

Fidelity Live: Sustainable investing in a just transition

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Key points

- A just transition considers the transition from a high carbon to a low carbon economy in a manner which is fair for everyone.
- As part of our awareness campaign, Fidelity, in partnership with Coalition Greenwich, surveyed the opinions of over 120 institutional and intermediary investors across Europe and Asia to find out what a just transition means for them.
- Our research highlights only 42% of investors are familiar with the concept of 'just transition'. But when explained, 91% believe it will have a positive impact on risk / return profiles in the long term.
- As an active asset manager, Fidelity has a key role to play in helping to decarbonise the economy, while supporting the communities and countries that need it the most to transition. This starts with education, awareness, and engagement.
- Our active ownership is implemented in three core ways: bottom-up corporate engagement through fundamental research, top-down thematic engagement, and system-wide stewardship for positive impact on economy.
- At Fidelity, we want to amplify the message that the transition to a low-carbon economy needs to be a just one. That's why we're working with companies and clients to help them understand what a just transition will look like and what that means for the decisions we all make each day.

What is a 'just transition'

Jenn-Hui Tan: At the outset, it is important to understand what we mean by a 'just transition' – a complex and still a nascent issue. A collective effort is needed to decarbonise as rapidly as possible if we are to stem the fallouts from climate change. But efforts to decarbonise should not leave behind certain groups of individuals or communities whose livelihoods are dependent on fossil fuels or carbon intensive industries, either economically or socially.

A just transition considers the transition from a high carbon to a low carbon economy in a manner which is fair for everyone. Indeed, the critical need for a just transition is recognised in the Paris Agreement.

Moreover, investing responsibly and considering the impact to our investments is part of our fiduciary duty, and this is why just transition is one of Fidelity's key sustainability priorities. As an active asset manager, we have a key role to play in helping to decarbonise the economy, while supporting the communities and countries that need it the most to transition. This starts with education, awareness, and engagement.

Investors lack understanding of 'just transition'

Jenn-Hui Tan: As part of our awareness campaign, Fidelity, in partnership with Coalition Greenwich, surveyed the opinions of over 120 institutional and intermediary investors across Europe and Asia to find out what a just transition means for them. The survey found that the concept of just transition is familiar to only 42% of respondents, with awareness lower in Asia (30%) relative to European investors (47%).

In line with the lack of familiarity with the term, investors also revealed a lack of conviction that, as a society, we are likely to achieve a just transition. Indeed, 43% of respondents suggest it is unlikely; and if we are to achieve it, over a quarter of investors believe the transition will take more than 15 years, while 52% believe it will be an ongoing process.

This lack of awareness and low level of conviction may explain why only 35% of those familiar with just transition already have or are developing a dedicated investment strategy focused on this theme. Europe seems to be stepping ahead with 38% of respondents have - or are

currently developing - a dedicated investment strategy versus just 20% in Asia. However, over half (52%) of investors currently consider it as part of a wider approach to ESG.

In the long-term, the majority of investors surveyed overwhelmingly believe investing in a just transition will have a positive (91%) impact on risk / return profiles, demonstrating that investors do see this theme as an investment opportunity. When asked about the top reasons for investing in a just transition, over three quarters (77%) of respondents chose “having a positive impact on the environment by achieving net zero” alongside “having a positive impact on the society” (73%), highlighting the close connection between environmental and societal considerations.

Given this response, it comes as no surprise that 92% of the responses highlight the sector of renewable energy as the most attractive from an investment perspective, followed by technology & IT (61%) and agrifoods (60%). In terms of asset classes, 89% of investors believe equities will play the most significant role in achieving a just transition, followed by private assets (81%) and thematic investments (66%).

How we integrate just transition into our investment platform

Emilie Goodall: At Fidelity, we want to amplify the message that the transition to a low-carbon economy needs to be a just one. That’s why we’re working with companies and clients to help them understand what a just transition will look like and what that means for the decisions we all make each day.

In terms of how we look at just transition in our investment process, our analyst team produces ESG ratings for each issuer under their coverage and ‘just transition’ considerations are actively assessed during this process, depending on materiality to the company and its industry. These insights are then fed through our investment process and our engagement activities, whether this is analyst-led (company-specific interactions or “bottom-up” engagements) or led by specialists from our sustainable investing team (typically thematic, or “top-down”).

One example of a thematic engagement related to our just transition activities is our commitment to phase out thermal coal from our portfolios. When formulating the engagement, we tried to approach the challenge thoughtfully. No one transition looks the same and there are some really challenging trade-offs companies and governments are facing. Beyond that, we think considering the social context allows us to better understand the key drivers/barriers that have led to the current situation. This, in our view, increases the

likelihood of a constructive dialogue and therefore the chances of success.

Transition requires collaboration and coordination between investors and civil society. Fidelity is a member of the Powering Past Coal Alliance (PPCA), a coalition of national and subnational governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy. We are also a founding participant to the Just Transition Finance Challenge, where we are among 17 investors working to develop market standards. Our work here resulted in a set of criteria released earlier this year that could underpin a just transition label for investment products.

Important information

All information is current as at 10 October unless otherwise stated.

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