An Excerpt From BlackRock Chairman And CEO Larry Fink's Recent Letter To CEOs

Larry Fink, Chairman and CEO, BlackRock

The following is an excerpt from BlackRock Chairman and CEO Larry Fink's recent letter to CEOs, highlighting the existential threat of climate change and the accelerating role it will play in transforming the global economy. It also notes the rapidly growing demand for ESG solutions, which we are also seeing on the Envestnet platform, with $22B in ESG strategies in 2020, up 81 percent from the same time in 2019.

A Tectonic Shift Accelerates

In January of last year, I wrote that climate risk is investment risk. I said then that as markets started to price climate risk into the value of securities, it would spark a fundamental reallocation of capital. Then the pandemic took hold – and in March, the conventional wisdom was the crisis would divert attention from climate. But just the opposite took place, and the reallocation of capital accelerated even faster than I anticipated.

From January through November 2020, investors in mutual funds and ETFs invested $288 billion globally in sustainable assets, a 96% increase over the whole of 2019. I believe that this is the beginning of a long but rapidly accelerating transition – one that will unfold over many years and reshape asset prices of every type, presenting a historic investment opportunity.

Essential to this transition has been the growing availability and affordability of sustainable investment options. Not long ago, building a climate-aware portfolio was a painstaking process, available only to the largest investors. But the creation of sustainable index investments has enabled a massive acceleration of capital towards companies better prepared to address climate risk.

Today we are on the cusp of another transformation. Better technology and data are enabling asset managers to offer customized index portfolios to a much broader group of people – another capability once reserved for the largest investors. As more and more investors choose to tilt their investments towards sustainability-focused companies, the tectonic shift we are seeing will accelerate further. And because this will have such a dramatic impact on how capital is allocated, every management team and board will need to consider how this will impact their company's stock.

Over the course of 2020, we have seen how purposeful companies, with better environmental, social, and governance (ESG) profiles, have outperformed their peers. During 2020, 81% of a globally-representative selection of sustainable indexes outperformed their parent benchmarks. This outperformance was even more pronounced during the first quarter downturn, another instance of sustainable funds' resilience that we have seen in prior downturns. And the broader array of sustainable investment options will continue to drive investor interest in these funds.

Alongside the shift in investor behavior, we have seen a landmark year in the policy response to climate change. In 2020, the EU, China, Japan, and South Korea all made historic commitments to achieve net zero emissions. With the U.S. commitment last week to rejoin the Paris Agreement, 127 governments – responsible for more than 60% of global emissions – are considering or already implementing commitments to net zero. Momentum continues to build, and in 2021 it will accelerate – with dramatic implications for the global economy.

It's important to recognize that net zero demands a transformation of the entire economy. Scientists agree that in order to meet the Paris Agreement goal of containing global warming to "well below 2° above pre-industrial averages" by 2100, human-produced emissions need to decline by 8-10% annually between 2020 and 2050 and achieve "net zero" by mid-century. The economy today remains highly dependent on fossil fuels, as is reflected in the carbon intensity of large indexes like the S&P 500 or the MSCI World, which are currently on trajectories substantially over 3°C.

That means a successful transition – one that is just, equitable, and protects people's livelihoods – will require both technological innovation and planning over decades. And it can only be accomplished with leadership, coordination, and support at every level of government, working in partnership with the private sector to maximize prosperity. I have great optimism about the future of capitalism and the future health of the economy – not in spite of the energy transition, but because of it.

Of course, investors cannot prepare their portfolios for this transition unless they understand how each and every company is prepared both for the physical threats of climate change and the global economy's transition to net zero. They are asking managers like BlackRock to accelerate our data and analysis capabilities in this area – and we are committed to meeting their needs.

The world is moving to net zero, and BlackRock believes that our clients are best served by being at the forefront of that transition. We are carbon neutral today in our own operations and are committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. No company can easily plan over thirty years, but we believe all companies – including BlackRock – must begin to address the transition to net zero today.

To read the full letter, click here.