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# BlackRock Fund Managers Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2022



# **BlackRock Fund Managers Limited**

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## **BlackRock Fund Managers Limited**

### **Strategic Report for the Year Ended 31 December 2022**

The board of directors (the "Board") presents its Strategic Report for BlackRock Fund Managers Limited (the "Company") for the year ended 31 December 2022.

The Company is part of BlackRock, Inc. ("BlackRock" or "the Firm"), a leading publicly traded investment management firm with \$8.6tn (2021: \$10.01tn) of assets under management ("AUM") at 31 December 2022. With approximately 19,800 employees in more than 30 countries who serve clients in over 100 countries, BlackRock provides a broad range of investment management and technology services to institutional and retail clients worldwide.

#### **Purpose**

BlackRock's purpose is to help more and more people experience financial well-being. BlackRock's clients, and the people they serve, are saving for retirement, paying for their children's educations, buying homes and starting businesses. Their investments are also helping to strengthen the global economy: support businesses small and large; finance infrastructure projects that connect and power cities; and facilitate innovations that drive progress. BlackRock is committed to advancing:

- *Financial wellbeing*: helping millions of people invest to build savings that serve them throughout their lives;
- *Investment access*: making investing easier and more affordable;
- *Sustainable outcomes*: advancing sustainable investing because the group believes it delivers better outcomes for investors; and
- *Inclusive economies*: contributing to a more resilient economy that benefits more people.

#### **Corporate Strategy**

Corporate strategy is developed and reviewed at a global and regional level. Consequently, this Strategic Report will focus on both global and regional areas of strategic focus, whilst relating them to the services that the Company provides.

#### **Industry profile**

##### **Global**

BlackRock's diverse platform of alpha-seeking active, index and cash management investment strategies across asset classes enables the Firm to offer choice and tailor investment outcomes and asset allocation solutions for clients. Product offerings include single- and multi-asset portfolios investing in equities, fixed income, alternatives and money market instruments. Products are offered directly and through intermediaries in a variety of vehicles, including open-end and closed-end mutual funds, iShares® and BlackRock exchange-traded funds ("ETFs"), separate accounts, collective trust funds and other pooled investment vehicles. BlackRock also offers technology services, including the investment and risk management technology platform, Aladdin®, Aladdin Wealth, eFront®, and Cachematrix, as well as advisory services and solutions to a broad base of institutional and wealth management clients. BlackRock is highly regulated and manages its clients' assets as a fiduciary. BlackRock does not engage in proprietary trading activities that could conflict with the interests of our clients.

BlackRock serves a diverse mix of institutional and retail clients across the globe, including investors in ETFs, maintaining differentiated client relationships and a fiduciary focus. The Firm's highly diversified multi-product platform was created to meet client needs in all market environments and provide clients with choice in how they seek to achieve their unique financial goals. BlackRock is positioned to provide alpha-seeking active, index and cash management investment strategies across asset classes and geographies. In addition, BlackRock leverages its world-class risk management, analytics and technology capabilities, including the Aladdin platform, on behalf of clients. The diversity of BlackRock's platform facilitates the generation of organic growth in various market environments, and as client preferences evolve. BlackRock's long-term strategy remains to keep alpha at the heart of BlackRock; accelerate growth in ETFs, illiquid alternatives, and technology; deliver whole portfolio solutions and become the global leader in sustainable investing.

## **BlackRock Fund Managers Limited**

### **Strategic Report for the Year Ended 31 December 2022 (continued)**

As the asset management landscape shifts globally from individual product selection to a whole-portfolio approach, BlackRock's strategy is focused on creating outcome-oriented client solutions for both retail investors and institutions. This includes having a diverse platform of alpha-seeking active, index and alternative products, as well as enhanced distribution and portfolio construction technology offerings. Digital wealth tools are an important component of BlackRock's retail strategy, as BlackRock scales and customizes model portfolios, extends Aladdin Wealth and digital wealth partnerships globally, and helps advisors build better portfolios through portfolio construction and risk management, powered by Aladdin. BlackRock has seen strong momentum in outsourcing solutions among institutional clients, including the funding of several significant mandates in 2022, and anticipates continued outsourcing opportunities in the future.

Across BlackRock, many clients are focusing on the impact of sustainability factors on their portfolios. This shift has been driven by an increased understanding of how sustainability-related factors can affect economic growth, asset values, and financial markets as a whole. As a fiduciary, BlackRock is committed to providing clients with choice and then executing in accordance with their chosen objectives. BlackRock's longstanding model of choice helps clients build portfolios to match the preferences and goals unique to each of them; for some clients this includes investing in sustainable strategies.

#### **Regional**

On a regional basis, BlackRock in Europe, Middle East and Africa ("EMEA") managed \$2.14tn (2021: \$2.66tn) of AUM for its clients as at 31 December 2022. This generated \$5.2bn (2021: \$6.4bn) of revenue from a diversified client base and product range, with EMEA representing 29% of BlackRock's base fees and securities lending revenue in 2022. Growth in the region in 2022 was driven by fixed income and alternatives net inflows.

#### **Principal activity**

The principal activity of the Company is the management and oversight of Undertakings for Collective Investment in Transferable Securities ("UCITS") funds and Alternative Investment Funds ("AIFs").

The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

There have not been any significant changes in the Company's principal activities in the period under review and the directors propose that the principal activities will continue during 2023.

#### **Areas of strategic focus**

The Company, as part of the global group, will seek to deliver value for the shareholder over time by, among other things, capitalising on BlackRock's differentiated competitive positioning, including:

- BlackRock's longstanding model of client choice, through which it offers a wide range of index, active, and whole portfolio solutions across broad markets, themes, regions, and investment styles;
- BlackRock's focus on strong investment performance, seeking the best risk-adjusted returns for client portfolios, within the mandates given by clients, to help them meet their investment objectives;
- BlackRock's research, data and analytics, which are at the centre of BlackRock's investment approach and processes. They inform BlackRock's pursuit of the best risk-adjusted returns, and underpin product creation and innovation;
- BlackRock's global reach and commitment to best practices around the world, with approximately 50% of employees outside the United States serving clients locally and supporting local investment capabilities. Approximately 40% of total AUM is managed for clients domiciled outside the United States;
- BlackRock's differentiated client relationships and fiduciary focus, which enable effective positioning toward changing client needs and industry trends including the secular shift to index investing and ETFs, growing allocations to private markets, increasing demand for outsourcing, anticipated re-allocations to fixed income, demand for high-performing active strategies, interest in sustainable investment strategies and whole portfolio solutions using index, active and illiquid alternatives products; and a continued focus on income and retirement.

## **BlackRock Fund Managers Limited**

### **Strategic Report for the Year Ended 31 December 2022 (continued)**

#### **Business review**

The nature of the Company's business and the factors determining the level of regulatory capital have not changed significantly during 2022.

#### **Key performance indicators**

##### ***Assets under management***

AUM has decreased by 8.4% to £168.3bn as at 31 December 2022 (2021: £183.8bn) primarily due to adverse market conditions which have been partially offset by net new business inflows in the year.

##### ***Revenue***

Total revenue, which represents investment management fee income, performance fee income and other income, decreased by 35.3% to £415.6m in the year ended 31 December 2022 (2021: £642.5m) principally due to a decrease in performance fees.

##### ***Cost of sales***

Cost of sales, which represents investment management, distribution fees, administration services, custody fees and transfer agent fees, decreased by 34.8% to £393.0m in the year ended 31 December 2022 (2021: £602.4m). This decrease in the cost of sales during the year is attributable to the decrease in the fees payable to other group companies for investment management and client relationship services performed. The movement is in line with the decrease in revenue.

##### ***Administrative expenses***

Administrative expenses, which primarily comprise filing and licensing fees (2022: £3.6m; 2021: £10.8m) and foreign exchange ("FX") gains (2022: £5.6m; 2021: foreign exchange loss £4.6m), have decreased by £18.0m to a credit position of £1.4m in the current period (2021: £16.6m expense) due to a reduction in amounts paid to the Financial Services Compensation Scheme and FX gains offsetting expenses.

##### ***Profit after tax***

Profit after tax decreased by 30.5% from £24.1m in 2021 to £16.7m in 2022. The decrease in profit is driven mainly by the decrease in performance fees during the year.

##### ***Net assets***

Net assets decreased by 11.4% to £56.9m at 31 December 2022 (2021: £64.3m) as a result of a dividend payment of £24.1m during the year partially offset by profits made in 2022.

#### **Principal risks and uncertainties**

The Board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness.

The Company, as a subsidiary of a wider group, BlackRock Group Limited (the "Group"), leverages an EMEA-wide risk management framework in identifying and mitigating risks. This framework considers a number of potential risks and uncertainties affecting the Company's business and has established associated policies and processes designed to manage and, where possible, mitigate those risks.

This framework assists the Board in determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives. Both the principal risks and the monitoring system are also subject to robust assessment at least annually.

Actions taken by the Board and, where appropriate, its committees, to manage and mitigate the Company's principal risks and uncertainties are set out as follows:

## **BlackRock Fund Managers Limited**

### **Strategic Report for the Year Ended 31 December 2022 (continued)**

#### ***Market risk***

*Risk description:* market risk represents the risk that a significant market downturn will impact the Company's fee revenue or the value of its Statement of Financial Position holdings. Investment management revenues are primarily comprised of management fees as a percentage of the value of assets under management or net asset value. Movements in equity prices, interest rates and credit spreads, or FX rates cause the value of the Company's assets under management or net asset value and Statement of Financial Position holdings to fluctuate, creating volatility in base fees, net income, and/or operating cash flow.

*Risk mitigation:* market risk to revenue is regularly monitored to reflect any changes in revenue drivers and market conditions. Market risk to revenues is mitigated via the Company's business model as an asset manager: a significant portion of the Company's cost structure is variable and, as such, can be adjusted by management rapidly to respond to market conditions. Market risk's impact on the Statement of Financial Position is regularly monitored by the Treasury and Finance teams to reflect any changes in the Statement of Financial Position, composition and hedging of FX exposures.

#### ***Credit risk***

*Risk description:* credit risk is the risk that a counterparty to the Company defaults or deteriorates in creditworthiness before the final settlement of a corporate transaction or other credit obligation. Credit risk exposure may also occur through the normal course of business from client fee receivables (which may not be paid) and from the investment of corporate cash.

*Risk mitigation:* the Company minimises its exposure by actively pursuing settlement of outstanding management and performance fee invoices within the terms and conditions of the underlying agreements. Intercompany balances are managed centrally and are settled on a regular basis. The Treasury and Risk and Quantitative Analysis departments continuously monitor the creditworthiness of HSBC, the Company's main corporate bank.

#### ***Capital adequacy***

*Risk description:* capital adequacy risk is the risk that the Company has an insufficient level or composition of capital to support its normal business activities and to meet its regulatory capital requirements under normal operating environments or stressed conditions (both actual and as defined for internal planning or regulatory testing purposes).

*Risk mitigation:* The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern;
- to satisfy the requirements of its regulators; and
- to maintain financial strength to support new business growth.

Consideration of any dividends to be paid will have regard to the actual level of capital compared with target, as determined by the capital management and dividend policy which sets out an internal requirement in excess of the regulatory requirement.

The Company is subject to a minimum regulatory capital requirement imposed by the FCA. In order to ensure compliance with the requirement throughout the period and to fund continued business expansion and development, a surplus was maintained throughout the year.

## **BlackRock Fund Managers Limited**

### **Strategic Report for the Year Ended 31 December 2022 (continued)**

#### ***Corporate liquidity risk***

*Risk description:* corporate liquidity risk is the risk that the Company is not able to meet its financial obligations as they come due without adversely impacting its financial position, its ability to operate its normal course of its business, or its reputation.

*Risk mitigation:* there is a liquidity governance framework and policy that are designed to: identify, quantify, forecast and monitor the Group and Company's liquidity needs, risks and requirements; maintain liquidity resources in excess of requirements; and maintain an appropriate governance and controls framework for the usage and allocation of corporate liquidity.

#### ***Corporate tax risk***

*Risk description:* corporate tax risk is the risk of financial loss, reputational damage and/or loss of investor confidence arising from failure to comply with local tax regulations; ineffective controls over tax accounting or reporting; failure to manage changes in taxation rates, law, ownership, or corporate structure; or failure to disclose accurate information on a timely basis. This risk also arises where the Company's own tax treatments, policies or procedures are subject to interpretation by tax authorities that differ from the Company's or its advisors' interpretations. This can lead to the Company needing to adjust its structures, practices or strategies.

*Risk mitigation:* the Company's controls around tax reporting are designed to prevent errors and ensure compliance with disclosure requirements within prescribed timeframes. The Company seeks to comply with all relevant accounting and regulatory disclosure requirements to mitigate the risk of any public restatements of financial reporting information.

#### ***Non-financial (operational) risks***

*Risk description:* non-financial risks are operational risks that arise from events or actions, other than financial transactions, that can negatively impact the operations, assets or reputation of the Company. These risks may, but do not always have, an adverse financial impact, and are often the result of inadequate internal processes, controls, human error or systems, or external events. Key non-financial operational risks facing the Company include:

- *Operational (process) risk:* risk of financial loss or regulatory/reputational impact resulting from inadequate or failed internal processes and controls, human error, or systems, which may occur within the Group's internal operations across the client and trade lifecycles.
- *Compliance risk:* risk that the Company's products, services, activities, or operations are not conducted in accordance with applicable laws and regulations, including those laws and regulations which impose fiduciary obligations on the Company. Examples include failure to appropriately manage conflicts of interest, marketing and distribution, data privacy and regulatory reporting.
- *Information security risk:* risk arising from the inability to meet confidentiality, integrity, or availability requirements of Company information. Information security risk can also be described as failure to protect the Company against internal or external security threats, including accidents or malicious attacks by personnel, attacks by outsiders, and breaches at third parties, among others.
- *Product risk:* risk arising from product launches that are not aligned with client requirements, or that the Company cannot operationally support in a risk-controlled manner. Product risk arises throughout the product lifecycle, including the introduction of new products, change to existing products, and product closure.
- *Financial crime risk:* risk arising from the failure to prevent external or internal parties from gaining access to, or utilising, customer or company assets for criminal purposes or the failure to adhere to relevant laws and regulations or have adequate systems and controls to demonstrate appropriate compliance in relation to money laundering, breaches of economic sanctions, fraud (internal and external) and bribery and corruption.

## **BlackRock Fund Managers Limited**

### **Strategic Report for the Year Ended 31 December 2022 (continued)**

- *Third party risk:* risk of financial loss or operational, regulatory, reputational harm to the Company or its clients from inadequate or failed controls, processes or systems managed or supported by third parties. The Company's use of third parties does not diminish its responsibility to ensure that outsourced activities are performed in a safe and sound manner and in compliance with applicable laws.
- *Financial reporting risk:* risk resulting from ineffective internal controls over financial reporting or failure to prepare and/or disclose accurate information in financial statements, which could have a materially adverse impact on the Company's reputation and lead to increased scrutiny, regulatory oversight, and potential public restatements, fines or fraud.

*Risk mitigation:* the Group has a well-established operational risk management framework that provides appropriate control and oversight over risk management arrangements. The operational risk management framework supports the Company's fiduciary obligations to clients and mitigates the risk of poor customer outcomes. The Group has adopted a risk management framework based on a three lines of defence model comprised of the following five elements.:

- Risk identification and definition, including identifying the Group's key risks and emerging risks, identifying business unit risk through tools such as risk and control self-assessments and regular meetings with business units, reviewing new products and major changes and reviewing internal and external operating events.
- Risk tolerance, including setting risk tolerances and manage its key enterprise risks within their limits and tolerances, ensuring appropriate escalations if risk tolerances are breached.
- Risk management and control, including establishing appropriate processes to measure, manage and control risk taking and address how specific duties related to risks and controls are assigned and coordinated.
- Risk monitoring and reporting, including providing information and reports to functional and regional business management, boards, committees and regulators. This includes monitoring and investigating operating events, and recording them in a database of operating events, establishing and monitoring key risk indicators in the context of the Company's risk tolerance. Additionally, it includes risk profile reporting and operating event and large operating event reporting.
- Risk governance and oversight, including establishing policies and procedures, establishing regional and global risk committees and overseeing the risk management framework.

#### ***Reputational risk***

*Risk description:* reputational risk is the risk arising from an adverse perception on the part of existing and potential stakeholders, overseers and business partners (e.g. clients, regulators, government bodies, trading counterparties and suppliers) that could negatively impact revenue, earnings, brand value, and customer retention.

*Risk mitigation:* BlackRock's reputation is one of its most important assets and BlackRock expects all of its employees to act with the highest level of integrity with clients and in markets. As a client-focused business, BlackRock considers reputational risk to be a fundamental aspect of all business and risk management activities. Reputational risk exposure is an integral part of the Group's Enterprise Risk Management Framework and a key focus for internal control processes around strategic decisions, products and services, operational processes, corporate governance, responsibility and communications, client and other external relationships.



## **BlackRock Fund Managers Limited**

### **Strategic Report for the Year Ended 31 December 2022 (continued)**

#### ***Strategy/Business risk***

*Risk description:* strategy/business risk arises from adverse business decisions or improper implementation of those decisions that could negatively impact revenue, earnings, and brand value. This includes adverse impact from factors such as competition, structural industry changes, asset class shifts, geopolitical instability, macro-economic conditions, falling behind industry changes or relationships with other entities. This risk is a function of the alignment between the Company's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. It also covers business concentration risks (e.g. earnings, client, investment strategy, third party provider concentration) and legal risks in relation to agreements with clients, employees or suppliers.

- *Climate risk:* a growing awareness of the ongoing and potential future impact of climate change is shifting the views and expectations of BlackRock's key stakeholders including clients, regulators, shareholders, employees and the broader public as well as the way BlackRock thinks about climate risks as an investment risk. Climate change poses risks and opportunities that may impact the companies in which BlackRock invests on behalf of its clients. The risk arises both in terms of the physical risk associated with rising global temperatures, and also transition risk, namely, how the global transition to a low-carbon economy could affect a company's long-term profitability.

*Risk mitigation:* the Company mitigates strategy/business risk by making extensive efforts to respond to industry uncertainties and business opportunities. The Company also anticipates business environment changes and then implements the necessary changes to generate better outcomes for the Company and its clients.

In relation to risks posed by climate change, BlackRock, Inc. publishes its Task Force on Climate-Related Financial Disclosures ("TCFD") aligned report, on an annual basis, detailing BlackRock's climate-related risks and opportunities, which can be accessed at the following link:

<https://www.blackrock.com/corporate/literature/continuous-disclosure-and-important-information/tcfd-report-2021-blkinc.pdf>

#### ***Conduct risk***

*Risk description:* conduct risk is the risk arising from inappropriate behaviour by the Company and/or BlackRock's employees which leads to detriment to the Company or its clients or has a negative impact on market integrity.

*Risk mitigation:* conduct risk is present in all of the Company's activities and responsibility for managing conduct risk is embedded throughout the Company's organisational and governance arrangements. All employees of the firm are expected to follow the BlackRock Principles and the Code of Business Conduct and Ethics. One of the BlackRock core principles is 'We are a fiduciary to our clients' and BlackRock expects all of its employees to put clients' interests first, to comply with all regulations, to abide by the law and to act with the highest level of integrity with clients and in markets.

#### ***Group risk***

*Risk description:* group risk is the risk that the financial position of the Company may be adversely impacted by its relationships with other entities in the BlackRock group or by risks that may affect the financial position of the whole group. As a member of the BlackRock group, the Company faces the risk that decisions made by, or circumstances impacting BlackRock group entities, may either directly impact the Company or may 'spill-over' and have an impact on the Company. These could include, but are not limited to strategic mergers or acquisitions, divestiture decisions, severe financial distress, reputational damage or decisions regarding the ability or willingness to provide services to the Company.

*Risk mitigation:* group risk is mitigated at a group level by senior management in group companies and control functions being represented in the Group's global decision-making bodies, and by the Company having documented contractual arrangements for services with other group companies.

## **BlackRock Fund Managers Limited**

### **Strategic Report for the Year Ended 31 December 2022 (continued)**

#### ***Emerging risks and uncertainties (not considered “principal”)***

Emerging risks which have the potential to impact the Company’s ability to meet its strategic objectives are also monitored by the Board.

The Board has determined that these emerging risks and uncertainties are not currently material to the Company, and therefore are not cited as principal risks, but has nevertheless included them in this Strategic Report to enable users to understand how emerging risks that have been considered in the current period.

#### ***Geopolitical instability***

Russia’s incursion into Ukraine prompted a range of sanctions, regulations and other regulatory measures that have, among other things, impaired normal trading in Russian securities. BlackRock maintains controls, processes and policies designed to adhere to relevant sanctions laws and regulations of jurisdictions in which BlackRock operates and invests on behalf of its clients. BlackRock will continue to monitor any subsequent developments associated with the conflict and will take necessary actions to address or prepare for those developments. Actions that impact index designs will be assessed and BlackRock’s actions will be taken with the goals of minimising impact to clients and investors and avoiding, to the extent possible, any significant market disruptions.

#### **Streamlined Energy and Carbon Reporting statement: greenhouse gas emissions and energy consumption disclosure**

The Company meets the definition of a large company under section 465 of the Companies Act 2006 and is therefore within the scope of the Streamlined Energy and Carbon Reporting (“SECR”) requirements. The Company does not, however, own, lease or operate any tangible assets and has no direct employees. For these reasons, the Company considers itself to be a low energy user under the SECR regulations and therefore is not required to disclose energy and carbon information.

#### **Companies Act s172 Statement**

Under section 172 of the Companies Act 2006 (“s172”), the directors of the Company must act in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, they should have regard to other factors, including but not limited to:

- the likely consequences of any decision in the long-term;
- the interests of the Company’s employees;
- the need to foster the Company’s business relationships with suppliers, customers and others;
- the impact of the Company’s operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Board has had regard to each of the above requirements of s172 during the year ended 31 December 2022 as follows:

#### ***The likely consequences of any decision in the long-term***

As a subsidiary of BlackRock Investment Management (UK) Limited (“BIM UK”), which is itself a subsidiary of BlackRock, Inc., the Board shares the purpose developed by the BlackRock board of directors and considers how best to implement that purpose in the Company’s values, strategy and culture.

The CEO of the Company, together with the Board, is ultimately responsible for the conduct of the Company’s business and escalates to the BGL board of directors where appropriate (BGL is the regional parent company). The CEO of the Company takes the management lead on activities on behalf of the Company’s Board as directed including liaising with the BGL board of directors, securing access to resources, and overseeing activities as required.

## **BlackRock Fund Managers Limited**

### **Strategic Report for the Year Ended 31 December 2022 (continued)**

The Board is responsible for overseeing the implementation of the Company's long-term strategic objectives and receives regular updates from the EMEA Chief Operating Officer ("EMEA COO") on the delivery of corporate strategy, regional and industry trends, in Board meetings and informal briefing sessions. The Board was kept informed by the EMEA COO regarding the results of BlackRock's regular Employee Opinion Surveys.

The Board is committed to working with BlackRock to grow economies of scale by continuing to reinvest in its technology and investment platforms. As announced in the 2022 Value Assessment report, BlackRock and BFM are in the process of developing an Annual Management Charge tiered-pricing model for the UK authorised fund range in order to pass on further economies of scale to fund investors.

As part of the annual Assessment of Value process, the Board assessed all direct investors to ensure that they were invested in the most appropriate and lowest-charging eligible unit class. Investor type, amount invested and how the fund was accessed were examined, as well as whether the investor's intermediary received commission. Consequently, between June and October 2022, the Board oversaw 849 conversions to lower-charging unit classes across 20 funds, resulting in an estimated annualised saving of £139k for BFM fund investors.

The Board considered findings from the Broadridge Fund Buyer Focus UK country report, an independent assessment that evaluates fund managers based on interviews with investors. Additionally, BlackRock conducted a global client experience survey of more than 500 institutional investors. The results not only allowed the Board to compare BlackRock's service quality to competitors in the UK, but also to evaluate the client experience in the UK relative to other regions where BlackRock operates. BlackRock retained its top-10 ranking among UK fund managers in all major service quality factors in the Broadridge report.

BlackRock Voting Choice, launched in January 2022, is a proprietary offering to enable more institutional clients to participate in voting decisions where legally and operationally viable. To do this, BlackRock has been developing new technology and working with industry partners over the past several years to enable a significant expansion in voting choice for more clients. Funds in the BlackRock Authorised Contractual Scheme 1 and the BlackRock Authorised Contractual Scheme 2 are eligible to participate in this programme as of 30 June 2022. It was announced in November 2022 that BlackRock has agreed with Proxymity, a digital investor communications platform, to work together on building a solution that aims to offer pass-through technology to enable individual investors to exercise choice in how their portion of eligible unitholder votes are cast. Initially, retail investors in two selected BlackRock Collective Investment Funds will be given the opportunity to exercise proxy voting as part of a pilot scheme, with a view to the programme being extended to additional funds following the trial period.

The Board agreed to introduce a Special Valuation Point ("SVP") mechanism that can be used at the local market close for the BlackRock Collective Investment Funds and Authorised Contractual Scheme 1 and 2 sub-funds to facilitate large subscriptions and redemptions, which have associated risks and complications for unitholders. The ability to declare an SVP will help to mitigate liquidity constraints in the market, eliminating the need for trading to be executed in tranches, meaning investors will save on transaction costs.

#### *The interests of the Company's employees*

Although the Company has no employees, individuals employed by other group companies who undertake functional activities on behalf of the Company are subject to high standards of compliance and conduct training, in line with BlackRock's global and regional standard requirements. BlackRock's Code of Conduct requires all employees to comply with the FCA's individual conduct rules: to act with integrity; to act with due skill, care and diligence; to be open and cooperative with the FCA and other regulators; to pay due regard to the interests of customers and treat them fairly; and to observe proper standards of market conduct.

## **BlackRock Fund Managers Limited**

### **Strategic Report for the Year Ended 31 December 2022 (continued)**

#### *The need to foster the Company's business relationships with suppliers, customers and others*

The Company uses suppliers to help support and enhance business activities. BlackRock has a dedicated service vendor management team responsible for onboarding and monitoring of its key vendors. In addition, BlackRock has formal processes and procedures in place to manage supplier risk and service delivery, such as regular performance reviews for key suppliers. BlackRock maintains a Supplier Code of Conduct & Ethics which outlines the minimum expectations and standards of all of BlackRock's suppliers in relation to human rights, inclusion and diversity, environmental sustainability, integrity and ethics in management practices.

The Company is subject to regulatory oversight by the FCA in the UK. The Board and BlackRock senior management ("Management") have regular interactions with the FCA, providing open and transparent information on a proactive and reactive basis at all levels of Management. A comprehensive control framework exists across Risk, Compliance and Internal Audit functions in order to oversee the Company's business operations, with regular reporting provided to the Board on regulatory matters.

From 2023, Theodora Zemek will act as the Board's Consumer Champion, working with the Chair and CEO to ensure that the principles of the FCA's Consumer Duty are considered in all relevant discussions and that Management has embedded them throughout BlackRock's activities and controls. This involves carefully examining proposals and processes to ensure that they drive good outcomes for investors in respect of:

- products and services;
- price and value;
- consumer understanding; and
- consumer support

Material matters relating to business relationships with suppliers, customers and other stakeholders are reported to the Board by Management as required.

#### *The impact of the Company's operations on the community and the environment*

BlackRock's purpose - to help more and more people experience financial wellbeing - reflects the belief that BlackRock has an important role to play in helping improve people's lives, the community and the environment. BlackRock has a responsibility to millions of people in the UK (and around the world), and an urgent social purpose. By improving the relationship people have with their money, BlackRock can help improve their financial wellbeing and their overall wellbeing. BlackRock has committed to integrate sustainable business practices into its strategy and operations.

BlackRock is supportive of the FCA's intentions to help build consumer trust in financial markets and tackle greenwashing and is committed to supporting its efforts to define credible standards, criteria and transparency requirements that help investors identify sustainable products that meet their needs and preferences. To that end, BlackRock responded to the FCA consultation paper on Sustainability, Disclosure Requirements and investment labels, which opened on 25th October 2022.

In Larry Fink's 2022 annual letter to CEOs, he announced the launch of a Centre for Stakeholder Capitalism to create a forum for research, dialogue, and debate. This brings together leading CEOs, investors, policy experts and academics to share their experience and deliver their insights into the relationships between companies and their stakeholders and between stakeholder engagement and shareholder value.

The full letter, which also urges companies to prepare for and participate in the net zero transition, can be accessed via the following link:

<https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

BlackRock has committed to integrating sustainable business practices into its strategy and operations. As a subsidiary of the BlackRock group, the Company has committed to:

- operating a sustainable corporation, recognising that long-term sustainability delivers the best outcomes for stakeholders; and pursuing a strategy that decouples company growth from the impact on the environment;

## BlackRock Fund Managers Limited

### Strategic Report for the Year Ended 31 December 2022 (continued)

- making sustainable investing BlackRock's standard, providing sustainability-integrated portfolios and making sustainability integral to the way BlackRock manages risk, deepening the integration of environmental, social and governance ("ESG") factors into risk management and investment processes, and putting ESG analysis at the centre of BlackRock's technology platform; and
- acting as responsible steward of BlackRock's client assets by engaging with companies to understand how they are managing and disclosing sustainability-related risks and encouraging companies to adopt corporate governance and business practices consistent with delivering sustainable long-term financial returns.

In Spring 2022, six BlackRock teams competed in a Social Impact Challenge organised by UpRising, a UK youth leadership development organisation. The winning team's solution focused on how UpRising programme alumni can remain connected to their local communities through a digital programme. The team identified regional anchor partners that align with UpRising's values and have a focus on social mobility.

Over July and August 2022, BlackRock ran the "BlackRock Gives Back" volunteering program across Europe, including in the UK. During this time, over 1,000 hours were volunteered by BlackRock staff (including the CEO of the Company) in support of local charities and communities in London and Edinburgh.

#### *The desirability of the Company maintaining a reputation for high standards of business conduct*

BlackRock's culture is a key differentiator of the Company's strategy and helps to drive results and long-term growth in the UK. The culture unifies the firm and helps to reinforce ethical behaviour at all levels. BlackRock's approach to instilling, reinforcing and enhancing our culture is deliberate and intentional. The Board embeds BlackRock's culture of fiduciary commitment to serve clients and stay ahead of their needs. BlackRock staff receive mandatory Senior Manager and Certification Regime ("SMCR") compliance training and the CEO of the Company is responsible for ensuring that the Company is fully compliant with SMCR rules.

The Board hold regular meetings with Management, by way of formal meetings and education sessions, to ensure that oversight and control of the Company's business operations is maintained, and where necessary, constructive challenge can be provided. This enables the Company's businesses to deliver strategy in a manner consistent with the BlackRock group's purpose and culture.

The Board also carried out an annual evaluation exercise to consider critically how the skills, remuneration and material relationships of its non-executive directors might affect their independent judgement.

#### *The need to act fairly between members of the Company*

The Company is a wholly owned subsidiary of BlackRock Investment Management (UK) Limited and part of the BlackRock, Inc. group of companies. The Company is a separate legal entity and is therefore making this statement as such, but in practical terms, the Company is part of a wider group and therefore the duties of the directors of the Company are exercised in a way that is most likely to promote the success of the Company for the BlackRock group as a whole, while having regard to factors outlined in section 172(1) Companies Act 2006.

This statement is also available on the Company's website at:

<https://www.blackrock.com/uk/individual/literature/policies/s172-corporate-governance-statements.pdf>

**BlackRock Fund Managers Limited**

**Strategic Report for the Year Ended 31 December 2022 (continued)**

Approved by the Board on 15 March 2023 and signed on its behalf by:



.....  
M T Zemek  
Director



.....  
G D Bamping - Chairman  
Director

## **BlackRock Fund Managers Limited**

### **Directors' Report for the Year Ended 31 December 2022**

The directors presents their report together with the audited financial statements of BlackRock Fund Managers Limited (registered number: 01102517) for the year ended 31 December 2022.

The directors have chosen, in accordance with section 414C (11) of the Companies Act 2006, to include certain additional matters in the Strategic Report that would otherwise be required to be disclosed in the Directors' Report.

#### **Dividends**

Dividends of £24.1m were paid in the year ended 31 December 2022 (2021: £39.1m).

#### **Directors and officers of the Company**

The directors, who held office during the year, were as follows:

G D Bamping \* - Chairman

S Corrigan - Chief Executive Officer

W I Cullen \*

B Harrison (resigned 19 August 2022)

D Edgar

A M Lawrence

H N Mephum

M T Zemek \*

The following director was appointed after the year end:

K Henry (appointed 3 March 2023)

*\* Non-executive director*

Company secretary:

BlackRock Company Secretarial Services (UK) Limited

#### **Statement of directors' responsibilities**

The directors acknowledge their responsibilities for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

## **BlackRock Fund Managers Limited**

### **Directors' Report for the Year Ended 31 December 2022 (continued)**

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Going concern**

The directors believe that the company is well placed to manage its business risks successfully. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

#### **Directors' third-party indemnity provisions**

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the course of the financial period ended 31 December 2022 for the benefit of the then directors and, at the date of this report, are in force for the benefit of the directors in relation to certain losses and liabilities which may occur (or have occurred) in connection with their duties, powers or office.

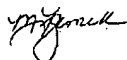
#### **Disclosure of information to the auditor**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

#### **Reappointment of auditors**

The auditor, Deloitte LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 15 March 2023 and signed on its behalf by:



.....  
M T Zemek  
Director



.....  
G D Bamping - Chairman  
Director



## **BlackRock Fund Managers Limited**

### **Independent Auditor's Report to the Members of BlackRock Fund Managers Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements of BlackRock Fund Managers Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes to financial statements 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework".

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

##### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

## **BlackRock Fund Managers Limited**

### **Independent Auditor's Report to the Members of BlackRock Fund Managers Limited (continued)**

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and those charged with governance about their own identification and assessment of the risks of irregularities, including those that are specific to the Company's business sector.

We obtained an understanding of the legal and regulatory framework that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Companies Act 2006, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the Company's regulatory solvency requirements, requirements of the Financial Conduct Authority ("FCA"), the Financial Services and Markets Act 2000, regulatory licenses and stewardship, environmental, social and governance ("ESG") regulations and pensions legislation.

## **BlackRock Fund Managers Limited**

### **Independent Auditor's Report to the Members of BlackRock Fund Managers Limited (continued)**

We discussed among the audit engagement team including relevant internal specialists such as tax, information technology ("IT"), regulatory compliance and industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address them are described below:

#### ***Accuracy of performance fee revenue***

There is significant risk of material misstatement in the accuracy of performance fee revenue earned by the Company given the level of complexity in certain agreements.

We have performed the following controls procedures to address this fraud risk:

- obtained and reviewed service organisation control reports for the third party fund administrators, and evaluated any identified opinion qualifications and control testing deviations; and
- evaluated the design and implementation and operating effectiveness of the Company's controls relating to accuracy of alternative performance fees.

In addition, for a sample of performance fees, we performed the following substantive audit procedures to address this fraud risk:

- obtained the performance fee calculation document for the annual performance fee lock and/or crystallisation fee, which included the calculation and input data;
- obtained and reviewed the most recent prospectus;
- verified whether or not the product was performance fee eligible (and therefore whether or not it was appropriate for a performance fee to be calculated and recorded);
- agreed the performance fee per the calculation to the recorded fee;
- verified whether or not the performance fee calculation logic was in line with the terms set out in the prospectus;
- confirmed all input data and fund documentation directly with the third party administrator;
- independently recalculated a performance fee estimate based upon the prospectus and the validated input data;
- assessed whether the fee had been recognised in the appropriate period; and
- traced payments to the bank statements to confirm that the fees recognised as earned by the Company are the same as the amounts paid by customers.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and

## **BlackRock Fund Managers Limited**

### **Independent Auditor's Report to the Members of BlackRock Fund Managers Limited (continued)**

- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with regulators (including the Company's tax regulatory licensing authority).

#### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

#### **Matters on which we are required to report by exception**

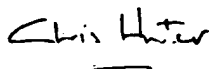
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

#### **Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



.....  
Chris Hunter CA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Edinburgh, United Kingdom  
15 March 2023

# BlackRock Fund Managers Limited

## Income Statement for the Year Ended 31 December 2022

	Note	2022 £ 000	2021 £ 000
Revenue	4	415,551	642,459
Cost of sales		<u>(393,004)</u>	<u>(602,377)</u>
Gross profit		22,547	40,082
Administrative expenses	5	<u>1,443</u>	<u>(16,586)</u>
Operating profit	6	<u>23,990</u>	<u>23,496</u>
Finance income and similar income	7	710	-
Finance costs and similar expenses		(1)	(33)
Net (losses)/gains on derivative financial instruments		<u>(4,303)</u>	<u>6,287</u>
		<u>(3,594)</u>	<u>6,254</u>
Profit before tax		20,396	29,750
Income tax expense	10	<u>(3,681)</u>	<u>(5,690)</u>
Profit for the year		<u>16,715</u>	<u>24,060</u>

The above results were derived from continuing operations in the UK.

There are no other comprehensive income items in the current or prior years, therefore profit for those years represents the comprehensive income.

**BlackRock Fund Managers Limited**

**(Registration number: 01102517)**

**Statement of Financial Position as at 31 December 2022**

	Note	31 December 2022 £ 000	31 December 2021 £ 000
<b>Assets</b>			
<b>Current assets</b>			
Trade and other receivables	12	486,592	619,393
Cash and cash equivalents		<u>42,592</u>	<u>42,052</u>
		<u>529,184</u>	<u>661,445</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Called up share capital	13	18,100	18,100
Retained earnings		<u>38,843</u>	<u>46,188</u>
		<u>56,943</u>	<u>64,288</u>
<b>Current liabilities</b>			
Trade and other payables	14	462,713	582,414
Income tax liability		<u>9,528</u>	<u>14,743</u>
		<u>472,241</u>	<u>597,157</u>
Total equity and liabilities		<u>529,184</u>	<u>661,445</u>

Approved by the Board on 15 March 2023 and signed on its behalf by:



.....  
M T Zemek  
Director



.....  
G D Bamping - Chairman  
Director

# BlackRock Fund Managers Limited

## Statement of Changes in Equity for the Year Ended 31 December 2022

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2022	18,100	46,188	64,288
Profit for the year	-	16,715	16,715
Dividends	-	(24,060)	(24,060)
At 31 December 2022	<u>18,100</u>	<u>38,843</u>	<u>56,943</u>

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021	18,100	61,205	79,305
Profit for the year	-	24,060	24,060
Dividends	-	(39,077)	(39,077)
At 31 December 2021	<u>18,100</u>	<u>46,188</u>	<u>64,288</u>

## **BlackRock Fund Managers Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022**

#### **1 General information**

The Company is a private company limited by share capital, incorporated and domiciled in England, United Kingdom.

The address of its registered office is:  
12 Throgmorton Avenue  
London  
EC2N 2DL

These financial statements were authorised for issue by the Board on 15 March 2023.

#### **Principal activity**

The principal activity of the Company is the management and oversight of Undertakings for Collective Investment in Transferable Securities ("UCITS") funds and Alternative Investment Funds ("AIFs").

#### **2 Accounting policies**

##### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### **Basis of preparation**

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 'Application of Financial Reporting Requirements' as issued by the FRC. Accordingly, in the year ended 31 December 2022 the Company has applied FRS 101 issued by the FRC.

The financial statements have been prepared on the historical cost basis except for the revaluation of any financial instruments at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

##### **Summary of disclosure exemptions**

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain standards, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the group accounts of BlackRock, Inc. These accounts are available to the public and can be obtained as set out in note 19.



## **BlackRock Fund Managers Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **2 Accounting policies (continued)**

##### **Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 12 along with principal risks and uncertainties.

In assessing the going concern status, the directors have taken into account the above factors, including the financial position of the Company and in particular the low credit risk associated with the Company's unit dealing activities, as well as its significant net cash position. The Company has, at the date of this report, sufficient existing finances available for its estimated requirements for the next 12 months. This, together with its proven ability to generate cash from operations, provides the directors with the confidence that the Company is well placed to manage its business risks successfully.

After making appropriate enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

##### **Changes in accounting standards**

##### **New standards, interpretations and amendments adopted**

None of the standards, interpretations and amendments effective for the first time from 1 January 2022 have had a material effect on the financial statements.

##### **Revenue recognition**

##### *Recognition*

The Company earns revenue from the provision of services relating to the provision of investment management and administrative services. Revenue is recognised upon transfer of control of promised services to customers, i.e. when (or as) a performance obligation is satisfied, in an amount that reflects consideration to which the Company expects to be entitled in exchange for those services (the "transaction price"), net of value added tax. The Company enters into contracts that can include multiple services and, in certain instances, may charge a "unitary fee" to cover these services. Such fees are accounted for separately if they are determined to be distinct. Consideration for the Company's services is generally in the form of variable consideration because the amount of fees is subject to market conditions that are outside the Company's influence. The Company includes variable consideration as part of its transaction price when it is highly probable that a significant reversal will not occur, i.e. when the associated uncertainty is resolved. For some contracts with customers, the Company involves third parties and related parties in providing services to the customer. Generally, the Company is deemed to be the principal in these arrangements because the Company controls the promised services before they are transferred to customers, and accordingly presents the revenue gross of related costs.

## **BlackRock Fund Managers Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **2 Accounting policies (continued)**

##### *Fee arrangements*

Below are details of fee arrangements, and how these are measured and recognised, for revenue from the provision of services:

- **Investment management and administration fees:** The fees are recognised as the services are performed over time. Such fees are primarily based on agreed-upon percentages of net asset value, AUM or committed capital. These fees are affected by changes in net asset value, AUM or committed capital, including market appreciation or depreciation, foreign exchange translation and net inflows or outflows. Investment management and administration fees for investment funds are shown net of fees waived pursuant to contractual expense limitations of the funds or voluntary waivers. Fees are generally invoiced monthly in arrears.
- **Unit trading:** The Company performs unit trading activity (i.e. the service of issuing, redeeming, creating and cancelling units) as an intermediary between investors and certain funds for which it is the appointed management company. The Company's unit trading activity does not constitute a distinct service and is therefore considered a component of the Company's fund management services. In general, the associated receipts and outflows do not pertain to consideration the company is entitled to or costs it is obliged to incur, and are therefore presented on a net basis. Only amounts related to contractual retained initial charges are recognised as distribution fees, and presented within revenue.
- **Investment management performance fees:** The Company receives fees from certain actively managed investment funds. These performance fees are dependent upon exceeding specified relative or absolute investment return thresholds, which may vary by product or account, and include quarterly, annual or longer measurement periods. A portion of the fees the Company recognises may be partially related to the services performed in prior periods that meet the recognition criteria in the current period. Performance fees are recognised when it is highly probable that a significant reversal will not occur (such as upon the sale of a fund's investment or when the amount of AUM becomes known as of the end of a specified measurement period). Significant judgement is involved in making such determination. At each reporting date, the Company considers various factors in estimating performance fees to be recognised. These factors include, but are not limited to, whether: (1) the fees are dependent on the market and thus are highly susceptible to factors outside the Company's influence; and (2) the fees have a large number and a broad range of possible amounts.

##### **Foreign currency transactions and balances**

The financial statements are presented in sterling, which is the currency of the primary economic environment in which the company operates (its "functional currency").

Transactions in currencies other than the Company's functional currency ("foreign currency") are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognised in the income statement in the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Exchange differences on non-monetary items, measured at fair value through profit or loss ("FVTPL"), are reported as part of the fair value gain or loss in the income statement in the period in which they arise. Exchange differences on non-monetary items, measured at fair value through other comprehensive income ("FVTOCI"), are reported as part of the fair value gain or loss in other comprehensive income in the period in which they arise.

## **BlackRock Fund Managers Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **2 Accounting policies (continued)**

##### **Interest income**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

##### **Tax**

Income tax expense represents the sum of the tax currently payable.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

##### **Dividends**

Dividends payable are included in the financial statements in the period in which they are approved by the directors.

##### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources embodying economic benefits will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Statement of Financial Position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the estimated cash flows required to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

##### **Contingent liabilities**

Contingent liabilities are disclosed in the financial statements where a possibility of an economic outflow of resources exists. Where that possibility is deemed remote, no disclosure is made.

##### **Financial instruments**

###### *Recognition and derecognition*

Financial assets and financial liabilities are recognised on the trade date when the Company becomes party to the contractual provisions.

Financial assets are derecognised when the contractual rights to the cash flows expire, or when the financial asset and substantially all the risks and rewards are transferred. Financial liabilities are derecognised when the obligation is extinguished, discharged, cancelled or expired.

###### *Classification and initial measurement of financial assets*

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable), except for trade receivables that do not contain a significant financing component which are measured at transaction price.

Financial assets are classified and subsequently measured, based on business model and contractual cash flow characteristics, at: amortised cost; FVTPL; or FVTOCI.

## **BlackRock Fund Managers Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **2 Accounting policies (continued)**

All income and expenses relating to financial assets that are recognised in the Income Statement are presented within finance costs, finance income or net gains or losses on derivative financial instruments, except for impairment of trade receivables which is presented within administrative expenses.

Foreign exchange gains or losses arising on financial assets at amortised cost are presented in the Income Statement within administrative expenses and disclosed in note 6. For financial assets at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in the Income Statement within net gains on derivative financial instruments.

##### *Subsequent measurement of financial assets*

###### *Financial assets at amortised cost*

Financial assets are measured at amortised cost when their contractual cash flows are solely payments of principal and interest and they are held within a business model designed to hold the asset and collect its cash flows (and are not designated as FVTPL).

The Company's cash and cash equivalents, trade and other receivables are measured at amortised cost using the effective interest method and income is recognised on this basis.

###### *Financial assets at fair value through profit or loss*

Financial assets that are held other than 'hold to collect' or 'hold to collect and sell' are categorised at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

The Company has not designated any amortised costs or FVTOCI financial assets as FVTPL.

The Company's financial assets measured at FVTPL comprise derivative financial instruments. Any gains or losses are recognised in the income statement.

##### *Classification and initial measurement of financial liabilities*

Financial liabilities are initially measured at fair value and, where applicable, adjusted for transaction costs unless designated at FVTPL.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for contingent consideration acquired in a business combination, held for trading liabilities (including derivatives) and financial liabilities designated at FVTPL, which are at fair value with gains or losses recognised in the Income Statement.

The Company's financial liabilities at amortised cost are trade and other payables. The Company's financial liabilities at FVTPL are derivative financial instruments.

Foreign exchange gain or losses arising on financial liabilities at amortised cost are presented in the Income Statement within administrative expenses and disclosed in note 6. For financial liabilities at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in the Income Statement within net gains on derivative financial instruments.

## BlackRock Fund Managers Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 2 Accounting policies (continued)

##### *Derivative financial instruments*

The Company's derivative financial instruments, forwards in foreign exchange markets are measured at FVTPL. In the Statement of Financial Position, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

The Company uses derivative financial instruments to economically hedge risk associated with foreign exchange movements and market price exposure with respect to certain seed investments. It is not the Company's policy to trade in derivative instruments and hedge accounting is not applied.

##### *Equity instruments*

Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs. The Company's ordinary shares are classified as equity instruments.

#### 3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. The directors do not consider that any critical accounting estimates or judgements, over and above those disclosed in the accounting policies in note 2, have been made in the current or prior periods.

#### 4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2022 £ 000	2021 £ 000
Investment management and administration fees	404,924	426,231
Investment management performance fees	10,627	216,228
	<u>415,551</u>	<u>642,459</u>

Income from group companies has historically been included within investment management and administration fees. In the current year income from group companies has been further disaggregated between investment management and administration fees and investments management performance fees and the comparatives (£86k) have been restated as a result.

## BlackRock Fund Managers Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 5 Administrative expenses

Administrative expenses, which primarily comprise filing and licensing fees (2022: £3.6m; 2021: £10.8m) and FX gains (2022: £5.6m; 2021: foreign exchange loss £4.6m), have decreased by £18.0m to a credit position of £1.4m in the current period (2021: £16.6m expense) due to a reduction in amounts paid to the Financial Services Compensation Scheme and FX gains offsetting expenses.

#### 6 Operating profit

Arrived at after charging:

	2022 £ 000	2021 £ 000
Foreign exchange gains/(losses)	<u>5,597</u>	<u>(4,582)</u>

#### 7 Finance income and costs

	2022 £ 000	2021 £ 000
<b>Finance income</b>		
Other finance income	<u>710</u>	<u>-</u>
<b>Finance costs</b>		
Other finance costs	<u>(1)</u>	<u>(33)</u>

#### 8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2022 £ 000	2021 £ 000
Aggregate emoluments	816	666
Company contributions in respect of defined contribution pension schemes	<u>26</u>	<u>25</u>
	<u>842</u>	<u>691</u>

Of the 8 (2021: 9) directors that served during the year, 3 were remunerated by the Company (2021: 3). The amounts included above relate to their service as directors of the Company based on an estimated time allocation basis except 3 (2021: 3) directors, who were paid an agreed fee.

The number of directors who were receiving benefits and share incentives was as follows:

	2022 No.	2021 No.
Received or were entitled to receive shares under service condition based schemes	5	6
Accruing benefits under defined contribution pension schemes	<u>5</u>	<u>6</u>

## BlackRock Fund Managers Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 8 Directors' remuneration (continued)

During the year, no director (2021: no director) exercised BlackRock, Inc. share options.

In respect of the highest paid director:

	2022 £ 000	2021 £ 000
Aggregate emoluments	233	176
Company contributions to defined benefit schemes	12	11
	<u>245</u>	<u>187</u>

During the year the highest paid director received shares under a service condition based incentive scheme. The highest paid director did not receive shares under a market performance based incentive scheme.

#### 9 Auditors' remuneration

	2022 £ 000	2021 £ 000
Audit of the financial statements	338	315
<b>Other fees to the auditor</b>		
Audit-related assurance services	<u>184</u>	<u>164</u>

Auditors' remuneration has been borne by another group company in the current and preceding periods.

#### 10 Income tax

Tax charged in the income statement:

	2022 £ 000	2021 £ 000
<b>Current taxation</b>		
UK corporation tax	3,681	5,690
Total current income tax	<u>3,681</u>	<u>5,690</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2021: higher than the standard rate of corporation tax in the UK) of 19% (2021: 19%).

The differences are reconciled below:

## BlackRock Fund Managers Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 10 Income tax (continued)

	2022 £ 000	2021 £ 000
Profit before tax	20,396	29,750
Corporation tax at standard rate	3,875	5,653
Other tax effects for reconciliation between accounting profit and tax expense	(194)	37
Total tax charge	3,681	5,690

In June 2021, the Finance Act 2021 was enacted to increase the UK corporation tax rate from 19% to 25% from 1 April 2023. The tax balances of the Company have been recognised at a rate of 19% or 25% depending on the rate at which these are expected to unwind.

During 2016, group relief previously claimed by another group company was reallocated to the company for nil payment. The group company surrendering this relief has an ongoing open matter with His Majesty's Revenue and Customs. If this open matter is resolved in favour of the group company, then the company's tax liability will decrease by approximately £2,900,000 (2021: £2,900,000).

At 31 December 2021, an International Financial Reporting Interpretations Committee 23 ("IFRIC23") Uncertainty over Income Tax Treatments balance of £194k was included in the Company's balance sheet. This balance related to an uncertain tax liability in respect of the transfer of the management responsibilities for a number of alternatives funds to another entity within the BlackRock EMEA group. This balance has been reduced to £nil during the current period, based on the recognition criteria under the standard.

The Company notes recent developments in relation to the Organisation for Economic Co-operation and Development inclusive Framework on Base Erosion and Profit Shifting which will set a new minimum global corporate tax rate of 15%. This may impact the Company's future tax charge and effective tax rate but at this stage it not possible to estimate the impact on the BlackRock Group and therefore the Company. No deferred tax assets or liabilities are recognised in the financial statements in respect of such taxes.



## **BlackRock Fund Managers Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **11 Interests in unconsolidated structured entities**

The AUM of the Company as at 31 December 2022 was £168.3bn (2021: £183.8bn).

The Company manages investment funds which are considered to be structured entities within the definition of IFRS 12 'Disclosure of Interests in Other Entities'. Structured entities are not consolidated as the Company does not have "control" as defined under IFRS 10 'Consolidated Financial Statements'. The Company receives an interest in these unconsolidated structured entities through the receipt of management and performance fees. The unconsolidated structured entities are constituted as UCITS funds and AIFs.

The unconsolidated structured entities have various investment objectives and policies and are subject to the terms and conditions of their respective offering documentation. However, all unconsolidated structured entities invest capital primarily from third-party investors in a portfolio of assets in order to provide a return to those investors from capital appreciation of those assets, income from those assets, or both. Accordingly, they are susceptible to market price risk arising from uncertainties about future values of the assets they hold.

The unconsolidated structured entities are financed through equity capital provided by investors.

The fees received during the year to 31 December 2022, in relation to the above, were £415,551,000 (2021: £642,459,000). The carrying value on the Statement of Financial Position as at 31 December 2022 is £447,518,000 (2021: £565,646,000), as represented by trade receivables and accrued income.

#### *Maximum exposure to loss*

The Company's maximum exposure to loss associated with its interest in these unconsolidated structured entities is limited to the carrying amounts shown above.

## BlackRock Fund Managers Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 11 Interests in unconsolidated structured entities (continued)

##### *Financial support*

The Company has not provided financial support to any of its unconsolidated structured entities during the year, and has no contractual obligations or current intention of providing financial support in the future.

##### *Other information*

There are no liquidity arrangements, guarantees or other commitments that may affect the fair value or risk of the Company's interest in the unconsolidated structured entities.

#### 12 Trade and other receivables

	31 December 2022 £ 000	31 December 2021 £ 000
Trade receivables	363,365	420,205
Amounts due from group companies	38,563	50,283
Accrued income	84,153	145,441
Prepayments	232	3,001
Other receivables	279	463
	<u>486,592</u>	<u>619,393</u>

Trade receivables include £358m (2021: £419m) in respect of amounts receivable for unit trading activity.

Of the amounts due from group companies above £38m (2021: £36.1m) is due from the Company's immediate parent, BIM UK, and £0.6m (2021: £14.2m) is due from other group companies.

Cash management within the BlackRock group is governed by a cash pooling arrangement. Surplus cash from BlackRock group companies is swept into HSBC accounts held by BIM UK. The balances are treated as intercompany receivables and payables between the Company and BIM UK. The balance due from BIM UK of £38,017,000 (2021: £36,112,000) in relation to this arrangement is included within receivables from group companies.

Excluding cash management balances, all other amounts due from group companies are unsecured, interest free and repayable on demand.

The estimated expected credit losses ("ECLs") as of the reporting date for trade receivables, accrued income, amounts due from group companies, and other receivables are considered to be immaterial, and therefore no allowance has been recognised in the financial statements.

## BlackRock Fund Managers Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 13 Share capital

##### Allotted, called up and fully paid shares

	No. 000	31 December 2022 £ 000	No. 000	31 December 2021 £ 000
Ordinary shares of £1 each	18,100	18,100	18,100	18,100

#### 14 Trade and other payables

	31 December 2022 £ 000	31 December 2021 £ 000
Trade payables	356,806	417,163
Accrued expenses	6,450	5,227
Amounts due to group companies	99,285	159,581
Other payables	172	443
Corporation tax liability	9,528	14,743
	<u>472,241</u>	<u>597,157</u>

Trade payables includes £356.8m (2021: £417m) in respect of amounts payable for unit trading activity.

Of the amounts due to group companies above, £96.3m (2021: £149.3m) is due to the Company's immediate parent, BIM UK, and £3m (2021: £10.3m) is due to other group companies.

All amounts due to group companies are unsecured, interest free and repayable on demand.

#### 15 Dividends

The directors are currently not proposing an interim dividend (2021: £24,060,000)

#### 16 Contingent liabilities

The company is an authorised institution and operates in the UK or overseas within the regulatory framework established by the FCA or overseas by local regulatory bodies.

In the normal course of business, the company may, from time to time, be subject to claims, actions or proceedings. While there can be no assurances, the directors believe, based on information currently available to them, that the likelihood of a material outflow of economic benefits is not probable.

## BlackRock Fund Managers Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 17 Fair value measurement

The fair values of financial assets and financial liabilities are determined as follows:

Level 1 - fair value measurement derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - fair value measurement derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices).

Level 3 - fair value measurement derived from unobservable inputs for the asset or liability.

The following tables provide the fair value measurement hierarchy of the Company's assets and liabilities.

#### Assets measured at fair value 2022

	Level 2 £ 000	Total £ 000
Derivatives - foreign exchange forward contracts	256	256

#### Assets measured at fair value 2021

	Level 2 £ 000	Total £ 000
Derivatives - foreign exchange forward contracts	397	397

#### Liabilities measured at fair value 2022

	Level 2 £ 000	Total £ 000
Derivatives - foreign exchange forward contracts	172	172

#### Liabilities measured at fair value 2021

	Level 2 £ 000	Total £ 000
Derivatives - foreign exchange forward contracts	443	443

There were no transfers between levels during the year.

#### *Valuation methods and assumptions*

##### **Foreign exchange forward contracts:**

The fair values of derivative instruments are calculated using observable inputs and therefore categorised as level 2 securities in the fair value hierarchy. At the Statement of Financial Position date foreign exchange forward contracts were in place to hedge the transactional foreign exchange exposure of the entity. These forwards are short term in nature and normally have a tenor of less than one month.

There were no changes to the valuation techniques during the year.

## **BlackRock Fund Managers Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **18 Related party transactions**

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow members of the group.

Details of directors' remuneration are set out in note 8. There are no personnel other than directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the Company.

#### **19 Parent and ultimate parent undertaking**

The Company's immediate holding company is BIM UK and the ultimate parent company and controlling party is BlackRock, Inc. a company incorporated in the State of Delaware in the United States of America. The parent company of the largest and smallest group that includes the Company and for which group accounts are prepared is BlackRock, Inc. Copies of the group financial statements are available upon request from the Investor Relations website at [www.blackrock.com](http://www.blackrock.com) or requests may be addressed to Investor Relations at 50 Hudson Yards, New York, NY 10001, USA or by email at [invrel@blackrock.com](mailto:invrel@blackrock.com).