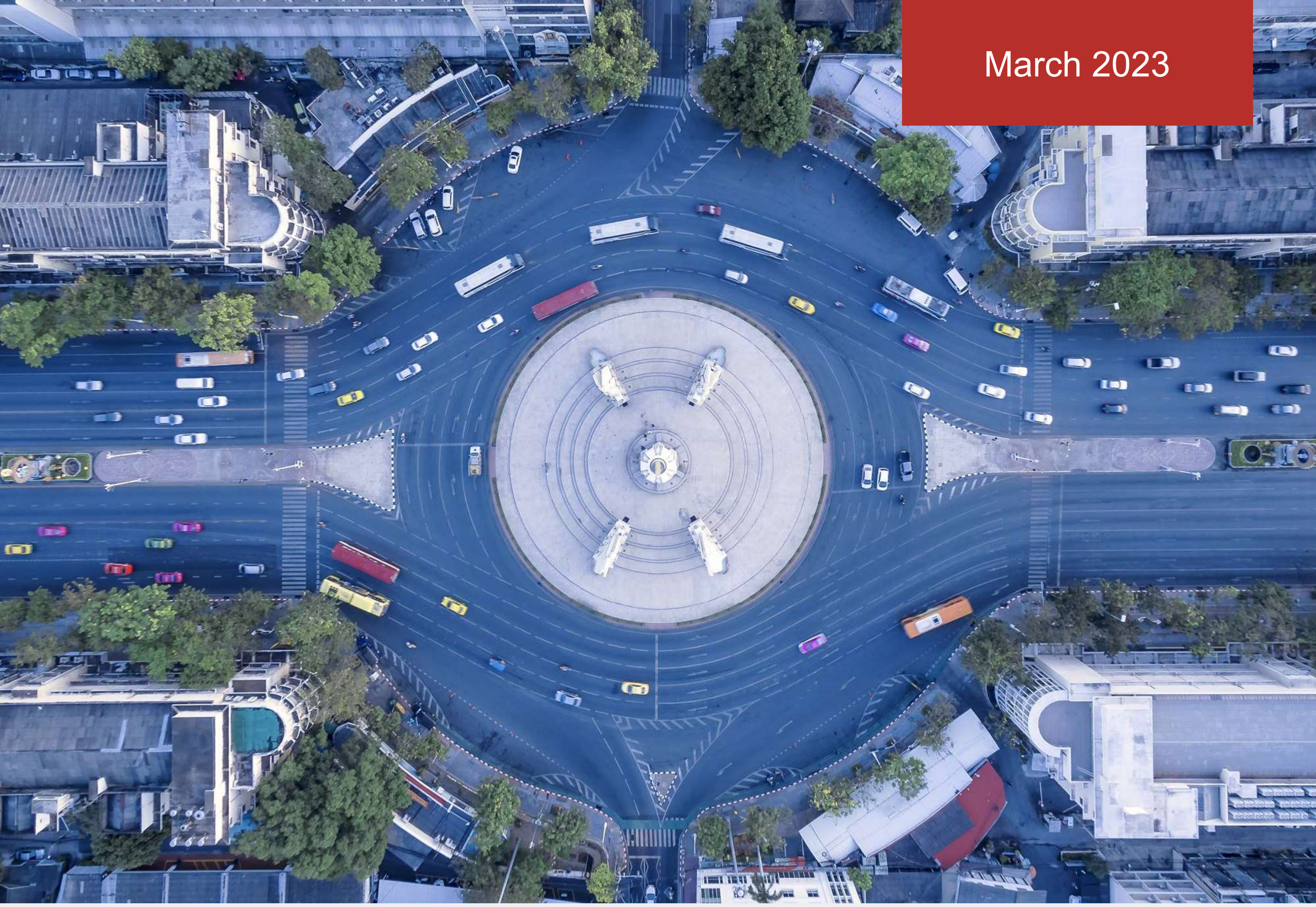

March 2023

# Principal Adverse Impact Statement

Statement on principal adverse impacts of investment decisions on sustainability factors

Last update: March 2023

# Contents

# 1 Summary

Under Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("**SFDR**"), some of the entities of Fidelity International in Continental Europe and the United Kingdom are required to publish entity and product-specific disclosures as soon as they meet the definition of Financial Market Participant or Financial Advisers. The purpose of this document is to publish some of these required disclosures for the following entities:

- FIL Investment Management (Luxembourg) S.A. (LEI : 54930020FVXYT8E0QU87) as a Financial Market Participant ;
- FIL (Luxembourg) S.A. (LEI : 2221001FAMMFQUAGXQ13) as a Financial Market Participant and a Financial Adviser ;
- FIL Gestion (LEI : 96950051B8PCYINJT692) as a Financial Market Participant and a Financial Adviser ;
- FIL Investment Services (UK) Limited (LEI: 213800TWO2EHFEWNF438) as a Financial Market Participant ; and
- FIL Pensions Management (LEI: 213800SWMABMN8UKVY18) as a Financial Market Participant and a Financial Adviser (together "**Fidelity in-scope entities**").

Even though FIL Fondsbank GmbH, FIL Life Insurance (Ireland) DAC and Fidelity European Pension Plan are also under the Financial Market Participant definition according to SFDR, they are not in scope of this document as they do not consider principal adverse impacts. The SFDR disclosure for these specific entities is available on their specific websites.

Fidelity in-scope entities consider principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of the Fidelity in-scope entities.

The statement outlines how FIL Limited and its subsidiaries (herein referred to as "**FIL**" or "**Organisation**") consider and approach principal adverse sustainability impacts ("**PAI**" or "**PASI**") of investment decisions on behalf of the funds and discretionary mandates for which FIL acts as the appointed investment manager or advisor. This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January to 31 December 2022. The impacts of the Principal adverse indicators of Table 1 and any selected indicators of Table 2 and 3 of Annex I of the SFDR Act will be reported in 2023, following their measurements over Q1 2022 - Q4 2022.

| **Summary of principal adverse impacts indicators selected by FIL** | | | | | |
|---|---|---|---|---|---|
| **Applicability** | **Theme** | **Adverse Sustainability Indicator** | | **Annex I Table** | **Annex I Table Indicator Number** |
| Investee Companies | Climate and other environment-related indicators | GHG emissions | GHG emissions (Scope 1, 2, 3 and total) | 1 | 1 |
| | | | Carbon footprint | 1 | 2 |
| | | | GHG intensity of investee companies | 1 | 3 |
| | | | Exposure to companies active in the fossil fuel sector | 1 | 4 |
| | | | Share of non-renewable energy in consumption and production | 1 | 5 |

| | | | | | |
|---|---|---|---|---|---|
| | | | Energy consumption intensity per high impact sector | 1 | 6 |
| | | Biodiversity | Activities negatively affecting biodiversity-sensitive areas | 1 | 7 |
| | | Water, waste, and material emissions | Emissions to water | 1 | 8 |
| | | | Hazardous and radioactive waste ratio | 1 | 9 |
| | | | Deforestation | 2 | 15 |
| | Social and employee, respect for human rights, anti-corruption, and anti-bribery matters | Social and employee matters | Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises | 1 | 10 |
| | | | Lack of processes and compliance mechanisms to monitor compliance with UN Global Compliance principles and OECD Guidelines for Multinational Enterprises | 1 | 11 |
| | | | Unadjusted gender pay gap | 1 | 12 |
| | | | Board gender diversity | 1 | 13 |
| | | | Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) | 1 | 14 |
| | | Human Rights | Lack of human rights policy | 3 | 9 |
| Sovereigns and supranationals | Climate and other environment- | Environmental | GHG intensity | 1 | 15 |

| | | | | | |
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| | related indicators | | | | |
| | Social and employee, respect for human rights, anti-corruption, and anti-bribery matters | Social | Investee countries subject to social violations | 1 | 16 |
| Real estate assets | Climate and other environment-related indicators | Fossil fuels | Exposure to fossil fuels through real estate assets | 1 | 17 |
| | | Energy efficiency | Exposure to energy inefficient real estate assets | 1 | 18 |

# 2 Description of the principal adverse impacts on sustainability factors

Fidelity in-scope entities consider that PAIs are those impacts of our investment decisions that result in material negative impacts on environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters such as environment degradation, poor labour practice, and unethical corporate behaviour for example bribery and corruption. The PAIs outlined in the SFDR represent a helpful tool for measuring and reporting on principal adverse impacts, but are not exhaustive and may require contextual information and analysis to determine the extent to which performance on an individual PAI represents a material adverse impact on a sustainability factor such as impacts on biodiversity or the adverse effects of high emissions to water.

Principal adverse impacts on sustainability factors are considered by those funds and those segregated mandates that comply with the disclosure requirements of SFDR Article 8 and 9. For those funds that consider PAIs, information on PAIs on sustainability factors will be available in the specific fund's Sustainability Annex and in the next annual report of the funds. For those segregated mandates that consider PAIs, information on PAIs on sustainability factors will be available in the periodic report as referred to in Article 25(6) of the Directive 2014/65/EU.

| **Indicators applicable to investment in investee companies** | | | | | | |
|---|---|---|---|---|---|---|
| **Climate and other environmental-related indicators** | | | | | | |
| **Adverse sustainability indicator** | | **Metric** | **Impact (year n)** | **Impact (Year n-1)** | **Explanation** | **Actions taken, actions planned, and targets set for the next reference period** |
| Greenhouse gas emissions | 1. GHG emissions | Scope 1 GHG emissions | NA | NA | NA | **Approach**<br>Climate considerations are integrated into research through our Proprietary ESG Ratings, Proprietary Climate Ratings and 3rd party data sets (including scenario analysis). |
| | | Scope 2 GHG emissions | NA | NA | NA | |

<table>
<tr><td rowspan="5"></td><td rowspan="2"></td><td>Scope 3 GHG emissions</td><td>NA</td><td>NA</td><td>NA</td><td rowspan="7">Fidelity’s ESG Ratings explicitly integrate climate PAI metrics (with the exception of exposure to the fossil fuel sector). Metrics are selected for each sector based on their materiality.<br><br>Fidelity’s Climate Rating complements our ESG Ratings, and assess issuers’ alignment to the Paris Agreement and net zero pathways.<br><br>Fidelity International has set a target to halve the aggregate carbon footprint of our investment portfolios by 2030, from a 2020 baseline, starting with equity and corporate bond holdings; and reach net zero for holdings by 2050.<br><br>Engagement<br>We engage with companies on our minimum climate requirements related to:<ul><li>Disclosure of Scope 1, 2 & 3 GHG emissions data</li><li>Business alignment to Paris Agreement goals</li><li>Disclosure aligned with TCFD recommendations</li><li>Detailed disclosure of climate risks and opportunities for business</li><li>Having a climate change policy and a net zero plan in place</li></ul>In addition to the minimum criteria above, we also conduct thematic engagements with the objective of encouraging real-world decarbonisation. For our example, we are engaging with investee companies with thermal coal exposure to encourage a timely phase out.<br><br>Voting<br>We expect our investee companies to:<ul><li>Take action to manage climate change impacts and reduce their GHG emissions.</li><li>Make specific and appropriate disclosures around emissions, climate targets, risk management and oversight.</li></ul>Where companies fall short of our minimum climate expectations and do not demonstrate a willingness or plan to meet them, we will vote against management.<br><br>Collaboration<br>We support policy makers in helping markets meet Paris-aligned emissions reductions targets. We are a regular contributor to public consultations, including those pertaining to the EU Green Deal, EU Action Plan on Sustainable Finance and UK mandated TCFD reporting. We continue to engage with policy makers and provide expert views on topics around financing the low-carbon transition and the role that asset managers can play.<br><br>Exclusions<br>Exclusions on thermal coal miners & power generation, oil sands extraction and artic oil & gas production apply for our Sustainable Family Funds.</td></tr>
<tr><td>Total GHG emissions</td><td>NA</td><td>NA</td><td>NA</td></tr>
<tr><td>2. Carbon footprint</td><td>Carbon footprint</td><td>NA</td><td>NA</td><td>NA</td></tr>
<tr><td>3. GHG intensity of investee companies</td><td>GHG intensity of investee companies</td><td>NA</td><td>NA</td><td>NA</td></tr>
<tr><td>4. Exposure to companies active in the fossil fuel sector</td><td>Share of investments in companies active in the fossil fuel sector</td><td>NA</td><td>NA</td><td>NA</td></tr>
<tr><td rowspan="2">Energy Performance</td><td>5. Share of non-renewable energy in consumption and production</td><td>Share of non-renewable energy consumption and non-renewable energy production of investee companies compared to renewable energy source expressed as a percentage of total energy sources</td><td>NA</td><td>NA</td><td>NA</td></tr>
<tr><td>6. Energy consumption intensity per high impact sector</td><td>Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector</td><td>NA</td><td>NA</td><td>NA</td></tr>
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| | | | | | | Further details on our approach to considering and mitigating the impacts of GHG and other emissions can be found in our [Climate Policy.](#) |
| Biodiversity | 7. Activities negatively affecting biodiversity-sensitive areas | Share of investment in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas | NA | NA | NA | **Approach**<br>Biodiversity considerations are integrated into our research using our Proprietary ESG Rating that include metrics on terrestrial and oceanic biodiversity impacts. Metrics are selected for each sector based on their materiality.<br><br>**Engagement & Collaboration**<br>Fidelity International, alongside more than 30 other financial companies, has committed to tackle forest-risk agricultural commodity driven deforestation activities at the companies in our investment portfolios through engagement and stewardship by the end of 2025 on a best-efforts basis.<br><br>In 2021, Fidelity International signed up to the Finance for Biodiversity pledge which commits to protect and restore biodiversity. The pledge brings together over 100 financial institutions, committing to collaborate & share knowledge, engage with companies, assess impact, and set targets to report on biodiversity matters before 2025.<br><br>Fidelity International has a thematic and collaborative engagement programme focused on biodiversity issues. Relevant thematic engagements include plastics, deforestation and sustainable fashion.<br><br>**Voting**<br>Fidelity will vote against directors where they have clearly failed to manage or implement the capabilities to monitor and assess material environmental risks related to biodiversity matters and reduce the ecological impact of their operations. |
| Water, waste, and material emissions | 8. Emissions to water | Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average | NA | NA | NA | **Approach**<br>Water, waste and material emissions considerations are integrated into our research using our Proprietary ESG Ratings that include specific metrics on water usage, toxic emissions, and hazardous waste intensity. Metrics are selected for each sector based on their materiality.<br><br>**Engagement & Collaboration**<br>Fidelity is a signatory of the Valuing Water Finance Initiative that aims to support companies toward and protect water resources in their business operations and global supply chains. We engage with poor performing issues to help encourage improvements to protect water resources. Additionally, we will look to engage with issuers which do not have a high hazardous waste ratio.<br><br>**Voting**<br>Fidelity International vote against directors where a company has clearly failed to properly manage the sourcing of water, failed to mitigate potential water scarcity risks, or are accountable for failings resulting in material pollution or contamination. |
| | 9. Hazardous and radioactive waste ratio | Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average | NA | NA | NA | |

| Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters | | | | | | |
|---|---|---|---|---|---|---|
| **Adverse sustainability indicator** | | **Metric** | **Impact (year n)** | **Impact (Year n-1)** | **Explanation** | **Actions taken, actions planned, and targets set for the next reference period** |
| Social and employee matters | 10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises | Share of investments in investee companies that have been involved in violations of UNGC principles or OECD Guidelines for Multinational Enterprises | NA | NA | NA | **Approach**<br>Corporate governance and human rights considerations are integrated into our research using our Proprietary ESG Ratings that include indicators on human rights, modern slavery issues, anti-bribery, and corruption. Metrics are selected for each sector based on their materiality.<br>**Exclusions**<br>Fidelity International exclude issuers that we deem to be in violation of the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights, Responsible Business Conduct and International Labour Organization (ILO) Conventions.<br>**Engagement & Collaboration**<br>Fidelity International is a member of the Investors Against Slavery and Trafficking Asia Pacific initiative and aim to drive positive change through collaborative engagement with targeted companies.<br>**Voting**<br>Fidelity International will vote against the election of members of a company's board of directors where, in our view, the company has not met the minimum standards of monitoring and overseeing itself and its suppliers with regard to human rights and minimising the risk of modern slavery or human rights violations occurring within its organisation or supply chain. |
| | 11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compliance principles and OECD Guidelines for Multinational Enterprises | Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanism to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises | NA | NA | NA | |
| | 12. Unadjusted gender pay gap | Average unadjusted gender pay gap of investee companies | NA | NA | NA | **Approach**<br>Gender pay gap and board gender diversity considerations are integrated into our research using our Proprietary ESG Rating through the inclusion of specific indicators. Metrics are selected for each sector based on their materiality.<br>**Engagement & Collaboration**<br>Fidelity International supports various initiatives globally on gender pay gap and diversity, including the 30 percent club and the 40:40 Vision working towards gender balanced executive teams by 2030.<br>**Voting**<br>Our voting policy is designed to encourage gender diversity on corporate boards. We support gender diversity on a |

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| | | | | | | 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. |
| | 13. Board gender diversity | Average ratio of female to male board members in investee companies, expressed as a percentage of all board members | NA | NA | NA | |
| | 14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) | Share of investment in investee companies involved in the manufacturing or selling of controversial weapons | NA | NA | NA | **Exclusions**<br>We exclude issuers with exposure to controversial weapons in accordance with our Exclusions Policy. Additional exclusions, including on semi-automatic weapons producers and conventional weapons, apply to our Sustainable Fund Family. |
| **Indicators applicable to investments in sovereigns and supranationals** | | | | | | |
| **Adverse sustainability indicator** | | **Metric** | **Impact (year n)** | **Impact (Year n-1)** | **Explanation** | **Actions taken, actions planned, and targets set for the next reference period** |
| Environmental | 15. GHG intensity | GHG intensity of investee countries | NA | NA | NA | **Approach**<br>Fidelity International is awaiting the completion of a global standard for sovereign GHG intensity by the Partnership for Carbon Accounting Financials (PCAF) and plans to adopt the global standard when available. |
| Social | 16. Investee countries subject to social violations | Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to international treaties and conventions, United Nations principles and, | NA | NA | NA | **Exclusions**<br>Fidelity International's Sustainable Fund Family excludes Sovereign issuers based on: 1) an internal assessment of three principles relating to governance, respect for human rights and foreign policy; and 2) external internationally recognised country indicators. |

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| | | where applicable, national law | | | | |
| **Indicators applicable to investment in real estate assets** | | | | | | |
| **Adverse sustainability indicator** | | **Metric** | **Impact (year n)** | **Impact (Year n-1)** | **Explanation** | **Actions taken, actions planned, and targets set for the next reference period** |
| Fossil fuels | 17. Exposure to fossil fuels through real estate assets | Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels | NA | NA | NA | **Approach**<br>Consideration of exposure to fossil fuel exposure is integrated into Fidelity International's process and evaluated on asset acquisition and during each fund's Quarterly Sustainability Review.<br><br>**Exclusions**<br>Fidelity International's Sustainable Fund Family exclusions include criteria for thermal coal miners & power generation, oil sands extraction, arctic oil and gas production. These exclusions cover both assets and tenants. |
| Energy Efficiency | 18. Exposure to energy-inefficient real estate assets | Share of investments in energy-inefficient real estate assets | NA | NA | NA | **Approach**<br>Consideration of the energy-efficiency of a real estate asset is integrated into Fidelity International's process and periodically evaluated through a Quarterly Sustainability Review for the fund. More information on Fidelity International's approach is set out in the Real Estate Sustainability Policy |

## Additional Climate and other environmental-related indicators

| | | | | | | |
|---|---|---|---|---|---|---|
| Greenhouse gas emissions | 18. GHG emissions | Scope 1 GHG emissions generated by real estate assets | NA | NA | NA | **Approach**<br>Consideration of carbon emissions is integrated into our investment approach and Fidelity International has committed to achieving net zero scope 1 and 2 operational emissions for Real Estate funds by 2035, and scope 3 by 2050. |
| | | Scope 2 GHG emissions generated by real estate assets | NA | NA | NA | |
| | | Scope 3 GHG emissions generated by real estate assets | NA | NA | NA | |

## Other indicators for principal adverse impacts on sustainability factors

## Indicators applicable to investment in investee companies

## Additional Climate and other environmental-related indicators

<table>
<tr><th colspan="2">Adverse sustainability indicator</th><th>Metric</th><th>Impact (year n)</th><th>Impact (Year n-1)</th><th>Explanation</th><th>Actions taken, actions planned, and targets set for the next reference period</th></tr>
<tr><td>Water, waste, and material emissions</td><td>15. Deforestation</td><td>Share of investments in companies without a policy to address deforestation</td><td>NA</td><td>NA</td><td>NA</td><td>Approach<br>Deforestation considerations are integrated into our research using our Proprietary ESG Rating that includes an indicator on deforestation. Indicators are selected for each sector based on their materiality.<br><br>Engagement & Collaboration<br>Fidelity International, alongside more than 30 other financial companies, has committed to tackle forest-risk agricultural commodity driven deforestation activities at the companies in our investment portfolios through engagement and stewardship by the end of 2025 on a best-efforts basis.<br><br>Fidelity International has a thematic and collaborative engagement programme focused on biodiversity issues that includes a focus on deforestation.</td></tr>
<tr><td colspan="7">Additional Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters</td></tr>
<tr><td>Human Rights</td><td>9. Lack of a human rights policy</td><td>Share of investments in entities without a human rights policy</td><td>NA</td><td>NA</td><td>NA</td><td>Approach<br>Human rights considerations are integrated into our research using our Proprietary ESG Ratings that include indicators on human rights and modern slavery issues. Metrics are selected for each sector based on their materiality.<br><br>Exclusions<br>Fidelity International exclude issuers that we deem to be in violation of the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights, Responsible Business Conduct and International Labour Organization (ILO) Conventions.<br><br>Engagement & Collaboration<br>Fidelity International is a member of the Investors Against Slavery and Trafficking Asia Pacific initiative and aim to drive positive change through collaborative engagement with targeted companies.<br><br>Voting<br>Fidelity International will vote against the election of members of a company’s board of directors where, in our view, the company has not met the minimum standards of monitoring and overseeing itself and its suppliers with regard to human rights and minimising the risk of modern slavery or human rights violations occurring within its organisation or supply chain.</td></tr>
</table>

# 3 Description of policies to identify and prioritise principal adverse impacts on sustainability factors

## 3.1 Governance structure

Fidelity International's approach to identify and prioritise principal adverse impacts is set out in our Principal Adverse Impacts Guidelines (PAI Guidelines) and Sustainable Investing Principles (SI Principles). The review and oversight of sustainable investing matters are vested in the Sustainable Investing Operating Committee (SIOC), which operates under the authority of the Global Operating Committee (GOC) chaired by Fidelity's Chief Executive Officer.

The scope of SIOC includes oversight of sustainable investing matters across Fidelity's business units, setting the overall strategic direction, policy formulation, external representation, product, business growth, investment integration, and setting the exclusion lists. The Committee also oversees the execution of Fidelity's ownership rights in investee issuers, including engagement and proxy voting activities. The Committee is composed of senior executives from across our business, including the Global Head of Stewardship and Sustainable Investing and senior representatives of the Investment Management, Distribution and General Counsel functions.

## 3.2 Methodology to identify and prioritise principal adverse impacts

As a firm, Fidelity International's Principle Adverse Impacts on Sustainability Indicators are largely due to the companies we invest in or lend to. FIL considers principal adverse impacts on sustainability factors are those impacts of our investment decisions that result in material negative impacts on environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters such as environment degradation, poor labour practice, and unethical corporate behaviour for example bribery and corruption ("principal adverse impacts").

When evaluating principal adverse impacts of its investments, FIL considers the potential for engagement with an issuer to mitigate any adverse impacts on sustainability factors and enhance issuer performance on PASIs. FIL holds that its scale, active ownership and long-term investment approach provide a compelling platform for positive influence of investee companies and that engagement can be more impactful than divestment in many instances. If a material issue is identified in a portfolio company, and engagement is not successful, this may lead to escalation up to and including divestment.

Principle adverse impacts are identified and prioritised from a macro and micro perspective. At the macro level, the Thematic Engagement Oversight Group identifies and establishes a set of thematic engagement strategies that are presented to SIOC for approval. Our current areas of focus include thermal coal, deforestation, climate change and board gender diversity. Associated engagements are undertaken independently and through collaborative initiatives such as Climate Action 100+ and Investors Against Slavery and Trafficking APAC (IAST APAC).

At the micro level, principal adverse impacts are identified and prioritised through a combination of tools and channels, the precise application of which will vary by investment strategy and asset class. These are summarised below:

1. Due diligence - Analysis of whether principle adverse impacts are material and negative is undertaken by our investment teams using the due diligence processes described in our Sustainable Investing Principles. Our investment teams may take into account the size, nature and scale of our investment and the type of financial product we are investing in when considering whether an investment decision has a principal adverse impact on sustainability factors.

2. ESG ratings and integration - Our FIL ESG Ratings are available to all investment managers and have been explicitly designed to include selected Principal Adverse Impact indicators. The indicators used to evaluate each issuer under FIL's ESG Ratings are identified through sector specific materiality mapping. FIL's materiality mapping considers international frameworks, and our analysts' views regarding the severity and probability of occurrence. For example, a low probability but high severity and irreparable principle adverse impact is far more likely to be material. This approach can result in focusing on a different set of principal adverse impacts for different sectors.

3. Active ownership - FIL's investment teams and sustainability analysts regularly engage with investee companies to better understand their sustainability characteristics, principle adverse impacts and where relevant, advocate for

enhancing performance on PASIs and related key sustainability metrics.

4. Exclusions and controversies - FIL's Article 8, Article 9 and Sustainable Family (SF) range of funds will not invest in issuers in breach of the principles of the UN Global Compact, that are assessed as having severe controversies relating to sustainability issues, or that participate in prohibited activities such as controversial weapons. Our Article 8, Article 9 and SF Range of funds may have more extensive sector exclusions that help minimise potential exposure to industries with material principal adverse impacts such as thermal coal, tobacco, gambling, alcohol, and unconventional oil and gas.

5. Sustainable Investments - As defined under SFDR, Fidelity International's identification of Sustainable Investments includes a 'Do No Significant Harm' test that integrates a quantitative screen based on Principal Adverse Impact data. In our approach, issuers in the bottom 10% of the screen are not eligible to be classified as a Sustainable Investment unless FIL determines the issues identified are mitigated or unlikely to be a source of material harm.

## 3.3 Methodologies to integrate consideration of PAI

Fidelity's funds that disclose under Articles 8 and 9 consider PAI as defined in Article 7 of SFDR, through the following tools and channels:

- Integration – ESG Ratings: Fidelity's ESG Ratings have been created to explicitly include PAI indicators, with the exception of third party funds, and topics. Importantly, this means that an assessment of the materiality of PAI for each sector has been undertaken as part of the Fidelity ESG Rating process, and each issuer has been scored on the relevant PAI indicators or on metrics covering similar issues. As a result, consideration of PAIs is a critical and inseparable part of Fidelity's approach to ESG integration and assessment of ESG risk.

- Integration – Quarterly Sustainability Review (QSR): Fidelity has introduced a mandatory QSR for all funds under SFDR Article 8, Article 9 or Fidelity's SF. The QSR is held by the relevant CIO and aims to provide a comprehensive assessment and discussion of a fund's qualitative and quantitative sustainability characteristics. The QSR includes a section on PAIs with performance on each Principal Adverse Sustainability Indicator vs. the benchmark.

- Exclusions: Fidelity's exclusion policies help reduce the potential for Principal Adverse Impacts by excluding business activities or issuers with a track record of behaviour that have material negative effects on sustainability factors. For example, Fidelity's behavioural exclusions explicitly target issuers in breach of the principles of the UN Global Compact and other norms-based standards. Fidelity's Article 8, Article 9 and SF range of funds have sector exclusions that help minimise potential exposure to industries with material PAIs including tobacco, thermal coal and weapons producers.

Fund-of-fund structures that invest in Fidelity funds are assessed on a look-through basis. Where look-through is not practical, the holdings of external or sub-advised funds are assessed periodically and as part of initial and ongoing fund due-diligence. We note that external or sub-advised funds will be subject to their own engagement and escalation approach regarding Principal Adverse Impacts.

## 3.4 Data sources

FIL primarily sources data on principal adverse impacts from third-party providers including MSCI, ISS, FactSet and Bloomberg. These data providers are supplemented by specialist providers (including Urgewald and The Carbon Disclosure Project), desktop research from our analysts, and engagement.

Despite significant improvements over the last 10 years, the quality and availability of reported data relating to principle adverse impacts remains limited and can constrain our ability to undertake quantitative analysis of FIL's principle adverse impacts. This issue can be exacerbated for smaller companies, private companies or in emerging markets.

We attempt to bridge quantitative data gaps through direct or collaborative engagement with issuers, public policy advocacy for enhanced and consistent disclosures, use of specialist data providers, and participation in industry initiatives.

FIL's ESG Ratings include principal adverse impact indicators, and our analysts can assess a company's performance based on research and direct company engagement. While this can help narrow the challenge presented by data gaps, it can include subjective assessment of issuer performance and culture, which may be subject to interpretation and error.

**Constraints**

While we have attempted to adopt a comprehensive approach to consideration of principal adverse impacts on sustainability factors, we recognise that potential sources of error remain in the methodologies and approach adopted. These include: 1) data quality and consistency; 2) data availability; 3) subjective assessment of issuer performance; 4) model error.

We recognise that data availability, methodologies and the underlying science are evolving rapidly in certain areas of sustainable investment. As a result, we review and aim to continue to enhance our approach to identifying principal adverse impacts on Sustainability Indicators as well as our approach to ESG integration and the broader tools available to our investment teams.

# 4 Engagement policies

When evaluating Principal Adverse Impacts of our investments, Fidelity considers the potential for engagement with an issuer to mitigate any adverse impacts on sustainability factors and enhance issuer performance on Principal Adverse Impacts. We have set out our stewardship approach below:

- Stewardship – Active ownership: Fidelity's investment teams and sustainable investing analysts engage with investee companies to better understand their sustainability characteristics, Principal Adverse Impacts and where relevant, advocate for enhancing performance on key sustainability metrics. Engagements are undertaken independently and through collaborative initiatives such as Climate Action 100+ and Investors Against Slavery and Trafficking, APAC with the assistance of the Sustainable Investing team.

- Stewardship – Voting and divestment: Fidelity's proxy voting guidelines provide Fidelity's expectations for investee companies on topics including climate change related disclosure, board level diversity, and corporate governance. If an investee company fails to meet our expectations we will inform the company, seek to engage where appropriate and may escalate by voting against the election of a director, or in certain circumstances by divesting from the company. Optional PAI indicators are selected based on considerations including data availability, materiality, and integration into Fidelity's ESG Ratings. The process is run by the Sustainable Investing team in consultation with internal stakeholders and presented to SIOC for validation

The table above sets out specific engagement activity targeted for each Principal Adverse Impact metric. You can find further details of our engagement activities in our Sustainable Investing Principles , UK Stewardship Report and Sustainable Investing Report.

# 5 References to international standards

## 5.1 Paris Agreement

### 5.1.1 Link to PAI indicators

Table 1 PAI 1- 6 Greenhouse gas emissions

### 5.1.2 Methodologies and data used

We have taken steps to align our business to the objectives of the Paris Agreement via our founding membership of the Net Zero Asset Owner initiative. As part of this membership, we are 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 above pre-industrial levels and to supporting investing aligned with net zero emissions by 2050 or sooner.

Fidelity has set a target to reduce CO2 emissions across our investment portfolios by 50 per cent by 2030, against our 2020 base level. This will be supported by development of a set of proprietary Climate Ratings that will leverage our existing in-house research capabilities to assess whether the companies we invest in have ambition and alignment to achieve net zero targets. Once all companies in Fidelity's investment universe have been assessed using this framework, Fidelity will be able to aggregate the assessments and score all funds for their alignment to net zero. This will enable transition targets to be set at both fund and individual company level to further manage the Principal Adverse Impacts these companies are having on climate and allow resources to be directed towards the biggest emissions reduction opportunities in terms of investment and engagement.

As part of our transition to net zero, we have also committed to phase out companies exposed to unabated thermal coal in OECD countries by 2030 and by 2040 globally. This gradual exit will give companies the chance to demonstrate their ability to transition. However, if individual companies do not show progress towards net zero in a timeframe not exceeding three years, we will look to divest.

This emission reduction and thermal coal phase-out targets are aligned with the IPCC Special Report 2018 1.5°C pathway P1.

Fidelity has published a report under the recommendations established by the Taskforce on Climate-related Financial Disclosures (TCFD) that highlights Fidelity's macro-economic research based on understanding how climate change may impact macro-economic variables. This analysis principally reflects the Network for Greening the Financial System's Orderly, Disorderly, and Hot House World scenarios (2021), as well as the extreme scenario from the Burke-Hsiang-Miguel model (2015).

## 5.2 UN Global Compact

### 5.2.1 Link to PAI indicators

Table 1 PAI 10: Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises

Table 1 PAI 11: Lack of processes and compliance mechanisms to monitor compliance with UN Global Compliance principles and OECD Guidelines for Multinational Enterprises

### 5.2.2 Methodologies and data used

United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights, Responsible Business Conduct and International Labour Organization (ILO) Conventions are used to assess human rights practices of companies to help assess and mitigate Principal Adverse Impacts companies may have on social factors.

*Various references assessing governance*

We are involved in external governance-related organisations and hold positions in the Investment Association, the Panel on Takeovers and Mergers, the Confederation of British Industry and the International Corporate Governance Network. We are also a signatory to the United Nations Principles for Responsible Investment ("UNPRI"), the UK Stewardship Code, the EFAMA Stewardship Code, the Japanese Stewardship

Code, the Taiwanese Stewardship Principles for Responsible Investors and the Hong Kong Principles of Responsible Ownership.

At this stage no forward-looking climate scenarios are used to explicitly assess potential impacts on the topics covered in this section. Fidelity is exploring the consideration of more comprehensive climate scenarios.

## 5.3 Deforestation

### 5.3.1 Link to PAI Indicators

Table 1 PAI 7: Activities negatively affecting biodiversity sensitive areas

Table 2 PAI 15: Deforestation

### 5.3.2 Methodologies and data used

In 2021, Fidelity signed the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation. The commitment emphasises the role of active ownership and ongoing stewardship and the importance of collaboration with wider stakeholders to meet these goals.

We have conducted an initial assessment of exposure to deforestation risk, considering high-risk companies, and widened the scope of our long-standing thematic engagement on palm oil to create our deforestation thematic engagement, incorporating key forest-risk agricultural commodities: palm oil, soy, beef & leather and pulp & paper. Governance and oversight of the engagement strategy will be provided by Fidelity's Engagement and Oversight Group (EOG). We will monitor the progress of our engagements and escalate as we see appropriate. Where companies in scope do not meet our minimum expectations, we intend to hold members of the board accountable through voting from 2024.

To identify how deforestation affects our investee companies, we leverage our fundamental research and analysis capability. At the heart of this sits our proprietary ESG rating as a tool for gaining comprehensive insight into companies' various sustainability characteristics, including their approach to addressing deforestation for relevant sectors. While data on deforestation is improving, challenges remain relative to other ESG disclosures. However, this is not an excuse for inaction. We are working with companies and ESG data providers to improve measurement, due diligence, and disclosures

To support our commitment, we will also continue to participate in several collaborative initiatives and investor workings groups, including Finance for Biodiversity Pledge (FIB), Natural Capital Investment Alliance (NCIA), WWF Biodiversity Risk Method for Investors and Taskforce on Nature-related Financial Dislosures (TNFD), to help develop standards and address deforestation at a system level.

At this stage no forward-looking climate scenarios are used to explicitly assess potential impacts on the topics covered in this section. Fidelity is exploring the consideration of more comprehensive climate scenarios.

## Important information



The information presented in this document is for information only. It is a general disclosure on the investment approach and should not be considered as (i) investment advice, (ii) an endorsement or recommendation in a financial product or service, (iii) an offer to sell or a solicitation of an offer to purchase any securities or other financial instruments. Unless otherwise stated all views expressed are those of Fidelity International.

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