

Taskforce on Climate-related Financial Disclosures

Man inspects vegetation, Chugach National Forest.. (Photo by: John Greim / Contributor Images via Getty Images)

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A vertical photograph of a lush green forest with sunlight filtering through the trees, serving as a background for the top half of the page.

Executive Summary

This is Fidelity International’s (FIL) second TCFD report, building on an initial baseline laid down at the end of 2020 as we and other asset managers moved forward with the huge changes needed to play our part in the climate transition.

As investors, we are always conscious of the weight of responsibility that accompanies being entrusted with our clients’ assets: our responsibility is to invest wisely on their behalf and to ensure that we consider not just the immediate financial consequences of our investment decisions, but their wider impact on the world.

These concerns are writ large in our own commitments on climate: we must deliver on these both in our own corporate operations and as an investor in others, and in doing so we must develop new ways of assessing and engaging with the companies, assets and projects into which we put our clients’ funds.

As such, in a year of extraordinary challenges for the world, we have focused on supporting sustainable business practices in our investment portfolios and demanding more from those companies that lack the strategic focus or long-term thinking needed to build a just transition.

To avoid a climate catastrophe, our system of energy usage needs to change and change dramatically. With our engagement and voting policies, and through our collaboration in industry initiatives, we want to ensure that the decarbonisation of our investment portfolios is mirrored in actual carbon reduction in the real world. We have also ramped up engagement with companies on deforestation and biodiversity.

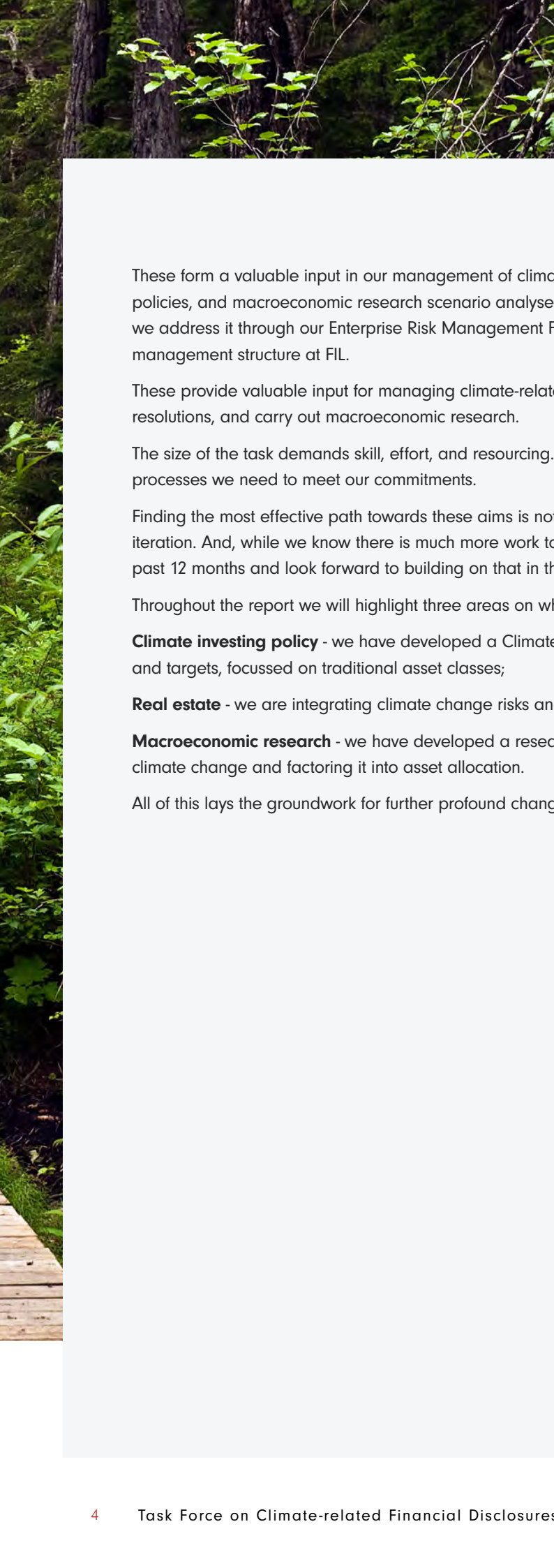
Below we report on the four pillars of TCFD: Governance, Strategy, Risk Management and Metrics and Targets.

The FIL board delegates the responsibility to take an independent perspective on audit oversight, internal controls and risk within Fidelity International to the Audit and Risk Committee (ARC), who also has oversight of regulatory, tax and legal matters and risks including climate change. The Sustainable Investing Operating Committee and Corporate Sustainability Committee take primary responsibility for assessing and managing climate-related activities with respect to Fidelity International as an investment manager and as a corporate entity.

We also discuss how various climate change risks and opportunities affect financial markets, product development, and corporate operations across the short, medium, and long term, along with the relevant transmission channels. In response to them, we have set climate targets for our investments and corporate operations.

To identify climate-related risks and opportunities, we use our fundamental research capabilities to rate companies on their Environmental, Social, and Governance performance, and to assess alignment with sustainable development goals. We have also developed proprietary climate ratings to assess companies’ progress on the road to net zero.





These form a valuable input in our management of climate-related risks through portfolio reviews, enhanced voting policies, and macroeconomic research scenario analyses. With climate risk considered a part of the broader ESG Risk, we address it through our Enterprise Risk Management Framework and the 'Three Lines of Defence' basis of the risk management structure at FIL.

These provide valuable input for managing climate-related risks when we review portfolios, vote on shareholder resolutions, and carry out macroeconomic research.

The size of the task demands skill, effort, and resourcing. Therefore, we continue to invest in the personnel, training, and processes we need to meet our commitments.

Finding the most effective path towards these aims is not always straightforward and inevitably involves a process of iteration. And, while we know there is much more work to do, we nonetheless feel that progress has been made in the past 12 months and look forward to building on that in the years ahead.

Throughout the report we will highlight three areas on which we have made particular progress.

Climate investing policy - we have developed a Climate investing policy that sets out our climate-related commitments and targets, focussed on traditional asset classes;

Real estate - we are integrating climate change risks and opportunities into our real estate investment franchise;

Macroeconomic research - we have developed a research framework for assessing the macroeconomic impact of climate change and factoring it into asset allocation.

All of this lays the groundwork for further profound changes to come - which we will track in future reports.

Pillar 1: Governance

Disclose the organisation's governance around climate-related risks and opportunities

Disclosure a):

Describe the board's oversight of climate-related risks and opportunities.

The most senior decision-making body within Fidelity International is the FIL Limited Board (Board), which is responsible for the company's overall strategy and oversight. Its mandate is to:

- Set corporate and strategic objectives
- Set and maintain Fidelity International's high ethical standards and reputation
- Protect Fidelity International's brands
- Approve major initiatives and expenditures
- Set Group policies
- Ensure that a robust system of internal controls exists throughout Fidelity International
- Ensure the financial stability of the firm

The Board meets at least four times a year and otherwise as required.

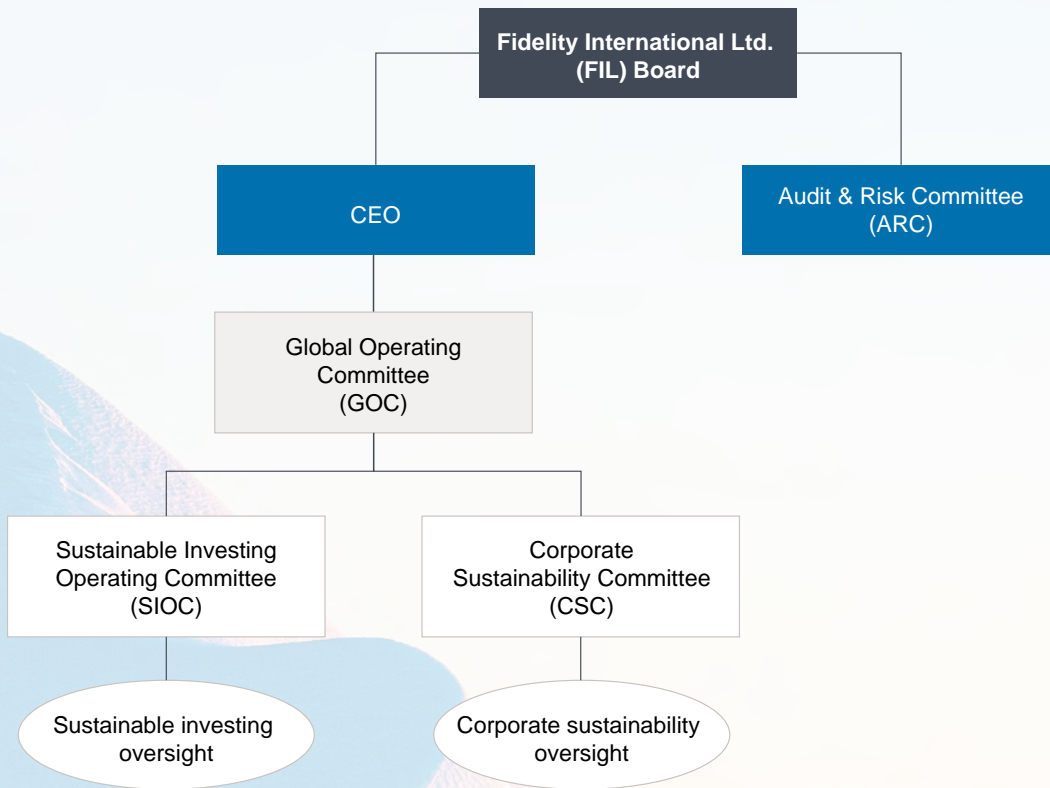
The Board exercises oversight of climate-related risks through input from Fidelity International's senior executives and groups within the firm including the Chief Executive Officer (CEO), the Global Operating Committee (GOC), the Corporate Sustainability Committee (CSC), and the Sustainable Investment Operating Committee (SIOC).

Additionally, the Board has formally delegated to its Audit and Risk Committee (ARC) the responsibility to take an independent perspective on audit oversight, internal controls and risk within Fidelity International. ARC is chaired by a non-executive director, and the majority of members are also non-executive directors. ARC focuses on the internal control and risk management frameworks, financial reporting process and integrity, and the scope and coverage of internal and external audit. ARC also has oversight of regulatory, tax and legal matters and risks including climate change.

The FIL Audit and Risk Committee (ARC) has specific responsibility delegated to it by the FIL Board for oversight of the risk strategy and risk profiles, including the ESG impact on the risk profile of the organisation. The ARC reports to the board on a quarterly basis. Further information on Risk Management governance is provided in the Risk Management section.

The GOC, CSC, and SIOC are executive-level committees described in more detail in disclosure b) below and referred to throughout this report. The role of independent risk management is further detailed in the risk management section.

Diagram 1: Overview of Fidelity International’s climate-related governance structure



Source: Fidelity International, 2020

Disclosure b):

Describe management’s role in assessing and managing climate-related risks and opportunities.

FIL has established two executive-level committees to oversee ESG risks. The Corporate Sustainability Committee (CSC) is focused on corporate ESG risks and opportunities. The Sustainable Investing Operating Committee (SIOC) has ESG oversight and execution responsibilities regarding investment decision-making processes.

The SIOC and the CSC report directly to Fidelity’s CEO and Global Operating Committee (GOC) members, who are responsible for implementing and executing against the business strategy of the organisation. These committees take primary responsibilities for assessing and managing climate-related activities with respect to Fidelity International as an investment manager (referred to hereafter under “Investment Management” headings) and as a corporate entity (referred to hereafter under “Corporate Operations” headings), as described below.

Investment management

The primary responsibility of the SIOC is to set the policies and objectives of Fidelity as they relate to sustainable investing and to oversee the implementation and delivery of those policies and objectives. In doing so, the SIOC ensures a standard and consistent approach to sustainable investing including strategy, product, marketing and investment management.

As a senior executive committee, SIOC works with the Sustainable Investing Team to:

1. Actively engage in updating and overseeing compliance with the Sustainable Investing Policy and related policies.
2. Execute Fidelity’s ownership rights in investee issuers, including engagement and proxy voting activities.
3. Ensure Fidelity meets or exceeds its clients’ sustainable investing requirements.
4. Track industry developments in sustainable investing and ensure Fidelity is positioned as a leader.
5. Track sustainable investing regulatory development and ensure Fidelity is positioned to comply and maximize opportunities coming from new regulation.

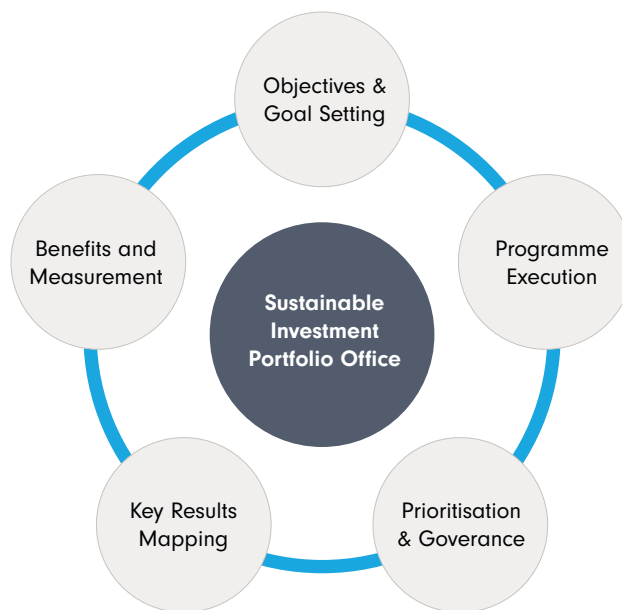


Since the release of our previous TCFD report, SIOC has established another important element in the management of Fidelity’s sustainable investing activities: the Sustainable Investing Portfolio Office (SIPO). SIPO’s mission is to support SIOC in helping Fidelity to become a leading voice in sustainability, through delivering programme and project workstreams.

The SIPO team meets regularly to drive progress and focus, taking direction from SIOC, and serves as a central team to track all sustainable investing activity across the business. It provides a framework to track and measure the success regardless of execution ownership, as well as driving execution programmes where needed. SIPO’s programme and project workstreams are managed by separate programme steering committees or working groups as required. These workstreams may include advisory activities where execution is done elsewhere across the organisation.

The diagram below provides an overview of SIPO’s role in supporting SIOC and driving execution related to sustainable investing at Fidelity. Further detail can be found in the Strategy section below.

Figure 1: Sustainable investing portfolio office



In addition to the governance mechanisms described above, we have also responded with specific governance requirements for alternative asset classes to address sustainability and climate-related demands effectively.

Real estate investments

The Real Estate team has created a Sustainability Steering Committee, consisting of our most senior asset managers, real estate operations professionals, and sustainability experts from Fidelity outside of the real estate team. This committee is tasked with setting sustainability strategies for our portfolios, assessing practicalities in delivering on the Real Estate Sustainability Policy, and setting ambitious targets for improvement.

For its ESG efforts, Fidelity’s Real Estate Team also draws on external sustainability consultants that support our due diligence efforts pre-acquisition, highlight potential ESG improvement projects, carry out data collection for external ESG reporting and keep us up to date on market and regulatory changes.

Figure 2: Sustainability steering committee



Corporate Operations

The primary responsibility of the Corporate Sustainability Committee (CSC) is to review and identify the suitability, adequacy and effectiveness of Corporate Sustainability Arrangements (Sustainability Targets) within Fidelity International, and to review the progress and performance of business units against those Sustainability Targets. Climate-related issues are a key component of Fidelity International’s corporate sustainability considerations.

Reporting to the GOC, the CSC was established in February 2020 to assess the impact of Fidelity International’s business operations on the social and environmental ecosystem in which we operate, and to roll out a strategy that captures and delivers our corporate sustainability ambitions. In 2021, a new Head of Corporate Sustainability was appointed and now acts as the Chair and Accountable Executive for the Committee. The CSC is tasked with defining the priorities for Fidelity International in relation to the implementation of corporate sustainability practices (Sustainability Arrangements). The Committee uses a working group structure to concentrate on specific areas,

including environment where climate risks or opportunities are overseen. The Committee has identified KPIs to track progress of the agreed strategy.

Members of the CSC are drawn from a cross-section of managers and other employees with functional responsibility for, or significant involvement in, Fidelity International’s environmental or social footprint. The Committee meets at least every two months and otherwise as required. The Committee provides an annual report to the Board and the GOC.

CSC Responsibilities:

1. Develop and monitor sustainability arrangements and continuously review Fidelity International’s performance.
2. Review sustainability risk and opportunities as well as concerns/complaints from employees.
3. Develop and monitor communication and consultation on sustainability matters, promoting participation and a proactive sustainable culture within Fidelity International.

Figure 3: Corporate Operations



4. Review feedback from regional sustainability teams for group-wide action where needed.
5. Discuss positive and negative sustainability trends and develop plans to address identified trends.

Related policies

To ensure sustainability governance is applied consistently, Fidelity International maintains policies to manage and support the company strategy, including that related to sustainability. We have highlighted the core policies which play a key role for climate-related risks and opportunities below.

Global Health, Safety and Sustainability Management

Fidelity International has outlined a Health, Safety, and Sustainability Management System for its business, which includes environmental aspects and impact analysis. The Global Health, Safety and Sustainability Associate Director is charged with ensuring that environmental impact analyses are undertaken and maintained for the ongoing identification of hazards and opportunities, the assessment of risks, and the implementation of necessary control measures. In some countries, legislation may require analysis to be completed in a specific format, carried out by an approved or certified practitioner, or submitted to a certified body for approval.

Policy types

| Environment | Supply Chain Management | Human Capital | Risk Management |
|-------------------------------------|---------------------------|--------------------------|--|
| Environmental Sustainability Policy | Global Procurement Policy | Health and Safety Policy | Enterprise Risk Management Policy |
| Climate investing Policy | | | Investment Risk Management Policy |
| | | | Operational Risk Management Policy |
| | | | Technology Risk Management Policy |
| | | | Global Business Continuity Management Policy |

Policies highlighted in green have a direct connection to climate change.

Pillar 2: Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s business, strategy, and financial planning where such information is material




Disclosure a):

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

We understand the elements of climate-related risks and opportunities associated with climate-related issues for short, medium, and long-term time horizons as follows:

- Physical risks:** Those that arise directly from changing climate conditions. These can be acute, episodic risks such as tornadoes, typhoons and wildfires, as well as chronic, ongoing risks such as rising sea levels, freshwater scarcity, and supply chain disruption.
- Transition risks:** Those that occur as a result of the necessary transition to a lower-carbon economy. These may result from upcoming regulatory or policy actions, technological developments, reputational impacts, and stranded or depleted assets.
- Legal risks:** Those that exist from current regulatory legislation, exposure to climate change and environmental litigation, particularly due to climate-related damage, the pace of change, and inadequate or misleading disclosure.

We see these factors driving the risks and opportunities across three areas of FIL activity

| Time horizon | | Short (<3 years) | Medium (3-10 years) | Long (10+ years) |
|-----------------------|--|---|---|--|
| Investment management |  Financial markets | <ul style="list-style-type: none"> Public policy changes Focus on the “climate social licence to operate” | <ul style="list-style-type: none"> Climate technology availability and decreasing unit costs A transition of consumer preferences preferring climate-friendly options Increased frequency and severity of acute weather events | <ul style="list-style-type: none"> Asset impairment and value chain disruption in areas of high physical risk Insurance pricing of chronic physical risks Economic and demographic impact of chronic physical risks |
| |  Product development | <ul style="list-style-type: none"> Regulatory changes Increased operational and compliance costs | <ul style="list-style-type: none"> Rising demand for and scrutiny of climate-oriented and climate-integrating investments Market share growth of investment firms perceived as climate leaders | |
| |  Corporate Operations | <ul style="list-style-type: none"> Fossil fuel-based energy and electricity costs | <ul style="list-style-type: none"> Targeted litigation on “greenwashing” Brand value impact from climate action | <ul style="list-style-type: none"> Increased impact and growth of the areas affected by chronic climate risks |

Investment management

Transmission channels

The factors described in the table above can materialise through various channels. The factors in the “Financial Markets” column may affect the performance of our investees - we discuss these risks and opportunities in the next section. Some of these factors may affect the financial performance of an investee, while others may contribute positively or negatively to the demand for securities issued by the investees and have resulting impact on their prices.

Aspects such as the “social licence to operate” are intangible factors that express an investee’s role for its stakeholders. Changes in the public view of an investee’s business model and practices can make it harder to do business, or impact their reputation and brand.

More recent events also highlight the political component of transition risks with energy independence and transition away from fossil fuels being closely connected to national and international climate policy.

Regulatory and public policy factors create risks and opportunities by assigning costs to climate externalities, e.g. carbon pricing, or by defining climate-related requirements for a business to continue operating. As a business with no activities that generate significant amounts of greenhouse gases, the transmission of regulatory and policy factors the impact of regulatory and policy factors on Fidelity is mainly through the investment products that we offer, the actions we have to take to ensure their compatibility with regulations, disclosures, and improvement of processes and tools used for the investments.

Geopolitical risks are also closely connected as the transmission channel for the economic and demographic impact of chronic physical risks. Where climate change renders areas of the world uninhabitable, this is likely to

contribute to significant migration pressures within and between countries. More recent events also highlight the political component of transition risks with energy independence and transition away from fossil fuels being closely connected to national and international climate policy.

Climate risks in investees

To identify how the factors above affect our investees, we leverage our fundamental research and analysis capabilities. At the heart of this sit our proprietary ESG ratings (described in more detail later in this section and in the Risk Management section below) as a tool for gaining comprehensive insight into companies’ various sustainability characteristics, including their approach to climate change. Our ratings approach prioritises granular, forward-looking analysis. A high score on matters related to climate change, for instance, is awarded when an issuer demonstrates visible and robust action on managing climate risks for the future, which goes beyond a simple disclosure.

Below is a small sample that shows specific metrics that we have identified as a proxy to translate climate-related factors into measurable values for climate-related risks and opportunities at an investee level. These are used within our investment research process and to generate our proprietary corporate ESG ratings.

- GHG emissions throughout product lifecycles
- Resource and material efficiency
- Revenue generated from business that is compounding or mitigating climate change

By drilling down into the detail, (for example, a bank’s Scope 1 and 2¹ carbon footprint is less relevant than the areas it services with lending and investment banking) we can highlight issues that are the most relevant from a climate perspective. We apply our ESG ratings across more than 160 sub-industries with distinct materiality assessments that provide additional granularity around the climate-related risks and opportunities for our investee companies. Our ratings provide 90%+ coverage of SASB² and other framework issues, ensuring that we are aligned with and cover the leading industry standards.

We apply the insights we gain from our ratings to our sustainable portfolios (see page 30), allowing us to address climate risks holistically.

¹ As defined by the Greenhouse Gas Protocol

² Sustainability Accounting Standards Board

Climate opportunities in investments

To achieve a net zero world, it is important to focus on the decarbonisation component but also to recognise the important role of climate solutions. There has been a stark increase in global decarbonisation commitments, but the current uptake of climate technologies leaves a gap of adoption and innovation that needs to be filled if we are to meet climate targets. A focus on further adoption of existing, and innovation to create new climate solutions will create a broader set of climate opportunities. From an investment perspective, we see these opportunities across five broad industry groups:

Transportation



Power



Industry



Buildings



Consumer



Corporate Operations

Our approach to sustainability is driven by data, and since the publication of our inaugural TCFD report we have sought to improve our performance and expand the data we capture outside our UK operations. More precise measurements of our baseline global footprint covered data from 35 locations globally, accounting for over 98 per cent of our employees and over 96 per cent of our office space in terms of square footage. This exercise has enabled us to better define our baseline 2019 carbon emissions and to better understand our climate risk exposure more broadly, so that we can gauge the progress made against our long-term target of reaching net zero operational emissions by 2030.

We have identified the following key climate-related risks to our organisation:

- Carbon and GHG (Greenhouse Gas) emission control and reduction

As a corporate we see this as a key reputational risk. Not only is it important to reduce emissions, we are also likely to see increasing numbers of specific legislative and taxation directives compelling us to do so.

- Energy scarcity, reliance, and dependency

Energy use, specifically electricity, is the largest source of our operational emissions, hence we need to ensure that we improve this through energy efficiency measures, investments in renewable energy guarantees, or self-generation, wherever possible to mitigate business impact risk.

- Vulnerability to impact from climate change such as flooding, heatwaves or extreme weather

In terms of physical risks, this is the most significant and is assessed on a site-by-site basis as part of our environmental aspects and impact analysis.



Across the focus areas of 2021, we would like to highlight in this section the following:

Climate investing policy

The transition away from thermal coal represents the single biggest opportunity to reduce carbon emissions over the next decade. It is also important to address the risks of carbon emissions in connection with natural wealth and responsible extraction of it.

Real estate

The main factor contributing to climate risks from our real estate investments are carbon emissions, the reduction of which also presents the most significant opportunities. We see the reduction of Scope 1 & 2 emissions as the most impactful activities in the short and medium term; in the long term, the incorporation of all emissions from our real estate assets will be brought into scope.

Macroeconomic research

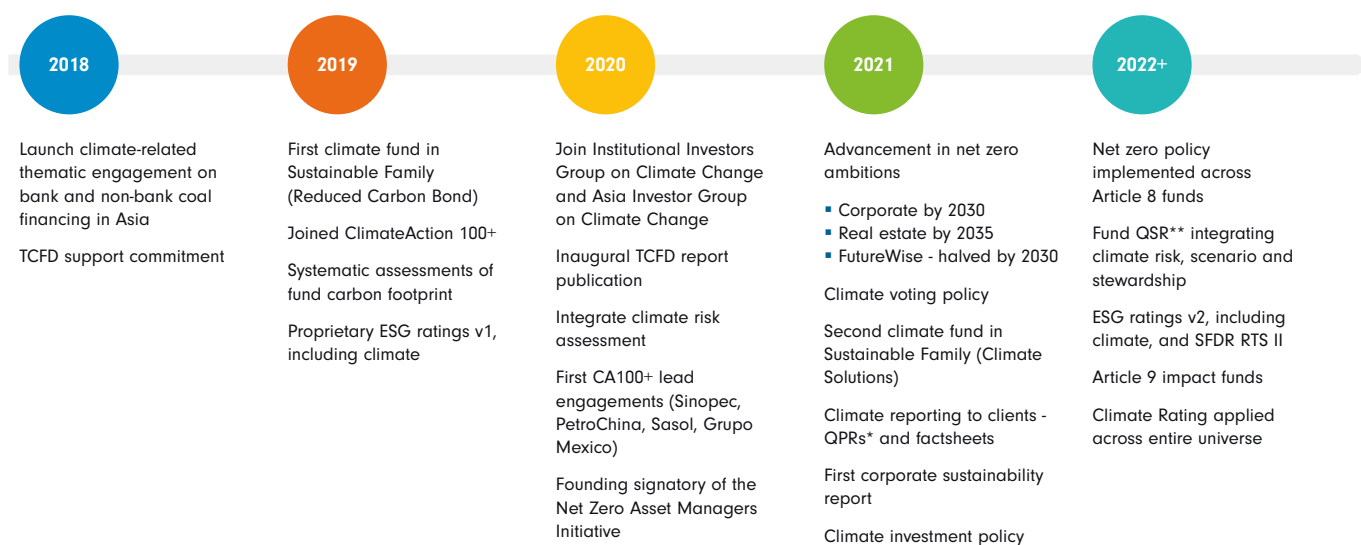
In our whitepaper series on climate risks from a macro perspective, we identified hurricanes, floods, and gradual warming as key physical risks. On the transition risk element, the effect of restructuring the economy in response to climate change and changes in consumer behaviour are the greatest climate macro risks.

Disclosure b):

Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.

We have actively responded to climate-related risks and opportunities by first laying the foundation for climate action and outcomes. These have enabled us to set climate commitments and targets, and to integrate consideration of climate change throughout the organisation.

Figure 4: Fidelity International’s Climate Timeline



*Quarterly product review
 **Quarterly sustainability review

In our view, climate action is something that goes beyond any individual company or investor. We believe system-wide influence should complement individual efforts. This is why we focus not just on the research, stewardship, and investment products that we offer our clients, but also on the role that we can play in the broader investment industry as a member of various climate-related initiatives, as seen below.

Table 1: Climate-related initiatives



Source: Fidelity International, 2020.

In building out a range of climate-focussed products and services, we have invested in research, development and operations. This is discussed further in the sections below.

These climate-related products and services have continued to feature as inputs to our financial planning process over the past year and will continue to do so for the foreseeable future. We prioritise the opportunities (and risks) from provision of such products and services, given our position as a leading international investment manager. Therefore, our operating costs and revenues, capital expenditures, and other financial planning considerations are impacted by development of activities related to climate change.

We have also focused on climate-related impact on our supply chain, and on adaptation and mitigation activities.

The past year has seen the realisation of certain climate-related risks around the globe. We have seen the effects of climate change materialise through devastation caused by another record-breaking wildfire season in the US and Europe. There has been evidence too of climate perils that are less obvious such as heat stress, which have led to additional strains on healthcare systems responding to increased mortality risks³. The International Panel on Climate Change entered its sixth assessment cycle with the release of its “Physical Science Basis” report, which showed that the impact of different climate scenarios ultimately comes down to human influence.

1.07°C

Global warming between 1850-1900 and 2010-2019

Source: IPCC, 2021.

The climate crisis has also spurred demand for climate action in investments and financial services more broadly. Assets under management signed up to the Net Zero Asset Manager Initiative have grown from a founding \$9 trillion (of which Fidelity International was a part) to \$57 trillion⁴. Increasingly, clients are seeking investment solutions that

incorporate climate components, as well as dedicated strategies that focus on reducing carbon impact or provide exposure to climate solutions and opportunities.

Investment management

To assess the credibility of investee action specifically with regards to climate risk, we have developed proprietary Climate Ratings. Working in conjunction with our ESG ratings (described in more detail in the Risk Management section), our proprietary Climate Ratings are a key aspect of our net zero emissions plan. They utilise our fundamental research capabilities to identify climate-related risks, net zero investments and targets for transition engagement within the Fidelity investment universe. They also assess which companies are in the best position to transition to net zero or have a positive trajectory towards transition.

The Climate Rating assesses firms in three core areas: net zero ambition, climate governance and capital allocation to the transition; these are described in more detail in the Risk Management section.

Target setting at fund level

As part of our net zero commitment, we plan to introduce climate targets at individual portfolio level. The work on this began earlier this year, as per the methodology for climate target setting outlined in our Climate Investing Policy (initially, including our EU SFDR Article 8 and 9 classified funds⁵). We are working on several approaches to integrating climate targets, centred around a requirement to have certain minimum proportions of a fund’s NAV in issuers which score highly on climate ratings but also alternative approaches looking at carbon budgets and their alignment. We expect that our first interim target will be in 2025 and will be re-evaluated at five-year intervals thereafter. We anticipate different funds will have the flexibility to adopt different pathways and approaches to net zero based on their investment strategy and investible universe.

³ <https://www.eea.europa.eu/data-and-maps/indicators/heat-and-health-2/assessment>

⁴ As of February 2022

⁵ European Union’s Sustainable Finance Disclosure Regulation defines Article 8 as “Where a financial product promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices”, and Article 9 as “Where a financial product has sustainable investment as its objective and an index has been designated as a reference benchmark”. Source: European Commission, 2019, [Link](#)

Responding to climate change together with the Sustainable Investing Portfolio Office

In response to the investment management risk factors that the climate transition poses and the shift in consumer demand, we have established the Sustainable Investing Portfolio Office (SIPO) as described above. SIPO plays a strategic role in supporting FIL efforts to become a leading voice on climate change and address product risks, but it also helps address climate integration in investment processes in five ways:

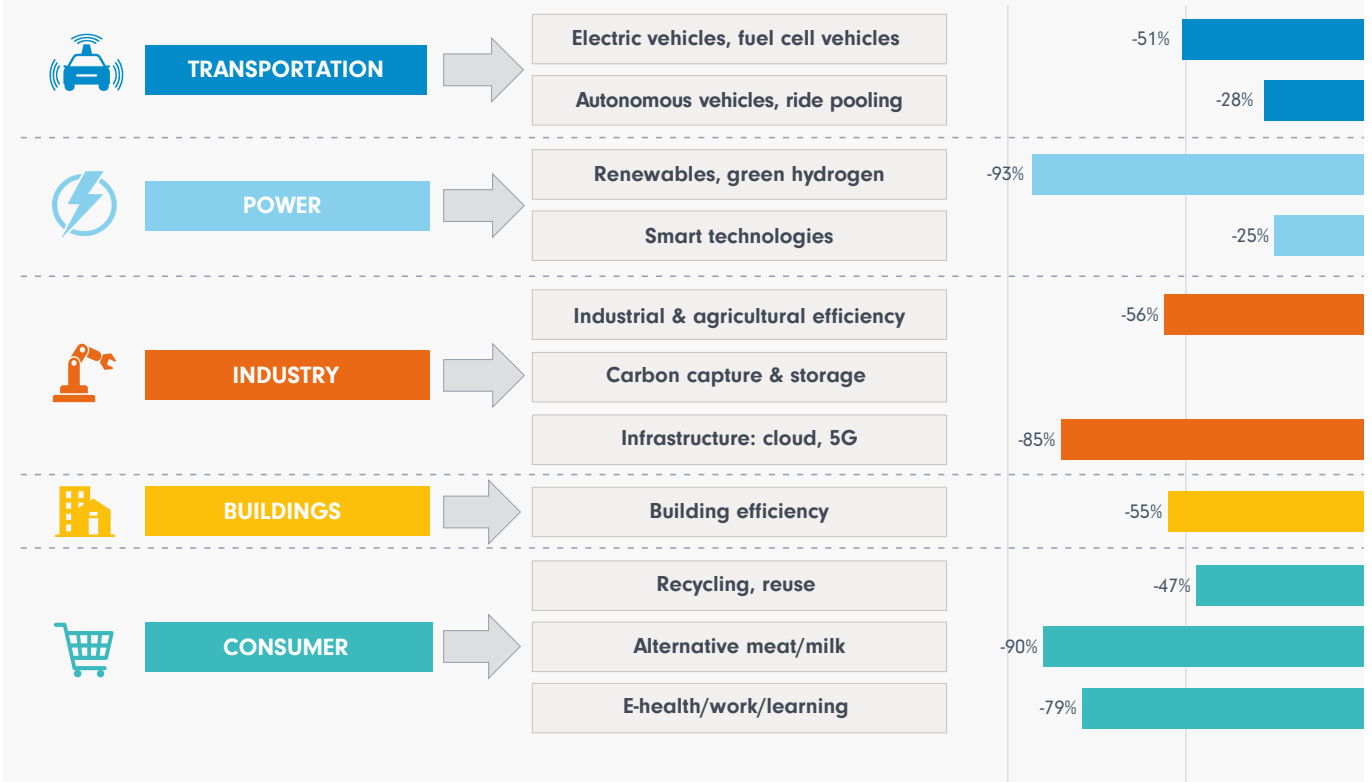
Table 2: SIPO aims

| | |
|---|--|
|  | <p>Drive awareness and a focused message</p> <p>Work to build staff knowledge and help drive the required change of culture. Establish a core narrative and ensure consistent messaging on values, beliefs, brand and PR both inside and outside the firm</p> |
|  | <p>Accelerate investment integration</p> <p>Work to incorporate climate change considerations into our overall investment process and build a robust framework and strategy to support and develop this integration over time</p> |
|  | <p>Define and measure success</p> <p>Quantify success with transparent metrics, targets and milestones, both internally and externally, and ensure a structured path to deliver our vision</p> |
|  | <p>Respond to client and industry drivers</p> <p>Link our execution to client demand and needs. Create proactive views on regulatory and industry trends and impacts. Establish best practice and create global synergies</p> |
|  | <p>Create a target operating model</p> <p>Build the structures, processes, control frameworks, data architecture and capabilities to enable scalable future success in delivering our climate change agenda</p> |

Researching opportunities in climate solutions

The five industry groups related to climate solutions that we referred to earlier in the report provide an opportunity set of investments across a full value chain of solutions. Subscribing to these means we do not restrict ourselves to a narrow view of climate change. Our investment team has done extensive research and used our fundamental expertise in combination with secondary studies to estimate the carbon emission reduction impact of emerging technologies, which forms a critical component of how and where we see climate opportunities arising.

Figure 5: Estimated % CO₂-eq emissions reduction



Source: Fidelity International, January 2021. Calculations are based off multiple sources and a full list can be found in the appendix. Sources include reliable secondary research sources, company filings and Fidelity analyst estimates. Methodology involves sourcing data from company filings and research papers/public non-company sources to calculate the carbon emissions produced by incumbent technologies/processes and their low/zero carbon technological alternatives for same level of output/usage. The difference in emissions calculated above for the incumbent and low carbon alternatives divided by the emissions produced by the incumbent technology provides us with the carbon emissions abatement potential of the low/zero carbon alternative. The calculations are on a “cradle-to-grave” lifecycle basis, starting from raw material sourcing to disposal of both the current technology and its low/zero carbon alternative or on an use-phase basis where lifecycle based analysis is not available. We used secondary research published post 2010 for our calculations.

Corporate Operations

Advancing our operational net zero goal by a decade

When planning our net zero journey, we must balance ambition with other factors that impact our business, such as cost, efficiency and risk management.

In 2020, when we established our Corporate Sustainability Committee, one of the first actions the committee took was to set out our net zero emissions goal within our operations by 2040. At the start of our corporate sustainability journey, we believed this target would allow us to reduce our emissions meaningfully and to adapt to changing technology, industry trends and data-led best practices as they evolved.

Circumstances have changed dramatically, notably the impact of COVID-19 and increased understanding of our global footprint, leading us to alter our perceptions of what is possible. Therefore, we are better placed to be more ambitious in our commitment and have moved our net zero emissions goal across our operations forward to 2030, 20 years ahead of the 2050 timeline

set by the UN climate science panel to comply with the Paris Agreement.

First and most importantly, our net zero path is data-led, and in the past year, we’ve been able to gather more information about our carbon footprint worldwide, giving us more evidence to use in progressing with our environmental strategy.

Second, the pandemic forced us to reduce our carbon footprint sharply, for example, by severely limiting business travel. We have seen some resumption of these activities as we emerge from the pandemic. However, we have also introduced stricter policies, especially related to travel for internal meetings, to help manage emissions.

Third, advances in technology will also help us to cut carbon faster than anticipated. Online communication platforms are making it easier to collaborate across regions and time zones. Even if they don’t completely replace face-to-face interaction, they have progressed a long way in helping us to engage with stakeholders while reducing our travel requirements.

Update from the 2020 Action Plan

Fidelity International carried out a carbon footprinting exercise covering emissions associated with our operations including energy use, business travel, waste, water and paper use for calendar years 2018-2021. Following this exercise, we have set interim targets in addition to our long-term net zero operational emissions by 2030, using 2019 as our base line year due to the impact of COVID on our operational emissions in 2020 and 2021. Our 2024 reduction targets are discussed in more detail in the Metrics & Targets sections.

Implement Sustainability Performance Indicators (SPI) Database

We now have a database that includes all our 2018-2021 historical data. The database will allow us to better understand our emissions and target areas for improvement including regional analysis, energy consumption, carbon emissions, waste production, and water consumption. The data collection process will be aligned to ISO 14064-1:20067 quantification and reporting of greenhouse gas emissions and removals.



Sustainability Performance Indicators Database

Conduct decarbonisation audits

To date we have completed seven decarbonisation audits at our largest office locations. These audits allow us to identify the net zero pathways at a location level, including low-cost quick payback options and long-term strategic opportunities



Energy audits top 10 sites

Assess on-site renewables

In 2020, we were able to install solar panels in our Surrey office as part of the refurbishment project. In 2021, we carried out a feasibility study on installing solar panels at our Kronberg office and there are further plans to review additional projects at our Surrey office. We are reviewing the feasibility of on-site renewables and low carbon technologies (solar panels, wind, combined heat and power, etc) for flagship sites under our operational control.



Assess on-site renewable investments

Investigate energy purchase options

Since 2019, we have increased renewable energy contracts from 2% to 73% of our electricity use. In 2022, we plan to conduct further investigation for our locations based in India and APAC on energy consumption, including PPAs (Power Purchase Agreements) with renewable energy producers and REGOs (Renewable Energy Guarantees of Origin).



Energy purchase options

Review air travel policy

We have set a target to reduce air travel (which accounts for 40% of our measured operational emissions) by 50% compared to 2019 as a baseline year. We have also introduced stricter policies, especially related to travel for internal meetings, to help manage emissions. We are encouraging travellers to consider lower emission travel options where feasible.



Air travel policy review

Create GHG Emissions Statement with 3-5 year targets

We are creating a GHG Emissions Statement highlighting the most significant contributors and actions for reduction, along with 3-5 year targets to track reductions against our 2040 net zero goal. We have set 2024 targets based on our 2019 footprint (see Metrics & Targets section for details).



3-5 year target setting

Procurement

As part of our commitment to having a responsible supply chain, our Global Procurement team are implementing a platform to assess and monitor the sustainability performance of our material suppliers. The platform assesses supplier environmental practices in order to help us understand the risks and opportunities and drive improvements towards high standards. Such issues are further discussed in the Risk Management and Metrics and Targets sections, as are considerations of climate-related scenarios.

Across the focus areas of 2021, we would like to highlight in this section the following:

Climate investing policy

We have made the decision to align our stewardship and voting activities towards a net zero compatible world. By focusing on transition engagement, we will encourage companies towards more aligned transition pathways. Where companies fall short of our minimum climate expectations and do not demonstrate a willingness or plan to meet them, we will vote against management.

Real estate

In upholding the principles of responsible ownership, we regularly engage with our tenants as an active owner on ESG topics, which include climate change. The survey results that we obtain from our engagement are then analysed internally and with the tenants.

Macroeconomic research

The main impacts from climate risks on the economy that we have identified are:

- A shift in the GDP per capita (varies depending on the scenario)
- Depressed GDP growth if climate change continues at this rate
- An increase in inflationary pressures during a climate transition

Disclosure c):

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Investment management

Despite our strength in fundamental research, we recognise that the amount of data that can be analysed on climate change is rapidly growing beyond what a human can efficiently process. In response to this, we have set out several key areas in developing a modular suite of climate tools across this year.

Climate scenario and temperature analysis

Climate scenario analysis is a well established concept across the climate science community, but it did not find a significant footing in the financial industry until the release of the Task Force on Climate-related Financial Disclosures (TCFD) standards. Scenario analysis cannot exist without having assumptions about the impact of climate change, confidence in forecasting future climate and corporate performance, and a philosophy for aggregation to an investment portfolio.

We believe that climate scenario analysis is most informative when it can be interacted with dynamically - stress testing various assumptions and challenging different outputs. We only consider the static view that currently exists across various tools (e.g. Implied Temperature Rise) as a starting point. In 2021, we analysed in great depth the impacts of different climate change scenarios on long-term expected financial risks and returns by integrating them into our capital markets model. We are now working on a proprietary tool to analyse climate scenarios across issuers and portfolios. With these developments, we believe that the debate on climate impact will become more transparent and intellectually rigorous, and that our portfolio managers and analysts will be able to embed more climate change information in their analysis and investment decisions.

Some of the focal questions that we seek to address with scenario analysis are:

- To what climate scenario has a company's and/or portfolio's past emissions trajectory been most aligned?

- What are the company's forecast emissions and how will they align to emission pathways?
- How far is a company's and/or a portfolio's carbon budget away from an emission pathway?
- How much does the company's performance change under different growth rates?

Physical risk

Physical risk and climate adaptation is often overlooked in the climate debate. However, we see it as an important item to be addressed, not just through our support for industry-wide solutions via our membership of the Coalition for Climate Resilient Investment (CCRI) but also granularly at portfolio level. For this reason, we have begun to explore solutions in quantifying physical climate risks. Those aim to capture not just the exposure at a geospatial asset level but also the vulnerability to climate perils such as droughts, heat stress, and cyclones. It is our belief that physical risk will materialise through two channels: 1) capital and asset destruction; 2) increase in insurance costs. We aim to integrate these into our analysis and engagements.

Corporate Operations

As an organisation, when assessing climate risk to our operations we know that within any scenario of climate change, e.g., 1.5 °C or 3 °C+, there will be an impact. However, we feel that we have robust practices in place to minimise and mitigate this risk, whether it is extreme weather conditions or energy scarcity.

We have learnt from the pandemic that we can cope with change better than we expected. As an organisation we can be agile. For example, thanks to the global footprint of many of our operations, when one region/country comes under pressure, we can transfer work to other locations. Also, the rapid deployment of dynamic working practices, including homeworking, across the organisation demonstrates that we are not reliant on having individuals in the office daily. In summary, through good business continuity practices and organisational flexibility we are well placed (from an operational perspective) to deal with key climate risks.

Across the focus areas of 2021, we would like to highlight in this section the following:

Climate investing policy

As a part of our target setting in the Climate Investing Policy, we sought to align our ambitions with the global standards of climate science. Thus, the emission reduction and thermal coal phase-out targets that form the core of our Climate Investing Policy are aligned with the IPCC 1.5 °C pathway P1.

Real estate

Climate scenario analysis is an important part of our response across all assets in 2022. We aim to collaborate with and promote industry standards that we believe are robust and add value to our investment processes. As a part of this, we are exploring ways of how to apply the Carbon Risk Real Estate Monitor (CRREM) tool in 2022.

Macroeconomic research

To assess and understand how the climate may impact macroeconomic variables, we have used well-established climate scenarios. The scenarios are broadly divided into: "orderly", in which climate policies are introduced early, minimising both transition and physical risks; "disorderly," in which policy changes are delayed increasing transition costs; and "hot house world," in which global efforts are insufficient to halt significant global warming leading to severe physical risks. These principally reflect the NGFS Orderly, Disorderly, and Hot House World scenarios, as well as the extreme scenario from the Burke-Hsiang-Miguel model.

The temperature alignment that these scenarios reflect are a range from below 2 °C to around 4.3 °C.

You can find more information on this in the Risk Management section.

Pillar 3: Risk Management

Disclose how the organisation identifies, assesses, and manages climate-related risks

Fidelity’s approach to sustainability and wider ESG risk management is to consistently embed and enhance ESG expectations and ambitions into FIL’s strategic planning activities along with associated risk management processes.

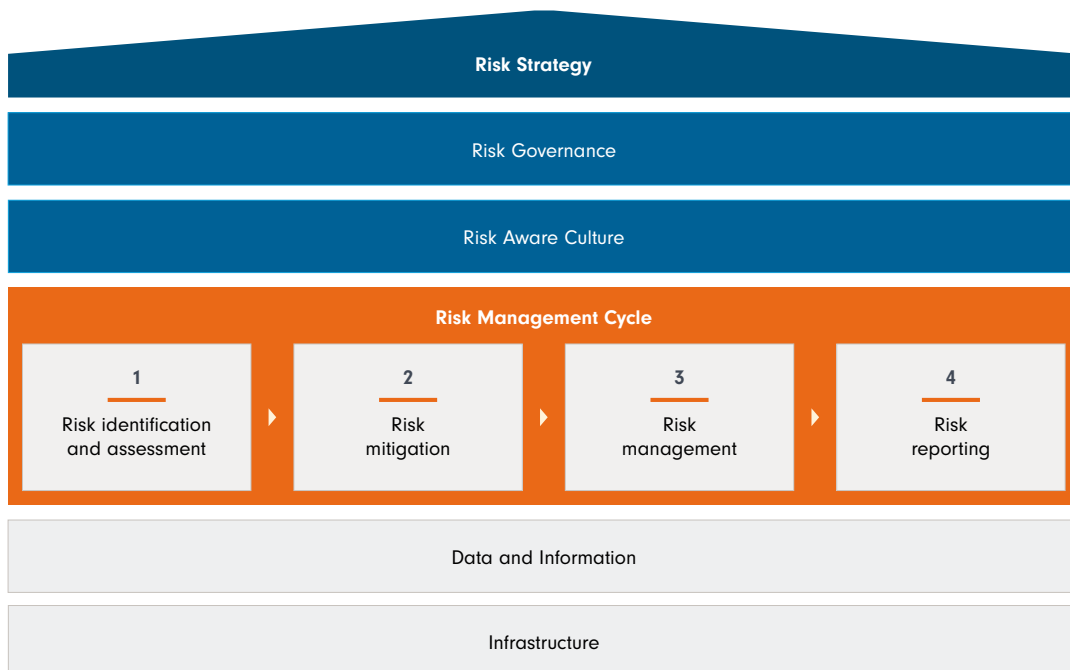
The Enterprise Risk Management (ERM) Framework defines a holistic management of risk, which is designed to support the effective identification of risks, potential events and trends that may significantly affect Fidelity’s ability to achieve its strategic goals or maintain its operations. The ERM Policy sets out the guiding principal requirements for the management of the Operational, Strategic, Investment and Financial risk types; defines roles and responsibilities of key stakeholders in the ERM Framework; and defines governance and escalation pathways. The policy defines the principal requirements for an effective risk management framework throughout the organisation and is supplemented by additional policies, which define the requirements for the management of specific risk types.

Climate risk is considered part of broader ESG Risk. At FIL, we define ESG risk as a strategic risk according to our risk taxonomy and, particularly, as a failure to integrate adequate environmental, social and governance considerations into business strategy. By doing so, we seek to organise and conduct business responsibly and to meet the expectations of a broad range of stakeholders including shareholders, customers, regulators, suppliers, employees and local communities.

ESG risks can have a negative impact on the revenues, returns, assets and liabilities and the reputation of the organisation and therefore are part of the strategic risk type.

The diagram below reflects how core elements of the ERM framework are aligned across operational, strategic, financial and investment risk types to support Fidelity’s risk strategy.

Figure 6: Risk structure



Disclosure a):

Describe the organisation’s processes for identifying and assessing climate-related risks.

Investment management

The key process that Fidelity leverages to identify and assess climate risks is our in-house investment research, which we introduced in Strategy section a).

Sustainability research and ratings

Our sustainability research and ratings evaluate the extent to which issuers manage their material environmental and social impact by incorporating the principles of ‘double materiality’, i.e. to integrate non-financial sustainability considerations alongside traditional financial risk and return goals, as well as considering the sustainability impact of the investments made. By considering an extended time horizon (ten years), we seek to cover all likely external material impacts.

Material topics are identified for each issuer through our customised materiality maps for 127 individual subsectors. Each map is formed from a unique selection and weighting of up to 40 individual environmental, social, and governance indicators, as well as additional custom indicators for certain industries. The impact on a company from climate change or its impact on climate change is considered in the environment pillar, where indicators such as energy consumption, water usage, GHG emissions, and deforestation are accounted for, when deemed to be material.

The simplified example below highlights the differences in how we would assess the materiality of climate change factors for an energy-focused industry like utilities, versus an enabler of energy-related activities, such as the banking industry. The majority of the weighting for utilities is associated with GHG emissions, while the majority of scoring for banks is associated with the impact of activities enabled by the banks’ financing.

Environment indicator weighting

| | Energy Consumption | GHG Emissions | Environmental impact associated with enabled activities |
|--------------------|--------------------|---------------|---|
| Electric Utilities | Medium | High | Medium |
| Banks | Low | Low | Very high |

Risk Management

Figure 7: Integrating sustainability - four components of our global research platform

Led by research team, support from SI ◀◀▶▶ Led by SI team with input from research



Source: Fidelity International, February 2022.

By combining quantitative and qualitative inputs from our fundamental and sustainability research analysts, we seek to ensure that our sustainability assessments are forward looking and focus on the issues that matter most. The result of these processes is separate issuer scores for E, S and G, as well as an overall issuer score and trajectory rating together with detailed information relating to the quantitative and qualitative inputs driving each score. This data is widely available to our investment managers, allowing for integration of complex and detailed sustainability data into various investment processes.

In order to identify and incorporate climate-related risk explicitly, Fidelity has developed a climate investing policy that highlights our approach towards net zero through investment and stewardship.

Sustainable Development Goal (SDG) alignment

The 17 SDGs established by the UN cover a wide range of sustainability areas, out of which SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action) are the goals most closely connected to climate change. As one of the ways to identify an investee’s exposure to climate solutions, we believe a focus on what areas they operate in, and generate revenue from, merits consideration. The EU Taxonomy for green activities is one of the most technically well-developed frameworks to identify climate solution enabling activities and we have integrated it into our approach



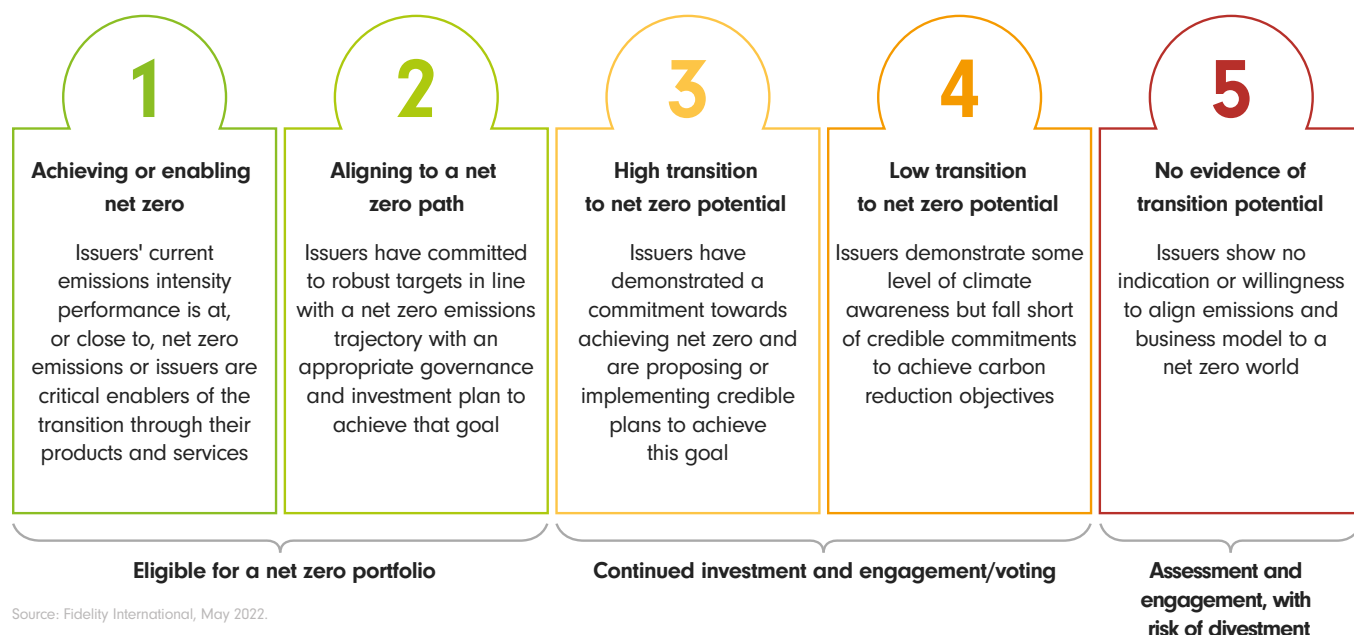
to SDG analysis. Furthermore, we have used the core principles and approach of the EU Taxonomy to design our proprietary SDG model, with which we can assess the level at which a company derives revenue from activities aligned or supporting SDG 7 and 13 among others.

Net zero: Climate Ratings

The rollout of Fidelity’s Climate Rating will utilise our fundamental research capability to identify climate-related risks, net zero investments, and targets for transition engagement within the Fidelity investment universe. We believe that companies which are able to manage climate change risks effectively and adapt their business models, will be better positioned to succeed in a low carbon world. By creating this rating, we can identify companies that are lagging behind on the transition journey and at higher risk of a disruptive transition scenario.

The three core areas of research - net zero ambition, climate governance, and capital allocation - consist of underlying assessment factors and additional factors depending on a company’s sector and classification as “high impact” or “low impact” in line with TCFD and IIGCC definitions (high impact sectors include energy, transportation, materials and buildings, agriculture, food and forest products, and financials). Fidelity conducts research on all factors to produce the Climate Rating and gives each factor a score. The score determines which of five buckets a company is put into. We then overlay this analysis with minimum alignment criteria that must be met for a company to go into each bucket. Criteria include, among others, whether a company has set net zero targets or nominated executives to oversee the transition.

Figure 8: Companies are placed into one of five buckets, depending on their score



Source: Fidelity International, May 2022.

This rating will be integrated directly into our portfolios where we can score funds according to their alignment to net zero. This will enable us to set targets at both an individual and fund level and allow resources to be directed towards the biggest emissions reduction opportunities in terms of investment and engagement.

In addition to developing and using our own ratings to identify and assess material climate-related risks for our products and investment strategies, we consider and incorporate external ratings and information from sources including MSCI and ISS ESG. This external data, and the tools that accompany it, cover carbon emissions, portfolio carbon footprinting, scenario analysis, fossil fuel reserve assessment, transition and physical risk assessments and other topics across the climate-related risk spectrum.

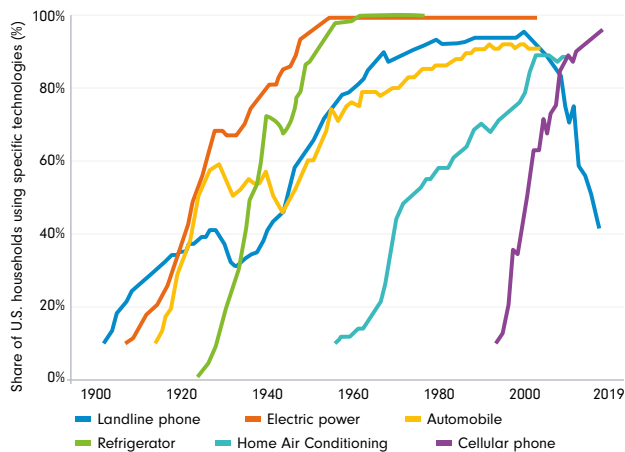
Fidelity has also incorporated climate change into our macroeconomic research to help us better understand future climate risks and opportunities in terms of technological changes, and sovereign climate policies.

Researching climate opportunities through technology adoption dynamics

While solutions that can enable global decarbonisation exist today, adoption rates have to accelerate much faster than before. In order to track technological change, we have researched game-changing technologies in the green transition that can potentially make optimistic climate scenarios more realistic. To better understand the potential

role technology enablers can play in the transition, we assess their position on the S-curve which can be used as a rough proxy for their growth trajectory. Past transitions driven by new technologies such as autos or mobile phones have tended to follow an S-curve trajectory, with an initially slow pace of adoption followed by a fast acceleration as technologies were deployed widely, helped by policy support and falling costs of production and adoption. By monitoring the stage of development and diffusion of key technologies, plus their penetration rates and costs, we can identify tipping points which could lead to an accelerated transition.

Figure 9: Historical examples of technology adoption dynamics



Source: Fidelity International, State of Climate Action 2021, Climate Action Tracker (October 2021), November 2021.

Macroeconomic research: Policy credibility

To assess the credibility of policy action and various net zero pledges that countries have made to date, we have designed a framework with four pillars: carbon pricing, political environment, policy incentives and international cooperation. In carbon pricing, we assess the extent to which carbon dioxide and other GHG emissions are adequately priced versus what is necessary to meet net zero by 2050. This can take the form of an explicit tax/emissions credit or through more implicit policy means. In the political environment pillar, we assess the extent to which there is broad political consensus on the need to tackle climate change as well as how each country/region's political framework aids or hinders the net zero transition. Under policy incentives, we assess how a country's fiscal, monetary and regulatory actions aid the incentivisation of transitioning to a net zero world. Finally, in the international cooperation pillar, we look at how diplomatic cooperation and wider international governance regimes strengthen or weaken the credibility of policy commitments. Within this framework, we assign greater importance to the carbon pricing, policy incentives and political environment pillars.

The first two pillars are the two main levers governments can use to meet net zero targets. The political environment pillar assesses the motivation of governments to induce such changes and directly affects the introduction of measures captured by the carbon pricing and policy incentives pillars. This relative importance of the pillars is supported by the assessment of our on-the-ground analysts. We applied this framework to assess the policy credibility of the top five CO2 emitters globally - taken together, China, the US, the EU, India, and Russia emit just over 53% of the world's CO2 emissions. Figure 10 below highlights our assignment ratings for these key economies across the four pillars.

Figure 10: Climate Investing Policy credibility tracker

| | China | US | EU | India | Russia |
|--|--------------------|---------------------|--------------------|-------------------|--------------------|
| % of world CO2 emissions and 10yr p.a. growth | 28.0% (2.2% pa) | 15.1% (-1.8% pa) | 8.8% (-2.7% pa) | 6.3% (3.8% pa) | 4.6% (-0.2% pa) |
| Policy ambition | NZ by 2060 | NZ by 2050 | NZ by 2050 | NZ by 2070 | NZ by 2060 |
| Four pillars of credibility assessment | | | | | |
| Carbon pricing | Medium | Low | High | Low to medium | Low |
| Political environment | High | Medium | High | Low | Low |
| Policy incentives | Medium | Medium | High | Low | Low |
| International cooperation | Low to medium | Low to medium | Medium to high | Low | Low |
| Overall rating | Medium | Low to medium | High | Low | Low |

Source: Fidelity International, May 2021.

Increasing regulatory requirements

Fidelity actively considers existing and emerging regulatory requirements related to climate change as these requirements may pertain both to our corporate entity and to our investee companies.

Our integration of sustainability considerations directly during our research of issuers supports the categorisation of our funds against regional disclosure requirements such as the EU’s Sustainable Finance Disclosure Requirements and taxonomies’ classifications based on research done by our in-house experts.

Corporate Operations

Management system to identify and assess environmental aspects and impacts

As described in the Governance section b), Fidelity has implemented a Health, Safety and Sustainability Management System that incorporates corporate-level environmental aspects and impact analysis. The system is intended to ensure that all significant environmental impacts of Fidelity’s operations, both positive and negative, are considered and controlled. It is within this framework that the potential size and scope of identified climate-related risks are assessed, along with references to existing risk classification frameworks and the establishment of definitions of risk terminology.

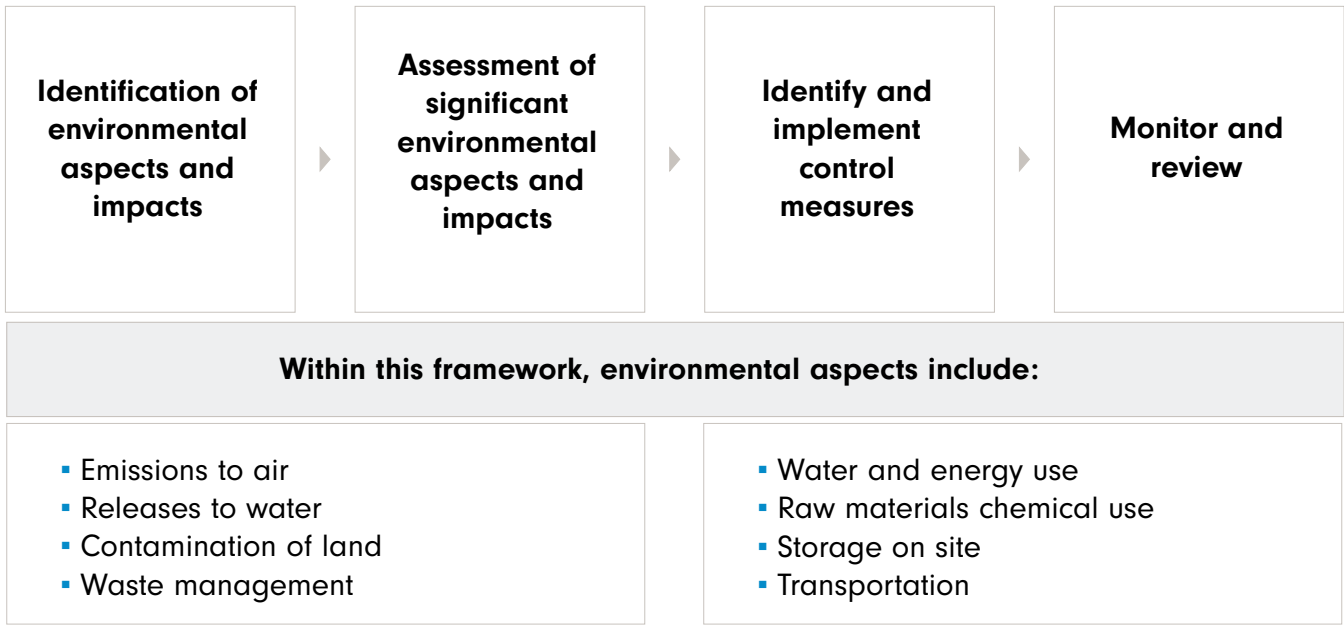
Incorporating climate risk in our real estate franchise

We have set a net zero carbon goal across our direct real estate portfolio for 2050 or sooner, including operational net zero carbon (Scope 1&2) by 2035. To achieve our commitments, we are embracing best practice principles, such as the World Green Building Council Health and Wellbeing Framework.

To directly incorporate climate-related risks, we are working on enhancing our due diligence processes to understand the net zero carbon transition risk and aim to only acquire assets where we have the confidence that they can be decarbonised in an acceptable timeframe. In addition, we will enhance our acquisition processes to incorporate climate scenario mapping to understand resilience to physical climate threats. Upon acquisition, we will develop net zero carbon roadmaps for each asset to ensure they support our overall commitment.

On top of this, we seek to increase the granularity of operation energy consumption data and utilise a net zero carbon pathway modelling tool to understand stranding risk of the portfolio.

Diagram 12: Corporate environmental sustainability management system



Each of these are given an impact risk rating score and details are recorded, with each aspect considered with regards to normal, abnormal and emergency situations.

Supplemental a):

Climate-related investment stewardship and research

At Fidelity, we believe the biggest impact we can have is through our investment and engagement. Our global team of analysts has around 16,000 interactions with companies a year, with discussions around climate change representing a significant number of such engagements. Engagements are undertaken for two main reasons:

- To gain a deeper understanding of a company’s ESG practices that better informs our investment and voting decisions
- To use our influence to improve the sustainability practices of the companies we own

Climate investing policy

To meet our net zero targets by 2050, we are developing a transition engagement approach which will have three steps:

- 1 Identify targets for intensive engagement that are not aligned to net zero in high impact sectors, using the Climate Rating
- 2 Conduct time-bound engagement to achieve transition milestones under the Climate Rating framework, ensuring companies meet Fidelity’s minimum climate requirements and have a credible transition plan in place
- 3 If companies show no progress after an engagement period not exceeding three years and we see no prospect of increasing their transition potential, we will look to divest.

Thermal coal transition engagement

Our transition engagement approach also identifies thematic areas that are more exposed to climate-related risks starting with the thermal coal transition engagement. We identify our initial target list based on companies that generate material revenue from thermal coal mining, commit to expand thermal coal capacity beyond their existing commitments or are assessed by the Climate Rating as having no evidence of transition potential.

We seek to engage intensively with such companies to adopt our climate requirements and thereby catalyse their transition. If companies remain unresponsive or show no progress in meeting our requirements and further engagement is unlikely to have an impact, we will look to divest. Those issuers will be added to a divestment list, making them ineligible for investment.

The second phase of this approach will target thermal coal power generators. This forms part of Fidelity's plan to phase out issuers exposed to thermal coal in OECD markets by 2030 and non-OECD by 2040, in line with the International Energy Agency's 'net zero by 2050' scenario.

Collaborative engagements

Fidelity also uses collaborative initiatives to engage companies with multiple stakeholders, targeting high emitters as well as critical sectors such as utilities and financial institutions.

- **AIGCC's Asia Utilities Engagement Programme**, an investor-led initiative seeking to engage with major Asian electric utility companies to align business plans with the goals of the Paris Agreement, strengthen climate-related disclosure and enhance governance of climate-related risks.
- **ARE's Asia Transition Platform**, an initiative focused on carbon risk and coal at financial institutions and coal exposed power companies across Asia's leading financial markets.
- **IIGCC Banking Workstream**, an initiative aiming to facilitate climate transition progress amongst the largest European banks and encourage alignment of the banking sector with the goals of the Paris Agreement.

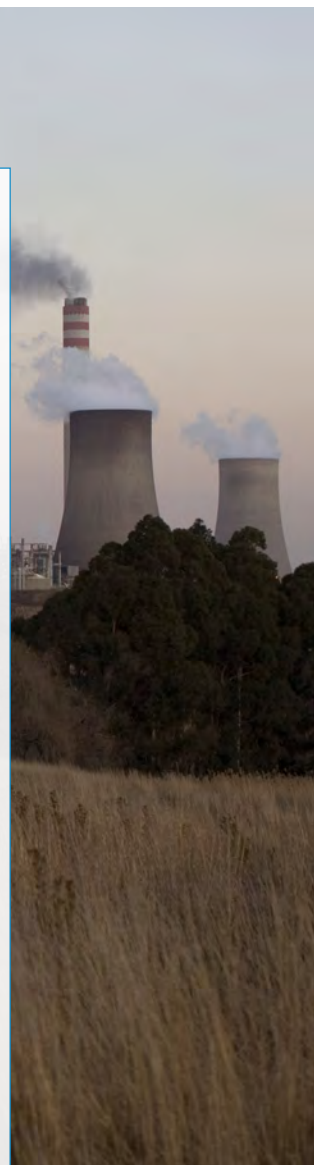
Case study engagement with Climate Action 100+

As a member of Climate Action 100+ we are co-leads on several collaborative engagements, designed to ensure the world's largest GHG emitters take action on climate change.

Sasol, South Africa's largest integrated energy and chemicals company, announced that it planned to increase the ambition of its transition plan and to publish new goals at the company's capital markets day. Fidelity engaged together with other Climate Action 100+ investors in constructive ongoing discussions with the company, guiding and holding the company to account for developing a credible and robust decarbonisation strategy. We explicitly communicated our expectations for Sasol's decarbonisation strategy to the company's Board and Executive Leadership Team which included science-based short, medium and long-term targets and details of how the company's capital allocation will support the transition.

When Sasol published its 2021 Climate Change Report at its capital markets day, we were pleased to see that the report addressed several of the key areas that we had highlighted. The report indicated a marked increase in the ambition of the company's climate strategy and provided evidence that climate change is gaining strategic importance for Sasol. This included a commitment to reach net zero by 2050, as well as more ambitious Scope 1 and 2 targets, along with a Scope 3 target. In addition, the company laid out roadmaps on GHG emissions reductions for its Energy and Chemicals business and a 2050 roadmap for the energy business.

More information on this engagement can be found on the Climate Action 100+ website [here](#).



Disclosure b):

Describe the organisation's processes for managing climate-related risks.

Investment management

The integration of sustainability in our research allows us to directly manage climate-related risks through a combination of our top-down and bottom-up analysis.

Portfolio review

Our bottom-up approach, coupled with the upcoming rollout of the climate ratings, allows us to monitor the alignment of companies to the Paris Agreement and net-zero pathways. This helps us to identify companies at risk of divestment, and those which require additional active engagement. Additionally, our sustainability ratings for each company are bound by a combination of E, S, and G pillar scores. These set hard limits on companies' ratings, meaning companies cannot be rated exceptionally strongly if they are significantly lagging in one of the three pillars. Therefore, companies which are not doing particularly well in, for instance, the E pillar, where climate-related indicators are taken in account, will have a limited score which can affect their eligibility in certain portfolios.

Individual portfolios are also subject to an in-depth quarterly financial review (QFR) with senior management. Every aspect of the fund in question is examined, including risk profile, volatility, performance, and fund positioning. We also

examine the fund's individual investments. Alongside the traditional fund aspects, the QFRs consider ESG scores (from third parties and our proprietary ratings) and carbon data⁷, which are standard measures of the ESG quality of our funds. This means that the chief investment officers hold portfolio managers accountable on how sustainable investing forms part of their investment process.

In addition to the QFR process, we are introducing a quarterly sustainability review (QSR) framework, which sets out a process to review, monitor, and manage an expanded set of key sustainability risks, such as climate rating performance, engagements, and proxy voting activity. As in the QFR, the chief investment officers play a critical role in monitoring the accountability of portfolio managers. The Sustainable Investing team is also closely involved in the QSR process to provide support and relevant expertise.

Climate Voting Policy

Introduced in July 2021 as part of our broader voting principles and guidelines, Fidelity has set out specific minimum expectations of our investee companies in terms of governance of climate change oversight, practice, and action in our voting principles and guidelines. Together with engagements, we can use our role as active investors to influence and drive decarbonisation at the companies in which we are invested. We believe that voting is an invaluable tool to signal our expectation and improve corporate behaviour to better manage companies' risks and leverage new opportunities.

We are applying a phased approach and will initially focus on high impact and Climate Action 100+ companies. We have focused on a basic set of standards this year and, for each set of companies, we will ask for the following as a minimum:

High impact



Disclosure of direct emissions (Scope 1/2) and a quantitative emissions reduction target

Climate Action 100+



A broader set of criteria, including climate scenario planning, that align with the recommendations of the TCFD

We will vote against members of the board at companies that fall short of these minimum expectations.

⁷ Where data is available

The growing importance placed on climate change has resulted in an increase in climate-related shareholder proposals. Votes on climate-related shareholder proposals are evaluated on merit. In all cases however we take a holistic view of factors when determining our final decision.

Further information on our voting principles and guidelines can be found in the links at the end of the report.

Managing regulatory risks

With increased regulatory concerns, SIPO has established a regulatory execution programme connecting different teams to ensure compliance and create proactive management of various regulatory obligations. This includes monitoring development of regulations, engagement with regulators, and developing best practices towards disclosure globally.

Corporate Operations

As identified in the Sustainability Management System, Fidelity International's Global Health, Safety, and Sustainability Associate Director ensures the implementation of necessary control measures to address ongoing identification of hazards and opportunities. Our impact risk rating allows us to identify significant environmental aspects and impacts which should have suitable control measures or where improvement objectives are to be identified and implemented. These should be recorded on an Environmental Aspects and Impact Register. The Global Health, Safety, and Sustainability Associate Director is then responsible for regular monitoring using appropriate means (for example, a steering committee, scheduled audits, and programme reviews), in order to ensure that both environmental aspects and impact are controlled effectively.

Our impact risk rating allows us to identify significant environmental aspects and impacts which should have suitable control measures or where improvement objectives are to be identified and implemented.

In line with section b) of the Strategy section, our management system framework helped us to identify climate as a key risk and led to the creation of our net-zero emissions goal within our operations by 2030.

Macroeconomic research scenario analysis

To incorporate climate risks into our capital markets assumptions (CMA), we require macroeconomic projections mapping physical and transition risks under different scenarios. The latest NGFS climate scenario work offers a comprehensive set of six scenarios exploring a range of plausible outcomes under different assumptions about GHG emissions, societal choices, technology, climate adaptation, and mitigation policies.

Figure 11: The NGFS scenario framework



Positioning of scenarios is approximate, based on an assessment of physical and transition risks out to 2100. NDCs are nationally determined contributions.

Source: NGFS Climate Scenarios for central banks and supervisors, June 2021

Our assessment of technological progress, sovereign policies, and climate ratings to date leads us to a preliminary conclusion that a disorderly transition scenario is the most likely base case/scenario should be treated as the base case for Capital Markets Assumptions (CMA). This envisions a world in which policy action on climate is delayed and/or is disruptive to economies and markets and is uneven across regions and sectors. This in turn results in increased physical and transition risks, which translate into a potentially volatile environment for key macro indicators and a different set of CMAs to those commonly used today. Such forward-looking, transparent, and consistent assessments of climate scenarios will underpin our climate-aware CMA base case and the next generation strategic asset allocation (SAA) framework we expect to unveil later this year.

Supplemental Guidance b):

Managing material climate-related risks for each product or investment strategy

As above, risks are monitored through a range of oversight by individuals and teams to provide systematic daily, weekly, monthly, and quarterly reviews. Within this framework, ESG considerations and climate-related issues specifically - such as carbon footprint analysis - are overseen by the processes and groups described below.

At the specific product level, portfolio managers develop views of climate-related risks relevant to their investment universe. At the individual issuer level, each investment is assessed as described in the section above detailing our fundamental research approach. This incorporates our proprietary ESG rating that assesses key risks, including climate-related risks. Utilising the information from our fundamental research and external providers of climate-related data, portfolio managers manage climate-related risks within the parameters of the specific product and investment strategy.

Additionally, our sustainable fund range includes additional exclusions for thermal coal. It excludes all issuers that derive more than 5% of revenue from the mining of thermal coal and its sale to third parties, and issuers that derive more than 5% of revenue from thermal coal-based power generation.

Fidelity will allow an exception to this exclusion if an issuer derives less than 30% of its revenue from thermal coal related activities and if the following applies:

- The issuer's revenue share from renewable energy exceeds revenue share from thermal coal activities.
- Where the issuer has made an effective commitment to a Paris-aligned objective based on an approved Science Based Target or aligns with a Transition Pathway Initiative scenario or has made a reasonably equivalent public commitment.

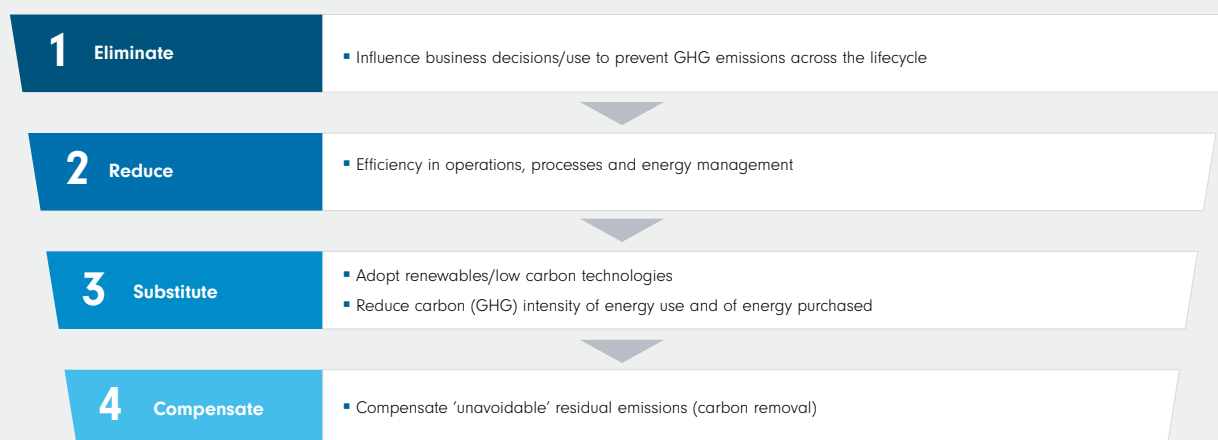
Evidence of company engagement and/or commitment must be logged into internal Fidelity systems for future monitoring.

Managing climate risk in our real estate portfolio

As mentioned in section a) of Risk Management, our journey towards net zero carbon by 2050 or sooner across our direct real estate portfolio will require us to manage the risks in our transition.

In terms of building operations, we aim to incorporate carbon metrics during development and refurbishment of our assets as well as reduce GHG emissions using the Fidelity GHG hierarchy below. We will also explore opportunities for using renewables where assets are under our control.

Figure 12: The Fidelity GHG hierarchy



We also seek to engage our tenants to deepen our understanding of the carbon impact of assets in our portfolio when consumption data is unavailable. This also seeks to improve green lease obligations and subsequent data capture process to accurately measure tenant emissions. Lastly, we engage with tenants on procurement of energy from renewable sources.

Disclosure c):

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management

As pointed out in previous sections, the operational work related to climate-related risks, as managed through the primary bodies of the CSC and the SIOC, is complemented by the organisation’s overall risk governance and risk management framework.

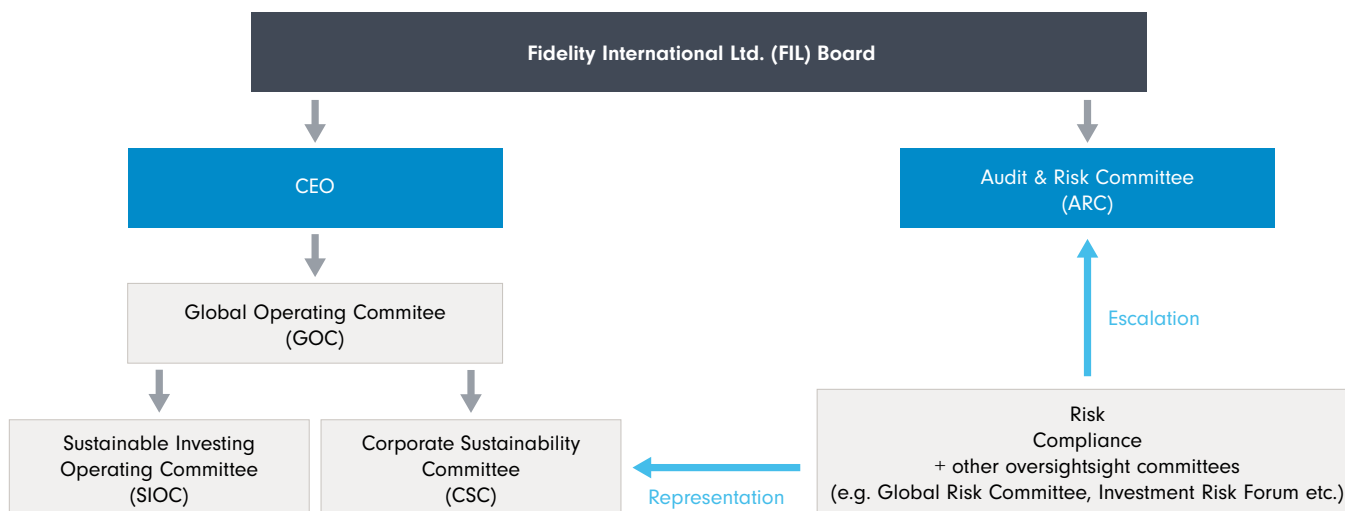
In line with the ‘Three Lines Of Defence’ model adopted by FIL for investment management and FIL operational activities, climate-related risks and opportunities are identified and assessed as part of daily business processes and as part of the change management programme (SIPO). Independent oversight functions (Risk & Compliance) monitor the effectiveness of controls and tools employed by the business in existing processes, oversee and provide advice for changes made as part of the transition, and evolve independent risk oversight policies and frameworks. Audit provides assurance.

We respond to each risk identified as related to climate by enhancing existing frameworks such that controls remain effective and that due attention is paid to the transition of our frameworks and business activities adopting to changes.

Climate risks and opportunities are identified as part of our investment management process starting with the research process. Investment management activity at a portfolio level is embedded within existing Investment Risk & Compliance oversight processes and is also reviewed as part of SIOC related to changes. Product developments opportunities go through governance oversight as part of existing forums as well as change management, where risks are identified and overseen together with independent risk and compliance functions. This strengthened governance aims to respond to demands from our clients for new products, additional climate-related disclosures, and reporting requirements that facilitate informed investment decisions. Evolving regulatory scrutiny and changes provide guidance in this transition.

Figure 13: Risk governance

An overview of the Fidelity global risk governance structure is depicted here, with specific detail relating to climate-related issues provided below



As the CSC and the SIOC report directly to the GOC which is further overseen by the Fidelity International Limited (FIL) Board, the FIL Board is ultimately responsible for overseeing material ESG risks and opportunities, including climate risk.

The Investment Risk Committee (IRC) acts as a shared First and Second Line of Defence Risk Oversight Committee with its primary objective being to ensure that portfolios are run appropriately and in line with their stated objectives. Its responsibilities include making sure that ESG metrics which can include carbon emissions are appropriately considered within portfolios. IRC operates on a co-chaired system and is jointly chaired by the Global Head of Portfolio Construction Risk and a member of Investment Risk & Analytics or the Investment Risk Oversight team. For sub-advised funds, the IRC will be chaired by a member of the Investment Risk Oversight team. In the chair's absence, they will delegate another individual to act on their behalf.

In addition, our Global Risk Team (including regional CROs) represents an independent risk and control layer responsible for ownership and maintenance of an effective risk management/control framework. The Global Risk Team ensures there are adequate and consistent enterprise level risk management frameworks and is responsible for oversight of the Fidelity International risk profile including Concentration Risk analysis across risk types.

The Global Risk Management team continues to support Fidelity's climate-related change management through workstreams managed by SIPO to provide independent oversight of activities by advising and challenging development of processes specific to ESG-related matters. ESG touches a broad range of areas, from the sustainable investment management rating framework and the build-out of our corporate sustainability framework to regulatory disclosure and risk governance requirements. To address these areas, a group of representatives from teams across various risk disciplines and regions has been working to identify required action and resources to integrate ESG-specific variables within the risk management frameworks and oversight mechanisms.

The focus of this group this year has been to review and challenge Fidelity International's developing ESG policies and practices and monitor industry developments. Going forward, the independent risk management function will continue to contribute to multidisciplinary working groups established to drive the further development and execution of Fidelity International's Sustainable Investment and Corporate Strategy. Focus areas for these groups will be the development and integration of the data, tools and capabilities needed to support disclosure, risk identification, and monitoring for ESG related risks, including climate-related risks.

Real estate forum

The Private Assets Governance and Oversight Committee (PAGOC) provides review and decision making for the operational, risk, and governance frameworks for the private assets business, which includes real estate.

Real estate related ESG metrics tracked by this committee include assets with green building certificate and Energy Performance Certificate ratings.

Pillar 4: Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

Disclosure a):

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Investment management

Across our investment activities, we use carbon footprint and carbon intensity as primary metrics to assess and identify climate risks in our portfolios.

However, an extended range of climate-relevant data is considered throughout the investment process as described in the sections above, including material climate aspects in the ESG ratings and analysis. Furthermore, we can analyse the overall climate performance of a portfolio on matters

such as climate alignment, physical risk, green and brown revenues, and stranded assets, which we are working on integrating more systematically.

This is the first year that we are disclosing our investments in green bonds as the closest objective proxy for measuring investments in climate solutions.

To follow our response and how we manage the climate risks across our investments, we also monitor the number of engagements and proxy voting activities related to climate change.

Key definitions used to calculate metrics in Table 3 are:

Carbon Footprint (Scope 1&2): $\sum_i^n \text{Position Ownership Ratio} \times \text{Position Scope 1 \& 2 Emissions}_i$

Relative Carbon Footprint⁸ $\frac{\text{Carbon Footprint}}{\text{Assets under Management}}$

Weighted Average Carbon Intensity: $\sum_i^n \text{Position weight}_i \times \frac{\text{Position Scope 1 \& 2 Emissions}_i}{\text{Position Revenue}_i}$

Position Ownership Ratio: $\sum_i^n \frac{\text{Position Value}}{\text{Enterprise Value Including Cash (EVIC)}}$

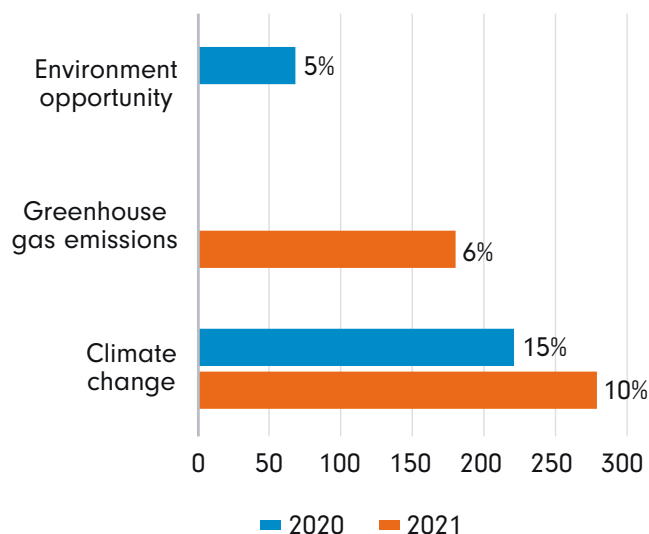
Fidelity Megafund: The Megafund holdings used are an Assets Under Management (AUM) weighted mix of instruments held by all equity and corporate fixed income FIL-managed funds

Composite benchmark: The benchmark used is comprised of an AUM weighted mix of equities and fixed income securities in the benchmarks for the respective funds

We exclude the following from the calculations: short positions and derivatives, government bonds, other asset classes including Multi-Asset, Fidelity Canada, and sub-advised investments.

⁸ Adjustments and minor differences exist due to data coverage being below 100%

Figure 14: Number of engagements⁹



Source: Fidelity International, May 2021.

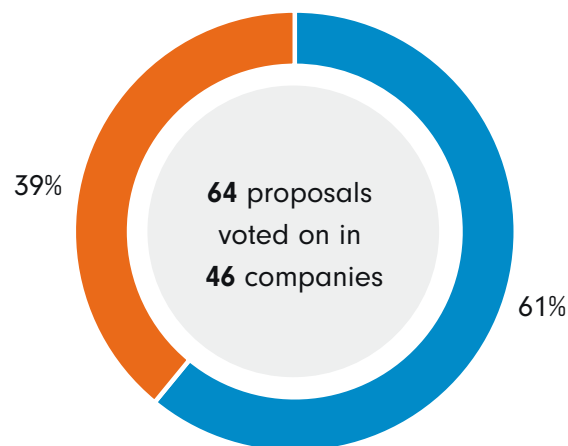
Corporate Operations

Table 4 shows our operational emissions. It covers Scope 1 emissions, including our consumption of natural gas, district heating, fuel consumed by our fleet and company cars, fugitive emissions from refrigerants, and fuel consumed by our backup generators and equipment.

Our Scope 2 emissions stem from the generation of the electricity we consume. These have been calculated using both location-based methodology, in line with the average grid energy mix, and market-based methodology from electricity consumption. The latter reflects that we have entered into renewable energy contracts, backed by Renewable Energy Guarantees of Origin (REGO). Since 2019 we have increased the amount of electricity from Renewable Energy Contracts from 2% to 73% of our globally electricity use.

Our Scope 3 emissions are also shown, including energy consumed by our employees who have travelled either in a rental car or claimed mileage in their personal car, air travel, waste generation, and/or water use.

Figure 15: Proxy votes on shareholder proposals on climate



■ Voted against management recommendations

Source: Fidelity International, May 2021.

All estimations are done in accordance with the GHG Protocol Corporate Accounting and Reporting Standard. For monthly supplies where data are not available, the values have been estimated as follows:

- In most instances, the data was estimated by calculating the mean value from available months to provide an indicative result.
- Where data had the potential to vary seasonally, the corresponding month's consumption from the previous year was used.

⁹ We constantly review how we categorise engagement topics to best reflect the changing nature of engagements. There exists a discrepancy between the 2020 and 2021 figures because of that. The percentages next to the bars represent the share of the engagements on these topics as a part of the overall number of engagements.

Disclosure b):

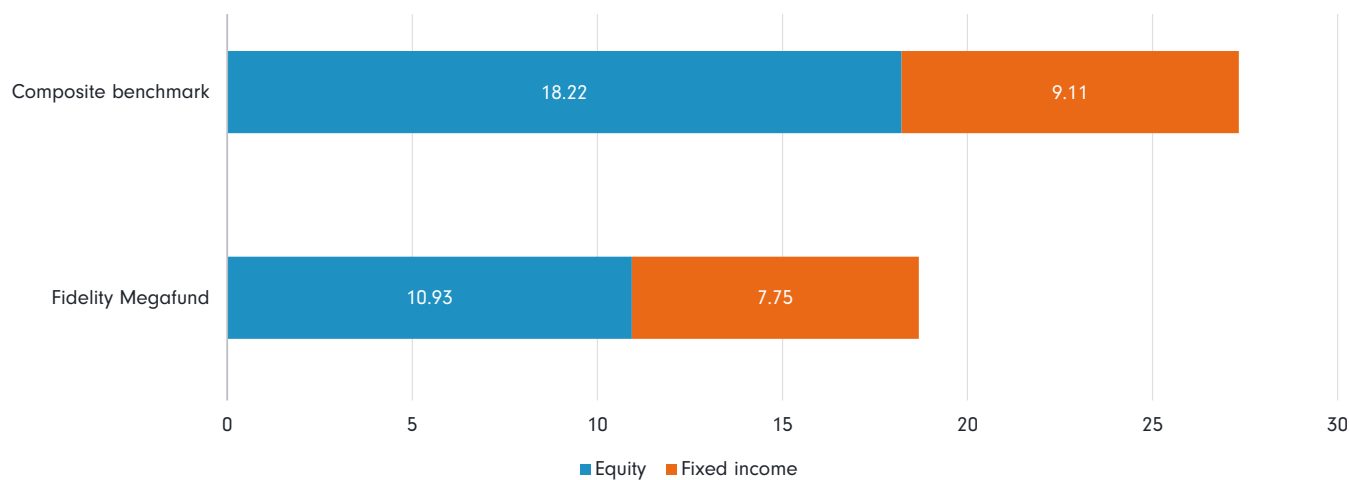
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Investment management

Table 3: Investment management emissions

| | Indicator | Unit | 31/12/2021 | Δ y-o-y | 31/12/2020 | Δ y-o-y | 31/12/2019 |
|-----------------------|------------------------------|------------------------|------------|---------|------------|---------|------------|
| Equity + Fixed Income | AuM | mn USD \$ | 329 146 | -6% | 349 176 | 21% | 288 067 |
| | Carbon Footprint (Scope 1&2) | mn t CO2 | 18.68 | -32% | 27.67 | 2% | 27.04 |
| | Relative Carbon Footprint | t CO2 / \$ mn revenues | 60.9 | -29% | 85.93 | -16% | 102.28 |
| | WACI | t CO2 / \$ mn revenues | 161.2 | -16% | 192.38 | 0% | 192.49 |
| | Coverage | % | 93.22% | 1% | 92.07% | 1% | 91.37% |
| Equity | AuM | mn USD \$ | 254 189 | -7% | 272 325 | 20% | 226 344 |
| | Carbon Footprint (Scope 1&2) | mn t CO2 | 10.93 | -40% | 18.15 | -3% | 18.67 |
| | Relative Carbon Footprint | t CO2 / \$ mn revenues | 44.02 | -36% | 68.78 | 20% | 85.67 |
| | WACI | t CO2 / \$ mn revenues | 130.93 | -18% | 159.2 | 10% | 176.42 |
| | Coverage | % | 97.71% | 1% | 96.90% | 1% | 96.29% |
| Fixed Income | AuM | mn USD \$ | 74 957 | -2% | 76 851 | 25% | 61 723 |
| | Carbon Footprint (Scope 1&2) | mn t CO2 | 7.75 | -19% | 9.52 | 14% | 8.34 |
| | Relative Carbon Footprint | t CO2 / \$ mn revenues | 132.63 | -19% | 163.19 | -10% | 181.03 |
| | WACI | t CO2 / \$ mn revenues | 244.08 | -29% | 343.03 | 28% | 267.94 |
| | Coverage | % | 77.98% | 4% | 75.09% | 2% | 73.71% |
| | Investments in green bonds | mn USD \$ | 349.00 | - | n/a | - | n/a |

Figure 16: 2021 carbon footprint (scope 1 & 2, tCO₂e)



Note: All values are as at 31 December 2021. Source: Fidelity International, May 2022.

Corporate Operations

Table 4 discloses our operational energy and carbon footprint and includes the data for the year 2021 and, for the sake of comparison, data from the previous 2 years (2019 and 2020). Overall, we witnessed a steady Y-o-Y reduction in GHG, 2018 - 2021.

The biggest reductions (Scope 2) relate to changes in the GHG Protocol methodology, which now provides for greater transparency of the energy mix. FIL has benefited due to its heavy concentration in the UK (location-based), which has rapidly decarbonised energy production, and its own use of sustainable energy (market-based).

Business travel, water and paper use show a large reduction in 2020 and 2021 due to COVID-19. These will bounce back to some degree. The rise in refrigerants in 2020 relates to HVAC leaks, rather than an underlying increase in consumption, and levelled back down in 2021.

The 2020 increase in waste was largely driven by GHG Protocol methodology changes.

Table 4: Corporate operations emissions

| | Source of emissions (tCO ₂ e) | Unit | 2021 | Δ y-o-y | 2020 | Δ y-o-y | 2019 | Δ y-o-y | 2018 |
|------------------------------------|--|-------------------------|--------------|-------------|--------------|-------------|---------------|------------|---------------|
| Scope 1 | Natural gas | kWh | 6 914 180 | -10% | 7 667 212 | -4% | 7 990 852 | 12% | 7 121 071 |
| | | tCO ₂ e | 1 403 | 0% | 1 410 | -4% | 1 469 | 12% | 1 310 |
| | Liquid fuels | litres | 3 664 | -52% | 7 680 | -11% | 8 665 | -6% | 9 263 |
| | | tCO ₂ e | 10 | -53% | 22 | -6% | 23 | -15% | 27 |
| | Refrigerants | kg | 8 | -86% | 59 | -490% | 10 | -63% | 27 |
| | | tCO ₂ e | 5 | -94% | 95 | 342% | 21 | -56% | 48 |
| | District cooling | kWh | 4 253 | 6% | 4 000 | -33% | 6 000 | - | - |
| | | tCO ₂ e | 1 | 0% | 1 | 0% | 1 | - | - |
| District heating | kWh | 1 017 015 | 25% | 815 628 | 0% | 817 682 | -1% | 824 995 | |
| | tCO ₂ e | 174 | 23% | 141 | -2% | 144 | -7% | 155 | |
| Business travel - fuel card | litres | 1 625 | 3% | 1 582 | -52% | 3 276 | 0% | 3 276 | |
| | tCO ₂ e | 4 | 0% | 4 | -50% | 8 | 0% | 8 | |
| Business travel - expensed mileage | miles | 59 892 | -14% | 69 890 | -82% | 392 094 | 10% | 356 243 | |
| | tCO ₂ e | 10 | -47% | 19 | -83% | 112 | 8% | 104 | |
| | Total | tCO₂e | 1 607 | -5% | 1 691 | -5% | 1 778 | 8% | 1 652 |
| Scope 2 | Electricity consumption | kWh | 21 282 503 | -11% | 23 915 701 | -26% | 32 181 068 | -4% | 33 502 602 |
| | Location-based calculation | tCO ₂ e | 7 887 | -10% | 8 763 | -29% | 12 362 | -15% | 14 535 |
| | Market-based calculation | tCO ₂ e | 2 804 | -47% | 5 251 | -64% | 14 554 | -13% | 16 823 |
| Scope 3 | Water | litres | 26 588 | -18% | 32 432 | -50% | 64 890 | 14% | 57 012 |
| | | tCO ₂ e | 4 | -64% | 11 | -50% | 22 | 10% | 20 |
| | Waste | Tonnes | 665 | 23% | 539 | -51% | 1 108 | -7% | 1 195 |
| | | tCO ₂ e | 236 | 47% | 161 | 33% | 121 | -2% | 124 |
| | Paper usage | miles | 19 | -39% | 31 | -52% | 64 | -7% | 69 |
| | | tCO ₂ e | 18 | -33% | 27 | -51% | 55 | -8% | 60 |
| Air travel | miles | 2 022 025 | -82% | 11 339 405 | -78% | 51 901 220 | 12% | 46 364 284 | |
| | tCO ₂ e | 506 | -77% | 2 229 | -79% | 10 862 | 5% | 10 296 | |
| Grey fleet | miles | 211 959 | -38% | 340 353 | -78% | 1 536 518 | 65% | 933 407 | |
| | tCO ₂ e | 36 | -62% | 94 | -79% | 440 | 62% | 272 | |
| | Total | tCO₂e | 800 | -68% | 2 522 | -78% | 11 500 | 7% | 10 772 |
| Total | Total emissions (location) | tCO ₂ e | 10 294 | -21% | 12 976 | -49% | 25 640 | -5% | 26 959 |
| | Total emissions (market) | tCO ₂ e | 5 211 | -45% | 9 464 | -66% | 27 832 | -5% | 29 247 |

In 2022 we will carry out a screening exercise to identify further material Scope 3 emissions associated with operations such as commuting, homeworking and supply chain emissions.



Other Scope 3 emissions

Disclosure c):

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Investment management

We aim to align close to 35% of our AUM to a net zero pathway, with the first interim target in 2025 and at five-year intervals thereafter. This firm-wide reduction targets a 50% reduction in financed emissions across equity and corporate bond holdings globally by 2030 from the baseline year¹⁰.

The firm-wide reduction target covers Scope 1 & 2 emissions of our investee companies, with Scope 3 due to be integrated at a later date. The fund-level alignment target will include Scope 3 analysis both as a current measurement and as part of issuer target setting. The AUM in scope represents FIL's global proportion of assets managed in portfolios which promote environmental or social characteristics (including those which we currently categorise as Article 8 or 9 of SFDR). These funds (which include our Sustainable Family fund range) are those with a higher focus on sustainability and, as such, will be the first set to align to net zero, with the target setting for these funds individually

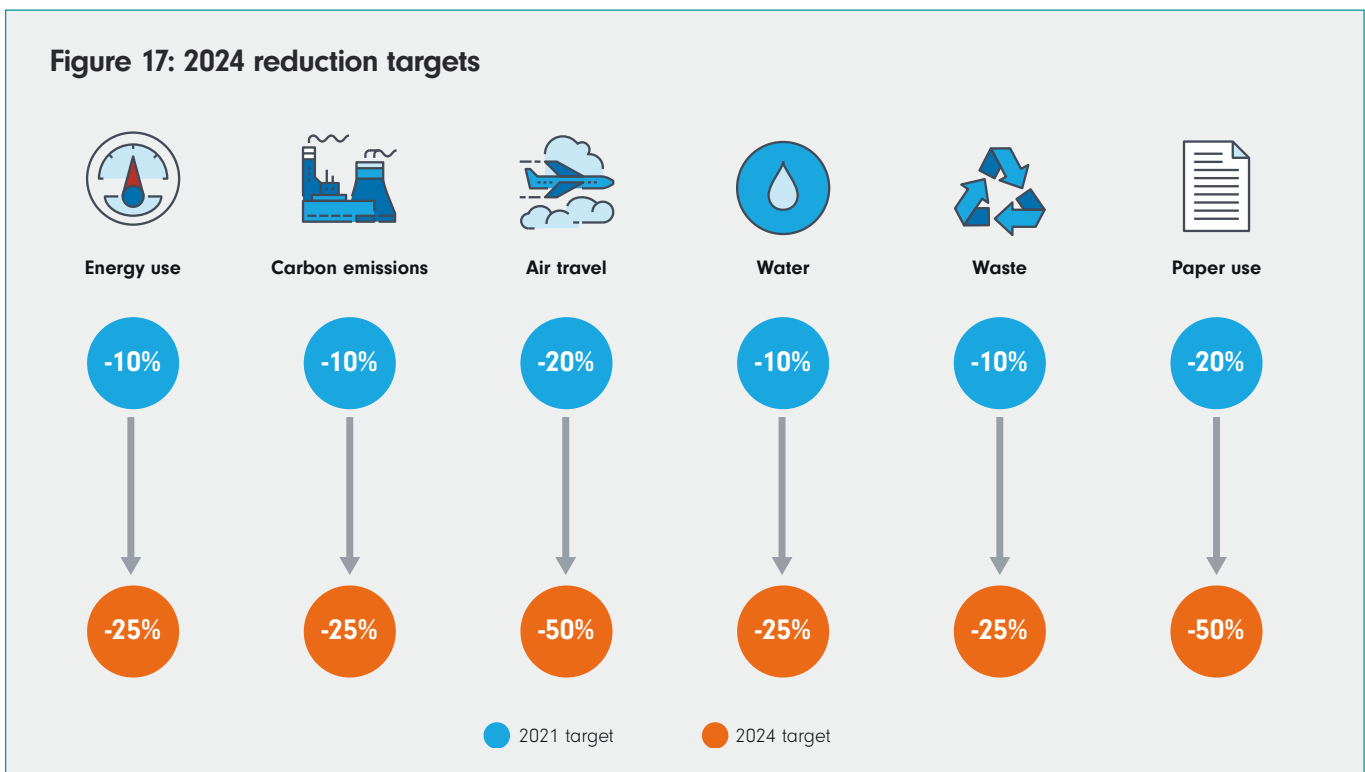
starting in 2022. We expect to be setting interim targets for 2025 and at five year intervals thereafter, reaching full alignment by 2050.

We expect that different funds will have the flexibility to adopt different pathways towards net zero based on their investment strategy and investable universe. For the remainder of our funds and our institutional segregated mandates, we will be continuing to assess the applicability and integration of net zero objectives in their investment mandates in partnership with our clients and distributors.

Corporate Operations

On the corporate side, we are making progress towards realising climate-related opportunities in our business practices. The centrepiece of our ambition is our net zero 2030 goal, updated in 2021 from our original 2040 goal.

Subsequent to the carbon footprinting¹¹ exercise we referred to in the Strategy section earlier, we have set our 2024 reduction targets, which include:



¹⁰ 102.28 tCO₂e / \$m invested, representing our carbon footprint as at 1 January 2020, using 2019 data, representing pre-COVID emissions

¹¹ Carbon accounting methods applied in accordance with The GHG Protocol Corporate Accounting and Reporting Standard

As a company, it is our pledge to keep innovating and improving how we manage our own operations to limit the impact we have on the environment. In order to formalise this, one of our 2024 targets is to achieve ISO 14001 certification. This is an international standard that embraces a constant process of environmental improvement: assess, plan, improve and repeat.

Useful links

- [Climate Investing Policy](#)
- [Stewardship and voting principles and guidelines](#)
- [Fidelity Real Estate sustainability approach](#)
- [Fidelity International: Mapping climate pathways to macro and strategic asset allocation](#)
- [Fidelity International: Disorderly transition remains likely despite COP pledges](#)
- [Previous TCFD Report](#)
- [Corporate Sustainability Report](#)
- [Sustainable Investing Report](#)

- [Latest IPCC reports](#)
- [COP26 final agreement](#)

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