Response to ESG Questionnaire
Fidelity

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Introduction

The issue of defining ESG and how individual companies express their specific values is now at the forefront of many of our clients' minds. We have researched SRI funds for many years now and have a separate rating category, but we acknowledge that this is now a mainstream strategy for an increasing number of investors and ESG issues are impacting all funds, not just those designated responsible or SRI.

In order to understand each company's stance on ESG factors at the corporate level, and how this is built into the investment managers' research and process we ask all our rated fund managers four questions:

- Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.
- Please provide an overview of how ESG is integrated into your business.
- Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.
- What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

The responses given by Fidelity are shown here.

1. Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.

At Fidelity International (Fidelity), we are dedicated to achieving the best possible risk-adjusted returns for our investors. We believe that high standards of corporate responsibility generally make good business sense and have the potential to protect and enhance investment returns. Consequently, we integrate environmental, social and governance (ESG) issues into our research and investment decision-making process as we believe it has the potential to affect the long-term value of an investment.

Fidelity's approach to integrating ESG factors into our investment analysis includes the following activities:

- In-depth research;
- Company engagement;
- Active ownership; and
- Collaboration within the investment industry.

Our integrated ESG approach is relevant across all asset classes, sectors and markets in which we invest.

As an active bottom-up research house, we have always looked beyond financial reporting to gauge the value of an investment, including regular dialogue with investee companies, evolving regulatory environment and other factors that might impact sustainable cash flows over our investment time horizon (including those that are now labelled as ESG). We started to formally integrate ESG into our investment and research process since we became signatories to the Principles for Responsible Investment (PRI) in October 2012. The PRI are supported by the United Nations (UN).

Sustainable investing policies

Our approach to integrating ESG aspects into our investment processes is detailed in the following policies:

Sustainable Investing Principles (Published 2013, Updated 12/2022)

Our Sustainable Investing Principles sets out the guiding principles and minimum requirements for Fidelity's sustainable investing activities across all asset classes and geographies.

Engagement Policy (Published 02/2021)

Our Engagement Policy sets out how we undertake stewardship and shareholder engagement across our listed equity and fixed income holdings.

Exclusion Policy (Published 12/2021)

Our Exclusion Policy forms part of our Sustainable Investment Policy and defines the main requirements for an effective exclusion framework applicable throughout the organisation.

Voting Principles and Guidelines (Published 07/2021, updated 03/2023)

Our Sustainable investing voting principles and guidelines provides information on how we exercise ownership rights through voting to improve sustainable business behaviour and client returns.

Climate Investing Policy (Published 10/2021)

Our Climate Investing Policy details how we plan to work with stakeholders to reduce climate risk across all investment strategies in a way that aligns with our foundation in active, bottom-up research.

Nature Roadmap (Published 11/2023)

Our Nature Roadmap details how we are enhancing the integration of nature into our investment platform to help create a world where both people and the planet can thrive.

Deforestation Framework (Published 12/2022)

Our Deforestation Framework outlines how we engage with stakeholders to address agricultural commodity-driven deforestation risks across our investment strategies, aligned to our active, bottom-up investment approach.

All our sustainable investing related policies and reports are available on our website:
https://professionals.fidelity.co.uk/sustainable-investing/our-policies-and-reports

Governance and oversight of our sustainable investing activities

The following individuals and teams are responsible for maintaining and integrating Fidelity's ESG policies:

- The board members of FIL Limited (the ultimate holding company of the group that trades as Fidelity International) have oversight and accountability for sustainable investing. The Sustainable Investing Team reports to the board on its activities on a semi-annual basis. The board approves any changes or amendments to our Sustainable Investing Principles, including our voting guidelines.
- A Sustainable Investing Operating Committee (SIOC) was formed in 2017. The purpose of the group is to ensure a comprehensive oversight of all ESG matters within the company across all jurisdictions and business areas. The group is comprised of members of our senior management team representing all asset classes. The SIOC meets monthly to review any ESG company policy changes, industry developments, client requirements, new product innovations and regulatory updates, and will ensure the alignment of all active ESG initiatives across the company. Ad-hoc meetings may be called to address pressing issues that may arise that need addressing in advance of the next scheduled meeting.

- Andrew McCaffery, our Global Co-Chief Investment Officer Fixed Income, Multi Asset and Private Assets (and a member of our Global Operating Committee (GOC)) also has oversight and accountability for our sustainable investing strategy and activities globally.
- Jenn-Hui Tan, our Chief Sustainability Officer, oversees Fidelity's strategy and policies on engagement, voting and ESG integration across our active product range. He manages our dedicated Sustainable Investing Team that is comprised of 39* sustainable investing specialists, based in London, Singapore, Hong Kong, Shanghai, Melbourne, Sydney and Tokyo, who work closely with the investment management teams globally across all asset classes. They are responsible for consolidating our approach to ESG integration, engagement and voting.
- Our heads of research are also directly involved in the implementation of sustainable investing principles and procedures in the company. Specifically, our global head of research has final approval on which external ESG research vendors we engage.
- Fidelity's research analysts have overall responsibility for analysing and rating the ESG performance of the companies and buildings in which we invest. Our portfolio managers are also active in analysing the potential effects of these factors when making investment decisions, ensuring that each stock in the final portfolio adheres to the strategy's and clients' ESG requirements.
- The Compliance Monitoring Team monitors the portfolios with screening criteria systematically through hard-coded restrictions in the investment guidelines.

*Source: Fidelity International, as at 31 December 2023.

2. Please provide an overview of how ESG is integrated into your business.

ESG integration is carried out at the fundamental research analyst level within our investment teams, primarily through the implementation of Fidelity's proprietary ESG Rating. This rating leverages our internal research capabilities and our engagement with companies to inform our view on a company's sustainability credentials.

The cornerstone of our investment approach is bottom-up research. As well as studying financial results, our portfolio managers and analysts are dedicated to carrying out additional qualitative analysis of potential investments. They visit companies in person, examining everything that could have an effect on its business, from the shop floor to the boardroom. Customers and suppliers also come in for scrutiny. In this way we can develop a 360-degree view of every company in which we invest and ESG factors are regularly considered in this research process.

On the credit side, our fixed income analysts analyse companies in order to develop a deep understanding of their business, their outlook and their creditworthiness. Engagement with companies is also part of our credit analysts' approach and we engage with bond issuers communicating to them any specific concerns we may have in respect of investment or ESG issues.

A key concern for our Sovereign Credit Team is the long-term sustainability of a country's economic and political situation and therefore addressing ESG issues logically aligns with their country analysis. Our Fixed Income Team will consider ESG factors when they are material to both the creditworthiness and investment performance of the country being analysed. Our sovereign analysts also undertake a large amount of quantitative macro research which is shared with our Equity and Solutions and Multi Asset Teams.

Our Real Estate Team identifies relevant issues for responsible property investment through the lifecycle of property ownership. This includes environmental risk assessments and ongoing review of energy use.

Examples of ESG factors that our investment teams may consider as part of their company and industry analysis include:

- Corporate governance (for example, board structure, executive remuneration)
- Shareholder rights (for example, election of directors, capital amendments)
- Changes to regulation (for example, greenhouse gas emissions restrictions, governance codes)
- Physical threats (for example, extreme weather, climate change, water shortages)

- Brand and reputational issues (for example, poor health and safety record, cyber security breaches)
- Supply chain management (for example, increase in fatalities, lost time injury rates, labour relations)
- Work practices (for example, observation of health, safety and human rights provisions and compliance with the provisions of the Modern Slavery Act).

Fidelity uses a number of external research sources globally that provide ESG-themed reports, research, ratings and data on themes such as corporate involvement in verified or alleged failures to respect international norms, for example the Ten Principles of the UNGC as well as on carbon emission, fossil fuel and power generation. The coverage of companies varies by provider and the providers currently cover more than 10,000 companies globally.

We receive three types of ESG-related reports:

- Company-specific reports and ratings
- Industry-specific reports
- Thematic research on an ad hoc basis which will deal with specific environmental, social and/or governance themes

The ESG ratings are industry specific and each rating is relative to peers within that industry. Fidelity believes that ESG ratings should be used in conjunction with, rather than as a replacement for, other forms of analysis.

Sustainable Investing Team

Although our analysts have overall responsibility for analysing the ESG performance of the companies and buildings in which we invest, Fidelity has a Sustainable Investing Team, which includes sustainability and stewardship professionals covering various subject matter areas and competencies. The Sustainable Investing Team is part of Fidelity's Investment Team and it supports Fidelity's investment analysts and portfolio managers to monitor, analyse, and engage with investee companies.

Fidelity's Sustainable Investing Team has expanded to 39* members (2020: 13 members) to meet the growing demands for sustainable research, thought leadership and support for analysts and portfolio managers. The scope of the team's work now covers a broad array of activities related to ESG integration, engagement, policy, product development and sales and marketing, as well as proxy voting.

Located in seven locations across Europe and the Asia Pacific region the Sustainable Investing Team covers a broad range of skills, including research, policy, climate science and governance. The team has a broad range of professional experience and diversity of tenure. Some specialists of the team have worked in similar roles throughout their career, while others have transitioned to sustainability over the course of their career development. The team is also diverse in terms of gender and national origin. When adding new members to the team, we have prioritised improving the team's skillset to support our organisational stewardship objectives, as well as supporting the development of young talent in the firm, through our graduate intake.

The continued build out of our Sustainable Investing Team ensures that we remain able to meet the evolving needs of our clients and other stakeholders. New members have brought skills to complement and add to the existing capabilities of the team, including legal expertise, thematic expertise (for example, climate), client and distribution expertise and additional governance expertise.

The team will continue to evolve based on our sustainable investing strategy and aim to service all areas of the business. For example, we are planning to hire experienced asset class leads, growing the breadth and depth of our sustainable investing process and product offering. Fidelity's investment analysts are responsible for researching companies under their coverage, leveraging the expertise of the Sustainable Investing Team as appropriate. Under this approach, ESG is fully integrated in the investment process. This collaboration has improved quality and outcomes of engagement across asset classes.

*Source: Fidelity International, as at 31 December 2023.

Proprietary ESG Rating

Fidelity developed a proprietary Environmental, Social and Governance (ESG) Rating that leverages our internal research capabilities and our engagement with companies to inform our view on a company's sustainability credentials.

In 2021, we developed and launched the second iteration of our proprietary ESG Rating Framework. Our proprietary ESG Rating is comprised of a combination of E, S and G indicators that aim to address the most material issues in each sector, providing a holistic, forward-looking view of a company's ESG practices. The updated rating methodology reflects the evolution of Fidelity's ESG integration approach by focusing on ESG both from a business risk and opportunities perspective, and also in terms of the societal implications of the company's operations. The ESG rating methodology has been rolled out to all companies under our fundamental research coverage on a sector-by-sector basis.

The revised ratings framework divides the investment universe into approximately 130 subsectors (previously: 99), each of which is mapped to a common set of indicators to address the material ESG factors deemed relevant to that specific industry. This allows for a comprehensive and consistent approach, underpinned by quantitative and qualitative data inputs.

These inputs translate into a forward-looking top line ESG rating (A to E, with A being the highest score) with pillar scores on each of the E, S and G, and scores for underlying indicators, providing granular output and insights. To complement the headline ESG rating, a momentum rating is also assigned to an issuer, which is an assessment of a company's expected sustainability progress over the next 12 months, relative to peers.

Companies' sustainability characteristics are scored on an absolute basis under the revised ESG Ratings Framework whereas previously company scores were sector and coverage-relative. The updated rating methodology also integrates third party ESG data, complemented by insights from our fundamental analysts.

One of the benefits of the enhanced rating framework is that it allows for greater comparability of scoring across analysts and also allows for easier cross-sector and cross-regional comparison and, as such, greater ratings comparability at a portfolio level.

Our proprietary ESG Rating is fully integrated into our investment process and is available to all members of the investment team on our internal research platform. It serves as an additional source of insight and as a tool to support investment decisions.

We will continue to develop and make necessary steps to improve our proprietary ESG Rating and make enhancements to our ESG integration approach, as required.

Source: Fidelity International, 2023.

External ESG research sources

We currently subscribe to various external data providers such as MSCI to complement our internal research on ESG. The data we receive from providers is merely to offer a different lens on ESG and to encourage debate among analysts, the Sustainable Investing Team and portfolio managers on ESG issues. As active managers, our research analysts have deeper insight into companies that extends beyond the scope of ESG factors.

Our external research sources globally provide ESG-themed reports, research, ratings and data on themes such as corporate involvement in verified or alleged failures to respect international norms, for example the Ten Principles of the United Nations Global Compact (UNGC) as well as on carbon emission, fossil fuel and power generation. The coverage of companies varies by provider and the providers currently cover more than 10,000 companies globally.

We also subscribe to a number of corporate governance and voting advisory services, including products supported by Institutional Shareholder Services (ISS) and Glass Lewis. In addition to these and MSCI's ESG data, we leverage ISS-ESG specifically for carbon footprint metrics as well as FactSet's RBICS / Georev for portfolio analysis. We also subscribe to Moody's EU Taxonomy data. We constantly explore new data sets and approaches that can provide enhanced insights into companies.

3. Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.

Firmwide Exclusion

As part of our approach to responsible investment, Fidelity will consider the exclusion of companies from our investment universe based on specific Environmental, Social, and Governance (ESG) criteria. We have a firm-wide exclusion policy which is guided by international conventions and applicable laws and directives and will also rely on specialist research when defining our ESG criteria. Currently, our firm-wide policy excludes investment in:

- Issuers with involvement in the following categories of controversial weapons, the use of which is prohibited by international treaties or conventions:
  - Cluster munitions
  - Landmines
  - Biological weapons
  - Chemical weapons
  - Blinding laser weapons
  - Incendiary weapons
  - Non-detectable fragments

- Nuclear weapons for non-signatories of the Treaty on the Non-Proliferation of Nuclear Weapons, specifically:
  - Manufacturers of nuclear weapons, warheads and /or nuclear missiles
  - Manufacturers of components developed and/or significantly modified for exclusive use in nuclear weapons
  - Derives more than 5% revenue from nuclear weapons.

The firmwide Exclusion List will include issuers that produce exclusive delivery platforms/components only.

This firm-level Exclusion Policy is applicable to funds actively or systematically managed by Fidelity across all asset classes. It does not apply to: Purely passively managed" tracker" funds,

- Funds and segregated mandates managed by Fidelity Canada,
- Funds sub-advised to another entity including FMR/FIAM/GEODE,
- Investments in third party managed funds, and
- Funds that we do not manage but which may be available on one of our investment platforms like FundsNetwork.

The Sustainable Investing Team oversees the implementation of the exclusion policy. They use third party tools to screen the investment universe and then undertake a series of assessments against the exclusion criteria which identify issuers that could be categorised for potential exclusion. The Sustainable Investing Team consults with the research team to validate or assess these issuers in more detail and to ensure the most current perspective is reflected. The Exclusion List is then finalised by the Exclusion Advisory Group and on a quarterly basis submitted to the Sustainable Investing Operating Committee (SIOC) for review and approval. Once the Exclusion List has been approved the Investment Compliance Team is notified and will implement hard halts into the trading system. Any holdings within in-scope funds will be divested within three months or as soon as practicable taking into account certain factors such as liquidity.

Please refer to our Firmwide Exclusion Policy for more details:
https://professionals.fidelity.co.uk/static/master/media/pdf/esg/exclusion-policy.pdf

Strategy-specific exclusions

Fidelity also has an exclusion framework for individual investment strategies (such as our Sustainable Family range of funds, Sustainable Finance Disclosure Regulation (SFDR) Article 8 and Article 9 funds) to ensure that issuers in which these funds invest meet certain minimum standards and behave in a manner consistent with responsible investment values.

Sustainable Family range of funds Exclusion Framework

This framework sets out the basis upon which issuers may be excluded from the investment universe of funds within the Sustainable Family range of funds, including SFDR Article 9 funds. The overall objective is to ensure that issuers in which these funds invest meet certain minimum standards and behave in a manner consistent with responsible investment values.

There are two basic reasons why an equity or corporate bond issuer may be excluded - for failure to conduct their business in accordance with accepted international norms (behavioural exclusion) or for their involvement in activities or product categories which are unsustainable and cause significant harm (fundamental exclusion).

Sovereign holdings in the Sustainable Family are subject to an exclusion framework primarily based on three principles relating to a country's public governance, respect for basic human rights and foreign policy (sovereign exclusion).

Additional exclusions may be applied to specific funds within the Sustainable Family range depending on the investment mandates, investment approach and fund label requirements (fund-specific exclusion).

- ***Behavioural Exclusions (norms-based exclusions):*** This exclusion applies to issuers which fail to behave in a way which meets their fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption as aligned with international norms including those as set out by the Ten Principles of the United Nations Global Compact, the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the United Nations Guiding Principles for Business and Human Rights, Responsible Business Conduct and International Labour Organization (ILO) Conventions.

- ***Fundamental Exclusions (sector/thematic based exclusions):*** This exclusion applies to issuers within certain single product categories or industries which are fundamentally unsustainable and are associated with significant risks or liabilities from societal, environmental or health related harm.

  The current Fundamental Exclusions applied to the Sustainable Family range of funds are:

Weapons	Controversial weapons~; semi-automatic weapons producers~, semi-automatic weapons retailers*; conventional weapons*
Fossil fuels	Thermal coal miners and power generation*^; oil sands extraction*; arctic oil and gas production*
Tobacco	All tobacco producers and manufacturers~; tobacco retailers, distributors, suppliers and licensors*

  ~ issuers deriving more than 0% revenue from the excluded sector/theme.
  * issuers deriving more than 5% revenue from the excluded sector/theme.
  ^ subject to specific criteria that reflects an issuer's commitment to transitioning to a low carbon world.

- ***Sovereign Exclusions***: Sovereign issuers are assessed based on three principles relating to governance, respect for human rights and foreign policy. We also rely on internationally recognised country indicators for our assessment of sovereign issuers.

Additional fund-specific exclusions may be implemented on a fund within the Sustainable Family depending on investment mandates, sustainability label requirements and the fund's investment approach.

SFDR Article 8 (non-Sustainable Family range of funds) Exclusions

The Firmwide Exclusions and Behavioural Exclusions are applied to Article 8 strategies that are not part of the Sustainable Family.

Client requested exclusions

For client-specific mandates we may receive requests to screen out certain industries or securities from the investment universe of that client-specific mandate. Examples of client-specific exclusions that we have been asked to apply are alcohol and tobacco stocks, home country stocks or stocks in which the investor has an economic interest. We consider these requests on a case-by-case basis and generally accommodate them for client-specific mandates. In these instances, the exclusions will be incorporated into the mandate investment guidelines and a hard halt will be implemented into the trading system.

Fund level exclusions

Additional fund-specific exclusions may be implemented on a fund from time-to-time depending on investment mandates and the fund's investment approach.

Governance process

The Sustainable Investing Team oversees the implementation and updating of the exclusion lists and the exclusion frameworks. They use third party tools to screen the investment universe and then undertake a series of assessments against the exclusion criteria which identify issuers that could be categorised for potential exclusion.

The Sustainable Investing Team consults with the research teams to validate or assess these issuers in more detail and to ensure the most current perspective is reflected.

The exclusion lists are presented to the Exclusion Advisory Group (EAG) for discussion and review. The EAG is responsible for informing the Sustainable Investing Operating Committee (SIOC) of any additions and/or removals from the exclusion lists and / or of any changes to the exclusion frameworks.

The exclusion lists, once approved by SIOC, are then finalised and the Investment Compliance Team is notified and requested to implement hard halts into the trading system to ensure no stocks on the exclusion lists are traded.

Sanctions lists

Fidelity has an internal process in place in order to prohibit the investments into securities that are referenced on the Office of Foreign Assets Control (OFAC) lists, on the Consolidated United Nations Security Council lists and on the Consolidated list of European Union (EU) financial sanctions. These lists are monitored and managed by Investment Compliance.

4. What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

We continue to develop and make necessary steps to improve our proprietary ESG Rating and make enhancements to our ESG integration approach, as required and on an ongoing basis. Please consider the following excepts from our latest annual Sustainable Investing Report (available here) as some examples.

As a founding signatory of the Net Zero Asset Manager Initiative, Fidelity has pledged to halve its investment portfolio emissions by 2030 and achieve net zero by 2050. We aim to achieve this by engaging with investee companies on their transition and their management of climate risks and opportunities. To that end, we launched the Climate Rating in 2022 to assess the net zero transition potential of issuers based on a 1.5◦C decarbonisation pathway. The Climate Rating assesses the entire value chain of companies under three pillars: net zero ambitions (including a credible transition plan), climate governance, and capital allocation.

The top two categories, such as, achieving net zero and aligning to a net zero path, as well as having a target validated by the Science Based Targets initiative (SBTi) are seen as eligible for a net zero portfolio and we will continue invest in companies with high or low transition potential while using engagement and our voting rights to encourage further climate action. Companies with no evidence of transition potential will be assessed and considered for divestment. On an aggregate level, this rating will enable us to assess our portfolio alignment to net zero through bottom-up research. As of December 2022, the Climate Rating covered approximately, 2,083 issuers.

Our next steps on the net zero pathway include using green revenue tools (for example, European Union Taxonomy or Sustainable Development Goals alignment) to identify climate opportunities. We also use carbon footprints and scenario alignment at asset and portfolio level, in addition to our climate and ESG ratings, to map climate risks. Setting net zero targets at fund level will help further integrate climate considerations into investment decision making and drive the transition across our fund range.

Over 2022, our stewardship efforts have evolved as we put updated firmwide policies, standards, and tools into practice. To aid this evolution, we introduced an influence framework. This is a tool to help us identify where and how we can align and further our engagement efforts in relation to the systemic themes. The framework pulls together the various activities we are pursuing in relation to a specific systemic theme and can help us to continuously review whether the actions we are taking are the most efficient and effective deployment of resources.

In line with our new systemic approach outlined in our Sustainable Investing Report, we will continue to engage with companies across our four main systemic themes (climate, nature, social disparities and effective governance) on a multiyear basis, but the focus on sub-themes within those may change. We continue to engage with firms on their governance structures, remuneration and culture, using engagement on governance issues and voting to drive change in the three other thematic areas. We set out the subthemes 'just transition and high emitters' and 'deforestation, biodiversity, and natural capital' that we focus on in 2023 and how they connect to the systemic themes.