusion of corporate issuers deemed to be involved in severe or very severe controversies relating to environmental issues;
4. exposure to corporate issuers which have been selected and weighted to align with the climate commitments i.e. reduction in greenhouse gas emissions ("GHG emissions") versus Parent Index

- and year on year decarbonisation pathways;
5. exposure to sovereign issuers which have been selected and weighted to meet a reduction in GHG emissions versus Parent Index.

These environmental and social characteristics are incorporated through the selection of constituents in the Benchmark Index at each index rebalance (as described below).

The Benchmark Index excludes issuers from the Parent Index based on their involvement in certain activities deemed to have negative environmental or social outcomes. Corporate issuers are excluded from the Benchmark Index based on their involvement in the following business lines/activities (or related activities):

- controversial weapons
- tobacco
- thermal coal
- power generation
- nuclear weapons
- civilian firearms
- oil and gas (including unconventional oil and gas)
- conventional weapons
- weapons systems, components, support systems and services.

The index provider defines what constitutes “involvement” in each restricted activity. This may be based on percentage of revenue, a defined total revenue threshold, or any connection to a restricted activity regardless of the amount of revenue received. In particular, non-corporate issuers may be treated akin to corporate issuers to avoid exposure that is not aligned with the activities criteria described herein, subject to available data.

The Benchmark Index also excludes corporates from the Parent Index which are classified as violating United Nations Global Compact principles (which are widely accepted corporate sustainability principles that meet fundamental responsibilities in areas such as anti-corruption, human rights, labour and environmental) or which have a ‘red’ MSCI ESG controversy flag (based on an MSCI ESG controversy score of 0). An MSCI ESG controversy score measures an issuer’s involvement (or alleged involvement) in serious controversies based on an assessment of an issuer’s operations, products and/or services which are deemed to have a negative ESG impact. An MSCI ESG controversy score may consider involvement in adverse impact activities in relation to environmental issues such as biodiversity and land use, energy and climate change, water stress, toxic emissions and waste issues. An MSCI ESG controversy score may also consider involvement in adverse impact activities in relation to social issues such as human rights, labour management relations, discrimination and workforce diversity. Companies with a ‘red’ or ‘orange’ MSCI environment controversy flag (based on an MSCI environment controversy score of 1 or below) are also excluded from the Benchmark Index.

For corporate issuers and agencies for which MSCI has completed research for climate change metrics, issuers will only be included if they have an MSCI ESG rating and the rating is B or higher. An MSCI ESG rating is designed to measure an issuer’s resilience to long-term industry material ESG risks and how well it manages ESG risks and opportunities relative to industry peers. The index provider may consider the following environmental themes when determining an issuer’s ESG score as part of the ESG rating methodology: climate change mitigation based on GHG emissions, waste and other emissions, land use and biodiversity. The index provider may also consider the following social themes when determining an issuer’s ESG score as part of the ESG rating methodology: access to basic services, community relations, data privacy and security, human capital, health and safety and product governance. The MSCI ESG rating methodology recognises that certain environmental and social issues are more material based on the type of activity that the issuer is involved in by weighting the issues differently in the scoring methodology. Those issuers with higher MSCI ESG scores are determined by the index provider to be those issuers that may be better positioned to manage future ESG-related challenges and risks compared to their industry peers.

Following the application of the above exclusionary criteria, the constituents of the Benchmark Index are selected and weighted using the index provider’s optimisation process at each index rebalance. The

optimisation process is conducted per sector, keeping overall sector weights neutral to the Parent Index, net of exclusions. Sectors could be further sub-divided where needed to assure that the overall optimisation outcome aligns with financial risk and return objectives and constraints with the Parent Index, as detailed below.

Sectors will be associated with one of two trajectories of emissions reductions, to account for the need of different emission metrics (e.g. for corporate vs. sovereign issuers), their likely emissions trajectory, as well as overall feasibility of constructing a solution that jointly satisfies sustainable and financial considerations detailed herein.

“Trajectory A” seeks to:

- reduce the weighted average absolute GHG emissions (Scope 1+2+3) by 50% compared to the Parent Index;
- reduce the weighted average GHG emissions (Scope 1+2+3) by 10% on an annual basis;
- reduce the weighted average carbon intensity by 50% compared to the Parent Index;
- reduce the weighted average carbon intensity by 10% on an annual basis;
- increase the weighted average green revenue relative to the Parent Index;
- achieve a minimum green to fossil-fuel based ratio relative to the Parent Index;
- increase the weighted exposure to issuers setting carbon reduction targets relative to the Parent Index.

“Trajectory B” seeks to:

- reduce the weighted average absolute GHG emissions by 30% compared to the Parent Index;
- reduce the weighted average GHG emissions by 7% on an annual basis;
- reduce the weighted average carbon intensity and/or efficiency by 20% compared to the Parent Index;
- increase the share of green bonds relative to the Parent Index.

Corporates, and agencies for which MSCI has completed research for climate change metrics are to follow Trajectory A, and treasury and sovereigns are to follow Trajectory B (at launch, all other sectors were kept neutral versus the Parent Index).

It should be noted that, in implementing its investment strategy and as an overarching binding restriction, BlackRock is required to exclude companies from the Sub-Fund referenced on Fonds de Compensation de la Sécurité Sociale, SICAV-FIS’ proprietary exclusion list. The latter screens out companies based on their involvement in controversial practices against international norms. The core normative framework consists of the Principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles for Business and Human Rights. Equally screened out are companies linked to following controversial weapons: anti-personnel mines, cluster munitions, chemical weapons, biological weapons, depleted uranium, white phosphorus and nuclear weapons. Fonds de Compensation de la Sécurité Sociale, SICAV-FIS’ exclusion list can be viewed at <https://fdc.public.lu/en/investissement-responsable/liste-exclusion-fdc.html>.

For more information on where details of the methodology of the Benchmark Index can be found see below section “Designated reference benchmark”.

## **Investment Strategy**

The Sub-Fund invests in a portfolio of fixed income securities that as far as possible and practicable, taking into account the environmental and social characteristics noted above, consists of the component securities of the Benchmark Index and thereby comply with the environmental and social characteristics of its Benchmark Index. The index methodology of its Benchmark Index is described above.

By investing in the constituents of its Benchmark Index, the Sub-Fund’s investment strategy enables it to comply with the environmental and social characteristics of its Benchmark Index as determined by the index provider. In the event that any investments cease to comply, the Sub-Fund may continue to hold such

investments only until such time as the relevant securities cease to form part of the Benchmark Index and it is possible and practicable (in BlackRock's view) to liquidate the position.

The Sub-Fund may use optimisation techniques in order to achieve a similar return to the Benchmark Index which means that it is permitted to invest in securities that are not underlying constituents of the Benchmark Index where such securities provide similar performance (with matching risk profile) to certain securities that make up the Benchmark Index.

If the Fund does so, its investment strategy is to invest only in issuers in the Benchmark Index or in issuers of the Parent Index that meet the environmental and social characteristics of the Benchmark Index at the time of purchase. If such securities cease to comply with the environmental and social characteristics of the Benchmark Index, the Sub-Fund may hold such securities only until the next portfolio rebalance and when it is possible and practicable (in BlackRock's view) to liquidate the position. The strategy is implemented at each portfolio rebalance of the Sub-Fund, which follows the index rebalance of its Benchmark Index.

The binding elements of the investment strategy are that the Sub-Fund will invest in a portfolio of fixed income securities that as far as possible and practicable consists of the component securities of the Benchmark Index and thereby comply with the environmental and social characteristics of its Benchmark Index.

As the Sub-Fund is able to use optimisation techniques and may invest in securities that are not underlying constituents of the Benchmark Index, where it does so, its investment strategy is to invest only in issuers in the Benchmark Index or in issuers of the Parent Index that otherwise meet the environmental and social characteristics of the Benchmark Index at the time of purchase.

In the event that any investments cease to comply with the environmental and social characteristics of the Benchmark Index, the Sub-Fund may continue to hold such investments only until such time as the relevant securities cease to form part of the Benchmark Index and/or it is possible and practicable (in BlackRock's view) to liquidate the position.

It should be noted that, in implementing its investment strategy and as an overarching binding restriction, BlackRock is required to exclude companies from the Sub-Fund referenced on Fonds de Compensation de la Sécurité Sociale, SICAV-FIS' proprietary exclusion list as described above.

#### *Consideration of principal adverse impacts (PAIs) on sustainability factors*

The Sub-Fund takes into consideration principal adverse impacts on sustainability factors by tracking the Benchmark Index which incorporates certain ESG criteria in the selection of index constituents. Principal adverse impacts (PAIs) listed below are considered as part of the selection criteria of the Sub-Fund's Benchmark Index at each index rebalance:

- GHG emissions (Scope 1/2)
- GHG emissions (Scope 3)
- Carbon footprint
- GHG intensity
- % in Fossil Fuels
- Non-Renewable/ Renewable %
- Negative impact to Biodiversity sensitive areas
- Emissions to Water
- Hazardous Waste
- UN Global Compact and OECD violations
- Controversial weapons
- GHG intensity of investee countries

#### *Good governance policy*

BlackRock carries out due diligence on the index providers and engages with them on an ongoing basis with regard to index methodologies including their assessment of good governance criteria set out by the SFDR which include sound management structures, employee relations, remuneration of staff and tax compliance at the level of investee companies.

## Proportion of investments

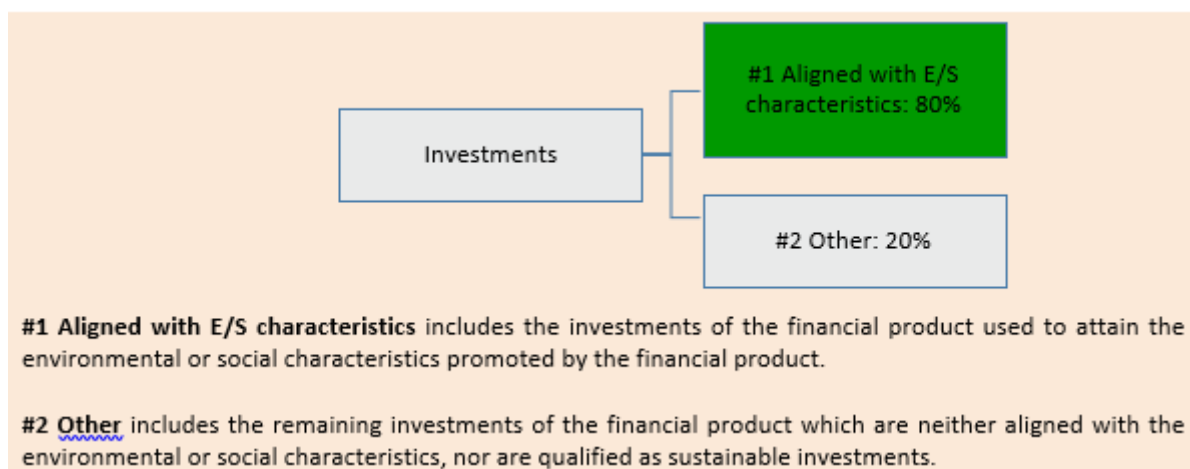
The Sub-Fund seeks to invest in a portfolio of securities that as far as possible and practicable consists of the component securities of the Benchmark Index.

It is expected that at least 80% of the Sub-Fund's assets will be invested in either securities within the Benchmark Index or in securities that meet the ESG selection criteria of the Benchmark Index. As such, at each index rebalance, the portfolio of the Sub-Fund will be rebalanced in line with its Benchmark Index so that at least 80% of the Sub-Fund's assets will be aligned with the ESG characteristics of the Benchmark Index (as determined at that rebalance).

In the event that any investments cease to comply with the ESG requirements of the Benchmark Index, the Sub-Fund may continue to hold such investments until such time as the relevant securities cease to form part of the Benchmark Index (or otherwise cease to meet the ESG selection criteria of the Benchmark Index) and it is possible and practicable (in BlackRock's view) to liquidate the position.

The Sub-Fund may invest up to 20% of its assets in other investments ("#2 Other").

Other holdings may include cash, money market funds and derivatives. Such investments may only be used for the purpose of efficient portfolio management, except for derivatives used for currency hedging. Any ESG rating or analyses applied by the index provider will apply only to the derivatives relating to individual issuers used by the Sub-Fund. Derivatives based on financial indices, interest rates, or foreign exchange instruments will not be considered against minimum environmental or social safeguards.



The Sub-Fund does not currently commit to investing more than 0% of its assets in sustainable investments with an environmental objective aligned with the EU Taxonomy.

The Sub-Fund does not currently commit to invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy.

The Sub-Fund does not currently commit to investing more than 0% of its assets in investments in transitional and enabling activities within the meaning of the Taxonomy Regulation

The Sub-Fund does not commit to investing in sustainable investments with an environmental objective and the Sub-Fund does not currently commit to investing more than 0% of its assets in investments in socially sustainable investments.

## Monitoring of environmental or social characteristics

### *Ongoing product integrity monitoring*

BlackRock monitors the Sub-Fund's adherence to the environmental and social characteristics which the Sub-Fund seeks to promote. The environmental and/or social characteristics of the Sub-Fund are embedded into the Benchmark Index methodology and the Sub-Fund is monitored in a manner that seeks to identify



exceptions to the Sub-Fund's sustainable commitments being met as at each rebalance. BackRock monitors Sub-Fund and index-level data to track the Sub-Fund's adherence to these characteristics as at each rebalance.

## Methodologies

The Fund seeks to track the Benchmark Index which incorporates certain ESG criteria in the selection of constituents, according to its methodology.

### *Methodologies*

The following methodologies are used to measure how the social or environmental characteristics promoted by the Fund are met:

- the Benchmark Index uses [https://assets.bbhub.io/professional/sites/10/Bloomberg-Methodology\\_38491.pdf](https://assets.bbhub.io/professional/sites/10/Bloomberg-Methodology_38491.pdf)
- the Benchmark Index uses MSCI ESG controversy data. For further information, <https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>
- the Benchmark Index uses MSCI ESG rating methodology. For further information, <https://www.msci.com/our-solutions/esg-investing/esg-ratings>
- the Benchmark Index uses MSCI Business involvement and UNGC screens. For further information, [https://www.msci.com/documents/1296102/1636401/MSCI\\_ESG\\_BIS\\_Research\\_Productsheet\\_April+2015.pdf/babff66f-d1d6-4308-b63d-57fb7c5ccfa9](https://www.msci.com/documents/1296102/1636401/MSCI_ESG_BIS_Research_Productsheet_April+2015.pdf/babff66f-d1d6-4308-b63d-57fb7c5ccfa9)

The Benchmark Index uses additional screens. For further information, please see the index methodology.

## Data sources and processing

### *Data Sources*

BlackRock has access to research, data, tools, and analytics to integrate ESG insights into the investment process. Aladdin is the operating system that connects the data, people, and technology necessary to manage portfolios in real time, as well as the engine behind BlackRock's ESG analytics and reporting capabilities. BlackRock uses Aladdin to make investment decisions, monitor portfolios and to access index information that informs the investment process to attain ESG characteristics of the Sub-Fund.

ESG datasets are sourced from external third-party data providers and index providers, including but not limited to MSCI and Sustainalytics. These datasets may include headline ESG scores, carbon emissions data, business involvement metrics or controversies and have been incorporated into Aladdin tools that are available to BlackRock's portfolio managers and employed in BlackRock investment strategies. Such tools support the full investment process, from research, to portfolio construction and modelling, to reporting.

### *Measures taken to ensure Data Quality*

BlackRock applies a comprehensive due diligence process to evaluate provider offerings with highly targeted methodology reviews and coverage assessments based on the sustainable investment strategy (and the environmental and social characteristics or sustainable investment objective) of the Sub-Fund. BlackRock's process entails both qualitative and quantitative analysis to assess the suitability of data products in line with regulatory standards as applicable.

BlackRock assesses ESG providers and data across five core areas outlined below:

1. Data Collection: this includes but is not limited to assessing the data providers underlying data sources, technology used to capture data, process to identify misinformation and any use of machine learning or human data collection approaches. BlackRock will also consider planned improvements.
2. Data Coverage: BlackRock's assessment includes but is not limited to the extent to which a data package provides coverage across our investible universe of issuers and asset classes. This will include consideration of the treatment of parent companies and their subsidiaries as well as use of estimated data or reported data.
3. Methodology: BlackRock's assessment includes but is not limited consideration of the third-party providers methodologies employed, including considering the collection and calculation approaches,

alignment to industry or regulatory standards or frameworks, materiality thresholds and their approach to data gaps.

4. Data Verification: BlackRock's assessment will include but is not limited to the third-party providers approach to verification of data collected and quality assurance processes including their engagement with issuers.
5. Operations: BlackRock will assess a variety of aspects of a data vendors' operations, including but not limited to their policies and procedures (including consideration of any conflicts of interest) the size and experience of their data research teams, their training programs, and their use of third-party outsourcers.

Additionally, BlackRock actively participates in any relevant provider consultations regarding proposed changes to methodologies as it pertains to third party data sets or index methodologies and submits comprehensive feedback and recommendations to data provider technical teams. BlackRock often has ongoing engagement with ESG data providers including index providers to keep abreast of industry developments.

#### *How data is processed*

At BlackRock, internal processes are focused on delivering high-quality standardised and consistent data to be used by investment professionals and for transparency and reporting purposes. Data, including ESG data, received through our existing interfaces, and then processed through a series of quality control and completeness checks which seeks to ensure that data is high-quality data before being made available for use downstream within BlackRock systems and applications. BlackRock's integrated technology enables us to compile data about issuers and investments across a variety of environmental, social and governance metrics and a variety of data providers and make those available to investment teams and other support and control functions such as risk management.

#### *Use of Estimated Data*

BlackRock strives to capture as much reported data from companies via third-party data providers as practicable, however, industry standards around disclosure frameworks are still evolving, particularly with respect to forward looking indicators. As a result, in certain cases BlackRock relies on estimated or proxy measures from data providers to cover its broad investible universe of issuers. Due to current challenges in the data landscape, while BlackRock relies on material amount of estimated data across its investible universe, the levels of which may vary from data set to data set, BlackRock seeks to ensure that use of estimates is in line with regulatory guidance and that BlackRock has necessary documentation and transparency from data providers on their methodologies. BlackRock recognizes the importance in improving its data quality and data coverage and continues to evolve the data sets available to its investment professionals and other teams. Where required by local country-level regulations, funds may state explicit data coverage levels. BlackRock seeks to understand the use of estimated data in index methodologies and ensure that their approaches are robust and in line with applicable regulatory requirements and index methodologies.

## **Limitations to methodologies and data**

#### *Limitations to Methodology*

Sustainable investing is an evolving space, both in terms of industry understanding but also the regulatory frameworks on both a regional and global basis. BlackRock continues to monitor developments in the EU's ongoing implementation of its framework for sustainable investing and its investment methodologies seeking to ensure alignment as the regulatory environment changes. As a result, BlackRock may update these disclosures, and the methodologies and sources of data used, at any time in the future as market practice evolves or further regulatory guidance becomes available.

Screening of a Benchmark Index against its ESG criteria is generally carried out by an index provider only at index rebalances. Companies which have previously met the screening criteria of a Benchmark Index and have therefore been included in the Benchmark Index and the Sub-Fund, may unexpectedly or suddenly be impacted by an event of serious controversy which negatively impacts their price and, hence, the performance of the Sub-Fund. Where these companies are existing constituents of the Benchmark Index, they will remain in the Benchmark Index and therefore continue to be held by the Sub-Fund until the next scheduled rebalancing (or periodic review) when the relevant company ceases to form part of the Benchmark



Index and it is possible and practicable (in BlackRock's view) to liquidate the position. A fund tracking such Benchmark Index may therefore cease to meet the ESG criteria between index rebalances (or index periodic reviews) until the Benchmark Index is rebalanced back in line with its index criteria, at which point the Sub-Fund will also be rebalanced in line with its Benchmark Index. Similarly index methodologies that commit to investing in a minimum percentage of Sustainable Investments may also fall below that level in between rebalances but will be brought back into line at the point of rebalance (or as soon as practicable thereafter).

#### *Limitations to Data*

ESG data sets are constantly changing and improving as disclosure standards, regulatory frameworks and industry practice evolve. BlackRock continues to work with a broad range of market participants to improve data quality.

Whilst each ESG metric may come with its own individual limitations, data limitations may broadly be considered to include, but not be limited to:

1. Lack of availability of certain ESG metrics due to differing reporting and disclosure standards impacting issuers, geographies, or sectors.
2. Nascent statutory corporate reporting standards regarding sustainability leading to differences in the extent to which companies themselves can report against regulatory criteria and therefore some metric coverage levels may be low.
3. Inconsistent use and levels of reported vs estimated ESG data across different data providers, taken at varied time periods which makes comparability a challenge.
4. Estimated data by its nature may vary from realized figures due to the assumptions or hypothesis employed by data providers.
5. Differing views or assessments of issuers due to differing provider methodologies or use of subjective criteria.
6. Most corporate ESG reporting, and disclosure takes place on an annual basis and takes significant time to produce meaning that this data is produced on a lag relative to financial data. There may also be inconsistent data refresh frequencies across different data providers incorporating such data into their data sets.
7. Coverage and applicability of data across asset classes and indicators may vary.
8. Forward looking data, such as climate related targets may vary significantly from historic and current point in time metrics.

#### *Sustainable Investments and Environmental and Social criteria*

Sustainable investing and understanding of sustainability is evolving along with the data environment. Industry participants, including index provider face challenges in identifying a single metric or set of standardized metrics to provide a complete view on a company or an investment. BlackRock has therefore established a framework to identify sustainable investments, taking into account the regulatory requirements and index provider methodologies.

BlackRock leverages third-party index provider methodologies and data in assessing whether investments cause significant harm and have good governance practices. There may be some circumstances where data is unavailable, incomplete, or inaccurate. Despite reasonable efforts, information may not always be available in which case an assessment will be made by the index provider based on their knowledge of the investment or industry. In certain cases, data may reflect actions that issuers may have taken only after the fact, and do not reflect all potential instances of significant harm.

BlackRock undertakes thorough due diligence on index provider sustainable investment methodologies to ensure that they align with BlackRock's views on Sustainable Investments.

### **Due diligence**

BlackRock carries out due diligence on the index providers and engages with them on an ongoing basis with regard to index methodologies including their assessment of good governance criteria set out by the SFDR which include sound management structures, employee relations, remuneration of staff and tax compliance at the level of investee companies.

## Engagement policies

The Sub-Fund does not use engagement as a means of meeting its binding commitments to environmental or social characteristics or sustainable investment objectives. BlackRock does not perform direct engagement with the companies/issuers within the index but does engage directly with the index and data providers to ensure better analytics and stability in ESG metrics.

### *General policy*

Engagement with companies in which BlackRock invests its clients' assets occurs at multiple levels within BlackRock.

Where engagement is specifically identified by a particular BlackRock portfolio management team as one of the means by which they seek to demonstrate a commitment to environment, social and governance issues within the context of SFDR, the methods by which the effectiveness of such engagement policy and the ways in which such an engagement policy may be adapted in the event that they do not achieve the desired impact (usually expressed as a reduction in specified principal adverse indicators) would be described in the prospectus and website disclosures particular to that fund.

Where investment teams chooses to leverage engagement, this can take a variety of forms but, in essence, the BlackRock portfolio management team would seek to have regular and continuing dialogue with executives or board directors of engaged investee companies to advance sound governance and sustainable business practices targeted at the identified ESG characteristics and principal adverse indicators, as well as to understand the effectiveness of the company's management and oversight of activities designed to address the identified ESG issues. Engagement also allows the BlackRock portfolio management team to provide feedback on company practices and disclosures.

Where a relevant BlackRock portfolio management team has concerns about a company's approach to the identified ESG characteristics and/or principal adverse indicators, they may choose to explain their expectations to the company's board or management and may signal through voting at general meetings that they have outstanding concerns, generally by voting against the re-election of directors they view as having responsibility for improvements in the identified ESG characteristics or principal adverse indicators.

Separate from the activities of any particular portfolio management team, at the highest level, as part of its fiduciary approach, BlackRock has determined that it is in the best long-term interest of its clients to promote sound corporate governance as an informed, engaged shareholder. At BlackRock, this is the responsibility of BlackRock Investment Stewardship ("BIS"). Principally through the work of BIS team, BlackRock meets the requirements in the Shareholder Rights Directive II relating to engagement with public companies and other parties in the investment ecosystem.

BlackRock's approach to investment stewardship is outlined in the BIS Global Principles and market-level voting guidelines. The BIS Global Principles set out our stewardship philosophy and our views on corporate governance and sustainable business practices that support long-term value creation by companies. BlackRock recognizes that accepted standards and norms of corporate governance differ between markets; however, BlackRock believes there are certain fundamental elements of governance practice that are intrinsic globally to a company's ability to create long-term value.

BlackRock's overall approach to investment stewardship and engagement can be found at following links:

- <https://www.blackrock.com/uk/professionals/solutions/shareholder-rights-directive>
- <https://www.blackrock.com/corporate/about-us/investment-stewardship>

## Designated reference benchmark

The Sub-Fund seeks to achieve the environmental and social characteristics it promotes by tracking its Benchmark Index, the Bloomberg MSCI Global Aggregate ex-Securitized Climate Select Index Hedged EUR, which incorporates the index providers environmental and social selection criteria.

At each index rebalance, the index provider applies the environmental and social selection criteria to the Parent Index to exclude issuers that do not meet such selection criteria.

At each index rebalance (or as soon as reasonably possible and practicable thereafter), the portfolio of the Sub-Fund is also rebalanced in line with its Benchmark Index.

As a result of the application of the environmental and social selection criteria of the Benchmark Index, the portfolio of the Sub-Fund is expected to be reduced compared to the Parent Index, a broad market index comprised of fixed income securities.

The methodology of the Sub-Fund's Benchmark Index can be found by copying and pasting the following link into your web browser: [https://assets.bbhub.io/professional/sites/10/Bloomberg-Methodology\\_38491.pdf](https://assets.bbhub.io/professional/sites/10/Bloomberg-Methodology_38491.pdf).