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# Environmental, Social and Governance Policy

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## 1. Environmental, Social and Governance (“ESG”) Investment

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Fidelity International (“Fidelity”) believes that high standards of corporate responsibility will generally make good business sense and have the potential to protect and enhance investment returns.

Our investment process takes ESG issues into account when, in our view, these have a material impact on either investment risk or return in order to achieve the best possible risk-adjusted returns for our investors. We seek to gain an understanding of the relevant ESG issues applicable to our investments through our internal research process and to identify these issues before they escalate into events that may potentially threaten the value of our investment. We encourage integration of ESG issues into our investment decision-making process when it has a material impact on the investment or it has the potential to affect the long-term value of the investment. Our ESG integrated approach covers all the asset classes, sectors and markets in which we invest.

## 2. ESG Integration into our Investment Process

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### Who is responsible for ESG integration in Fidelity?

ESG integration is carried out at analyst level within the equity, fixed income and real estate teams in Fidelity and our portfolio managers are also active in analysing the potential effects of these factors when making investment decisions. A specialist in-house ESG team consolidates Fidelity’s approach to ESG and the implementation of our voting policies.

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

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

## Global ESG specialists

Fidelity's analysts have overall responsibility for analysing the environmental, social and governance performance of the companies and buildings in which we invest. Fidelity's specialist ESG team, who sit within the Global Investment Team, works closely with the business and investment management teams globally across all asset classes and coordinates ESG training for these teams. This training encompasses investment analysts, portfolio managers, investment directors, directors of research, as well as the institutional, sales and marketing teams.

Fidelity's ESG specialists attend external seminars focussing on the trending environmental, social and governance issues in the market globally as well as conferences discussing the challenges and new innovations to assist in integrating ESG into the investment process across all asset classes.

## In-depth research and training programmes

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

Our credit analysts are responsible for analysing companies in order to develop a deep understanding of their business, their outlook and, above all, their creditworthiness. This helps us to identify investment opportunities and avoid those companies where poor fundamentals, which have not been recognised by the market, could weaken performance and potentially lead to downgrade or default. Engagement with companies is also part of our credit analysts' fundamental approach and we engage with bond issuers communicating to them any specific concerns we may have in respect of ESG issues.

A key concern for our sovereign credit team is the long-term sustainability of a country's economic and political situation and therefore addressing ESG issues logically aligns with their country analysis. Our fixed income team will consider ESG factors when they are material to both the creditworthiness and investment performance of the country being analysed. Our sovereign analysts also undertake a large amount of quantitative macro research which is shared with our equity and solutions team.

Our real estate team identifies relevant issues for responsible property investment through the lifecycle of property ownership. This includes environmental risk assessments and ongoing review of energy use. Appendix I provides a summary of Fidelity's Responsible Property Investment Policy.

Examples of ESG factors that our equity, fixed income and real estate investment teams may consider as part of their company and industry analysis include:

- Changes to regulation (e.g. GHG emissions restrictions, governance codes)
- Physical threats (e.g. extreme weather, climate change)
- Cost implications (e.g. arctic mining, product recalls, fines)
- Brand and reputational issues (e.g. poor health and safety record, weak labour practices)
- Supply chain management (e.g. increase in fatalities, LTIR, labour relations)
- Gaining access to raw materials (e.g. security of oil supply, conflict minerals, bribery and corruption)
- Product evolution (e.g. low energy products, renewable energy)
- Shareholder rights (e.g. election of directors, capital amendments)
- Corporate governance (e.g. Board structure, executive remuneration)
- Environmental performance data of buildings (e.g. energy and water consumption, GHG emissions and waste).
- Work practises (e.g. observation of health, safety and human rights provisions and compliance with the provisions of the Modern Slavery Act).

Fidelity has a clear and demonstrable policy of training and developing our analysts, which is measured through the use of training and competence matrices. Examples of training programmes in the investment team in Europe include the Company Induction Programme, the Analyst and Associate New Hire Training Programme, "Analyst School" (an ongoing analyst development programme), the Portfolio Manager Academy, courses and certifications such as the CFA, IMC and CISI and on-line courses via the Fidelity training website. These programmes generally include a module on ESG issues and the broad range of topics that fall under this heading. In addition, our ESG specialists conduct specific training courses throughout the year for both our fixed income and equity analysts and portfolio managers on various ESG themes, topics and strategies.

## External ESG research providers

Fidelity uses a number of external research sources globally that provide ESG-themed reports and we subscribe to an external ESG research provider and rating agency to supplement our organic analysis. The vendor provides us with research and company ratings based on ESG factors on more than 4,000 companies around the world.

We receive three types of ESG-related reports:

- company-specific reports and ratings,
- industry-specific reports,
- thematic research on an ad hoc basis which will deal with specific environmental, social and/or governance themes.

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

Our ESG specialists are responsible for periodically reviewing the quality of our ESG research provider and changing providers if considered necessary to ensure the highest quality ESG research is provided to our investment team.

## Integrating external ESG research and ratings into Fidelity's investment analysis

The ESG ratings and full company reports are included on our centralised Research Management System, an integrated desktop database, so that each analyst has a first-hand view of how each company under their coverage is rated according to ESG factors. For any additional information, the analysts can contact our global ESG specialists who have a thorough understanding of current ESG trends around the world.

In addition, ESG ratings are included on our Analyst Research Notes. These notes are published internally and form an important part of our investment decision.

A two-page summary of the ESG company reports are included in our company meeting packs, in order to assist our analysts and portfolio managers in identifying any key ESG risks or opportunities related to that company ahead of the meeting and to prompt discussion of these issues with the company's management.

Quarterly, our global ESG specialists provide both the equity and fixed income teams with a comprehensive set of reports summarising companies within our investment coverage that the external research vendor has rated high or low according to a multi-stage ESG ratings model. The report highlights companies that have been implicated in any substantial controversies and/or events during the quarter and also includes “best in class” ratings analysis to draw the attention of our analysts to the high level performers.

As landlords rather than shareholders, the real estate team does not have the same level of influence on companies’ internal processes but is still able to influence factors relating to the building they reside in. They therefore focus more on the environmental aspects of the external vendor reports which are likely to have the most impact on their portfolios. They also use the vendor ESG controversy alerts to monitor their properties and tenants to ensure that they are aware of any relevant events which may have a negative effect on their holdings.

Our global ESG specialists also provide our PMs around the world, on request, with a breakdown of their portfolio according to the external ESG ratings. This fund analysis forms part of the discussion our ESG specialists have with the PMs on the most high risk ESG factors in their portfolios. We also provide a similar report to our analysts based on their coverage and this forms part of their overall investment analysis.

Our global ESG specialists publish “Controversy Alerts” on our Research Management System. These reports include information of companies within our coverage who have been identified by our external vendor to have been involved in a high risk controversy that may potentially have a material impact on the company and its reputation.

Our analysts are encouraged to explore the material differences between their internal ratings of companies in which we invest and the external ESG ratings provided to them through these various measures.

### **3. ESG Exclusions and Screening**

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Although we don’t screen out companies based on ESG criteria for our pooled fund investment vehicles, in specific cases, clients occasionally request that we screen out certain industries or securities. Some examples are controversial weapon producers, alcohol and tobacco stocks, home country stocks or stocks in which the investor has an economic interest. We consider these requests case-by-case and generally accommodate them for specific client mandates. When we do, the decision is incorporated into the investment guidelines.

We use an external research provider to screen our funds which undertakes comprehensive ESG research on each ESG screened theme and identifies the companies to be excluded on our client segregated mandates. We monitor and update the screens on an in-house compliance system that ensures that we do not invest in the companies that come under the screening rule.

The screening rules we are currently able to apply to client segregated mandates are – adult entertainment, animal welfare, defence and weapons, gambling, genetic engineering, global sanctions, nuclear power, pork and tobacco.

## **Norms Based Screening**

Fidelity has a specific norms-based screen on one of our institutional pooled funds. We apply the 10 Principles of the UN Global Compact to this fund and ensure that we do not invest in companies that are not considered compliant with these principles. We have outsourced the analysis regarding this compliance/non-compliance to an external research provider and we have a robust internal system to ensure we stay compliant to this screen.

## **4. ESG External/Client Reporting**

We provide Fidelity's institutional clients with the following reports:

- Thematic ESG Quarterly Reports
- ESG Fund Overview (on request)
- Annual Voting Record (published on our external website)
- Quarterly Voting Reports
- Governance and Engagement Reports.

The Thematic ESG Quarterly Report includes our research on specific environmental, social and governance themes. We identify the business case for these themes, include any updates on regulations or events during the quarter and identify companies in our holding universe that we have engaged with or feel are well or poorly placed to deal with this investment theme.

Fidelity's ESG specialists provide quarterly proxy voting reports to our institutional clients as well as a more in-depth annual Governance and Engagement Report which details the activities we have partaken with respect to our investee companies as well as our wider stance on stewardship and related issues.

## 5. Active Ownership

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Fidelity pursues an active investment style through portfolio management decisions, voting on resolutions at general meetings and maintaining an ongoing dialogue with the management of investee or potential investee companies. This involves holding thousands of regular meetings with companies, at Board and Senior Management level, to discuss specific results or events as well as a more informal dialogue incorporating site visits and other research initiatives.

As a general policy we aim to support the management of the companies in which we invest but our dialogue with companies is a robust one 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 shareholding, the timeframe of the investment thesis and the ownership profile of the business in question, as well as the stewardship and composition of the board. 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 shares.

Our ESG specialists work closely with the investment team in the conduct of Fidelity's voting activities. Information to inform the voting process is derived from a variety of sources and includes material provided by the company, proxy voting advisory services, internal and external research. Discussions may also be held with investee companies themselves. All votes are cast in accordance with Fidelity's established voting policies after consultation with the relevant portfolio managers where appropriate. We will vote all equity securities where there is a regulatory obligation for us to do so or where the expected benefit of voting outweighs the expected costs. Fidelity's approach and policy with regard to the exercise of voting rights are in accordance with all applicable laws and regulations as well as being consistent with the respective investment objectives of the various portfolios.

For further information on Fidelity's approach to stewardship and proxy voting please refer to our Principles of Ownership:

[https://www.fidelityinternational.com/static/pdf/common/principles\\_of\\_ownership.pdf](https://www.fidelityinternational.com/static/pdf/common/principles_of_ownership.pdf)

In relation to our real estate investments, although Fidelity also pursues an active management approach, we recognise that complete control of all occupiers and tenants is not always possible. Our response to a change of tenant is therefore on a case-by-case basis.

## 6. Engagement

We do not screen out companies from our investment universe purely on the grounds of poor ESG performance but rather adopt a positive engagement approach whereby we discuss these issues with the management of the companies in which we invest, or are considering investing, on behalf of our clients.

We use the information gathered during these meetings both to inform our investment decisions and also to encourage the company's management to improve procedures and policies. We believe that this is the most effective way to improve the attitude of business towards corporate responsibility.

Although our portfolio managers and analysts meet the companies in which they invest on an ongoing basis, our ESG specialists also attend these company meetings with them when specific ESG issues are being addressed. The specialists work with the portfolio managers and analysts to determine the objectives of the engagement, how best to achieve them and then will ultimately discuss the results of the engagement with the investment team and any additional information relevant to our investment decision.

In addition our ESG specialists attend conference calls or face-to-face meetings with the relevant SRI/ESG professionals of these firms to address specific ESG concerns. Our eventual goal from these activities is to enable us to gain greater insight into the company's ESG processes, to further our understanding on the issues and to learn how these concerns are being managed by the company. The investment analysts are encouraged to participate in these discussions so as to ensure that the investment and ESG teams give an integrated message to companies.

Our ESG team discuss their company engagements with the relevant analysts and portfolio managers via email or through direct discussion.

## 7. Collaboration within the Investment Industry

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Fidelity is a signatory to the United Nations Principles for Responsible Investment (UNPRI), a voluntary framework for incorporating ESG issues into investment decision-making and ownership practices. Fidelity's approach to responsible investment is consistent with the UNPRI Principles and is consistent with our view that ESG integration should be encouraged when it enhances long term financial return. As part of being a signatory, Fidelity submits an annual assessment report to the UNPRI in accordance with their guidelines and our approach to ESG across asset classes is currently rated as outperforming the median.

We are active members of the International Corporate Governance Network (ICGN), Asian Corporate Governance Association (ACGA), the Association of British Insurers (ABI), Corporate Governance Forum, Investment Association (IA), UK Sustainable Investment and Finance Association (UKSIF), Asia Securities Industry and Financial Markets (ASIFMA), Hong Kong Investment Funds Association (HKIFA) and we participate in the debates with other governance groups.

We are also active members of the International Corporate Governance Network, Asian Corporate Governance Association, the Investment Association, the Association of British Insurers, the Corporate Governance Forum, Assogestioni, the UK Sustainable Investment and Finance Association, the Investor Forums in both Japan and the UK, Asia Securities Industry and Financial Markets, Hong Kong Investment Funds Association and many other trade and industry bodies around the world.

Fidelity is a signatory to the U.K. Stewardship Code and the Japanese Stewardship Code and believes that a collaborative approach within the investment industry is important in order to create a synergy of ESG practices within the market. Sharing experiences and knowledge with our peers enables us to gain a better understanding of the most important ESG issues in the market place as well as the regulatory frameworks that exist in different markets.

In addition, Fidelity is proactive in strengthening its links within the investment industry, with governments, regulators and exchanges around the world in order to determine the most effective ESG initiatives for the investment process and set out a clear marker as to our commitment to maintain the highest ethical standards.

We maintain close relationships with a wide spectrum of investors as well as other agents of corporate change. Where legally permitted we are willing to consider collective engagement initiatives. Relevant factors in determining whether or not to participate in a collective engagement initiative will include the identity of the other leading investors, the relative size of the investment held by these investors and a determination of whether a collective approach is necessary in order to achieve a satisfactory outcome. Our approach to intervention is commercially driven and the issue being pursued will almost always be directly relevant to either the performance or the valuation of the business in question. We would not normally intervene on an operational matter but topics which can give rise to escalation and collective engagement include the need for management and/or Board change, strategy, capital structure, M & A, protection of shareholder rights, remuneration and other governance issues.

Fidelity's ESG specialists attend external seminars specialising on the current environmental, social and governance issues in the market globally as well as conferences discussing the challenges and new innovations to assist in integrating ESG into the investment process.

In addition, our ESG team have spoken publicly at industry events on responsible investment practices on topics such as executive remuneration, long-term incentive plans, and our approach to ESG integration. The team has also joined investor groups and forums to promote transparency in corporate governance issues and has responded to many government/exchanges/investment management groups' consultation papers on best practice in the responsible investment industry.

# Appendices

## I Responsible Property Investment Policy

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FIL Real Estate Investment Management (FREIM) recognises that responsible property investment and management takes into account wider environmental, governance and social factors.

FREIM believe that a responsible approach to property investment and management has an impact not only on our business reputation and image and that of our Clients, but is also likely to impact on the performance of the real estate assets we manage. By creating a Responsible Property Investment Policy and designing our approach to property investment and management to implement this Policy, we will be able to protect and enhance the value of our clients' assets and our business.

Responsible Property Investment is the cornerstone of our ownership and management strategies that goes beyond minimum regulation requirements in order to address ESG issues.

Further information on FREIM's approach to Responsible Property Investment is available on request.

## II Cluster Munitions Statement

### Statement on cluster munitions and landmine investment

- Fidelity is aware of all global legislation in relation to our investment in companies involved in the production and/or distribution of cluster munitions and landmines ("Cluster Munitions Companies") and endeavours to comply with all relevant requirements.
- Fidelity regularly reviews whether a company is engaged in the financing, production or distribution of cluster munitions and/or landmines as part of our investment decision-making process. In addition, we examine and assess lists of Cluster Munition Companies that have been publicly released by industry bodies or financial research providers globally.
- We do not screen out companies from our investment universe purely on the grounds of poor ESG performance but rather adopt a positive engagement approach whereby we discuss these issues with the management of the companies in which we invest on behalf of our clients. We use the information gathered during these meetings both to inform our investment decisions and also to encourage the company's management to improve procedures and policies.
- Furthermore, Fidelity seeks disclosure on ESG issues from companies/industries in which we invest through various internal and external sources. We also monitor external ESG research sources which consider non-financial factors (including information on landmines and cluster munitions) and periodically engage with companies regarding any concerns we may have.
- Fidelity consistently monitors the new and emerging worldwide regulations and ongoing debate in relation to landmines and cluster munitions and we support the efforts driving positive reform in these areas.
- Fidelity restricts its investments in Cluster Munitions Companies to remain compliant with Dutch law which prohibits investment in companies that produce, sell or distribute cluster munitions. Fidelity comes under an exemption to the law where we are allowed to own up to an aggregate of 5% in a specific list of Cluster Munitions Companies per fund.





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