Blackrock briefing note – iShares Environment & Low Carbon Tilt Real Estate Index Fund (UK) - September 2022

How is the fund changing?

The fund's benchmark will change from the current <u>FTSE EPRA NAREIT Developed Index</u> to **FTSE EPRA/NAREIT Green Low Carbon Target Index**.

The fund will be renamed from the current <u>iShares Global Property Securities Equity Index Fund (UK)</u> to **iShares Environment & Low Carbon Tilt Real Estate Index Fund (UK)**, to reflect the proposed change of the Fund's benchmark index.

The rationale for the new fund name is that the methodology places most emphasis on the Environmental pillar, with tilting based on energy usage and green label certification.

The new fund benchmark will continue to track the performance of publicly listed real estate companies and REITS worldwide.

The anticipated tracking error of the new index relative to the fund's existing index will remain relatively low (avg. historical ~1%) and therefore <u>we do not see material differences in the historical return profile</u>.

What are the characteristics of the new sustainable benchmark?

The FTSE EPRA/NAREIT Green Low Carbon Target Index screens out issuers from the FTSE EPRA NAREIT Developed Index that are involved in business lines or activities, as captured by **Sustainalytics ESG Research data**, such as weapons, firearms, tobacco, fossil fuel extractives, and violators of global norms, specifically the UNGC.

Additionally, <u>remaining constituents will subsequently be tilted</u> according to three sustainability metrics targeting improvement of:

Allocation to Green Certificates – Target improvement of 30%
Carbon Intensity – Target improvement of 20%
Energy Usage – Target improvement of 10%

Green Certification (GC) is defined as the share of total net leasable area owned and/or managed by a constituent that is certified as part of an eligible green certification scheme.

Carbon Emission Intensity is defined as the total operational emissions scaled by enterprise value including cash.

Energy Usage (EU) is the average modelled energy consumption per square meter of net leasable area owned and/or managed by a constituent.

ESG Screens	
Environmental Screens	Oil Sands - Extraction
	Thermal Coal – Power Generation
	Thermal Coal – Extraction
Social Screens	Controversial Weapons - Chemical & Biological Weapons, Cluster Weapons, Anti-Personnel Mines, Nuclear Weapons, White Phosphorus and Depleted Uranium
	Tobacco
	Civilian Firearms
Governance Screens	Conduct-Related Exclusions

The below summarises <u>additional constraints</u> applied to FTSE EPRA NAREIT Green Target Indices.:

Beta banding:0.7 - 1.3
Country: ±2% deviation from parent
REITs sector: ±2% deviation from parent
Max capacity ratio: 10x
**Maximum Stock Weight**: 10%
Minimum Stock Weight: 0.5bps

Note that constituents with missing sustainability data are assigned the lowest possible tilt which may result in an exclusion if the resultant weight falls below the minimum weight threshold.
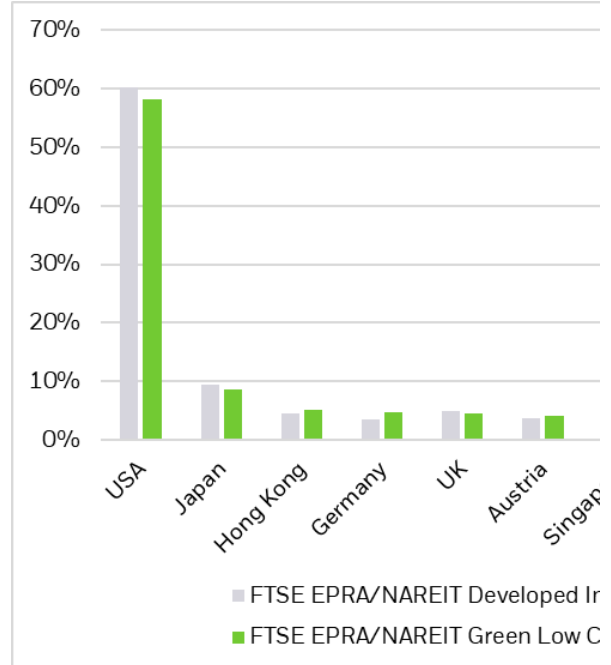
How does the exposure and performance of the new sustainable benchmark compare?

Given the above business screens and tilting constraints, <u>the country and sector profiles of the new benchmark are broadly in line with the current benchmark.</u>
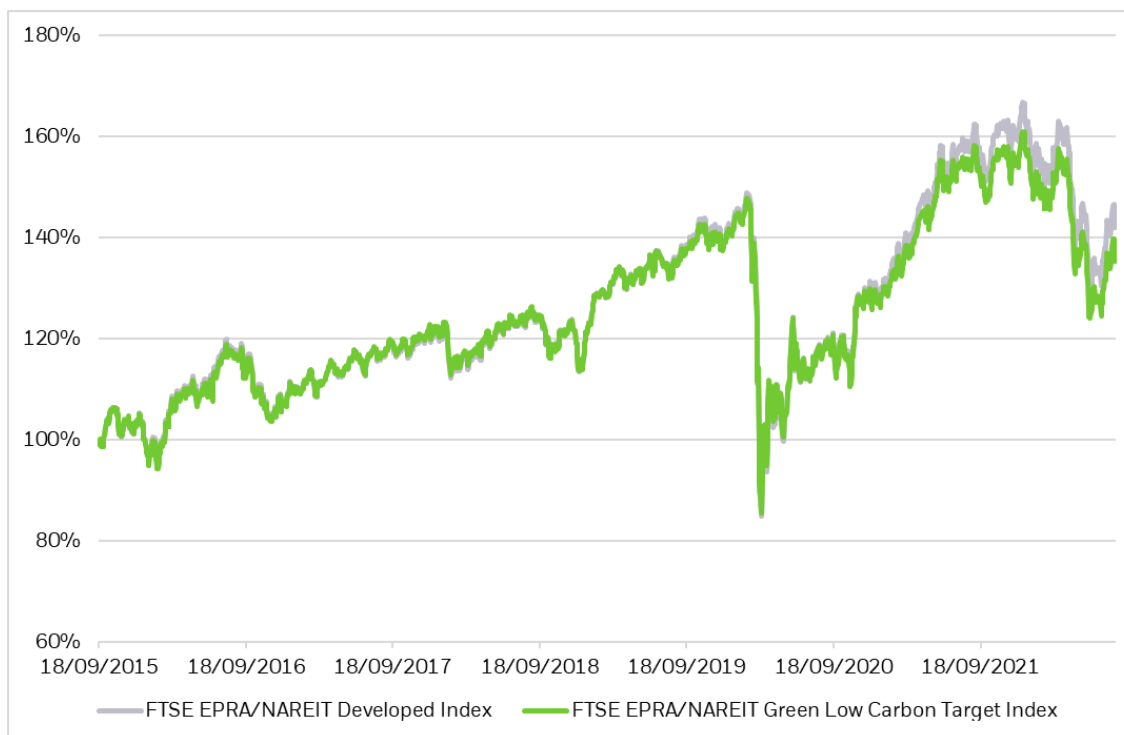
Sector Profile
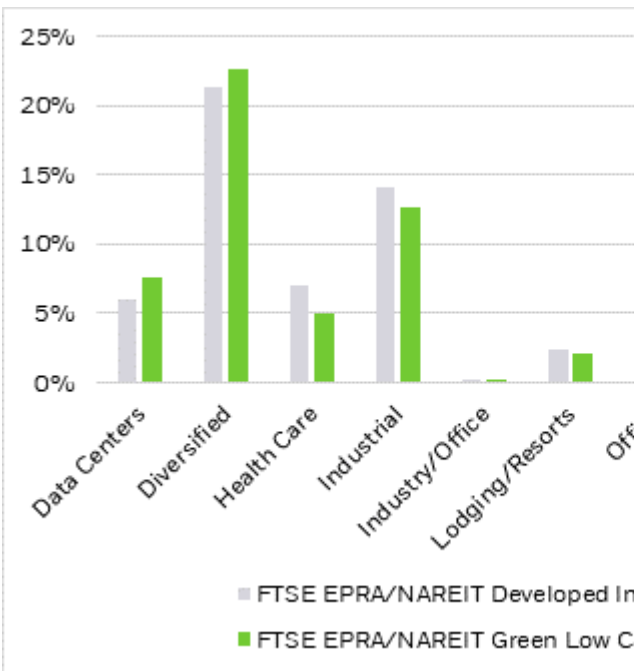
Country Profile

Simulated data as at 28 Feb 2022.

We also do not see material differences in the **historical return profile**:

FTSE EPRA/NAREIT Developed Index
FTSE EPRA/NAREIT Green Low Carbon Target Index

Data based on the period from 18 Sep 2015 – 19 Aug 2022 (TR Index in USD).

Furthermore, the anticipated tracking error of the new index relative to the Fund's existing index is relatively low (~1%).

Characteristics	Current Benchmark	New ESG Benchmark
Number of index constituents (average)	343	341
Historical Tracking Error (%)	-	1.01
Volatility (%p.a.)	16.4	16.02
Beta	1	0.97
Annualised Return (%)	6.86	6.35
Dividend Yield (%)	3.66	3.58
Emissions Reduction (%)	-	20
Green Certificate Increase (%)	-	30
Energy Usage Reduction (%)	-	10

Data based on the period from 18 Sep 2015 – 19 Aug 2022 (TR Index in USD).