Annual outlook

ESG Outlook 2022

Three key priorities in sustainable investing

An investor's guide to the year ahead across environmental, social and governance (ESG) factors including the key themes of deforestation, the just transition and double materiality.

Fidelity INTERNATIONAL

Three key priorities

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For investors focused on sustainability, 2021 was a year dominated by the runup to and takeaways from November's COP26 climate change negotiations in Glasgow, Scotland.

But the true test is just beginning now: What actions will countries take to deliver on their pledges, not only in terms of emission cuts but in preserving our biological diversity and ensuring a fair and equitable transition to a low carbon world? As we head into 2022, we see three big themes coming into greater focus: deforestation, the just transition and double materiality.

1. Deforestation

Ending deforestation is critical to curbing climate change and protecting the world's biodiversity. Reducing greenhouse gas emissions is only part of the battle; we also need to actively remove carbon from the atmosphere if we're to stand a chance of meeting mid-century global targets for curtailing global warming and achieving net zero.

One of the simplest and most effective ways of removing carbon from the atmosphere is a natural one: ending deforestation. Globally, natural capital has been undervalued for decades. And it's not only the emission cuts that forests bring - they are also home to most of the world's terrestrial biodiversity and support the food security, jobs and livelihoods of many millions of people across the world. One encouraging highlight from COP26 was a commitment from more than 100 world leaders to end deforestation by 2030. But as investors we think we can be more proactive in this regard. Specifically:

- At COP26 in Glasgow, Fidelity joined over 30 financial institutions representing more than US$8.7 trillion in assets under management in signing a pledge to eliminate agricultural commodity-driven deforestation risks across our investment portfolios by 2025. This pledge puts a focus on key 'forest-risk' agricultural commodities like palm oil, soy, beef and leather, pulp and paper, and starts with an exposure assessment to be completed by the end of 2022.
- We also joined the Natural Capital Investment Alliance, a group of 15 asset managers who have collectively pledged to mobilise more than US$10 billion by the end of 2022 into investment products aligned with protecting natural capital. This ranges from direct investments in

sustainable forestry to investments in businesses that act to relieve pressure on forestry, biodiversity, and ecosystems.

2. The just transition

Rich countries grew rich on the back of the carbon emissions created through industrialisation. It is right that they are now leading the decarbonisation charge. But the drive to net zero shouldn't prevent developing economies from developing or employees who are displaced by greener technologies from finding meaningful work.

This is what we mean by a just transition. Fidelity's new climate investing policy supports this and prioritises active engagement over passive exclusion across our investment portfolios. Throughout 2022, we will be targeting the biggest emitters through transition engagement, starting with thermal coal producers. We will expand this engagement to utilities and power generators, leading to a phase-out of thermal coal exposure across our portfolios by 2030 for OECD markets and by 2040 globally. The private sector has a key role to play in facilitating the shift to clean energy, but in a way that scales genuine alternatives for baseload power generation in the many countries that remain dependent on fossil fuels while also addressing the social challenges for workers and communities impacted by the transition. The race to net zero can't afford to leave anyone behind.

3. Double materiality

Double materiality recognises that companies are not only responsible for managing the financial risk of the social and environmental factors upon which they depend - it also means that companies are responsible for the actual impact that their business has on people and the planet. As investors driven by fundamental research, we are seeking to embed this principle of double materiality in the next iteration of our proprietary forward-looking sustainability ratings, and to integrate the non-financial impact of our decisions as investors.

Fidelity's ESG ratings span our equity and fixed income coverage universe and now include around 5,000 companies. We are constantly adding more. In addition, we are introducing a specific and proprietary climate rating to assess the genuine ambition and alignment of our investees to a net zero future. This is just one way we are putting our beliefs into action, because in the long run, profitability can't exist without sustainability.

Ecological wall and ceiling panel heating system, controlled via mobile phone. (Credit: picture alliance / Contributor, Getty Images)

Important Information

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