

# Our approach to sustainable investing



“ We believe that by investing in companies which operate with high standards of corporate responsibility, we can protect and enhance investment returns for our clients. ”

Through our rigorous bottom-up research process, we gain an in-depth understanding of environmental, social and governance (ESG) risks and how companies impact the environment and societies. We address issues at a company level before they escalate and potentially threaten the value of our clients' investments.

## Three pillars underpin our approach



**1** Integrated  
ESG analysis



**2** Engagement



**3** Collaboration

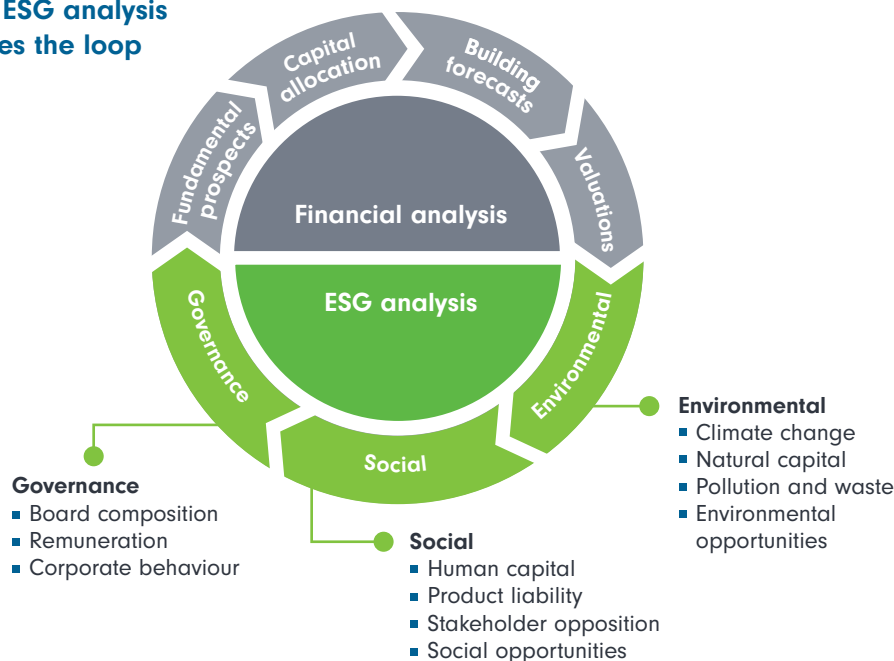
# 1 Integrated ESG analysis

Fidelity's heritage is based on our deep fundamental approach to company research and analysis by our 400+ investment professionals around the world.

Our ESG analysis complements our financial analysis to develop a holistic view of every company we research and monitor.

We use our own proprietary sustainability ratings, the input from our large specialist ESG team and external analysis and ratings to inform our view on a company's ESG performance.

Our ESG analysis closes the loop



## A forward-looking, proprietary approach

In 2019, we launched our own sustainability ratings system. Our team of 180 fixed income and equity analysts worldwide assess each company we research using a 'double materiality' framework. This involves not only looking at ESG risks but also at companies' social and environmental impacts. This approach makes our sustainability ratings more forward looking.

Our analysts also indicate whether they think a company's ESG performance is improving, deteriorating or stable. Our assessment helps to inform our investment decisions, identify future opportunities and importantly, helps to identify the key risk areas to address in our engagement.

Our Climate Rating, introduced in 2021, complements our sustainability ratings, and is used to assess companies on three key areas – net zero ambitions, climate governance and capital allocation to transition. We use this analysis to assess how attractive a company will be in the long-term, depending on how it's exposed to climate related risks.

### Fidelity's proprietary ESG ratings

#### Why our own ratings?

Does not solely rely on public disclosures

More forward looking

Fundamental analysis

Allows fuller coverage

#### How we make them

Collaborative input across 180 equity and fixed income analysts not solely rely on public disclosures

Rated relative to peer group on a standardised basis

Forward-looking assessment of a company's ESG trajectory (improving, stable, deteriorating)

Quantify impact on valuation



Ranked A – E

99 sub-sectors

5 to 8 KPIs each

## 2 Engagement

Through our deep bottom-up fundamental research analysis, we identify company-specific ESG issues which we will engage on with the aim to improve corporate behaviour. Rather than excluding these companies from our investment universe, we believe effective change can be made through active engagement.

Last year, we engaged with more than 700 companies on issues such as governance and remuneration, board composition, capital structure and environment and social issues.

### Case studies

Here we share some recent case studies – many more can be found in our [2021 Sustainability Report](#), available on our website.

## Biodiversity

The devastation caused by human encroachment into natural habitats, exacerbated by climate change is a key engagement theme for Fidelity.

### Case study: In the weeds with one of the world's largest pulp producers

Suzano is the world's largest pulp producer and a natural candidate for our first thematic engagement.

Biodiversity was absent from Suzano's 2020 sustainability targets. We engaged on the topic and Suzano explained that setting a biodiversity target required cooperating with neighbouring plantations, communities and academics, and it had plans to do so.

In June 2021, the company unveiled its goal of linking 500,000 hectares of priority areas for biodiversity conservation by 2030. Suzano told us it was preserving species in surrounding areas and intersperses its plantations with actively restored native forest.

It has a zero-deforestation policy and plants eucalyptus on degraded pastureland, creating food and shelter for animals (albeit less than native forests provide).

We asked Suzano how it measures success and it told us that about 80% of its land is certified by the Forestry Stewardship Council.<sup>1</sup>

As Suzano grows more eucalyptus, it will aim to keep the share of preserved forest stable at about 40%. It is not clear whether this percentage is enough to prevent species loss and is something we intend to explore further.

We continue to encourage Suzano to be bolder on emissions and are investigating how ambitious its new biodiversity target is and what kind of impact it will have. These steps should help improve its external ESG ratings and we have already raised our own rating of the company.

## Ways we engage with companies



## Supply chain management

The emergence of Covid-19 produced a plethora of crises around the globe.

### Case study: Crisis at sea

In 2020, as the Covid-19 crisis deepened, there were 400,000 forgotten maritime workers stranded at sea.

Shipping is responsible for 90% of global trade. It is essential not just to a global economic recovery from Covid-19, but to maintaining our current way of life.

To protect global supply chains and seafarers' health and safety, we sounded the alarm by actively engaging with our investee companies on the issue.

In an open letter to the United Nations, and in consultation with key marine organisations, a consortium of international investors led by Fidelity and representing US\$2 trillion of assets under management, sought to end this humanitarian crisis.

Our campaign called for urgent action to address this overlooked global humanitarian crisis and preserve the long-term sustainability of global supply chains.

One year on and the number stranded has halved to 200,000. However, despite these improvements, the issue has not been fully resolved and the threat of new Covid-19 variants could quickly reverse the tide. Seafarers still stuck far from home are often not part of local vaccine programmes and continue to face pandemic-related restrictions.

We continue to engage and urge fellow investors to engage with companies on this issue, and to keep up the pressure on governments to take the necessary actions and the media to keep raising awareness of the seafarers' plight.

## Modern slavery

We broadened and deepened our engagements concerning modern slavery in 2020.

Modern slavery covers a variety of situations in which people are forcibly or financially controlled for the purpose of exploitation.

We monitor for modern slavery in the supply chains of investee companies and often engage to encourage better practices and increase transparency and disclosure regarding supply chain management.

Our approach to combat slavery and human trafficking can be found on our website at [www.fidelity.com.au/legal/modern-slavery-transparency-statement/](https://www.fidelity.com.au/legal/modern-slavery-transparency-statement/).



## Voting

Fidelity's voting activities are a cornerstone of our active investment philosophy and key to our role as responsible stewards of client funds.

In 2021 we introduced new policies on climate change and diversity. We will engage on companies on these issues and will not support boards where companies do not meet our expectations.

## Climate

Our voting policy on climate is designed to support the implementation of the Paris Agreement and limit global warming to well below 2°C.

We expect our investee companies to:

- Take action to manage climate change impacts and reduce their greenhouse gas emissions.
- Make specific and appropriate disclosures around emissions, targets, risk management and oversight.

Where companies fall short of our minimum expectations, we will vote against directors.

## Diversity

Our voting policy is designed to encourage gender-balanced boards.

Beyond our expectations at board level, we expect companies to:

- Establish and uphold comprehensive and effective diversity and non-discrimination policies.
- Demonstrate alignment with our belief that diversity helps deliver long-term shareholder value.
- Regularly review their hiring and promotion practices to ensure against bias, and to set ambitious diversity targets appropriate to the business.

Where companies fall short of our minimum expectations of having at least 30% female board representation in the most developed markets and 15% in all other markets, we will consider voting against management.

See our [Voting Policy Report 2021](#) for more detail, with regular updates in our 'Proxy Reporting' section on our website.

## Our Sustainable Investing Team

We have a well-resourced specialist Sustainable Investing Team around the globe at the forefront of the latest ESG trends and issues.

The team share their insights and knowledge across the organisation, and help drive our engagement and sustainable investment integration across geographies and asset classes.



## Corporate sustainability at Fidelity

To generate and deliver positive financial and societal outcomes, we need to run our business in a responsible and sustainable way.

We've recently raised our corporate sustainability ambitions and defined

a roadmap of goals to keep us accountable. See below for a summary of our goals.

The long-term commitments such as our ambition to reduce our operational carbon emissions to net zero by 2030 provide direction, while the short- to medium-term goals provide a roadmap.

We believe it is imperative for us to be transparent not only about where we want to be but also how we intend to get there.

See our [Corporate Sustainability Report 2021](#) on our website for more detail.

Our 2024 sustainability goals			
Improving our environment		Strengthening our workplace	
<b>Standardisation</b>  <b>Carbon footprint reduction</b>  <b>Conservation</b>	<ul style="list-style-type: none"> <li>■ ISO 4001 environmental management system certification.</li> <li>■ 25% reduction in energy consumption.</li> <li>■ 25% reduction in carbon emissions.</li> <li>■ 25% waste reduction.</li> <li>■ 25% reduction in water consumption.</li> <li>■ 80% increase in recycling rate.</li> <li>■ 50% reduction in paper usage.</li> <li>■ 50% reduction in air travel carbon emissions.</li> </ul>	<b>Diversity</b>  <b>Equity</b>  <b>Inclusion</b>	<ul style="list-style-type: none"> <li>■ 45% of board members to be women.</li> <li>■ 35% of global senior management roles held by women.</li> <li>■ 45% of global workforce to be women.</li> <li>■ Annual reduction in UK median gender pay gap.</li> <li>■ Gather ethnicity data for at least 70% of global workforce and set new diversity goals</li> <li>■ ISO 45001 health and safety management system certification.</li> <li>■ Evolve dynamic working programme to improve work-life balance.</li> </ul>
Buying responsibly from our suppliers		Creating resilient workplaces	
<b>ESG monitoring</b>  <b>Supplier diversity</b>  <b>Responsibility to suppliers</b>	<ul style="list-style-type: none"> <li>■ Modernise and optimise the way we purchase.</li> <li>■ ESG monitoring for 90% of our high-risk suppliers and 80% of our annual spending.</li> <li>■ 95% of suppliers with unsatisfactory scores put on improvement plans.</li> <li>■ 95% of tenders include at least one diverse supplier.</li> <li>■ 1,000 diverse suppliers engaged in 'How to do business with us' programmes and 10% onboarded.</li> <li>■ Embed sustainability in procurement processes and tracking mechanisms.</li> </ul>	<b>Financial support</b>  <b>Volunteering</b>  <b>Payroll giving</b>  <b>Fundraising</b>	<ul style="list-style-type: none"> <li>■ 25% participation rate in Workplace Giving.</li> <li>■ Year-on-year increase in employee use of volunteering hours.</li> <li>■ 200+ charities supported.</li> </ul>

For more detailed information about our approach to sustainable investing, visit our website at [fidelity.com.au/sustainable-investing](https://fidelity.com.au/sustainable-investing)

### 3 Collaboration

The third pillar of our approach to investing for positive change is our involvement with key industry initiatives.

Members of Fidelity's Sustainable Investing Team work closely with external ESG related bodies that seek to improve the way industries are regulated, how companies are managed and to promote sustainable investing and social development.

Our approach is to participate in ESG-related consultations through our membership, although we may also respond to consultations directly if our views aren't reflected or if we hold a particularly strong view.

#### A sample of the external memberships and signatories we belong to around the world



We have been a signatory to the Principles for Responsible Investment (PRI) since 2012. We are proud of our ratings. In 2021 we scored A+ in all categories assessed by PRI.



## Engagement in 2020 at a glance

**716**

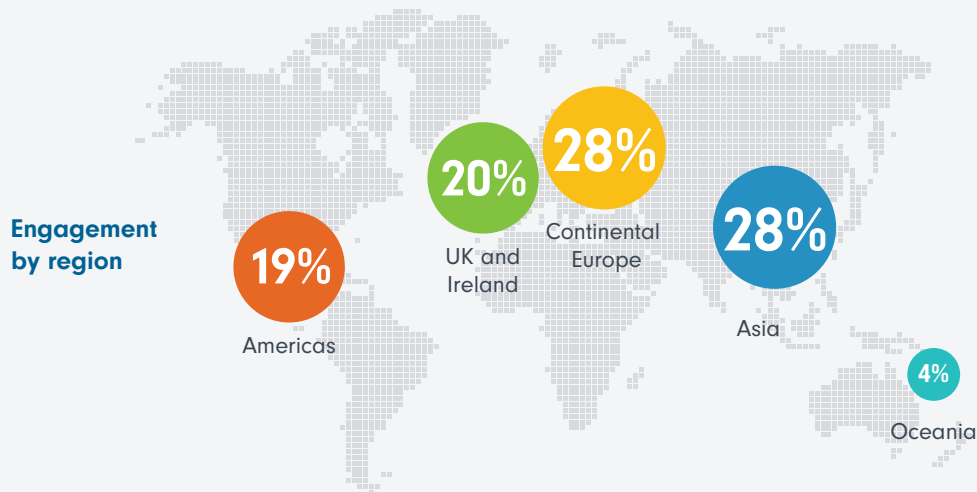
Companies actively engaged with

**3,800+**

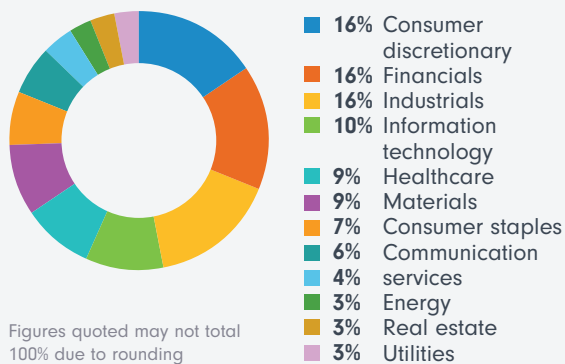
Shareholder meetings at which we voted

**16,000**

Meetings conducted with companies



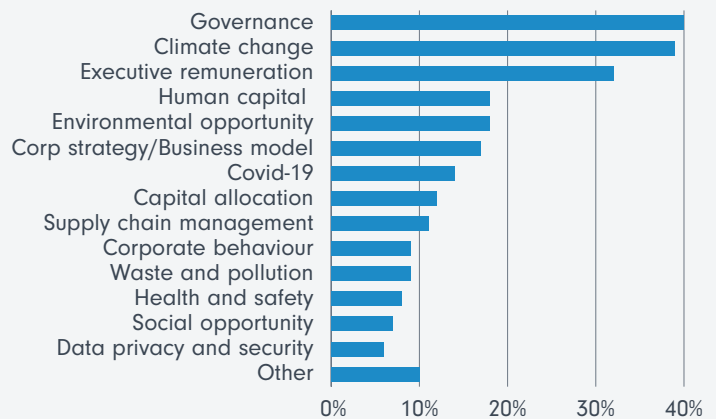
### Engagement by industry



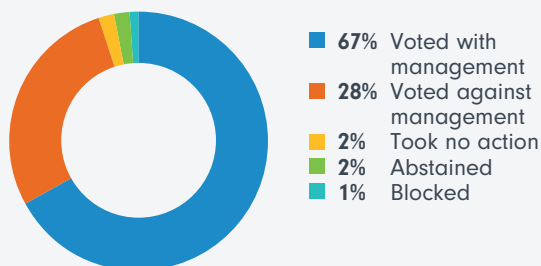
### Engagement by theme

Topics discussed during engagement meetings with companies

Note: Excludes written correspondence



### How Fidelity voted in AGMs



Source: Fidelity International, July 2021.

For more detailed information about our approach to sustainable investing visit our website [fidelity.com.au/sustainable-investing](https://www.fidelity.com.au/sustainable-investing)



1. The scope for the emission target includes all scope 1, 2 and 3 over which we have direct control.

This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL No. 409340 ('Fidelity Australia'). Fidelity Australia is a member of the FIL Limited group of companies commonly known as Fidelity International. **This document is intended for use by advisers and institutional investors. Retail investors should not rely on any information in this document without first seeking advice from their financial adviser.** All information is as at **1 December 2021** unless otherwise stated.

This document has been prepared without taking into account your objectives, financial situation or needs. You should consider these matters before acting on the information. You should also consider the relevant Product Disclosure Statements ('PDS') for any Fidelity Australia product mentioned in this document before making any decision about whether to acquire the product. The PDS can be obtained by contacting Fidelity Australia on 1800 119 270 or by downloading it from our website at [www.fidelity.com.au](https://www.fidelity.com.au). This document may include general commentary on market activity, sector trends or other broad-based economic or political conditions that should not be taken as investment advice. Information stated herein about specific securities is subject to change. Any reference to specific securities should not be taken as a recommendation to buy, sell or hold these securities. Investments in overseas markets can be affected by currency exchange and this may affect the value of your investment. Investments in small and emerging markets can be more volatile than investments in developed markets. While the information contained in this document has been prepared with reasonable care, no responsibility or liability is accepted for any errors or omissions or misstatements however caused. This document is intended as general information only. The document may not be reproduced or transmitted without prior written permission of Fidelity Australia. The issuer of Fidelity's managed investment schemes is FIL Responsible Entity (Australia) Limited ABN 33 148 059 009. Reference to (\$) are in Australian dollars unless stated otherwise.

© 2022 FIL Responsible Entity (Australia) Limited. Fidelity, Fidelity International and the Fidelity International logo and F symbol are trademarks of FIL Limited.