

At a glance

How Fidelity's Climate Investing Policy Impacts Portfolios



Jenn-Hui Tan

Global Head of Stewardship and Sustainable Investing

As a founding signatory to the Net Zero Asset Managers Initiative, we understand the importance of managing the climate risks and opportunities in our investment portfolios to align with the Paris Agreement. We also realise the task is one of the most challenging facing us, our clients, portfolio companies and governments worldwide. Our climate change investing policy details how we plan to work with stakeholders to reduce climate risk across investment strategies in a way that aligns with our foundation in active, bottom-up research. (See Figure 1)

Net zero toolkit: Mitigating climate risks in investment portfolios

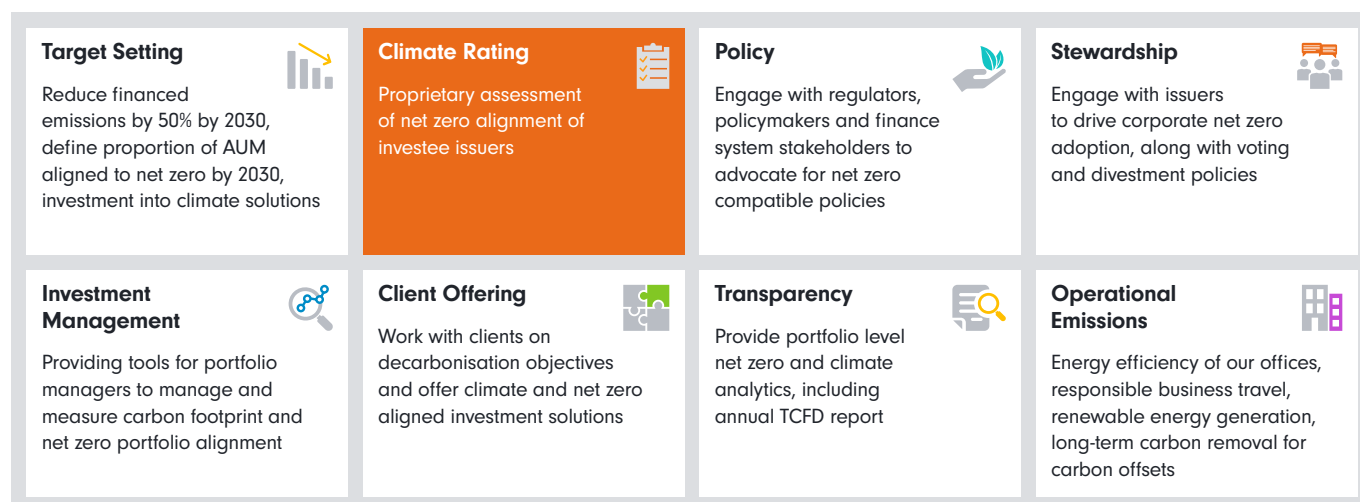
At the heart of our methodology is the ambition to assess transition potential of our portfolio companies to align our funds to a 'net zero by 2050 or before' pathway. This approach is arguably far more complex than simply decarbonising portfolios by divesting high emitters and investing in low emitters. However, we believe it will make at least an equal reduction in portfolio GHG emissions while

Figure 1: Components of a climate-focused investment process



Source: Fidelity International, 2021. *Aligned with IIGCC

Figure 2: Net zero toolkit



Source: Fidelity International, 2021.

having real world impact and increasing the potential to generate returns to meet our clients' investment goals. To that end, we are introducing our Climate Rating platform to measure net zero alignment at the individual security level, complementing existing measures to transition the global economy. Through this method, alongside other tools in our net zero toolkit (See Figure 2), we can assess transition potential and align our funds to a 'net zero by 2050' pathway.

Voting, engagement and collaboration

We want to incentivise companies to increase the scale of their climate ambitions, particularly those in high-emitting sectors because that's where we can have a significant impact in reducing global GHG emissions in the next decade. The ability to influence rests on our weight as one of the world's largest active asset managers, and we plan to apply our financial strength to align with net zero targets as follows:

- Our voting policy is designed to support companies that meet our standards of meaningful action to manage climate change risks. For example, they must disclose science-based data on carbon footprint, climate targets, risk management and oversight.
- Our engagement approach centres on a set of minimum climate-based requirements in areas including the following: disclosures of Scopes 1, 2 and 3 GHG emissions data; business alignment to Paris Agreement goals; and a credible climate change policy and a net zero plan. For companies in certain high-emitting sectors, starting with thermal coal, we will use a more intensive, time-bound approach to engagement, with divestment as a last resort.

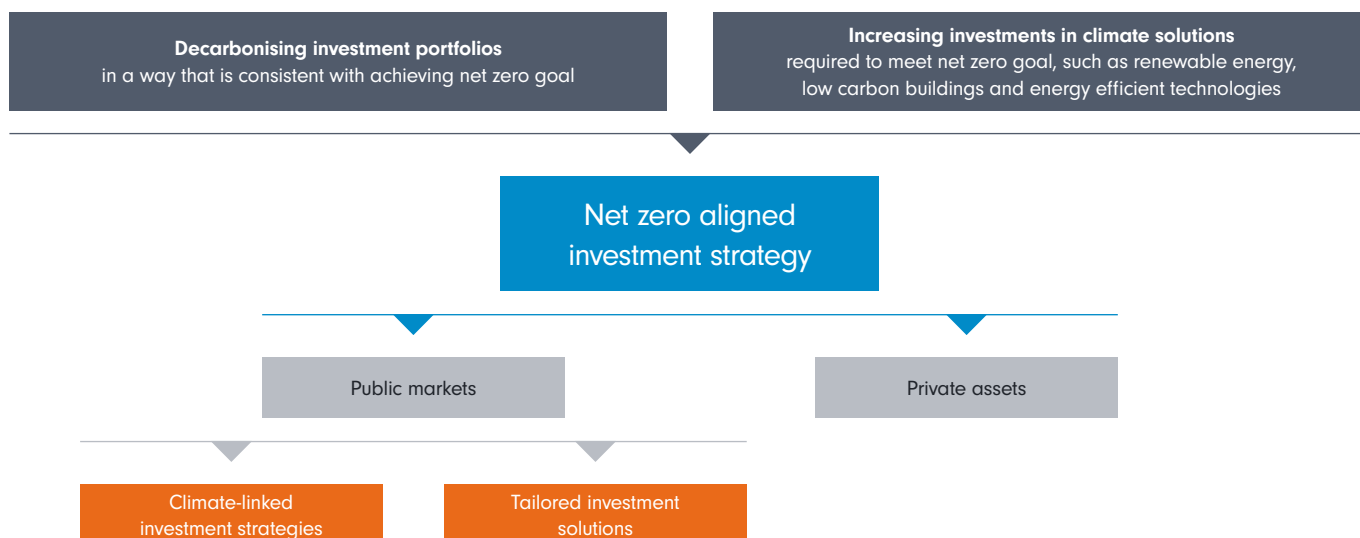
- Collaboration with policymakers, governments, industry groups and other stakeholders is essential. We regularly contribute to public consultations and provide expert views on topics such as financing the low-carbon transition and the role that asset managers can play.

Climate-based solutions

While it is crucial to reduce the carbon footprint of our investment portfolios, we also see opportunities to allocate capital to transition the global economy to net zero. Climate risks and opportunities are quickly evolving, and investors who can adapt their portfolios accordingly will benefit. Therefore, we are working with clients to provide the right tools to fulfil their net zero investment objectives. (See Figure 3)



Figure 3: Investment solutions to harvest climate opportunities

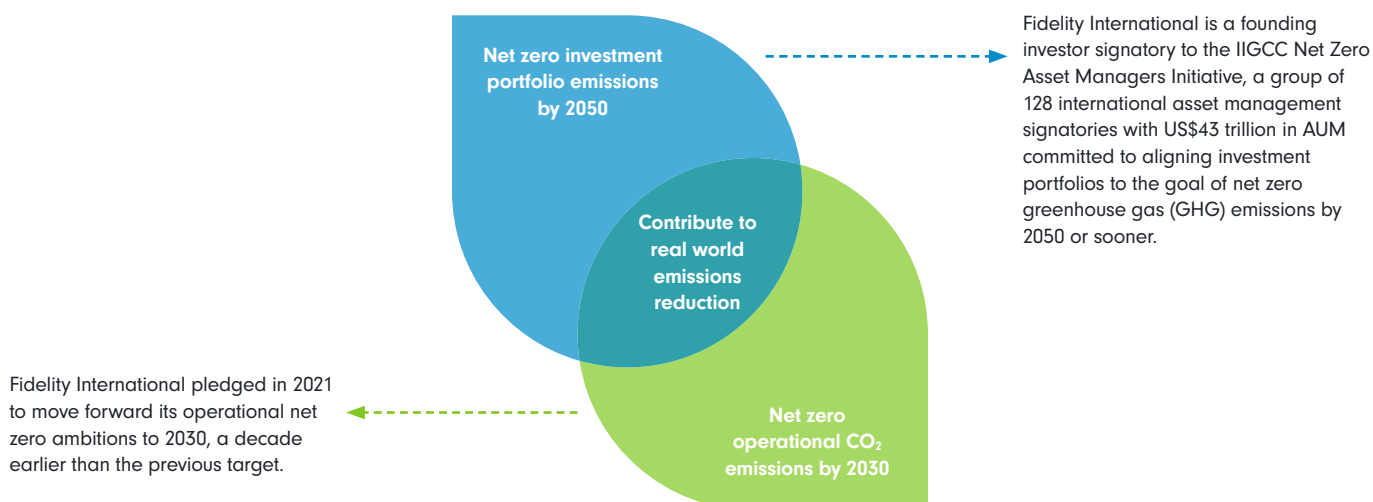


Source: Fidelity International, 2021.

Dual paths to net zero

In the context of climate change, our role as stewards of our client capital means understanding the key environmental risks and opportunities to help meet financial and non-financial goals. We believe the biggest impact we can have to help protect the planet is through investment and engagement, ensuring that issuers integrate climate change into their business decisions. We also demonstrate our own commitment by targeting an operational net zero target in our own business by 2030. (See Figure 4) The aim, in both instances, is to meaningfully reduce real-world emissions.

Figure 4: Two core pledges



Source: Fidelity International, 2021.

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