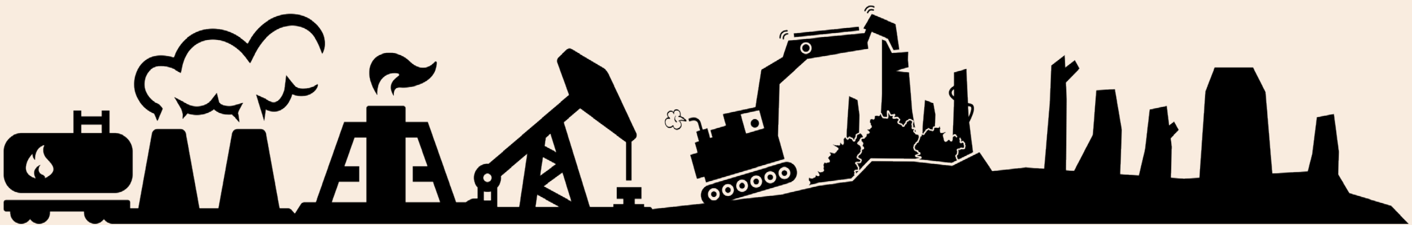
BlackRock's Sustainable ETFs: Green Business or Greenwash?

Wall Street's biggest climate destroyer offers sustainable investments – but what are they really selling?

The ten equity ETFs BlackRock offers in the U.S. include over $423 million in fossil fuel companies and over $29 million in companies driving deforestation in the Global South.



BlackRock is the largest asset manager in the world, with $6.5 trillion under management.[1] Increasingly, BlackRock bills itself as a leader in responsible investing. *"Sustainability,"* BlackRock says, *"is something investors can no longer afford to ignore."*[2] Yet the financial giant has billions invested in the fossil fuel companies polluting the planet and the agribusinesses driving the global deforestation crisis – making BlackRock one of the world's largest investors in climate destruction.

CEO Larry Fink portrays himself as a model corporate citizen. His annual letters to his fellow CEOs have called on companies to "serve a social purpose" and make a "positive contribution to society."[3] But despite this rhetoric, **BlackRock is the largest global investor in in coal, oil, and gas extraction and the companies building new coal plants,[4] as well as one of the largest investors in rainforest destruction.[5]**

BlackRock speaks often about the rising popularity and demand for sustainable investment products and now actively promotes a growing line of "sustainable" funds across different global markets. These funds incorporate Environmental, Social and Governance (ESG) criteria and analysis and are marketed as "sustainable" investment products on BlackRock's platform.

BlackRock has put particular emphasis on its exchange-traded funds (ETFs), which have become an increasingly popular investment product. These funds bundle together equities or bonds to be traded over stock exchanges. BlackRock markets a handful of its ETFs as sustainable, claiming to recognize "that companies solving the world's biggest challenges may be best positioned to grow."[6]

But scratch the surface on BlackRock's ESG funds and it isn't hard to see immediate shortcomings and inconsistencies. BlackRock's "sustainable" funds use different standards that vary depending on region and market, do not consistently screen out companies most responsible for climate change, and lack the level of ambition, integrity, and rigor that should constitute "sustainable" given the urgency of our climate crisis.

THE HYPOCRISY OF BLACKROCK'S "SUSTAINABLE" FUNDS

BlackRock currently advertises ten equity ESG ETFs to US customers. Although these products are sold and marketed as sustainable, a closer look reveals significant exposure to Big Oil, agribusiness, and coal-heavy utilities. Under what metric do these industries count as "sustainable"?

- Collectively across all ten funds, these ETFs include over $423 million in fossil fuel companies and over $29 million in companies driving deforestation in the Global South.
- The dirtiest single fund—iShares MSCI EAFE ESG Optimized ETF—contains $80.3 million in fossil fuel and deforestation-linked stocks. Of the 43 separate fossil fuel companies held within the fund, BP is the largest, with valuation of $10.5 million.
- The fund with the highest exposure to deforestation—iShares ESG MSCI EM ETF—contains $10.7 million in stocks linked to agribusiness commodities, such as paper, pulp, beef and soy. Of the six deforestation-linked companies included in the fund, the notorious palm oil trader Sime Darby accounts for $1.2 million.
- The fund with the highest exposure to coal-heavy utilities is iShares ESG MSCI USA Leaders ETF. It contains seven such companies with a total share value of $12.9 million.
- ConocoPhillips, one of the largest oil companies in the US, is well-represented with $24.8 million across four funds (SUSA, ESGU, DSI, SUSL).

NOT ALL FUNDS ARE CREATED EQUAL

Sustainable investing is rapidly accelerating.[7] With more retail and institutional investors seeking sustainable investments, it is both critical and urgent that BlackRock implement consistent and rigorous ESG standards to all its products. Without significant changes, continuing to market "sustainable" funds that contain high carbon industries and other companies directly tied to driving climate change means that BlackRock will continue to funnel money into the very problem many of its customers wish to avoid by investing in ESG funds.

BlackRock introduced six new ESG ETFs in Europe last year which automatically screened out thermal coal and tar sands.[8] By comparison, five of the ten US-marketed "sustainable" ESG ETFs contain coal companies. While the total investment dollars into these coal companies is relatively small, it raises the question of why coal would be in a designated sustainable fund in the first place. With its European offerings BlackRock has proven that it can apply more rigorous screens without compromising performance and attract investors who want cleaner and more responsible investment options.

THE SOLUTION

As the world's largest investor, BlackRock is in a rare position to shift its business model away from the fossil fuels and agribusiness interests that are devastating the planet. Instead of hawking a tiny number of niche investments, it should make offering fossil fuel and deforestation free assets the default for all of its product offerings.

With time running out to solve the climate crisis, BlackRock must ensure that sustainable funds are truly sustainable and meet a minimum standard that aligns with the goals of a liveable planet. Applying loose definitions of ESG and "sustainable" to products like these is both dangerous for the climate and misleading to consumers seeking more responsible investments. Instead of offering a patchwork of different ESG standards, BlackRock should, at minimum, implement the same standard it already uses in Europe across its entire ETF business, which would immediately result in the screening out of thermal coal and tar sands. Ultimately, though, nothing short of massive reallocation of capital away from all the industries driving climate change will mitigate the climate crisis. Improving and standardizing ESG practices is only part of the answer.

METHODOLOGY

The ten equity ESG funds advertised in the US are iShares ESG MSCI EM ETF, iShares Global Clean Energy ETF, iShares MSCI ACWI Low Carbon Target ETF, iShares MSCI EAFE ESG Optimized ETF, iShares MSCI Global Impact ETF, iShares MSCI KLD 400 Social ETF, iShares MSCI USA ESG Optimized ETF, iShares MSCI USA ESG Select ETF, iShares MSCI USA Small-Cap ESG Optimized ETF, iShares ESG MSCI USA Leaders ETF. All dollar values and fund holdings are current from 1 April 2019, except for iShares ESG MSCI USA Leaders ETF which was launched May 2019 and valuation is current from 16 May 2019 The fossil fuel data was provided in coordination with As You Sow's Fossil Free Fund Program and the deforestation data was provided in coordination with Profundo and As You Sow. The current fund values and the total list of screened companies by category is available online at foe.org/ESG-funds and foe.org/SUSL-funds.

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BLACKROCK'S BIG PROBLEM

Endnotes

1 BlackRock. 2019. "Form 8-K." http://ir.blackrock.com/Cache/397554714.pdf, accessed 13 May 2019.
2 BlackRock. 2019. "Sustainable Investing is Simply Smart Investing." https://www.blackrock.com/us/individual/investment-ideas/sustainable-investing, accessed 13 May 2019.
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6 IShares. 2019. "What is Sustainable Investing?" https://www.ishares.com/us/strategies/sustainable-investing, accessed 13 May 2019.
7 Total sustainable investments with ESG integration has been estimated in a range reaching as high as $17.5T. The precise amount of dollars currently in ESG investment products is challenging to define because there is not a standard definition of what constitutes ESG or "sustainable" investment. http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf
8 http://www.ethicalcorp.com/blackrock-push-make-sustainable-investment-mainstream