

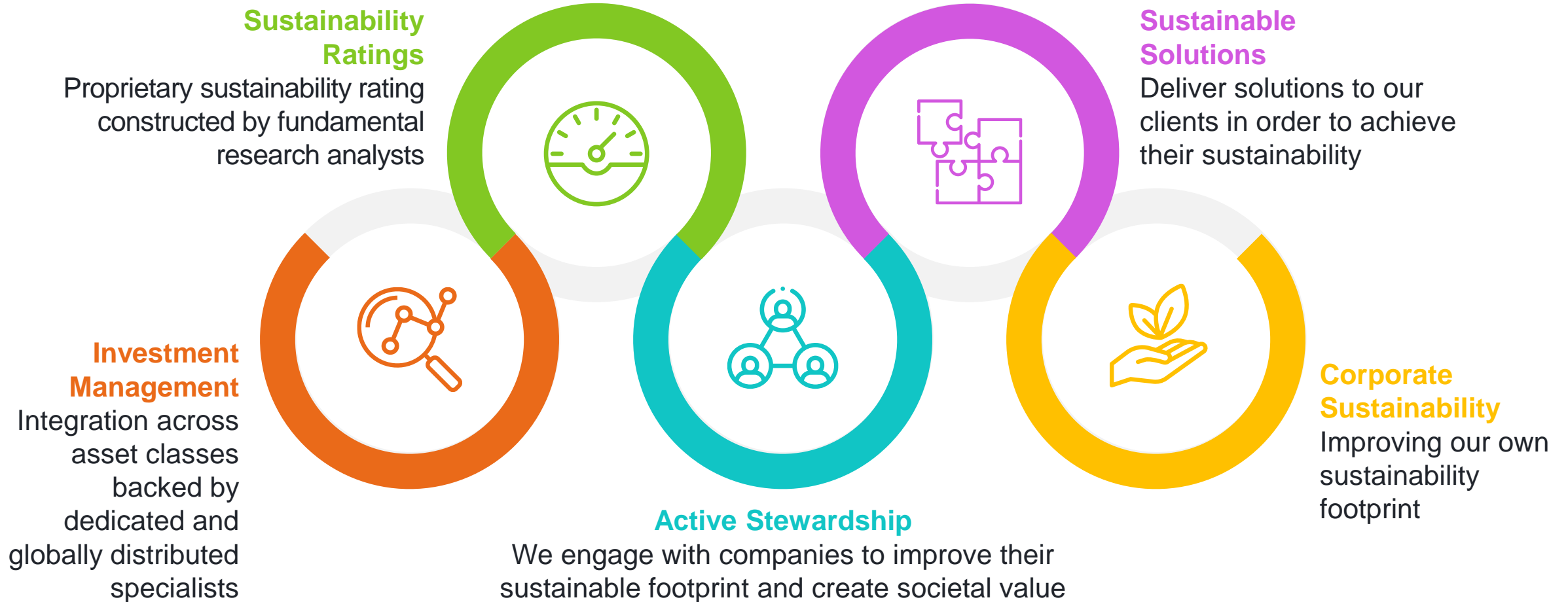
# Stewardship & Engagement

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# Fidelity's Sustainable Investing Approach



Source: Fidelity International, 2020

# What is an engagement?

You must intend to influence an investee's behaviour or disclosure

- Engagement refers to interactions between the investor and current or potential investees on ESG issues.
- Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure.
- Active ownership is the use of the rights and position of ownership to influence the activity or behaviour of investees. This can be applied differently in each asset class. For listed equities it includes both engagement and (proxy) voting (including filing shareholder resolutions).

Source: Source: PRI Reporting Framework – Main Definitions 2018

# What is not an engagement?

Standard company interactions are not engagements

- Interactions with companies for data collection and/or research purposes related to buy/hold/sell/weight decisions
- Standard questionnaires sent to companies for the purposes of information gathering and investment decision-making (e.g. on products, or ESG policies and performance, for screening purposes)
- Attendance at a company presentation, AGM or other company meeting without interactions or discussion
- Press releases an investor may publish regarding a practice an investee is undertaking which the investor is aiming to change

Source: PRI Reporting Framework – Main Definitions 2018

# Why should we engage?

What do we want to achieve

- To improve the sustainability practices or disclosures of investees companies
- To meet client expectations (and increasingly objectives)
- Re-definition of active management (problem of free rider)
- Philosophical view that improving short term stakeholder outcomes will lead to long term shareholder gain
- Broader transformation of the finance industry (including us) and associated societal expectations

# What types of engagement exist?

The three main types of engagement

Direct Company  
Engagement

Thematic  
Engagement

Collaborative  
Engagement

# Types of Engagement

## Direct Company Engagement

### Direct Company Engagement

Reasons for selecting an issuer for further engagement include, but are not limited to:

- Low ESG score or to improve quality of ESG rating
- Low rated issuer within the Sustainable Family
- Potential for positive environmental or social impact
- Part of a broader thematic engagement
- Deteriorating trajectory score
- Involvement in a controversy or adverse event
- Driven by requirements of the Sustainable Family framework

# Types of Engagement

## Thematic Engagement

Direct Company  
Engagement

Thematic  
Engagement

Thematic Engagements are series of engagements which focus on a particular issue (or issues) which cuts across one or multiple sectors/industries or regions.






**Examples of these include:**

Financing Climate Change, Modern Slavery, Biodiversity, Digital Ethics, ESG in the Insurance Sector.

The purpose of thematic engagements is to encourage improvement on this issue across the industry/sector or region.



# A thematic approach to engagement

Engagement themes						
2021 engagement themes	Financing climate change mitigation and adaptation 	Animal protein 	Supply chain sustainability 	Climate & natural capital	Corporate sustainability reporting 	Digital Ethics 
Objectives	Climate finance policies, ESG standards in underwriting, TCFD reporting	Improved standards on sustainable production, including deforestation, food safety, animal welfare	Concentrating on human rights & environmental footprint – Increase transparency, encourage a more sustainable strategy	Encourage compliance with RSPO standards, NDPE commitment, traceability & disclosure	Highlight materiality, data quality and consistency, alignment with global standards	Improve practices, policies and disclosures on key digital issues including cybersecurity, data privacy, online welfare, and digital inclusion.
Focus areas	Banks, insurers	Food producers & retailers	Textile and apparel manufacturers and retailers	Palm oil producers & traders, pulp & paper	India, ASEAN & China	Tech, Telecoms, Media and Online Platforms
Collaboration	IIGCC	FAIRR	IAST APAC, FFP initiative (UK)	Actiam		WBA

Source: Fidelity International, March 2021

# Types of Engagement

## Collaborative Engagement

Collaborative shareholder engagement occurs when a group of institutional investors come together to engage in dialogue with companies on environmental, social and governance (ESG) issues.

By speaking to companies with a unified voice, investors can more effectively communicate their concerns to corporate management.

The result is typically a more informed and constructive dialogue. Investors can benefit substantially from engaging collaboratively, but this approach can also present a series of challenges.

### **Examples of Collaborative Engagements**

**include:** Climate Action 100+, FAIRR, HESTA, 40:40 Vision, Find it, Fix it, Prevent it.

Collaborative  
Engagement

# External platforms



- Associate partner
- Active contributor



- Investor Exchange founder
- Consult & attend conferences
- Fidelity UK MD, on IA Board



- Ally
- Keystone company



- Participate in weekly calls
- Actively involved in their bi-monthly meetings



- Rated A+
- Member: 1 advisory committee, 2 working groups



- Lead investor, 4 engagements
- Collaborator, 4 engagements



- Uses data for ERM.
- Participates in or hosts low carbon transition discussions



- Member of three sub-groups
- Involved with policy development



- Active member
- Use to support animal protein investment theme



- Named supporter
- Published own report 2020
- Key engagement topic

Source: Fidelity International, February 2021

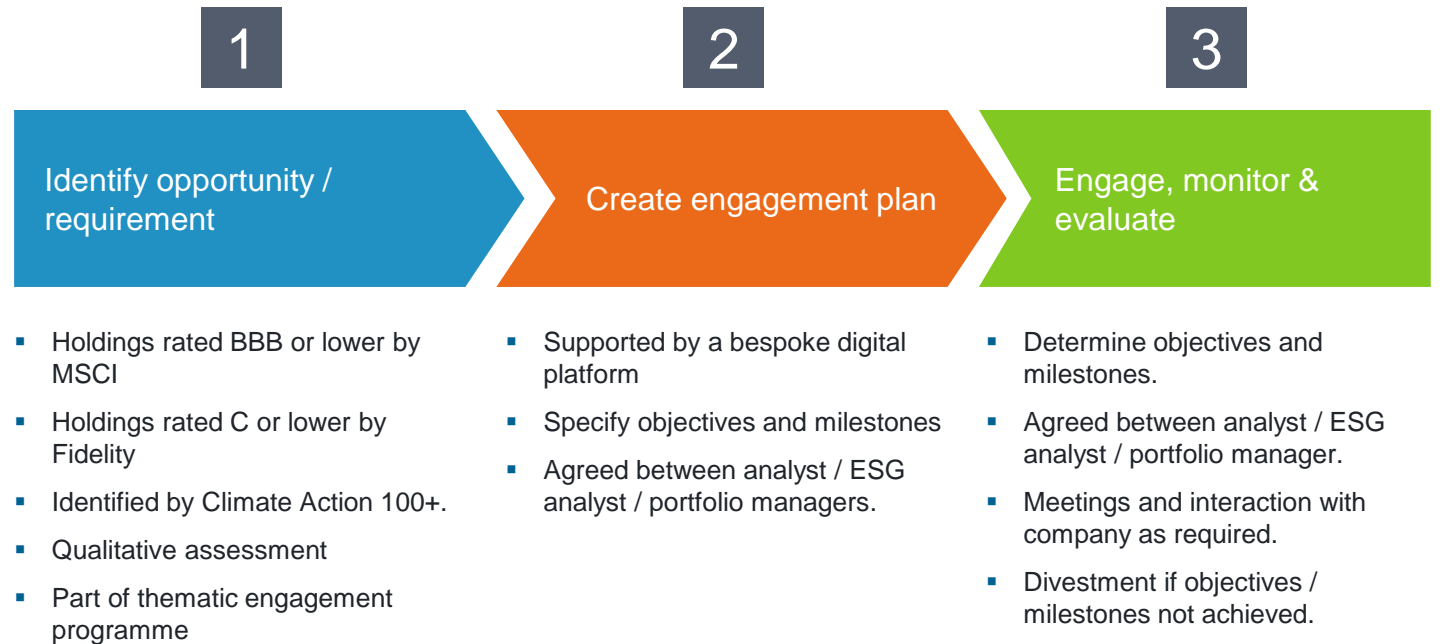
# Corporate Engagement Framework

Structured, long-term engagement with portfolio companies

## Fidelity's ESG Engagement philosophy

- Our fundamental research process allows us to identify material ESG risks and opportunities for companies
- This understanding allows us to engage over the long-term and target meaningful improvement in ESG characteristics, which in turn we expect to lead to improved shareholder outcomes

## Engagement process



# Engagement in Practice

## What questions to ask – Example: Climate Change

- Does the company have an ambition to achieve net-zero GHG emissions by 2050 (or sooner)?
- Does the company have clear short-, medium- and long-term GHG reduction targets or goals covering all material scope 1, 2 and 3 emissions in place and aligned to a 1.5°C global warming trajectory?
- Has the company's target(s) been validated by a third party (e.g. Science-Based Target initiative)?
- What is the company's strategy to deliver these reduction targets?
- Who is responsible for overseeing the climate policy and strategy both at executive level and board level? Are executives incentivised to deliver on this ambition?
- Has the company assessed how consistent with the Paris Agreement its capital investment in carbon-intensive assets or business lines are?
- Does the company conduct a risk assessment on how its activities may be impacted by physical risks?
- Does the company disclose a mitigation strategy in relation to physical risks?

# Financing Climate Change



Bank financing  
for fossil fuels has  
**increased each year**  
since Paris.

**2018: \$654 B**

**2017: \$646 B**

**2016: \$612 B**



Source: Fidelity International 2020; Rainforest Action Network

## Engagement Objectives:

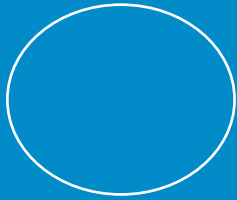
- ❖ Policy Development
- ❖ TCFD Reporting
- ❖ Increased Disclosure

## Engagement Update:

- Singaporean Banks – global rules on financing coal
- Japanese Banks – tightening coal policies

# Supply Chain Management

Inefficient management of supply chains can cause operational & reputational risks



Apparel retail, luxury goods & textiles sectors are dominated by multi-tier supplier relationships, a lack of traceability and rapid market-driven changes



Human Rights Focus – Industry carries a number of significant risk to workers' human rights, safety & working conditions across the value chain.

*Focus on:- wage concerns in developing countries; Labor exploitation & Unsafe working conditions.*



Responsible Sourcing Focus – Industry makes intensive use of resources, chemicals and energy impacting the environment.

*Focus on:- green manufacturing, eco-materials sourced for production & encouraging recycling of used clothes.*





# Engagement in Practice

## What questions to ask – Example: Modern slavery in the supply chain

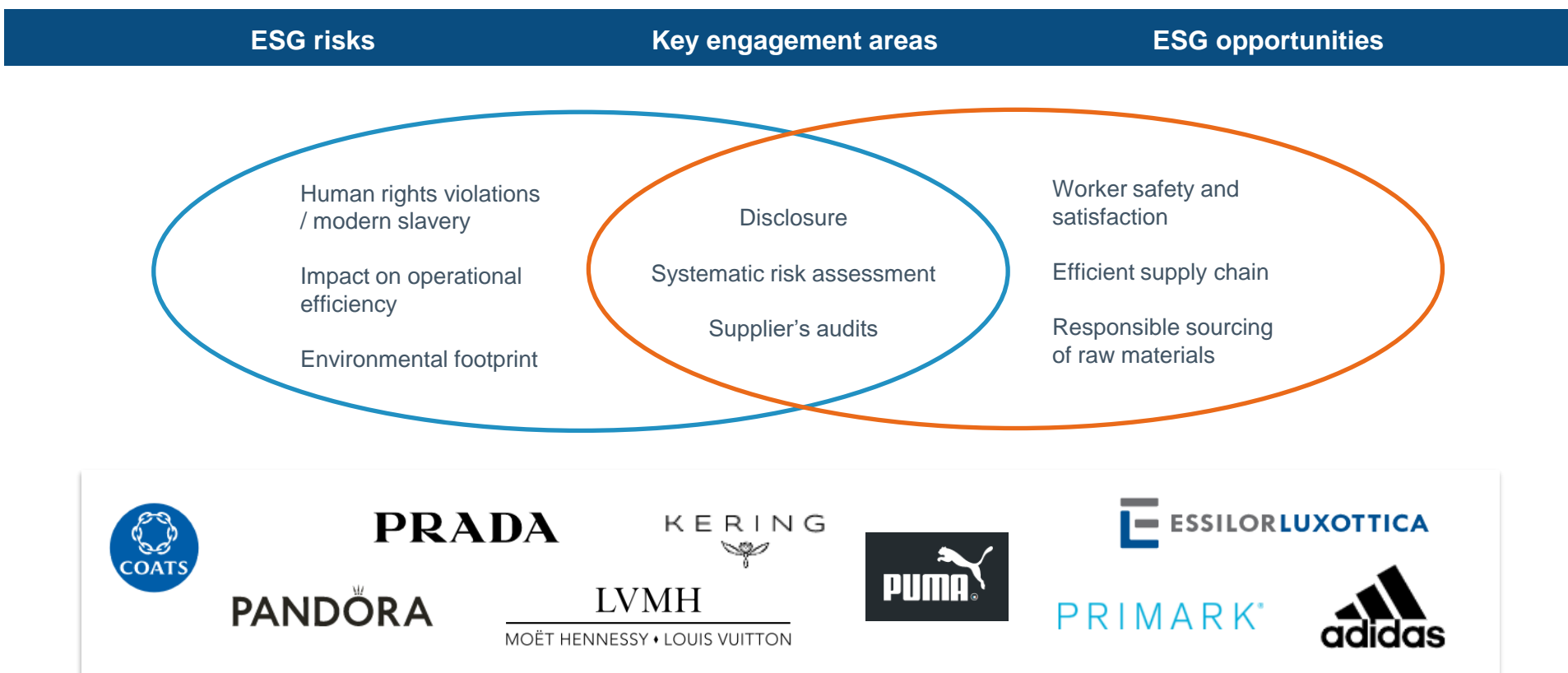
- Does the board have a designated member or committee with responsibility for oversight of the company's supply chain policies that address human rights issues?
- What is the percentage of Tier 1 suppliers that have received training on risks and policies that address modern slavery?
- How do you monitor the implementation of your company's supply chain policies? If you use a supply chain auditor (internal or external), do they have a track record of finding forced labour and human trafficking? Do they disclose their findings?
- Does the monitoring process include each of the following: i) non-scheduled visits ii) a review of relevant documents iii) off-site interviews with workers iv) visits to production facilities and worker housing and v) steps to ensure that suppliers below the first tier are monitored? How frequent are these audits?
- Do you provide first tier suppliers with the incentive to follow good labour practices e.g. price premiums, increased orders and longer-term contracts? Do you prioritise suppliers with superior environmental practices?
- What steps have you taken to ensure that your supply chain policies that address modern slavery are communicated to workers in your supply chains?

Source: Fidelity International, March 2021



# Thematic engagement: Supply chain & human rights

Textile and apparel manufacturers and retailers



Source: Fidelity International, February 2021

# Investors Against Slavery and Trafficking, APAC

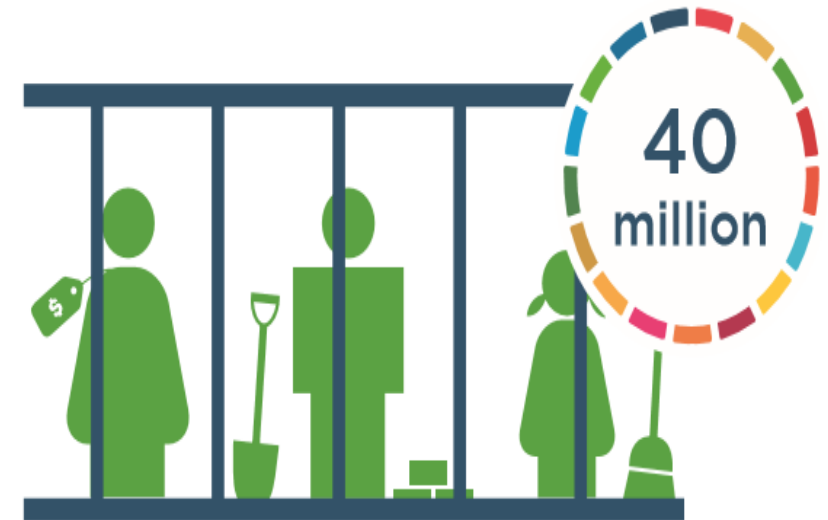
## Investor-led Initiative & Collaborative Engagement

### Investor Statement

- Setting out expectations to ASX200
- Going beyond requirements of Modern Slavery Act

### Collaborative Engagement

- Engage with at-risk companies across APAC
- Investors to lead engagements and report periodically
- Access to knowledge partners



Source: Fidelity International 2020; IAST APAC

# Covid19: Protecting the vulnerable

## Human rights and labour exploitation in the supply chain



### Fidelity warns of supply chain risks due to stranded seafarers

Investment group says unfolding crisis of crews stuck at sea must be addressed



- Instability of the pandemic exacerbating existing human rights concerns & creating new ones.
- Particularly vulnerable to the worst impacts of the crisis are the millions of workers lower down the supply chain.
- Fidelity Focus:
  - Seafarers
  - Sustainable Supply Chain Thematic Engagement
  - IAST APAC

Source: Fidelity International; UN Business & Human Rights Resource Centre

# Global Corporate Sustainability Reporting Standards

Sustainability reporting for various stages of development

## Initiating Corporate Sustainability Reporting

- Governance of Sustainability
- Materiality Assessment
- GRI Reporting Initiative (stage 1)

## Enhanced Corporate Sustainability Reporting

- Management / auditing of Sustainability Policies & Programmes
- CDP
- GRI Reporting Initiative (stage 2)

## Advanced Corporate Sustainability Reporting

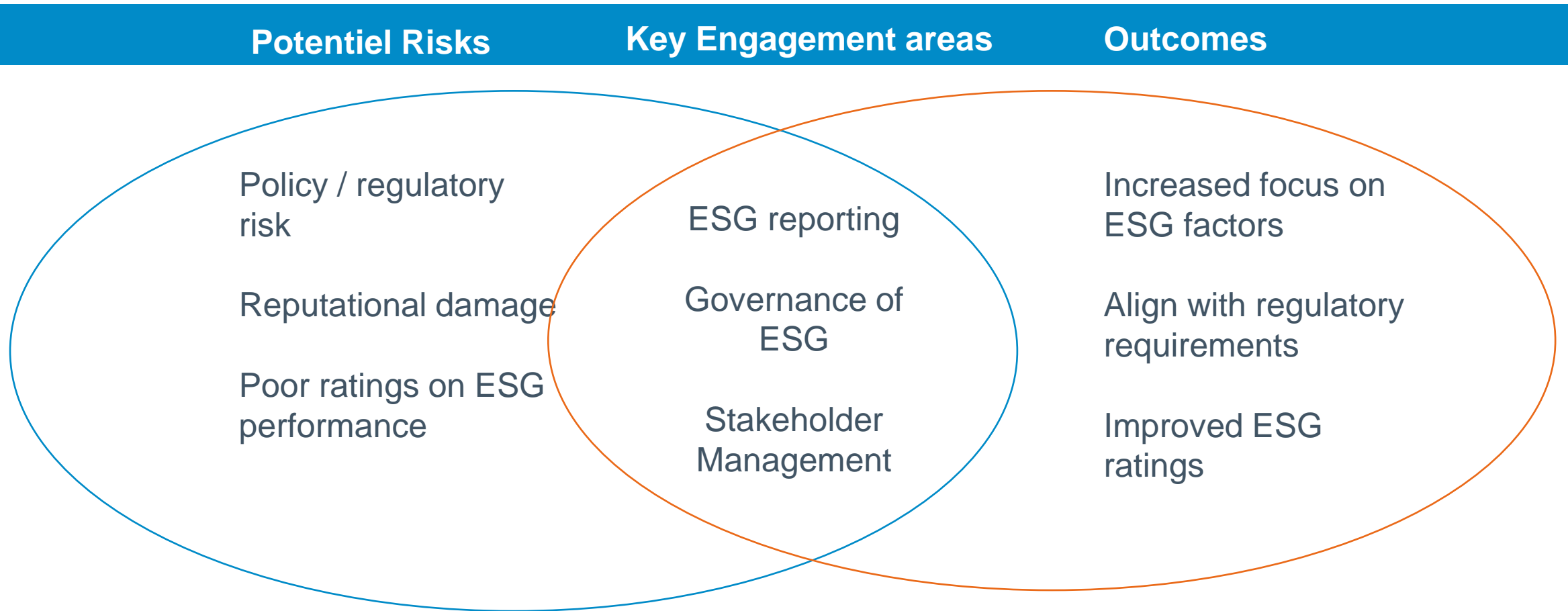
- Sustainable Accounting Standards Board (SASB)
- The International Integrated Reporting Council (IIRC)
- IFRS Sustainability Account Standards (*being developed*)

## Task Force on Climate-Related Disclosure (TCFD)

Voluntary disclosures considering the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries

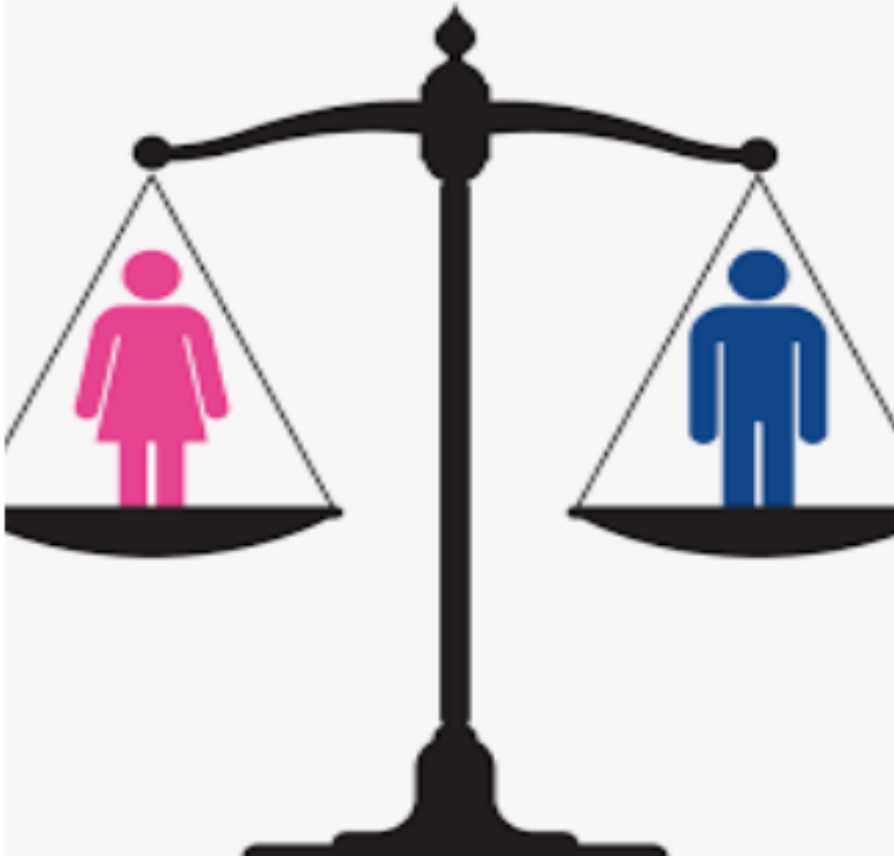
# Corporate sustainability reporting

India, ASEAN and China - overview



# 40:40 Vision

Encouraging a balance of 40% women, 40% men at executive leadership



- Investor-led initiative.
- Aim is to achieve 40:40 vision through business-oriented structural change.
- To encourage ASX200 companies to set medium & long-term targets to achieve gender balance by 2030.
- ***How are we getting involved?:***
  - Signed investor statement
  - Collaborative engagement
  - Encourage companies to sign up to initiative
  - Target laggards
  - Use our votes

Source: 40:40 Vision

# Top 3 ESG trends for 2021



## **Building Back Greener (restoring our natural ecosystems)**

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- Climate change will return to the top of the political agenda in 2021
- Climate change and biodiversity loss are systemic risks for society and investors
- Investors must price natural capital and nature based risks correctly



## **Building Back Stronger (narrowing the social divide)**

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- The pandemic has disproportionately impacted the vulnerable and widened structural inequality in society
- Employee welfare and supply chain management have become critical success factors for companies



## **Building Back Inclusively (focusing on digital ethics)**

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- Digital inclusion: more than 50% of the world has no access to the internet
- Digital ethics: data privacy, cyber-security, online welfare, the spread of mis-information and ethical AI design in technology platforms

Source: Fidelity International

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