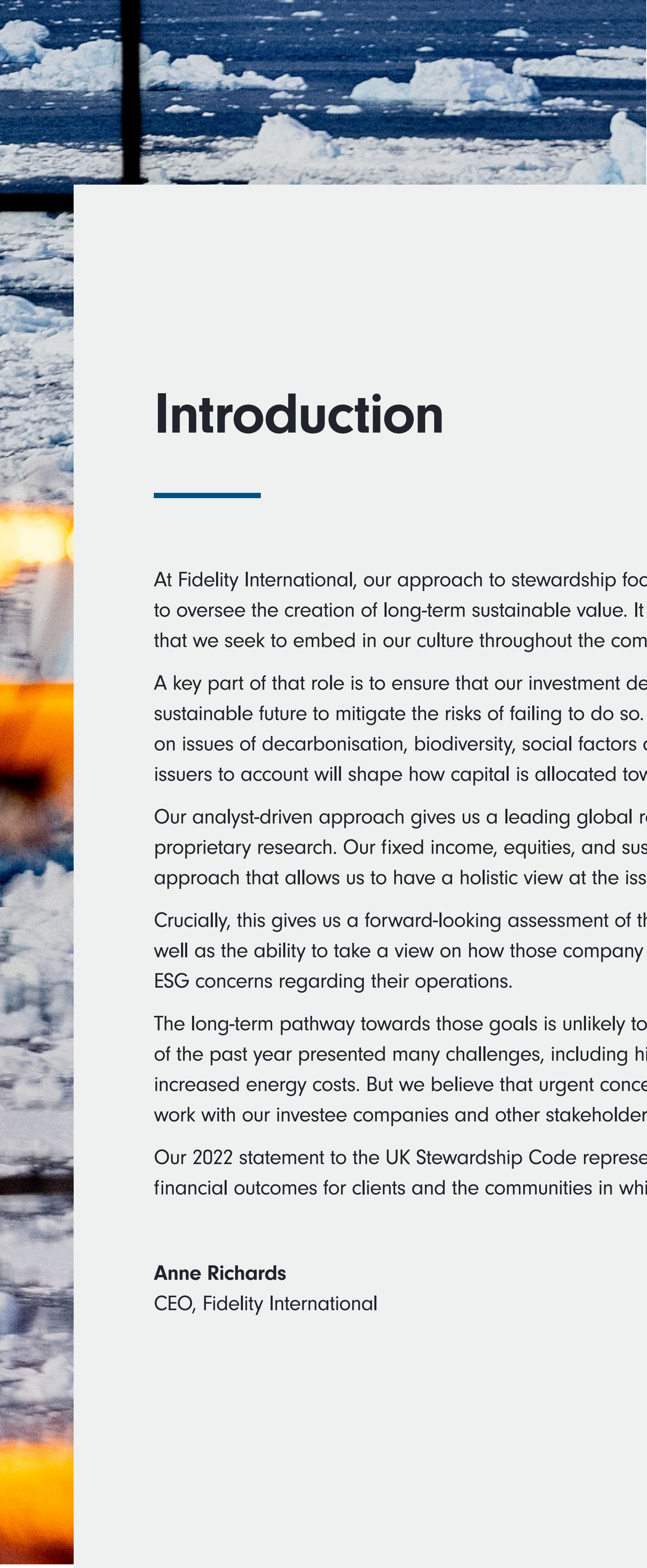
April 2023

2022 UK Stewardship Code Submission

The Arctic Ocean as a display on the subject of climate change. (Credit: Picture Alliance / Contributor, Getty Images)

This is for investment professionals only and should not be relied upon by private investors



Introduction

At Fidelity International, our approach to stewardship focuses on the responsibility to our clients and wider stakeholders to oversee the creation of long-term sustainable value. It is an important part of our investment process and something that we seek to embed in our culture throughout the company.

A key part of that role is to ensure that our investment decisions reflect, and encourage, the transition to a more sustainable future to mitigate the risks of failing to do so. We take an active engagement approach to our investments on issues of decarbonisation, biodiversity, social factors and governance, and believe that how we hold companies and issuers to account will shape how capital is allocated towards achieving the goals of sustainability.

Our analyst-driven approach gives us a leading global research group that informs our investment decisions with proprietary research. Our fixed income, equities, and sustainable investing teams work together to create an integrated approach that allows us to have a holistic view at the issuer level.

Crucially, this gives us a forward-looking assessment of the companies and industries in our investment coverage, as well as the ability to take a view on how those company managers are responding to the challenges they face and the ESG concerns regarding their operations.

The long-term pathway towards those goals is unlikely to be linear. The macro-economic and geopolitical environment of the past year presented many challenges, including high inflation, rising interest rates, supply chain difficulties and increased energy costs. But we believe that urgent concerns must be balanced against existential risks, and we seek to work with our investee companies and other stakeholders to increase understanding of the challenges involved.

Our 2022 statement to the UK Stewardship Code represents a strong commitment towards fostering better long-term financial outcomes for clients and the communities in which we operate through sound stewardship principles.

Anne Richards
CEO, Fidelity International

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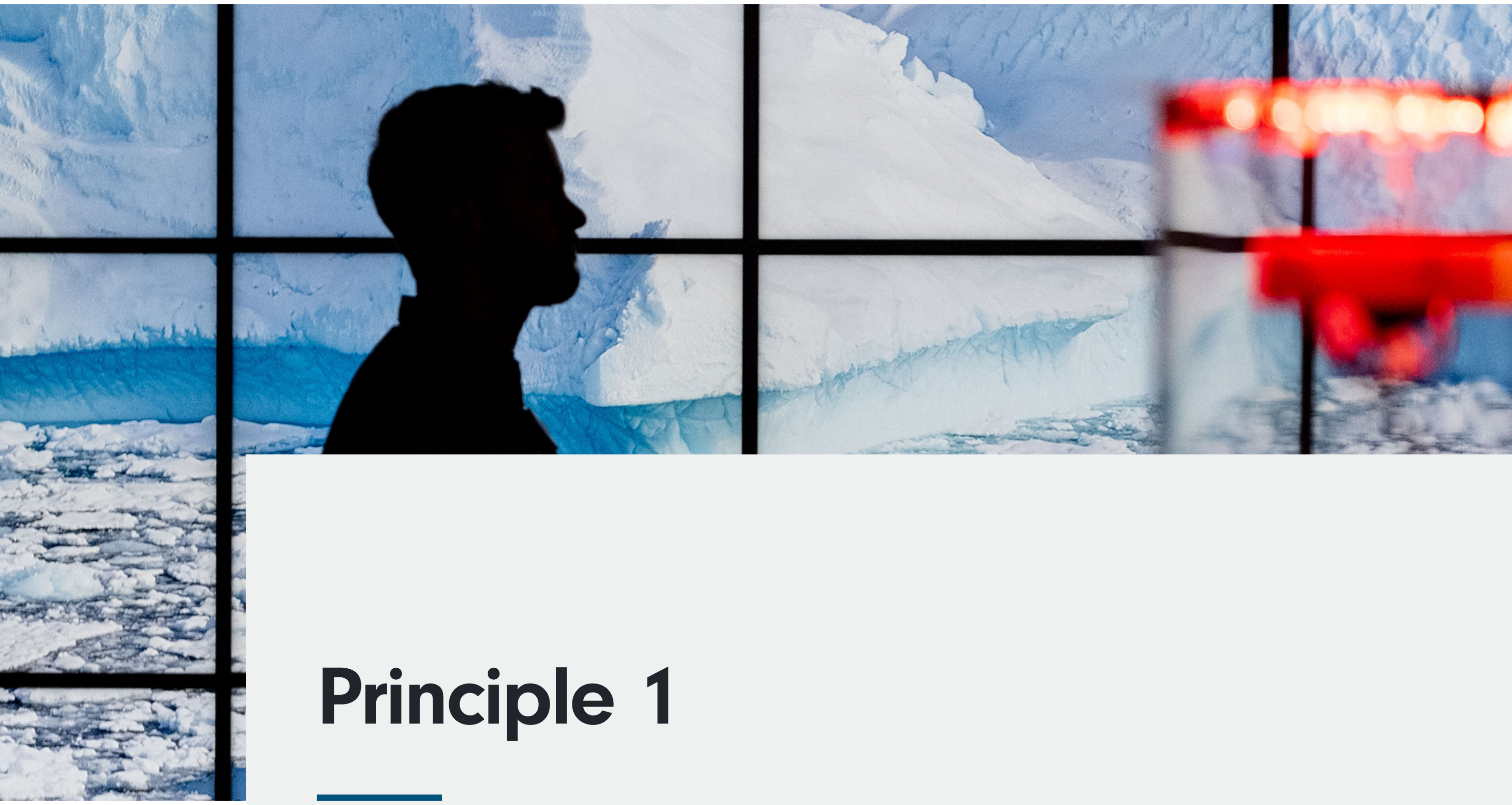


Principle 1

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment, and society.

Context

Organisational purpose, culture, values, business model, and strategy

Fidelity International (hereafter "Fidelity International" or "Fidelity") is a privately owned global investment and retirement savings business with operations in more than 25 countries, serving over 2.8 million customers around the world. Established in 1969 as the international arm of Fidelity Investments in the US, Fidelity became an independent organisation in 1980. Today, it is owned mainly by senior management and founding family interests. Our clients range from central banks, sovereign wealth funds, large corporates, financial institutions, insurers, and wealth managers, to private individuals.

Purpose

Our purpose is to work together to build better financial futures for our clients and we believe that investing over the long term is critical to achieving that.

We are passionate about delivering the right investment guidance and solutions, as well as improving access to investing for as many people as possible.

To do this, we bring together savings and pensions guidance with high-quality asset management services and solutions - both our own and those of others - to serve individuals, financial professionals and institutions right across the globe.

Our strength is that we combine the depth, scale and perspective of a leading global asset management company with our leading online investing and retirement savings platforms where clients can invest directly using our products and those from other companies.

Our purpose is to work together to build better financial futures for our clients and we believe that investing over the long term is critical to achieving that.

Our aim is to create an environment that gives all our current and future clients the flexibility to follow their investment journey with us, in any way they choose and as easily as possible.

Business model and strategy

Our strategy and vision are of a single, collaborative organisation built on two strong businesses:

- Investment Solutions & Services (ISS)
- Workplace & Personal Financial Health (WPFH)

These two businesses are supported by and work in partnership with our Corporate Enablers - from Finance and HR to Technology and Communications for example.

In line with our company values, we aim to ensure we're working together to build better financial futures and be a positive force in the world. Because ISS and WPFH service different client types with different needs, we've developed distinct and separate strategies for these businesses. In ISS we seek to become an investment partner with the ability to invest sustainably in multiple asset classes and offer relevant products, solutions and services to institutional investors and wholesalers. In WPFH, where our clients are individuals and their employers, we seek to offer a full-service investor platform that addresses people's lifetime investing needs, including through the workplace. Our two businesses leverage synergies - or golden threads - by sharing their experiences and solutions to serve each other's clients with innovative products, services or insights, that competitors would find hard to replicate. Each business strategy has a number of dimensions, including building new capabilities, identifying and entering new markets and developing propositions that are attractive in those markets. These are executed through a programme of strategic initiatives, and we measure our success using a series of KPIs including commercial performance and stakeholder satisfaction.

Working together to build financial futures ...

Investment Solutions & Services ...by providing the best and most innovative investment services & products to suit any need and desired outcome		**Workplace & Personal Financial Health** ...By giving people the power to get and stay in great financial health throughout every stage of their lives	
Wholesale	**Institutional**	**Workplace**	**Personal Investing** (Direct and Advised)
Distributes Fidelity investment solutions and services to banks, insurance companies, brokerage firms, financial advisers, and family offices.	Offers tailored strategies and segregated mandates, as well as institutional funds to pension funds, public authorities and sovereign wealth funds.	Offers investment and administration services for global corporate pension schemes, including employer support and employee engagement.	Provides access to both Fidelity and third party investment products and services (including advice) for individual investors and financial advisers.

Source: Fidelity International, 31 December 2022.

Our values and culture

Fidelity's core values are integrity and trust. Together, these drive how we work with each other and with our clients, customers, and partners.

Our culture is one in which employees are encouraged to be brave, bold, curious, and compassionate. We encourage these four behaviours by embedding them throughout the organisation in various forums, for instance in training programmes and performance management. Our leadership shares these values and sets the strategy and risk appetite for the business using them as a lens.

Fidelity International is a family and management owned company that values and nourishes lifetime relationships with clients. We think generationally and for the long term, both in terms of the services we build and provide, but also in the way in which we invest on our clients' behalf and for the benefit of wider stakeholders.

Our approach to stewardship is grounded in the fact that as a large and diversified investment manager across multiple geographies, sectors and asset classes, we are exposed to systemic environmental and social issues.

Investment beliefs

At Fidelity, we recognise that maintaining our privileged position as one of the world's largest asset managers is contingent on our ability to continue meeting and exceeding investors' growing expectations for sustainable investing and those of the communities in which we operate. To this end, our size and scale provide us with a level of corporate access that few enjoy, and we see it as our fiduciary duty to use this to influence corporate behaviours for better long-term investment outcomes and to avoid principal adverse impacts of these companies. Delivering outstanding results for our clients requires us to constantly evolve. This evolution is reflected in our Sustainable Investment Beliefs, published in our revised Sustainable Investing Principles in December 2022:

1. **Sustainability integration leads to better long-term financial, environmental and social outcomes for clients and a broad set of stakeholders.** As active investment managers, we integrate material sustainability considerations into our fundamental research because we believe it can drive better decisions and outcomes, which are integral to the financial futures of our clients.
2. **Effective stewardship combines bottom-up, thematic and system-wide approaches.** Our approach to stewardship is grounded in the fact that as a large and diversified investment manager across multiple geographies, sectors and asset classes, we are exposed to systemic environmental and social issues. Effective and outcomes-focused stewardship combines bottom-up corporate engagement, top-down thematic engagement, and system-wide stewardship.
3. **Blending a global mindset and local understanding helps us to deliver insightful research and positive stewardship outcomes.** Stewardship and integration of sustainability issues must take into account local context to be effective, and respect differences in geographic, economic, social and cultural factors. As a global firm with a local presence in many markets, we are well positioned to navigate these challenges and generate differentiated insight and outcomes.

Our active approach to investment is underpinned by the fundamental research of our global team of investment professionals who typically conduct around 18,000 company meetings per year. We believe that the more we can learn about the companies we invest in, the better we can hold them to account for delivering on their strategy.

We can also steer them towards thinking about creating value for a broader set of stakeholders beyond financial investors, which we believe will lead to better overall company performance.

Activities

Actions we have taken to ensure our investment beliefs, strategy, and culture enable effective stewardship.

Fidelity's stewardship activities support the responsible allocation of client assets in two main ways: by informing the investment process at the research and investment decision-making stages, and through leveraging our ownership position in companies to effect positive corporate change.

During the year, we have acted to ensure that our stewardship approach continues to effectively support our corporate strategy and our active investment approach. Steps that we have taken include:

- Further integrating ESG into our investment processes, including the publication of our Sustainable Investing Principles (See Principle 7), the roll out of our Climate Rating to support our climate engagements (See Principle 7), the roll out of Quarterly Sustainability Reviews for many of our funds with sustainability elements such as our Article 8 funds (under the Sustainable Finance Disclosure Regulation (SFDR) in the EU) which establish a structured form of discussion and challenge on fund ESG characteristics (see Principle 2).
- Developing an Influence Framework to guide how we will prioritise and execute stewardship efforts in future (See Principle 9).
- Continuing efforts to embed stewardship in the investment organisation through training and education (See Principle 2).
- Adding additional resource to our Sustainable Investing Team, which spearheads Fidelity's stewardship efforts (See Principle 2).

We are committed to embedding these practices in a way which is authentic to our culture as a fundamental investor, but this requires a significant evolution in the way we interact with investee companies.

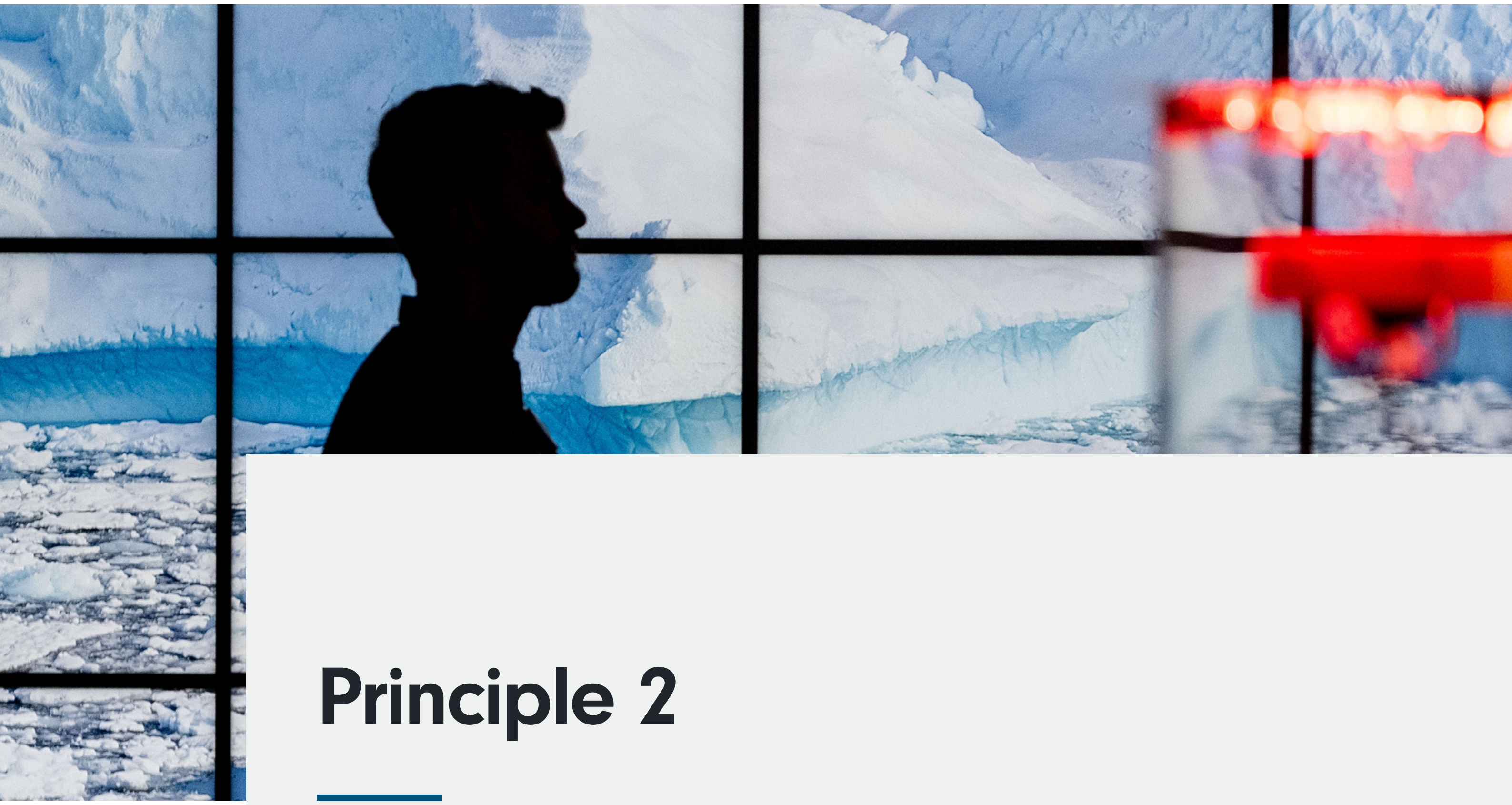
Outcomes

How effective this has been at serving client interests

Over the year, to meet rising client expectations and regulatory requirements, we have continued to evolve our policies, standards, and tools to support the systematic integration of sustainability considerations into our investments. At the same time, our stewardship efforts have increasingly focused on putting these firm-wide policies, standards, and tools into practice, requiring us to evolve our stewardship approach. We are committed to embedding these practices in a way which is authentic to our culture as a fundamental investor, but this requires a significant evolution in the way we interact with investee companies. Traditionally, our stewardship activities have served to enhance our understanding of the companies we invest in and to inform investment decisions, and where we have sought to use our ownership position to affect change at investee companies, this has tended to relate to matters of strategy and governance.

This approach has evolved in recent years to include using our influence in an effort to affect positive corporate change in respect of ESG themes, led by our Sustainable Investing Team, which spearheads our thematic engagements addressing areas of key ESG risk (see case studies in Principle 9), our collaborative ESG engagements (see case studies in Principle 10), and our shareholder voting, where we have further embedded environmental and social considerations in the past year (see Principle 12). We believe that the output of these efforts - including the launch of thermal coal and deforestation engagements to meet our net zero commitment, and the evolution of our voting record on E&S themes - demonstrates progress and a commitment to serving our clients' interests, but we still have a long way to go.

Cultural change takes time. We have sought to drive this change forward through enhanced formal training and performance management on stewardship and ESG for our investment professionals and additional resourcing for our Sustainable Investing team, which we cover in this report, as well as through constant daily informal interactions between the SI team and the broader investment team, which are more difficult to measure. We have observed progress, but as client and societal expectations of the role of asset managers in addressing challenges like climate change and nature loss grow, we know that we have more to do. Our ambition is to use our influence as a global investor to meaningfully contribute to tackling system-wide challenges, primarily through an engagement approach, which we know will require even greater collaboration between our stewardship specialists, portfolio managers, and investment analysts than has henceforth been required. We are confident that our stewardship culture is evolving to support this challenge.



Principle 2

Principle 2

Signatories' governance, resources, and incentives support stewardship.

Activity

How our governance structures and processes enable oversight and accountability for effective stewardship

Our governance structure supports oversight and accountability for effective stewardship at the most senior levels of the organisation. Our Sustainable Investing Operating Committee (SIOC), which refers to Fidelity's senior executive committee, the Global Operating Committee (GOC), sets objectives for sustainable investing and monitors progress across Fidelity's business units. Its responsibilities include:

1. Oversight of the Sustainable Investing Principles and related frameworks and procedures as they pertain to sustainable investing (including ESG frameworks, analytical tools, and exclusion lists)
2. Oversight of the execution of Fidelity's ownership rights in investee issuers, including engagement and proxy voting activities.
3. Monitoring of client requirements and expectations including Fidelity's positioning in relation to client needs.
4. Oversight of Fidelity's sustainable investment management capabilities.
5. Monitoring the policy and regulatory environment as regards sustainable investing and ESG risks and facilitating compliance with local regulations.
6. Receiving and reviewing updates on sustainable investing initiatives across the firm. The committee comprises senior executives from across our business, including the global head of stewardship and sustainable investing, the global head of investment research, and senior representatives from our investment management, distribution, product, operations, human resources and general counsel functions.

SIOC meets monthly to review the sustainable investing activities of the firm. The Sustainable Investing Principles and related frameworks and procedures are reviewed and updated at least annually.

Sustainability impacts all parts of our business. Therefore, we decided that SIOC should draw on expertise from around Fidelity, to ensure robust decision-making and secure wider support from key stakeholders.

In 2022, we reflected on the first two years of SIOC's existence and concluded that it would benefit from the support of formal technical expert groups to assist it with discrete areas of its oversight remit. Therefore, the following groups were formed in 2022 and early 2023 to support SIOC's work:

- Thematic Engagement Oversight Group
- Exclusions Advisory Group
- Voting Advisory Working Group

- Sustainable Product, Mandates, and Services Working Group
- Portfolio Manager Advisory Council
- Sustainable Investing Change Oversight and Controls Forum

Furthermore, the Sustainability Investing Portfolio Office (SIPO) continues to provide regular reporting to SIOC on the progress and execution of key regulatory and strategic change initiatives.

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.

Appropriate resources for stewardship activities

The firm's stewardship activities, including proxy voting and engagement, are spearheaded by the Sustainable Investing (SI) team, which includes sustainability and stewardship professionals covering various subject matter areas and competencies.

The SI team is part of Fidelity's global investment team. It supports Fidelity's global team of investment analysts and portfolio managers to monitor, analyse, and engage with investee companies.

The SI team has expanded to 35 members in 2022 (2021: 30 members) to meet the growing demands for sustainable research, thought leadership and support for analysts and portfolio managers. The scope of the team's work now covers a broad array of activities related to ESG integration, engagement, policy, product development and sales and marketing, as well as proxy voting.

With a presence in seven locations across Europe and the Asia Pacific region the SI team covers a broad range of skills, including research, policy, climate science and governance. The team has a broad range of professional experience and diversity of tenure. Some of the team have worked in similar roles throughout their career, while others have transitioned to sustainability over the course of their career development. Our most experienced professionals have over 15 years' experience in a similar role, and on average members of the team have worked 6 years in sustainable investing and/or stewardship and have 11 years of industry experience. The team is also diverse in terms of gender (57% female) and national origin (10 countries represented). When adding new members to the team, we have prioritised improving the team's skillset to support our organisational stewardship objectives, as well as supporting the development of young talent in the firm, through our graduate intake.

In the past year we have added multiple new members to our Sustainable Investing team. Recent hires include:

- A Director and an Associate Director, with strong stewardship experience, based in Asia.

- Experienced Directors with sustainability and client experience to lead our sustainability-related client engagement within the SI team.
- A Director with extensive impact experience.
- The team supports the development of talent internally. Five members of the team are currently participating in Fidelity's well established graduate training programme.

The continued build out of our sustainable investing team ensures that we remain able to meet the evolving needs of our clients and other stakeholders. New members have brought skills to complement and add to the existing capabilities of the team.

Fidelity's approximately 180 investment analysts are responsible for researching companies under their coverage, leveraging the expertise of the SI team as appropriate. Under this approach, ESG is fully integrated in the investment process, which we discuss in more detail in Principle 7. This collaboration has improved quality and outcomes of engagement across asset classes.

A diverse workforce

Fidelity International has a long-standing commitment to Diversity & Inclusion (D&I). We need the talent, energy and balance of a diverse workforce working together in an inclusive culture to build better financial futures. Fidelity understands the benefits of having diverse talent working in an inclusive culture, which we believe leads to superior investment results and a stronger business.

Fidelity values difference in all its forms. This is reflected in the Diversity & Inclusion Strategy which encompasses cultural and ethnic diversity, disability, neurodiversity and mental health, gender balance, sexual orientation and gender identity (LGBT+) and social mobility.

The three priorities of our global D&I Strategy are:

- A culture of inclusion where everyone feels they belong and can thrive
- A workforce that reflects the full diversity of our clients and the communities where we work
- A reputation with all our stakeholders and markets as a diverse and inclusive company

We have set ourselves the following D&I targets for December 2023, some of which have already been met:

- 45% women in our workforce
- 35% women in senior management roles
- 35% women on decision-making committees
- 40% women on the FIL and FHL (FIL Holdings (UK)) Boards
- Annual reduction of the UK median gender pay gap
- Appoint five additional Black people to senior management roles
- Increase workforce diversity disclosure rates to 70%

As of December 2022, we have made the following progress:

- 44.9% women in workforce, an increase from 43.4% in 2021
- 33.6% women in senior management, an increase from 31.9% in 2021
- 36% women on decision-making committees, an increase from 33% in 2021.
- 44% women on both the FIL and FHL (FIL Holdings (UK)) Boards

- UK median gender pay gap reduced from 21.6% in April 2021 to 19.8% in April 2022
- Eight additional Black people appointed to senior management roles
- 63% of our global workforce have shared their ethnicity data

Additionally, in our latest Inclusion Survey, 84% of employees told us they can be themselves at work.

We have put the following governance framework in place to support our D&I activities:

- The D&I Committee is a global senior committee responsible for making key strategic and operational decisions relating to D&I, reporting to Fidelity's Global Operating Committee.
- We have appointed leads for each of our D&I strands (Cultural diversity, Enable, Gender balance, LGBT+ and Social Mobility) who develop and lead action plans for their strand that are aligned to the overall D&I Strategy. Each D&I strand has a senior Executive Sponsor who sits on the D&I Committee.
- We support employee-led Global D&I Networks for each of our D&I strands to offer peer support, provide development opportunities and amplify the voice of under-represented groups across the business.
- D&I Leads for business lines attend quarterly forums to share best practice and ensure local business D&I plans are aligned to the global strategy

Fidelity has worked towards achieving greater gender balance and closing the gender pay gap for some years. Fidelity's UK median gender pay gap has reduced from 21.6% in April 2021 to 19.8% in April 2022; the mean gender pay gap of 16.1% is significantly lower than the asset management sector average of c28%[1]. Fidelity reported its Ireland gender pay gap for the first time in 2022: the Ireland median pay gap was 6.8% and the mean pay gap was 5.4%.

We have achieved this progress on the gender pay gap through driving greater gender parity in recruiting, promoting and retaining women with the greatest focus on investment, technology and senior roles. Additional activities that the business has adopted to support gender balance include:

- Gender balanced candidate lists (long/short) and interview panels
- New Horizons Returners Programme
- Developed female talent through targeted development programmes including Diversity Project Pathway Programme for female fund managers
- Menopause awareness
- Gender Balance Network
- Allies programme
- Being a truly flexible employer, encouraging and trusting all employees to perform their role in the way that works best for them, our business, colleagues and clients.
- Introducing inclusive family-friendly policies such as equal paid parental leave and five days of paid Family Care Leave globally. In 2022, 297 colleagues took Enhanced Parental Leave and 2273 colleagues took Family Care Leave.

[1]New Financial Report: Slow progress - the gender pay gap in banking & finance - New Financial December 2021

- Attracting more women and talent from underrepresented groups to consider a career in asset management through Early Careers outreach including a social mobility scholarship programme in China, India and the UK.

Fidelity is a signatory of the Race at Work Charter in the UK In 2020, we published a Cultural Diversity Action Plan to provide a workplace where everyone has an equal opportunity to thrive, regardless of race, ethnicity or cultural background. To encourage transparency, we have published annual reports to update on progress against the plan. Actions taken so far include: sponsoring ethnic minority colleagues to participate in the Talent Accelerator and City Hive development programmes, supporting the #100BlackInterns programme, and being a brand sponsor of New Financial's Accelerating Black Inclusion research.

We have trained Mental Health First Aiders across the business and offer five days of paid Fidelity Family Care Leave to all employees globally to support people with caring responsibilities.

Fidelity is a signatory of the UN LGBTI Standards of Conduct for Business. Actions taken to progress LGBT+ inclusion include: making global benefits more inclusive of people in same-sex relationships; providing LGBT+ Allies training; attending Pride events around the world; developing a Gender Identity and Expression policy and guide to support trans and non-binary employees; encouraging colleagues to share their pronouns; and making systems and process more inclusive for LGBT+ customers, e.g. by enabling customers to select their preferred title and pronouns within our UK WI business.

Fidelity is a member of the Valuable 500, a global business collective working for disability inclusion. Actions taken to improve accessibility and enablement for our employees with disabilities, mental health conditions and neurodiverse conditions include: recruiting diverse talent; improving digital user experience and accessibility; setting the right policies; and engaging our employees. In 2022, we introduced a global framework with an expert external partner to provide workplace adjustments to colleagues with disabilities. We have trained Mental Health First Aiders across the business and offer five days of paid Fidelity Family Care Leave to all employees globally to support people with caring responsibilities.

Fidelity is a founding member of Progress Together, a new body which aims to promote social mobility in financial services firms in the UK. We define social mobility as the ability and opportunity for individuals to progress within society and reach their full potential, irrespective of their background. The Social Mobility Network shares colleague stories to raise awareness of the importance of social mobility. Our Future Forward Scholarship programme sponsors students from socially disadvantaged backgrounds through university in China, India, Ireland and the UK and feeds into our Early Careers programmes.

Fidelity's work on diversity, inclusion and employee experience has been recognised with the following external awards and benchmarks:

- One of Glassdoor's top 50 Best Places to Work in the UK in 2022
- Times Top 50 Employers for Women 2022
- Women in Investment Award for Contribution to Gender Diversity in 2020, 2021 and 2022
- Women in Finance - Employer of the Year 2022
- Stonewall Top Global LGBT+ Inclusive Employer, 2020 and 2022
- 14th in Stonewall UK Top 100 Employer List 2022
- Gold level of the LGBT Great Index
- Disability Confident Leader, UK government Disability Confident scheme
- 39th in the Social Mobility Employer's Index 2022

We realise the value of diversity at Fidelity and at the companies we invest in. As such, we promote better diversity through our stewardship activities. Our new voting guidelines published in 2021 include policies designed to encourage gender balanced boards (see Principle 12). We support gender diversity on a company's board and will vote against the election of directors where boards do not have at least 30% female representation at companies in the most developed markets (including the UK, EU, USA and Australia) and 15% female representation in all other markets where standards on gender diversity are still developing. We may also take into account factors including the board size, industry and corporate structure.

Sustainable investing training

We have a comprehensive sustainable investing training programme in place at Fidelity which enables employees to build their sustainability knowledge through both external and internal training resources.

Our sustainable investing training roadmap sets out how we will continue to enhance our sustainable investing training initiatives, tailoring training requirements as necessary to take account of the requirements for different teams and jurisdictions.

The aim of our sustainable investing training programme is to enhance ESG expertise with a view to integrating ESG across all teams.

We would highlight the following key areas of our sustainable investing training programme:

Our sustainable investing specialists conduct specific training courses throughout the year for our analysts and portfolio managers across all asset classes on various ESG themes, topics and strategies. Topics covered include guidance and training on conducting engagements, ESG analysis for our proprietary ESG ratings, key regulatory updates and broader thematic discussions.

We have been running an 'Investment Management Academy' at Fidelity for more than 16 years, which is a programme of ongoing training and development for portfolio managers across asset classes. In 2022, we launched a Sustainable Investing module for our Investment Management Academy, formalising training that had already been in place within each asset class until then. Currently comprising eight sessions focused on a variety of topics, the Sustainable Investing module provides all of our investment professionals with a thorough grounding in ESG issues and Fidelity's approach to these, including stewardship through voting; stewardship through engagement; climate change and regulatory frameworks.

The Investment Management Academy Sustainable Investing module has been taken by our 2022 cohort of investment management early careers hires and has also featured in the guided learning journey for analysts moving to senior analyst positions.

In addition, Fidelity has a longstanding policy of training and development for our analysts, which is measured through the use of training and competence metrics. Examples of training programmes in the investment team include the Company Induction Programme, the Analyst and Associate New Hire Training Programme, Analyst School (an ongoing analyst development programme) and online courses via Fidelity's global learning management system. These programmes generally include modules on ESG issues and the broad range of topics that fall under this heading.

In addition to formal training, ESG topics and developments feature regularly in our various forums, including weekly equity, fixed income and strategy meetings. At these meetings, subject matter experts share thoughts and update investment and sales teams about emerging trends and other developments in ESG.

We also offer specialist training on ESG topics and related products for sales and distribution colleagues.

More broadly, we host regular internal webinars and training sessions, often led by our specialist in-house sustainable investing team for all teams across Fidelity. These cover topical ESG issues, as well as training sessions to increase the understanding of ESG throughout the firm and how we integrate ESG in our investment process. In 2022, our internal webinars included deep dive sessions on biodiversity, deforestation and ESG regulations. We have a comprehensive programme scheduled for 2023 covering key ESG topics including greenwashing, modern slavery, digital ethics, ESG integration and net zero.

In 2022, we also introduced quarterly sustainable investing townhalls as a way of keeping different teams across the business updated on the work and progress of the sustainable investing team across key ESG areas such as climate change.

We have also rolled out ESG training on our online training platform, available to all staff. This training is mandatory for all client-facing new hires.

We also have a Sustainability Ambassadors programme in place (launched in 2021) with the aim of upskilling our employees in sustainability, encouraging knowledge sharing and promoting a culture where sustainability is a rewarding part of everything we do. Since its launch we have welcomed nearly 500 sustainability-minded colleagues from 20 different locations into the programme. Our collective knowledge has grown over this time allowing for progress to be made towards our goals while helping to amplify the impact we have on shaping the future of society and the environment.

We also assist clients with their sustainability-related training requirements, offering bespoke training on a range of ESG themes.

Our investment in systems, processes, research and analysis, and use of service providers

Since Fidelity was founded in 1969, it has always believed in an active and fundamental approach to investing on behalf of its clients. Fidelity focuses on developing people, processes and systems to enable the firm to succeed in delivering returns for clients. This infrastructure has been continually improved to meet evolving needs. In recent years, considerable focus has been placed on our sustainable investing capabilities.

One of the most important enhancements to our in-house ESG research capabilities has been the development of our proprietary ESG Rating framework. This is complemented by our Climate Rating, which we launched in 2022 (see Principle 7).

ESG-related engagements are documented in an app that is embedded in the internal research portal, so that insight can be shared among the entire global investment team. To leverage the insights of our global investment team, Fidelity's ESG analysis is carried out by analysts, with support from the sustainable team, which acts as an in-house expert. As a result, many engagements are initiated by our analysts. Responsibility for stewardship is increasingly dispersed throughout the investment team.

Fidelity uses external service providers to support its stewardship activities. Some of the data inputs for our revised ESG Rating framework are provided by external vendors to facilitate analysis, and our investment and SI teams also use third party research as an additional resource for their analysis. ESG research providers include MSCI, Bloomberg, Moody's, ISS ESG and sell-side brokers. We also use ISS and Glass Lewis for proxy voting data and research (we discuss these in Principles 8 and 12). We believe that Fidelity's in-house ESG research capability is strong and that our analysts have an enviable level of knowledge and understanding of investee companies. Therefore, external services are primarily used as an input into our ESG ratings, which are then complemented by our investment team's forward-looking analysis and insights from engagements, as well as a supplemental source of information.

Performance management and reward programmes and the link to stewardship

ESG is integrated into our in-depth company and industry analysis and forms a material part of our investment process. Investment professionals are remunerated partly on the creation of investment returns when following our investment process, and the extent to which client objectives are met. Investment analysts are compensated on the overall quality of their recommendations and research notes, which include an assessment of ESG factors. ESG is not separated from what we believe is a holistic approach to assessing performance.

The remuneration of our investment professionals is linked to the delivery of long-term returns for our clients, and our stewardship approach is an important part of the investment process. In this sense, stewardship is linked to remuneration; however, we recognise that there is scope to provide a more direct link to stewardship outcomes. We continue to review how we can strengthen the link over time, and what this should mean for the evolution of our remuneration structures.

During 2022 we took steps to better integrate stewardship into investment managers' performance reviews. In 2022, we developed and rolled out a Quarterly Sustainability Review (QSR) for all of our Article 8 funds. QSRs are structured quarterly reviews of the sustainability characteristics of individual funds held by the fund manager(s), the CIO, and a representative from the Sustainable Investing Team. The review complements our Quarterly Fund Review by providing a regular opportunity to scrutinise fund holdings through a sustainability lens and includes a discussion of the fund's engagements. Feedback from the investment team has been positive on the whole and has prompted robust debate and challenge.

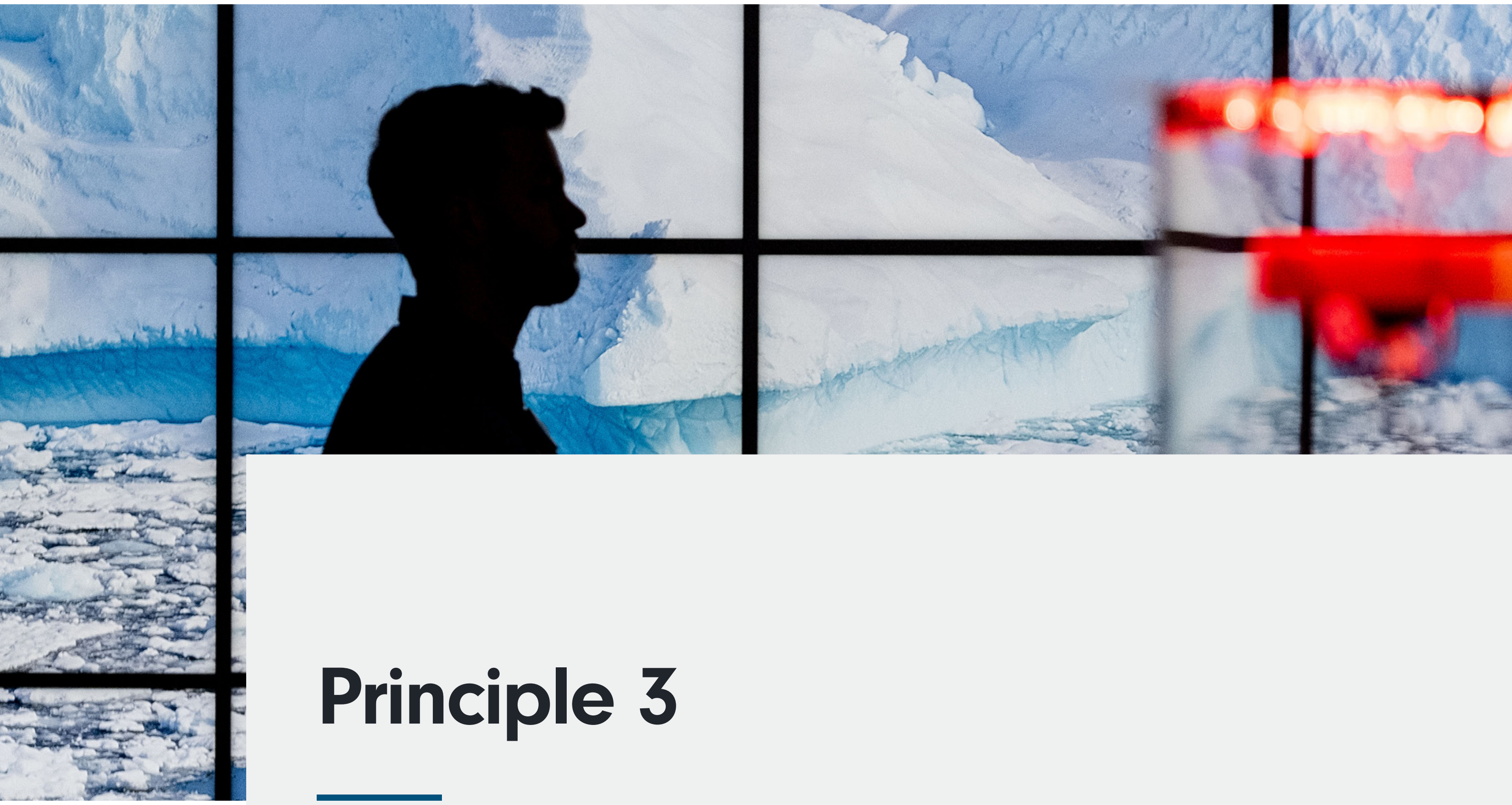
Outcome

Effectiveness of our governance structures and processes in supporting stewardship

We believe that our governance structures and processes, enhanced by changes implemented during the year and after the reporting period end, have been effective in supporting our stewardship in 2022.

As noted above, we created a number of technical expert working groups during the year to support SIOC's work, including in areas covering stewardship, such as the Thematic Engagement Oversight Group (TEOG) covering our thematic engagements. We have found that the formation of TEOG has enhanced oversight of thematic engagements by helping to assess, track, and prioritise engagement activities and to better socialise engagement activities within the broader investment team. We believe the newly formed Voting Advisory Working Group can provide similar value for our oversight of voting activities, and we plan to report on this in our stewardship reporting for 2023. Reporting from the technical working groups is complemented by enhanced reporting on sustainability and stewardship KPIs into SIOC, which were rolled out in 2021 and which we continue to work at refining.

We have also continued to add headcount to our Sustainable Investing Team, which has increased our capacity to conduct stewardship activities to serve our clients' interests, and we have added key competencies in areas such as client engagement and impact. We nevertheless remain mindful of rising client expectations on asset manager stewardship and on increasing demands and complexity from a regulatory perspective, so we will continue to monitor the team's capabilities against the firm's requirements.



Principle 3

Principle 3

Signatories manage conflicts of interest to put the best interest of clients and beneficiaries first.

How we identify and manage conflicts of interest

Fidelity's Global Corporate Conflicts of Interest Policy ("The Global Conflicts Policy") outlines the minimum requirements to identify, manage, mitigate and record conflicts within the firm worldwide. There is a FIL Conflicts of Interest – UK Supplement ("UK Supplement"), which provides additional details to ensure compliance with UK specific local, legal and regulatory requirements. It addresses the obligations of Fidelity Holdings (UK) Limited ("FHL"), its subsidiaries carrying on regulated business (together "Fidelity UK") to maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts of interest from constituting or giving rise to a material risk of damage to the interest of clients. A summary of our Global Conflicts Policy is provided here.

Main elements of our conflict of interest policy

The main elements of the Global Conflicts Policy are the identification and management of conflicts, staff and management responsibilities, monitoring, disclosure, record keeping, and training. A conflict may arise where competing obligations or motivations result in, or are likely to result in, material risk of damage to the interests of a client.

Fidelity has a regulatory and fiduciary duty to never put itself in a position where its own interest results in an irreconcilable conflict with its duty to its clients or where its duty to one client results in an irreconcilable conflict with its duty to another client or clients. To that end, Fidelity will ideally avoid conflicts of interest. However, potential conflicts of interest will arise from time to time. In these cases, Fidelity will take steps to identify, record, manage and, where required, disclose actual or potential conflicts of interests, and have in place a policy relating to conflicts of interest.

Governance and monitoring

The FIL Limited Board, which is Fidelity's highest governing body, has overall accountability for ensuring a conflict of interest programme is implemented and monitored in alignment with Fidelity's overall "risk strategy and risk appetite". In February 2019, the FIL Limited board approved the "Global Conflicts Policy" which sets out how we manage our conflicts of interest to protect our clients and meet our fiduciary duty. The Policy was last reviewed in June 2022 with no material change.

Previously, the UK business had its own corporate conflicts of interest policy, as did other local regions. In 2019, these were amalgamated into a global policy on conflicts of interest, setting minimum standards across Fidelity to meet the needs of a global business. In 2020, the UK policy was changed to be a "UK Supplement", which accompanies the global policy and is approved by the FHL UK board. The Supplement was last reviewed in July 2022.

The FHL board is responsible for the UK Supplement, which is intended to ensure that Fidelity manages conflicts of interest effectively and in compliance with Financial Conduct Authority (FCA) rules. Our Global Conflicts Committee ("GCC") is responsible for overseeing the Global Conflicts Policy and the overall corporate conflicts framework. Day-to-day effective implementation of the Global Conflicts Policy rests with senior management in their respective business areas. They are assisted by compliance, the audit and risk committee, internal audit and other oversight groups as necessary.

Conflicts of interest are identified through various means, including regular interviews (at least annually) with business heads, awareness training and internal reviews. There is a governance structure in place to ensure that the UK supplement and Global Conflicts Policy are implemented effectively. The GCC meets at least three times a year to review new and amended material conflicts.

A global and UK conflicts of interest register is maintained to ensure that significant conflicts have been identified, addressed and recorded. All our staff must adhere to the global conflicts policy (including the UK Supplement, the Code of Conduct, and associated policies). They are made aware that clients' interests must always come before those of Fidelity or its staff.

The Global Conflicts Policy and accompanying UK Supplement are reviewed regularly to ensure they remain fit for purpose and comply with all applicable laws and regulations.

How the conflict of interest policy is applied to stewardship

Situations where conflicts of interest could arise in the context of stewardship include the following examples:

1. Investing

The majority of our investing is done on behalf of our clients. However, Fidelity also invests as principal. Potential conflicts can occur during the acquisition and disposal of securities, voting and the use of research. To manage these potential conflicts, Fidelity has processes and procedures in place which supports our clients' funds and accounts. It is also possible that a Fidelity fund or account will own securities issued by a client, but in all situations Fidelity's investment decisions will be guided by what we regard as being in the best interests of the relevant fund or account.

2. Trade allocation

When performing client transactions in securities, Fidelity will combine orders if it is in the overall best interests of clients. If there is insufficient liquidity, resulting in a partial completion of the order, securities will be allocated across all clients participating in the block trade. To manage a potential conflict of unequal allocation from a trade, Fidelity maintains a "Trading Desk Policy" which ensures the consistent and fair application of allocations. Allocations are performed on a pro-rata basis, based on the size of the order. The system allocation algorithm is automatically applied for every trade, subject to three lines of oversight – the Trading Desk Supervisor, Compliance and Internal Audit/risk.

3. Voting

If a fund holds an investment in more than one party to a transaction, we will always act in the interests of the specific fund in question. In instances where there is a conflict with Fidelity's own interests, we will either vote in accordance with the recommendation of our principal third party research provider or, if no recommendation is available, we will abstain or not vote at all. We will not vote at shareholder meetings of any Fidelity funds unless specifically instructed by a client or where it is required to protect our clients' interests. Fidelity has a procedure for escalating voting decisions when conflicts or controversial issues are identified during the voting process and a Sustainable Investing Operating Committee is in place acting as final arbiter.

4. Conflicts between different asset classes

If our funds hold interests in both an issuer's debt and equity, we will always act in the interests of the specific fund in question. When we engage with companies where our funds hold debt and equity, representatives from both the debt and equity sides may participate when we have determined that there are no conflicts between the interests of both sides.

On matters related to shareholder voting, the equity fund managers are consulted on matters of a commercial nature and on governance issues concerning matters if these relate to the rights of shareholders (e.g. election of board members or amendments to the articles). Likewise, fixed income managers are consulted on voting matters related to bondholder meetings.

On shareholder voting matters, fixed income fund managers may also be consulted when the sustainable investing team has determined that there are no conflicts with the interests of the equity holders. In all cases, the final determination of the vote is determined in accordance with our escalation policy.

5. Conflicts between stewardship polices of Fidelity and its clients

Fidelity reviews its client stewardship policies and priorities at the client onboarding stage to assess their alignment with Fidelity's house policies.

Currently, we do not apply client proxy voting policies, but we do support clients who wish to implement their own custom voting policies through a segregated mandate. We also apply bespoke investment exclusions for segregated mandates (for further information about our engagement with clients on stewardship, please refer to Principle 6).

6. Policies and processes concerning conflicts with FMR

As covered in Principle 1, Fidelity International was founded in 1969 as the international investment arm of US based Fidelity Investments (FMR) and became independent of FMR in 1980. The Johnson family continues to hold significant equity ownership interests in both Fidelity and FMR and other investments and legal entities. Ms. Abigail P. Johnson, the granddaughter of founder Edward C. Johnson II, is director and chair of Fidelity International and chief executive officer and chair of FMR.

We have therefore developed a set of specific policies to ensure separation of Fidelity from FMR for disaggregation purposes, including but not limited to:

- Physical separation of Fidelity and FMR investment and stewardship personnel
- Separate internal IT systems for Fidelity and FMR investment and stewardship teams

- Information barriers between the Fidelity and FMR investment and stewardship teams:

Fidelity has implemented policies to anticipate and deal with conflicts which may arise concerning Fidelity and FMR stewardship functions, including but not limited to:

- Separate stewardship teams and accountable executives, stewardship policies, and governance and oversight structures
- Physical and IT separation between Fidelity and FMR voting teams, as well as policies precluding the coordination or sharing of information on voting activities. This includes separate accounts and relationship personnel at ISS, the primary third-party proxy voting agency that is currently used by Fidelity and FMR
- Policies precluding any activities which could result in real or perceived conflicts between Fidelity and FMR investment and stewardship activities beyond voting, including a policy against collective engagement with FMR
- Separate internal research platforms and policies precluding the sharing of fundamental research in real time. Investment research is shared on a time lag basis. Information about our engagement activities is not shared between Fidelity and FMR

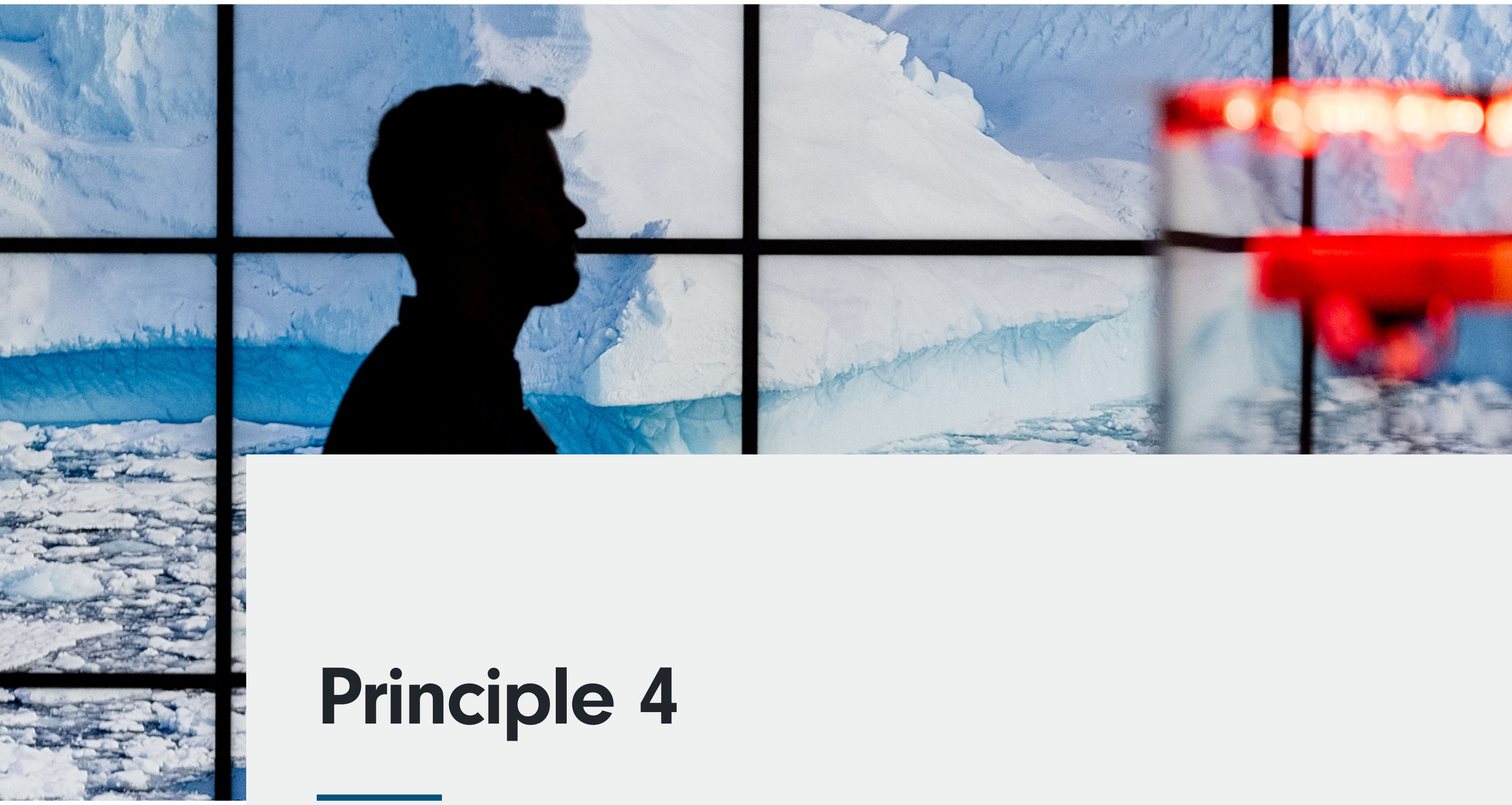
Outcomes

How we have identified and managed conflicts related to stewardship activities

In the year under review, we have identified and managed potential stewardship-related conflicts under our existing conflicts of interest policy. We have not encountered any new types of conflicts which required our Conflicts Policies to be updated or amended.

The following are examples of potential conflicts that arose during the year and how these were handled:

- Several funds managed by Fidelity were shareholders of a company which was the target of a takeover offer requiring a shareholder vote. The managers for some of the fund strategies assessed the offer as being favourable while others opposed it on valuation grounds. In accordance with Fidelity's conflict of interest policy, votes on the transaction were cast in accordance with the interests of the individual funds.
- During the year, one voting decision was escalated to SIOC for a final decision. This concerned a resolution on a matter related to climate change where one of the fund managers disagreed with the SI team's voting recommendation to oppose the resolution. SIOC decided that a vote against the resolution was warranted, and the meeting resolved on a strategy for communicating this to the company.
- After the end of the reporting period, Fidelity voted at a shareholder meeting which concerned a dual-listed company that was proposing to de-list from one market as part of a corporate simplification. We assessed the proposal as being beneficial for the company from a governance perspective overall, but a minority of Fidelity-managed funds would be forced sellers as a result of the de-listing. In accordance with Fidelity's conflict of interest policy, votes were cast in accordance with the interests of the individual funds: the majority of Fidelity's invested funds (which were not forced sellers) voted in favour of the de-listing, while the minority which were required to sell their shares voted against.



Principle 4

Principle 4

Signatories identify and respond to market-wide and systematic risks to promote a well-functioning financial system.

Context

Healthy capital markets rely on a healthy economy, society and environment. Fidelity International has robust processes to identify and respond to market-wide and systematic risks, including through active ownership and policy advocacy. We believe that we have a responsibility to play a central role in addressing risks that affect financial markets, and to work with others to improve how markets function. This is in the best interests of our clients, our firm, and the market as a whole.

As referred to under Principle 1, our updated Sustainable Investment Principles reflect the fact that ESG factors impact long-term value creation at the issuers we invest in or lend to. The beliefs inform what we aim to achieve, including the mitigation of system-level risks such as climate change and nature loss through active ownership and policy advocacy, alongside other approaches through which Fidelity can influence change (see Appendix, Influence Framework). This reflects the evolution of our approach to sustainable investing, which includes identifying systemic themes where we see opportunities to contribute to the health and preservation of critical systems, namely by seeking to address climate change, nature loss and social disparities and to ensure strong and effective governance.

We use case studies to illustrate how we identify and respond to market-wide and systematic risks. The case studies we have provided this year focus on the intersection of these systemic themes, which we have identified as being critical to the long-term sustainability of our investments and the health of global financial markets, and which has been a focus area for our stewardship activities during 2022. We also cover our response to the war in Ukraine.

Activities

How we identify market-wide and systemic risks

Within Fidelity, processes and systems that we use to identify, monitor and respond to market-wide and systemic risks reside throughout the firm in several different groups and capacities. The primary ways that we do this are highlighted below.

Our Global Macro and Strategic Asset Allocation Team closely monitors and actively analyses macroeconomic risks, so that consideration of these risks can be integrated throughout the firm and investments aligned accordingly. The team considers tail risks and anticipates potentially market-unfriendly outcomes from events and analyses likely movements in market factors such as interest rates and currency rates.

The Global Macro team meets on a weekly basis to interact with investment teams and provide inputs into the investment process. Additional meetings occur to discuss specific topics and follow-up items. Further, the team publishes numerous research pieces to help inform investment decisions. We have other teams, such as the Tactical Asset Team and the Quant Team, whose work further compliments and informs investment decision making.

Portfolio managers ultimately make individual decisions for their funds based on their weighting of these factors, along with a variety of other inputs (such as technicals, valuation, and fundamental research).

The Global Macro team also communicates directly with external clients to help them further their macroeconomic understanding, and to provide an unbiased view for clients' investment decisions. We engage with various stakeholders such as sovereign wealth funds, DC pension schemes and policy makers, to promote a well-functioning financial system based on macroeconomic considerations. We hold conferences to share our thought leadership, such as the annual "UK Outlook" event that we hold each year in November to provide our perspectives to the UK market.

We have consciously sought processes that we believe help us to avoid 'group think' and thus bring a less biased and better perspective to our views/information. For example, we employ both a selection of external research providers (discussed in more detail in Principle 8), as well as developing our own 'on the ground' research. We meet with policy makers in different forums to gather a range of perspectives. Additionally, we continue to transition to a co-PM structure, as we believe this leads to more discussion and more challenging of views. We believe this has been effective in helping us to be better stewards of our clients' capital, and thus is beneficial for our clients.

Public policy engagement

In relation to managing system-wide risk, we see a favourable policy environment as essential to limiting negative impacts on the value of our client's funds, and policy engagement as a necessary pillar within our engagement strategy. The Public Policy team drives and co-ordinates official contact with government departments, policy makers, and regulatory bodies across the jurisdictions in which we operate, with our Sustainable Investing team taking the lead on sustainability-related policy formation. We use our market position, industry knowledge and expertise to shape the nature of prospective regulation to ensure that the corporate interests of our customers are best protected.

We focus on regulatory developments that affect Fidelity as a firm, particularly with the aim of filling sustainability policy gaps and creating opportunities to accelerate the transition. We respond to policy and regulatory consultations and make suggestions for improvements, which may be identified by our analysts, Public Policy team, Sustainable Investing team or through issuer engagements, to address systemic issues. We engage both via associations and bilaterally with regulators on regulation and policy covering a range of topics.

In 2022, we focused on influencing policy that supports us in delivering sustainable finance, including policy requiring the corporate disclosures we need to assess sustainability of issuers and classifying our products as sustainable to help drive client flows into sustainable outcomes as well as policy that supports our net zero and deforestation commitments. We think we effectively communicated our views in these engagement activities, but many of the regulations we engaged on remain works in progress, so it is unclear to what extent our input will be taken on board.

Examples of this engagement type from 2022 include:

Climate

We need policy measures to help the industry, as well as the companies we invest in, transition to net zero. We provided evidence in response to the UK Green Finance Strategy on how the UK's strategy can best support sustainable finance and input into the Environmental Audit Committee enquiry into the financial sector's net zero commitments. We have met collaboratively with other asset managers and members of parliament to discuss the Green Finance Strategy, and worked closely with industry associations, some with a UK and others with an international focus, to advocate for policy measures that support sustainable finance and the transition to net zero. We attended numerous events, including COP27, to gain further insights on climate policy and steps asset managers can take to encourage a more favourable policy environment for investee companies.

Nature

In 2022, we focused increasingly on the role of nature and nature loss in relation to climate change as getting to net zero will require considerable levels of nature recovery and preservation. We attended the COP15 conference in Montreal to engage with global initiatives and policymakers seeking to establish the Global Biodiversity Framework and worked closely with the Finance for Biodiversity Foundation in relation to the development of TNFD. We highlighted the need for clear guidance connecting nature and climate strategies, transition plans, reporting and disclosures, acknowledging both the synergies and potential trade-offs given the data challenges.

Corporate disclosures

We see sustainability disclosure as a baseline requirement for more informed and effective decisions. We provided consultation responses to the International Sustainability Standards Board (ISSB) on its proposed Exposure Drafts on General Sustainability-related Disclosure Requirements and Climate-related Disclosure Requirements and to EFRAG on the European Sustainability Reporting Standards (ESRS). Our response to ISSB was supportive of the creation of global standards on sustainability disclosures, and encouraged further iterations of ISSB to include standards detailing methodology for underlying sustainability metrics and more expressly embedding double materiality.

Our response to EFRAG encouraged EFRAG to more expressly incorporate ISSB as a baseline on which to build ESRS and asked for ESRS to be more streamlined. We are encouraged to see the final published ESRS are significantly more aligned with ISSB and the ESRS has become more streamlined.

In addition to providing consultation responses on these disclosure requirements, we worked closely with various industry groups globally to provide detailed feedback on the proposals.

Fund labelling and greenwashing concerns

We work to support regulation that helps us classify and provide disclosures on our products, and encourage clients to choose products with clear sustainable outcomes. This effort has involved working closely with industry associations in the UK on the proposed Sustainable Disclosure Regime, which we submitted a consultation response to in early 2023, and the proposed UK Taxonomy, and in Europe on clarifications required under the Sustainable Finance Disclosure Regulation.

Corporate engagement

We also engage with our investee companies on their public policy positions in relation to sustainability and specifically our systemic themes and have signed up to the Global Standard on Responsible Climate Lobbying. Our research analyst teams, along with our Sustainable Investing team, provide extensive breadth and depth upon which to build a strong foundation for understanding market and systemic risks, and we deploy a range of tools including our Climate Rating to assess each company's policy stance on specific sustainability issues and where they differ from peers. Where companies score poorly on their policy approach, it affects their overall Climate Rating. Lower ratings may prompt greater engagement or in the event of no progress within a specific period, divestment can be an option. In 2022, we engaged with several firms on their climate lobbying efforts, including in relation to specific shareholder proposals, and expect this to become a bigger theme in 2023.

Beginning in 2022 and developing over 2023, our priorities are increasingly at the intersection of the systemic themes identified above and below we explore some of the activities undertaken in relation to key sub-themes within Climate and Nature.

Climate Change/Just Transition

Risks associated with climate change include physical risks, such as more extreme weather patterns, which in turn disrupt business operations, as well as transition risks, resulting from the move to a lower carbon economy. These include regulatory changes, new technologies and changing consumer tastes. These physical and transition impacts will be reflected in financial performance and asset pricing, but the size and distribution of impacts will vary across the system. We therefore intend to act where we see opportunities to contribute to the health and preservation of critical systems by addressing climate change.

To avoid a climate catastrophe, our system of energy usage needs to change dramatically.

We have set our own timebound commitment to reduce emissions across our portfolio, principally through effective stewardship, with the aim of contributing to real world emissions reductions and mitigating the worst impacts of climate change. Further to our net zero emissions approach, detailed in our prior Stewardship Code report and our Climate Policy, we have continued reducing our portfolio emissions by further integrating climate factors into our investment management and through climate-focused stewardship activities, prioritising the highest emitters first.

To avoid a climate catastrophe, our system of energy usage needs to change dramatically. There is a need to scale genuine alternatives for baseload power generation and storage in the many countries that remain dependent on fossil fuels while also addressing the challenges for consumers, workers and communities impacted by the transition. A failure to consider the impacts of climate transition on people, equitably, threatens our ability to achieve any transition.

During 2022, in addition to rolling out our Climate Rating (see Principle 7) we furthered our engagement on thermal coal (see engagement case study in Principle 9). We have announced that we will proactively phase out our thermal coal exposure by 2030 in OECD markets and 2040 globally in line with the IEA's Net Zero by 2050 scenario. As allocators of capital, we have a responsibility to provide transition financing that takes into consideration the effects of the transition on those who are most vulnerable: workers, communities and consumers, particularly in emerging markets. Fidelity favours allocation of capital to climate solutions alongside engagement over divestment in high emitting sectors to help guide companies to an orderly transition, in a way that leaves no one behind and ensures that staff are retrained to operate in other business areas, not just made redundant. We identified this as a priority engagement area, given the transition away from thermal coal represents the biggest opportunity to reduce carbon emissions over the next decade. We think the first year of this engagement has gone well, though the first year of the engagement has principally been for research purposes and to communicate expectations.

Beyond these targeted engagements, Fidelity was a founding participant in the Impact Investing Institute's Just Transition Finance Challenge. The Challenge is an initiative that aims to mobilise more public and private capital to investments that support a just transition to net zero in the UK and abroad. To do this, 20 public and private asset owners and managers have worked together to develop a set of voluntary criteria that would form the basis for an investment product label that could deliver the three critical elements of a just transition: advancing climate and environmental action, and improving socio-economic distribution and equity, and increasing community voice. The criteria will be open for public consultation in early 2023, and in parallel we are reviewing the potential applicability of this draft label to products.

Outside of these development areas, we continued to emphasise climate change considerations in our ongoing stewardship activities:

- We are members of numerous climate-focused or related initiatives with varying degrees of involvement, including the Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+, the Net Zero Asset Managers Initiative, and the Climate Bonds Initiative. With IIGCC, we have been supporting shareholders on engagements with two large European banks. We are also co-lead on four Climate Action 100+ engagements and supporting investor on six other engagements. For more details and examples, see case studies in Principle 10.
- We participate in forums which help to define and set expectations for different sectors, including World Benchmarking Alliance (WBA), Transition Pathway Initiative (TPI), the UN Principles for Responsible Investment (PRI), and other collective groups. As part of the IIGCC collaborative engagement with European Banks, there is an adjacent working stream with TPI to define a framework to assess banks on climate, which we are helping to shape.
- We have sought to use our influence as a large global asset manager in the conversations around how the financial sector can support the transition to a lower carbon economy. In 2022,

members of our Sustainable Investing team attended COP27 to contribute to debates on financing climate mitigation globally, including through the use of better corporate disclosure/ transition plans, carbon markets and data. The role of nature moved up the agenda in 2022 and Sustainable Investing analysts attended COP15 in Montreal to engage on how companies can promote nature recovery.

- We are contributing to other collective engagements aimed at mitigating the impact of climate change on the environment (See Principle 10).

Our climate-related stewardship activities have had differing effects on investment decisions during the reporting year. As an active investor, our portfolio managers generally have discretion to manage the investments for their funds within a set of pre-defined investment guidelines. Portfolio managers may consider research notes, proprietary sustainable ratings and third-party ESG ratings, macro research, and other inputs when making investment decisions. "Buy" and "sell" decisions are typically based on multiple factors, and it is unusual to attribute an investment decision to any single factor.

In 2021, we worked to develop the policies and tools which will guide our pathway to net zero emissions, and in 2022 sought to begin implementing these. Our aim first and foremost is to use our influence to encourage companies to reduce their carbon impact responsibly, through our engagement and voting, so that the decarbonisation of our investments is aligned with broader societal benefits. Over time, we will look to divest from high emitting companies that show no progress towards (and no potential for) transition after an engagement period not exceeding three years. We have also committed to phase out our thermal coal exposure in line with the International Agency's 'net zero by 2050' scenario. These commitments will affect our investment decision-making in the future.

As noted above, we think that our engagement with companies on climate change, including our thematic thermal coal engagement programme, as well as our engagement with other key stakeholders on climate change policy has made progress during the year in some areas, though we have set ourselves a high ambition of decarbonising our investment portfolios in an engagement-led manner which contributes to positive real-world outcomes. Measured by that standard, the success of our efforts has been qualified at best. While government policy has created a tailwind in some cases, such as in the US with the Inflation Reduction Act which is expected to drive investment in renewables infrastructure, the Russia-Ukraine war has caused a dislocation in energy markets which now threatens to delay major fossil fuel companies' decarbonisation plans. This would represent a significant setback in global efforts to achieve the Paris Agreement goal of limiting temperature rises to no more than 1.5-degrees Celsius above pre-industrial levels. We realise that as a global asset manager, our ability to influence the companies we invest in is dependent on a supportive external environment. This is why we are now seeking to articulate and prioritise our engagements in the context of our Influence Framework, and why we are increasingly looking to public policy engagement as a means of affecting change.

War in Ukraine

Russia's invasion of Ukraine in February 2022 and the economic sanctions imposed by western countries created an unprecedented situation for financial markets and a raft of challenges for financial services firms to navigate. We therefore engaged with governments in the UK and across Europe on how to effectively implement sanctions whilst allowing funds and markets to continue to function to some degree.

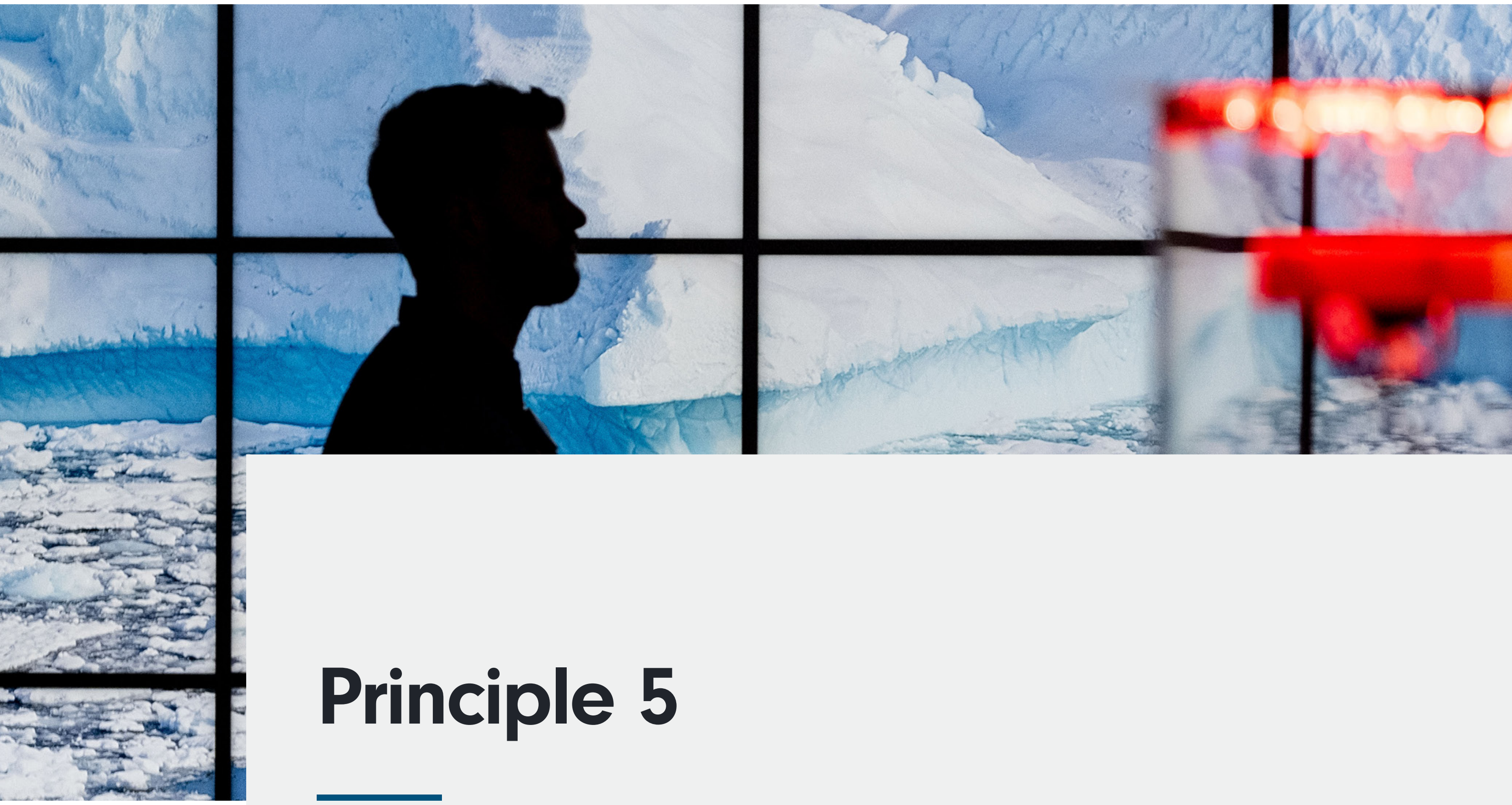
Given the seriousness of events in Ukraine, we took the decision not to invest in Russia and Belarus for the foreseeable future. As such, we implemented a firm-wide prohibition on any new or additional purchases of Russian and Belarusian securities. Throughout 2022, we have been addressing existing exposure and, where it is possible and appropriate, looked at options to reduce it in a thoughtful way which protects the interests of our clients and mitigates unintended consequences.

Also, during the year our investment team has evaluated the impact of the war on portfolio companies with exposure to Russia and Belarus, in some cases leading to investment decisions. These activities included:

- Our consumer analyst spoke with a major food company on several occasions about their definition of 'essential products' as the company had announced it had ceased selling non-essential products but had continued the sale of products such as chocolate and pet food. Following public pressure, the company stopped selling chocolate brands in Russia and committed to donate funds to the people of Ukraine and invest in a new production facility in western Ukraine.
- Our auto analyst spoke on several occasions to Nokian Tyres about their difficulty in finding a suitable acquirer for their main factory in Russia. The company later agreed a deal to sell the facility and announced it would invest in a new factory in eastern Europe.
- Our consumer analyst downgraded the fundamental rating on a consumer goods company in Q4 due to ongoing significant revenues exposure to Russia.
- One of our funds sold out of a company because it was part owned by a sanctioned Russian oligarch.

In terms of managing risks from the event, our risk teams focused on fund, market, and liquidity risks for our investments as well as risks for our business operations (e.g. cyber risk, supplier management, and business continuity). We then analysed multiple future risk scenarios to refine our 'playbook' responses, should these risks materialise. Our public policy team also actively engaged with industry bodies and regulators to prepare for government responses. Our investment teams and their supporting functions proactively evaluated the risk environment to address related developments.

Over 2022, the market-wide risks from the war have played out, with higher energy prices adding to inflation and greater investments in non-Russian gas and renewables, with some short-term revival of coal. Due to a warmer than expected winter however and high energy storage in Europe, energy prices have retreated somewhat, though we expect the Russian-Ukraine war to remain a key risk factor for global markets, and greater geopolitical tensions between the major powers to continue trends such as deglobalisation. While the effects of the Ukraine war on the global economy continue to play out, we think that our response has been effective so far.



Principle 5

Principle 5

Signatories review their policies, assure their processes, and assess the effectiveness of their activities.

Activity

How we have reviewed our policies to ensure they enable effective stewardship

Fidelity's Sustainable Investing Principles, Engagement Policy and Proxy Voting Guidelines are reviewed annually. Amendments to the policies are usually proposed by members of the Sustainable Investing team, then scrutinised and subject to approval by the Sustainable Investing Operating Committee (SIOC). Ad-hoc framework changes may be undertaken on as required outside of the annual update cycle – for example, to meet regulatory requirements.

Our stewardship policies and activities are also reviewed by the FIL Limited Board, to which the Sustainable Investing (SI) team reports bi-annually. The SI team also reports to several other entity boards. Our stewardship reporting to clients complies with all relevant legal requirements, and we ensure that our reporting is accurate through our review processes and governance. The UK Stewardship Code requires signatories to take a 'fair and balanced' approach, presenting examples where a desired outcome was not achieved or is yet to be achieved, and we have been mindful of this requirement in the preparation of this report.

We have used internal resources to prepare this report, including the assistance and oversight of members of the SI team, who are tasked with ensuring that the report provides a fair and accurate assessment of our stewardship. For instance, we have ensured that our engagement examples given in this report fairly and accurately represent a cross section of our activities across asset classes and geographies. We have provided examples of varying outcomes which broadly represent the balance of our work – recognising that engagements are often difficult and may not always lead to the results we would desire.

We have also taken care to disclose where our stewardship approach differs by asset class or region. We have tried to ensure the report is readable and client-friendly while meeting all its reporting requirements. We have undertaken a thorough review process in the preparation of this report, which has included our legal, compliance and risk departments and various stakeholders from around the business. This report has been reviewed and approved by our global head of sustainable investing and stewardship and our Sustainable Investing Oversight Committee (SIOC) and signed by our CEO, with an appreciation of these reporting requirements.

Assurance received on stewardship and rationale for chosen approach

During the year, we have reviewed the effectiveness of our stewardship using various means of oversight and assurance.

ESG ratings

As covered in Principle 7, Fidelity produces its own ESG ratings which are provided to fund managers for assessing the sustainability characteristics of corporate issuers. The insights from our global team of investment analysts, derived from their monitoring, research, and interactions with companies, are critical inputs into the ratings. Among other things, the ratings are used to assess the sustainability characteristics of Fidelity managed funds, including in funds supporting sustainability characteristics (e.g. Article 8 funds) where they are used for Quarterly Sustainability Reviews (see Principle 2). They may also be used to identify candidates for engagement.

In 2022, Fidelity's Internal Audit function performed an audit covering the ESG ratings framework. Internal Audit is part of Fidelity's "Three Lines of Defence" risk management framework providing independent assurance that the organisation's risk management, governance and internal control processes are operating effectively. Internal Audit adheres to the standards set out by The Institute of Internal Auditors (IIA) and other regulations applicable locally in the markets where we operate. Internal Audit has a risk-based approach to its planned coverage of the organisation, which is developed in consultation with management to include audits of specific business areas as well as thematic and emerging risks, and therefore may cover areas related to our stewardship activities in any given year.

No material audit findings were noted as a result of the ESG ratings review. However, several areas for improvement were identified, including further analyst training and recommendations for technological enhancements to support improved governance over the ratings. Investment research and technology teams have implemented most of these recommendations and are due to complete remediation during early 2023.

TCFD reporting

Fidelity reports on climate-related risks and opportunities affecting the business under the TCFD (Task Force on Climate-Related Financial Disclosures) framework. Our TCFD report covers how climate-related risks and opportunities are governed at firm-wide level and how they are factored into relevant products or investment strategies.

In late 2022, Internal Audit completed a review of Fidelity's TCFD reporting. While there were no material audit findings, the review highlighted scope for improvement in certain aspects of our reporting and horizon scanning processes. Management is actively working on a remediation plan to address these findings.

Review of Sustainable Investing Framework

In 2022, we engaged an external adviser to give an independent view of the design and implementation effectiveness of our Sustainable Investing Framework. The review covered several component areas, including investment integration, product governance, research and ESG ratings, and engagement and voting. We engaged an external expert for this task to better understand the maturity of our framework relative to peers and in light of emerging sustainability regulations and client expectations. The findings of the consultation were reported to SIOC as part of its internal oversight of Fidelity's sustainable investing and stewardship activities.

The key findings from this exercise were:

- Our sustainable investment framework overall demonstrates many characteristics of market leading practice with some areas that are developing, with a focus on continuous improvement embedded in the firm to support us on our journey towards becoming fully market leading. The inclusion of double materiality in our proprietary ratings should help with alignment to new disclosure standards.
- Areas for improvement included expanding our revenue-alignment modelling to include additional metrics, increasing minimal thresholds for some of our SFDR aligned funds, updating our product mapping to capture more industry standard labels, and improving our second line of defence governance controls. On the stewardship side, there were further enhancements we could make to our reporting to inform our engagement approach.

We have taken these recommendations on board and have begun work to address each of them. Specifically in relation to engagement, we are working on enhancing tracking, milestone setting and reporting. We are also enhancing our governance and controls via a monthly risk committee that provides an independent assessment of compliance with our standards and considers potential sources of risk including controversies. We have also added dedicated ESG headcount into second line compliance teams and established more granular SI management reporting.

Proxy voting

Proxy voting is an important component of our stewardship activities and consequently, we have devoted substantial resource to ensuring it is conducted soundly. Fidelity has a dedicated internal support team responsible for voting execution and operations which is part of Investment Management Operations. The team's remit includes performing checks and audits on vote instructions, monitoring internal communications on voting decisions to ensure vote instructions are aligned, and performing checks and reviews on Fidelity's public voting disclosures. The Sustainable Investing team monitors voting on a day-to-day basis, and a Voting Advisory Oversight Group comprised of technical experts and representatives from the broader investment team was formed in early 2023 to oversee firm-wide voting activities.

The auditor PriceWaterhouseCoopers (PwC) performs an annual external audit of Fidelity's internal controls as they relate to our Institutional Segregated Mandates and in accordance with the Audit and Assurance Facility (AAF 01/20) requirements for investment management internal controls. This review included assurance of Fidelity's proxy voting processes through our 2021 financial reporting year covering the period 1 July 2020 to 30 June 2021. In July 2022, PwC informed us that, due to a change in the AAF standards, proxy voting is no longer within the scope of the AAF audit. In light of developments in sustainability reporting, we are considering whether to seek a broader external audit covering sustainability processes.

Outcomes

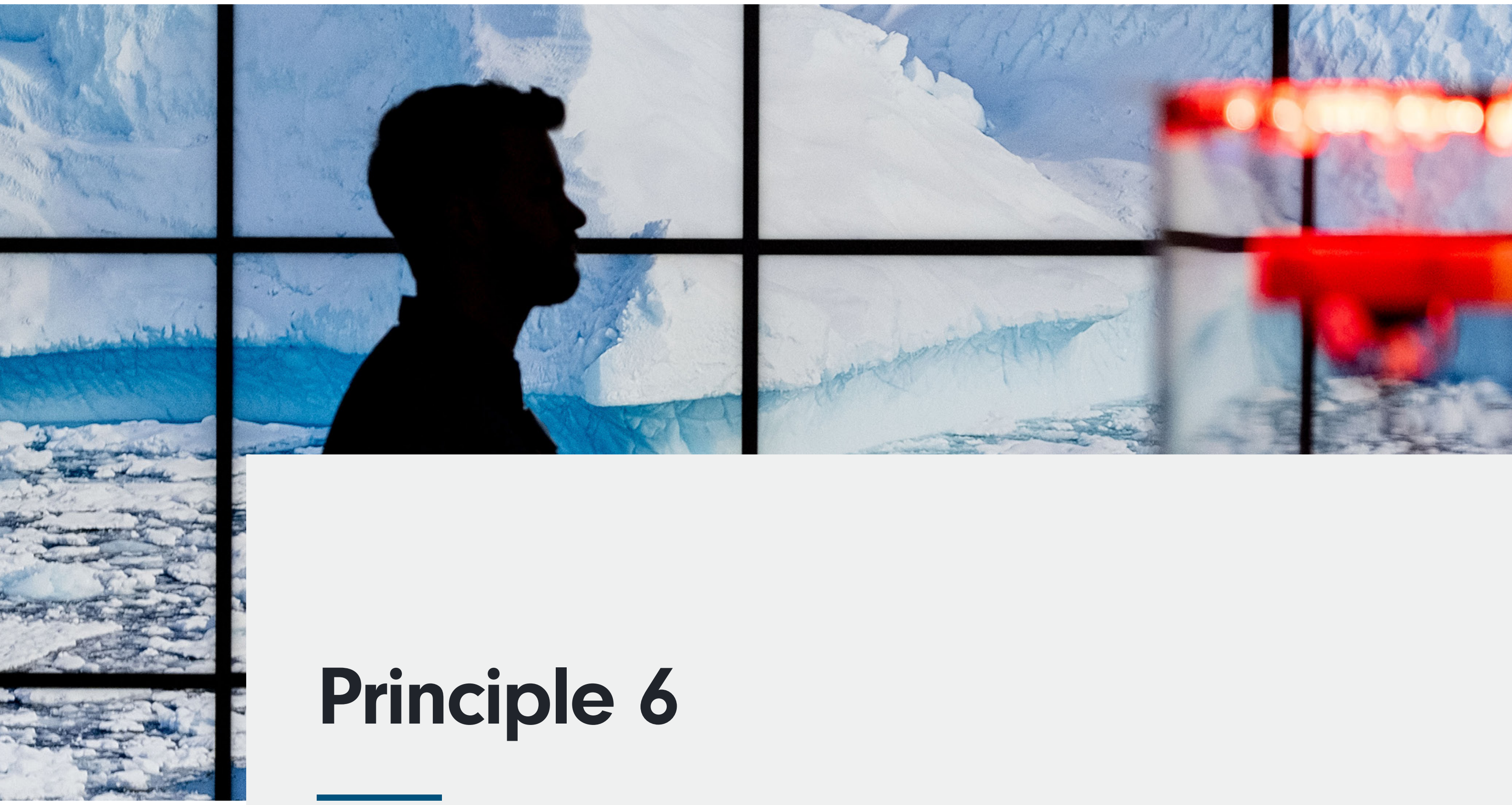
As noted above, we have addressed recommendations raised in our Internal Audit function's review of our ESG ratings and TCFD disclosure. We have also begun to address the recommendations from the external advisor we engaged to assess our Sustainable Investing Framework.

SIOC, which oversees stewardship at Fidelity, was active during the year in reviewing and approving changes to policies related to Fidelity's stewardship. This included:

- Reviewing and approving Fidelity's new Sustainable Investing Principles, which include our new Sustainable Investing Beliefs, and Engagement Policy. The Sustainable Investing Principles establish the principles and minimum requirements for sustainable investing activities across Fidelity and will be reviewed and updated on a regular basis.
- Reviewing and approving expansions in Fidelity's firm-wide investment exclusions and for our sustainable fund products.
- After the reporting period, SIOC approved amendments to Fidelity's Sustainable Investing Voting Principles and Guidelines. These updates include a new voting policy aligned to our commitment to work to eliminate deforestation from our portfolio holdings, wherein we will vote against directors at high-risk companies that fail to meet our minimum standards in respect of deforestation risk. The new voting policy will complement our existing thematic engagements on deforestation (see Principles 9 and 10).

We are constantly seeking to improve our governance over stewardship. Our evaluation of SIOC's work in 2021 led to the formation of several working groups of technical experts in 2022 and early 2023 to advise SIOC on discrete areas of sustainability and stewardship. These include the Thematic Engagement Oversight Group (TEOG), which advises on Fidelity's sustainability engagement programmes, and the Voting Advisory Working Group (formed in early 2023), which advises on the proxy voting guidelines and complex or contentious voting resolutions. Our observation has been that the formation of TEOG has been valuable in providing SIOC with additional technical expertise and resource to assess and scrutinise Fidelity's ESG engagement programmes. In particular, the group is helping SIOC to more closely track the progress of its thematic engagements, prioritise existing commitments, scrutinise proposed new commitments, and recommend cessation of engagement activities for programmes which may not be yielding sufficient progress or which no longer align to the firm's priorities. The Voting Advisory Working Group was formed in early 2023, so we will report on its progress in our stewardship reporting next year.

We are considering the different aspects of external ESG assurance that will be needed in future and those which go beyond challenging internal views or processes. While sustainability reporting does not yet require assurance in the UK, we note that regulators like the FCA are supportive of the creation of a sustainability assurance ecosystem that will principally cover the ISSB reporting standards once they are in place. We also note the assurance references in the disclosure proposed by the Transition Plan Taskforce and GFANZ, which includes reporting of engagement activities, and welcome further work on the assurance standards being developed in this area.



Principle 6

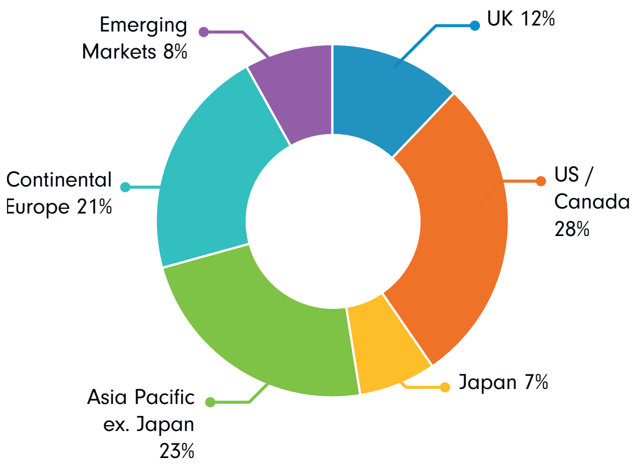
Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

As discussed in Principle 1, Fidelity is a global investment and retirement savings business, serving more than 2.8 million customers. Our clients range from central banks, sovereign wealth funds, large corporates, financial institutions, insurers and wealth managers, to private individuals. As at the end of December 2022, Fidelity International's assets under management (AUM)[2] were $355 billion (this excludes assets managed by Fidelity Canada funds). The charts on this page summarise how this is broken down by asset class, client type and geography.

Chart 1: AUM by geography



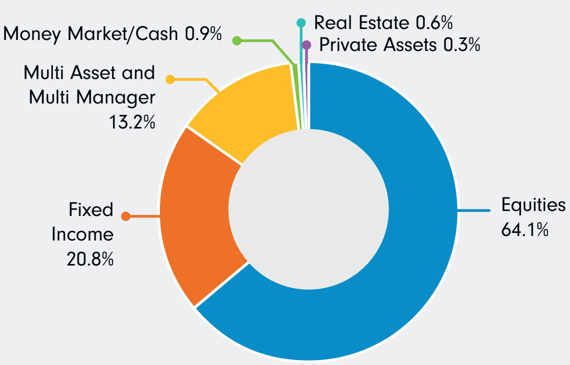
Source: Fidelity International, December 2022.

[2]Total AUM and assets under administration for Fidelity International and Fidelity Canada were $663.1bn as at 31 December 2022.

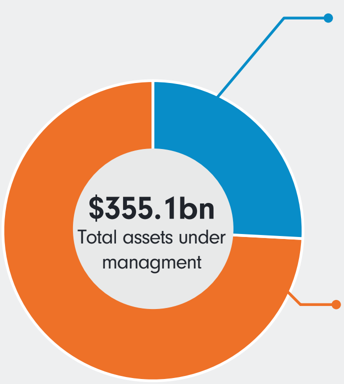
Chart 2: Managing money in all major asset classes

Assets under management breakdown

By asset class



By client origin



Institutional assets	$92.4bn
Europe incl. UK	29.3%
Asia Pacific and Japan	61.7%
Middle East, South America and other	8.9%
Wholesale, Defined Contributions (DC) and Retail	**$262.7bn**
Europe incl. UK	68.3%
Asia Pacific and Japan	29.3%
Middle East, South America and other	2.3%

Source: Fidelity International, 31 December 2022. The institutional asset AUM figure consists of Defined Benefit pension schemes, Government Institutions Group, and corporate cash reserves. These figures exclude funds managed by Fidelity Canada.

We encourage investors to take a long-term view and offer a range of products and strategies with differing anticipated time horizons to meet a wide variety of client objectives. Our institutional and retail client mix naturally leads to longer-term investment horizons, with many of our clients saving for retirement through workplace or personal pensions. We believe the profile of our clients and products align well with Fidelity's own generational and long-term thinking.

Activity

Consideration of client views and feedback

We welcome the views and feedback of all our clients and believe it is important to understand and incorporate client views in order to meet client expectations with regard to stewardship and more broadly sustainable investing.

As outlined above, we have a broad range of clients covering both institutional and retail clients. The Sustainable Investing team frequently communicates with distribution teams across Fidelity (who work with both institutional and retail clients) to ensure that we understand their current and evolving stewardship requirements. Furthermore, our sustainable investing team now includes three individuals focusing on sustainability-related client engagement.

We engage with institutional clients continually, through regular meetings and direct correspondence. Where clients are invested in segregated mandates, we can customise our approach, accommodate restrictions and work with third parties to follow client proxy voting policies.

Our regular meetings with institutional clients help us to understand their current and evolving stewardship requirements. This allows us to accommodate their needs wherever possible, but also to become better informed about industry developments, which may be relevant for both institutional and retail clients.

We have continued to focus on how we can best partner with our clients on stewardship activities. During 2022, we improved the scope of our cooperation with institutional clients on engagements by launching an "engagement partnerships" programme for a small number of clients. These clients are able to leverage our thematic engagement framework and corporate access to engage with investee companies on specific thematic sustainability themes (such as climate, deforestation and biodiversity).

We are also keen to understand our non-institutional clients' views and we seek feedback through our distribution teams who manage relationships with these clients and the intermediaries through whom they may be invested.

We also regularly host client events (for both institutional and non-institutional clients) through which we communicate our approach to sustainable investing and key ESG themes and encourage and capture client feedback through such events.

Examples of how we obtain client views and feedback

As an example of how we gathered client views and feedback in 2022, we conducted an 'ESG listening tour' in Australia where members of our investment team heard from key individuals in the responsible investment sector such as senior ESG personnel at Australia's largest superannuation funds and Australia's sovereign wealth fund, as well as consultants and rating agencies. The objective was to understand the market's expectations with regard to key areas of ESG including ESG integration, stewardship, ESG reporting and expectations of asset managers.

We have reflected on the feedback we received and this has led us to create a number of action points for us to follow up on. This includes: ensuring that our ESG integration at a strategy level is clearly articulated and undertaken in a systematic way and enhancing how we track and report on the outcomes of our engagements and demonstrate progress to clients.

Assets managed in alignment with clients' policies

For institutional clients, stewardship requirements are defined during the manager selection process and may be enshrined within the Investment Management Agreement (IMA) This visibility and regular contact with institutional clients, and the clarity of requirements in the IMA, enable Fidelity to ensure that we are managing assets in alignment with clients' stewardship and investment policies.

Fidelity also has a large proportion of clients and customers who come through intermediaries and with whom the firm has limited direct access. This limits our ability to communicate regularly with these clients about their stewardship requirements. For these clients, we ensure that we manage our funds in accordance with the stewardship and investment policies we have committed to in our product literature, including prospectuses and Key Investor Information Documents (KIIDs). We are looking at ways in which we can better engage with these customers to improve our understanding of all our customers' stewardship preferences.

Communication with clients on stewardship and investment activities and outcomes

We currently offer a range of different ESG and stewardship reports, which we publish on our website:

- Annual and quarterly voting records
- Sustainable investing report (annual)
- Sustainable investing report (quarterly)
- PRI assessment
- Research and engagement case studies
- Corporate Sustainability Report
- China Stewardship Report
- Australia and New Zealand Voting Report
- Article 29 of the French law on Energy and Climate Report
- TCFD Report

Our website includes a growing amount of content to help explain ESG and Fidelity's approach, including articles and white papers.

We can also provide Fidelity's professional clients with the following reports:

- ESG fund overview - this can be produced on request and includes a breakdown of the fund by our own ratings compared to the fund benchmark, in terms of number of companies and weight in the portfolio
- Bespoke proxy voting reports
- Fund carbon metrics
- Climate scenario analysis (on demand)
- Engagement reports driven by specific market regulations

Outcomes

We believe that our methods for understanding client needs were effective during the year and we remain focused on continuing to ensure that our methods are effective and that importantly, client needs are taken into account.

For our institutional clients with whom we have direct access, our engagement has been most effective. However, we think there may be scope for improving how clients are able to feed back their views on Fidelity's stewardship, for example on Fidelity's shareholder voting. We are currently examining ways in which we can improve this engagement. As mentioned in Principle 12, we trialled a solution by Tumelo in 2022 which allows end-client beneficiaries to express voting preferences for selected voting resolutions, and we will decide in 2023 how this will be integrated into our voting process.

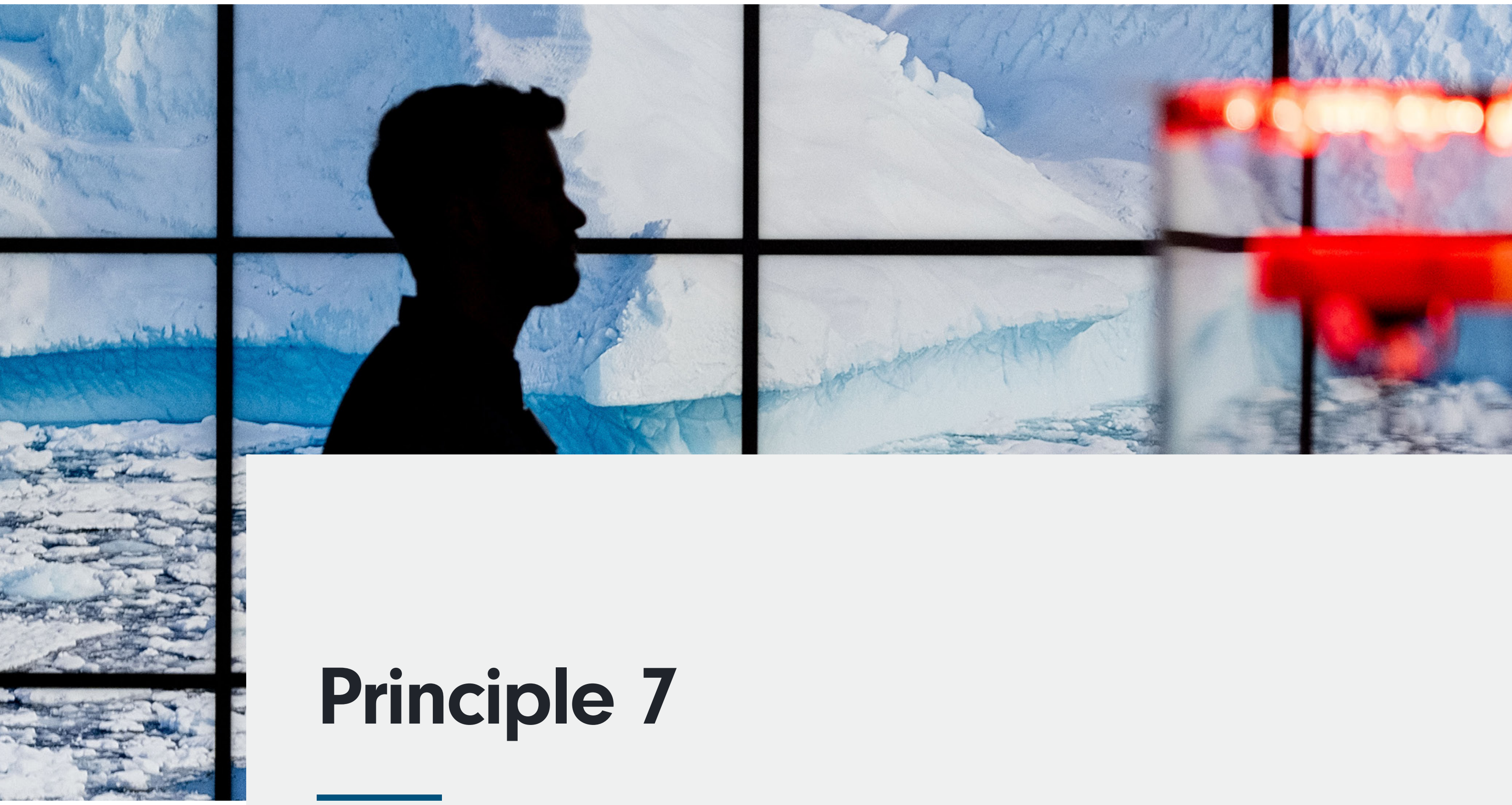
While we believe that we have good stewardship reporting at a firmwide level, we continue to work on ways to optimise fund-level stewardship reporting. We believe this could also help our communication on stewardship activities to non-institutional clients, which remains a challenging area due to lack of direct access.

We also recognise that there are likely to be challenges in trying to reflect potentially differing client preferences in stewardship in our house policies. In the UK, discussion on this topic has recently evolved into a debate around the feasibility of offering bespoke shareholder voting solutions to clients. We are continuing to monitor developments on client-directed voting in pooled funds and expression of wish (see Principle 12).

During the year, we have taken account of client views on stewardship requirements and have sought to accommodate these where possible within our existing operating framework. This included developing our client-specific reporting to meet evolving expectations. In particular, we have introduced non-financial reports across selected funds in our sustainable fund range. These reports disclose sustainability focused metrics at a strategy level to clients and include stewardship information such as data on engagements undertaken.

We also addressed market demand by tightening our firm-wide investment exclusion policy to include several new categories of controversial weapons. We have addressed client-specific stewardship requirements in individual cases, for example with respect to exclusions or reporting.

Due to our diverse client base and our clients' differing stewardship policies and preferences, we have not always been able to accommodate requests. We are not aware of any instances where we have failed to manage our clients' assets in accordance with the stewardship requirements set out in their IMAs.



Principle 7

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Activity

As active managers, stewardship plays a valuable role in our investment process across all asset classes. Our stewardship activities are tailored to the different ownership rights inherent in each asset class, and continuously evolve to meet the developing characteristics of each asset class over time. Our approach is broadly consistent across geographies, though with some regional differences based on local market conditions or on the availability of our franchises in particular markets.

Integration of stewardship and investment - equity and fixed income

Fidelity portfolio managers typically pursue an active investment style, maintaining an ongoing dialogue with the management of investee or potential investee companies. Our investment teams collaborate across asset classes, leveraging a similar approach to engagement with companies for both our equity and fixed income holdings.

Stewardship activities are undertaken by portfolio managers, investment analysts, members of Fidelity's sustainable investing team, and other investment team personnel throughout the investment lifecycle. These activities include information gathering, monitoring and engagement to effect positive corporate change in alignment with our clients' typically long investment time horizons.

We regularly engage through direct dialogue with investee companies as part of our routine investment monitoring and research activities, in response to a specific event or situation, or in relation to sustainability issues. Engagement may be conducted one-to-one or in collaboration with other shareholders or corporate stakeholders. Where we have both equity and fixed income holdings, relevant analysts and portfolio managers may work in collaboration to engage with a company where an issue affects both the equity and fixed income holdings.

We also engage directly with corporates via other means (e.g. letter writing) where appropriate. Our preference is to engage through dialogue and achieve objectives in a consensual manner. However, we may choose to escalate our engagement if this is deemed necessary.

In regard to engagements concerning major strategic or corporate initiatives (e.g. IPOs), our equity investment teams are supported by the capital markets team, which sits behind an information barrier to ensure that market sensitive information is kept confidential. This structure facilitates a full and open dialogue and means that there is no information that Fidelity, in principle, cannot accept. For our fixed income holdings, pre-investment due diligence comprises a significant part of our stewardship activities. This includes assessments of an issuer's cashflow, leverage, and business strategy. These assessments help determine if an issuer can generate the cashflow to meet coupon payments and repay invested capital upon maturity. In addition, engagement prior to securities issuance sometimes allows for concerns to be voiced over proposed covenants or on the structure of the issuance.

Following an initial investment, fixed income portfolio managers and analysts will further engage with issuers. This may happen when Fidelity is a significant investor, through the debt reissuance process where the issuer is seeking to refinance or roll over its bonds.

The pronounced growth in green/social bond and sustainability-linked bond (SLB) issuances has created the opportunity for us to evolve our fixed income stewardship and engagement activities. The KPIs associated with sustainability-linked bonds serve as a potential lever for engagement. Where we consider the KPIs associated with a particular SLB lack ambition, we can engage with a company to encourage them to progress beyond the defined KPIs associated with the bond. Where green/social bonds are issued, engagement offers an opportunity to ensure the company is making effective use of bond proceeds in its capital allocation decisions.

Monitoring of investee companies - equities and fixed income

We believe Fidelity has a privileged ability to influence companies because of our size, global reach, and strong reputation as a research-driven investor with long investment horizons.

We have c. 180 analysts with deep insight into around 4,000 issuers worldwide and sector expertise. These attributes give us excellent access to companies globally and have allowed us to forge long-standing relationships. We are able to have constructive dialogues that aim to deliver better ESG outcomes.

Formal meetings, involving portfolio managers and analysts, are typically held with investee companies at least twice a year, on a range of subjects. In practice, these meetings can happen more frequently. The objective is to reaffirm that our longer-term thesis for investing in the company remains intact, applicable to both our equity and fixed income holdings. In addition to financial and strategic matters, discussions cover a wide range of related investment topics, including corporate governance, capital structure, business sustainability and management motivation and environmental or social factors. We believe that the more we can learn about our investee companies, the better we can hold them to account for delivering on their strategy. To this end, we hold numerous internal weekly, monthly, and quarterly reviews designed to pool knowledge of our investee companies and sectors and to identify opportunities and matters for attention.

If we have concerns about a company or want a broader perspective on the business, we will often seek meetings with chairs and/or independent directors. These meetings will generally include discussions of board operation, composition, effectiveness, succession planning, and strategy, and usually have a strong emphasis on ESG.

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

There are no significant differences in our general approach to monitoring companies for our equity and fixed income holdings across geographies, though the manner in which we engage with investee companies will depend on a broad range of factors, including local market conditions. For instance, in some markets, we do not engage collectively with other securities holders due to concert party restrictions. Also, for certain sustainable fund mandates (both equity and fixed income) we are required to engage with low-rated ESG names. The aim is to improve their sustainability characteristics and if the company disappoints on progress, we may be compelled to sell our holdings.

We have also devoted additional resource in certain markets to supporting the investment team in conducting stewardship activities, based on a combination of local factors and requirements for certain franchises.

In the UK, our Senior Governance Advisor may lead on strategic engagements with UK and European investee company boards, in partnership with the Sustainable Investing team. We have long had a dedicated person to spearhead board engagements on matters of strategy and governance, as we consider this to be a key part of our UK and European stewardship activities. We consider it to be an area in which Fidelity can have an advantage as an active, research-focused asset manager with global reach.

Similarly, we have a long-standing presence in Japan and have built a well-resourced stewardship team there to accommodate specific client needs on company engagement.

Because of Fidelity's history and structure (i.e. our disaggregation from FMR), we do not have a physical presence in the US, although we do manage US holdings in global and US strategies, as does the Fidelity Canada business, which is jointly owned with FMR. The UK-based sustainable investing team supports the Fidelity Canada investment team on engagement and voting.

As noted in Principle 8, we have processes to monitor the effectiveness of the service providers we utilise for stewardship activities. The Fidelity personnel who own the relationship with the service providers are responsible for ensuring that the providers are given clear and actionable criteria to support the integration of stewardship and investment where needed.

In the case of our proxy voting agents and third-party ESG ratings providers, this responsibility sits with the Sustainable Investing team. We continually monitor the services they provide. Where we receive bespoke services, we ensure that the providers are given clear instructions on which services we require to support our stewardship aims.

Integration of ESG factors - equities and fixed income

We view ESG as a critical input in the investment process. Without understanding the ESG profile of the issuers that we invest in, we cannot properly understand the associated risks and opportunities of our investments.

In 2022, we published our Sustainable Investing Principles, a revision of our previous Sustainable Investing Guidelines. They establish the principles and minimum requirements for sustainable investing activities across Fidelity and will be reviewed and updated on a regular basis. The principles are underpinned by Fidelity's Sustainable Investing beliefs, which represent the foundation of Fidelity's approach to sustainable investing. We believe that one of the key strengths of our approach is our fundamental analysis-driven approach to ESG integration, which feeds into our internal ratings and sustainability research.

At Fidelity, there is no separation of responsibility for ESG and financial analysis. All of our investment analysts use our proprietary ESG Ratings framework to evaluate the extent to which an issuer's performance on material sustainability issues either support, or are likely to impair, long-term value creation for stakeholders. Our ESG ratings are asset class agnostic, such that analysts are responsible for forming an aligned house view on the sustainability characteristics of companies under their coverage.

Our ESG ratings are used to inform the investment decision making process. It is differentiated in its forward-looking emphasis and its use of company interaction and due diligence by Fidelity's fundamental analysts as its main inputs to identify and assess the material ESG risks and opportunities impacting an issuer.

The rating is comprised of a combination of E, S and G indicators that aim to address the most material issues in each sector, providing a holistic, forward-looking view of a company's ESG practices. The methodology focuses on ESG both from a business risk and opportunities perspective, and also in terms of the environmental and societal implications of the company's operations. Companies are divided into 127 subsectors, each of which is mapped to a common set of indicators to address the material ESG factors deemed relevant to the specific industry. These inputs translate into a forward-looking top line ESG rating with pillar scores on each of the E, S, and G, and scores for underlying indicators, providing granular outputs and insights. To complement the headline ESG rating, a momentum rating indicates the direction of travel for a company. This allows for a comprehensive and consistent approach underpinned by quantitative and qualitative data inputs. As of the end of 2022, c. 4,000 issuers were covered by our ESG ratings.

Environmental impacts

Operations	Enablers	End use
1 Energy consumption	10 Energy consumption	19 Energy consumption
2 Water usage	11 Water usage	20 Water usage
3 GHG emissions	12 GHG emissions	21 GHG emissions
4 Toxic emissions	13 Toxic emissions	22 Toxic emissions
5 Non-hazardous waste	14 Non-hazardous waste	23 Non-hazardous waste
6 Hazardous waste	15 Hazardous waste	24 Hazardous waste
7 Terrestrial impact 7-1: Deforestation	16 Terrestrial impact 16-1: Deforestation	25 Product end of life handling
8 Oceanic impact	17 Oceanic impact	26 Environmental impact associated with enabled activities
9 Animal use	18 Animal use	

Social impacts

Operations	Enablers	End use
1 Employee management (Diversity & Inclusion)	7 Enabler labour practice	9 Product/service quality
2 Cyber security management	8 Enabler management	10 User data privacy
3 Operation safety		11 Responsible marketing/labelling
4 Community impact management		12 Product/service misuse
5 Business continuity		13 Broadened access for basic goods/services
6 Corporate ethical conduct		14 Social impact associated with enabled activities

Relevant indicators are for each of 127 sub-industries, selected from 26 possible environmental, and 14 possible social indicators

Source: Fidelity International, March 2022.

Our ESG ratings are fully integrated into Fidelity's investment process and are available to all members of the investment team on our internal research platform. They serve as an additional source of insight and as a tool to support investment decisions.

Also, in 2022, we rolled out our proprietary Climate Rating, which is a key plank of our net zero emissions strategy and complements our ESG Rating. The Climate Rating utilises our fundamental research capabilities to identify climate related risks, net zero investments, and targets for transition within the Fidelity investment universe. It assesses which companies are in the best position to transition to net zero, or have a positive trajectory towards transition. Companies are scored across three areas (net zero ambition, climate governance, and capital allocation) with each area consisting of underlying assessment factors. As at the end of 2022, c. 2,000 issuers were covered under the rating. Once all Fidelity investee companies have been assessed using the framework, we will be able to aggregate the assessments and score all funds for their alignment to net zero, which will enable transition target setting at both fund and individual issuer level and allow resources to be directed toward the biggest emissions reduction opportunities in terms of investment and engagement.

In addition to our in-house ESG and Climate Ratings, we use various third-party data providers to accommodate quantitative analysis and data driven insights, including carbon emissions, diversity metrics and other key data inputs. We receive ESG ratings reports from MSCI, a leading provider of investment research and data, to help analysts with their research, alongside other data on ESG reporting, such as that from ISS, CDP, Bloomberg and sources of public information.

External ratings are also used to benchmark the sustainability characteristics in our range of best-in-class sustainable fund products. Our investment and sustainable investing teams monitor the quality of external ESG data vendors and raise questions with the providers or the affected companies when they arise.

Because we do our own ESG research, we are not reliant on external providers for bespoke services. To support the integration of our stewardship and investment, typically, we require that our providers deliver their services in a timely and accurate manner in accordance with our mandates' service level agreements.

Our process for ensuring that clear and actionable criteria are provided occurs during negotiations when we are selecting our service provider. After the service provider has been picked, the quality of service is monitored by the users of the service.

Fidelity will consider excluding companies from our investment universe based on specific ESG criteria. We adopt a principles-based approach to ESG matters. As part of this, we place companies we regard as unsuitable investments on an "exclusion list".

All funds managed by Fidelity International are subject to Fidelity International's firm-wide exclusions list. Additionally, Fidelity has a sustainable product range which pursues investment strategies driven by selecting companies with strong sustainability characteristics which also aim to achieve compelling long-term financial performance. Products within the sustainable range are subject to additional behavioural and fundamental exclusions. They may be required to divest from existing holdings where the outcomes of our engagements have failed to achieve the objectives and milestones we have set. Furthermore, in 2021 Fidelity announced a plan to phase out issuers exposed to thermal coal in OECD markets by 2030 and non-OECD by 2040 in line with the IEA's Net Zero by 2050 Scenario as part of our Climate Investing Policy and initiated a thematic engagement programme targeting thermal coal power generators (see case study in Principle 9).

All of our portfolios are subject to an in-depth Quarterly Fund Review (QFR) with senior management, in which key material aspects of the fund in question are examined, including risk profile, volatility, performance and fund positioning, as well as the individual investments of the fund. We include ESG scoring data and carbon data as part of these quarterly reviews as standard measurements of the ESG quality of our funds. In this way, portfolio managers are held accountable by their chief investment officer on how sustainable investing forms part of their decision-making process.

We also began undertaking Quarterly Sustainability Reviews (QSRs) for all of our Article 8 funds from 2022. QSRs are structured quarterly reviews of the sustainability characteristics of individual funds held by the fund manager(s), the CIO, and a representative from the Sustainable Investing team. The review complements our Quarterly Fund Review by providing a regular opportunity to scrutinise fund holdings through a sustainability lens and includes a discussion of the fund's engagements.

Integration of stewardship and ESG factors - multi asset

Our multi asset franchise invests in underlying Fidelity equity or fixed income building blocks, which incorporates Fidelity's own approach to integrating ESG considerations at the individual security level as previously discussed. We also invest in third-party funds and alternative listed vehicles. The multi asset team has a formalised approach to assess the ESG profile of the strategies they invest in during the due diligence process and prior to appointment as well as on an ongoing basis, which applies to both inhouse Fidelity strategies as well as third-party funds and alternative strategies. Analysts propose a peer-relative sustainability score and investment action, based on fund managers' ability to add value through navigation of ESG risks and opportunities.

When assessing a strategy's sustainability, analysts query the investment policy, the integration of ESG research within the investment process, the quantitative ESG profile of the portfolio, and the quality of the investment manager's engagement with companies, issuers and investments.

The multi asset team has a formalised approach to assess the ESG profile of the strategies they invest in.

All strategies covered by analysts are assigned an ESG rating from A to E using this framework, which has been developed in-house. The dedicated Solutions & Multi Asset Portfolio Analytics team ensures our analysts can leverage holdings-level ESG scores, including Fidelity's proprietary ESG ratings, as well as MSCI, ISS, and other third-party data.

At an organisational level we have an enhanced operational due diligence process for third-party sub-advised mandates. Alongside governance-related questions this incorporates a series of ESG-related questions with the aim of assessing the managers' firm-wide approach to integrating ESG within its investment process, its stewardship and exclusion policy and other areas.

Integration of stewardship and ESG factors - real estate

Integrating ESG principles into investing in and managing a property increases its appeal to both tenants and investors and reduces operational costs and risks. The long-term value of a property investment is strengthened by increased climate change resilience, limiting the risk of regulatory non-compliance and improving its competitive position in the market.

Sustainability principles are applied to each stage of our real estate investment: acquisition, development and refurbishment, and ongoing asset management.

Fidelity real estate sustainability targets

Clearly defined targets help to track progress[1]

Energy & Carbon

1 Energy consumption
Reduce like-for-like Fidelity procured energy consumption by 15% by 2023 - a nominal target of 3% per year.

2 Renewable energy
Procure 100% of electrical energy from renewable sources by 2023 where economically and operationally feasible.

3 Scope 1&2 carbon emissions
Reduce like-for-like Scope 1 and 2 carbon emissions by 25% by 2023[1].

4 Scope 3[2] carbon emissions
Develop a programme to define and measure applicable Scope 3 emissions relating to tenant activities by 2023.

Water & Waste

5 Water consumption
Reduce like-for-like water consumption by 10% by 2023[1] where we have the opportunity to make changes.

6 On-site recycling rates
At managed buildings, increase overall on-site recycling rates to an average of 50% by 2023.

7 Diversion from landfill
Diversion of 100% of landlord-managed waste from landfill by 2023, where infrastructure allows.

Social Engagement

8 Fit out guides
Develop sustainability fit out guides for all of our tenants.

9 Green leases
Promote green lease adoption for all new tenants and/or renegotiate existing leases.

10 Tenant surveys
Invite 100% of tenants to complete sustainability surveys and develop an action plan based on the results.

11 Contribution to social value
Develop a method to formally evaluate Fidelity's contribution to social value by 2023.

Certification & Reporting

8 PRI/GRESB[3]
Achieve a PRI rating of A and a GRESB score of 80 by 2023.

9 BREAAM/LEED
Increase coverage of BREEAM/LEED certification across our portfolios year on year for the next five years and review future targets in 2023.

Source: Fidelity International, March 2023. [1]Targets refer to a baseline date of 31/12/2018. Note: Energy, water and waste targets relate to performance that is under Fidelity's operational control. In practical terms this is where we are directly responsible for controlling consumption in our buildings. [2]Scope 3 includes emissions from tenant procured energy use and tenant operations. [3]GRESB is the Global Real Estate Sustainability Benchmark. PRI is the Principles for Responsible Investment. For more information, please see: https://professionals.fidelity.co.uk/static/master/media/pdf/download-material/Fidelity-Real-Estate-Sustainability-Policy-2021.pdf

To ensure sustainability principles are met, we have established an environmental management system.

It is aligned to the internationally recognised standard, ISO 14001. We measure the sustainability performance of both our funds and individual properties using a recognised external standard – the internationally adopted Global Real Estate Sustainability Benchmark (GRESB). We also use third-party certification schemes for appropriate local property markets (e.g. BREEAM, LEED, DGNB, HQE).

The real estate team can also draw on the knowledge of the Sustainable Investing team. In addition, the real estate team 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.

Fidelity's sustainability priorities and targets are shown in the graphic above. Our property investments have long-term investment horizons. Although some targets can be implemented immediately, many are incremental in nature and may be dependent upon void periods to allow for meaningful investment and upgrades.

Fidelity Real Estate has a Net Zero Carbon Commitment (see next page) aimed at reducing the impact of the operation of the assets held by its funds and to prepare its buildings for a net zero carbon future.

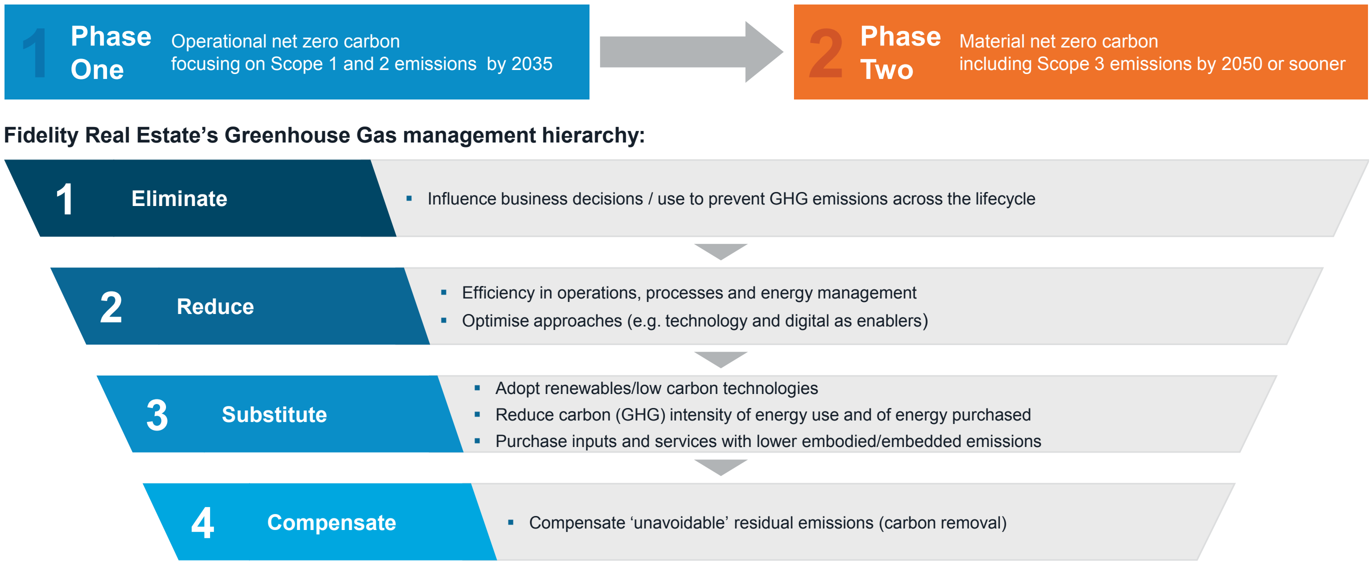
Our commitment has two key milestones. The 2050 commitment is in line with the challenge posed by the World Green Building Council that all buildings need to be net zero by 2050 as this has been widely adopted by both the real estate industry and governments. Fidelity believes that there needs to be tangible and meaningful progress that is deliverable to prove commitment and show the pathway in the intervening years. We have therefore incorporated a challenging target of being net zero carbon for all our landlord-controlled emissions by 2035, to deliver culture evolution, ensuring progress is made and systems are in place for the deeper challenges ahead. The principal delivery route will be through applying the IEMA Greenhouse Gas management hierarchy to all assets.

Integration of stewardship and ESG factors - private credit

In 2021, Fidelity created a private credit team. ESG analysis is an integrated part of the investment process and is carried out by the specialist sector analysts within the team, much the same as in the other asset classes that we invest in. Investment holdings across asset classes are given an ESG rating on the Fidelity rating scale. Portfolio managers use our proprietary ratings to construct portfolios, which may include minimum ESG criteria. We prefer engagement over exclusion as it allows us to deliver meaningful change and create value for clients. Moreover, it allows us to track progress. We benefit from long-standing relationships with Private Equity (PE) sponsors and engage with both management and PE firms with a stake in our borrowers, offer them our insights and hold them accountable to their ESG goals and KPIs. We use negative screening for violators of UN Global Compact, Tobacco, Weapons and Thermal Coal. Exclusion is also used as a measure of last resort if companies do not engage or do not show progress on the objectives identified in previous engagements.

Net Zero Carbon Commitment

A two phase approach fully aligned with both Fidelity's corporate and science based targets



Source: Fidelity International, March 2023.

Outcomes

As an active investment manager, our portfolio managers generally have discretion to manage the investments for their funds within a set of predefined investment guidelines. Portfolio managers consider a broad range of factors, including our proprietary ESG Rating and third-party ESG ratings, to inform their investment decisions. Decisions to purchase or exit an investment are typically influenced by multiple factors, and are unlikely to be driven by a single factor. ESG considerations are as important as financial ones. In certain circumstances they can be the determining factor – for example, where corporate activity results in the breach of an exclusion commitment or, in the case of some sustainable mandates, a company's ESG score falls below a certain threshold and we do not believe that the company's sustainability characteristics will improve significantly.

Our stewardship activities have influenced investment decisions during the year. Examples of this include:

- One of our funds divested from a North American renewable energy company in 2022 due to its exposure to thermal coal following its acquisition of a coal asset. The Fidelity fund owned a position in the renewable energy company prior to the company's acquisition of the thermal coal asset, and engaged with the company to express the view that such an acquisition would not be compatible with our sustainability goals. The company proceeded to purchase the asset, and the portfolio managers again engaged with the company. Unconvinced of the compatibility of the company's approach with sustainability, the managers divested of their position.
- One of our funds exited its position in a southeast Asian tech conglomerate involved in gaming and e-commerce during the year. One

driver of that decision was lack of progress on key sustainability issues Fidelity had discussed with the company over multiple engagements, including a formal letter to the board in which we had explained how we think the company could improve its board structure, ESG disclosures, and protections of shareholder rights.

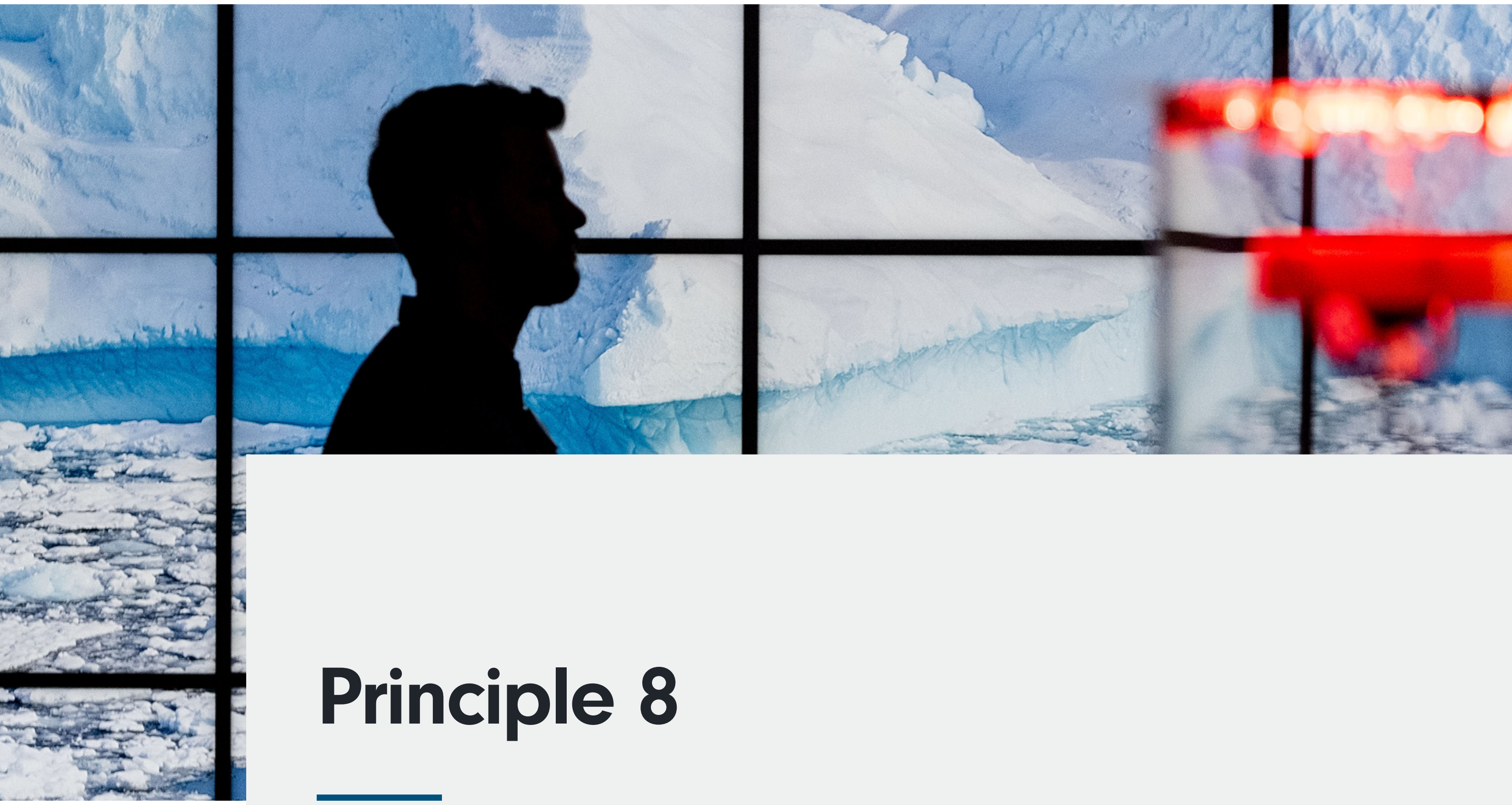
- One of our funds exited a position in a Japanese apparel company in early 2022 after a breakdown of dialogue about director remuneration and concerns about the company's climate change and supply chain human rights policies.

We believe that our stewardship activities during 2022 have supported our aim to deliver superior long-term returns to clients, and that ESG integration improvements which we undertook during the year - such as the development of our Influence Framework (see Principle 9), the roll out of our climate ratings, QSRs for our Article 8 funds, and ongoing training - will provide our investment team and stewardship professionals with tools that will help prioritise stewardship activities and share engagement responsibilities across the investment organisation. We expect that our Sustainable Investing Principles and Influence Framework (see Principle 7) will further help to guide our prioritisation of stewardship activities in future, and we continue to build stewardship resourcing to support these activities.

As in past years, our corporate monitoring activity, including routine information-gathering engagements, was conducted to track theses and test conviction in the companies we hold. Our portfolio managers were often involved in these meetings. Insights from our corporate engagements were disseminated to the entire investment team via our internal research platform and ESG application. This monitoring activity regularly helps portfolio managers make decisions on fund investments, including at the pre-investment phase, and continued to do so in 2022.

During the year, we made further progress on our suite of thematic engagements targeting areas of key risk to our investment portfolios (see case studies in Principles 9 and 10). Additionally, on some occasions we found it necessary to escalate our engagements (see Principle 11).

Information gathered during these activities supported investment decision making by providing evidence or refuting our portfolio managers' conviction in the sustainability characteristics of the affected companies.



Principle 8

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Activity and outcomes

Overview

As an active investment manager, Fidelity has a large team of analysts, portfolio managers and sustainable investing analysts, who undertake proprietary research. We utilise a variety of service providers to support our research processes, including stewardship and ESG analysis.

We work with many research providers globally, which serve our equity, fixed income and multi asset teams. In addition to traditional issuer analysis, these provide ESG-themed reports, research, ratings and data on themes such as corporate involvement in verified or alleged failures to respect international norms - for example, the Ten Principles of the United Nations Global Compact - as well as in relation to standards on carbon emissions. The coverage of companies varies by provider, but in aggregate the providers currently cover more than 10,000 companies globally.

We also subscribe to corporate governance and voting advisory services, including products supported by Institutional Shareholder Services (ISS) and Glass Lewis; to MSCI for ESG data; and to ISS for carbon footprint metrics. We constantly explore new data sets and approaches that can provide enhanced insights into companies.

Monitoring research and data providers

Fidelity has well-structured engagement with and oversight of its service providers. Frequent contact with our investment and operations staff means issues are usually addressed in an effective and timely manner.

Fidelity has a global supplier relationship management framework to ensure that outsourced suppliers' performance and risk is managed in line with contractual expectations. This involves ensuring that key roles and responsibilities are defined, and that the supplier can work under the requirements of Fidelity's Supplier Code of Conduct, which sets clear expectations of suppliers' behaviour in key areas, including modern slavery and diversity and inclusion, across our supply chain.

Fidelity has a supplier risk and relationship management function, which provides independent oversight of performance and adherence to our global procurement policy and framework. The policy sets the requirements for effective and proportionate supplier management oversight, including quarterly supplier performance reviews.

Each supplier is assigned a supplier relationship manager who is responsible for monitoring supplier performance and managing risk. The supplier risk manager evaluates providers and their quarterly reporting, including a performance rating (red/amber/green) with supporting evidence and an overall rating.

ESG-specific research and data provision is developing more rapidly than traditional research and market data. We continuously monitor and consider service providers in this area. Our Sustainable Investing team plays a particularly important role in the review of specialist ESG products.

During the year under review, we have been broadly satisfied with the quality and accuracy of the data we have received from our ESG data providers, albeit there continues to be gaps in coverage for smaller companies. We occasionally raised questions about the contents of certain reports. In these situations, we have found our providers responsive and helpful in addressing any concerns.

Monitoring proxy voting advisors

Fidelity votes at shareholder meetings in accordance with its own stewardship and proxy voting policies and guidelines. Information to inform the voting process is derived from a variety of sources and includes material provided by the company, internal and external research, and proxy voting advisory services.

We use the services of several proxy advisors including ISS and Glass Lewis. We use ISS's electronic voting platform to manage voting mechanics, including notification of meetings and submission of voting instructions, and reporting.

We also use ISS research reports to inform our assessment of meeting agendas and have a set of customised voting policies with ISS. However, all eventual voting decisions are made in accordance with Fidelity's policies and voting guidelines after consultation with the relevant portfolio managers, where appropriate. We use Glass Lewis's shareholder meeting research reports to supplement our in-house view.

In 2021, we established a new voting support team which works together with the SI team on shareholder voting and provides operational support. The teams collectively monitor, review, and execute votes to ensure that voting is done in accordance with Fidelity's guidelines, incorporating engagement and insights from the Sustainable Investing team and broader investing team.

Detailed due diligence is undertaken when we contract with a new proxy voting advisor. This is updated during meetings and discussions throughout the agreement period and reviewed in detail at the time of contract renewal.

We also revisit and discuss any concerns or issues at this time, typically meeting with senior members of the advisor's client services, operations, research and policy teams to discuss key issues and any concerns. The advisor's capacity, competence and ability to analyse meetings is monitored continuously as we review and analyse individual meetings and review commentaries made by advisors. We periodically subject our advisors' technology practices to an 'external security review'.

When an issue is identified in a provider's research, we will generally contact them to highlight any factual concerns or discrepancies that may lead to them updating their research. We may disagree with voting recommendations. However, this is not considered problematic as we follow our own research-informed decisions.

We have developed our Fidelity proxy advisor oversight framework to monitor regularly and formally key aspects of the policies, procedures and capabilities of our proxy advisors. The due diligence questionnaire focuses on:

1) The functional capability of the advisor to manage their process
2) Conflicts of interest
3) Surfacing and evaluating any material changes in services or operations by the proxy advisory firm

For the most part, we have been satisfied with the level of service provided by our proxy voting service providers during the year. In cases when we have identified issues, we have raised these with the advisors and have generally found them responsive and constructive. Examples of this during the year included:

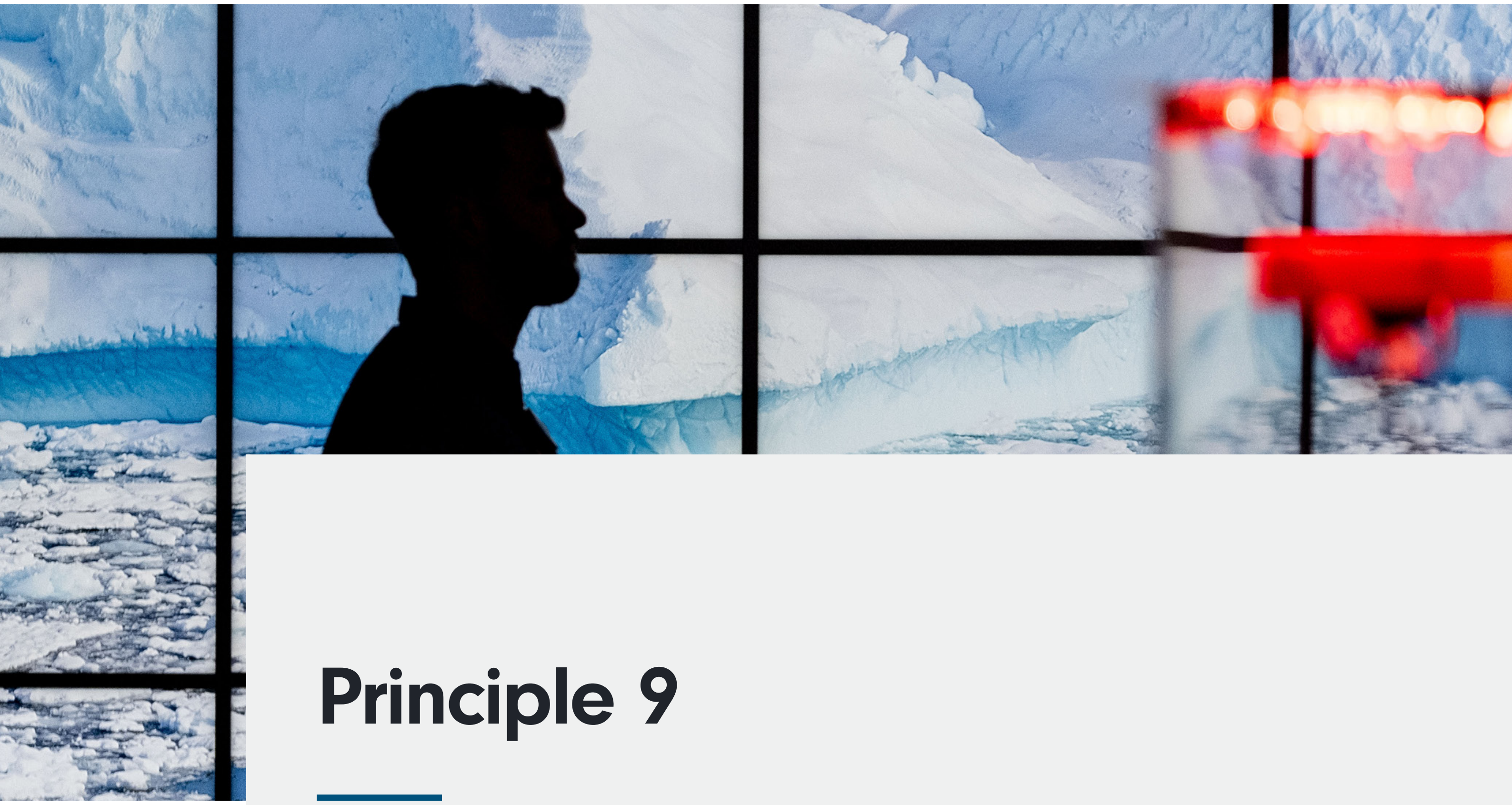
- An incident where our vote instruction was incorrectly transmitted for a UK company AGM. The company in question notified us after we communicated our (correct) vote intentions to it, and we were able to override the instruction before the deadline. A subsequent investigation found that the error was due to a third-party service provider used by an intermediary in the voting chain and was not attributable to our proxy advisor. The intermediary has since put procedures into place in order to mitigate the risk of similar incidents arising in future.
- An incident where a vote instruction on an important resolution was not received by the company by the proxy voting deadline. We were informed of this by the company and were able to cast votes in time by sending a representative to the meeting. We investigated the incident and found that it was attributable to a mistake by the custodian and not the proxy advisor. We have followed up on this incident with the custodian.
- During the year and after the reporting period, we flagged up instances to our main proxy voting agent where incorrect voting recommendations were given under our custom voting policy. In early 2023 we worked with our proxy voting agent to clarify the application of our voting policy with the objective of avoiding similar occurrences in future.
- After the reporting period, we questioned our main proxy voting agent about the consistency of its recommendations on a particular type of agenda resolution across different markets. A representative from the agent's governance research team explained the local market differences which were driving the agent's differing approaches, which provided insight and addressed our concerns.

Real estate service providers

Given the nature of the real estate asset class, we leverage alternative types of service providers for our stewardship activities. These include managing agents, valuers and technical consultants. External sustainability consultants support pre-acquisition due diligence efforts, highlight potential ESG improvements to real estate projects and collect data for external ESG reporting.

The lead portfolio managers have the overall responsibility for the monitoring of service providers to ensure that they are delivering appropriately to support our sustainability goals. Activities are undertaken formally and informally throughout the year. This monitoring includes monthly or quarterly management meetings during which the performance of the supplier is considered against the service level agreement and agreed KPIs, issues are raised and resolution actions agreed.

Formal reviews, including possible site visits, are generally done annually and/or when the contract is renegotiated. In addition, the majority of our providers are in regular contact with the team outside of the periodic meeting and review cycle, allowing for ad-hoc review and performance management. These activities allow us to ensure that our real estate service providers are accountable and meeting our needs.



Principle 9

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Activity

Our engagement approach

Active engagement forms an integral component of our sustainable investing strategy. We use information gathered from engagements to inform our investment decisions and to encourage company management to improve procedures and policies. We believe engagement is key to improving issuer behaviour and investor outcomes over the long term.

Identifying engagement opportunities

We maintain an ongoing dialogue with management of investee companies. Formal meetings involving both portfolio managers and analysts are typically held with investee companies at least twice a year. Aside from these regular company meetings, there are a variety of opportunities for dedicated ESG engagements, including:

- Responding to a controversy or adverse event, or a concern flagged by our investment analysts or portfolio managers (e.g. of a strategic or governance nature).
- Firms flagged by our analysts during the proprietary ESG Rating assessment as good candidates for engagement (e.g. exposure to sustainability risks).
- Issuers held in our range of sustainable products and strategies are subject to a more systematically targeted programme of engagement.
- Our Sustainable Investing team conducts thematic engagements on particular sustainable investing issues. We choose the topics primarily based on the urgency of the issues concerned, alignment with our sustainable investing strategy, and input from clients.
- Issuers may request engagement on a specific corporate event (e.g. mergers and acquisitions or IPOs). Our investment legal team and capital markets team provide support on engagements where there is a risk of receiving material non-public information.
- We may also proactively engage companies on shareholder voting-related issues that arise during our voting process (see Principle 12), or we may reactively consult with companies on voting-related matters. In 2021 we published a revised set of Voting Guidelines which has served as a catalyst for engagements with companies, especially where we understand that companies fall short of our expectations. The growing prevalence of shareholder resolutions has been another catalyst for engagements.
- In fixed income, engagement may occur at the pre-investment phase. For 'use of proceeds' bonds such as green and social bonds, we may engage to ensure responsible allocation of capital, while we may engage with companies following the issuance of sustainability-linked bonds to discuss the ambition of the associated

KPIs and their progress towards them, and to encourage companies to increase the ambition of their sustainability strategy.

How we engage

Once we have identified an engagement opportunity, we believe that the best approach is to engage in constructive dialogue with companies to explain our beliefs and expectations and to encourage shifts in long-term behaviour. Fidelity's reputation as a research-driven investor with long investment horizons affords us privileged access to companies globally, which has allowed us to forge long-standing relationships, enabling us to have constructive dialogues and work towards superior ESG outcomes. We therefore believe that engagement through constructive dialogue is often a better course for us to drive change than exclusion and is more likely to lead to better outcomes for our clients.

Our engagement process is designed to be well defined and transparent. It includes:

- Key issue area(s) - The theme(s) for which the company needs to demonstrate improvement (e.g. climate change).
- Objective - The ultimate desired outcome from engagement (e.g. reduced CO2 intensity).
- Milestones - Indications that the company is making efforts to achieve the objective we have communicated (e.g. setting a carbon reduction target).
- Key Performance Indicators (KPIs) - It is important that, against the milestones set, there are measurable KPIs.
- Timeline - The timeframe in which we can reasonably expect a company to improve
- Status - A point in time measure of progress (e.g. no progress vs. some progress vs. success).

Engagement is an ongoing process of constructive dialogue with an issuer(s). In order to monitor progress over time, we record all engagements on our internal research platform, which is available to all of the investment team to access.

How engagement differs for funds, assets or geographies

We conduct engagements throughout our investment universe dependent on our priorities mentioned above.

Our thematic engagements cover various funds, regions, geographies and asset classes and our approach is consistent across our equity and fixed income holdings. In most circumstances, we will make our engagement themes consistent across regions, but the types of questions asked will vary depending on issues such as regulation in the region, culture and business strategy. For example, while we have a voting policy on board gender diversity that we now apply globally, we have developed a special engagement programme for the Japanese market to go alongside it because boards there still tend to be very male dominated.

In addition to the above, we have a range of sustainable equity and fixed income fund products where we have a commitment to engage with portfolio companies with lower ESG ratings with the aim of helping to improve their sustainability characteristics over time.

For equity holdings, we will often engage with investee companies on an ad-hoc basis if concerns are raised of a strategic or governance nature. Such concerns may be raised by the investment team, the capital markets team, or an external party e.g. a co-shareholder. Timeframes for engagements will vary but are generally shorter than for our thematic engagements. In London and Tokyo, we have devoted additional resources to supporting the investment team on strategic and governance-focused engagements with investee company boards. Further information on this is provided in Principle 7.

Our approach takes various forms, including conference calls, face-to face meetings, and the writing of letters (either as an individual shareholder or collectively with other investors) to the board and/or management team outlining the areas of improvement or expectations. Our approach will depend on the specifics of the individual engagement. In some cases, for example, to communicate policy changes or proxy voting intentions, written communication may be a quicker and more efficient form of communication while more in-depth engagements will generally require direct dialogue.

For multi-asset, we engage with fund managers to deepen their integration of sustainability research with portfolio construction, buy/sell decisions, and their own stewardship and engagement practices. This includes engagement to discuss individual investment decisions, with the aim of seeing managers formalise a repeatable and consistent process to reflect ESG research in their judgment of issuer quality, risk-return, and, ultimately, position sizing. We also assess fund managers' patterns of voting and engagement with underlying investments. We encourage fund managers to vote across a range of issues according to pre-defined objectives. For example, we seek breadth of engagement, and would engage with a manager who limits their voting to a single issue, such as management pay, or who votes consistently for or against management.

Our multi-asset team also engages with alternative listed vehicles, which often acquire real assets, such as infrastructure, energy, and property. We have engaged with some strategies that finance controversial sectors, such as custodial facilities and coal. We seek plans to mitigate risks or transition from high-risk sectors. In some cases, we have secured reasonable timelines from managers to shift allocations. In other cases, we have received compelling plans to limit and control risks, such as through the use of ESG-linked covenants, third party audits, or downstream engagement with the operators of underlying assets. Where managers have repeatedly failed to react to our engagement, we have divested.

We also engage with alternative listed vehicles to improve their stewardship of underlying investments. For example, this might mean discussion of health and safety policies, and asking managers to evidence industry-leading competency and standards amongst their operation contractors. This might be measured through incident reporting, external audits and awards, and case studies on a contractor-specific basis.

For our real estate business, given the nature of the real estate asset class, our engagement focuses on the occupiers of the assets held in our funds but also the suppliers and service providers. In the past this engagement has been mainly focused on the collection of user data to evaluate tenants' consumption of energy, water, waste, etc. in our buildings. We now have started to engage more broadly with tenants on ESG-related topics in order to explore their concerns and needs related to sustainability. Our engagement is twofold: via an annual tenant survey and the direct engagement of our portfolio managers as part of regular operational discussions with our tenants. The overall aim of our tenant engagement is to develop joint sustainability initiatives to enhance the sustainability performance of their building while respecting the specific needs which individual tenants may have.

Influence Framework

In 2022, we developed an influence framework to help us identify where and how we can align and further our engagement efforts. The framework reflects four distinct but connected levels of influence we have as an active investor and which can be applied to distinct sustainability themes:

1. **System-wide activities**, in recognition that our economic, social and ecological systems are interconnected, and affected by systemic issues (for example, climate change) in ways that are not yet fully understood but have wide-ranging implications for capital markets. Firm-wide priorities such as our net zero alignment commitment, and associated policy and regulatory engagements, are examples of system-wide actions. This level of influence is covered in more detail under Principle 4.
2. **Industry, sector and/or cross-portfolio** looks at how the systemic issue is, or might, inform change across industries, and how we might engage (often in collaboration, given the scale of need) in order to smooth or accelerate the necessary transition. This might involve supporting new assessment tools, or thematic engagements, including specifically with the finance sector (banks, insurers) as intermediaries who in turn influence industries and sectors.
3. **Firm, entity influence**, through capital allocation, engagement and voting, in order to influence company behaviour change.
4. **Individuals**, in terms of their knowledge, skills, experience and behaviours, are key to any anticipated change. This requires ongoing relationship building and training, internally and externally, to be effective across the above influencing strategies.

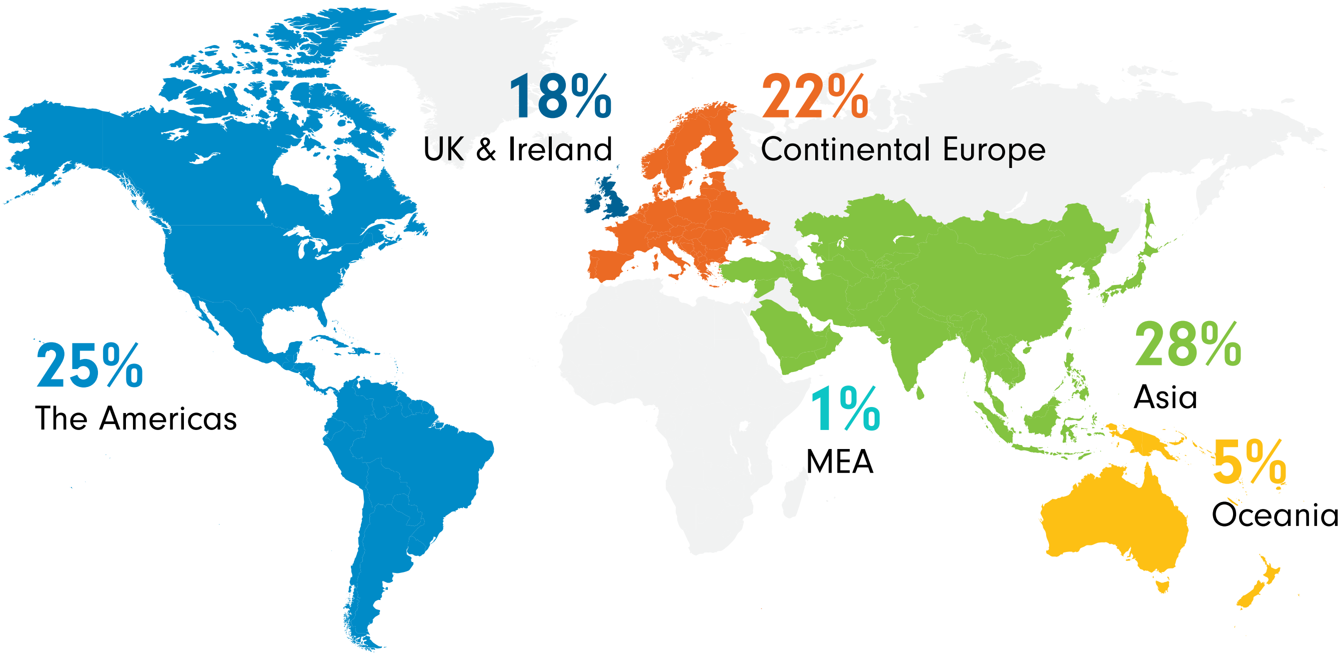
An illustration of this approach is captured in the Appendix, taken from our Deforestation Framework published in December 2022, but the approach can and has been applied to several different sustainability themes. We are currently exploring how we can apply the framework to assess the relative success of different engagement approaches over time, recognising that the scale of the challenge is such that in many instances we will need to be active at each of the levels.

Engagements in 2022

Fidelity conducted 2,118 ESG engagement activities[3] with 1,548 companies during 2022. This comprised 791 in-person or remote engagement meetings with companies (2021: 678) and 1,327 written communications (2021: 913), including letters and communications related to voting. This included 192 meetings with chairs and other non-executive directors and 267 meetings with CEOs, CFOs, and other executive directors.

[3]This refers to interactions with companies on ESG issues for the purpose of influencing their ESG practices or improving their ESG disclosure and include meetings (in-person or remote) and written forms of communication.

Chart 3: Engagements by region

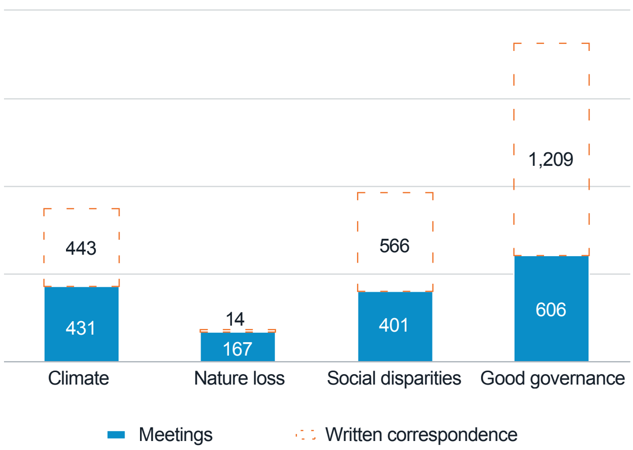


Source: Fidelity International, March 2023.

The largest share of ESG engagement activities were with companies based in Asia (c. 28%) followed by the Americas (25%), Continental Europe (22%), UK and Ireland (18%) and Oceania (5%).

We track and report our ESG engagement activities across four broad systemic themes: climate, nature loss, social disparities, and good governance. For our engagement in-person or remote meetings: 77% of meetings discussed good governance, 54% climate, 51% social disparities and 21% nature loss. For all engagement interactions, including written communication, 86% covered good governance, 46% social disparities, 41% climate and 9% nature loss. Written communications predominately relate to communications on our shareholder voting for the purpose of improving a company's ESG practices. Note that many of our ESG engagement activities may cover more than one of the four systemic themes.

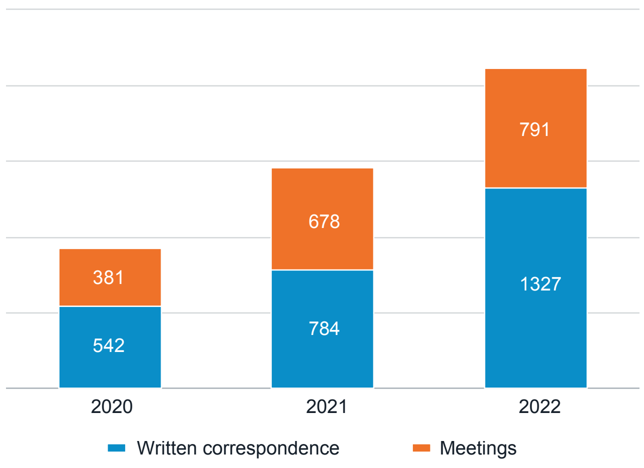
Chart 4: Systemic themes



Source: Fidelity International, March 2023.

Generally, a large proportion of our engagements take the form of face-to-face dialogue, and these types of meetings increased in 2022 as Covid-19 pandemic restrictions were lifted in many regions. Written correspondence includes letter-writing campaigns and email correspondence, often related to voting at shareholder meetings.

Chart 5: Engagements by type



Source: Fidelity International, March 2023.

Monitoring the progress of engagements is as important as initiating them to assess change and success against milestones and objectives. Our analysts, portfolio managers and sustainable investing specialists document all engagements with issuers on our centralised research platform, which has a dedicated functionality to tag ESG engagements, including key topics, milestones, form of engagement (proactive thematic, reactive etc), as well as various other characteristics. Recording engagements in this way enables efficient access to relevant information for our investment teams across sectors, themes and asset classes. It also accommodates effective reporting and monitoring of progress on engagements.

Case studies

Below are selected examples of engagements we have conducted during the year. These are divided into stand-alone engagements and thematic engagements. The below examples, together with the engagement examples provided under Principles 10, 11 and 12, are a representative sample of the engagements we have conducted during the year, broken down by asset class, geography and type. We have sought to provide examples with a representative balance of outcomes, in recognition that many engagements will not result in optimal outcomes despite our best efforts, and because engagements often take years to complete. We have anonymised case studies which we consider sensitive, for example because the engagement is ongoing.

The Santos owned petroleum and natural gas plant. (Credit: The Sydney Morning Herald / Contributor, Getty

Santos Ltd.

Country of Incorporation: Australia
Mode of Engagement: Video conference
Sector: Oil & Gas Exploration and Production

Engagement issue: Climate change, social license
Objective for Engagement: Information gathering
Asset class: Equity

Reason for Engagement:
We met with the chair in late September 2022. The discussion covered the halting of the Barossa gas project because of a court case between Tiwi islanders represented by the Environmental Defenders Office and NOPSEMA (Australian petroleum regulator).

Details of Engagement:
The chair provided more colour on the situation, including that the company had done extensive consultation with Tiwi Land Council (of which the individual was part) but had not conducted individual consultation with the Tiwi Islanders that had brought the suit. While Santos explained that they followed all the required consultations, they acknowledged that there is some ambiguity in the regulation. At the time, the chair explained that they were pursuing two avenues in parallel to restart project drilling: 1) a court appeal; and 2) working on a new submission to NOPSEMA. After the court dismissed the appeal, we again met with the company to understand next steps. The company will be putting forward another submission following a more detailed consultation.

Next Steps:
We plan to follow up and engage with the company to understand more about the community engagement process. In the medium to long term, there are also more questions about what this means for the sector and the company's social license. The court case may set precedents that could raise the bar and increase the length of permits and approvals for other projects and investee companies.

Case study

Unilever logo seen on UK office building. (Credit: SOPA Images / Contributor, Getty Images)

Unilever plc

Country of Incorporation: United Kingdom
Mode of Engagement: Conference call and letter
Asset class: Equity

Engagement issue: Corporate governance
Objective for Engagement: Improve understanding strategic rationale for takeover bid

Background:
As covered in our UK Stewardship Code disclosure last year, Fidelity initiated an engagement with the company in January 2022 following an announcement that the company had submitted bids for the GSK Consumer Health business, the latest one at a level of £50bn. After widespread internal discussions we wrote a letter to the chair setting out our position on the bid and company's strategy more generally.

In our letter we stressed that we were not supportive of the bid even at the £50bn level that had already been rejected by GSK. We also indicated that we were not supportive of transformational largescale acquisitions in general and encouraged the company to pivot to a higher growth business mix through bolt on acquisitions and piecemeal disposals. Finally, we set out our view that the company should focus on improving the growth and return profile of the existing assets as the means to creating the most significant shareholder value.

In February 2022, the company announced that, in response to engagement with shareholders, they would not be pursuing major acquisitions in the foreseeable future. Furthermore, they committed to a share buy-back of Eur 3bn over the next two years.

Next Steps:
In May 2022, the company announced that activist investor Nelson Peltz would be joining the board. We discussed the appointment with the chair and supported the appointment which we viewed as adding a strong, shareholder friendly voice to the board, proven expertise in capital allocation and additional oversight in aligning remuneration with shareholder interests.

In September 2022, the company announced that Alan Jope, the CEO, would be retiring at the end of 2023. We discussed the announcement with the chair and indicated that the timetable of Alan's departure offered an opportunity to evaluate a broad range of internal and external candidates and that the latter could provide fresh insight.


An aerial view of a paddock after crops have been harvested. (Credit: David Gray / Contributor, Getty Images)

Case study

Lynch Group

Country of Incorporation: Australia
Mode of Engagement: Video conference
Sector: Agricultural Products

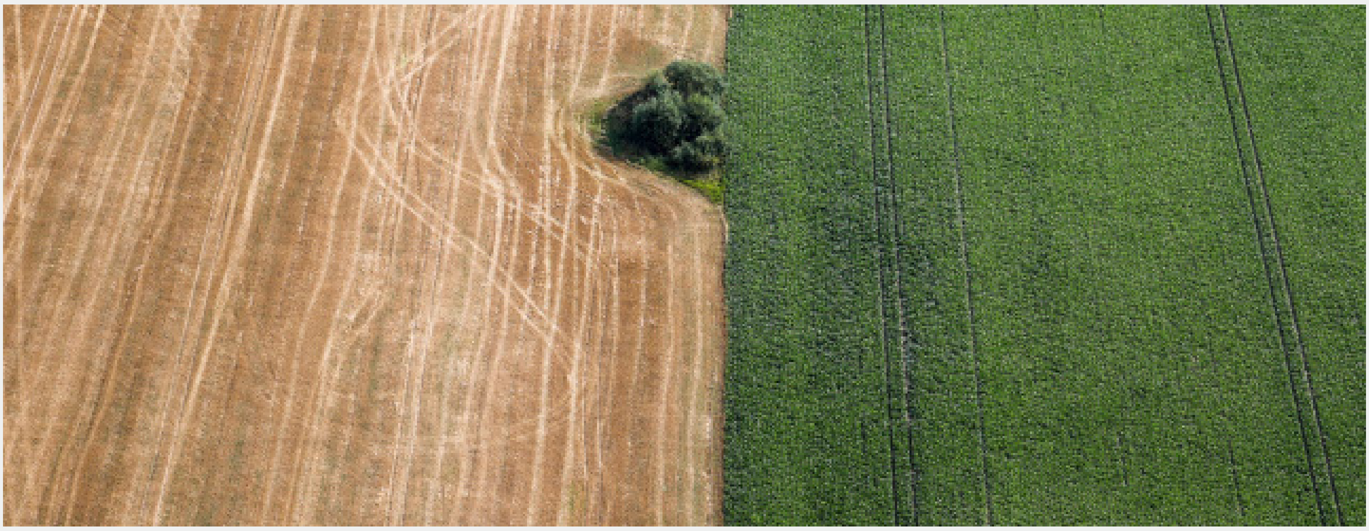
Engagement issue: Diversity, climate change, modern slavery
Objective for Engagement: Information gathering
Asset class: Equity

Background:
We met with the company on several occasions during the year to discuss ESG matters. The main reason for this meeting was to discuss the company's climate change risk management and objectives as well as its board diversity. Both are critical points of emphasis in our voting policy on board members.

Details of the engagement:
During the meeting, the chair confirmed that they were working with the University of Western Sydney to provide disclosure on emissions and were also working toward providing a Sustainability Statement in 2023, which was a significant step forward for the company. He also communicated that the board intended to appoint a female Independent Director shortly, which would increase female representation on the board from 25% to 40%. Based on these factors, we concluded that we would be able to support the director elections at the upcoming AGM.

During previous meetings we had also flagged concerns about the company's exposure to Modern Slavery risks through its supply chains and suggested that the company should address this by putting in place a Chief Sustainability Officer or equivalent to manage all ESG risks in their operations and supply chains. The company explained it was currently not in a position to do this as it has been facing headwinds due to cost of energy and other factors, but that there were a few 'non negotiables' for their sustainability committee, including Modern Slavery. We therefore expect to see better disclosure about the work they are undertaking during 2023.

Next Steps:
We will continue to monitor the company's sustainability disclosures and intend to follow up our engagement on modern slavery risk in the coming year.



Case study

A worker uses machinery. (Credit: NurPhoto / Contributor, Getty Images)

Japanese industrial machinery company

Country of Incorporation: Japan

Mode of Engagement: In person, online, phone and emails

Sector: Industrials - Capital Goods - Machinery

Engagement issue: Sustainability reporting and governance

Objective for Engagement: Improved disclosure and strengthened governance

Asset class: Equity

Reasons for engagement:
Although the company's business model contributes to solutions to environmental and societal issues, this sustainability link was not evident from the company's disclosures, which we believed was leading to lost business opportunities. Separately, we believed that the strong influence of the Honorary Chair was contributing to a perception of potentially impaired governance.

Details of the engagement:
In meetings held in July 2020 and January 2021 with the company, Fidelity communicated that, the sustainability link to its business is not evident from its disclosures, despite its business model contributing to reduce inefficiencies, thereby helping the environment. We also informed them of the need for a nomination committee to improve governance to alleviate the strong influence of their Honorary Chair. The company's response lacked speed, which led us to hold another dialogue with the company in August 2021, where we reemphasised the need for speed in a rapidly changing environment surrounding sustainability, as well as for their climate change initiatives such as endorsing the TCFD, and for establishing sustainability governance. We then continued discussions with the company more than a dozen times by email and telephone. The company subsequently announced that it would establish a nomination committee in November 2021. A new basic sustainability policy was also announced. The previously insufficiently disclosed link between the business model and the mitigation of environmental issues was disclosed in April 2022 in-line with the TCFD, as per our inputs. In June 2022, the company also disclosed that it will be carbon neutral by 2050 and reduce Scope 1 and 2 GHG emissions by 42% by 2030, in addition to reporting historical Scope 3 emission numbers. These initiatives attracted media attention and in December 2022, with the company's consent, the company and Fidelity's efforts were covered extensively in major economic newspapers.

Case study

An employee works at a clothes store in Tokyo. (Credit: Yuki Iwamura / Contributor, Getty Images)

Japanese apparel retail company

Country of Incorporation: Japan
Mode of Engagement: Online and in person
Sector: Consumer Discretionary - Retailing - Speciality Retail

Engagement issue: Remuneration - governance
Objective for Engagement: Improved decision-making process on director remuneration
Asset class: Equity

Reasons for engagement:
We engaged the company twice in 2021 regarding their director remuneration policy. As it stood, the decision-making on individual directors' remuneration was delegated to the chair rather than being decided by the board, thus compromising oversight and transparency through the creation of a hierarchy within the board. The March 2021 revision to Japanese corporate law required companies to disclose how they are making such decisions precisely to address such concerns, and Fidelity has had a voting policy to vote against companies where the decision is delegated to an individual. Especially for a founder-owned company like the company where the chair holds a large influence, separating that decision-making power, or at least enhancing transparency, is important for effective governance.

Details of the engagement:
After speaking with Investor Relations, they promised to escalate our concern to the board, and in November 2021 we secured a meeting with the chair, who agreed on the importance of board effectiveness. The company has been one of the trailblazers on sustainability initiatives, especially on governance and in March 2022, disclosed their new process which improves transparency by reporting to the board on the decision made by the chair. While the decision is not made within the board which we consider as best practice, we think the example of an influential founder-owned company such as the company revisiting their governance processes marks great progress. Since introducing our voting policy, we have spoken with close to 50 investee companies, of which 70% have changed their process to one of greater transparency and effective governance.

Coal-fired power plant operated by German utility RWE. (Credit: Lukas Schulze / Stringer, Getty Images)

Case study

RWE AG

Country of Incorporation: Germany
Mode of Engagement: Conference call
Sector: Independent Power Producers & Energy Traders

Engagement issue: Climate change
Objective for Engagement: Information gathering for thermal coal engagement
Asset class: Equity

Reasons for engagement:

We engaged with RWE throughout 2022 as part of our broader thematic engagement on thermal coal as a way of understanding the different pathways and challenges facing utilities on their journey towards net zero, especially in relation to the just transition.

In late 2022, we met with RWE's Heads of Sustainability and IR to talk through a new expedited coal retirement plan and its implications against the backdrop of the energy crisis. We considered the plan to be a breakthrough moment for the company that mined and combusted 71Mt of coal in 2021, equivalent to the annual emissions of 12m cars, and with 28.5% of its current generation from lignite.

The company operates in a regulated environment and had finally reached agreement with federal and local governments to achieve a 1.5-degree aligned retirement of coal assets by 2030 after a long journey to transition away from coal that began in 2018. This latest plan follows guidance from the IEA and IPCC recommending that unabated coal generation in OECD markets should cease by 2030. The plan is supported by a significant pipeline of renewables to replace lignite capacity. There are plans to grow the renewables business to 50GW by 2030 from 10.7GW in 2021. This will require the business to effectively double generation capacity in a decade, with gross capex of EUR 50bn (net 30bn). In short, this is a significant investment and pivot away from lignite (and gas, currently 15GW) towards renewables.

Background:

As Germany's largest power producer and an employer of 8,500 mine workers in North Rhein-Westphalia (NRW) alone, it has been highly challenging to find a compromise on coal phase-out that is fully Paris-aligned and works both economically and socially.

In 2019, a government-appointed commission recommended a nation-wide coal phase-out by 2038 but cautioned it would cost as much as EUR 40bn. The first breakthrough came in 2020 with a new bill passed in the German parliament enshrining the 2038 date in law. It also granted operators compensation packages, with RWE receiving a EUR 2.6bn package from the federal government.

However, the new coalition government appointed in late 2021 introduced new impetus, with a new aim of a 2030 phase-out. This included rumours in early 2022 of a "coal foundation", where RWE and others would transfer their coal assets to a government-run "bad-bank", similar to one set up to exit nuclear in the 2010s.

Another notable factor was the Ukraine war's impact on wholesale electricity prices in Germany. This shifted policy both within the government (greater focus on energy security) and at RWE, which benefitted from significant spreads in its coal portfolio. In October 2022, RWE announced it would bring forward its phase-out date to 2030 at no additional cost to the government. This plan relies on greater coal use in the short-term (until 2025 at the latest) to offset expedited asset retirements.

RWE AG (cont.)

During our engagement with the company, we explained those elements of its revised plan that we support, namely:

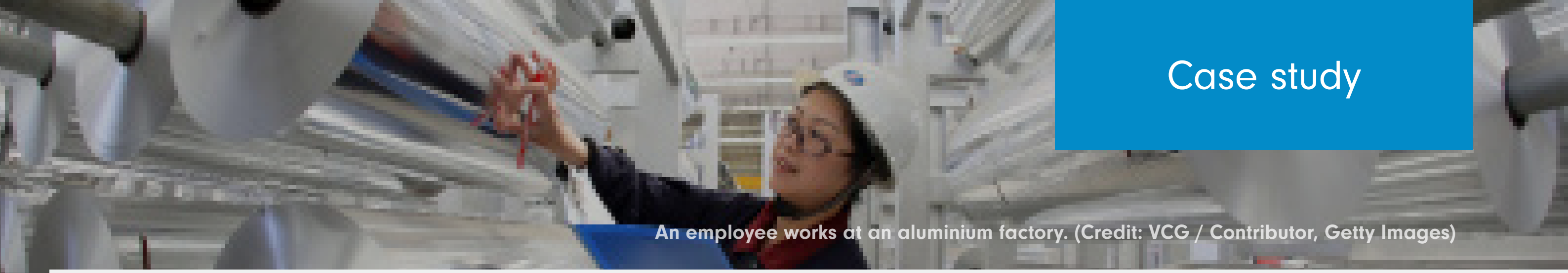
- A new, clearly Paris-aligned phase-out commitment for the phase-out of its coal assets - this latest plan follows guidance from the IEA and IPCC recommending that unabated coal generation in OECD markets should cease by 2030. This should allow the company to increase its 2030 target-setting and achieve a 1.5-degree aligned SBTi accreditation.
- Significant pipeline of renewables to replace lignite capacity. RWE reports that 88% of 2021 capex and 25% of 2021 opex was Taxonomy-eligible, primarily driven by the renewables business. By 2030, 90% of capex will be taxonomy-aligned (wind/solar, not nuclear/gas).

And areas where we felt RWE could improve:

- Greater clarity on the operational readiness of "H2-ready" gas plants. The company has announced 3GW of new hydrogen-ready gas plants, ear-marking former coal plant sites in NRW to ensure economic security in the local areas and to benefit from the existing grid infrastructure/investments. But it's unclear a) how "Paris-aligned" building new gas power stations is, b) whether hydrogen mixing will be feasible, especially in the requisite quantities to meaningfully reduce emissions and c) the extent of employment opportunities at these new plants, considering gas plants are significantly less labour intensive than coal equivalents (by as much as a factor of ten).
- Incremental renewable investments could be higher. Considering the current pipeline (40GW) and the announcement of new gas plants (3GW), the announced incremental 1GW renewable commitment in NRW seems low. Although, as we discussed in our call with the company, it seems that the proposed gas plants are being driven by the German government to ensure energy security, while the pipeline of renewables is already significant.
- Potential to update its "less than 2-degrees" SBTi target (-50% in scopes 1-2 intensity by 2030 vs. 2019, and a 30% absolute reduction in scope 3 across the same period). The new plan appears 1.5-degree aligned and so it may be appropriate for RWE to update its targets and resubmit them to SBTi for external validation, although gas expansion could jeopardise this.

Outcomes and next steps: We view the latest announcements as incrementally positive for the decarbonisation of both RWE and the German economy. However, some important factors in ensuring a just and orderly, Paris-aligned transition for the utility remain unresolved.

Despite the relative prosperity of NRW as a region, repositioning the firm's coal workforce will remain a key challenge. RWE has committed EUR 500m to retrain, upskill and offer voluntary redundancies to the half of its workforce that are directly employed by the coal business. There is clear acknowledgement from the company that it won't be able to retrain all workers, and while H2-ready gas plants on existing coal sites will provide jobs, "only 100 workers are needed for a gas plant vs. 1000 for coal". Given the highly unionised market in Germany, we should expect this to be managed in a responsible and equitable manner, although wider stakeholder impacts (which are a vital aspect of a just transition) may not be factored in these discussions. Environmental remediation is also a critical factor that we will monitor, both in the company's mining operations and in its management of coal-ash, only 15% of which is currently recycled.


An employee works at an aluminium factory. (Credit: VCG / Contributor, Getty Images)

Major Aluminium Producer

Country of Incorporation: China
Mode of Engagement: Conference calls and emails
Sector: Metals and Mining

Engagement issue: ESG management
Objective for Engagement: Updates on long term sustainability plan
Asset class: Fixed income

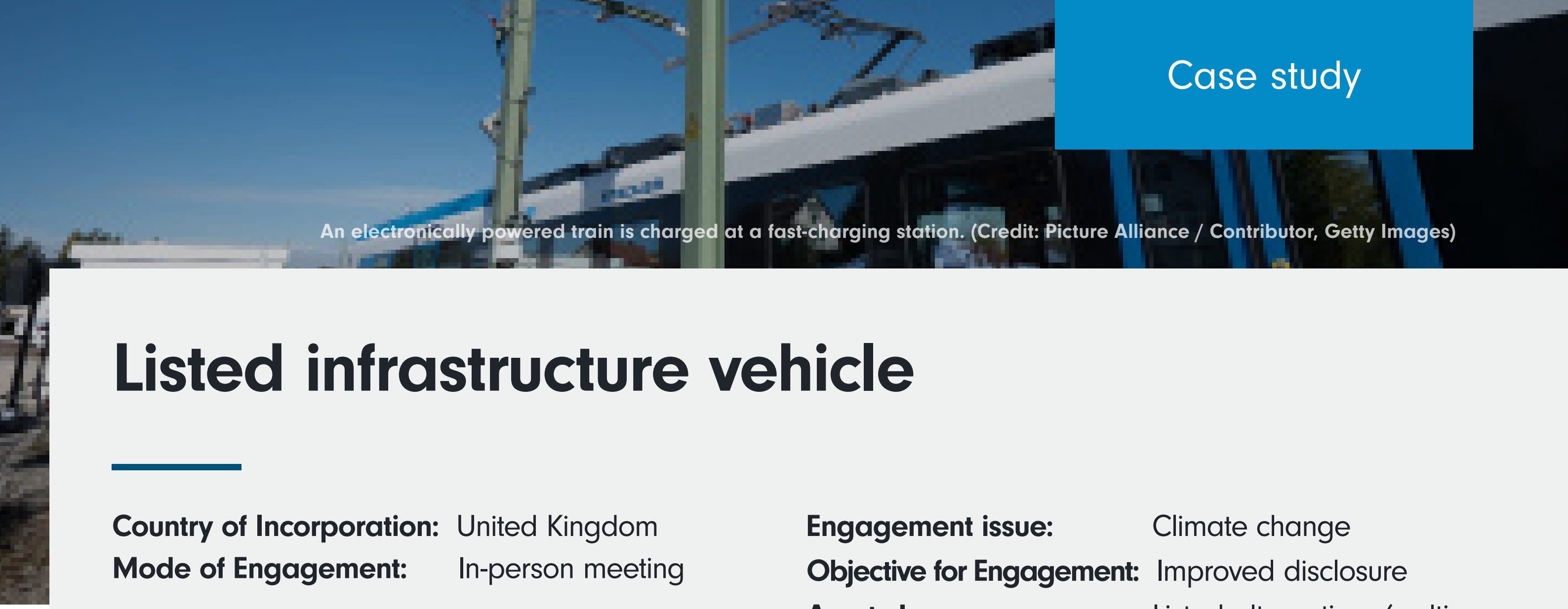
Background:
In December 2021, the investment team initiated an engagement with a major aluminium producer in China to better understand their long-term sustainability targets, and how the company plans to meet the carbon neutrality goals set by the Chinese government.

Details of Engagement:
We first reached out to the company's management to explore the possibility of an initial engagement to discuss the company's ESG work as well as plans to meet long term sustainability targets. We felt the request for engagement was met with a high level of enthusiasm from management and we were provided access to working level staff to ask questions about how ESG is incorporated into their roles.

The company has a long-term carbon reduction target of reaching its carbon peak by 2025 and reducing total carbon emissions by 40% by 2035. The company also sets yearly sustainability targets and is generally good at meeting or exceeding these targets. However, areas of ESG risk such as gender diversity and operational safety require further attention.

We suggested that the company closely follow an upcoming corporate governance guidelines revision made by the Hong Kong Stock Exchange, provided feedback to advance their ESG disclosure (such as how ESG KPIs are tied to executive compensation), and strongly encouraged management to consider setting medium to long-term energy consumption and emission reduction goals.

Next Steps:
We plan to revisit our engagement targets with the company and track its progress in implementing our suggestions in 1H23.



An electronically powered train is charged at a fast-charging station. (Credit: Picture Alliance / Contributor, Getty Images)

Case study

Listed infrastructure vehicle

Country of Incorporation: United Kingdom
Mode of Engagement: In-person meeting

Engagement issue: Climate change
Objective for Engagement: Improved disclosure
Asset class: Listed alternatives (multi-asset)

Background:
This listed infrastructure strategy provides access to a diversified range of infrastructure projects. We met with the company to ask for improved benchmarking and clearer reporting on the alignment of its activities to the UN Sustainable Development goals and the Paris Agreement.

Details of Engagement:
The investment team met the company's Head of Sustainability to discuss engagement policy across project companies. We pushed to see plans for incremental improvement in underlying projects' sustainability, specifically calling for better benchmarking using third party systems such as GRESB or BREEAM. Our analysts explained why it was important from an investor perspective for the company to produce effective and transparent data on sustainability, including SDG alignment, rather than qualitatively ascribing goals based on themes as opposed to clear metrics. The investment manager acknowledged this and is now changing its system to reflect the EU taxonomy and, in particular, performance standards for quality sustainable infrastructure e.g. sustainable transport.

Next Steps:
While we believe the standardisation of SDG reporting and incorporation of the EU taxonomy will help increase transparency, it does not cover all areas of sustainability (for example, the impact of social contributions). The team continues to engage on broad sustainability reporting and push for further enhancements.

Case study

Solar panel installation on a roof. (Credit: Kristian Buus / Contributor, Getty Images)

Berkshire Place, Reading (Office Property)

Country of Incorporation: United Kingdom
Mode of Engagement: In-person meetings
Sector: Office property
Asset class: Real Estate

Engagement issue: Installation of solar panels on the property roof
Objective for Engagement: Collaboration aiming to improve the energy efficiency and ESG credentials of the property

Background:
Investors and occupiers alike make long-term commitments to buildings, so it is essential that sustainability considerations are integrated throughout the entire life-cycle of property ownership. Fidelity Real Estate has set itself clearly defined, pragmatic sustainability targets for the overall real estate business and our individual property funds. This includes 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.

In order to ensure the target is reached, it is imperative to engage with tenants on sustainability issues across our properties. As property owners rather than shareholders, the Real Estate Team does not have the same level of influence on companies'/tenants' internal business processes. The main objective for the engagement with tenants is to develop joint sustainability efforts to achieve better building operation and to ensure an alignment of interests both financially and environmentally.

Details of Engagement:
We engage directly with all our tenants on a regular basis. In addition, we annually send out a survey to all our tenants to get a better understanding of their satisfaction with their space, feedback on our managing agents and engagement on sustainability issues.

An example of how we have collaborated with two of our tenants is the installation of solar panels at 200 Berkshire Place, an office building in Reading, UK. As part of a project to improve energy efficiency and the EPC rating of the building, 120 panels were installed in June 2022, covering c. 2,500 sq ft to provide c.5% of the buildings' electricity needs. The lifecycle of the installation is c.25 years (there is a 25-year warranty on the panels) and the anticipated reduction in carbon over this period is equivalent to 195 tonnes.

The project was forward funded by Fidelity, who covered a third of the costs upfront, with the remainder being paid by incorporating the cost within the service charge of the building. This meant that there was no requirement for the tenants to fund the remainder of the cost upfront, benefitting from this alongside a reduction in energy costs.

As a result of the solar panels being installed, the EPC rating has been improved to a 'B' rating, and has also enabled a reduction of communal electricity costs by over £6,500 per annum.

Next Steps:
This initiative has led to an increased rapport with the tenants, who are continuing to work with Fidelity to report issues and suggest improvement ideas. The Real Estate team is currently working to upgrade the external facades, internal and external communal seating areas, creating a roof terrace, installing EV charging points and introducing a new café in the atrium. The tenants have been very involved in these processes, including reviewing designs and providing relevant feedback. The relationship with the tenants has become more engaged as they recognised Fidelity's commitment to invest in the building which in turn makes the property a more attractive and energy efficient workplace for them and their staff.

Thematic Engagements

Deforestation

Nature loss presents substantial risks for society and our funds' portfolio holdings. We have been engaging with companies on palm oil use since 2019 mainly in South-East Asia. For example, in 2021, we engaged with five upstream growers in Indonesia and Malaysia, where palm oil production accounts for over 80% of global output, to understand their progress and approach towards achieving sustainable palm oil. Moving forward, we continue to push for companies to align with the seven principles of the Roundtable on Sustainable Palm Oil (RSPO) through better disclosures and best-in-class management practices.

In late 2021, Fidelity signed the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation unveiled at COP26, an initiative now named Financial Sector Deforestation Action (FSDA). As a signatory, Fidelity committed to use best efforts towards the goal of eliminating forest-risk agricultural commodity-driven deforestation activities in investment portfolios via engagement and stewardship by 2025. In 2022, therefore, we widened the scope of our existing palm oil thematic engagement to create a deforestation thematic engagement covering the key forest risk commodities identified by the pledge: palm oil, beef/leather, soy, and timber products.

Our deforestation thematic engagement prioritises companies with weak practices that are materially exposed to potential tropical deforestation risk. We also prioritise our engagements based on our holdings. To identify our target list of companies, we leverage third-party data, including Global Canopy's Forest 500 data, to determine those companies most exposed and able to influence tropical deforestation risk, complemented by bottom-up due diligence by our analysts. Below are examples of some of the companies we engaged with in 2022.

- We engaged with Brazil-based JBS, the world's largest meat processing company. The company is the focus of ESG related scrutiny, owing to its position in the beef market in Brazil and alleged deforestation related controversies. We had a constructive two-way dialogue, indicating areas where enhanced and more transparent disclosures, underpinned by clear commitments and quantitative targets, would be preferable, while the company was able to highlight some initiatives where it is making progress.
- In Europe we also engaged with a large forestry company (UPM). Reassuringly, the company are ahead of the curve in managing their deforestation risk across the supply chain and broader impacts on biodiversity. The firm has a long-established policy of zero deforestation with full supply chain traceability to ensure monitoring and oversight. The company engages across the supply chain and more broadly at the system level to encourage better standards, including its engagement program with small farmers to help facilitate certification. Following the engagement, we are confident that the company is managing its deforestation risk and can be used as an exemplary case study for peers, while ongoing monitoring is needed to ensure that they continue to adhere to best practice.
- In Europe, we also engaged with Mondi, a major packaging and paper company, included in our thematic engagement given the company's direct exposure to deforestation

risk. Mondi has well established practices to manage deforestation risk across its supply chain, including a zero-deforestation commitment, associated policies, and governance oversight. Its deforestation commitment is considered in the context of its environmental strategy to reduce its GHG footprint, evidencing the systematic approach Mondi is taking to sustainability. We recommended that as the company continues to refine its decarbonisation pathway and approach to preserving natural capital, a more explicit link to deforestation with quantitative analysis would be welcomed.

- We also widened the scope of our thematic engagement to cover financial institutions. These engagements highlighted the uphill battle banks have with respect to addressing deforestation risk in their portfolios. Limited traceability across supply chains, lack of transparency, inconsistency of client disclosures, and lack of supportive policy are key challenges that were highlighted. The banks acknowledged the need to address deforestation risk as part of their net zero commitments, and subsequently are working on updating their existing deforestation policies, with one of the banks in question expanding the scope of their policy to include downstream players, highlighting a positive direction of travel. Until these policies are finalised, implemented and reported on, a lot remains unanswered as to how banks will hold clients to account on deforestation risks in the face of limited traceability of supply chains and lack of transparency. In 2023, we will continue to engage with banks, highlighting the strategic importance of addressing these material risks.
- One of the greatest challenges in addressing deforestation risk is supply chain traceability. In Q3, we engaged with a luxury goods company (Prada) on deforestation risk and modern slavery in the supply chain. We identified areas where the company's disclosures, policy and targets could improve. Positively, they were clearly aware of the work that needs to be done, with the company in the process of making changes in line with many of the points we addressed. Importantly, as a part of their public commitment to the Fashion Pact, they flagged that they have already made a commitment to support zero deforestation and sustainable forest management by 2025 and will be looking to disclose their efforts more clearly in their own reporting.

In 2023, we will continue this thematic engagement, focusing on encouraging boards to act on this issue as a matter of urgency, and we will continue to report on progress. We have also recently amended our voting guidelines to support this engagement. The amendment will allow us to escalate concerns on deforestation risk to votes against members of the board at companies in high-risk sectors that do not adequately meet our deforestation-related expectations.

Plastics

Plastics have become ubiquitous due to their low cost and versatile nature. Plastic production has therefore increased exponentially in the last 65 years, with volumes growing from just 2.3 million tonnes in 1950 to almost 450 million tonnes in 2015, with production expected to double through to 2050[4]. However, plastic pollution has become a global problem and pollution is one of the key drivers of biodiversity loss (along with land use, natural resource use, climate change and invasive species). Plastic pollution contributes to the degradation of ecosystems, loss of wildlife and climate change, with much of the plastic ending up in oceans: plastics account for over 85% of total marine waste[5].

In 2021 and into 2022, Fidelity embarked on the first phase of our plastic packaging engagement, engaging with nine consumer goods companies. The objective of our engagement is to address the issue of plastic pollution, encouraging companies to embed the principles of the circular economy in their business models, ultimately decoupling growth from plastic use. In conjunction we supported the call for a global plastics treaty, signalling the need for a supportive policy environment to address the issue.

The engagement sets the following expectations of companies:

1. **Reduce:** Set quantifiable, time-bound targets for reducing virgin plastic and overall plastic use.
2. **Recycled content:** Set quantifiable, time-bound targets to increase the use of recycled content in plastic packaging that cannot be easily eliminated
3. **Reuse:** Set quantifiable, time-bound targets for making a proportion of plastic packaging reusable
4. **Recycle:** Implement a time-bound target to achieve 100% practically (not technically) recyclable or compostable material
   - All targets must be supported by well-articulated strategy to achieve the respective commitments
5. **Disclose:** Companies must provide transparent disclosures, clearly articulating progress vs targets and reporting on key initiatives towards achieving these targets

Our engagement highlighted examples of best practice, which we used to guide less-progressive companies to develop their approach. For example, Unilever has set a total plastic reduction target, in addition to its virgin plastic reduction target, focusing on the top of the waste mitigation hierarchy. Some companies are investing in R&D to innovate new products. For example, Colgate has designed what is billed as the first recyclable toothpaste tube and has shared this innovation with the industry. Nestle has also channelled significant investment into substitution and reformulation of products to reduce plastic usage.

Following our first round of engagement, in 2023 we are embarking on our second round of engagement. Many companies will struggle to meet their 2025 targets. Therefore, our engagement will highlight the need for progress towards targets, with a focus on addressing flexible packaging use, the need for innovation to reduce overall plastic use, and under-utilisation of the opportunity to scale reuse solutions. This will be complemented by our ongoing engagement as a member of the Business Coalition for a Global Plastics Treaty.

Thermal coal

Fidelity published our approach to net zero in our Climate Investing Policy in October 2021. An integral part of the strategy is the thermal coal

[4]Plastic pollution facts and information (nationalgeographic.com)
[5]United Nations Environment Programme (2021). From Pollution to Solution: A global assessment of marine litter and plastic pollution. Nairobi

phase-out commitment: a set of medium and long-term targets (2030 in OECD markets and 2040 globally) underpinned by timebound engagement, initially for a period not exceeding three years. In 2022, Fidelity devised and launched its thermal coal thematic engagement programme, setting the commitment into motion. The engagement targets cover over 90% of Fidelity's direct, material exposure* to the thermal coal value chain with highly focussed, time-bound engagement. Each target has also been subject to a detailed assessment that reflects its progress in meeting our phase-out commitment. These assessments have informed a broad categorisation system, which in turn has defined a common set of engagement objectives across the programme:

1. **Entities developing new capacity**
   We expect these entities to immediately cease the development of new projects.
2. **Entities expected to operate or support plants beyond 2030 in OECD markets and 2040 globally**
   We ask these entities to commit to shut down or substantially abate their existing assets by the timelines set out in our policy (guided by the IEA's Net Zero by 2050 Scenario), supported by enhanced disclosures.
3. **Entities with strategies aligned to our long-term goals**
   We focus on ensuring that phase-out strategies are just and inclusive, and limit any adverse impacts on wider stakeholders. We also prioritise biodiversity, ensuring plant or mine remediations are responsibly managed.

During 2022, we conducted our first round of corporate engagements focussed predominantly on EMEA, Oceania and the Americas, covering roughly half of the engagement targets globally. These engagements have been highly constructive, allowing us to hear first-hand some of the key challenges to coal phase-outs experienced by plant operators, mine owners and freight companies, that have helped us to identify potential solutions from those in more advanced stages of transition. The engagements have also afforded us the opportunity to introduce our approach and communicate our expectations to corporates.

2022 has been a significant year for many companies in our engagement universe and we are seeing promising signs of progress. Compelling examples of this are RWE's announcement in October to accelerate its coal phase-out from 2038 to 2030, Origin Energy's plan to accelerate the retirement of its last remaining coal plant to 2025, and Glencore's announcement to withdraw from a major greenfield coal project, Valeria. We also publicly supported BHP's decision to wind-down its Mount Arthur coal mine, abandoning plans to sell the asset to a third-party which may have jeopardised hopes for a timely, just and inclusive closure. In Asia, we have also seen promising signals from Indonesia with the announcement of a Just Energy Transition Partnership (JETP) during COP27 and an early retirement for the first coal plant under the Asia Development Bank's Energy Transition Mechanism (ETM). And in the US, we expect potentially significant revisions to Integrated Resource Plans (IRPs) at the likes of Ameren and other regulated utilities in response to the substantial tax credits offered by the Inflation Reduction Act.

*Companies identified by the Global Coal Exit List (GCEL) and other proprietary analyses as having greater than 5% of revenues, 5GW of power generation capacity or 10Mt annual mining output related to thermal coal activities.

Our continued global dependence on thermal coal for power generation despite warnings and increasingly viable alternatives reflects the highly complex systems of incentives and interests involved. We are therefore looking beyond engagement with our direct exposure at the extremes of the value chain (power generation and mining) to other enablers and interested parties who can unlock the opportunities needed to decarbonise: tackling the issue systemically. Throughout the year, we have contributed to various policy consultations from the likes of GFANZ to the Powering Past Coal Alliance (PPCA), and we are also a founding participant of the Just Transition Finance Challenge, which aims to mobilise more public and private capital into investments that support a just transition.

In 2023, our focus will be on continuing the roll-out of our corporate engagement programme in Asia Pacific and extending our policy engagement efforts, which will be informed by our learnings from discussions with our investee companies.

Cost of living

During the course of last year, we observed that many of our investee companies were being challenged by supply chain issues and high inflation as a result of the Russia-Ukraine war and continuing knock-on effects from the Covid-19 pandemic, and we recognised that high inflation was having a particularly acute impact on low paid workers. We think this poses a number of risks for companies, including potential loss of key workers, lower productivity, and reputational damage.

In Q4 2022, Fidelity wrote to 330 companies in major UK and Continental European indices to highlight the importance of responsible corporate responses to the challenges posed by the cost-of-living and energy crises. We subsequently held calls with companies to discuss how their support for lower paid staff in the current economic environment aligns with pay decisions affecting the C-suite. In these meetings, we discussed the various steps companies were taking to support lower paid staff, including: prioritising lower paid staff for pay rises in 2023; granting one-off cost of living payments in 2022; granting off-cycle pay rises or accelerating the timetable for pay reviews in 2022; and provision of non-financial support, for example vouchers or dedicated support helplines.

> We intend to reflect upon our engagement, and the views expressed in our letter to companies, during the 2023 AGM season.

Since we knew that companies were facing differing circumstances, we did not have rigid expectations as to the specific measures that individual companies should take; rather, we were seeking to gauge the board's level of engagement on the issue, the quality of its decision-making process, and the credibility of its explanations, and to communicate our desire for pay decisions to reflect the principles of fairness and equitable treatment. We heard many thoughtful explanations on how boards arrived at their decisions. Several boards told us about how they'd engaged with the workforce, for example through roundtables and targeted surveys, before deciding on the measures they would take. One bank we spoke to used their own economists before deciding on their approach, which contributed to their decision to grant a permanent off-cycle pay rise for lower paid staff during the year. In a minority of cases, boards appeared less engaged on the issue or were not willing to commit to prioritising lower paid staff in pay reviews this year.

We intend to reflect upon our engagement, and the views expressed in our letter to companies, during the 2023 AGM season. In particular, we intend to withhold support from pay proposals for executives which we believe are misaligned with the experience of the company's lower paid workers. We will report on outcomes in our future stewardship reporting.

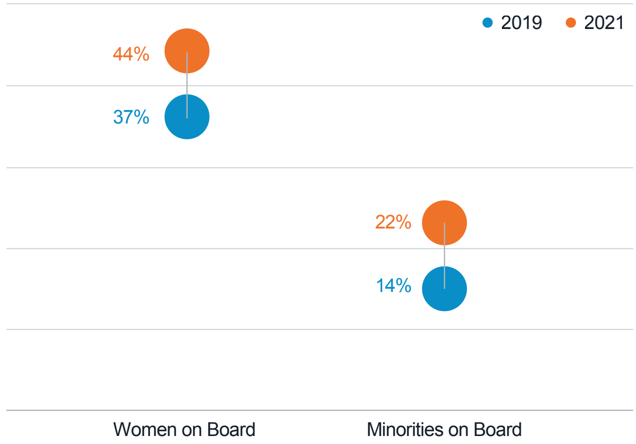
Diversity and Inclusion in Global Financials

In 2020, under the leadership of a portfolio manager managing a global equity income fund, Fidelity conducted a thematic engagement 'mini module' to learn more about and hopefully prompt improvement in diversity at several key financial companies. In 2022, we re-engaged with largely the same group of eight companies (banks, insurers and reinsurers) to understand how far they had come on their diversity journey over the past two years. While two years is not a long time when considering the challenging issues of improving Diversity & Inclusion within companies, significant progress has in fact been made. As a result of our engagement, we've been able to measure both the company's progress on their goals, as well as how their thinking in these areas has evolved. We have also continued to prompt improving practices in our discussions with investee companies.

We looked at two main categories to gauge progress: one was board representation for women and minorities, and the other was senior leadership representation for women and minorities. Both categories showed significant improvements.

Board representation: The diagram below shows the average percentage representation of women and minorities on the Boards of the eight companies at the end of 2019 and 2021. As we can see, the increases are quite meaningful across both segments - 6 percentage points in terms of female representation and 8 percentage points in terms of improvement of minorities. While Boards are typically small and therefore one or two changes can meaningfully affect the percentages, we maintain that this strong result reflects the tone of the leadership of our companies and the policies they began to put in place a few years ago.

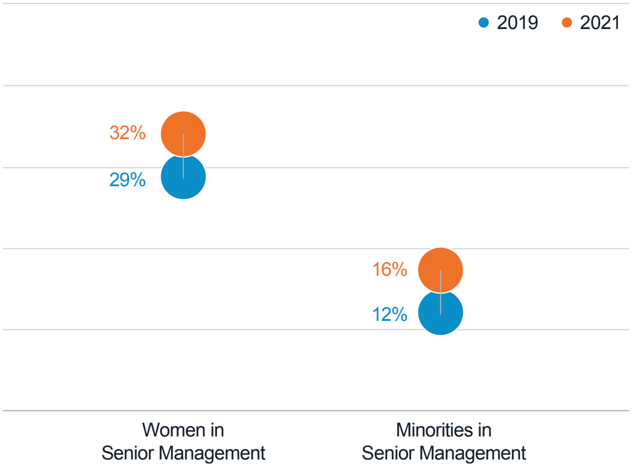
Chart 6: Average percentage representation of women and minorities on company boards



Source: Fidelity International, March 2023.

Senior leadership representation: The chart below shows the average percentage representation of women and minorities in senior leadership at these companies at the end of 2019 and 2021. While less than the increases at Board level, the increases are still quite meaningful across both segments - 3 percentage points in terms of female representation and 4 percentage points in terms of minorities. Senior leadership has different meanings for different companies and therefore is not as easy to standardise across companies as Board representation is. Nonetheless, the progress in two years is definitively positive.

Chart 7: Average percentage representation of women and minorities in senior leadership roles



Source: Fidelity International, March 2023.

And yet, one of the most striking observations in terms of the difference in our conversations today versus two years ago was not necessarily these quantitatively improving diversity metrics. For us, it was that the narrative on Diversity has genuinely expanded to incorporate Inclusion. Two years ago, the phrases 'DE&I' or 'D&I' existed, with the emphasis in the first instance clearly on Diversity, whereas today most companies' strategies include both Diversity and Inclusion with equal importance. We view this as an incredibly important shift, as Inclusion helps to bring out the best in people in their workplace, thus benefiting overall company performance and helping with employee retention (as evidenced by some of the data).

Across our engagements, we teased out broader themes of D&I based on our numerous conversations with these portfolio companies. The key themes are 1) the importance of culture, 2) the approach to goals and targets, 3) the key D&I policies across the companies, 4) the governance structure, and 5) the future - a data driven approach. The results showed that many of the policies adopted or formalised a few years ago are improving D&I at companies.

Throughout this process we shared our thoughts on best practices and found our companies to be receptive to ideas that have been effective in other organisations. In fact, some of our most interesting discussions arose from sharing how some companies were able to link policies with outcomes like employee retention and company satisfaction. As companies look forward, the key area of focus is to improve the collection and robustness of their data to better understand the current state of D&I within their organisations and inform future initiatives. As we look to the future, it is this type of data-led approach that we believe will help to drive further improvements.

Principle 10

Principle 10

Signatories, where necessary, participate in collaborative engagements to influence issuers.

Activity

Our approach to collaborative engagement:

We maintain close relationships with a wide spectrum of stakeholders to help us guide our investee companies. Where legally permitted we are willing to consider collective engagement initiatives. Relevant factors in determining whether to participate in a collective engagement include the identity of the other leading investors, the relative size of their investment and whether a collective approach will help to achieve a satisfactory outcome.

Topics that may be suited to a collective engagement include the need for management and/or board change, strategy, capital structure, M&A, shareholder rights, addressing climate risk, plus social issues, such as digital inclusion, diversity and modern slavery.

Once we have opened the discussion with other shareholders who share our views/concerns, we work with our peers to develop goals and objectives for our engagements, against which we can monitor progress. Potential next steps include collective engagements, joint letters to media outlets or company chairs, joint statements at company AGMs as well as the potential to submit shareholder proposals at AGMs.

As one of the world's largest investment managers, our team also works closely with policymakers, industry groups and non-governmental organisations to improve sustainable behaviours by businesses around the world. This may take the form of direct dialogue, responding to public consultation requests (see Principle 4), or other consultation forums.

We participate in the debate about the development of appropriate standards for responsible investment through our membership of various forums including the UK Investor Forum, the Investment Association, Asia Corporate Governance Forum, and the Principles for Responsible Investment ("PRI"), among others. We also participate and sponsor numerous investor gatherings and conferences across regions.

Case studies

Below is a summary of the collaborative engagements we have participated in during the year. The below, together with the engagement examples provided under Principles 9, 11, and 12, are a representative sample broken down by asset class, geography, and type (e.g. monitoring/information gathering, ESG thematic, and strategic). We have sought to provide examples with a representative balance of outcomes, in recognition of the fact that many engagements will not result in optimal outcomes despite our best efforts, and because engagements often take years to complete. We have anonymised case studies that we consider sensitive, e.g. when the engagement is ongoing.

Oil and gas production in China. (Credit: VCG / Contributor, Getty Images)

Climate Change: Climate Action 100+

As a member of Climate Action 100+, we are co-leads on four collaborative engagements, targeted at addressing decarbonisation amongst the world's largest GHG emitters, and are also supporting investors on six other engagements.

Chinese Oil and Gas Company
In November 2022, Fidelity acted as co-lead on the Climate Action 100+ (CA100+) engagement with a top Chinese Oil & Gas company. This is the second CA100+ engagement Fidelity has co-led with this company over the last three years.

Prior to engagement, the company had fared poorly in past CA100+ Net Zero Company Benchmark assessments, falling short of its domestic and international peers. After three years of ongoing communication and engagement, the company has advanced its climate agenda evidenced by an enhanced climate governance structure, linking green transition KPIs to executive remuneration, setting more detailed dual-carbon goals, and further substantiating its sustainability reporting. From our conversation, it was also very clear that the company plans to invest more into new energy and new business, and continue its research and development of carbon capture, utilisation, and storage (CCUS), and hydrogen technology to enable a greener transition.

Nevertheless, there we identified and shared key areas that needed improvement, such as the role that "crude oil-to-chemicals" and "oil to special products conversion" will play in lowering the company's overall GHG emissions in the long term, and how it plans to achieve the ideal output capacity breakdown by 2035. The company agreed to a follow up meeting in 2023.

Grupo Mexico SAB de CV
As part of our Climate Action 100+ engagement, Fidelity hosted two calls during the year with several representatives of the mining company, including the CFO, the CEO of the infrastructure division and the Chief Sustainability Officer. We welcomed the opportunity to engage with various parts of the business and the additional details provided by the company during our last discussion. The company will be disclosing its new emissions reduction targets in the next Sustainability Report due in the spring. They are also considering setting interim targets for all three divisions and including climate performance into executive remuneration.

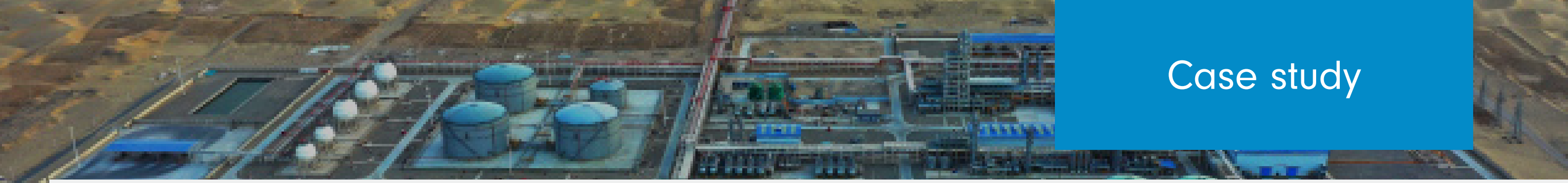
They have set up a sustainability committee at the mining division and are now considering doing the same at the main board level. The company's climate roadmap is expected to focus on four areas: electrification of mining vehicles (25% of their emissions), construction of renewable energy projects, fuel substitution in trains (25% emissions) and energy efficiency.

Their main renewable project (Fenicias wind farm, $250m investment) is not operating yet due to a dispute with the government on interconnection costs. Other technologies are at exploratory stage. We encouraged them to enhance their disclosure and provide more details on their progress and technologies explored by division. We will be monitoring their progress and the release of the GHG emissions reduction target.

Suzano SA
We began engaging with Suzano unilaterally in 2020 when the Brazilian manufacturer launched a transition bond with emissions targets, planting a seed for broader engagements on emissions and biodiversity with other paper companies. Since then, we have continued to engage with Suzano to press the company on their climate and nature strategy and undertaken a collaborative engagement with other investors under the Climate Action 100+ initiative.

Fidelity credit and sustainable investing analysts initially engaged with the company on the targets in its transition bond, which put it on track to reduce emissions by just 15% between 2015 and 2030 - a goal it had already achieved 40 per cent of by 2020.

Suzano explained that it was a low emitter but nonetheless we felt the company's ambition could be higher, and we encouraged it to adopt an externally validated 1.5°C goal.



Climate Change: Climate Action 100+ (cont.)

We continued our engagements with the company in early 2021, encompassing both GHG emissions reduction and biodiversity discussions, and in due course Suzano set a biodiversity target which had been missing from its original goals, in cooperation with neighbouring plantations, communities, and academics. In June 2021, the company unveiled its goal of linking 500,000 hectares of priority areas for biodiversity conservation by 2030.

We welcomed this nature-related target but sought to investigate its ambition and what kind of impact it could have. We raised our ESG rating on the company but continued to encourage it to be bolder on emissions, where we felt targets were still too conservative in relation to its operations and supply chains. In 2022, we engaged with the company again, this time in collaboration with Climate Action 100+.

In Q2 2022, we attended the company's annual ESG presentation and participated in a call with the sustainability team along with other Climate Action 100+ participants. Since the last group call, the company has committed to set an SBTi target over the coming year that will cover its value chain emissions. Suzano has worked with CDP to map its main suppliers to CDP scores with the objective of engaging with the lower rated companies. The GHG protocol accounting methodology for land use change and carbon removal is still being worked out though and will impact the company's target.

The company has also conducted some analysis on the impact of climate change on forests' productivity and is hoping to expand its scenario analysis. Monitoring implementation and success of the project will involve tracking flagship species (health and wealth of species) and diversity of species (flora and fauna). The investor group agreed to reconvene, once the GHG protocol guidance was released. We will continue to engage with Suzano on its climate and biodiversity targets, its progress against these, its climate resilience and its carbon credits strategy.

Sasol Ltd.
We are co-lead investors in the collaborative engagement with Sasol, South Africa's largest integrated energy and chemicals company, which commenced in 2020. Sasol is one of the highest emitters in Africa and hence its combined Scope 1, 2, and 3 emissions make it systematically important to the global transition to net zero. The company plays a central role in the South African economy, providing energy security as well as many jobs. Therefore, the company's decarbonisation plans must consider the broader socio-economic consequences to achieve a just transition. It published its first Climate Change Report in 2021, which included a net zero commitment and more ambitious medium-term Scope 1 and 2 emissions reduction targets. However, the decarbonisation roadmaps it set for its Energy and Chemicals businesses are not consistent with a 1.5-degree pathway.

In January, Climate Action 100+ investors sent a letter to the board outlining their expectations in terms of the execution of the company's transition plans and additional disclosures. This was followed by an engagement in H1 following the publication of the Climate Action 100+ Net Zero Company Benchmark company assessments in March. In the meeting, the group advocated for greater commitment and alignment of the company's strategy to a 1.5-degree pathway.

In August, Sasol published its second Climate Change Report, which included improvements across its medium and long-term targets, incorporating Scope 3 into its commitments. This aligns with Climate Action 100+ investors' expectation for the company.

In December, Sasol put its decarbonisation strategy up for a shareholder vote at the AGM, where it received majority support. Fidelity voted against the resolution to encourage greater ambition on short and medium-term target setting and capital allocation and to encourage further guarantees on ending new coal investment, and we communicated this back to the company (see voting case study in Principle 12).

We expect that the group will continue to engage with Sasol in 2023 on the execution of its climate strategy and short to medium-term target setting.

A nozzle from a hydrogen filling station. (Credit: Picture Alliance / Contributor, Getty Images)

Climate Change: IIGCC/Ceres Banking

We are a participant in the IIGCC and Ceres Banking Workstreams. The IIGCC collaborative engagement is targeted at Europe's largest banks, while the Ceres workstream sits in parallel, targeting engagement with North American Tier 1 Banks, as well as US Super-Regionals.

As referenced in last year's report, Fidelity International has been an active participant in the IIGCC Banking Workstream since 2021. In 2022, to complement this collaborative European-based engagement initiative, we joined the Ceres Banking Workstream, focused on engagement with North American banks, aligned to the work of IIGCC. Both engagement initiatives are targeted at aligning the banking sector with the goals of the Paris Agreement, guided by the TPI Net Zero Transition Framework, which has been developed in parallel, and to which Fidelity has contributed feedback.

Fidelity is acting as supporting shareholder on two of the engagements with European Banks.

The first bank we are engaging with has made good progress in the last 12 months, setting short-term 2025 targets to reduce financed emissions across three high-impact sectors: Power generation, Oil & Gas and Automotive, while also implementing a coal phase out commitment by 2030 in OECD countries and 2040 globally. We acknowledged the good progress that the bank has made, while also highlighting key areas where we expect incremental progress, including comprehensive scope 3 financed emissions disclosures, extending to include capital markets activity, advancing their oil & gas emissions reduction targets to include absolute reductions, in addition to the intensity-based target, as well as the need to set additional sectoral targets.

The second bank that we are engaging with has also made progress towards their Net Zero commitment, although there is still significant room for improvement. The bank has set sectoral emissions reduction targets for its coal and oil & gas portfolios. However, these targets fail to include capital markets activity, which accounts for most of the bank's oil & gas exposure. Therefore, we strongly advised that the bank increases the scope of targets to include capital markets, as some peers already have.

In addition, the bank has developed its 'Client Energy Transition Framework' (CETF), classifying clients according to their awareness of the transition and committing to stop financing clients who are classified as 'unaware'. However, the group provides no visibility on the criteria they use to assess transition awareness. Another issue that we flagged to the bank is that as part of their coal policy there is an exception for financing to companies that have a 'credible transition strategy'. However, the bank fails to define the criteria that they use to assess credibility. The team acknowledged that greater transparency is warranted here, and with respect to the CETF framework. We also encouraged the bank to disclose more information on its lobbying activities and industry associations in the context of aligning to the Paris agreement. While this is the first time the bank had come across this request from investors, they welcomed the suggestion.

The Ceres engagement initiative was launched in the autumn of 2022. Fidelity has signed up to lead on engagements with two of the US Super-Regional banks, both of which we consider to be climate laggards. Neither bank has implemented a net zero commitment or discloses information on their scope 3 financed emissions data. Our engagements will focus on both the risks and opportunities these banks may face in the climate transition, tailored to their unique business models. These engagements are due to commence in 1H of 2023.

Case study

Residents are seen farming next to wind farm in Indonesia. (Credit: SOPA Images / Contributor, Getty Images)

Climate Change: Asia Investor Group on Climate Change (AIGCC)

Fidelity acted as co-lead on an engagement with the national power utility of Indonesia in September 2022 to discuss alignment of business plans with achieving the goals of the Paris Agreement while strengthening climate related governance and disclosure.

This engagement is of strategic importance for Fidelity as we seek to deliver on our net zero commitment and pledge to phase-out thermal coal from our portfolios in a just and inclusive way via our thermal coal thematic engagement programme.

The company is committed to achieving net zero emissions by 2060 and deliver Indonesia's Nationally Determined Contributions (NDCs) by 2030, complemented by a detailed decarbonisation roadmap based on an "Accelerated" scenario which relies on connecting regions to renewable energy and the development of carbon capture and storage (CCS).

Going forward, investors will continue to engage in constructive dialogue, familiarising the company with coal phase-out policies of different asset managers, resources on sustainability bonds such as blue bonds, and support for TCFD reporting.

Case study

Researchers record sounds in the jungle. (Credit: Fidelity International, March 2023)

Biodiversity: Collaborative engagement with ACTIAM

Fidelity has partnered with ACTIAM, a Dutch asset manager, on two separate collaborative engagement initiatives addressing biodiversity impacts. The first engagement addresses deforestation across the supply chain, based on satellite data.

Details/Outcomes of Engagement

To complement our thematic engagement on deforestation, we have joined two collaborative projects. Unlike climate change and GHG emissions, biodiversity loss is hard to measure with a single metric. However, there are innovative solutions to measurement and monitoring of actual biodiversity loss emerging to address this challenge.

In 2020, Fidelity joined a collaborative engagement led by ACTIAM, in partnership with Satelligence, a company that uses satellite imagery and artificial intelligence to identify cases of deforestation across palm oil supply chains. The engagement programme enables financial institutions to challenge and work with companies using real-world data to enhance traceability and disclosure and reduce deforestation in the supply chain, facilitating evidence-based engagement.

Following a successful first phase of engagement, where Fidelity acted as co-lead, the engagement has now moved into its second phase.

The engagement comprises two target groups of companies:

Group A: Companies which do not disclose their supplier lists for soft commodities. Given the lack of transparency, it is not possible to source satellite data for these companies to assess deforestation impacts. Often, the base level of understanding of deforestation impacts and risks is limited. Hence for this group of companies, engagement is initially focused on education and encouraging companies to increase transparency.

In 2022 we engaged with a major Chinese fast food restaurant operator. The company has committed to work towards zero deforestation across their supply chain, leading peers in China with a policy to source 100% RSPO certified palm oil. However, supply chain complexity and lack of traceability makes credible implementation a challenge, with the company sourcing from over 800 suppliers. To help the company understand how it can address deforestation, we shared some global best practices which include setting timebound quantifiable targets, purchasing raw materials certified with more stringent requirements, adopting geospatial tracing tools, and increased monitoring of second and third tier suppliers, as well as providing technical or financial support to suppliers to address deforestation risks. The company welcomed our feedback, and we hope to continue our constructive dialogue with the company in 2023.

Group B: Companies that do disclose their supplier lists for soft commodities. Satellite imagery is used to capture incidents and rates of deforestation, using data from Satelligence. This data informs our conversations with the companies, addressing these impacts and encouraging companies to implement policies and controls to eliminate deforestation impacts from their operations.

We engaged with a large European producer of plant-based oils regarding their management of deforestation risks in their ingredients sourcing. The company shows good practice with respect to addressing deforestation risk, including a strong focus on achieving full traceability across the supply chain. We welcome the company's commitment to achieve 100% verified deforestation and conversation free palm and soy supply chains by 2025, a target they are making strong progress towards.

The company has already established partnerships with Satelligence and another geospatial data provider, Earthqualiser, with a dedicated resource in Singapore to manage deforestation alerts and the associated grievance process. The company is currently working on an online, publicly available grievance tracker which is a positive development. To enhance their practices, we encouraged

Biodiversity: Collaborative engagement with ACTIAM (cont.)

the company to clearly disclose in their annual reporting the number of incidents of deforestation identified per annum in their supply chain, with supporting case studies evidencing the grievance and remediation process, as evidence of that their traceability systems are robust, and incidents are fairly resolved.

In 2023 we hope to engage with two more Chinese companies, both of whom fall into Group A.

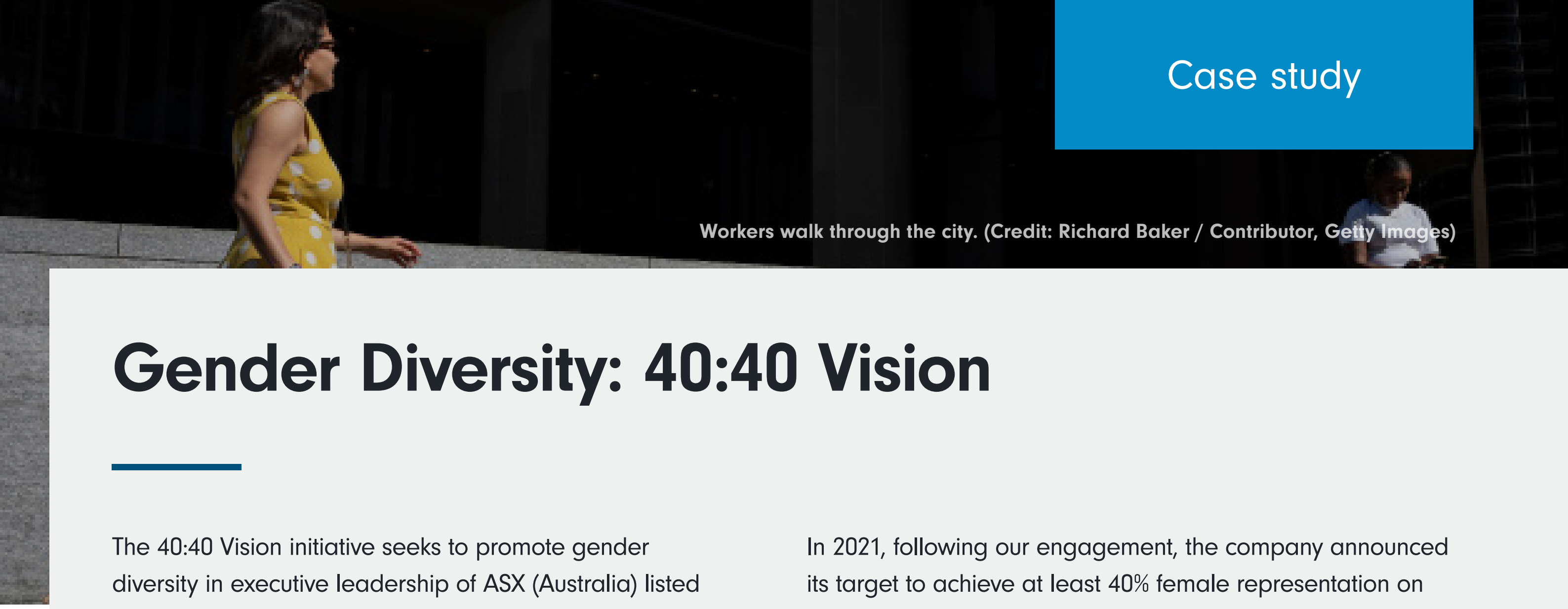
Bioacoustics project

In collaboration with ACTIAM, Goldman Sachs Asset Management Investment Partners and Nomura Asset Management, Fidelity has co-sponsored a pilot project with Green PRAXIS, a nature-based solutions provider, exploring the use case for bioacoustics technology to measure and monitor biodiversity.

Bioacoustics monitoring is a low-cost, non-invasive technology, which combines sound recording with artificial intelligence to gain insight into the state of biodiversity. Other more commonly used methods to measure biodiversity include counting the number of species (richness) and the number of individuals of each species (abundance) which requires time and expertise and may be intrusive to the local ecosystem. In contrast, the low-cost, non-invasive nature of bioacoustics means that it has the potential to provide a fast and scalable alternative.

Its use could provide a baseline against which to measure biodiversity over time and across different land uses, informing more sustainable land use. The aim of the project is to develop a fast, affordable and reliable way for users, including companies that we may invest in, to measure and monitor biodiversity. These insights can help companies better understand their impacts on biodiversity and how to adopt more sustainable practices.

In autumn of 2022, the team at GREEN Praxis gathered the raw data from palm oil plantations in Indonesia, taking sound recordings across conservation and production plots. The analysis of the data is still in its early phases, with no conclusive results to show yet. However, initial analysis shows clear differences between the conservation and production plots of land. Full results from the first pilot study are due to be published in late spring of 2023 with the hope of conducting a second pilot to demonstrate the scalability potential of this technology as a way to understand and monitor biodiversity intactness.



Case study

Workers walk through the city. (Credit: Richard Baker / Contributor, Getty Images)

Gender Diversity: 40:40 Vision

The 40:40 Vision initiative seeks to promote gender diversity in executive leadership of ASX (Australia) listed companies by actively encouraging companies to set medium and long-term targets for gender balance. At Fidelity, we have set minimum standards for board diversity and will vote against director election where these are not met. Engaging with companies through the 40:40 Vision initiative provides another tool for pursuing these objectives.

Since 2020, we have engaged with a range of companies as part of the initiative including Domino's Pizza Enterprises Limited, a franchise license owner of Domino's Pizza operating in Australia, New Zealand, France, Belgium, The Netherlands and the Principality of Monaco. When we spoke to the company initially, the leadership team was all male, although the company did have one female joining in February 2021. It later informed us that it had committed to setting the 40:40:20 targets required by the initiative and to getting to 50:50 representation.

In 2021, following our engagement, the company announced its target to achieve at least 40% female representation on the board of directors (up from 30%), for global leadership and for country/regional leadership, publicly pledging its support for the 40:40 vision. The company has shown strong progress in committing to improve gender diversity at all levels of the firm. During 2022 we continued to monitor its progress towards the 40:40 vision target and diversity at the company wide level and led engagements on this topic with other companies. Our engagement with Endeavour Group for example led to the company signing up to 40:40 Vision and fully cementing its commitment to gender balance. As of December 2022, there are now 34 companies that are signatories to 40:40 Vision.

Case study

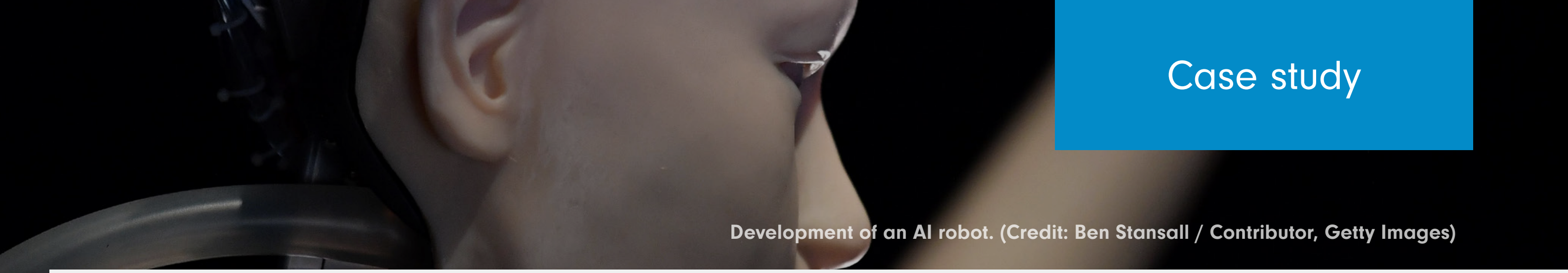
A labourer carries bricks at a construction site. (Credit: Narinder Nanu / Contributo, Getty Images)

Modern Slavery: Find it, Fix it, Prevent it

Since 2020, Fidelity International has been participating in a collaborative engagement initiative called 'Find it, Fix it, Prevent it' led by UK asset manager CCLA, initially focusing on the UK hospitality sector. This year, the initiative is expanding to the construction materials sector and Fidelity will be leading on two company engagements.

In 2022, Fidelity's investment team had a call with several non-executive directors to discuss one company's progress in this area. Among other topics, we discussed the company's approach to monitoring its thousands of suppliers. In 2022, the company launched a "Sustainable Procurement Project" where the procurement team aims to assess its largest suppliers on sustainability. It has approached its 450 largest suppliers and asked them to complete an Ecovadis assessment. As of end of August 2022, 200 suppliers were rated, and no issue had been uncovered. About 100 suppliers declined to respond, mainly due to a lack of capacity or data.

The company has not decided yet on the next steps for suppliers who declined to respond but noted that it will put them at a disadvantage in the next tender process. We made suggestions to the company to improve their disclosure and provide details on the characteristics of their supply chain and the results of their risk assessment on modern slavery. We will also monitor their progress on suppliers' assessments and how it impacts their purchasing decisions.



Development of an AI robot. (Credit: Ben Stansall / Contributor, Getty Images)

Case study

Digital Ethics: WBA Collective Impact Coalition (CIC) for Digital Inclusion (Ethical AI)

Fidelity is working to lead the investor group of the cross-stakeholder Collective Impact Coalition (CIC) focusing on ethical AI, which formally launched in September 2022. This collaborative investor engagement is informed by the World Benchmarking Alliance (WBA)'s Digital Inclusion Benchmark (DIB), which rates 150 digital economy companies on a range of digital ethics and inclusion factors, including ethical AI. The DIB found that 130 companies currently do not make public commitments to ethical AI; therefore we have brought together approximately 30 institutional investors to engage with TMT and digital economy companies on issues of ethical AI.

Our objectives are to:

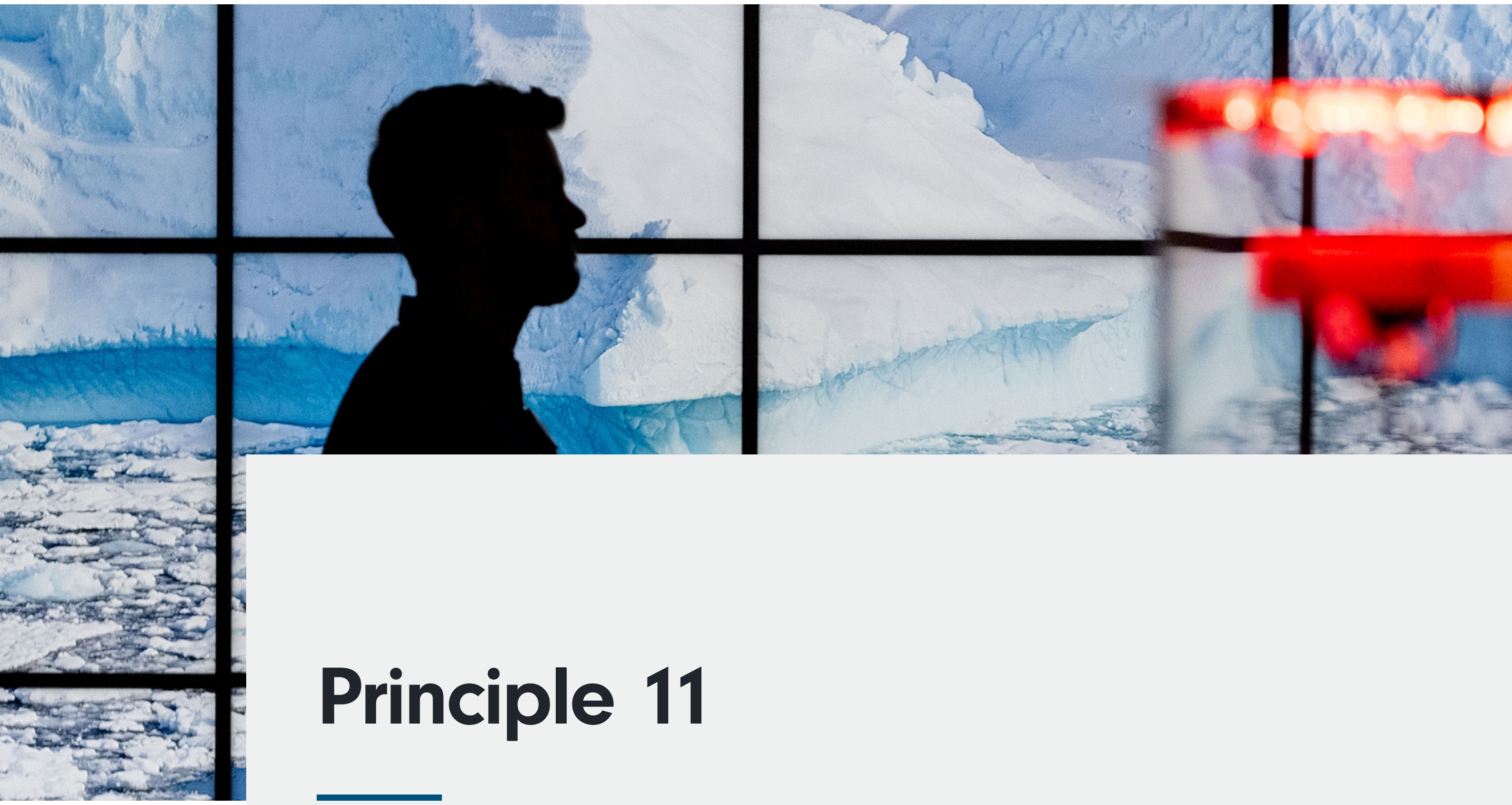
- Raise awareness of the importance of responsible and ethical Artificial Intelligence: AI should be developed and deployed with well-developed and well-communicated ethical principles
- Increase understanding of the state of play and leading best practices on ethical AI
- Increase the number of companies making public commitments to ethical AI principles by the world's most influential tech and digital economy companies

The four foundational questions we are using to structure our dialogues with companies are:

- How does the company consider, define, develop and deploy Artificial Intelligence in its business operations and strategy
- How and whether ethical considerations are integrated and operationalised in the development and deployment of AI
- Who is responsible for and how are ethical considerations of AI monitored and governed in the company
- Whether the company would consider making a public commitment to ethical AI (or is perhaps already in the process of doing so).

Within this framework, Fidelity began engaging with individual companies in 2022, including a Chinese internet platform, a global social media company and a US networking and cybersecurity solutions provider. We are finding a wide range of company activities in the area of ethical AI, as well as a wide dispersion of willingness to discuss the topic with investors: with some companies far along on both fronts, and others apparently very lagging and/or secretive. However, most companies are somewhere in between, and seem overall genuinely interested to share their work in this area, learn our perspectives and feedback, and consider implementing and disclosing public commitments to principles of ethical AI.

In 2023, we are continuing our dialogues with companies on ethical AI: engaging newly with some companies and in many cases carrying on follow-up discussions on how companies are tackling this issue as we seek continuous improvement in this area.



Principle 11

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity

As a general policy, we aim to work with the management of the companies in which we invest. However, our dialogue with companies is robust and we will form our own views on the strategy and governance of a business. On occasion, our views may differ from those of management or the board, and this may give rise to an escalation in our engagement. Factors taken into account prior to an escalation include an assessment of the materiality of the matter in dispute, the size of our holding, the timeframe of the investment thesis and the ownership profile of the business in question.

When escalation is deemed appropriate, our first step is often to contact other significant investors to determine whether they share our views or concerns.

Escalation can also occur when we become aware of differences between directors. Our specific response will always be determined on a case-by-case basis and there will be instances when we choose to sell our funds' holdings in the company.

When escalation is deemed appropriate, our first step is often to contact other significant investors to determine whether they share our views or concerns. Following these conversations, we may speak to the company's advisers and/or independent directors for a further exchange of views. Our strong preference is to achieve our objectives in a consensual and confidential manner. However, when differences with a company remain, we may consider other means of escalation. When we have exhausted all other avenues, we may raise concerns to regulators or raise our concerns publicly, for example, via the media.

In principle, the geographical location of an investee company and/or its listing market makes no difference as to our preferred escalation approach, though local rules may constrain us from taking certain actions. For example, in the US market we would generally not engage in any activity which would have us classified as an activist investor by the Securities and Exchange Commission. In other markets, we may refrain from participating in collective engagements due to concert party rules. Our investment and sustainable investing teams may consult with Fidelity's legal counsel before escalating an engagement in order to determine the most appropriate course of action.

The ownership rights conferred by equity – in particular voting rights – tend to provide us with better corporate access and more options for how we may escalate engagements. These options include voting against directors at the AGM or against other items, requisitioning an EGM, or filing shareholder resolutions.

By contrast, for issuers where we only have exposure through fixed income holdings, escalation following engagement with the company most commonly involves formally addressing the board or management in writing to raise our concerns. If our concerns are not subsequently addressed, possible avenues of escalation involve voting against a bondholder resolution and raising concerns with other stakeholders.

For real estate, we would apply our ownership rights, for example, by legal means.

Outcome

Below are examples of escalations we have conducted during the year. The below examples, together with the engagement examples provided under Principles 9, 10 and 12, provide a representative cross-section of the engagements we have conducted during the year broken down by asset class, geography, and type (e.g. monitoring/information gathering, ESG thematic, and strategic). We have sought to provide examples with a representative balance of outcomes, recognising that many engagements will not result in optimal outcomes despite our best efforts, and because engagements often take years to complete.

An employee walks through the clean water pump hall. (Credit: Picture Alliance / Contributor, Getty Images)

Interpump Group SpA

Country of Incorporation: Italy
Mode of Engagement: Conference calls
Sector: Industrial Machinery

Engagement issue: ESG integration
Objective for Engagement: Improved practice
Asset class: Equity

Background

Interpump operates in different industrial niche segments. The core of its strategy involves replacing steel pistons used in water pumps with ceramic ones, which should result in far quieter and more efficient pumps.

Although efficiency is ingrained at the company, the rise of sustainable investing has brought with it some new and unfamiliar questions. When we first engaged with Interpump in 2020, we found that it lacked a clear group view or strategy on how to reduce overall energy consumption, cut greenhouse gas emissions, manage the non-hazardous waste and water from its operations, or target products relating to the energy transition. As a result, we rated the company poorly on its management of environmental risks and opportunities.

Details of the engagement

Progress was initially slow. For many months we raised ESG in our meetings with Interpump, finding the company sympathetic to our concerns but unprepared to commit to setting long-term targets. In April 2021, we decided to write a formal letter, seeking a discussion around setting emissions reduction targets and implementing initiatives to reach them. We also made clear that, were Fidelity unable to see any progress, we may be forced to exit our position in the company.

The company did not respond to our letter. At this point, we decided to speak directly with a third party ratings agency about the company's poor score (the company's poor score under external ESG ratings had initially triggered our interest in engaging with the company on this subject).

It was by now clear the company was not open to setting environmental targets as they believed that doing so would be disingenuous since they would ultimately prove too ambitious and not be met. This attitude was exacerbated by Interpump's complex corporate structure. Over its 45-year history, the company has acquired a long list of subsidiary companies. All these companies fit into the Interpump Group while preserving their own brands and organisational structures. It often felt like this complexity acted as a buffer against discussion. A common argument we encountered was that the task of setting targets was not worth the effort and spend required to acquire the relevant data from the company's subsidiaries.

By late 2021, we recognised that the engagement had stalled, so we decided to partner with Assogestioni, the Association of Italian asset managers, and other co-investors in a collaborative engagement. In early 2022, Fidelity hosted a call alongside Assogestioni with Interpump's board - including its founder and CEO, who very rarely interacts with shareholders - and other asset managers, in which we each voiced our concerns around Interpump's lack of an environmental policy. We found the conversation to be very open, and the company management much more sympathetic to our stance than it had been.

In April 2022, Interpump announced its intention to launch a new management incentive plan which contained performance hurdles linked to reducing environmental impact. We feel that this represents a significant step in the right direction. It also began to look at separating the roles of chairman and CEO later in 2022.

Next Steps

While the company deserves credit for these steps, the engagement continues as Interpump has yet to disclose any quantitative targets in relation to its environmental impact goals. In 2023, we will continue encouraging the company to provide more ambitious carbon targets specifically.

Case study

A woman working at a textile factory. (Credit: - / Contributor, Getty Images)

Chinese Apparel Company

Country of Incorporation: China
Mode of Engagement: Meeting and letter

Engagement issue: Supply chain risk
Objective for Engagement: Improved Practice
Asset class: Equity

Background

In 2022, we engaged with a leading apparel company in China as part of an ongoing engagement to discuss corporate governance and delve deeper into its supply chain labour management practices. Specifically, we sought to understand on-the-ground auditing practices and policies in place to ensure adequate oversight.

Details of the engagement

Following the engagement, we sent a formal letter to the chair with the suggestion to increase resource for supply chain management and increase frequency and coverage of onsite audit checks, enhance reporting on status and progress, as well as lay out a mid to long term roadmap with measurable KPIs.

Within the letter, we also listed out key disclosures that we consider material. The letter was written in the local language to ensure smooth internal communication at the company. Within two weeks the company responded confirming the letter has been well received by the chair and senior management, and internal discussions were ongoing to increase the budget related to supplier social responsibility audit in 2023.

The company also confirmed that the upcoming ESG report will include the specific material disclosure we had suggested, and that it is in the process of formulating its 2023-2025 ESG strategy with corresponding KPIs, which will be shared with broader stakeholders in time. We will continue to monitor progress in this area once the report is published.

Case study

An assembly worker at an electronics plant. (Credit: Toru Yamanaka / Staff, Getty Images)

Japanese software company

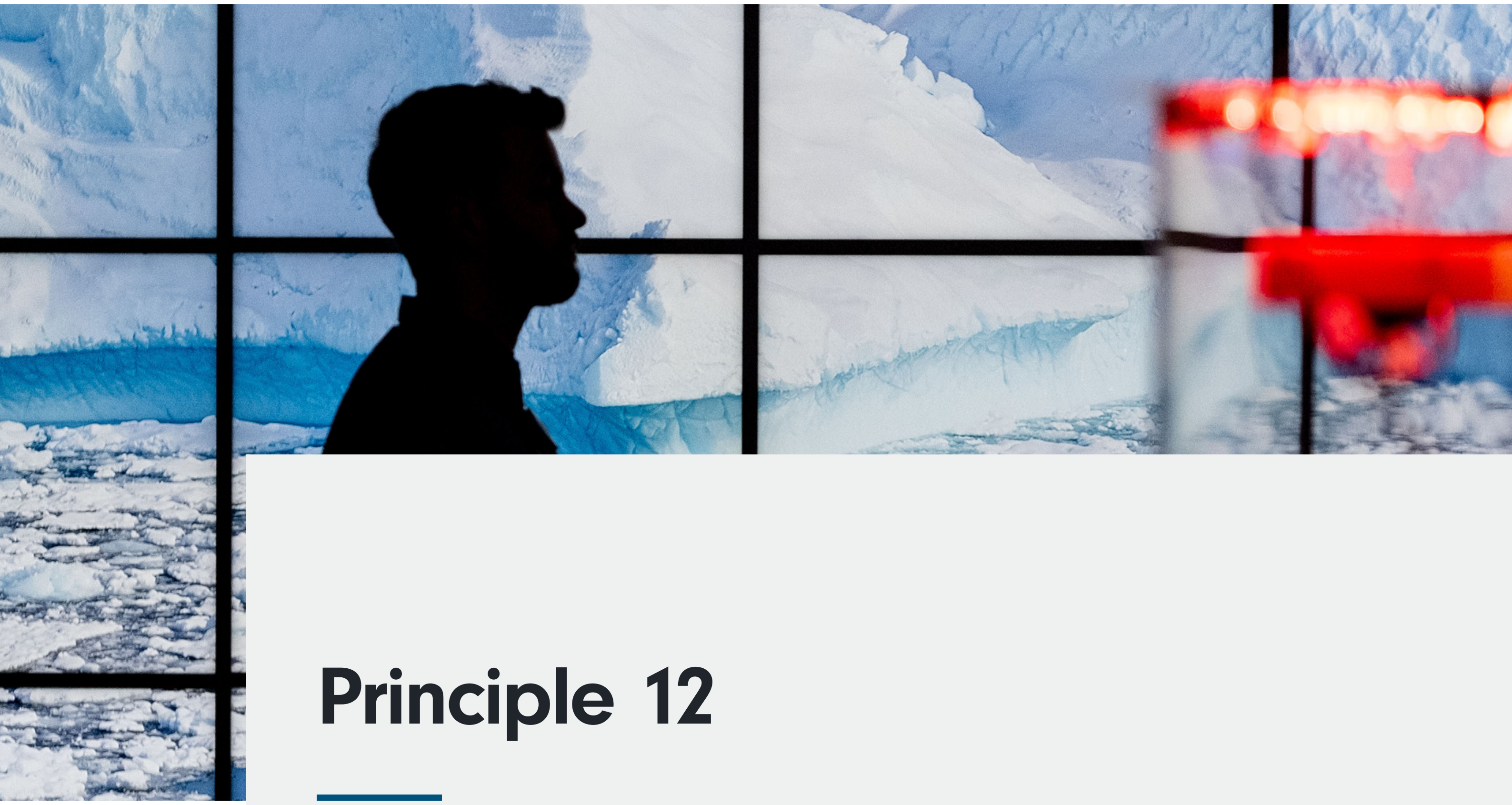
Country of Incorporation: Japan
Mode of Engagement: Virtual meeting
Engagement issue: Governance - compensation

Objective for Engagement: Improved governance
Asset class: Equity

Background
Contrary to its previous explanations to investors, management had increased upfront investment, which had resulted in a significant downward revision of the company's medium-term plan. On the other hand, management's own performance-linked share-based compensation was not affected by the downward revision, as it was linked to performance in a single year.

Details of the engagement
In the dialogue with management, we pointed out this inconsistency with general shareholder interests and told them that the share-based compensation should be linked to the new medium-term plan.

The company showed an understanding of our proposals at the meeting but informed us that it would not review the compensation structure before the General Meeting of Shareholders. Therefore, we escalated our concern to a vote against all five members of the Compensation Committee, which is responsible for the executive compensation scheme. Concerns about the loss of trust in the management team and dysfunctional governance to oversee the management team also led to the sale of our position.



Principle 12

Principle 12

Signatories actively exercise their rights and responsibilities.

Activity

How we exercise our rights and responsibilities

Equity

Fidelity has a dedicated Sustainable Investing (SI) team, which works closely with the investment teams and is responsible for consolidating our approach to stewardship, engagement, ESG integration and exercising our votes at general meetings. The SI team is supported by a dedicated stand-alone proxy voting team which is principally responsible for operational aspects of the voting process. We use a range of materials to inform the voting process, including that provided by the company, proxy voting advisory services and internal and external research. We may also hold discussions with the investee companies themselves.

Where Fidelity has voting authority, we cast all votes in accordance with our established proxy voting guidelines. For the majority of our funds, including Fidelity Canada funds where Fidelity is the investment manager and segregated mandates where the client has given us authority over voting decisions, the SI team carries out voting activities.

Our SI team includes proxy voting and corporate governance experts, as well as subject matter experts on particular sectors' sustainability issues, who support on sustainability linked voting items. For a minority of Fidelity-managed funds, voting is carried out in the local market where this is a regulatory requirement. In cases where Fidelity sub-delegates investment management responsibility for certain assets to third parties, voting activity is conducted by the investment manager to whom investment authority has been delegated, in accordance with that manager's voting policies.

For voting activity conducted by Fidelity, the relevant portfolio managers and analysts will generally be consulted before the vote is cast on certain matters. This includes voting resolutions related to M&A and capital raisings, debt issuances, material changes to the articles and votes against management where our shareholding is material.

When voting, we take account of the circumstances of the investee company and of prevailing local market best practice. Fidelity's policy and approach to exercising voting rights are in accordance with all applicable laws and regulations and are consistent with the investment objectives of our portfolios.

To achieve the best possible outcomes for our clients, we generally seek to apply our voting rights uniformly and do not split our vote. We do this so long as it does not conflict with the objectives or interests of any individual fund.

In cases where individual portfolio managers have opposing views on a particular resolution, or where views differ between the portfolio managers and the SI team, we have an escalation process where final decision-making authority resides with Fidelity's Sustainable Investing Oversight Committee (SIOC). Votes that are particularly significant for the organisation as a whole, e.g. for reputational reasons, may also be escalated to the SIOC for review and approval.

Where Fidelity has voting authority, we will generally vote on all equity securities if there is a regulatory obligation for us to do so, or when the expected benefits of voting outweigh the expected costs. In cases where our shares will be immobilised from trading if we vote (otherwise known as "share blocking") or where there are onerous requirements for voting, we may consider not voting part or all of the holdings of our managed funds. We will not vote at the shareholder meetings of Fidelity funds unless specifically instructed to by a client or where it is required to protect our clients' interests. Also, in 2022 we decided to cease voting Russian equities following Russia's invasion of Ukraine and Fidelity's subsequent decision to wind down Russian portfolio holdings.

Fixed income

Fidelity has identified different opportunities to carry out stewardship activities within the fixed income market. Unlike equity investors, bondholders do not vote regularly on governance issues. However, fixed income portfolio managers and analysts can exercise good stewardship through pre-investment due diligence activities, including by assessing an issuer's cashflow, leverage and business strategy to determine whether it generates the cashflow to meet coupon payments and repay invested capital upon maturity. Bondholders can also integrate ESG factors into their credit assessment.

Engaging with companies before debt issuance can also allow us to voice any concerns about proposed covenants or the structure of the issuance. Following an initial investment, fixed income portfolio managers and analysts will engage further with issuers through the debt reissuance process, which is when the company seeks to refinance or roll over its bonds. This is particularly likely to happen in cases where Fidelity is a significant investor.

When Fidelity votes, the relevant portfolio managers will consult the analysts and confirm the vote before it is submitted. This includes voting resolutions that relate to approving amendments to debt covenants and/or terms of issuance, approving the repurchase of the debt security or certain debt restructuring plans. When voting, we take account of the circumstances of the investee company and of prevailing local market best practice. Fidelity's policy and approach to exercising voting rights are in accordance with all applicable laws and regulations. Voting is also consistent with the respective investment objectives of the various portfolios.

Multi asset

Our multi asset franchise invests in underlying Fidelity equity or fixed income building blocks, which incorporate Fidelity's own approach to integrating stewardship. For investments in third party funds, we exercise ownership rights through operational due diligence at the selection phase (see Principle 7).

Our proxy voting policy

Our Sustainable Investing Voting Principles and Guidelines establish the principles that guide voting decisions for our managed funds' equity holdings. The guidelines are underpinned by the objectives of upholding good corporate governance standards across our equity holdings, preserving shareholder rights and supporting companies that are sustainable, innovative, responsible and accountable to their shareholders.

The guidelines are global, but we consider local norms when applying them. This means that certain issues are emphasised depending on the market or region. For instance, we have traditionally placed a strong emphasis on director independence in Japan because of our concern around local practices. Also, in Europe (including the UK and Ireland) we have a policy to encourage companies to adopt equity remuneration plans with a retention period of at least five years. We adopted this policy because we identified management short-termism as a key investment risk and sought to encourage better practice across the market through our voting. In North America, we identified the low proportion of performance-based equity as a key risk and therefore adopted a different red line policy aimed at encouraging performance-based equity incentives. Also, our voting is often guided by local best practice. For example, in the UK our voting policy on capital resolutions is based on the Pre-Emption Group recommendations.

In July 2021, we implemented a major overhaul of our proxy voting guidelines, including new policies on climate change oversight and practices, board gender diversity, auditor fees and tenure, as well as refreshment of policies on board composition and ESG-focused shareholder proposals. We reviewed our voting guidelines in 2022 and published updates in March 2023. These updates include a new voting policy aligned to our commitment work to eliminate deforestation from our portfolio holdings, as well as minor housekeeping amendments.

Our use of proxy advisors

Fidelity's voting instructions are generally processed electronically via our proxy voting agent, Institutional Shareholder Services (ISS). Our proxy voting agent provides general meeting notifications, processes our voting instructions and records this activity for subsequent reporting purposes. We also subscribe to voting research from the proxy advisor Glass Lewis. We have a set of customised policies with ISS, but all eventual voting decisions are made in accordance with Fidelity's policies and voting guidelines.

The extent to which clients may override a house voting policy

We vote in accordance with our stewardship policies and proxy voting guidelines. Segregated client accounts, such as large pension fund clients, may decide not to delegate voting authority to Fidelity. Our general approach does not permit clients to override our approach or result in underlying votes being cast in different directions. By typically exercising our vote at the house level, we send a clear message on specific issues to investee companies and align our voting activity with our stewardship and engagement dialogues.

In 2022 we assessed the feasibility of offering alternative voting arrangements to clients (see below section).

Our policy on allowing clients to direct voting in segregated mandates and pooled accounts

We are committed to providing avenues for our clients who wish to implement their own custom voting policies through the form of a segregated mandate.

We do not currently offer clients the option to direct voting in pooled accounts. During 2022, we assessed the feasibility of offering this as a service. Our assessment concluded that there remained substantial impediments to offering directed voting in Fidelity pooled funds at this time, and that we were not yet experiencing strong client demand for this as a service. However, we recognise that some other asset managers have begun to offer directed voting in pooled accounts and that certain third parties have recently launched solutions aimed at supporting this, so we remain engaged on this topic.

We are in principle open to receiving expression of wish requests as a means of fostering constructive client engagement on voting, subject to possible constraints on implementation depending on how granular the requests are. Relatedly, we trialled a solution by Tumelo in 2022 which allows end-client beneficiaries to express voting preferences for selected voting resolutions, and we will decide in 2023 how this will be integrated into our voting process.

We believe that innovations like 'expression of wish' and communication tools such as Tumelo's offering have the potential to improve dialogue between asset managers and asset owners and better reflect end-client views in voting. We do however remain concerned that separating voting from asset managers' other stewardship activities, including active securities selection, presents inherent risks of poor outcomes. As an active, fundamental investment manager, our clients expect us to understand the companies we invest in on their behalf and to exercise ownership rights in a manner that supports delivering sustainable risk adjusted returns over the long term. Voting is an integral aspect of this. Therefore, we remain committed to voting in accordance with our fiduciary duty to clients whilst continually reviewing and improving our approach to ensure that our client's beliefs and values are appropriately reflected.

Our approach to stock lending

Fidelity operates a stock lending programme through third parties. We will recall stock when it is in clients' interests and aim to do so when we can vote at a company's shareholder meeting. We do not borrow stock for the purpose of gaining additional votes. As of Q4 2022, the aim of our process is to generally recall stock so that Fidelity can vote shares on a timely basis; prior to this, we recalled shares on a case-by-case basis when this was deemed to be in clients' interest.

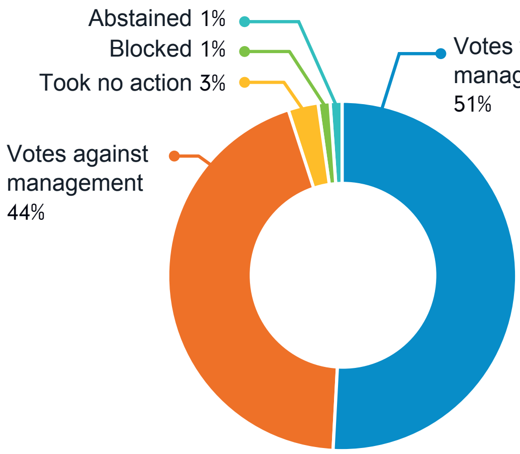
Activities

The proportion of shares voted in the past year and reasons for voting

Fidelity analysed 4,090 shareholder meetings in 2022. Of these, we voted at 95.7%. We did not vote at 4.3%; this generally related to meetings where share blocking was applied to our fund holdings, or to voting events for Fidelity funds, at which we do not vote as per our conflict of interest policy. We also ceased voting Russian securities in 2022 after the Russian invasion of Ukraine, in line with our policy to wind down Russian holdings.

We voted against management on at least one resolution at 44% of the meetings we covered, and we abstained on at least one item at 1%. We generally abstain when there is not enough information to make an informed voting decision, or on occasion to send a cautionary message to the company.

Chart 8: Summary of votes cast (meeting-level)

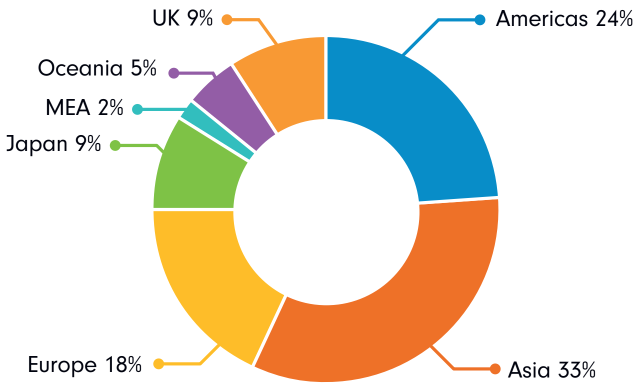


Source: Fidelity International, December 2022.

Our voting reflects the global nature of our fund products. 42% of meetings covered by Fidelity were for Asian (including Japanese) companies in 2022. This next two most prominent voting regions were Europe incl. UK (27%) and the Americas (24%).

2022 was the first full year we applied our new voting guidelines, and the evolution of our approach encompassing E&S themes is reflected in our voting record. In 2022, we voted against or abstained on director elections at over 400

Chart 9: Summary of meetings by region



Source: Fidelity International, December 2022.

companies globally to reflect concerns on board diversity (c. 10% of all meetings Fidelity voted). Diversity concern was the second most common reason we voted against the board's recommendation on director elections last year behind director independence. We also voted against or abstained on directors at 58 companies last year which failed to meet our minimum expectations on climate change governance, disclosures, and strategy, and we voted against the board's recommendation on 60% of climate shareholder proposals. We also voted against the board's recommendation on c. 33% of management proposals related to climate action (otherwise known as 'say on climate'), reflecting the high standard we set for companies seeking shareholder endorsement of their climate strategy. Overall, we cast a vote against the board's recommendation (incl. abstentions) on at least one resolution for climate reasons at 14% of AGMs that we voted for high impact companies in 2022.[6]

Our voting records and disclosure of voting rationale

Our voting records are disclosed publicly on our UK institutional website. Our voting records include published rationales for all votes against the board, including withheld votes, and for shareholder resolutions. Since the start of 2020, we have also provided narrative on selected voting resolutions in our quarterly client sustainable investing reports.

We have two substantial changes planned to our voting disclosures that are expected to go live in early 2023: (i) a new voting disclosures website where our voting records will be disclosed on a rolling basis closer to the date of the vote, and (ii) voting bulletins providing in-depth narrative on significant votes (previously, significant votes for the purposes of the EU Shareholder Rights Directive II have been provided in our stewardship code report).

Exercising and monitoring voting decisions by another entity

Where Fidelity has voting authority, all votes are cast in accordance with our established proxy voting guidelines. For the majority of our funds, including Fidelity Canada funds where Fidelity is the investment manager and segregated mandates where the client has given us authority over voting decisions, voting activity is conducted by the Sustainable Investing team.

For a minority of Fidelity-managed funds, voting is carried out in the local market where this is a regulatory requirement. In cases where Fidelity sub-delegates investment management responsibility for certain assets to third parties, voting activity is conducted by the investment manager to whom investment authority has been delegated, in accordance with that manager's voting policies. Some of our clients with segregated mandates choose to maintain authority over the voting rights of their mandate.

How we monitor our shares and the voting rights they have

Fidelity has adopted a user interface provided by ISS which presents a consolidated view of third-party research, meeting details & detailed holdings information for all eligible Fidelity accounts. The Sustainable Investing team uses this infrastructure to support monitoring and analysing upcoming meetings.

Fixed income: our approach to engaging with issuers on the terms of the investment offered

In certain circumstances, Fidelity has a responsibility to directly engage with an issuer on the terms on which it offers an investment.

We may receive consent solicitations for bonds that have been issued. Our decision on whether to engage with issuers on these changes is determined by how relevant we consider the amendments to be to our on-going investment in the instrument, as well as the level of corporate access we can achieve to be able to meaningfully influence discussions.

Independent of our engagement, the analyst will make an assessment of the terms of the

[6]Issuers Fidelity has defined as high impact. This includes Climate Action 100+ focus issuers and issuers operations in the following sectors where Fidelity had a significant holding (>$20m or 1% ISC): Automobiles & Components, Banks, Capital Goods, Consumer Durables & Apparel, Diversified Financials, Energy, Food, Beverage & Tobacco, Insurance, Materials, Real Estate, Technology Hardware & Equipment, Transportation and Utilities.

consent solicitation and make a recommendation as to whether to offer consent or not. If we are unhappy with the terms of a consent, we may seek to actively engage with the issuer to discuss our concerns, and other times we will simply reject the consent solicitation.

The second, albeit less common, instance in which we engage relates to amendments in the new issue process. There are occasionally opportunities to adjust the initial proposed terms to a document, such as the inclusion of change of control of investment grade issuers, or the elimination of clauses permitting the use of roundtripping of cash with high yield issuers. In such instances we would normally engage with the underwriting bank's syndicate desk.

Outcome

Below are examples of votes and the outcomes of votes we have made during the year. We have sought to provide examples with a representative balance of outcomes, recognising that many engagements will not result in optimal outcomes despite our best efforts.

Barclays plc	
Date of vote	4 May 2022
Country	United Kingdom
Summary of the resolution	Climate Strategy, Targets, and Progress 2022
How we voted	With management
Rationale for the voting decision	In the last two years, the bank has significantly scaled up its capabilities regarding the integration of climate change considerations into its financing practices, including launching a proprietary tool to measure and track portfolio emissions and being among the first global diversified banks to set sectoral financed emission reduction targets. After having received 99% approval from shareholders for its climate plan at the 2020 AGM, it held an advisory vote in 2022 on its revised climate financing targets and progress. The bank continues to be heavily scrutinised by NGOs and shareholders for its high exposure to fossil fuels, and it was the target of shareholder proposals at both its 2020 and 2021 AGMs. In both cases, the proposals were aimed at forcing the bank to adopt a more exclusion-led decarbonisation approach. In 2022, the bank introduced new, more ambitious financed emission targets for the energy and power sectors, and announced targets for two new sectors (cement and steel). It also announced new restrictive policies for thermal coal mining and power, albeit with a longer phase-out timeline for the US. It reported good progress on reducing financed emissions, though with global economic activity during 2021 having been severely impacted by Covid-19. We held a 1:1 meeting with the company and participated in a group engagement, both in April 2022, before reaching our final decision. We asked about several aspects of the bank's climate policies, including the US coal phase-out timeline, its use of financed emission reduction target 'bands', and the attribution of financed emissions for the bank's capital markets activities. We ultimately concluded that the climate report merited support on balance, taking note of the bank's progress and positioning relative to peers.
Outcome of the vote	The report was approved, though with substantial dissent: c. 19% of votes were cast against the resolution.

Barclays plc (cont.)	
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We believe the climate report received substantial shareholder pushback because the bank currently remains one of the largest financiers of the fossil fuel industry, and while it appears to be making strong progress in scaling up its climate expertise, assessing its carbon impact, and beginning to take action to reduce financed emissions, there are certain aspects of its policies which have provoked concern e.g. its US coal phase out date. We decided that the bank's progress to date merited support on balance, but we see scope for improvement in several areas. We have found Barclays to be very open to dialogue on its climate progress the last several years, and have continued to engage with the bank on its climate policies following the vote.

SCOR SE	
Date of vote	18 May 2022
Country	France
Summary of the resolution	Approve Article Amendment
How we voted	Against
Where you voted against management, did you communicate your intent to the company ahead of the vote?	Yes
Rationale for the voting decision	The board proposed an amendment to the articles of association to raise the statutory age limit for the chair from 70 to 72, to allow the current chair (and long-time former CEO), who was originally scheduled to step down at the 2022 AGM, to serve in the chair position for a further two years. Prior to making a final voting decision, we held a call with the company to discuss its governance arrangements and succession planning. After consideration, we decided to vote against the article amendment. We communicated our voting intention to the company.
Outcome of the vote	The resolution was approved at the AGM by a majority of c. 77% of votes cast.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We continue to monitor the company's governance practices and met with board representatives in early 2023 to discuss changes to the company's executive leadership.

AIA Group Ltd.	
Date of vote	19 May 2022
Country	China (Hong Kong)
Summary of the resolution	Director election
How we voted	Against management
Rationale for the voting decision	Fidelity International voted against the re-election of a director nominee. The company's board composition did not meet our minimum standard on gender diversity. We generally expect at least 30% female representation at the board level in developed markets. Under our new voting guidelines, our general approach is to vote against an appropriate board member on this basis. In this instance, we voted against the director as he was a member of the nomination committee. We voted with management on all other proposals.
Outcome of the vote	The resolution was approved at the AGM with c. 8% of votes cast against.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's governance practices.

WingArc1st Inc.	
Date of vote	25 May 2022
Country	Japan
Summary of the resolution	Director elections
How we voted	Against management
Rationale for the voting decision	The company initially announced their remuneration policy in May 2021 immediately after their IPO. Subsequently, the company lowered their five-year guidance following aggressive (JPY5.5bn) front-loaded spending over three years, deviating largely from the outlook given in their prospectus. At the annual general meeting, the company sought shareholder approval for the election of seven director nominees. We engaged with the company to express our concerns on the performance-based remuneration that has not been adjusted to reflect the lowered guidance target. The lack of communication, in addition to the fact that the remuneration has not been adjusted to reflect the lower targets formed the rationale for voting against the five directors, who were members of the nomination and remuneration committees. We communicated our concerns and intent with the company through an engagement earlier in the year. Still, the company failed to follow up on our request to revise remuneration in line with the new mid-term plan. The company also sought shareholder approval for the election of two director nominees. In our view, the outside director candidates did not possess a sufficient degree of independence from company management. Specifically, both candidates were executives at a significant shareholder. Fidelity International voted against the election of seven director nominees. We voted against five directors, who were members of the nomination and remuneration committees, to hold them accountable for the company's performance-based remuneration. Additionally, we voted against the election of two outside director nominees due to independence concerns. We voted with management on all other proposals.
Outcome of the vote	The resolutions were approved at the meeting, though c. 14% of votes were cast against the two proposals related to the board elections we did not support on independence grounds.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's governance practices.

TotalEnergies SE	
Date of vote	25 May 2022
Country	France
Summary of the resolution	Sustainability and Climate Transition Plan
How we voted	With management
Rationale for the voting decision	TotalEnergies held an advisory shareholder vote on its sustainability and climate transition plan at the 2022 AGM. The company has a well-articulated climate transition plan, including a description of how it expects its portfolio mix to look in 2050 to reach net zero. Renewable electricity is to account for 50% of production; new decarbonised molecules from biomass (biofuels and biogas) or from renewable electricity (hydrogen and e-fuels) will account for 25%; and hydrocarbons will account for the remaining 25%, with their residual emissions fully captured, recycled, or offset. It has set a target to reduce operational (scope 1 and 2) emissions by 40% by 2030 vs. a 2015 baseline and described how it intends to achieve this. It has also set scope 3 targets which are currently more ambitious than what is seen elsewhere in the sector (reduce global scope 3 to 2015 levels, lower scope 3 from petroleum products sold worldwide by 30% between 2015 and 2030, absolute target to reduce scope 1+2+3 emissions by 30% from 2015-2030). The company also articulates how its capital allocation aligns to its climate strategy, and a substantial level of management's remuneration incentives are linked to climate objectives.

TotalEnergies SE (cont.)	
	We assess TotalEnergies a being among the leading oil majors when it comes to decarbonisation strategy, targets, and reporting. It is at a more advanced stage than sector peers in terms of decarbonisation and portfolio diversification, and its climate objectives are strongest. It must be acknowledged that the oil industry as a whole is not yet on a decarbonisation path which would meet the Paris Agreement goals, but the issue is complex: the vast majority of the sector's emissions come from clients over which TotalEnergies and others do not have direct control, so achieving net zero will only be possible with determined engagement from the industry, clients' willingness to adapt, and a supportive broader environment, including governmental cooperation at international level. Also, changes in demand for fossil fuels caused by the war in Ukraine may impact the ability to meet near term emissions reduction targets. We take these constraints into consideration, and therefore base our assessment on what companies are doing to contribute to global decarbonisation now and how they are positioning themselves for the requirements of a low carbon economy, drawing comparisons with competitors and globally accepted decarbonisation frameworks. We concluded that TotalEnergies' progress merited support on balance. We engaged with the company before forming a final voting decision. This was partly to address our concern about the board's decision to exclude a climate-related shareholder proposal from the agenda. The board had deemed the resolution to be inadmissible due to encroaching on the board's duty to set strategy, a matter of settled law in France. We were satisfied with the company's explanation but will keep this issue under review.
Outcome of the vote	The resolution was approved by a majority of 89% of votes cast.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor and scrutinise the company's climate strategy, targets, and progress.

Xiaomi Corp.	
Date of vote	2 June 2022
Country	China
Summary of the resolution	Director election and share repurchase authority
How we voted	Against management
Rationale for the voting decision	Fidelity International voted against the re-election of a director nominee. The company's board composition did not meet our minimum standard on gender diversity. Specifically, the board was all male with no female representation. We expect at least 15% female representation at the board level in developing markets. When companies do not meet our minimum expectations, our general approach is to vote against an appropriate board member on this basis. In this instance, we voted against the director as he was a member of the nomination committee. We also voted against a proposal seeking authority to allow the reissuance of repurchased shares. The re-issuance mandate poses dilution risks and is deemed unnecessary considering the general mandate we supported already confers ample capital raising flexibility to the company. We voted with management on all other proposals.
Outcome of the vote	The resolutions were approved at the AGM.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's governance practices.

Shopify, Inc.	
Date of vote	7 June 2022
Country	Canada
Summary of the resolution	Amend founder share arrangement
How we voted	Against
Rationale for the voting decision	The company has a dual class share structure. Class A subordinate shares are publicly listed and carry one vote per share, and Class B multiple voting shares are unlisted and carry 10 votes per share. At the time of IPO in 2015, Class B shares were issued pro-rata to the pre-IPO shareholders. The company's CEO currently holds the majority of outstanding Class B shares. The existing founder share arrangement contained a sunset provision wherein all Class B shares would automatically convert into Class A shares when Class B shares represented less than 5% of the aggregate total of Class A and Class B shares. The board proposed to remove this sunset provision and replace it with a different one which would be triggered upon the founder leaving the company, his death, or the founder and founder group's total shareholding being less than 30% of their holding as of the date of the circular. The proposed arrangement would in effect postpone the sunset date and provide that the founder would control a minimum of 40% of the voting rights while the arrangement remains in place, but would make Class B shares non-transferable and includes some other concessions. We generally do not support weighted share class structures on governance grounds, but recognise there may be cases where an exception is warranted. After careful consideration, we decided that the current founder share arrangement was better for minority shareholders, and therefore decided to vote against the board's recommendation.
Outcome of the vote	The resolution was approved at the AGM by a majority of c. 72% of votes cast.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	As a result of the resolution, the amended founder share arrangement went into effect.

Boohoo group plc	
Date of vote	17 June 2022
Country	United Kingdom
Summary of the resolution	Remuneration report
How we voted	Against management
Rationale for the voting decision	The board decided to increase the annual bonus payouts for the CEO and CFO from 25% of the maximum award to 75% after concluding that the formulaic bonus outcomes did not appropriately award management for their work during the year. The board cited external factors (supply chain interruption and cost inflation) as being the principle reasons for managements' failure to meet the financial objectives it had set at the beginning of the year. The company had issued a profit warning in December 2021 stating that it would not meet guidance as a result of several factors, including the above-mentioned external effects and due to having underestimated how many of its clothing articles would be returned by customers (this was a common issue among online retailers during the pandemic). The company's share price declined by c. 60% from the time of announcement until the June 2022 AGM. We felt that the board's decision to apply upward discretion did not adequately acknowledge shareholders' experience, and we noted that several UK competitors had not changed bonus outcomes in similar circumstances. We were also aware that the company had a history of aggressive pay practices and was proposing a substantial increase to the executive directors' remuneration arrangements going forward. We therefore decided that a vote against the remuneration report was warranted this year. We wrote to the board several months ahead of the AGM to ask that they reconsider their decision on the bonus outcomes, and when they did not, we held a call to explain why we had decided to vote against the remuneration report this year.

Boohoo group plc (cont.)

Outcome of the vote	The remuneration report was approved at the AGM, though with substantial dissent: c. 33% of participating shares voted against the resolution.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We held a follow-up meeting with company representatives in early 2023 on potential changes to the remuneration policy.

Mastercard Inc.

Date of vote	21 June 2022
Country	United States
Summary of the resolution	Report on Risks Associated with Sale and Purchase of Ghost Guns
How we voted	In favour (against management)
Rationale for the voting decision	A shareholder filed a non-binding proposal asking the company to report on the risks associated with the processing of payments involved with 'ghost guns' (untraceable firearms, including 'buy, build, shoot' firearm kits, components, and/or accessories used to assemble privately made firearms). In the board's objection to the resolution, it discussed its risk oversight process and states that its policy permits the lawful purchase of firearms and related equipment based on principles described in its Human Rights statement. On the matter of untraceable firearm parts in particular, the company states that it recently issued a bulletin to customers reminding them of their obligation to ensure that the merchants they onboard comply with state and local ordinances banning untraceable firearm parts. It states that it is limited in its ability to address concerns associated with firearm transactions due to its commitment to respect consumers' right to privacy and security. The company and other credit card providers have been drawn into the controversy around mass shootings in the US following a number of investigative articles which have covered the role of credit card purchases in financing mass shootings. Recently, some public prosecutors in the US have written to Mastercard and other credit card providers to end merchant relationships with online ghost gun kit sellers. We concluded that the request to undertake an evaluation of the risks associated with this issue and report on it to shareholders was reasonable, and decided to vote in favour of the item.
Outcome of the vote	The resolution was voted down at the AGM, with c. 10% of participating shares cast in favour.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's management of social risks.

Mitsubishi Corp.

Date of vote	24 June 2022
Country	Japan
Summary of the resolution	Climate change shareholder proposals, director election
How we voted	Against management
Rationale for the voting decision	At the 2022 AGM, two shareholder proposals relating to climate change were submitted to the agenda. The company also sought shareholder approval for the election of an outside director nominee. During our engagement, we recognised that the company is planning to address some of the items requested by the proposal, including the disclosure of category 11 of scope 3 (Use of Sold Products), making it the first company among its peers to do so.

Mitsubishi Corp. (cont.)	
	Additionally, we credit the company for being the only one amongst its peers to omit the contribution from GHG reduced through green products sold towards their reduction goals, thereby making their target more aggressive. We voted in favour of one shareholder proposal that sought to amend the company's articles to report on the consistency of capital expenditure with its commitment to reach net-zero GHG emissions by 2050. We supported the proposal as capital expenditure is recognised by ClimateAction100+ as an important disclosure, and the proposal provides the company with the discretion to omit proprietary information from the reporting. We abstained on a second shareholder proposal that sought to amend the company's articles to promote disclosure of GHG emissions reduction targets aligned with the goals of the Paris Agreement. This was a binding proposal that requested very prescriptive items such as short-term targets of scope 1, 2, and 3 GHG emissions separately. The company also sought shareholder approval for the election of an outside director nominee. In our view, the outside director candidate did not possess a sufficient degree of independence from company management. Specifically, the candidate is an executive at a significant shareholder. Fidelity International did not support management on three of the meeting's agenda items, including two shareholder proposals. We voted in favour of the shareholder proposal related to the report on the consistency of capital expenditure towards net zero and abstained on the shareholder proposal related to the disclosure of GHG emissions reduction targets. Additionally, we voted against the election of an outside director nominee. We voted with management on all other proposals.
Outcome of the vote	For the shareholder proposal that we abstained on regarding disclosure of GHG emission reduction targets aligned with the Paris Agreement, 20.2% of shareholders voted in favour. In relation to the shareholder proposal that we supported regarding disclosure on capital expenditure alignment with net-zero goals, 16.2% of shareholders voted in favour. Finally, 6.2% of votes cast were against the reappointment of the director we did not support.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's climate change oversight and governance practices.

RFM Corporation	
Date of vote	27 June 2022
Country	Philippines
Summary of the resolution	Director elections, other business
How we voted	Against management
Rationale for the voting decision	Fidelity International voted against four proposals at the company's AGM. The company did not meet our expected minimum standards on climate change. Specifically, the company did not disclose greenhouse gas emissions reduction targets. According to our firmwide policy and commitment to climate change, we voted against the chair of the board as he is critical for accelerating progress towards improved climate-related disclosure and governance. We also voted against two directors as, in our view, the candidates did not possess a sufficient degree of independence due to their excessive tenure. Specifically, the two directors had served as independent directors for 15 and 19 years. We do not support individuals continuing as independent directors where we view their tenure as excessive for this role. Furthermore, we also voted against these nominees for not maintaining a sufficient level of board independence as chair and member of the nomination committee. Specifically, the board independence level was only 9%, and all committees were less than majority independent after classifying the two directors as non-independent. Additionally, we voted against a generic authority to approve 'other business' in line with our approach to vote against proposals that request approval of non-specific items. We voted in favour of all other proposals.
Outcome of the vote	The resolutions were approved at the AGM, with c. 22% of votes cast against each of the director proposals we did not support.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's climate change oversight and governance practices.

ADLER Group SE	
Date of vote	29 June 2022
Country	Luxembourg
Summary of the resolution	Annual financial statements and director elections
How we voted	Against management
Rationale for the voting decision	The company's external auditor declined to provide an opinion on its annual financial statements because the company's management reportedly denied it access to information that it had requested in the context of a forensic audit into allegations from a short seller. As a result, the auditor concluded that it was unable to evaluate whether the accounting treatments for certain transactions were appropriate, whether management's assessment about the valuation of certain account balances were adequate, and whether any adjustments to the balance sheet or P&L were needed. It subsequently resigned as Adler's external auditor. Due to concerns about the integrity of the annual financial statements and the former auditor's accusations that the board did not appropriately cooperate with its investigation, we voted against the annual financial statements and the re-election of three incumbent directors.
Outcome of the vote	The resolutions were approved at the AGM with clear majorities.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We have subsequently sold out of our equity positions in the company.

Sumitomo Mitsui Financial Group, Inc.	
Date of vote	29 June 2022
Country	Japan
Summary of the resolution	Climate change shareholder proposals, director elections
How we voted	Against management
Rationale for the voting decision	At the 2022 AGM, two shareholder proposals relating to climate change were submitted to the agenda. The company also sought shareholder approval for the election of directors, including one director nominee who holds the chair position at a subsidiary facing an investigation and another outside director nominee. Prior to the AGM, Fidelity engaged with the company to seek out more information on the meeting agendas. We supported the shareholder proposal that sought for the company to update its articles to disclose a plan outlining its business strategy to align its investments with the goals of the Paris Agreement. We are generally supportive of shareholder proposals regarding climate change. In this case, the proposal was neither too onerous nor prescriptive and built on what the company had already begun to disclose as part of the Net Zero Asset Management Initiative. In addition, we noted that while the bank is neither leading nor lagging its domestic peers, it lags compared to international peers and best standards, and we wanted to express the urgency with which the bank should be considering reaching net zero. We abstained on a second shareholder proposal that sought to amend the company's articles to improve disclosure of measures to limit the expansion of lending and underwriting of fossil fuel supply or associated infrastructure. In our view, the proposal was too prescriptive in terms of scope, encompassing all fossil fuels and associated infrastructure. However, we recognised the argument backed by IEA and UN Environmental Program Finance Initiative and therefore chose to abstain. We abstained on the election of one director nominee due to his position as chairman at a subsidiary facing an investigation for market manipulation. A security broker of the company was directly involved in market manipulation, and the company was found guilty and has accepted its responsibility. However, given the investigation was still underway, we decided to abstain from the proposal. We also voted against the election of an outside director nominee. In our view, the outside director candidate did not possess a sufficient degree of independence from company management. Specifically, the nominee is a current executive of an organisation involved in a cross-shareholdings relationship.

Sumitomo Mitsui Financial Group, Inc. (cont.)	
Outcome of the vote	For the shareholder proposal that we supported regarding disclosure of business strategy aligned to the Paris Agreement, 27.0% of shareholders also voted in favour. For the shareholder proposal that we abstained on regarding fossil fuel-related lending and underwriting, 9.6% of shareholders voted in favour. With regard to the reappointment of the director who is the chairman of the subsidiary being investigated that we abstained on, 31% of shareholders did not support the nomination. Finally, 35% of shareholders did not support the reappointment of the outside director we did not support.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's climate change oversight and governance practices.

J. Sainsbury plc	
Date of vote	7 July 2022
Approximate size of fund's/mandate's holding as at the date of the vote (as %	N/A
Country	United Kingdom
Summary of the resolution	Shareholder proposal on living wage accreditation
How we voted	Against management (in favour of the resolution)
Where you voted against management, did you communicate your intent to the company ahead of the vote?	Yes
Rationale for the voting decision	Following group engagement with the company in late January 2022, we co-filed a shareholder resolution at Sainsbury's PLC led by ShareAction in March 2022, calling for the company to commit to become a Living Wage accredited employer across the UK for all employees. Labour management is a material ESG issue for retailers as per our proprietary ESG framework. The Living Wage is also a mechanism to address inequality, particularly considering the ongoing cost of living crisis. Ahead of the co-filing in March, SBRY aligned to the Living Wage across most of the UK, but there was a gap for Outer London employees and 3rd party contractors. In April, SBRY announced that it was raising pay for employees in outer London stores to £11.05, meaning that all 189,000 direct SBRY employees would at least match the real Living Wage rates. SBRY didn't however provide any update on the third-party contractors, nor did they provided any future commitment to pay which would be implied were they to become a Living Wage accredited employer. In Q3, the resolution went to the AGM in July 2022 and received 16.69% support, below the required level of support needed to pass of 75%.
Outcome of the vote	The resolution was voted down at the AGM.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We have subsequently sold out of our equity positions in the company.

Tesla, Inc.	
Date of vote	4 August 2022
Country	United States
Summary of the resolution	Adopt proxy access right
How we voted	Against management (in favour of the resolution)

Tesla, Inc. (cont.)	
Rationale for the voting decision	In the US, shareholders cannot nominate candidates to the board of directors without incurring significant cost, unless they are provided with 'proxy access' i.e. the right to nominate directors on the management proxy card. The common standard that has emerged is to allow one or more shareholders that hold a combined 3% of the share capital for three consecutive years to nominate directors (generally a maximum of 20% of the directors nominated on the management card). In the US, shareholders cannot nominate candidates to the board of directors without incurring significant cost, unless they are provided with 'proxy access' i.e. the right to nominate directors on the management proxy card. The common standard that has emerged is to allow one or more shareholders that hold a combined 3% of the share capital for three consecutive years to nominate directors (generally a maximum of 20% of the directors nominated on the management card). We consider the ability to nominate director candidates to be a fundamental shareholder right which should be accessible at reasonable cost to shareholders who demonstrate appropriate capital commitment. Proxy access is now a common shareholder right for shareholders of large US companies (as of 2019, 76% of S&P 500 companies provided it). Tesla currently does not provide shareholders with a proxy access right, so we decided to vote in favour of the proposal.
Outcome of the vote	The resolution was approved at the AGM by a majority of 51% of votes cast.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	Although the resolution was non-binding, we would expect the board to implement it and will consider possible escalation in future if it does not.

Compagnie Financiere Richemont SE	
Date of vote	7 September 2022
Country	Switzerland
Summary of the resolution	Election of directors
How we voted	With management
Rationale for the voting decision	A dissident shareholder nominated a candidate to the board of directors. In support of its proposal, the shareholder cited concerns about strategy and corporate governance. The nominee was a former executive at one of the company's key competitors and has deep luxury goods sector experience.
	The company has a dual class share structure whereby the founding family controls 50% of the voting rights via an unlisted share class, and public shareholders contributing the majority of paid-in capital hold the remaining 50% of voting rights via a listed share class. This structure allows the founding family to effectively control the board. Prior to filing its proposal, the dissident shareholder had asked the board to create a new board position to represent the interests of the listed share class, which the board agreed to (under local corporate law, if a company has multiple share classes, shareholders of each class are entitled to a board representative). The board then re-classified one of its incumbent members as the designated listed shareholders representative. At the AGM, shareholders were given the choice to support either the activist nominee or the designated board nominee to be representative of the listed share class. As per local law, the founding family's share class was not allowed to vote on the contested election for the listed share nominee, though it could participate in a subsequent confirmation vote and potentially block the nominee from joining the board. However, from a legal perspective, it would require an important reason for blocking a nominee dually elected by shareholders of the listed class. We held two meetings with the company's representatives, including the chair, before arriving at a voting decision. We also later met with the dissident to better understand their position. We acknowledge the dissident's concerns regarding strategy and believe that the company's governance practices have scope for improvement. However, while we recognised the dissident nominee's qualifications, potential connections to a key competitor raised concerns. We therefore decided to vote in favour of the board's nominee.
Outcome of the vote	The board's nominee was elected by a clear majority of shareholders in the listed share class.

Compagnie Financiere Richemont SE (cont.)	
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We have continued engaging with the company on its governance practices.

Western Digital Corp.	
Date of vote	15 September 2022
Country	United States
Summary of the resolution	Advisory vote on named executive officers' compensation
How we voted	Against management
Rationale for the voting decision	For management incentives for the prior financial year, the board applied discretion to mitigate the effects of the stock price performance and low target achievement under long-term incentive awards from previous years: (i) it granted discretionary stock-based retention awards to all of the named executive officers ($5m for the CEO and $1m-$4m to other NEOs) and; (ii) it removed the performance condition from the in-flight performance share award that was granted to the CEO when he joined the company in March 2020, which meant he received $7.8m worth of stock when might otherwise have not paid out. The board also changed the structure of the performance based long-term incentive going forward: it removed relative TSR from management's key performance indicators, and the revenue and EPS will now be based on three single-year targets rather than multi-year targets. The latter means that the board can course correct during the three-year performance period if the company's performance is not tracking to the level envisaged at the start of the plan. While relative TSR is no longer targeted, positive absolute share price performance may still boost management's incentive payouts. We concluded that the proposed changes amounted to a fundamental pay-for-performance disconnect and decided not to endorse the management say-on-pay resolution. We engaged with the company prior to making a final voting decision.
Outcome of the vote	The resolution was voted down at the AGM by a majority of 88% of votes cast.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	Although the resolution was non-binding, we expect the board to respond to the vote by engaging with shareholders and making appropriate changes to the company's remuneration practices. We intend to participate in this engagement.

SUNeVision Holdings Ltd.	
Date of vote	28 October 2022
Country	China (Hong Kong)
Summary of the resolution	Director election and share repurchase authority
How we voted	Against management
Rationale for the voting decision	Fidelity International voted against the election of a director due to board diversity. The company's board composition did not meet our minimum standard on gender diversity. We generally expect at least 30% female representation at the board level in developed markets. Under our new voting guidelines, our general approach is to vote against an appropriate board member on this basis. In this instance, we voted against a member of the company's nomination committee. We also voted against in this instance based on the company not maintaining a sufficient level of board committee independence. We also voted against a proposal seeking authority to allow the reissuance of repurchased shares. The re-issuance mandate poses dilution risks and is deemed unnecessary considering the general mandate we supported already confers ample capital raising flexibility to the company. We voted with management on all other proposals.
Outcome of the vote	The resolutions was approved at the AGM

SUNeVision Holdings Ltd. (cont.)	
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's governance practices.

Singapore Exchange Ltd.	
Date of vote	3 November 2022
Country	Singapore
Summary of the resolution	Director election
How we voted	Against management
Rationale for the voting decision	Fidelity International voted against the re-election of a director due to board diversity concerns. The company's board composition did not meet our minimum standard on gender diversity. We generally expect at least 30% female representation at the board level in developed markets. Under our new voting guidelines, our general approach is to vote against an appropriate board member on this basis. In this instance, we voted against the director as he was chairman of the nomination committee. We voted with management on all other proposals.
Outcome of the vote	The resolution was approved at the AGM, with c. 15% of votes cast against.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's governance practices.

Downer EDI Limited	
Date of vote	3 November 2022
Country	Australia
Summary of the resolution	Remuneration report
How we voted	With management
Rationale for the voting decision	The board applied upward discretion on the annual bonuses paid to senior management in FY22, which led to a 65% payout when otherwise payouts would have lapsed entirely because the NPATA 'gateway target' was missed. The board determined that the primary reasons for missing the target were external impacts outside of management's control: specifically, the unusually wet weather during the year and the effect of Covid-19 lockdowns, both of which had not been anticipated at the time targets were set. We believed that the genuinely extraordinary circumstances warranted the use of discretion, and while the level of payout was perhaps higher than we would have expected under the circumstances, we felt it was broadly reflective of management's performance based on publicly information available at the time. Furthermore, we took the board's overall restraint on executive pay during the Covid-19 period into account, including the non-payment of bonuses for FY20 and the lapse of several long-term incentive award tranches. We therefore decided to vote in favour of the remuneration report. Prior to making our final decision, we met with the chair and communicated our expectation that the use of upward discretion should be reserved for extraordinary circumstances and not become the norm for the board's determination of incentives.
Outcome of the vote	The resolution was voted down at the AGM by a majority of c. 56% of votes cast.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	A month after the AGM, the company disclosed that it had uncovered historic accounting regularities in its Australian utilities business over the period 2020-23, which - along with a profit warning in the same announcement - led to an immediate 20% fall in the share price. The company is investigating the cause of the reporting irregularities. From a remuneration perspective, the discovery means that financials-linked incentives paid to executive key management personnel in the past several years were based on incorrectly reported figures. We have engaged with the company to ascertain whether any incentives can

Downner EDI Limited (cont.)	
	be clawed back. Recent tranches of the long-term incentive have not paid out so these will not be effected, but for deferred short-term incentives, we will expect the board to apply 'malus' (i.e. reduce awards) as permitted under the company's policies. We will also await the findings of investigations into the root causes of the incident and any learnings or outcomes with respect to the company's governance over financial controls.

BHP Group Limited	
Date of vote	10 November 2022
Country	Australia
Summary of the resolution	Approve policy advocacy
How we voted	With management (against the resolution)
Rationale for the voting decision	A group of shareholders filed a non-binding advisory resolution requesting that the company pro-actively advocate for 'Australian policy settings that are consistent with the Paris Agreement's objective of limiting global warming to 1.5 degrees. Last year, the company had received a shareholder proposal asking it to ensure its lobbying activities were Paris-aligned and to report on this, with the board had supported. The proposal this year went a step further by asking the company to pro-actively advocate for policies that would support the Paris Agreements goals (including, for example, with respect to policies where the company might have otherwise taken the decision not to engage in policy advocacy). We believed that the proposal wording had the potential for unintended consequences, as it would imply that the company would need to take active positions on all legislative/rulemaking proposals with the potential to influence climate policy, even when such laws/rules would not be material to the company's operations, which could add significant cost and time burdens for the company. Moreover, we recognised that the company already advocates for policies that encourage climate action where they are deemed appropriate and material, and that it provides good disclosure on its oversight of policy advocacy by industry associations where it is a member. Therefore, we decided to vote against the resolution.
Outcome of the vote	The resolution was voted down at the AGM by a majority of c. 87%.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	Although we concluded that voting in favour of the resolution was not warranted on balance in this case, we believe the subject matter is important and are exploring ways to enhance our engagement with companies on their climate public policy advocacy. Moreover, we continue to engage with the company on this topic.

Postal Savings Bank of China Co., Ltd.	
Date of vote	11 November 2022
Country	China
Summary of the resolution	Director election
How we voted	Against management
Rationale for the voting decision	Fidelity International voted against the election of a director nominee because, in our view, they held an excessive number of outside directorships on public company boards. Specifically, the nominee is a member of the board at 7 companies. We voted with management on all other proposals.
Outcome of the vote	The resolution was approved at the AGM, with 4% of votes cast against.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's governance practices.

Sasol Ltd.	
Date of vote	2 December 2022
Country	South Africa
Summary of the resolution	Approve Climate Change Report
How we voted	Against management
Rationale for the voting decision	Fidelity has been engaging with Sasol for several years now as part of the Climate Action 100+ initiative and progress to date has been promising, with company setting net zero targets and disclosing elements of its transition plan. But at the 2022 AGM, we voted against the firm's climate report as more work was required to arrive at a strategy aligned with the goals of the Paris Agreement, in our view. Below we explain some of the background and reasons that led to our decision. Sasol tabled a resolution for its AGM in December 2022 which asked shareholders to "endorse, on a non-binding advisory basis, Sasol's climate change management approach, including its climate change ambition, strategy and progress towards achieving the 2030 target and 2050 net zero ambition". 2022 was the second year Sasol has offered such a vote, but the first year in which we have been equity holders and entitled to cast votes. Due consideration should be paid to regional/sectoral considerations: Sasol's mines employ several thousand workers in what is a region that is heavily dependent on coal (20% of GDP) with high unemployment rates (43%) so ensuring a just transition is critical. In relation to climate governance, executive remuneration is clearly linked to emissions reductions and capex plans. However, we had concerns about the vote for the following reasons: 1. Sasol is a highly emissive company and is starting from a high baseline: its Secunda plant is reportedly the most emissive point source in the world and Sasol is South Africa's largest private emitter. It is highly tied to coal, mining 40Mt of saleable coal each year for use as a feedstock in coal-to-liquid processes alongside own-production gas. Its long-term decarbonisation targets are 1.5-degree aligned by 2050 and it will only use offsets for residual emissions, but there is potentially an overreliance on gas/other unproven transition technologies in the interim (post-2030). This creates some uncertainty about the company's ability to meet its 2050 goal and we felt it could show greater ambition. There is also some concern that the use of avoidance offsets to 2050 is a barrier to alignment. 2. In the medium term (2026-2030), the company will begin to phase-out coal as a feedstock but this commences too late (2028) and consequently the company is not able to meet IEA guidance for net-zero aligned coal pathways for the period (-30% vs. -40-45%). The implication of this is that the company is more than 2-degree aligned across this period, in our view. 3. In the short term (to 2026), the company is ramping up the use of renewables in its energy and chemicals business to 40% and 100% of consumption, respectively, replacing highly emissive grid-derived energy from ESKOM. It will also target 5% and 20% emissions reductions in its energy and chemicals businesses vs. 2017. However, in our view, the scope and magnitude of these targets, and subsequent capital allocation, is not aligned to a 1.5-degree pathway. 4. Last year, Sasol supported a statement calling for a delay to higher carbon taxation to post-2035. Sasol also blocked two shareholder proposals at the last AGM that were calling for improved lobbying disclosures. 5. Sasol has nominally committed to stop new coal exploration but is continuing with the permitting process for a replacement to its Thungela-derived volumes post-2026 at the Alexander Mining Project. We felt the above considerations tipped the scales against supporting the proposal. We commended Sasol's transparency and continued efforts to align its strategy to a 1.5-degree pathway (including reorienting processes towards sustainable fuels) and indicated support for Sasol's commitment to stop new coal exploration. However, in an email to IR, we stated our belief that more progress is required in short- and medium-term target setting/capital allocation to demonstrate Paris alignment and encouraged further guarantees on ending new coal investment. Where possible, we encouraged an expedited roll-out of carbon capture and storage technologies towards these goals.
Outcome of the vote	The resolution was approved at the AGM by a majority of 94% of votes cast.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor developments at the company over the coming months, whether it aligns with the Paris Agreement goals and the extent to which initiatives such as the Just Energy Transition Partnership announced at COP26 play a role in enhancing the transition in South Africa.

Longshine Technology Group Co., Ltd.	
Date of vote	9 December 2022
Country	China (Hong Kong)
Summary of the resolution	Director election
How we voted	Against management
Rationale for the voting decision	Fidelity International voted against the election of a director due to board independence concerns. Specifically, the audit committee was not fully independent and included an executive director. In our view, the candidate should be held accountable for not maintaining a sufficient level of board committee independence. We voted with management on all other proposals.
Outcome of the vote	The resolution was approved at the AGM.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's governance practices.

Jindal Stainless Ltd.	
Date of vote	28 December 2022
Country	India
Summary of the resolution	Director elections
How we voted	Against management
Rationale for the voting decision	Fidelity International voted against the re-election of the company's chairman. The company did not meet our expected minimum standards on climate change. Specifically, the company did not disclose greenhouse gas emissions reduction targets. According to our firmwide policy and commitment to climate change, we voted against the chair of the board as he is critical for accelerating progress towards improved climate-related disclosure and governance.
Outcome of the vote	The resolutions were approved at the AGM.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's climate change oversight and governance practices.

Yantai Jereh Oilfield Services Group Co. Ltd.	
Date of vote	30 December 2022
Country	China
Summary of the resolution	Director election
How we voted	Against management
Rationale for the voting decision	Fidelity International voted against the election of a director due to board independence concerns. Specifically, the audit committee was not fully independent and included an executive director. In our view, the candidate should be held accountable for maintaining a sufficient level of board independence. We voted with management on all other proposals.
Outcome of the vote	The resolution was approved at the AGM.
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	We will continue to monitor the company's governance practices.

Appendix

Appendix

Influence Framework

In 2022, we created an influence framework to help us identify where and how we can align and further our efforts. To influence real world outcomes, company-level engagement can be complemented by a holistic, system-wide response, helping to shape the incentives needed to deliver on commitments. When we act alongside other investors and stakeholders, such engagement can be even more powerful. Below is an illustration of how these distinct levels of influence relate specifically to deforestation alongside examples of how Fidelity is seeking to influence at each level (adapted from our Deforestation Framework, published December 2022), alongside investing in solutions that can address deforestation.

Level of influence	Examples of Fidelity's actions
System Our economic, social and ecological systems are interconnected, and affected by the loss of natural capital in ways that are not yet fully understood but that have wide-ranging implications for capital markets.	■ Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation signatory ■ Finance for Biodiversity member ■ Natural Capital Investment Alliance member ■ Taskforce on Nature-related Financial Disclosures (TNFD) Forum member ■ Signatory to the Financial Sector Statement on Biodiversity for COP15
Industry, sector, and/or portfolio Addressing global deforestation is already starring to inform change across industries, particularly in high-impact sectors. This change requires collaborative efforts to accelerate the necessary transition.	■ Deforestation thematic engagement ■ Satellite collaborative engagement ■ Bioacoustics study ■ Advocate for sectoral decarbonisation pathways
Firm, entity Capital allocation, engagement, and voting inform company behaviour change.	■ Fidelity's proprietary ESG Ratings ■ Company engagement and voting ■ Fidelity's proprietary Climate Rating ■ Sustainability-linked/Green bonds
Individuals Individuals' knowledge, skills, and experience are key to effecting and informing change.	■ Internal training webinars ■ Client engagement ■ Quarterly internal sustainable investing townhalls ■ Sustainable Investing Team collaboration with portfolio managers and analysts

Source: Fidelity International, March 2023.

Policy

Conflicts of Interest

Conflicts of interest exist in all businesses and at all firms. Nevertheless, we recognise that our business is, above all, based on a contract of trust with our clients and we have a duty to manage those conflicts and treat all customers fairly.

Fidelity and its subsidiaries have a regulatory and fiduciary duty to never put itself in a position where its own interest results in an irreconcilable conflict with its duty to its clients or where its duty to one client results in an irreconcilable conflict with its duty to another client or clients. To that end, Fidelity will ideally avoid conflicts of interest. However, where this is not possible, and recognising that potential conflicts of interest will arise from time to time, Fidelity will take all reasonable steps to identify, record, manage and, where required, disclose actual or potential conflicts of interests and have in place a policy relating to conflicts of interest.

Governance and Monitoring

The Fidelity Board has approved the Fidelity Corporate Conflicts of Interest Policy ("the Policy") which sets out the global minimum standards to mitigate material risk of damage or harm to the interests of a client arising from competing obligations or motivations of Fidelity or its clients. In order to prevent such risk, conflicts are identified through various means, including regular interviews with business heads, awareness training and internal reviews.

A Conflicts Register is maintained to ensure that significant conflicts have been identified, managed and recorded and the relevant mitigating controls, where appropriate, are documented. The Policy and Register are reviewed at least annually, or more frequently if necessary, to ensure they remain fit for purpose and compliant with all applicable laws and regulations. They are audited by Internal Audit on a periodic basis and submitted for review to external auditors on an annual basis.

Fidelity has established a Global Conflicts Committee ("Committee") that actively identifies and manages emerging and existing conflicts across business lines, and ensures consistent standards are applied to conflict management across Fidelity. The Committee meets regularly, at least three times a year, to review any issues involving material conflicts occurring across Fidelity's business and assists with the Policy's implementation, ongoing monitoring and oversight. Day-to-day effective implementation rests with senior management in their respective business areas and the Committee is assisted by the Audit & Risk Committees, Internal Audit and Oversight groups as necessary.

Related Policies and Procedures

Fidelity has an internal Code of Conduct and associated policies (together "the Code") including:

- Personal Conflicts, Trading and Price Sensitive Information Policy, covering:
  - Personal conflicts, including outside activities and directorships
  - Personal trading requirements and prohibitions, including those for individuals that are Investment Professionals or others who have access to sensitive fund information
  - Reporting violations and suspicions
  - Safeguarding of price sensitive information and notification to Legal/Compliance
- Gifts and Entertainment Policy
  - Reporting any gift given or received and potentially returning/surrendering/declining if inappropriate or excessive

- Obtaining pre-approval for giving corporate/ promotional gifts or receiving and giving entertainment
- Prohibitions on soliciting gifts or entertainment

All employees must adhere to the Policy and the Code and receive awareness and training to reinforce that clients' interests must always come before those of Fidelity or its employees. The Code is monitored and includes a full sanction and disciplinary process in the event of a violation.

Potential Conflicts of Interest

Potential conflicts of interest include, but are not limited to, the following key areas:

Code of Conduct and associated policies

1. Personal Trading

Fidelity employees are subject to a Code of Conduct which places restrictions on all staff, in particular those with access to confidential information about the funds. At the heart of the Code is the principle that no employee may benefit from their knowledge of a client's affairs, which may include investment in securities we manage or have awareness of as part of portfolio management responsibilities. Restrictions include account and holdings disclosure and gaining preclearance for many personal transactions for staff and their immediate family as well as duplicate reporting.

2. Gifts and Entertainment

Fidelity employees may not give or receive gifts and entertainment from and to external parties which would potentially influence their actions and choices leading to have a potential negative impact on the quality of service and products provided to clients. As such there are restrictions governing both the receipt and provision of business gifts and hospitality.

3. Outside Activities

Fidelity employees that have outside activities that conflict, or that may be deemed to conflict, with any employee's responsibilities at Fidelity are also governed by the Code. Fidelity employees may hold positions and outside offices such as directorships, trustee/advisory roles or act in oversight capacities for other companies or charities. These positions may cause a conflict when always acting in Fidelity client's bests interests.

Investment Management

4. Investing

The majority of our investing is on behalf of our clients; however, Fidelity also invests as principal. Potential conflicts can occur during acquisition and disposal of securities, voting and the use of research. To manage these potential conflicts, Fidelity has processes and procedures in place to support our clients' funds and accounts. It is also possible that a Fidelity fund or account will own securities issued by a client, but in all situations Fidelity's investment decisions will be guided by what we regard as the best interests of the relevant fund or account.

5. Trade Allocation and Best Execution

When performing client transactions in securities, Fidelity will combine orders where this is in the best interests of the clients as a whole. If there is insufficient liquidity resulting in a partial completion of the order, then the securities will be allocated across all clients participating in the block trade. To manage a potential conflict of unequal allocation from a trade, Fidelity maintains a Trading Desk Policy which ensures the consistent and fair application of allocations. Allocations are performed on a pro-rata basis based on the size of the order, and the automated system allocation algorithm is applied for every trade, subject to three lines of oversight - the Trading Desk supervisor, Compliance and Internal Audit/Risk.

6. Research Material

Fidelity develops proprietary research material for its own use which is not made available to the public. Nevertheless, we place certain controls around our research process. If any research analyst has a personal interest in a stock in which he or she is commenting, that must be disclosed within the research note. In addition, the Fidelity Code of Conduct contains specific provisions requiring research analysts to manage any possible conflicts. Research is issued simultaneously across Fidelity for the benefit of all client funds.

7. Management of Multiple Accounts

Fidelity manages the accounts of multiple clients on various terms and conditions, including different fee arrangements and investment mandates (including investment mandates involving the use of derivatives and short selling). Fidelity will not favour the account of one client over the account of another client to further its own interests or the interests of one client over the interests of another.

8. Voting

The sustainable investing team is responsible for monitoring possible conflicts of interest with respect to proxy voting. In instances where a fund holds an investment involved in a voting event we will always act in the interests of the specific fund in question and, in instances where there is a conflict with Fidelity's own interests, we will either vote in accordance with the recommendation of our principal third party research provider or if no recommendation is available, we will either abstain or not vote. We will not vote at shareholder meetings of any Fidelity funds unless specially instructed by a client or required to protect our clients' interests. Fidelity has a procedure for escalating voting decisions when conflicts or controversial issues are identified during the voting process and a Sustainable Investing Operating Committee in place acting as final arbiter.

Distribution and Sales

9. Capacity Management

In exceptional circumstances, there can be capacity constraints for particular funds or investment strategies which can give rise to potential conflicts between clients. Fidelity adheres to a capacity management framework, which is forward looking and actively reviews capacity factors on an ongoing basis. Should a potential conflict arise, all existing clients would be treated fairly and given preference over new clients regardless of fees.

10. Product Bias

There is a potential conflict which could result from commercial pressure to give preference or priority to Fidelity products over 3rd party products, whether funds, ETFs or investment trusts, for inclusion on Fidelity's fund platforms or best buy lists. Fidelity has a robust framework in place that ensures that the same standards and criteria are applied to both Fidelity products and 3rd party products when they are considered for inclusion (or remaining) on the platform or on the best buy lists.

11. Sales Targets

Fidelity operates a variety of remuneration models for its employees. All models are agreed with HR and the Remuneration Committee to ensure independence and consistent criteria and the schemes are designed with good client outcomes in mind. The sales teams have sales targets which are provider neutral/agnostic, i.e. there are no explicit or specific Fidelity fund sales targets.

12. Different services and different business channels

Fidelity as a global company offers many different business services to clients across different channels. We treat all clients fairly although this may not always be the same treatment and where different outcomes can be achieved, we ensure the conflicts are disclosed clearly. This potential conflict is managed by separate terms and conditions, and on the basis of different client propositions, which are made clear to clients and their advisers in all marketing material.

Industry initiatives

Fidelity actively participates in the following industry initiatives:

Asian Corporate Governance Association (ACGA)

Fidelity actively participates as an investor member in the ACGA through regular meetings, investor delegations, position papers, member letters, consultation responses and public presentations at ACGA-organised corporate governance events. We were principal sponsor of the ACGA Annual Conference (2018 - 2020).

Asia Securities Industry & Financial Markets Association (ASIFMA)

Fidelity actively participates as an asset management member in ASIFMA. We attend regular meetings, providing feedback and initiating discussions on topics relevant to the asset management industry in Asia. We also contribute to position papers, member letters, consultation responses and attend conferences at ASIFMA-organised events that are relevant to corporate governance issues. Fidelity is a co-chair of the Equities Committee of the Asset Management Group of ASIFMA.

Association of the Luxembourg Fund Industry

Fidelity's Luxembourg country head is the chair of ALFI.

Assogestioni

We actively work with Assogestioni, Italy's investment industry trade group, to occasionally pledge shares in support of their slates of candidates for election to Italian company boards. The Voto di Lista process enables minority shareholders to present independent candidates for election to a company's board or audit committee. Since many Italian companies' boards are comprised of directors affiliated with majority shareholders or representing regional interests, we believe that independent board members are very important. Our participation in this initiative has been effective insofar as we have sponsored a number of slates where independent directors were elected to company boards.

Business Coalition for a Global Plastics Treaty

In 2021, Fidelity supported the call for the UN to develop a global treaty on plastic pollution, which was approved by 200 countries at the United Nations Environment Assembly (UNEA). Fidelity has since joined the Business Coalition for a Global Plastics Treaty, a group of corporates, financial institutions and non-governmental organisations, convening as an advisory body to the support the development of an ambitious and effective global treaty to end plastic pollution.

CDP (formerly the Carbon Disclosure Project)

Fidelity is a member of the CDP and leverages its extensive data set for environmental risk monitoring. Fidelity also participates in and occasionally hosts discussions about the role of certain sectors in the transition to a low carbon economy.

Climate Action 100+

Fidelity is an active member of Climate Action 100+.

We currently co-lead engagements with four issuers and participate in six other engagements.

Climate Bonds Initiative (CBI)

Fidelity actively participates in CBI's consultations and working groups to develop the climate and green bonds market. The CBI is working to mobilise the $100 trillion bond market for climate change solutions.

Corporate Governance Forum (CGF)

We are a member of the CGF, a group of stewardship professionals that aims to build awareness of the views of institutional investors on contemporary corporate governance and stewardship issues. We participate in weekly calls, are actively involved in bi-monthly meetings (including heads of governance meetings), and use the forum to exchange views. Our participation has been successful insofar as we have been able to exchange views on corporate governance matters with other industry practitioners.

Farm Animal Investment Risk and Return (FAIRR)

FAIRR was established to raise awareness and close the knowledge gap among investors about the risks and opportunities associated with the growth of the factory-farming production model. Fidelity became a member in 2020 and has participated in collaborative engagements with FAIRR on sustainable proteins and other topics.

Finance for Biodiversity Pledge

In 2021, Fidelity became a foundation member and signatory of the Finance for Biodiversity pledge. We are active participants in three working groups on Engagement with Companies, Impact Assessment and Target Setting. Jenn-Hui Tan, Global Head of Stewardship and Sustainable Investing, also sits on the Finance for Biodiversity Foundation's Advisory Board.

Financial Sector Deforestation Action (FSDA)

At COP26 in 2021, Fidelity signed the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation, an initiative now named Financial Sector Deforestation Action (FSDA). As a signatory, Fidelity committed to use best efforts towards the goal of eliminating forest-risk agricultural commodity-driven deforestation activities in investment portfolios by 2025 via engagement and stewardship.

French Asset Management Association (AFG)

Fidelity has been participating in AFG's Responsible Investment Committee meetings and consultations since 2018.

Hong Kong Green Finance Association (HKGFA)

Fidelity has been a member of HKGFA since 2020 and participates through meetings and working groups.

Hong Kong Investment Funds Association (HKIFA)

Fidelity is a full member of HKIFA, which aims to foster the development of the fund management industry in Hong Kong.

International Corporate Governance Network (ICGN)

Fidelity participates as an investor member and attends ICGN organised corporate governance events. We joined the annual conference as a panel speaker in 2022.

Investor Forum

Fidelity is an active member of the UK Investor Forum.

Japanese Stewardship Code

Fidelity is a signatory to the Japanese Stewardship Code, which is a set of principles to guide investors' stewardship duties, promote the sustainable growth of investee companies and enhance the medium and long-term investment returns of clients and beneficiaries.

Natural Capital Investment Alliance (part of Sustainable Markets Initiative)

The NCIA encourages investors to adopt natural capital as an investment theme and targets the mobilisation of billions of dollars into risk mitigation for natural capital. Fidelity is an active participant in the alliance, participating in the Policy, Industry and Government Liaison working group and co-chairing a working group on Metrics and Disclosures.

Principles for Responsible Investing (PRI)

Fidelity is a signatory to the PRI, which offers practical guidance for incorporating ESG issues into investment practice. The Principles are developed by investors for investors and are backed by the United Nations. We actively attend conferences and engage with the PRI on various matters. We scored a mix of four and five stars in the asset class categories assessed by PRI in 2021. We are an active member of the PRI SDG advisory committee and are members of two SDG-related working groups.

Responsible Investment Association Australasia (RIAA)

The Responsible Investment Association Australasia champions responsible investing and a sustainable financial system in Australia and New Zealand. With over 500 members representing US$29 trillion in assets under management, RIAA is the largest and most active network of people and organisations engaged in responsible investing in the region. It advocates for positive change and runs a certification programme for sustainable funds. Fidelity joined RIAA in June 2021.

Task Force on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board's TCFD is a market-driven initiative set up to develop a set of recommendations for voluntary and consistent climate-related financial risk disclosures in mainstream filings.

Fidelity became a named supporter of the recommendations of the TCFD in January 2018 and published our own TCFD Report in 2020. We also continue to promote the reporting standard in our engagements with companies and will be publishing further entity and product level reports in due course.

Taskforce on Nature-related Financial Disclosures (TNFD)

The TNFD is a market-led initiative with the aim to develop a risk management and disclosure framework to incorporate evolving nature-related risks. This should promote a shift in global financial flows away from negative nature outcomes to nature-positive outcomes. Fidelity is a TNFD Forum member.

The Global Real Estate Sustainability Benchmark (GRESB)

GRESB provides institutional investors with a global ESG benchmark for real estate and infrastructure investments. Fidelity works with GRESB by responding to its survey with information on our real estate portfolios.

The Hong Kong Securities and Futures Commission (HKSFC)

Fidelity is a signatory to the HKSFC's Principles of Responsible Ownership. These are set of principles and guidance to assist investors in determining how best to meet their ownership responsibilities, including stewardship, governance and voting. Fidelity is also a member of the HKSFC's Technical Experts Group on Climate Change, advising on the feasibility and implementation of climate-change related regulatory proposals.

The Institutional Investors Group on Climate Change (IIGCC)

The IIGCC is the European membership body for investor collaboration on climate change and provides an investor voice at regional level. The IIGCC has more than 350 members, mainly pension funds and asset managers, across 23 countries, with over €51 trillion in assets under management. Fidelity joined the group in early 2020 and has participated in working groups and collective engagements led by the IIGCC.

The Investment Association (IA)

As an active member of the IA, Fidelity is a founder member of the Investor Exchange with regards to shareholder engagement. We actively consult and attend company meetings or conferences arranged by the IA. Peter Horrell, chair and CEO of Fidelity Holdings (UK) Ltd, is on the Board of the IA.

The Net Zero Asset Managers Initiative (NZAMI)

The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner. Fidelity International became a founding signatory of NZAMI on 11 December 2020 and we published our initial net zero targets in November 2021.

World Economic Forum (WEF)

Fidelity is an Associate Partner of the WEF, which brings together stakeholders from politics, business and civil society to positively influence global, regional and industry agendas and policy.

Important Information

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