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## **Larry Fink Defends BlackRock's New Emphasis on Climate Change. What Investors Need to Know.**

Larry Fink's recent letters to CEOs and investors were certain to press buttons, because they dealt with BlackRock's plans to address climate change.

Yet the reactions, Fink tells Barron's, have been positive even as climate change has become a political football. "I received one of the great letters of my career from a client in a red state," says the CEO of BlackRock (ticker: BLK). "This client was very thankful. This client said, 'We have a 10- to 20-year investment horizon. We now need to look at how we think about investing.' "

BlackRock puts climate-risk analysis at the heart of its investing process and gives a huge boost to sustainable investing. The world's largest asset manager aims to double to 150 the number of ESG exchange-traded funds that it offers around the world. BlackRock will also push companies to report on sustainability metrics and vote against managements that do not make sustainability disclosures.

"In the next five years, ESG will be one of the key lenses for how investors look at everything, from corporate to country to municipal," Fink says. BlackRock also plans to withdraw from big thermal-coal producers in its active funds.

Jeremy Grantham, the investor and founder of GMO who has spent millions of dollars to raise climate awareness, calls BlackRock's moves admirable. But why doesn't BlackRock get out of thermal-coal producers in the index funds it manages, as well? Or, for that matter, from all fossil-fuel companies? After all, Grantham says, "oil is the mother and father of all vested interests."

"It's not my money," Fink responds. "We can offer an index fund minus these, but if a client is giving me a contracted statement, then I have to be in [the specified] index.... BlackRock, as a fiduciary, isn't permitted to say we need to be out of hydrocarbons because I believe in it. It has to put it through the lens of investment risk."

Fink said that BlackRock would contact passive clients to tell them about the new offerings. Still, dumping hydrocarbons altogether means missing opportunities. "There's a 50-year transition for energy, but some energy companies are moving faster than others," he says. Once companies start making sustainability disclosures systematically, it will be easier to compare companies in actively managed funds and find the best ones, he says.

Fink describes himself as "an environmentalist: I personally don't own hydrocarbons." He admits he isn't personally invested in his company's own ESG ETFs, although he vows to do so this year in his BlackRock 401(k). He is also invested in BlackRock's illiquid renewable-power funds.

Industry reactions to BlackRock's moves were guarded. "Can you have it both ways?" asks Leslie Samuelrich, president of Green Century Capital Management, which offers a line of fossil-fuel-free funds. "We'll have to see how committed BlackRock really is to addressing climate change—it's still the largest investor in fossil fuels." Samuelrich is also a member of the board of US SIF, a trade group for sustainable investing.

As for BlackRock's withdrawal from big coal producers in its actively managed portfolios, Asha Mehta, a portfolio manager and director of responsible investing at Acadian Asset Management, says, "It's not a big step in divestment, but it's consistent with where the industry is going." Coal shares have already tumbled, while oil has underperformed the benchmarks over the past 10 years.

Fink says, "Some would argue we were late. I don't think so. Our job as a fiduciary is to be thoughtful and helpful to our clients."

BlackRock's moves put pressure on other big index investors like Vanguard that also have large active-management arms. "Vanguard funds are managed to specific objectives," a spokesman says. "Vanguard has no plans to materially change these broad mandates, nor stipulate certain investing restrictions at the company or sector level."

Despite the looming risks of climate change, Fink is optimistic about stocks. In 2020, "I think the market will be stronger," he says. "I don't see interest rates spiking up. We won't see anything close to [last year], but could we see 8% to 10% for the market? Sure."

"More people have underperformed because they derisked," he adds. "The most important thing you can do for yourself is stay invested and be heavily invested in equities."

## **Barron's**

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